



# LIBERIA

## SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF A PERFORMANCE CRITERION

December 2013

In the context of the second review under the Extended Credit Facility Arrangement and request for waiver of nonobservance of performance criteria and modification of a performance criterion, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 11, 2013, following discussions that ended on September 14, 2013, with the officials of Liberia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 26, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Statement** of December 11, 2013 updating information on recent developments.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Liberia.

The documents listed below have been or will be separately released.

- Letter of Intent sent to the IMF by the authorities of Liberia\*
- Memorandum of Economic and Financial Policies by the authorities of Liberia\*
- Technical Memorandum of Understanding\*

\*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from  
International Monetary Fund • Publication Services  
P.O. Box 92780 • Washington, D.C. 20090  
Telephone: (202) 623-7430 • Fax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Internet: <http://www.imf.org>

**International Monetary Fund**  
**Washington, D.C.**



# LIBERIA

November 26, 2013

## SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF A PERFORMANCE CRITERION

### KEY ISSUES

**Context.** Real GDP growth is projected to remain robust at 8.1 percent in 2013, led by mining, construction, and services. Inflation should reach 8.5 percent in December (y/y) due to higher international food prices and recent exchange rate pressures. The baseline outlook is positive, with new mining projects and plantations due to start operations in the coming years. Downside risks stem from delays in public investment, and uncertainty linked to the weak external environment. Accelerating implementation of the authorities' poverty reduction strategy, the Agenda for Transformation, and in particular road and energy projects, is key to boosting growth in the non-mining sector and reduce poverty.

#### Policies

- *Fiscal policy focuses on scaling-up public investment while maintaining debt sustainability and strengthening project execution capacity.* Budget implementation has improved, but weaknesses in liquidity management have led to repeated spending overruns in FY2012 and FY2013. After delays in securing external financing, recent agreements bring debt close to the program limits.
- *The monetary and exchange rate policy framework needs to be strengthened.* In the highly dollarized setting, an increase in government spending in Liberian dollars led to exchange rate and inflation pressures. In the context of the recent launch of both T-bills and CBL bills, improved liquidity management and forecasting would be key steps towards establishing a monetary policy anchor.
- *The authorities continue to make headway with their structural reform agenda.* The Project Management Unit will help ensure readiness and quality of investment projects. Progress towards a Treasury Single Account continues, albeit with delays. The creation of the Liberia Revenue Authority will help strengthen tax administration.

**Program performance.** Program performance has weakened relative to the previous review, as well as the former ECF-supported arrangement. Three out of six performance criteria (PCs) and two out of four indicative targets (ITs) were missed. Although deviations from two PCs were only minor, foreign reserves fell below the program floor by US\$14 million, reflecting the CBL's larger sales of U.S. dollars to mitigate exchange rate pressures, the launch of a new credit stimulus scheme, and high operational expenditures. Four out of eight structural benchmarks were met, including two with delays; three are proposed to be re-set, and one (on procurement plans) became a prior action. An update of the 2011 safeguards assessment has been completed.

**Appraisal.** Staff supports the completion of the second review of the ECF arrangement and the authorities' request for waivers of performance criteria and modification of the domestic financing performance criterion. The three prior actions that were set for completing the review have now been met: (i) budgetary savings in the FY2014 budget to compensate for the previous year's overruns have been identified; (ii) key spending Ministries and Agencies have submitted cash and procurement plans; (iii) budget allotments were immediately distributed following budget approval. In addition, the CBL is working towards rebuilding an adequate reserves buffer.

**Risks.** Main program risks relate to remaining capacity and institutional constraints. Implementing the FY2014 budget within a tight revenue envelope, while accelerating investment execution, will require strict control over spending commitments.

**Outreach.** In addition to meeting with donors and civil society, the mission reached out to Parliament, presenting a summary of the Fund-supported program to the Legislature's Budget and Ways and Means Committee, and highlighting the criticality of approving the budget and external financing in a timely manner in order to achieve the government's growth and poverty reduction objectives.

Approved By  
**Abebe Aemro Selassie**  
**Chris Lane**

Discussions were held in Monrovia September 4–14, 2013. The mission comprised Ms. Deléchat (head), Messrs. Narita and Rosales (AFR), and Ms. Sharma (SPR). Mr. Sobolev, resident representative, and Mr. Deline, local economist, assisted the mission. The mission met with Minister of Finance Konneh; Central Bank Governor Mills Jones; other senior officials, and representatives of the Legislature, private sector, civil society, and development partners. Mr. Saïdy (OED) also joined the discussions. The mission briefed President Johnson Sirleaf on its main findings.

## CONTENTS

<b>LIBERIA'S REFORM AGENDA: ACHIEVEMENTS AND CHALLENGES</b>	4
<b>RECENT DEVELOPMENTS</b>	6
<b>PROGRAM PERFORMANCE</b>	7
<b>POLICY DISCUSSIONS</b>	8
A. Outlook and Risks	8
B. Improving Budget Execution and Scaling Up Public Investment	9
C. Strengthening the Monetary and Exchange Rate Policy Framework	13
D. Enhancing Access to Credit	15
E. Addressing Debt Management and Trade Liberalization Challenges	17

<b>PROGRAM MONITORING AND RISKS</b>	18
<b>STAFF APPRAISAL</b>	20
<b>BOXES</b>	
1. Overcoming the Binding Constraints to Growth	5
2. Liberia’s FY2014 Budget	11
3. Recent Exchange Rate Developments	14
4. Improving Access to Finance While Maintaining Financial Stability	16
<b>FIGURES</b>	
1. Recent Economic Developments	22
2. Monetary and Financial Developments	23
3. Medium-Term Outlook, 2010–17	24
4. Medium-Term Fiscal Outlook, FY2010–17	25
<b>TABLES</b>	
1. Selected Economic and Financial Indicators, 2011–17	26
2. Balance of Payments, 2011–17	27
3. Monetary Survey, 2011–15	28
4. Financial Soundness Indicators, 2009–July 2013	29
5. Medium-Term Outlook, 2011–17	30
6a. Fiscal Operations of the Central Government, FY2011–17 (Millions of U.S. dollars)	31
6b. Fiscal Operations of the Central Government, FY2011–17 (Percent of GDP)	32
7. Schedule of Disbursements Under the ECF Arrangements, 2012–15	33
<b>APPENDIX</b>	
I. Letter of Intent	34
Attachment 1. Memorandum of Economic and Financial Policies of the Government of Liberia for FY2013/14	37
Attachment 2. Technical Memorandum of Understanding	57

## LIBERIA'S REFORM AGENDA: ACHIEVEMENTS AND CHALLENGES

- 1. One year after the launch of Liberia's new Poverty Reduction Strategy, the authorities are making inroads in implementing their Agenda for Transformation (AfT).** Nearly half of the total US\$2.9 billion AfT funding has been secured, and there has been tangible progress on each of the key pillars of the strategy (economic transformation, human development, peace, justice and security, and governance and public institutions). In particular, the ongoing rehabilitation of basic energy and road infrastructure will have a transformative impact over the coming years (Box 1). An important challenge will be to accelerate the pace of the infrastructure projects including by ensuring timely approval and release of the budget and ratification of financing agreements by Parliament, and strengthening interagency coordination.
- 2. The authorities remain fully committed to reforms underpinned by the ECF arrangement, though they have faced some implementation challenges.** Remaining institutional and capacity constraints have affected performance under the Fund-supported program. At the same time, the authorities are faced with daunting development needs in the aftermath of HIPC debt relief and have found it difficult to prioritize amongst key reform initiatives. Nonetheless, public financial management capacity continues to improve, and bottlenecks to investment project execution are gradually being removed. The new budget was signed into law on October 21 which, together with the ratification of new external financing, will allow the government to start the execution of major projects by end-2013, including the rehabilitation of the hydropower plant. The Legislature also approved the merger of the Ministries of Planning and Economic Affairs and Finance and the creation of the independent Liberia Revenue Authority, which will further strengthen fiscal institutions.
- 3. Political and governance risks remain significant.** Policy slippages and socio-political tensions could materialize ahead of the 2014 parliamentary election. Though the government has allocated budgetary resources to support the national reconciliation process, maintaining peace and stability could become more challenging with the recent start of the drawdown of UN troops. President Johnson Sirleaf recently dismissed key senior officials, including the head of the General Auditing Commission, on corruption charges.

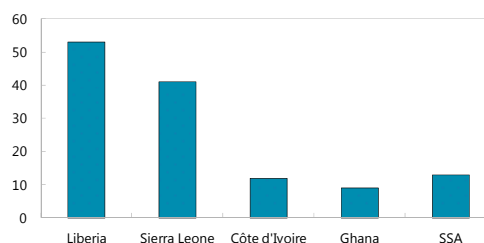
### Box 1. Liberia: Overcoming the Binding Constraints to Growth

The lack of reliable and affordable supply of electricity along with a poor road network—the result of a protracted civil war—have been identified as binding constraints to growth in Liberia.<sup>1</sup> The Agenda for Transformation (Aft) aims at addressing these constraints.

**Addressing road and power infrastructure constraints will have the greatest impact on investment, employment and poverty reduction.**

- Liberia's electricity installed capacity is among the lowest in the world, both on absolute terms and on a per capita basis, while the cost per kilowatt-hour (kwh) is the highest. The state utility company's installed capacity (22 mega-watts (MW); only 18 MW available) supplies less than 5 percent of the population at the high cost of US\$0.54 per kwh; the effective cost is estimated at around US\$0.77 per kwh if privately generated. The road network is poor with limited access during the rainy season. Less than 10 percent of the total and less than 40 percent of the primary road network are paved.
- Despite rapid growth since the war ended, the expansion of the economy has been driven mainly by the enclave sectors, which, as in the past, have narrow spillovers over the rest of the economy. Electricity and road access are critical to the development of agro-processing, backward linkages to local services from the mining sector and profitable small businesses in general, and to improving living conditions of the population.
- Access to land, finance, weak contract enforcement and human capital have also been identified as major constraints to investment and employment creation.

**Box Chart. Power Tariff in Comparator Countries**  
(US cents per kilowatt-hour, average 2003-11)



Source: Millenium Challenge Corporation, 2013, Liberia's "Constraints Analysis."

**Box Table. Key Transportation Indicators**

	Road Density (km/km <sup>2</sup> )	Total Motor Vehicles per 1000 population	Total Km of Roads	Paved Roads (%)
Liberia	0.11	2.9	10,600	6.9
Sierra Leone	0.16	...	11,555	8.9
Guinea	0.18	12.4	44,348	10
Gambia	0.33	7.3	3,742	19
Côte d'Ivoire	0.25	...	80,000	8
Ghana	0.25	33	57,612	15

Sources: Millenium Challenge Corporation, 2013, Liberia's "Constraints Analysis."

**The Aft seeks to promote broad-based economic development.** The strategy appropriately acknowledges the need for major investments in the energy sector and the road network. The government plans to invest over US\$500 million in the energy sector (of which about 90 percent of the financing has been secured) and around US\$900 million in the road system (of which over US\$300 million has been secured) by 2017. Main projects include: (i) rehabilitation of the hydropower plant (60–84 MW) slated to start by end-2013 (US\$245 million, funding has been secured), four high fuel oil power plants ((40 MW)—some under construction—(US\$60 million); (ii) rehabilitation of the transmission and distribution system; and (iii) regional interconnection through the West African Power Pool (US\$150 million from the World Bank). Near 150 km in major highways and farm-to-market access roads have been recently completed and over 400 km of roads are currently under construction. Completed dredging of a port and on-going port infrastructure renovations will contribute to facilitate international trade, particularly for growing Liberia's exports.

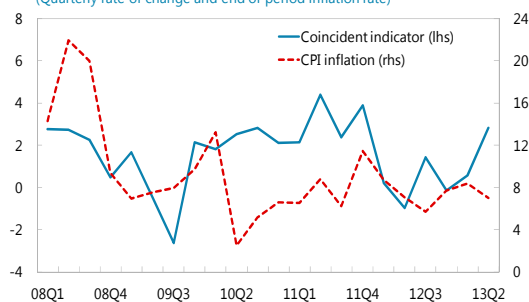
The government is also taking actions to improve human capital, access to credit and strengthen contract enforcement. These include improving access to health services and basic and education and training opportunities, as well as reforms to the justice system.

<sup>1</sup> Millennium Challenge Corporation "Constraints Analysis" (2013) based on Hausmann, Rodrik, and Velasco (2005), "Growth Diagnostics."

## RECENT DEVELOPMENTS

4. **Output growth in 2013 is now estimated to be higher than anticipated at the time of the first review under the ECF arrangement, mainly owing to strong mining activity.** Real GDP growth in 2013 is projected at 8.1 percent (8.3 percent in 2012), reflecting higher iron ore production (Table 1);<sup>1</sup> at the same time, non-resource real GDP growth (construction in particular) has accelerated since the first half of the year, reflecting the pickup in public investment as well as robust private investment. Average monthly cement production has more than doubled since May; however, rubber production declined while forestry activity remains constrained by ongoing legal issues in the sector. Headline inflation reached 8.2 percent in September (y/y) and is projected to rise to 8.5 percent by end-2013, due to higher domestic and international food prices and recent exchange rate depreciation pressures (Text Chart 1, Figure 1).<sup>2</sup>

**Text Chart 1. Liberia: Coincident Indicator and Inflation**  
(Quarterly rate of change and end of period inflation rate)



Sources: Liberian authorities and IMF staff calculations.  
Note: This indicator of economic activity combines seven monthly series (exports, rice imports, cement production, government expenditure, broad money, private credit, and the exchange rate).

5. **The trade and current account deficits are projected to widen in 2013 as public investment is being scaled up** (Table 2). Nonetheless, as of end-June 2013, the trade deficit improved somewhat compared to the second half of 2012, owing to higher-than-anticipated iron ore exports, which more than offset weak exports of rubber. Import growth remained strong with investment-related goods providing the largest contribution. The projected widening of the current account deficit mirrors that of the trade deficit, and continues to be financed mostly by foreign direct investment and private financing of mining activities. The Liberian dollar depreciated by 10 percent between January and September 2013, reflecting in part a large net injection of Liberian dollars in the economy. Reserves declined to about 2.7 months of imports, owing to higher CBL interventions to mitigate the exchange rate pressures, cost overruns on the CBL building, and the roll-out of new credit stimulus initiatives, including a US\$7 million CBL placement in July at a local bank for government infrastructure projects.

6. **Money and credit growth have recovered, while access to finance remains limited** (Table 3, Figure 2). Broad money has grown steadily along with commercial banks' deposits. Private credit growth has recovered from a slowdown in early 2013, reflecting increased credit to the construction sector. Nonetheless, a weak legal and financial infrastructure has been constraining a broader access to finance, particularly for borrowers with high credit risks, and loans have been concentrated in the trade sector.

<sup>1</sup> Currently, the Liberian authorities do not compile national accounts, while estimates for 2008–11 based on an establishment survey are expected to be compiled by end-2013.

<sup>2</sup> The CPI basket currently used is outdated and does not precisely capture actual inflation in the economy, in particular for expenditure on telecommunications. The forthcoming Household Income and Expenditure Survey (HIES) will allow the statistics office to update the CPI basket and weights.

7. **High credit risks and operating costs continue to depress banks' profits and discourage intermediation.** Nonperforming loans (NPLs) have declined slightly but remain high at 19 percent as of end-July, 2013 (Table 4). To address high NPLs, the CBL has taken measures to facilitate debt collection and strengthen capacity for internal risk management of commercial banks. Returns on assets and equity have been negative, partly owing to high loan-loss provisions, while elevated operating costs continue to squeeze profits and discourage lending activities of commercial banks. Reflecting low levels of intermediation, the banking system remains well-capitalized and liquid.

## PROGRAM PERFORMANCE

8. **Three out of six end-June performance criteria (PCs) were missed (MEFP, Table 1).** Central government's core revenue was slightly lower than the program target by US\$1.4 million. The ceiling on CBL's gross direct credit to the government was missed also by US\$1.4 million due to a temporary overdraft on one of the government accounts at the CBL that was repaid in July (although the consolidated government account was in surplus at end-June). The reserve accumulation target was missed by US\$14 million, reflecting larger-than-anticipated net U.S. dollar sales, the launch of a new credit stimulus scheme in January, and higher rehabilitation costs of the CBL building.

9. **Two out of four indicative targets were also missed:** (i) social and other priority spending amounted to 25.5 percent of total spending, below the 30 percent indicative floor due to delays in getting Parliament's approval of external financing for the hydropower plant (this has since been resolved, which will likely help the authorities to exceed the 30 percent target in FY2014); and (ii) gross external borrowing by the public sector totaled US\$226.3 million equivalent to 4.9 percent of GDP in NPV terms, somewhat higher than the 4 percent annual average agreed under the program and breaching the nominal annual end-June indicative target of US\$118.2 million by a large amount (MEFP ¶17).<sup>3</sup>

10. **Progress with implementation of the reform agenda continues, albeit with delays.** Most end-June benchmarks have now been met, of which two were fully met on time, two were implemented with delay, and four were not met (MEFP, Table 3). In particular, successful monthly sweeping of balances of eight ministries and agencies (M&As) into the treasury's operation account started in August 2013, with daily sweeping programmed to start by end-December 2013 (structural benchmark). With most M&As having submitted their cash plans by end-June, procurement plans for five key Ministries and three Agencies were submitted on October 31, 2013 (prior action) (MEFP ¶18).<sup>4</sup> Regular reporting by the eight largest state-owned enterprises (SOEs) to the Ministry of

<sup>3</sup> External debt is considered as contracted for program monitoring purposes once the loan agreement has been ratified by the Legislature. The technical memorandum of understanding (TMU) has been modified to reflect this clarification and to resolve other definitional issues on external debt.

<sup>4</sup> The ministries and agencies include: Ministry of Public Works, Ministry of Agriculture, Ministry of Education, Ministry of Health, and the Ministry of Land, Mines and Energy, the Liberia Electricity Company, the National Port Authority, and the Liberia Water and Sewerage Company.



Financed has started. The SOE Monitoring Unit has already reviewed the financial statements of eleven SOEs for the quarter ending in March 2013 and is now finalizing the consolidated annual report for FY2013. The first quarterly report has contributed to identify savings in transfers to profitable SOEs. The SOE monitoring unit will also closely cooperate with the Debt Management Unit in assessing SOE borrowing (**MEFP 127**).

## POLICY DISCUSSIONS

### A. Outlook and Risks

11. **The near-term outlook is positive.** Growth in 2014 has been revised upward to 6.8 percent (from 5.4 percent at the time of the first review), reflecting the expansion in the mining sector with a second major project coming into stream by end-2013, and the expected substantial increase in public investment. Inflation is expected to moderate to 6.4 percent, consistent with the projected evolution of international food and fuel prices. Despite strong exports, particularly of iron ore, the current account deficit will widen driven by higher investment-related imports. Foreign direct investment and long-term financing of mining and concession activities are projected to continue to finance the current account deficit.

12. **Baseline medium-term prospects are also favorable.** Real GDP growth is projected to average around 7<sup>3</sup>/<sub>4</sub> percent in 2015–17, reflecting planned new activity in the mining and plantation sectors, while non-mining growth is estimated to average 8<sup>1</sup>/<sub>2</sub> percent, driven by public investment in infrastructure. Inflation is projected to decline to about 5 percent over the medium term, reflecting weaker projected international food and fuel prices. The current account should start narrowing in 2015, as commodity exports, particularly iron ore, increase and large public investment projects unwind (Text Table 1 and Table 5).

**Text Table 1. Liberia: Medium-Term Outlook, 2011–17**

	2011	2012	2013			2014			2015	2016	2017
	Prel.	Est.	ECF Request	First Review	Proj.	ECF Request	First Review	Proj.	Proj.	Proj.	
	(Annual percentage change)										
GDP at constant prices	7.9	8.3	8.3	7.5	8.1	5.6	5.4	6.8	8.6	7.3	7.2
GDP at constant prices excluding mining sector	5.5	3.4	6.1	5.6	5.1	6.8	6.2	7.5	8.5	9.9	7.7
Consumer prices (average)	8.5	6.8	5.6	7.9	7.8	5.0	5.5	7.0	6.1	5.6	5.3
Consumer prices (end of period)	11.4	7.7	4.7	5.5	8.5	5.0	5.4	6.4	5.8	5.4	5.2
	(Percent of GDP, unless otherwise indicated)										
Central government budget (percent of GDP) <sup>1</sup>											
Total revenue and grants	26.5	28.1	27.3	30.0	30.1	28.8	28.1	29.0	28.5	28.9	28.4
Of which: total revenue	23.7	26.3	24.9	27.5	27.6	26.5	23.9	24.9	25.4	26.1	25.7
Total expenditure and net lending	27.1	31.4	33.3	30.4	31.7	35.4	32.2	32.8	33.7	34.4	34.1
Overall fiscal balance (including grants)	-0.6	-3.4	-6.0	-0.5	-1.6	-6.6	-4.2	-3.7	-5.1	-5.5	-5.7
Current account balance (including official grants)	-32.7	-33.6	-62.4	-50.7	-48.0	-65.8	-56.2	-51.4	-31.9	-22.1	-18.3
Gross official reserves (months of imports) <sup>2</sup>	3.0	3.1	2.7	2.9	2.7	2.8	2.9	2.8	2.9	3.0	3.0

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Budget data expressed as fiscal year ending in June on a cash basis, i.e., 2011 = FY2010/11.

<sup>2</sup> Excludes UNMIL service and iron-ore concessions related imports, but includes IMF disbursements under the requested ECF.

13. **Risks to the outlook relate to delays in public investment and weak external demand.**

Continued delays in implementing public infrastructure projects would hinder non-mining activity and weak international demand could affect Liberia through lower commodity exports. The authorities acknowledged these risks, but also pointed out that the strong pipeline of mining and plantation projects should allow Liberia to attain double digit growth rates and achieve middle income status by 2030. Staff recognized the strong upward potential to real GDP growth, but also encouraged the authorities to address investment execution bottlenecks and develop a sound natural resources fiscal framework, to ensure broad-based growth and avoid boom-bust cycles.

## B. Improving Budget Execution and Scaling Up Public Investment

14. **Budget execution in FY2013<sup>5</sup> continued to face challenges.** Core revenue fell slightly short of the program target (US\$1.4 million or 0.1 percent of GDP) owing to one-off factors (i.e., ongoing partial production moratorium in the forestry sector and delays in collecting iron-ore related royalties), which was more than compensated by additional budget support grants. Current spending exceeded the target due in part to the absorption into the government payroll of teachers and health workers previously funded by donors and the failure to identify savings to cover repayments to the CBL associated with an overdraft and bridge financing in the previous fiscal year. This has led to the use of US\$30 million (1½ percent of GDP) in deposits from the FY2014 revenue account in July-August.<sup>6</sup> Currently, US\$8 million in CBL bridge financing to rehabilitate the Greenville Port remains outstanding; the authorities plan to repay US\$4 million by December 2013 and US\$4 million by June 2014. Off-budget externally-financed investment remained about 5 percentage points of GDP below the government's target of 5.6 percent due to capacity constraints and delays in securing external financing. However, on-budget project execution picked up during the dry season, exceeding the FY2012 outturn in spite of the delayed approval of the budget. As a result, the overall fiscal deficit (1.6 percent of GDP) was 1.2 percentage points of GDP lower than envisaged in the program (**MEFP 14**).

15. **Strengthening internal treasury management at the Ministry of Finance together with enhanced coordination with the CBL is needed to address weaknesses in cash management.**

Staff pointed out that repeated expenditure overruns reflect the lack of coordination and timely internal reconciliation between the expenditure, revenue, and the comptroller departments of the Ministry of Finance (**MEFP 17**). Staff urged the authorities to move ahead with the implementation of the Treasury Single Account (TSA) and to conduct monthly reconciliation of the balances on government accounts to improve cash management and avoid future recurrence of CBL overdrafts. The authorities noted that they would continue to monitor government account balances on a daily basis, prepare monthly reconciliation reports, implement monthly sweeping of government accounts, and that they will share such reports with Fund staff. At the same time, to facilitate

<sup>5</sup> Fiscal year starts on July 1, 2012 to June 30, 2013.

<sup>6</sup> There is a 90-day period after the end of each fiscal year where outstanding expenditure commitments can be settled.

monitoring during the transition toward a TSA, they will close dormant accounts and transfer idle balances to the consolidated government account (**MEFP ¶14**).

16. **Scaling-up public investment is one of the key pillars of the ECF-supported program.** In this context, staff and the authorities discussed how to address remaining bottlenecks constraining budget execution and investment spending in particular. The FY2014 budget was approved on September 12, while end-June is the legal limit, and wasn't signed into law until October 21. The authorities noted that they had actively engaged with the Legislature to ensure timely approval (**MEFP ¶12**). They immediately released the budget allotment schedule to the key ministries and agencies in charge of the investment program, upon their presentation of procurement plans, to help speed up execution (prior actions) (**MEFP ¶15**). The authorities also noted that the recently-created project management office (PMO) will help solve execution bottlenecks by developing M&As' capacity to prepare projects and ensure timely submission of procurement plans (**MEFP ¶16**).

17. **Implementing the FY2014 budget is likely to prove quite challenging** (Box 2). There are two pressure points that need to be addressed resolutely in coming months. First, the government needs to implement the identified budgetary savings to compensate for last year's overruns. In line with the Public Financial Management Act, and to avoid displacing public investment projects, the authorities approved, in consultation with Parliament, a risk-management strategy identifying US\$30 million in budgetary savings in the FY2014 budget (prior action, Text Table 2, **MEFP ¶4, ¶12**).<sup>7</sup> Second, in the context of next year's Legislative elections, Parliament increased spending by adding US\$29.7 million (1.5 percent of GDP) in extra revenue of which about half is at risk of not being realized (Box 2). Staff stressed that revenue projections should be realistic to properly manage expectations and avoid spending pressures from line ministries. Even though no prior action was set on this issue, the authorities concurred and committed to not release these amounts (US\$14.5 million) for additional spending until the extra revenues materialize (**MEFP ¶12**).

**Text Table 2. Liberia: Measures to Close Budgetary Gap**  
(Million of U.S. dollars and percent of GDP)

	Million US\$	Percent of GDP
<b>Expenditure</b>	<b>30.0</b>	<b>1.5</b>
OW: Goods and services (fuel, travel, consultancy fees, others)	9.8	0.5
Special salary allowances	2.5	0.1
Transfers and subsidies	17.7	0.9

Sources: Liberians authorities and IMF staff calculations.

<sup>7</sup> The US\$30 million in budgetary savings corresponds to the US\$22 million in expenditure overruns in FY2013 plus the need to compensate for the repayment of a remaining US\$8 million to the CBL from the FY2012 overdraft and bridge financing in two tranches, in December 2013 and June 2014.

## Box 2. Liberia's FY2014 Budget

The expansionary fiscal stance for FY2014 reflects a sharp expansion in public investment owing to progress made in securing external financing and solutions to previous execution bottlenecks.

- Total revenue in the program is projected to decline by about 1 percentage point of GDP compared to last year's outturn, as the authorities agreed to only include secured revenue and exclude most contingent items from the FY2014 budget. For comparison, revenue collected from contingent, one-off items represented 3.1 percent of GDP in FY2013. This is projected to be partially compensated in FY2014 by additional grants (1.6 percent of GDP) associated with the rehabilitation of the hydropower plant.
- On top of the core revenue envelope agreed under the program, Parliament added an additional US\$29.7 million in extra revenue, of which at least US\$14.5 million is at risk of not being collected during the year. These include revenue from a telecommunication license, dividends from the National Oil Company and the Petroleum Refinery Company, and fees on registration of vehicles, among others.
- Budgeted expenditure is broadly aligned with priority areas.
  - The wage bill is projected to remain broadly constant in real terms, despite the increase in special allowances to senior officials
  - Social and other priority spending is projected to reach 30 percent of total spending compared to 25.5 percent in FY2013, with health, education, and social development funds accounting for 25 percent of total spending.
  - Current spending increases added by Parliament are associated in part with the 2014 legislative elections.
  - Capital spending is projected to increase by 4½ percentage points of GDP over FY2013 reflecting the start of large infrastructure projects (e.g., ports, electricity, and roads).
- The authorities have also approved, in consultation with Parliament, a risk management strategy to address last year's spending overruns. This comprises US\$30 million in savings on current expenditures (Box Table).
- The fiscal deficit is projected to increase by about 2 percentage points of GDP over FY2013. This expansionary stance is aligned with the government's development strategy and the Fund supported program, and reflects the authorities' commitment to make savings in current spending while protecting public investments.
- Public debt will remain at manageable levels. External debt is estimated to reach 15 percent of GDP at end-June 2014, while domestic debt will continue to decline, to about 14 percent of GDP.

**Box Table. Liberia: FY2014 Budget**  
(Percent of GDP)

	FY2013 outturn	FY2014	
		First Review	Approved budget
<b>Revenue and grants</b>	<b>30.1</b>	<b>28.1</b>	<b>29.0</b>
Revenue	27.6	23.9	24.9
Taxes	20.1	19.9	20.1
Non-tax	7.6	4.0	4.8
Grants	2.5	4.1	4.1
<b>Expenditure</b>	<b>31.7</b>	<b>32.2</b>	<b>32.8</b>
Current spending	26.8	23.3	23.4
Salaries and wages	11.5	10.8	10.7
Goods and services	8.8	6.5	6.7
Transfers and subsidies	6.2	5.5	5.6
Interest payments	0.3	0.4	0.4
Capital spending	4.9	8.9	9.3
Overall balance, including grants	-1.6	-4.2	-3.7

Sources: Liberians authorities and IMF staff calculations.

18. **Going forward, the authorities intend to contain current spending, in line with their fiscal rules,<sup>8</sup> and to boost revenue to create fiscal space for priority investment (MEFP ¶122).** Efforts to contain the wage bill in all public institutions will continue, and the authorities' plan to restructure and close loss-making SOEs should also contribute to lowering transfers and the overall wage bill. On the revenue side, the recently-approved Liberia Revenue Authority will focus on enhancing tax administration, including by strengthening enforcement and controls in accordance with the Liberia Revenue Code (MEFP ¶118, ¶119).

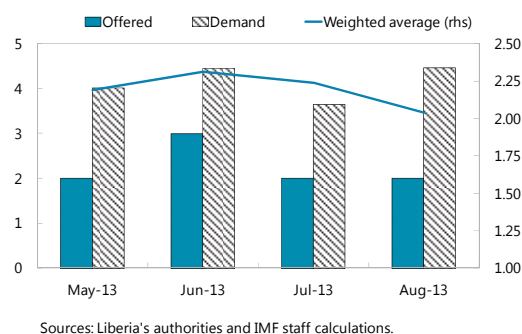
19. **Establishing a sound fiscal framework for managing natural resources remains a priority.** A new Petroleum Exploration and Production Act, which is mostly in line with international best practices, and benefitted from FAD advice (end-December 2013 benchmark) was approved by the Senate in September 2013 and is now awaiting ratification by the House of Representatives. Staff encouraged the authorities to fully harmonize the new law with the Liberia Revenue Code, including by ensuring a single flat royalty rate for all projects. Staff stressed the need to ensure that resources are effectively managed to promote broad-based growth while smoothing the economic cycle (MEFP ¶123).

20. **A Budget Support Working Group (BSWG) has been set up to improve donor coordination and alignment with the government's development strategy (MEFP ¶144).** Donors participating in the BSWG highlighted the need to further strengthen the budget process and to continue advancing with the PFM reform agenda. They welcomed progress in strengthening the oversight of SOEs by the ministry of finance in line with the PFM Act, separating the collection of revenues in the petroleum sector from the regulatory and supervisory agency, and the plan to broadening the scope of the budget by including off-budget externally-financed investment projects beginning next fiscal year. They noted that further progress should also include continuing to roll out the IFMIS and complete the payroll cleanup.

21. **The government has continued to successfully issue Treasury bills in Liberian dollars on a monthly basis.** Given the excess liquidity in local currency, auctions have been oversubscribed by an average of 100 percent and the interest rate has averaged only 2.21 percent over the first three auctions. The stock of 90 day T-bills at end-June 2013 amounted to US\$5 million, which will be rolled-over in FY2014 (Text Chart 2).

The government plans to expand the T-bill program to a maximum of US\$15 million by end-June 2014 to further improve its liquidity management (MEFP ¶132).

**Text Chart 2. Liberia: Issuance of Treasury Bills**  
(Million of US dollars and yields in percent)



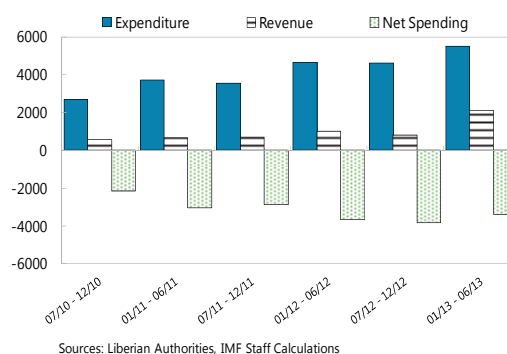
Sources: Liberia's authorities and IMF staff calculations.

<sup>8</sup> The fiscal rules seek to promote capital spending by controlling current spending and reducing transfers between spending lines. It imposes a 34 percent limit on allocations to salaries and wages, at least 25 percent of the budget should be on capital spending, of which at least 10 percent should be on the energy sector, and transfers from investment to recurrent spending must not exceed 5 percent of investment appropriations.

## C. Strengthening the Monetary and Exchange Rate Policy Framework

22. **The exchange rate has been under pressure in recent months.** The Liberian dollar has depreciated by 10 percent between end-2012 and end-September 2013, mainly reflecting increasing (net) government spending in Liberian dollars since 2012. In the absence of sterilization (T-bills and CBL bills were not introduced until July 2013), demand for U.S. dollars has been increasing since then. This led to depreciation pressures, in spite of higher CBL intervention through the foreign exchange auction (Text Chart 3, Box 3).

**Text Chart 3. Liberia: Net Public Spending in Liberian Dollars**  
(Biannual, Millions of LRD, 07/2010-06/2013)



23. **In the context of Liberia's highly dollarized economy, containing inflation requires maintaining exchange rate stability.** Given recent depreciation pressures, staff noted that coordination with the Ministry of Finance on the net injection of Liberian dollars in the economy needs to be strengthened. The lack of instruments to sterilize part of the excess liquidity had also constrained the monetary policy response in early 2013. The authorities agreed and noted that the CBL Bills introduced in July 2013 had been effective in mopping up excess liquidity. This provided some space for the CBL to limit its interventions through the weekly foreign exchange auction, including by closing a special foreign exchange window, in order to help re-build foreign reserves. (MEFP ¶17, ¶129). An understanding was also reached that the CBL should start issuing bills of shorter duration for liquidity management, while, eventually, T-bills of maturities longer than the current 90 days could be issued (MEFP, Table 4). In the medium term, staff noted that the objective would be to use exclusively T-bills for liquidity management to preserve the CBL balance sheet. Enhancing capacity for liquidity monitoring and projection is a step toward establishing a monetary policy anchor, and the authorities noted that they would welcome technical assistance to support both the Ministry of Finance and the CBL (MEFP ¶129).

24. **Measures to de-dollarize the economy need to be aligned with monetary policy objectives.** Staff noted that increasing liquidity in Liberian dollars in a market with weak incentives to hold local currency will translate into inflation and depreciation of the currency. To mitigate exchange rate pressures, staff recommended matching the share of public spending in Liberian dollars with the share of revenue collected in the same currency. Real interest rate differentials across currencies also need to be monitored as the differentials have been in favor of holding U.S. dollars over Liberian dollars.<sup>9</sup> Staff and the authorities concurred that a credible monetary policy framework, entrenched macroeconomic stability, and central bank independence are required to build confidence in the Liberian dollar. Staff also emphasized the importance of allowing the de-dollarization process to be market-driven (MEFP ¶133).

<sup>9</sup> Nominal interest rates of loans and deposits are similar across currencies, implying less incentive for savings and investments in Liberian dollars than in U.S. dollars, to an extent of depreciation of the Liberian dollar.

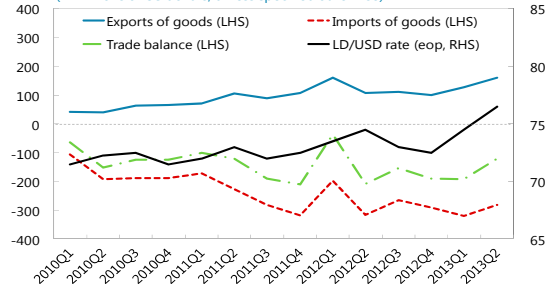
### Box 3: Liberia: Recent Exchange Rate Developments

There have been increased depreciation pressures since end-2012, mainly owing to a large net injection of Liberian dollars (LDs) to the economy.

- In the first half of 2013, the trade deficit improved slightly compared with the second half of 2012, owing to strong iron ore exports, which offset weak rubber and timber exports, although imports of investment-related goods remained significant (Box Chart 1).
- The net injection of Liberian dollars (LD) in the economy increased in the second half of 2012, reflecting higher Government's net LD spending by 27 percent, compared to the previous year (Box Chart 2). As a result, excess LD reserves increased and remain elevated (Box Chart 3). However, given the continued dominance of the U.S. dollar in domestic transactions (less than 5 percent of total loans are denominated in LDs), the increased LD liquidity has been gradually exchanged into U.S. dollars for imported consumption goods, leading to exchange rate pressures.
- To mitigate depreciation pressures, the CBL stepped up its interventions, leading to a US\$7 million decline in foreign reserves in the first half of 2013 (Box Chart 4).
- A part of the higher U.S. dollars sales was conducted through a special window (regularized in July 2012), under which foreign exchange bureaus and other businesses (mainly importers) could directly obtain foreign exchange at the most recent auction rate. The CBL sold a monthly average of US\$2.7 million through the special window since July 2012, amounting to 40 percent of the total U.S. dollars sales (Box Chart 4). The CBL closed the special window in September 2013, by requiring all allocations of foreign exchange to be offered through the weekly auction. The closure of the special window will also contribute to strengthen foreign exchange market operations and, eventually, to develop an inter-bank foreign exchange market.

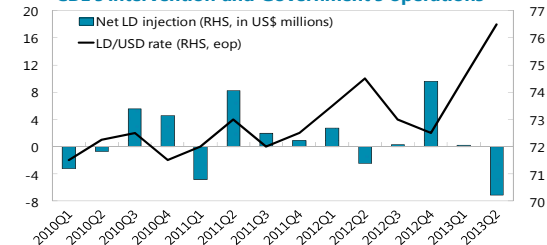
**Box Chart 1. Trade and exchange rate**

(In millions of US dollars, unless specified otherwise)



Sources: Central Bank of Liberia

**Box Chart 2. Net-Liberian dollar injection through CBL's intervention and Government's operations<sup>1</sup>**

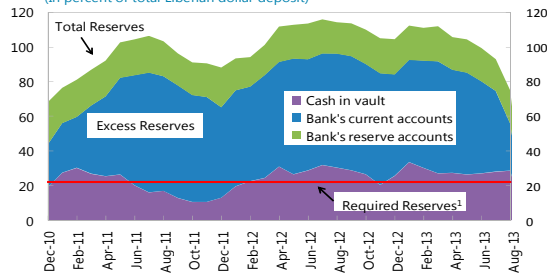


Sources: Liberian authorities and IMF staff calculations.

<sup>1</sup> Calculated as GoL's LD purchases from the CBL; minus changes in the GoL's LD accounts balances; minus CBL's LD purchase through the FX auctions.

**Box Chart 3. Total and excess Liberian dollar reserves**

(In percent of total Liberian dollar deposit)

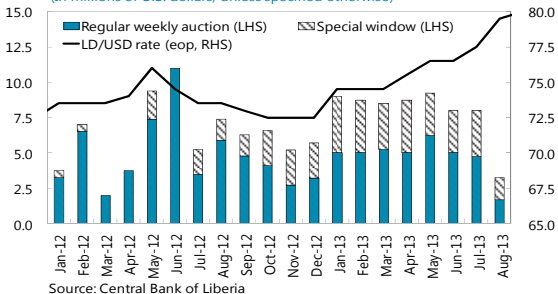


Sources: Central Bank of Liberia

<sup>1</sup> Reserve requirement is 22 percent of deposits.

**Box Chart 4. U.S. dollar sales in the foreign exchange auctions**

(In millions of U.S. dollars, unless specified otherwise)



Source: Central Bank of Liberia

## D. Enhancing Access to Credit

25. **The authorities attach great importance to improving access to finance.** Low levels of intermediation in general and low access to finance for borrowers with high credit risk—particularly for small- and medium-size enterprises (SMEs) and borrowers in rural areas—stem from weak legal and institutional frameworks, which limit capacity to assess creditworthiness of borrowers and to mitigate losses from risky lending. The CBL noted that it will continue to take measures in this regard, including enhancing the existing credit reference system, and establishing a collateral registry (**MEFP ¶16, ¶18, ¶135 and Table 4**).

26. **The CBL has launched several credit stimulus schemes with a view to promoting lending to under-served borrowers, albeit at the expense of encumbering the limited foreign reserves buffer.** Under the schemes, the CBL places long-term U.S. dollar and Liberian dollar deposits at participating commercial banks for on-lending at reduced interest rates to targeted sectors.<sup>10</sup> Staff emphasized that the CBL should refrain from engaging in quasi-fiscal activities, which also entail potentially significant balance sheet and reputational risks. The authorities noted that, in the case more actions were required to expand credit, they would consider alternative funding and lending schemes so as to maximize the leverage from limited available resources, while effectively and sustainably boosting credit to under-served groups. They also reiterated their commitment to rebuilding an adequate reserves buffer of about three months of imports and, to that effect, they would refrain from allocating new U.S. dollar resources to such initiatives, while maturing deposits would not be rolled over but would instead be returned to reserves (Box 4, **MEFP ¶131**).

---

<sup>10</sup> The U.S. dollar placements in local banks no longer meet the definition of foreign reserves and are thus excluded from staff's calculations of the net foreign exchange position.



#### Box 4. Liberia: Improving Access to Finance While Maintaining Financial Stability

At only 16 percent of GDP, credit to the private sector in Liberia is below the average for low-income and fragile countries of 19 percent of GDP, and well-below that for sub-Saharan Africa of 35 percent of GDP. High bank NPLs due to elevated credit risks and operational costs, combined with a weak legal and institutional infrastructure, are discouraging lending.

**Measures to strengthen the credit environment would directly induce higher market-driven intermediation and improve access to finance.** The CBL has been making efforts to strengthen the legal and institutional framework, which would enable financial institutions to enhance risk management, to deal with delinquent loans, and to reach currently underserved borrowers. Improving physical infrastructure, such as roads and electricity supply, would also contribute to credit promotion by reducing high operating costs and improving service delivery.

**The CBL has also launched a number of credit stimulus initiatives to address limited access to finance** (Box Table 1).

Under these credit schemes, the CBL places long-term deposits (both in Liberian dollars and U.S. dollars) at participating commercial banks for on-lending at reduced interest rates to targeted sectors. The U.S. dollar portion of these placements reduces the CBL's foreign reserves, by US\$28 million in total as of end-August 2013.

**The overall impact of these schemes**

**on credit conditions and financial stability is unclear.** If these deposits are successfully on-lent to the private sector, long-term credit is supposed to increase up to the amount of the CBL placement. However, low net interest margins of the on-lending, due to the interest rate cap under these schemes, would further compress commercial banks' already low profitability. Encouraging banks to engage in riskier lending than they would do without these initiatives could also increase vulnerabilities of the banking system.

**More efficient and market-friendly credit promotion tools such as partial credit guarantee schemes (PCG), which are used in over 100 countries worldwide, could be considered in the Liberian context.** A PCG is a mechanism whereby governments and/or donors partially guarantee bank loans to underserved borrowers, e.g., small and medium-sized enterprises, to facilitate access to credit. The PCG would require much less up-front equity than direct placement of deposits: for a loan of 100, with a 50 percent guarantee, the maximum payout from the fund could be 50, although the actual payout would be less. The guarantee coverage, amount of the fee charged to participating banks, and risk-sharing arrangements in case of default are important operational features that have been found to be linked with the effectiveness of various types of PCG funds. When access to credit is constrained by insufficient credit information and collateral, PCGs reduce the risks and potential losses of creditors, while preserving their incentives to conduct due diligence and collect repayment. In sub-Saharan Africa PCGs are operating in Ghana, Kenya, South Africa, Tanzania and Rwanda. USAID has launched a PCG scheme in Liberia, totaling US\$1.7 million, to develop the clean energy sector.

**Box Table 1. The CBL's credit stimulus initiatives**

Initiative	USD portion (millions)	LD portion (USD millions)	Interest rate cap	Average interest rate	Interest rate to the CBL	Maturity	Date of placement
Small & Medium Enterprises (SMEs)	5.0	-	8.0%	6.1%	3.0%	3 yrs.	Dec-10
Loan Extension Assistance Facility <sup>1</sup>	-	2.7	-	-	3.0%	3 yrs.	Jan-12
Mortgage	7.0	3.0	8.0%	n.a.	3.0%	10 yrs.	Nov-12
Agricultural Stimulus	5.0	2.5	8.0%	2.5%	2.5%	12 yrs.	Dec-12
Liberia Business Association (LIBA)	4.0	1.0	7.0%	n.a.	3.0%	5 yrs.	Jan-13
Infrastructure	7.0	3.0	4.0%	n.a.	3.0%	2 yrs.	Jul-13

Source: Central Bank of Liberia

<sup>1</sup> This facility is to support the loan portfolio of microfinance institutions, credit unions and Village Savings and Loan Association (VSLAs), instead of on-lending.

## E. Addressing Debt Management and Trade Liberalization Challenges

27. **New borrowing agreements ratified in recent months bring total external debt close to the limits agreed under the Fund-supported program, though debt sustainability is not at risk.**<sup>11</sup> External debt has been accumulating

at a slower pace than envisaged at the start of the current Fund-supported program and remains at a low level (12 percent of GDP).

However, debt accumulation is expected to accelerate as Parliament recently ratified a number of loans and the government has reached agreements on a series of new external loans, including a US\$144 million concessional line of credit with India for

transmission and distribution in the electricity sector (Text Table 3, **MEFP ¶139**). Overall, new borrowing commitments totaling US\$222 million have already been signed (but not ratified) by the authorities, and an additional amount of US\$35 million of new IDA loans for the energy sector is being discussed but has not yet been signed. Once ratified, these borrowing commitments (although most are concessional, with the exception of the Kuwait loan) would bring total debt slightly above the limit agreed for the duration of the current program, in net present value terms. Nonetheless, staff's Debt Sustainability Analysis (DSA) update shows that, owing to stronger growth prospects and a higher discount rate, Liberia's debt profile is somewhat more favorable than at the time of the 2012 Article IV consultation.<sup>12</sup>

28. **Staff expressed concern about the rapid pace of new borrowing, and noted that it ought to slow down.** The authorities pointed out that, given the significant lags until disbursement, the actual debt stock would be rising at a much more gradual pace (e.g., the regional West African Power Pool project is expected to be executed over a five year period while the rehabilitation of the hydropower plant is expected to be completed by late 2016).<sup>13</sup> The authorities and staff also agreed that investment in strategic infrastructure projects will contribute to address Liberia's main binding constraints to broad-based growth in the coming years. Furthermore, some of the main projects have both high rates of economic and social returns and will not compromise the government's capacity to repay as they have embedded price recovery schemes in place, e.g., electricity. Nonetheless, staff highlighted the need to prioritize new financing for strategic projects and to seek

**Text Table 3. Liberia: External Borrowing**  
(In million of U.S. dollars unless otherwise specified)

	FY2013-2015
Ratified Loan Agreements	292.2
Signed Agreements, Pending Ratification	221.6
Annual Average NPV/GDP (percent)	4.2

Source: Liberian authorities, and IMF staff calculations.

Note: The program sets the three-year average annual ceiling on public external borrowing to 4 percent of GDP, in NPV terms.

<sup>11</sup> The NPV over the three years (2012–15) still averages 4 percent of GDP. All new ratified external debt agreements and agreements in the pipeline are on concessional terms, with no impact on the continuous PC on nonconcessional debt.

<sup>12</sup> "Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries" adopted on October 11, 2013; IMF Policy Papers ([www.imf.org](http://www.imf.org)).

<sup>13</sup> The West Africa Power Pool is a regional project in the electricity sector covering Cote d'Ivoire, Sierra Leone, Liberia, and Guinea. The project will increase access to electricity supply to Liberia and Guinea through power provided by Cote d'Ivoire and is expected to be executed over a five-year period.

the most favorable terms to ensure that public debt remains sustainable. Finally, staff welcomed ongoing support to strengthen investment planning and procurement processes in the context of technical assistance provided by the Fund's Fiscal Affairs Department and supported by Liberia's main donors.

29. **As debt accumulation accelerates it is critical that the Debt Management Unit (DMU) maintains comprehensive tracking and monitoring of all loans.** This will require ongoing technical assistance to strengthen the DMU's capacity, including to negotiate new loans on the best possible terms. Staff urged the authorities to finalize the forward-looking medium-term debt strategy (end-December benchmark) to guide the Government's borrowing plans, including the issuance of debt guarantees for SOEs (**MEFP 136**). In particular, staff stressed the need to ensure debt accumulation is aligned with the AfT and consistent with the Public Financial Management Act and the ECF arrangement to maintain debt sustainability. Debt from Taiwan, Province of China remains outstanding, despite the authorities' efforts.

30. **The authorities continue to make progress to achieve WTO membership and to implement the ECOWAS common external tariff (CET).** Following the first round of discussions towards accession to the WTO, the government is preparing for the second working party meeting when they expect to present their goods and service offer. The authorities have prepared a migration plan to implement the CET and are waiting for approval of their plan from the Heads of States of ECOWAS by end October 2013 (**MEFP 118**). Given that Liberia's tariffs are below that of the rest of other member countries, the net impact on revenues is expected to be positive; the authorities are designing a plan to minimize any negative impact on inflation.

## PROGRAM MONITORING AND RISKS

31. **The authorities are requesting a waiver of nonobservance for three missed end-June 2013 performance criteria and modification of a performance criterion for end-December 2013 and June 2014.** Staff supports the authorities' request given that the floor on revenue collection of the central government and the ceiling on CBL's gross direct credit to the government were missed by small margins, and also taking into account their commitment to strengthen treasury management and protect priority spending should revenue shortfalls occur in the future. Regarding the floor on the CBL's foreign exchange position, the authorities plan to adopt the following corrective measures to ensure that the end-December 2013 and end-June 2014 targets are met: (i) capping the foreign exchange interventions to preserve foreign exchange reserves, including by closing the special foreign exchange window, and (ii) refraining from launching new U.S. dollar credit schemes while at the same time transferring to reserves repayments from existing placements at maturity. Staff also supports the authorities' request to modify the ceiling on domestic borrowing for end-December 2013 and end-June 2014 to accommodate a slight increase in the domestic T-Bill program and some US\$10 million in financing from a domestic commercial bank for critical energy projects.

32. **The authorities are adopting measures critical to achieving the program’s objective of enhanced budget execution as prior actions.** These include (i) approving, in consultation with Parliament, a risk management strategy identifying US\$30 million in budgetary allocations to compensate for the past overruns; (ii) 5 Ministries and 3 Agencies with the largest share of the investment budget to submit their procurement plans for investment projects; and (iii) immediate release of the budget allotment schedule to those ministries and agencies with procurement plans once the budget was approved (**MEFP, Table 3**). In addition, the authorities have decided not to release about US\$15 million in budget allotments added by Parliament until risky revenues materialize (**MEFP ¶14**). In addition to the risk management strategy, the financial statements for FY2013 to be submitted to Legislature will also highlight the past overruns and the need to close such budgetary gaps in FY2014.

33. **Three existing structural benchmarks are proposed to be re-set and new ones to be added for the third and fourth reviews under the ECF arrangement (MEFP Tables 4 and 5).** The benchmark on establishing a collateral registry is proposed to be re-set for end-December, 2013, and a new benchmark on compiling national accounts for 2008–13 by end-June 2014 is proposed to replace benchmarks on the Establishment survey and the Household Income and Expenditure Survey, while the benchmark on submitting the Insurance Act to the Legislature is proposed to be moved to March 2014.<sup>14</sup> In addition, a new structural benchmark on launching the pilot phase of the TSA is proposed for the fourth review. Similarly, given the importance to improve monitoring and control, the complete clean-up of payrolls of 5 key Ministries and Agencies (M&As) is proposed to be reset for the fourth review. To further improve the comprehensiveness of the budget, a new benchmark on completing a pilot phase for the migration of credit-financed projects to the Government’s Integrated Financial System (IFMIS) is also being proposed for the fourth review.

34. **The safeguards assessment update associated with the new request for an ECF arrangement was completed in August 2013.** The report’s recommendations do not require action in the context of the second review but their implementation will be monitored under the program.

35. **Program risks.** Maintaining the FY2014 budget execution within a tight resource envelope while accelerating project execution in the context of remaining capacity constraints will be a major challenge. Effectively strengthening inter-institutional communication and coordination to enhance liquidity management will be essential, and is also key to meeting the reserve accumulation targets. Focus on fewer key structural measures for the following reviews, together with ongoing progress made and more active participation from the PFM reform unit will contribute to effectively move ahead with the reform agenda.

---

<sup>14</sup> The Insurance Act failed to be submitted to the Legislature’s session that ended on September 13, and must now await the new session starting in January 2014.

## STAFF APPRAISAL

36. **Liberia's economy remains on a solid footing and the medium-term outlook is positive, with broadly balanced risks.** Non-resource real GDP growth is expected to continue to pick up in 2014–15—assuming bottlenecks to public investment are effectively addressed. New projects in the mining and plantation sectors coming on stream in the coming years should lead to higher growth. Inflation is projected to gradually decline in 2014 reflecting lower international food and fuel prices and a more stable exchange rate. On the downside, delays in public investment and the uncertain global economy could affect economic activity.

37. **Recent challenges in program implementation highlight the importance of enhanced policy and inter-institutional coordination.** Going forward, continued strong ownership of the reforms, along with careful prioritization and sequencing will be essential to overcome remaining capacity constraints. Renewed momentum towards the program objectives and, in particular, ensuring timely implementation of key structural reforms, is also important to preserve the hard-won macroeconomic stability gains.

38. **The planned scaling-up of public investment should contribute to address some of the binding constraints to broad-based growth.** Staff welcomes the progress made by the authorities in securing external financing and getting critical infrastructure projects ready for implementation. Public investment in the electricity and road network will have the greatest impact on private investment, jobs creation, and promoting inclusive growth. Going forward, resolving remaining project execution bottlenecks is warranted to achieve the government's development goals. In this regard, the Project Management Office at the Ministry of Finance will play a critical role in developing institutional capacity.

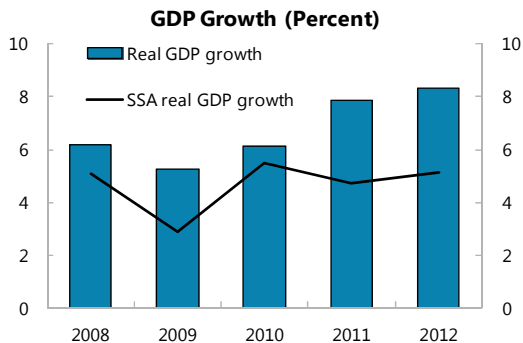
39. **The need to address previous spending overruns and to contain expenditure within a realistic revenue envelope will complicate execution of the FY2014 budget.** Early identification of adequate budgetary savings and the authorities' decision to not release the spending allocations associated to the uncertain revenues added by Parliament to the budget until such revenues are realized are useful steps to guard against risks. In this context, staff encourages the authorities to continue to strengthen cash management in the context of steady progress towards a Treasury Single Account.

40. **The monetary and exchange rate policy framework needs to be strengthened.** Effective liquidity management requires stronger coordination between the CBL and the Ministry of Finance. In turn, enhancing the quality of liquidity monitoring and forecasts is an important step toward establishing a monetary policy anchor. Staff supports the introduction of CBL bills, which have been effective in absorbing some of the excess liquidity and providing some room to lower intervention in the foreign exchange market. Staff commends the authorities for their success with the T-bills program. Together with the strengthening of the foreign exchange auction, including through the closing of the special foreign exchange window, these instruments will contribute to money market deepening while making CBL interventions more effective.

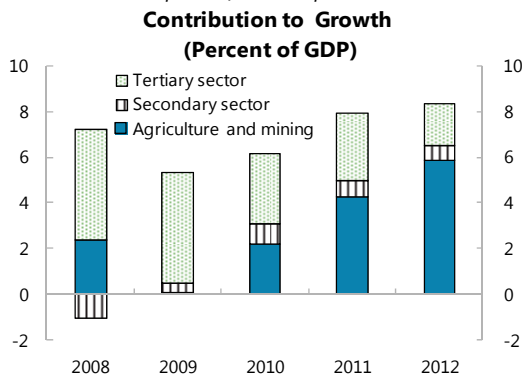
41. **Staff is encouraged by the authorities' commitment to re-build an adequate foreign reserves buffer.** Having the capacity to mitigate external shocks is essential in a highly dollarized economy, where adverse shocks have a significant impact on real activity and reduce domestic consumption, including on food and essential goods. In this context, the authorities' decision to refrain from allocating new U.S. dollar resources to facilitate bank lending is welcome.
42. **Removing existing barriers to credit is a priority but should not come at the expense of weakening buffers to external shocks.** Efforts to strengthen the legal and institutional framework to induce higher financial intermediation and improve access to finance should be vigorously pursued. However, staff's view is that the CBL's credit stimulus policy should be discontinued; direct interventions to promote bank lending ought to be market-based, and recognized as fiscal initiatives with their financing squarely provided by the government or donors. Staff strongly supports the authorities' decision to assess alternative funding and lending schemes in order to maximize leverage from limited available resources while effectively reaching target groups on a sustainable way, and stands ready to provide technical support as needed.
43. **Public debt remains sustainable; however, a careful assessment of new financing operations is warranted in light of the recent rapid accumulation of borrowing commitments.** The authorities' success in securing external financing for critical projects on concessional terms is welcome, though the volume of new borrowing is now close to the limits agreed under the program. Staff encourages the authorities to finalize their medium-term public debt strategy to guide the public sector borrowing plans in line with the Agenda for Transformation, and to ensure that the projects financed are growth-critical and of high quality. Continuing to build the capacity of the Debt Management Unit, particularly to track and monitor all loans including government guarantees to SOEs, and to negotiate new loans on the most favorable terms for Liberia, should be prioritized.
44. **Staff supports the completion of the second review of the ECF arrangement, based on acceptable performance and the strength of the authorities' policy commitments.** Staff recommends approval of the authorities' request of the waiver of nonobservance for the performance criteria on the floor on revenue collection of the central government, the ceiling on CBL's gross direct credit to the government, and the floor on foreign reserves of the CBL. Staff also recommends approval of the authorities' requests for modification of end-December 2013 and end-June 2014 performance criterion on the ceiling on new domestic borrowing of the central government.

**Figure 1. Liberia: Recent Economic Developments**

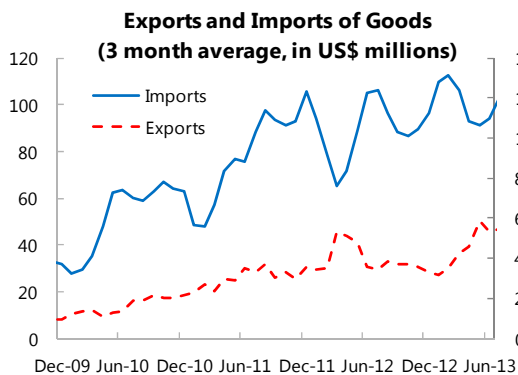
*Economic activity has been strong since the resumption of political stability...*



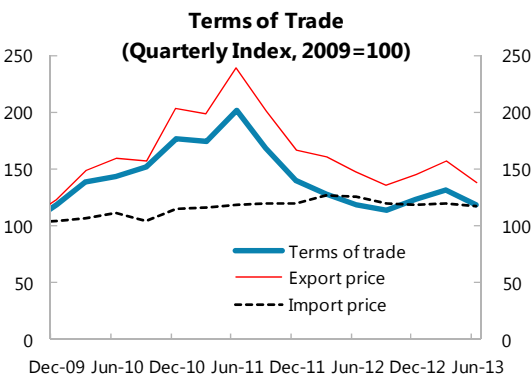
*...driven by growth in services and construction and the resumption of iron-ore production...*



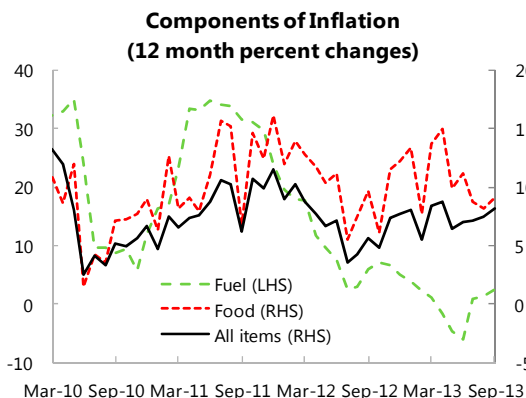
*...which also drove the pick up in exports since end-2012...*



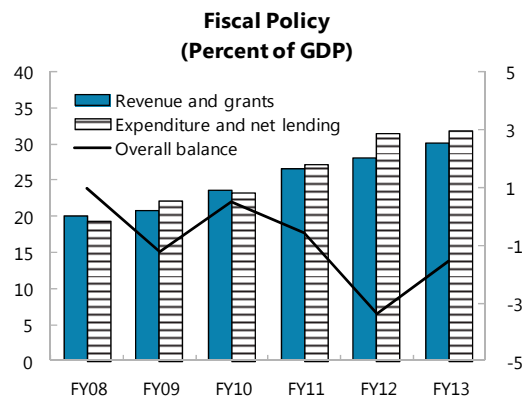
*...while the terms of trade have been broadly stable.*



*Inflation has picked up recently driven by higher international and domestic food prices and exchange rate depreciation.*



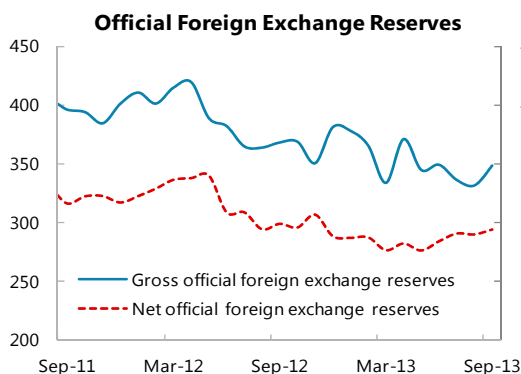
*The fiscal balance improved in FY2013 relative to FY2012, reflecting one-off revenues and higher grants.*



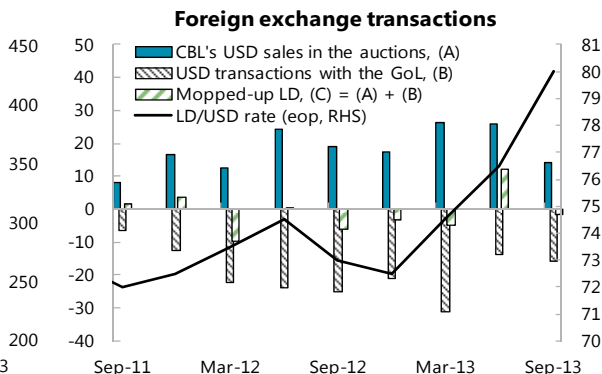
Sources: Liberian authorities and IMF staff estimates and projections.

**Figure 2. Liberia: Monetary and Financial Developments**  
(US\$ Millions, unless indicated otherwise)

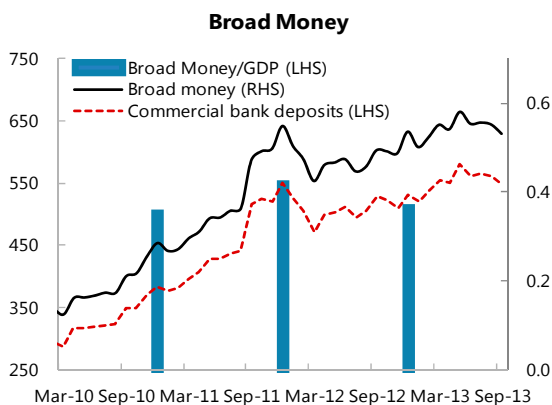
Reserve accumulation since end-2012 has been very limited, owing to increased interventions ...



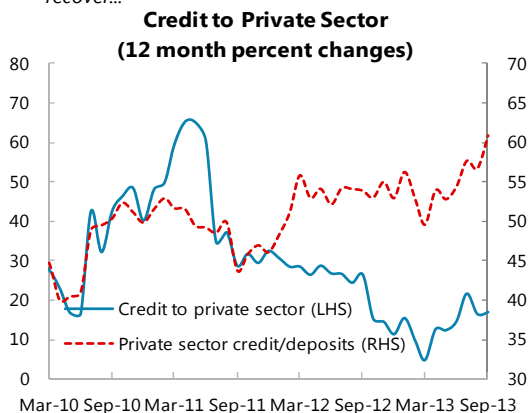
...while Liberian dollars have been injected, rather than mopped up, until the second quarter of 2013.



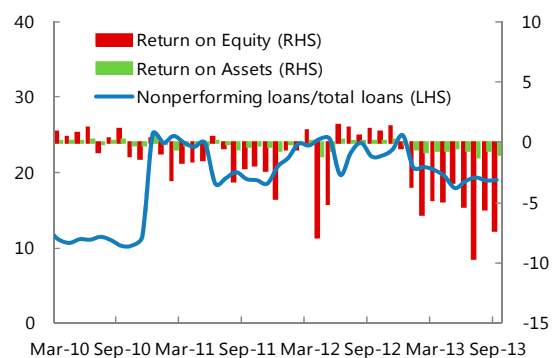
Broad money growth was steady, reflecting steady growth in commercial bank deposits.



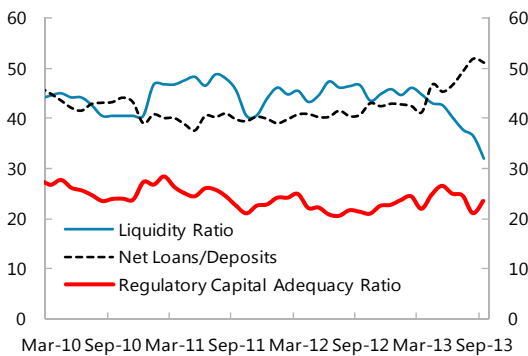
Private sector credit growth has started to recover...



...while nonperforming loans remain high and bank profitability low.



Nonetheless, banks remain well capitalized and highly liquid, reflecting low levels of intermediation.



Sources: Liberian authorities and IMF staff estimates and projections.

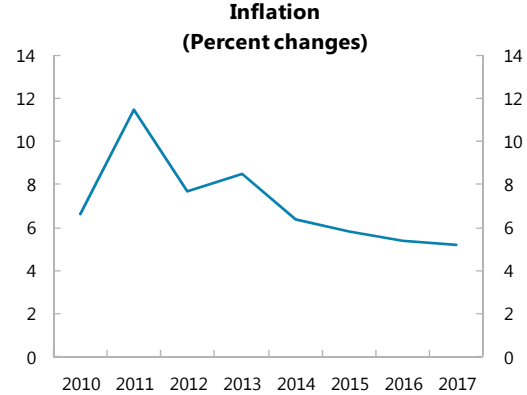
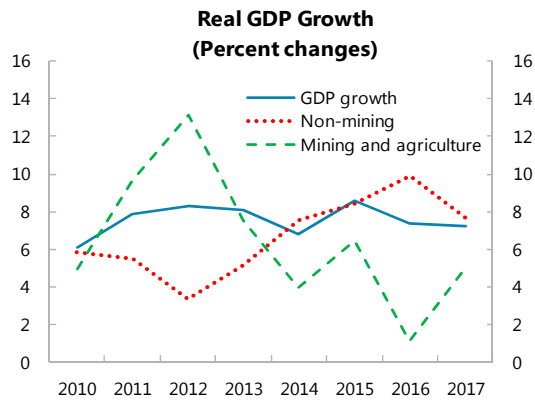


**Figure 3. Liberia: Medium-Term Outlook, 2010–17**

(Percent of GDP, unless indicated otherwise)

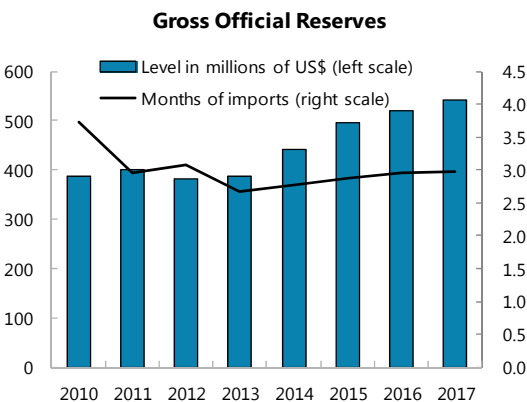
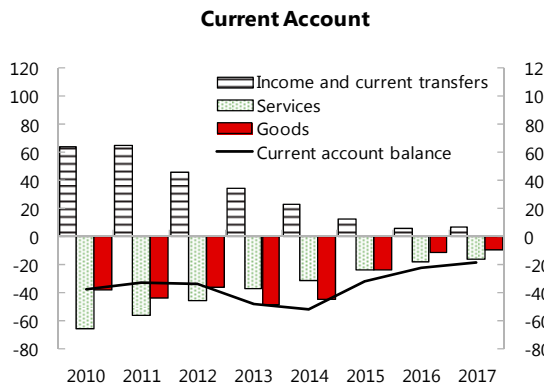
*The medium term outlook is positive, helped by the expansions of the mining and non mining sectors...*

*...while inflation continues to moderate.*



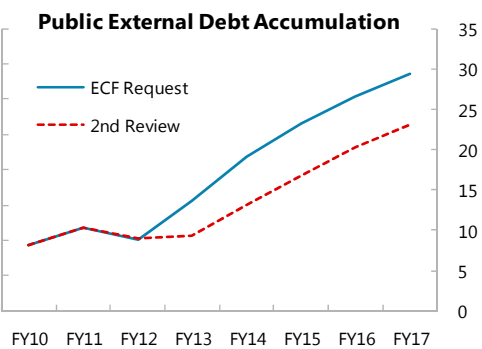
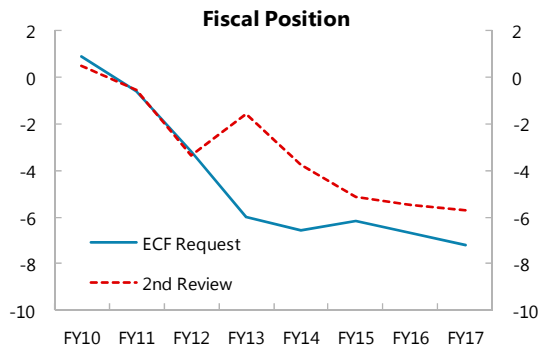
*Strong export performance will contribute to narrow the trade and current account deficits...*

*...maintaining reserves coverage at about three months of imports.*



*The fiscal deficit is widening at a slower pace than envisaged in the program reflecting capacity constraints...*

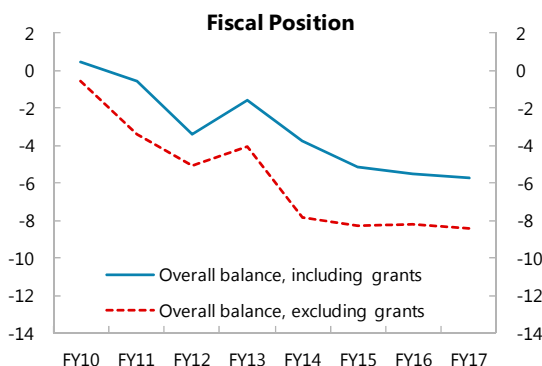
*...and debt is accumulating at a slower pace, also owing to delays in securing external financing.*



Sources: Liberian authorities and IMF staff estimates and projections.

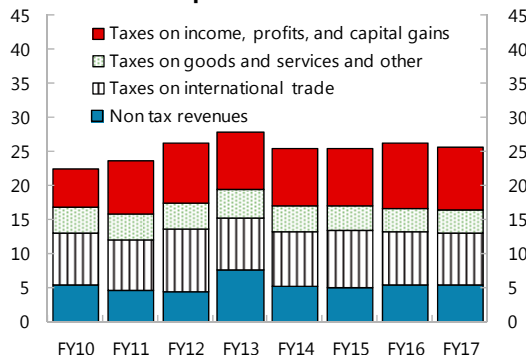
**Figure 4. Liberia: Medium-Term Fiscal Outlook, FY2010–17**  
(Percent of GDP)

The fiscal balance is expected to widen, reflecting the scaling up of capital spending...



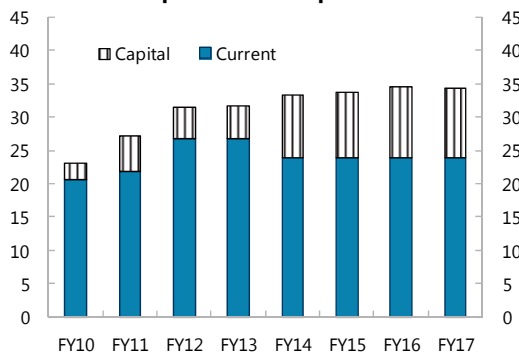
...while revenue remains stable over the medium-term.

**Composition of Revenue**



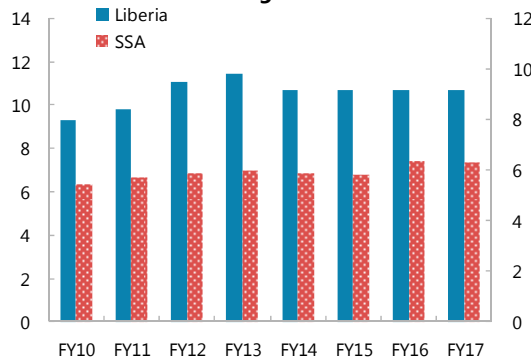
Current spending is expected to moderate to create fiscal space for capital spending...

**Expenditure Composition**



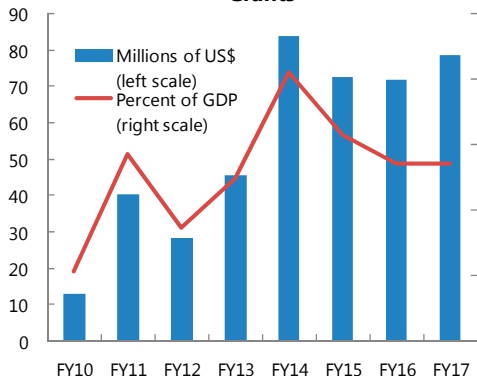
...while the wage bill declines, albeit still high by regional standards.

**Wage Bill**



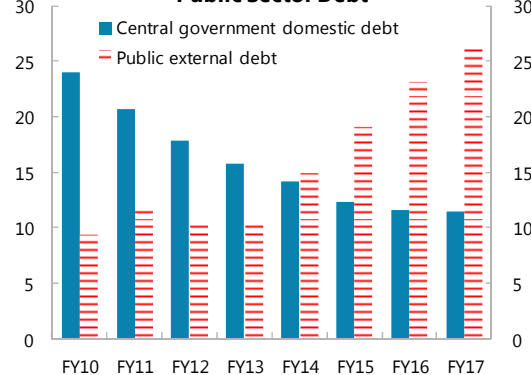
Budget support grants remain at stable levels.

**Grants**



The projected public debt accumulation is fully consistent with medium-term sustainability.

**Public Sector Debt**



Sources: Liberian authorities and IMF staff estimates and projections.

Table 1. Liberia: Selected Economic and Financial Indicators, 2011–17

	2011	2012	2013			2014			2015	2016	2017
	Prel.	Est.	ECF Request	First Review	Proj.	ECF Request	First Review	Proj.	Proj.	Proj.	
(Annual percentage change, unless otherwise indicated)											
National account and prices											
GDP at constant prices	7.9	8.3	8.3	7.5	8.1	5.6	5.4	6.8	8.6	7.3	7.2
GDP at constant prices excluding mining sector	5.5	3.4	6.1	5.6	5.1	6.8	6.2	7.5	8.5	9.9	7.7
GDP deflator (US dollars)	10.5	4.1	1.1	6.4	4.1	1.0	1.7	1.8	8.6	3.4	1.1
Nominal GDP (millions of U.S. dollars)	1,538	1,734	1,934	1,984	1,951	2,063	2,127	2,120	2,500	2,774	3,008
Consumer prices (average)	8.5	6.8	5.6	7.9	7.8	5.0	5.5	7.0	6.1	5.6	5.3
Consumer prices (end of period)	11.4	7.7	4.7	5.5	8.5	5.0	5.4	6.4	5.8	5.4	5.2
External sector											
Exports, f.o.b.	73.7	28.4	14.3	20.3	16.4	8.5	17.3	27.1	56.5	18.8	6.3
Imports, f.o.b.	47.8	7.1	16.1	29.4	35.4	5.6	11.6	12.6	1.6	-2.6	4.5
Terms of trade (deterioration -)	11.2	-29.0	-2.5	21.9	4.5	-0.8	-1.2	-5.5	-2.3	-1.5	-1.3
Average exchange rate (local currency per U.S. dollar)	72.2	73.5	...	...	...	...	...	...	...	...	...
Average nominal effective exchange rate (depreciation -)	-5.0	5.0	...	...	...	...	...	...	...	...	...
Average real effective exchange rate (depreciation -)	-0.2	9.1	...	...	...	...	...	...	...	...	...
Gross official reserves (months of imports) <sup>1</sup>	3.0	3.1	2.7	2.9	2.7	2.8	2.9	2.8	2.9	3.0	3.0
Gross official reserves (millions of U.S. dollars)	401	381	412	409	388	440	448	442	497	521	543
(Percent of GDP)											
External sector											
Current account balance											
(including official grants)	-32.7	-33.6	-62.4	-50.7	-48.0	-65.8	-56.2	-51.4	-31.9	-22.1	-18.3
(excluding official grants)	-97.7	-85.5	-106.4	-101.4	-91.3	-100.3	-95.0	-87.0	-56.6	-43.1	-36.5
Trade balance	-40.9	-33.9	-53.0	-42.5	-45.4	-51.8	-42.7	-43.3	-21.8	-10.5	-9.3
Exports, f.o.b.	24.8	27.6	27.9	29.1	28.6	28.3	31.8	33.4	44.4	47.5	46.6
Imports, f.o.b.	-65.7	-61.5	-80.9	-71.5	-74.0	-80.1	-74.5	-76.7	-66.1	-58.1	-55.9
Central government budget <sup>2</sup>											
Total revenue and grants	26.5	28.1	27.3	29.2	30.1	28.8	28.1	29.0	28.5	28.9	28.4
Of which: total revenue	23.7	26.3	24.9	27.4	27.6	26.5	23.9	24.9	25.4	26.1	25.7
Total expenditure and net lending	27.1	31.4	33.3	31.9	31.7	35.4	32.2	32.8	33.7	34.4	34.1
Of which: current expenditure	21.9	26.8	25.6	25.4	26.8	24.4	23.3	23.4	23.5	23.5	23.7
capital expenditure	5.2	4.7	7.8	6.5	4.9	11.0	8.9	9.3	10.2	10.8	10.4
Overall fiscal balance (including grants)	-0.6	-3.4	-6.0	-2.8	-1.6	-6.6	-4.2	-3.7	-5.1	-5.5	-5.7
Overall fiscal balance (excluding grants)	-3.4	-5.1	-8.4	-4.6	-4.1	-9.0	-8.2	-7.9	-8.3	-8.2	-8.4
Public external debt	11.7	10.2	15.5	12.8	10.6	21.8	17.7	14.9	19.1	23.1	26.4
Central government domestic debt	20.7	17.8	15.7	15.6	15.7	14.4	14.1	14.2	12.3	11.6	11.4

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Excludes UNMIL service and iron-ore concessions related imports.

<sup>2</sup> Budget data expressed as fiscal year ending in June on a cash basis, i.e., 2011 = FY2010/11.

**Table 2. Liberia: Balance of Payments, 2011–17**  
(Millions of U.S. dollars, unless otherwise indicated)

	2011	2012	2013			2014			2015	2016	2017
	Prel.	Est.	ECF Request	First Review	Proj.	ECF Request	First Review	Proj.	Proj.	Proj.	
Trade balance	-622	-588	-1,026	-843	-887	-1,068	-908	-918	-544	-292	-281
Exports, f.o.b.	374	479	539	577	558	584	677	709	1,110	1,318	1,402
Of which: rubber	250	177	186	228	121	200	238	148	140	136	129
Of which: Iron	26	117	147	126	220	162	160	291	657	840	902
Imports, f.o.b.	-996	-1,067	-1,565	-1,419	-1,444	-1,652	-1,584	-1,627	-1,654	-1,610	-1,683
Services (net)	-797	-745	-705	-690	-684	-657	-648	-637	-549	-475	-471
Of which: UNMIL services <sup>1</sup>	-418	-342	-266	-266	-266	-190	-190	-190	-76	-38	0
Income (net)	-161	-256	-330	-326	-320	-399	-404	-401	-437	-547	-467
Of which: public interest payments due <sup>2</sup>	-1	-1	-3	-2	-2	-4	-3	-3	-5	-7	-8
Of which: IMF	-1	0	0	0	0	0	0	-1	-1	-2	-2
Current transfers	1,077	1,005	803	802	953	717	715	867	732	700	668
Donor transfers (net)	976	900	695	694	845	604	603	755	618	581	545
Of which: UNMIL transfers	550	450	350	350	350	250	250	250	100	50	0
Private transfers (net)	86	89	92	92	92	96	96	95	97	101	105
Current account balance	-504	-583	-1,257	-1,056	-937	-1,407	-1,245	-1,089	-798	-614	-552
Current account balance, excluding grants	-1,502	-1,483	-2,059	-2,013	-1,782	-2,068	-2,022	-1,844	-1,416	-1,195	-1,097
Capital and financial account (net)	526	563	1,224	1,007	944	1,366	1,214	1,144	853	638	574
Capital account (HIPC debt relief) <sup>3</sup>	0	0	0	0	0	0	0	0	0	0	0
Financial account	526	563	1,224	1,007	944	1,366	1,214	1,144	853	638	574
Foreign direct investment (net)	292	280	328	329	313	344	340	322	238	277	301
Portfolio investment (net)	0	0	0	0	0	0	0	0	0	0	0
Other investment (net)	233	284	896	678	631	1,023	874	822	615	360	273
Official financing: medium and long term (net)	38	-17	98	49	46	126	103	100	130	149	160
SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Disbursements	42	-11	104	55	53	135	112	111	144	164	176
Amortization	-4	-6	-6	-6	-8	-9	-9	-11	-13	-15	-16
Private financing (net) <sup>3</sup>	195	301	798	629	585	897	771	722	485	212	113
Errors and omissions	0	0	0	0	0	0	0	0	0	0	0
Overall balance	0	-20	67	51	7	59	69	54	55	24	22
Financing	-11	20	-67	-51	-7	-59	-69	-54	-55	-24	-22
Change in gross official reserves (increase -) <sup>4</sup>	-24	20	-40	-24	-7	-29	-38	-54	-55	-24	-22
Net use of IMF credit and loans	14	18	22	23	22	19	19	19	17	-8	-12
Disbursements	14	18	22	23	22	22	23	23	23	0	0
Of which: ECF financing	14	18	22	23	22	22	23	23	23	0	0
Repayments	0	0	0	0	0	-3	-3	-3	-6	-8	-12
Donor financing	0	0	50	0	0	50	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0	0
Debt forgiveness	0	0	0	0	0	0	0	0	0	0	0
Change in arrears <sup>5</sup>	0	0	0	0	0	0	0	0	0	0	0
Debt rescheduling plus HIPC interim debt relief	0	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>											
Current account balance (percent of GDP)											
Including grants	-32.7	-33.6	-62.4	-50.7	-48.0	-65.8	-56.2	-51.4	-31.9	-22.1	-18.3
Excluding grants	-97.7	-85.5	-106.4	-101.4	-91.3	-100.3	-95.0	-87.0	-56.6	-43.1	-33.1
Trade balance (percent of GDP)	-40.5	-33.9	-53.0	-42.5	-45.4	-51.8	-42.7	-43.3	-21.8	-10.5	-9.3
Donor transfers (net, percent of GDP)	63.5	51.9	38.5	37.5	43.3	31.7	30.7	35.6	24.7	21.0	18.1
Public sector external debt (medium and long term) <sup>6</sup>											
Debt outstanding, including arrears	166	167	287	238	196	435	363	304	442	610	762
(percent of GDP)	11.7	10.2	15.5	12.8	10.6	21.8	17.7	14.9	19.1	23.1	26.4
Debt service charges (after relief)	5.8	7.3	8.6	8.4	8.3	12.9	12.5	12.2	15.9	20.2	23.3
(percent of GDP)	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6	0.6	0.7	0.8
Terms of trade (2009=100)	171	120	182	216	126	181	214	119	116	114	113
Gross official reserves	401	381	412	409	388	440	448	442	497	521	543
Gross official reserves (months of imports) <sup>7</sup>	3.0	3.1	2.7	2.9	2.7	2.8	2.9	2.8	2.9	3.0	3.0

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Net of estimated value of goods and services purchased by UNMIL (and its staff) in Liberia.

<sup>2</sup> From 2007, interest charged on debt stock after application of traditional debt relief mechanisms.

<sup>3</sup> Includes short-term trade credits and private sector operating balances abroad.

<sup>4</sup> Includes SDR holdings.

<sup>5</sup> Includes debt forgiveness from multilateral creditors and Paris Club creditors.

<sup>6</sup> Recorded in fiscal years.

<sup>7</sup> Excludes UNMIL service and iron-ore concessions related imports.

**Table 3. Liberia: Monetary Survey, 2011–15**  
(Millions of U.S. dollars; unless otherwise indicated)

	2011	2012	2013			2014			2015
	Prel.	Est.	ECF Request	First Review	Proj.	ECF Request	First Review	Proj.	Proj.
(Central Bank Survey)									
Net foreign assets	253.2	220.9	151.6	234.1	232.2	145.6	262.6	276.0	336.7
Of which: IMF credit	-69.4	-107.8	-96.9	-97.3	-97.7	-115.9	-116.1	-117.9	-135.8
CBL's gross foreign reserves <sup>1</sup>	513.3	499.3	546.7	524.0	529.9	584.1	570.8	595.4	675.4
Commercial banks' US\$ denominated deposits at CBL	112.0	118.0	135.0	115.0	128.4	143.9	123.3	139.5	164.6
CBL's gross official foreign reserves <sup>2</sup>	401.3	381.3	411.7	408.9	387.8	440.2	447.6	442.2	497.1
Government US\$ denominated deposits at CBL	84.2	80.7	84.2	59.0	58.8	84.2	59.0	58.8	58.8
CBL's net foreign exchange position <sup>3 4</sup>	263.7	216.3	241.8	243.8	237.4	253.8	264.0	269.5	304.4
CBL's net foreign exchange position excluding SDR holdings <sup>4</sup>	92.8	45.3	70.7	72.8	66.5	82.7	93.0	98.5	133.5
Net domestic assets	-109.2	-45.7	20.4	-62.3	-42.9	40.4	-80.1	-47.3	-44.6
Net claims on government	219.0	225.2	183.9	200.0	204.5	183.3	198.9	196.4	198.0
Claims on other public sector <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	5.8	1.9	7.3	2.2	2.1	7.8	2.3	2.3	2.7
Claims on commercial banks	12.8	26.9	12.8	26.8	35.8	12.8	26.8	35.8	35.8
Other items (net) <sup>5</sup>	-346.8	-299.6	-183.6	-291.3	-285.3	-163.5	-308.2	-281.8	-281.1
Reserve money	144.0	175.2	172.0	171.8	189.3	186.0	182.5	228.7	292.1
Reserve money in Liberian dollars (millions)	10,443.5	12,705.0	13,320.5	13,142.2	15,235.4	14,889.5	14,144.1	18,982.2	24,831.2
(Depository Corporation Survey)									
Net foreign assets	369.9	350.6	295.1	359.6	327.2	284.5	385.3	362.8	414.8
Net domestic assets	272.1	282.2	412.0	333.9	345.0	472.0	355.3	383.0	465.3
Net domestic credit	475.3	520.2	503.2	534.1	560.1	523.3	555.9	603.4	649.6
Net claims on government	210.8	214.2	175.7	188.9	209.4	175.1	187.9	201.3	202.9
Of which: IMF credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on nongovernment	264.5	306.0	327.5	345.2	350.8	348.2	368.0	402.1	446.7
Claims on private sector	253.2	281.6	316.9	322.0	322.1	337.9	345.2	374.3	419.5
Claims on public enterprises	9.9	22.3	9.3	21.1	26.7	9.0	20.8	25.9	25.3
Claims on nonbank financial institutions	1.4	2.2	1.3	2.1	2.0	1.3	2.0	1.9	1.9
Other Items (Net)	-203.1	-238.0	-91.2	-200.3	-215.1	-51.3	-200.7	-220.4	-184.3
Monetary aggregates									
Reserve money	144.0	175.2	172.0	176.0	189.3	186.0	185.5	228.7	292.1
Total Liberian currency	100.0	118.8	116.5	122.4	115.3	126.8	128.1	138.6	159.5
Of which: Currency in circulation	92.5	100.6	107.7	103.6	90.9	117.2	108.4	114.2	135.1
Commercial bank reserves at CBL	44.0	56.4	55.6	53.5	73.9	59.2	57.4	90.1	132.6
Commercial bank deposits	549.5	532.3	599.4	589.8	581.3	639.2	632.2	631.7	744.9
Total demand deposits	365.7	330.8	403.4	360.3	354.5	430.1	386.2	385.2	454.3
L\$ denominated deposits	24.1	27.8	29.5	29.7	29.2	31.4	31.8	31.8	37.5
US\$ denominated deposits	341.6	303.0	373.9	330.6	325.3	398.7	354.3	353.5	416.9
Time, savings, and other deposits	183.9	201.5	196.1	229.5	226.8	209.1	246.0	246.4	290.6
L\$ denominated deposits	34.4	43.6	49.1	51.7	50.9	52.3	55.4	55.3	65.2
US\$ denominated deposits	149.5	158.0	147.0	177.8	175.9	156.7	190.6	191.1	225.4
Broad money (M2)	642.0	632.8	707.1	693.4	672.2	756.4	740.6	745.8	880.0
L\$ component	150.9	171.9	186.2	185.1	171.0	201.0	195.7	201.2	237.8
US\$ component	491.1	460.9	520.9	508.4	501.2	555.4	544.9	544.6	642.3
<i>Memorandum items:</i>									
Broad money (annual change)	41.4	-1.4	9.3	11.6	6.2	7.0	6.8	11.0	18.0
L\$ component as percent of beginning period broad money	8.9	3.3	2.4	2.1	-0.1	2.1	1.5	4.5	4.9
US\$ component as percent of beginning period broad money	32.5	-4.7	6.9	9.5	6.4	4.9	5.3	6.5	13.1
Reserve money (annual change)	47.7	21.7	8.9	-2.0	8.0	8.1	6.2	20.8	27.7
Base money (annual change)	32.5	8.7	8.7	5.5	-5.8	8.5	5.0	22.9	18.3
Credit to government (annual change)	25.5	1.6	-5.7	-12.1	-2.2	-0.3	-0.5	-3.9	0.8
Credit to private sector (annual change)	32.4	11.2	9.4	14.4	14.4	6.6	7.2	16.2	12.1
Velocity (GDP-to-M2)	2.4	2.7	2.7	2.9	2.9	2.7	2.9	2.8	2.8
Money multiplier (M2/M0)	6.1	5.5	5.7	5.7	6.2	5.6	5.8	5.6	5.6
Nominal GDP (in millions of US dollars)	1,537.8	1,733.9	1,934.4	1,984.4	1,951.2	2,062.7	2,127.0	2,120.2	2,500.4

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> SDR holdings are included from December 2009.

<sup>2</sup> Including public enterprises and the local government.

<sup>3</sup> Defined as gross official reserves less government foreign currency deposits at the central bank and less ECF disbursements.

<sup>4</sup> Evaluated at the program exchange rates, instead of the current market exchange rates.

<sup>5</sup> Including valuation adjustment.

**Table 4. Liberia: Financial Soundness Indicators, 2009–July 2013**  
(Percent)

	Dec-09	Dec-10	Dec-11	2012				2013		
				March	June	Sept.	Dec.	March	June	July
<b>Capital adequacy</b>										
Regulatory capital to risk-weighted assets	28.1	27.4	22.8	24.9	20.8	21.3	22.7	21.9	25.0	24.6
Reported net capitalization	19.4	17.5	15.1	14.9	13.9	14.0	14.9	14.1	14.2	13.4
<b>Asset quality</b>										
Non-performing loans to total loans	10.9	25.1	20.8	23.6	19.6	22.1	24.9	20.3	18.8	19.1
Loan loss provisions to non-performing loans	78.8	55.6	53.2	41.1	65.7	54.6	49.0	67.1	55.3	59.1
Provisions to classified loans net of interest in suspense	60.9	45.8	45.1	36.8	56.8	47.4	44.0	59.9	46.5	51.2
Provisions to non-performing loans net of interest in suspense	78.8	55.6	53.2	41.1	65.7	54.6	49.0	67.1	55.3	59.1
<b>Loan concentration (share of total)</b>										
Agriculture	3.4	3.2	4.6	3.7	3.7	3.7	4.5	6.6	4.8	5.5
Mining and Quarrying	0.1	0.0	0.9	1.3	0.7	0.6	0.6	0.8	0.7	1.1
Manufacturing	1.7	1.3	2.0	2.0	2.3	1.8	1.5	2.2	1.6	1.1
Construction	11.4	9.6	8.2	7.6	8.3	8.5	6.9	9.6	9.6	10.6
Transportation, Storage, and Communication	13.9	22.3	8.4	10.0	7.5	6.9	7.1	8.9	5.9	5.9
Trade, Hotels, and Restaurants	32.0	31.5	41.2	42.7	43.1	39.9	44.0	40.0	42.8	39.7
Services	20.5	10.5	16.2	12.9	10.0	11.1	9.7	8.9	9.7	10.4
Personal	12.3	19.6	14.9	15.0	14.6	15.9	15.0	13.9	12.0	12.3
Government of Liberia	0.8	0.5	0.4	0.3	0.4	0.5	0.4	0.4	0.4	1.6
Public corporations	0.2	0.0	2.0	2.4	1.7	1.6	1.6	1.9	1.7	1.7
Others	3.6	1.4	1.4	2.2	7.7	9.3	8.6	6.8	10.6	10.2
<b>Earnings and profitability</b>										
Return on assets	0.6	0.5	-0.7	0.1	0.2	0.1	-0.1	-0.7	-0.7	-1.2
Return on equity	3.4	0.3	-4.7	1.0	1.4	1.1	-0.5	-4.8	-5.3	-9.6
Non-interest income to total income	61.7	53.9	57.9	52.2	56.3	58.7	55.3	54.0	57.9	56.7
Net interest margin over average assets	6.7	7.9	7.2	1.8	3.8	5.6	7.4	1.4	3.7	4.2
<b>Liquidity</b>										
Liquid assets to net assets <sup>1</sup>	51.8	56.6	54.0	56.0	51.8	50.9	34.0	32.9	29.6	27.9
Net loans to deposits	45.3	39.1	40.0	40.9	40.4	40.8	43.0	41.3	46.8	49.5
Liquid assets to deposits and designated liabilities	42.5	40.6	44.0	45.6	47.4	46.7	45.9	44.8	40.2	37.8

Source: Liberian authorities and IMF staff estimates.

<sup>1</sup> There is a structural break in this data series in December 2012, due to the reclassification of some accounts.

Table 5. Liberia: Medium-Term Outlook, 2011–17

	2011	2012	2013			2014			2015	2016	2017
	Prel.	Est.	ECF Request	First Review	Proj.	ECF Request	First Review	Proj.	Proj.	Proj.	
(Annual percentage change)											
National income											
Real GDP	7.9	8.3	8.3	7.5	8.1	5.6	5.4	6.8	8.6	7.3	7.2
Agriculture & fisheries	3.9	1.9	3.3	4.1	-0.7	4.4	4.0	4.6	5.1	6.1	5.8
Forestry	3.4	1.7	1.8	1.6	2.6	6.0	5.7	6.0	6.1	6.1	6.1
Mining & panning	166.2	129.1	31.6	27.5	40.9	-4.6	-2.3	0.6	9.9	-15.0	1.4
Manufacturing	3.1	3.1	3.2	3.1	8.9	3.5	3.4	10.5	10.6	9.8	8.7
Services	7.0	4.7	9.2	7.8	8.5	8.7	8.0	9.0	10.4	12.6	8.8
Real GDP excluding mining sector <sup>1</sup>	5.5	3.4	6.1	5.6	5.1	6.8	6.2	7.5	8.5	9.9	7.7
Nominal non-mining per capita GDP (U.S. dollar)	382.3	388.2	412.6	429.8	402.1	436.4	452.1	425.1	459.3	503.7	538.0
Prices											
GDP deflator	10.5	4.1	1.1	6.4	4.1	1.0	1.7	1.8	8.6	3.4	1.1
Consumer prices (annual average)	8.5	6.8	5.6	7.9	7.8	5.0	5.5	7.0	6.1	5.6	5.3
Consumer prices (end of period)	11.4	7.7	4.7	5.5	8.5	5.0	5.4	6.4	5.8	5.4	5.2
Population (millions)	3.9	4.0	4.1	4.1	4.1	4.2	4.2	4.2	4.3	4.4	4.5
(Percent share)											
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture & fisheries	36.2	31.0	28.9	30.4	26.1	28.7	29.7	25.7	22.8	21.8	21.1
Forestry	8.1	7.6	7.2	7.2	7.0	7.3	7.3	6.9	6.4	6.3	6.3
Mining & panning	4.6	11.8	13.7	12.4	16.7	12.2	11.7	16.8	21.8	20.8	20.1
Manufacturing	3.8	3.6	3.4	3.5	3.6	3.4	3.5	3.7	3.6	3.6	3.7
Services	47.3	46.0	46.7	46.5	46.6	48.4	47.8	47.0	45.5	47.5	48.8
(Percent of GDP, fiscal year)											
Central government operations											
Total revenue and grants	26.5	28.1	27.3	29.2	30.1	28.8	28.1	29.0	28.5	28.9	28.4
Total revenue	23.7	26.3	24.9	27.4	27.6	26.5	23.9	24.9	25.4	26.1	25.7
Grants	2.8	1.7	2.4	1.8	2.5	2.3	4.1	4.1	3.1	2.7	2.7
Total expenditure and net lending	27.1	31.4	33.3	31.9	31.7	35.4	32.2	32.8	33.7	34.4	34.1
Current expenditure	21.9	26.8	25.6	25.4	26.8	24.4	23.3	23.4	23.5	23.5	23.7
Capital expenditure	5.2	4.7	7.8	6.5	4.9	11.0	8.9	9.3	10.2	10.8	10.4
Overall fiscal balance, including grants	-0.6	-3.4	-6.0	-2.8	-1.6	-6.6	-4.2	-3.7	-5.1	-5.5	-5.7
Overall fiscal balance, excluding grants	-3.4	-5.1	-8.4	-4.6	-4.1	-9.0	-8.2	-7.9	-8.3	-8.2	-8.4
Public external debt	10.8	9.6	14.8	12.0	10.0	21.1	17.1	14.3	17.7	22.0	25.3
Central government domestic debt	20.7	17.8	15.7	15.6	15.7	14.4	14.1	14.2	12.3	11.6	11.4
(Percent, unless otherwise indicated)											
M2/GDP	41.7	36.5	36.6	34.9	34.4	36.7	34.8	35.2	35.2	35.0	34.9
Private sector credit/GDP	16.5	16.2	16.4	16.2	16.5	16.4	16.2	17.7	16.8	17.6	18.1
Velocity (GDP-to-M2)	2.4	2.7	2.7	2.9	2.9	2.7	2.9	2.8	2.8	2.9	2.9
Money multiplier (M2/M0)	6.1	5.5	5.7	5.7	6.2	5.6	5.8	5.6	5.6	5.8	5.8
(Percent of GDP, unless otherwise indicated)											
External sector											
Current account balance, including grants	-32.7	-33.6	-62.4	-50.7	-48.0	-65.8	-56.2	-51.4	-31.9	-22.1	-18.3
Current account balance, excluding grants	-97.7	-85.5	-106.4	-101.4	-91.3	-100.3	-95.0	-87.0	-56.6	-43.1	-36.5
Trade balance	-40.9	-33.9	-53.0	-42.5	-45.4	-51.8	-42.7	-43.3	-21.8	-10.5	-9.3
Exports	24.8	27.6	27.9	29.1	28.6	28.3	31.8	33.4	44.4	47.5	46.6
Imports	-65.7	-61.5	-80.9	-71.5	-74.0	-80.1	-74.5	-76.7	-66.1	-58.1	-55.9
Grants (donor transfers, net)	63.5	51.9	38.5	37.5	43.3	31.7	30.7	35.6	24.7	21.0	18.1
Gross official reserves (millions of U.S. dollars)	401.3	381.3	411.7	408.9	387.8	440.2	447.6	442.2	497.1	520.8	543.2
Months of imports of goods and services <sup>2</sup>	3.0	3.1	2.7	2.9	2.7	2.8	2.9	2.8	2.9	3.0	3.0

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Chained weighted sectoral average growth rate.<sup>2</sup> Excludes UNMIL service and iron ore-concessions related imports.

**Table 6a. Liberia: Fiscal Operations of the Central Government, FY2011–17<sup>1</sup>**  
(Millions of U.S. dollars)

	FY2011	FY2012	FY2013			FY2014			FY2015	FY2016	FY2017
	Prel.	Prel.	ECF Request	First Review	Est.	ECF Request	First Review	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	374.9	458.9	505.6	542.7	555.1	575.8	576.8	591.0	659.2	760.9	821.4
Revenue	334.6	430.6	460.8	509.2	509.4	529.1	492.1	507.3	586.7	689.2	742.8
Tax revenue	269.2	357.0	364.2	361.7	369.5	383.6	409.0	409.0	472.8	549.3	586.1
Taxes on income, profits, and capital gains	111.2	145.4	131.3	151.6	156.8	142.3	169.4	169.4	196.6	249.5	267.5
Taxes on goods and services	48.4	53.7	61.0	63.2	71.9	64.6	72.3	72.3	77.5	84.7	91.9
Taxes on international trade	105.4	149.0	162.4	143.7	140.8	166.4	162.3	162.3	193.2	208.9	219.9
Other taxes	4.3	8.9	9.5	3.1	4.8	10.3	5.0	5.0	5.5	6.1	6.8
Non-tax	65.4	73.7	96.6	147.5	139.9	145.5	83.1	98.3	113.9	139.9	156.6
Grants	40.3	28.3	44.8	33.5	45.7	46.7	83.7	83.7	72.5	71.7	78.6
Expenditure and net lending	382.9	514.0	616.6	594.1	584.0	708.4	661.7	667.2	777.9	906.1	986.3
Current expenditure	309.4	437.6	473.1	473.0	493.0	487.5	479.0	477.2	543.2	620.2	684.4
Wages and salaries	138.6	181.4	204.0	201.8	211.3	216.0	222.6	218.0	248.4	283.6	310.9
Goods and services	86.3	113.9	141.3	153.1	161.5	135.0	134.3	136.2	155.6	177.6	194.7
Subsides and transfers	80.5	137.5	121.3	111.8	114.0	129.4	113.6	114.5	130.9	149.5	163.9
Interest	4.0	4.9	6.6	6.3	6.2	7.1	8.5	8.5	8.3	9.6	15.0
Capital expenditure	73.5	76.4	143.5	121.1	91.0	220.8	182.7	190.0	234.6	285.9	301.9
Foreign loan financed <sup>2</sup>	9.6	20.1	104.6	56.2	12.2	136.6	94.3	94.6	127.1	171.4	167.7
Domestic and grant financed	63.9	56.3	38.9	64.9	78.8	84.3	88.4	95.5	107.5	114.5	134.2
Unallocated expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance											
Including grants	-7.9	-55.1	-111.0	-51.4	-28.9	-132.5	-85.9	-76.2	-118.7	-145.2	-164.9
Excluding grants	-48.2	-83.4	-155.8	-84.9	-74.6	-179.3	-169.5	-159.8	-191.2	-216.9	-243.5
Identified financing	8.0	55.1	111.0	51.4	28.9	132.5	85.9	76.2	118.7	145.2	164.9
External financing (net)	3.8	14.7	101.8	50.4	7.3	133.1	90.8	91.1	121.2	155.2	146.0
Loans	9.6	20.1	104.6	56.2	12.2	136.6	94.3	94.6	127.1	171.4	167.7
Project loans	9.6	20.1	104.6	56.2	12.2	136.6	94.3	94.6	127.1	171.4	167.7
Amortization (-)	-5.8	-5.4	-2.8	-5.8	-4.9	-3.4	-3.4	-3.4	-5.9	-16.2	-21.7
Domestic financing (net)	4.3	40.4	9.3	1.0	21.6	-0.6	-5.0	-15.0	-2.5	-10.0	18.9
Central Bank of Liberia	10.0	43.5	0.0	-12.0	5.9	0.0	-8.0	-38.0	0.0	0.0	0.0
Use of deposits	10.0	23.5	0.0	0.0	19.1	0.0	0.0	-30.0	0.0	0.0	0.0
Gross borrowing	0.0	20.0	0.0	19.9	21.2	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	0.0	0.0	19.9	-34.4	0.0	0.0	-8.0	0.0	0.0	0.0
Deposit money banks	-3.0	0.0	9.3	19.5	18.2	-0.6	8.0	28.0	0.0	-10.0	18.9
Treasury bill purchases (net)	0.0	0.0	15.0	5.0	4.9	0.0	0.0	10.0	0.0	0.0	28.9
Other lending to government	0.0	0.0	0.0	10.0	10.0	0.0	0.0	10.0	0.0	0.0	0.0
Other (including repayment of arrears)	-2.7	-3.0	0.0	-6.5	-2.5	0.0	-5.0	-5.0	-2.5	0.0	0.0
Unidentified financing/float	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>											
Iron-ore related revenue	38.7	48.8	13.9	21.1	38.3	31.2	22.8	47.4	81.4	140.9	141.0
Total public external debt <sup>3</sup>	166.0	167.0	286.7	237.7	195.9	435.1	363.1	303.8	441.9	610.2	761.8
Central government domestic debt <sup>4</sup>	292.0	291.1	289.7	290.0	289.7	288.7	289.0	288.3	283.8	306.8	330.1
Of which: foreign currency denominated	278.9	278.3	277.6	277.6	277.6	277.0	277.0	277.0	272.8	272.8	272.8
Basic balance <sup>5</sup>	65.5	21.3	32.4	69.7	62.1	88.3	97.8	113.8	116.0	140.7	137.0
Current balance <sup>6</sup>	25.2	-7.0	-12.3	36.2	16.4	41.6	13.2	30.2	43.5	69.0	58.4
Primary balance, including grants	-4.0	-50.3	-104.5	-45.1	-22.7	-125.4	-77.4	-67.7	-110.4	-135.6	-149.9
Fiscal year nominal GDP	1,413.8	1,635.8	1,850.9	1,859.8	1,842.6	1,998.5	2,055.7	2,035.7	2,310.3	2,637.3	2,891.1

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Budget is shown on a cash basis (i.e., debt service payments are shown after all debt relief).

<sup>2</sup> Approximately 50 percent of on-budget loan-financed capital expenditure substitutes for hitherto off-budget, grant-financed expenditure.

<sup>3</sup> Includes debt to IMF.

<sup>4</sup> Includes central government debt to the Central Bank of Liberia (which is excluded from domestic debt in the debt sustainability analysis).

<sup>5</sup> Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed

<sup>6</sup> Current revenue less current expenditure.



**Table 6b. Liberia: Fiscal Operations of the Central Government, FY2011–17<sup>1</sup>**  
(Percent of GDP)

	FY2011	FY2012	FY2013			FY2014		FY2015	FY2016	FY2017	
	Prel.	Prel.	ECF Request	First Review	Est.	ECF Request	First Review	Proj.	Proj.	Proj.	
Total revenue and grants	26.5	28.1	27.3	29.2	30.1	28.8	28.1	29.0	28.5	28.9	28.4
Revenue	23.7	26.3	24.9	27.4	27.6	26.5	23.9	24.9	25.4	26.1	25.7
Tax revenue	19.0	21.8	19.7	19.4	20.1	19.2	19.9	20.1	20.5	20.8	20.3
Taxes on income, profits, and capital gains	7.9	8.9	7.1	8.2	8.5	7.1	8.2	8.3	8.5	9.5	9.3
Taxes on goods and services	3.4	3.3	3.3	3.4	3.9	3.2	3.5	3.6	3.4	3.2	3.2
Taxes on international trade	7.5	9.1	8.8	7.7	7.6	8.3	7.9	8.0	8.4	7.9	7.6
Other taxes	0.3	0.5	0.5	0.2	0.3	0.5	0.2	0.2	0.2	0.2	0.2
Non-tax	4.6	4.5	5.2	7.9	7.6	7.3	4.0	4.8	4.9	5.3	5.4
Grants	2.8	1.7	2.4	1.8	2.5	2.3	4.1	4.1	3.1	2.7	2.7
Expenditure and net lending	27.1	31.4	33.3	31.9	31.7	35.4	32.2	32.8	33.7	34.4	34.1
Current expenditure	21.9	26.8	25.6	25.4	26.8	24.4	23.3	23.4	23.5	23.5	23.7
Wages and salaries	9.8	11.1	11.0	10.8	11.5	10.8	10.8	10.7	10.8	10.8	10.8
Goods and services	6.1	7.0	7.6	8.2	8.8	6.8	6.5	6.7	6.7	6.7	6.7
Subsidies and transfers	5.7	8.4	6.6	6.0	6.2	6.5	5.5	5.6	5.7	5.7	5.7
Interest	0.3	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5
Capital expenditure	5.2	4.7	7.8	6.5	4.9	11.0	8.9	9.3	10.2	10.8	10.4
Foreign loans financed <sup>2</sup>	0.7	1.2	5.6	3.0	0.7	6.8	4.6	4.6	5.5	6.5	5.8
Domestic and grant financed	4.5	3.4	2.1	3.5	4.3	4.2	4.3	4.7	4.7	4.3	4.6
Unallocated expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance											
Including grants	-0.6	-3.4	-6.0	-2.8	-1.6	-6.6	-4.2	-3.7	-5.1	-5.5	-5.7
Excluding grants	-3.4	-5.1	-8.4	-4.6	-4.1	-9.0	-8.2	-7.9	-8.3	-8.2	-8.4
Identified financing	0.6	3.4	6.0	2.8	1.6	6.6	4.2	3.7	5.1	5.5	5.7
External financing (net)	0.3	0.9	5.5	2.7	0.4	6.7	4.4	4.5	5.2	5.9	5.1
Loans	0.7	1.2	5.6	3.0	0.7	6.8	4.6	4.6	5.5	6.5	5.8
Project loans	0.7	1.2	5.6	3.0	0.7	6.8	4.6	4.6	5.5	6.5	5.8
Amortization (-)	-0.4	-0.3	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2	-0.3	-0.6	-0.7
Domestic financing (net)	0.3	2.5	0.5	0.1	1.2	0.0	-0.2	-0.7	-0.1	-0.4	0.7
Central Bank of Liberia	0.7	2.7	0.0	-0.6	0.3	0.0	-0.4	-1.9	0.0	0.0	0.0
Use of deposits	0.7	1.4	0.0	0.0	1.0	0.0	0.0	-1.5	0.0	0.0	0.0
Gross borrowing	0.0	1.2	0.0	1.1	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	0.0	0.0	1.1	-1.9	0.0	0.0	-0.4	0.0	0.0	0.0
Deposit money banks	-0.2	0.0	0.5	1.0	1.0	0.0	0.4	1.4	0.0	-0.4	0.7
Treasury bill purchases (net)	0.0	0.0	0.8	0.3	0.3	0.0	0.0	0.5	0.0	0.0	1.0
Other lending to government	0.0	0.0	0.0	0.5	0.5	0.0	0.0	0.5	0.0	0.0	0.0
Other (including repayment of arrears)	-0.2	-0.2	0.0	-0.3	-0.1	0.0	-0.2	-0.2	-0.1	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>											
Iron-ore related revenue	2.7	3.0	0.7	1.1	2.1	1.6	1.1	2.3	3.5	5.3	4.9
Total public external debt <sup>3</sup>	11.7	10.2	15.5	12.8	10.6	21.8	17.7	14.9	19.1	23.1	26.4
Central government domestic debt <sup>4</sup>	20.7	17.8	15.7	15.6	15.7	14.4	14.1	14.2	12.3	11.6	11.4
Of which: foreign currency denominated	19.7	17.0	15.0	14.9	15.1	13.9	13.5	13.6	11.8	10.3	9.4
Basic balance <sup>5</sup>	4.6	2.6	1.8	3.7	3.4	4.4	4.8	5.6	5.0	5.3	4.7
Current balance <sup>6</sup>	1.8	-0.9	-0.7	1.9	0.9	2.1	0.6	1.5	1.9	2.6	2.0
Primary balance, including grants	-0.3	-6.1	-5.6	-2.4	-1.2	-6.3	-3.8	-3.3	-4.8	-5.1	-5.2
Fiscal year nominal GDP (millions of U.S. dollars)	1,413.8	1,635.8	1,850.9	1,859.8	1,842.6	1,998.5	2,055.7	2,035.7	2,310.3	2,637.3	2,891.1

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Budget is shown on a cash basis (i.e., debt service payments are shown after all debt relief).

<sup>2</sup> Approximately 50 percent of on-budget loan-financed capital expenditure substitutes for hitherto off-budget, grant-financed expenditure.

<sup>3</sup> Includes debt to IMF.

<sup>4</sup> Includes central government debt to the Central Bank of Liberia (which is excluded from domestic debt in the debt sustainability analysis).

<sup>5</sup> Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed

<sup>6</sup> Current revenue less current expenditure.

<b>Table 7. Liberia: Schedule of Disbursements Under the ECF Arrangements, 2012–15</b>		
<b>Amount (Total: SDR 51.68 million)</b>	<b>Date of Availability</b>	<b>Conditions for Disbursement<sup>1</sup></b>
SDR 7.382 million	November 19, 2012	Executive Board approval of the three-year ECF arrangement
SDR 7.382 million	July 3, 2013	Executive Board completion of the first review under the three-year ECF arrangement
SDR 7.382 million	December 11, 2013	Executive Board completion of the second review under the three-year ECF arrangement
SDR 7.382 million	May 15, 2014	Executive Board completion of the third review under the three-year ECF arrangement
SDR 7.382 million	November 15, 2014	Executive Board completion of the fourth review under the three-year ECF arrangement
SDR 7.382 million	May 15, 2015	Executive Board completion of the fifth review under the three-year ECF arrangement
SDR 7.388 million	November 15, 2015	Executive Board completion of the sixth review under the three-year ECF arrangement

Source: IMF staff estimates.

<sup>1</sup>In addition to the conditions that normally apply to an ECF arrangement.

## Appendix I. Letter of Intent

Monrovia, November 25, 2013  
Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Madame Lagarde,

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the implementation of Liberia's economic program supported by the Extended Credit Facility (ECF) through August 31, 2013, and summarizes recent economic and financial policy actions and the government of Liberia's commitment for the rest of 2013 and for 2014.

The Liberian economy remains on a solid footing despite a weak global economy. Real GDP growth in 2013 is now estimated at 8.1 percent, slightly higher than in 2012 driven by stronger than expected iron-ore production and the acceleration in public and private investment in the first half of 2013. Year-on-year inflation reached 8 percent in September 2013, above our previous estimates reflecting higher-than-anticipated international and domestic food prices and the pass-through of the recent exchange rate depreciation. Reserves coverage as of end-June 2013 fell to 2.7 months, lower than envisaged under the program reflecting in part the Central Bank of Liberia's (CBL) increased intervention in the foreign exchange market.

Fiscal results were largely in line with program targets. Total revenue and grants exceeded the program target by about half a percentage point of GDP, though core revenues fell short of the program target by a small margin. Total spending was somewhat above the program, owing in part to the absorption into the government payroll of teachers and health workers that were previously financed by donors and had to be financed by the use of deposits; as well as the increase in capital spending, including the rehabilitation of the hydropower plant and the road network. As a result, the overall fiscal deficit including grants for FY2013 amounted to 1.6 percent of GDP, of which an amount of US\$22 million or 1.1 percent of GDP was financed by the use of deposits, including collections from FY2014 revenue.

We met three out of six performance criteria (PC), and are requesting waivers for the three missed PCs. The floor on revenue collection of the central government (core revenues) was missed by a small amount (US\$1.4 million), owing to lower-than-expected taxes on international trade; mineral royalties, and forestry and agricultural revenue. The PC on the floor on foreign reserves of the CBL was missed by US\$14 million reflecting in part larger sales of U.S. dollars to mitigate exchange rate pressures. The PC on gross central bank financing to the government was missed by US\$1.4 million, due to a temporary overdraft on one of the government accounts at the central bank that was repaid in July (although the consolidated government accounts were in surplus as of end-June). Two out of the eight structural benchmarks (SB) for the second review

were fully met on time and two were implemented with a small delay. We have also received full cash and procurement plans from key spending Ministries and Agencies by end-October (prior action). Less progress was achieved towards the last three structural benchmarks, though we expect to meet the SB on the collateral registry by end-December 2013.

We remain committed to maintaining an adequate reserves buffer and intend to take appropriate policy actions in order to be able to meet the end-December 2013 and end-June 2014 targets. The issuance of CBL bills has already helped reduce reliance on the foreign exchange auction. We have also amended the foreign exchange auction regulation to require all allocations of foreign exchange to be offered through the foreign exchange auction, with all individual participants bidding through commercial banks. Furthermore, steps are being taken to strengthen liquidity management by enhancing coordination between the Central Bank and the Ministry of Finance including the joint preparation of monthly liquidity forecasts.

We have adopted measures and plan to strengthen them to ensure that capital spending, particularly energy related projects, is executed according to the amounts included in the program, including by distributing and releasing the budget allotment schedule upon budget approval to the Ministries and agencies that have presented satisfactory procurement plans, and requiring the five key Ministries and three Agencies to submit their procurement plans by end-September.

We will ensure that spending is aligned with a realistic revenue envelope. On the expenditure side, we remain committed to the fiscal rules introduced last fiscal year and we plan to work with the Legislature to ensure they can be adhered to in order to create the much needed fiscal space for capital spending. The increase in revenue by the Legislature from the draft Budget amounts to about US\$29.7 million, of which about half is at risk. Therefore, we will not release these amounts for additional expenditure until the additional revenues materialize. Moreover, as authorized in the FY2014 Budget Act, we have approved, in consultation with the Legislature in November 2013 (prior action), a risk-management strategy that identifies budgetary savings in the amount of US\$30 million to compensate for the FY2013 overruns. To ensure budget implementation is in line with these policy commitments, we will strengthen liquidity management and move towards the Treasury Single Account.

On the basis of the performance registered in implementing the economic program and on the strength of our future policy commitments we request that the second review under the ECF arrangement be completed and the third disbursement in the amount of SDR 7.382 million be approved. In completing the second review, we are requesting a waiver for the PCs on (i) the floor on total revenue collection of the central government; (ii) on the floor on CBL's net foreign exchange position; and (iii) gross domestic credit to the government. We are also requesting modifications of the ceiling on domestic borrowing for end-December 2013 and end-June 2014 to accommodate a slight increase in the domestic T-Bill program and some US\$10 million in financing from a domestic commercial bank for critical energy projects. In addition, we are requesting modifications to the timeline for the implementation of structural benchmarks for end-December 2013 and end-June 2014 as well as approval of structural benchmarks that have been agreed with Fund's staff for end-December 2014 (Attachment 1 Tables 4, and 5). The

structural benchmarks relate to further measures to strengthen PFM, develop the financial system, enhance national account statistics, and improve project implementation.

To monitor progress in implementing our reform agenda, the program includes a set of quantitative performance criteria, indicative targets, and structural benchmarks, outlined in the MEFP and the Technical Memorandum of Understanding (TMU). We have reached understandings with Fund staff regarding changes to definitions in the TMU to resolve definitional issues on external debt.

We believe that the economic and financial policies set forth in the attached MEFP provide an adequate basis for achieving the objectives and targets of our program, but we will take any additional measures that may become necessary for this purpose in close consultation with the IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. We will provide the Fund with all information necessary to monitor implementation of the program supported by the ECF in a timely manner as outlined in the TMU.

We consent to the publication on the IMF website of this letter, the accompanying MEFP, TMU, and the related staff report for the second review under the ECF.

Sincerely yours,

/s/

Amara Konneh  
Minister of Finance  
Ministry of Finance

/s/

Joseph Mills Jones  
Executive Governor  
Central Bank of Liberia

Attachments: Memorandum on Economic and Financial Policies  
Technical Memorandum of Understanding

# Attachment 1. Memorandum of Economic and Financial Policies of the Government of Liberia for FY2013/14

## Introduction

1. **The Government of Liberia remains committed to achieving broad based economic growth and consolidating macroeconomic stability.** This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments since the first review and performance under the Extended Credit Facility (ECF) arrangement approved by the IMF Board on November 19, 2012. It also updates macroeconomic policies and targets for FY2014 (July 2013 to June 2014) and up to end-December 2014.

## Recent Macroeconomic Developments

2. **Recent economic developments are broadly favorable.** Real GDP growth in 2013 is now estimated at 8.1 percent, slightly lower than in 2012, supported by the strong performance of iron-ore production. At the same time, non-mining activity has picked up in the first half of 2013 reflecting increased activity in construction associated with robust public and private investment including infrastructure projects. The Government recognizes the need to enhance efforts to diversify the economy in order to ensure broad-based economic growth with increased opportunities for employment with significant implications for sustainable reduction in poverty. In this connection, emphasis will be placed on policies and programs intended to accelerate infrastructure and to create a more enabling environment for the growth of the private sector. Capital investment-related imports are also increasing. Inflation at end-September 2013 was 8.2 percent, somewhat above previous projections, owing primarily to higher-than-anticipated international and domestic food prices and the pass-through of the recent exchange rate depreciation.

3. **The Liberian dollar depreciated by 7 percent from end-2012 to June 2013.** Against the backdrop of a 16 percent terms of trade deterioration since January 2013, the depreciation pressures also reflect, in part, the rise in Government spending in Liberian dollars by about 38 percent in the first half of 2013, compared with the same period last year. In order to mitigate exchange rate pressures, the CBL stepped up its interventions and increased its sales of foreign exchange through the foreign exchange auction amounting to US\$52.3 million in the 6-month period ending June 2013, compared with US\$37.1 million for the same period a year ago. Starting in July 2013, the CBL also issued CBL bills to help manage the Liberian dollar liquidity. Partly owing to the higher-than-expected intervention in the foreign exchange market, reserves declined to about 2.7 months of imports, lower than the 3 months import cover targeted under the program.

4. **The fiscal outturn for FY2013 was broadly in line with the targets set in the program, though off-budget project execution was below the amounts envisaged.**

- Total revenue and grants exceeded the program estimates by about half a percentage point of GDP and increased by near 2 percentage points of GDP relative to FY2012. These results

reflect the collection of one-off revenues and the increase in budget support grants. However, core revenues of the central government fell short of the program target by a small margin of US\$1.4 million reflecting lower-than-anticipated (i) taxes on international trade; (ii) mineral royalties; and (iii) forestry and agricultural-related revenues.

- Total spending was somewhat above the program, owing in part to the absorption into the government payroll of teachers and health workers that were previously financed by donors and had to be financed by the use of deposits, as well as the increase in capital spending, including the rehabilitation of the hydropower plant and the road network. On-budget domestically- and grant-financed capital spending exceeded the original program target by 2.2 percentage points of GDP—largely reflecting the pickup in project execution during the dry season, which was financed by additional budget support grants and US\$15 million in domestic borrowing. Off-budget capital spending was below the program target reflecting delays in securing external financing as well as some capacity constraints within the implementing ministries and agencies.
- As a result, the overall fiscal deficit including grants for FY2013 amounted to 1.6 percent of GDP, of which an amount of US\$22 million or 1.1 percent of GDP was financed by the use of deposits, including collections from FY2014 revenue. The remainder of the deficit was financed by borrowing from commercial banks, the issuance of 90-day Treasury bills, and external financing in the form of off-budget International Development Agency (IDA) credits.
- As agreed at the time of the first ECF review, the government repaid the US\$20 million overdraft with the Central Bank, as well as US\$4.5 million on the bridge financing to rehabilitate the port by June 2013. Currently, an amount of US\$8 million remains outstanding on the bridge financing, and we plan to repay US\$4 million by December 2013 and US\$4 million by June 2014. We are coordinating internally with the Comptroller and Accountant General and the Department of the Budget to ensure that budgetary provisions are applied on a timely basis and we will coordinate with the CBL when the payments come due.

5. **After slowing down in the first half of 2013, credit to the private sector has started to pick up in July.** The slow credit growth was due, in part, to the CBL ongoing reform that insists on banks improving their credit management, so that banks are now exercising caution in extending new credits due to high nonperforming loans, which lower profitability through high loan loss provisions, and are stepping up efforts in collecting overdue debts. Together with stern measures by the CBL on delinquent borrowers including publishing their names in the local newspapers, barring them from the use of the banking system, and foreclosing their properties based on rulings by the commercial court, these efforts led to a reduction in nonperforming loans from 25 percent at end-2012 to 19 percent at end-June 2013.

6. **The establishment of the commercial court has also brought some relief to the financial system, especially in fast-tracking the hearing of cases.** There are a number of cases that the commercial court has adjudicated since its establishment. The CBL has been engaging a number of development partners for the enhancement of its existing credit reference system. The credit reference system, though rudimentary, has been helpful to the banks in identifying delinquent borrowers.

## Program Performance

7. **Although we have faced some challenges in implementation, we remain fully committed to meeting the targets agreed under the program.** Three out of the six quantitative performance criteria (PC) and two out of the four indicative targets (IT) under the program through end-June 2013 were met.

- The PC on the floor on revenue collection of the central government (core revenues, i.e., excluding contingent revenue, made up primarily of one-off concession-related revenues) was missed by US\$1.4 million; the shortfall was due to lower-than-expected taxes on international trade; mineral royalties, and forestry and agricultural revenue.
- The PC on gross central bank financing to the government was missed by US\$1.4 million, due to a temporary overdraft on one of the government accounts at the central bank that was repaid in July (although the consolidated government accounts were in surplus as of end-June).
- The PC on the floor on foreign reserves of Central Bank of Liberia's (CBL) was missed by US\$14 million reflecting in part larger sales of U.S. dollars to mitigate exchange rate pressures, and higher CBL operational expenses. We remain committed to maintaining an adequate reserves buffer and intend to take appropriate policy actions in order to be able to meet the end-December 2013 target. We have already started to gradually reduce the amounts of foreign exchange offered through the foreign exchange auction, and the CBL Board has approved amendments to the foreign exchange auction regulation requiring all allocations of foreign exchange to be offered through the weekly auction to all individual participants bidding through the commercial banks with which they have an account. Furthermore, steps are being taken to strengthen liquidity management by enhancing coordination between the central bank and the Ministry of Finance including the joint preparation of monthly liquidity forecasts. Meanwhile, greater use will be made of CBL bills to help manage liquidity.
- The indicative ceiling on gross external borrowing by the public sector was missed by a small amount, as the amount of new external borrowing agreements ratified by the Legislature in FY2013 amounted to US\$226.3 million, equivalent to 4.9 percent of GDP in NPV terms, somewhat higher than the 4 percent annual average set under the program.
- The indicative target on the floor on social and other priority spending was missed, reaching US\$150 million or 25.5 percent of expenditure from July 2012 to June 2013 due to lower than expected social spending, though public investment in the energy sector rose to US\$10 million.

8. **We have continued to push through with the implementation of our structural reform agenda.**

- The 8 largest State Owned Enterprises (SOEs) started their regular reporting on their financial performance to the SOE unit at Ministry of Finance, starting with the quarter ending



March 2013;<sup>1</sup> and the Natural Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance was established in January 2013 (end-June benchmarks).

- The Civil Service Management (CSM) module within our integrated financial management and information system (IFMIS) and the Human Resource Management Information System (HRMIS) sub-module within the CSM were activated on July 10, 2013 (end-June benchmark) and used for printing of salary checks for all active government employees, (i.e., the regular and supplementary payrolls); the President wrote to all Ministries and Agencies (M&As) in June setting out requirements to submit work plans, spending plans, and procurement plans based on the draft Budget for recurrent and project budgets. Most M&As submitted their recurrent cash plans but procurement plans were delayed to after the budget was approved (end-June benchmark); and, after some delays, we successfully started implementing monthly sweeping of balances in operational accounts of eight M&As held at the CBL into the treasury's operational account in mid-August (end-June benchmark), and concluded the September 2013 sweeping. The Insurance Act has been revised and will be sent to the Legislature at the start of their next session in January 2014 (end-June benchmark).
- Additionally, significant progress was achieved towards the establishment of the collateral registry at the CBL and the International Finance Corporation (IFC) is now in the process of procuring a solution provider for the infrastructure set up; and we expect that the registry can be established by end-December 2013 (end-June benchmark, reset for December 2013).
- The commencement of the Household Income and Expenditure Survey (HIES), was missed (end-August benchmark). This is expected to commence in January 2014 and be published by mid-2015. We also expect to publish revised national accounts for 2008–11 and preliminary estimates for 2012, using the results of the establishment survey, by end-June 2014 (end-June 2013 benchmark, re-set for end-June 2014).

## Objectives and Economic and Financial Policies for 2013–14

9. **The short-term economic outlook remains favorable.** As mentioned above, real GDP growth is now estimated at 8.1 percent for 2013 and has been revised upwards to 6.8 percent in 2014. The better outlook reflects stronger activity in the mining and non-mining sectors. Monetary policy will continue to aim at containing inflation with year-on-year consumer price inflation for end-December 2013 projected at 8.5 percent and gradually declining to around 6.5 percent in 2014.

10. **The medium term outlook is also favorable, with broadly balanced risks.** In particular, non-mining activity is expected to accelerate in 2015–17 reflecting the pickup in public investment associated with higher domestic and external resources and improvements in institutional capacity. Higher iron-ore activity from new projects will also positively impact growth in the medium term. The current account is expected to improve in 2015–17. Although an

<sup>1</sup> Liberia Electricity Company (LEC), Liberia Maritime Authority (LMA), Liberia Petroleum and Refinery Company (LPRC), Liberia Telecommunications Authority (LTA), Liberia Water and Sewerage Company (LWSC), National Oil Company of Liberia (NOCAL), National Ports Authority (NPA) and Roberts International Airport (RIA).

increase in public investment-related imports and lower projected commodity prices for exports are expected, starting in 2015, the second phase of the production at the Yekepa mine and other iron-ore production projects should come on stream, increasing exports and narrowing the current account deficit.

## A. Fiscal Policy

11. **Fiscal policy will continue to focus on containing current spending to create space for much-needed capital spending in line with our Agenda for Transformation.** We expect capital spending (including IDA-financed projects) to average 10.5 percent of GDP over the next three years. As a result, the fiscal deficit will widen starting in FY2014 to an annual average of 5.4 percent of GDP over the next five years. The expansionary fiscal framework will contribute to address the country's main infrastructure gaps and developmental needs while also contributing to expand non-mining activity. Important progress has been achieved since the introduction of the medium-term expenditure framework (MTEF) and we plan to strengthen the budget process by following a holistic sector approach to address the main priorities beginning next fiscal year.

12. **The Budget for FY2014 is focused on consolidating strategic activities embarked on in FY2013 and targeting interventions towards achieving the AFT priorities.**

- a) Core revenues (tax and non-tax excluding contingent revenues) are projected to reach US\$521.8 million (includes US\$29.7 million added by the Legislature), a 17 percent increase compared to the FY2013 outturn, driven by increases in taxes on income and profits, goods and services, international trade, royalties and rents and administration fees and fines. The core revenue envelope reflects the adjustments made by the Legislature.
- b) Recurrent expenditure in the approved national Budget for FY2014 is US\$487 million (net of US\$13 million amortization, which is the repayment of debt principal and arrears). Investment spending (in the form of national priority and sector PSIP projects) amounts to US\$95 million, which includes some US\$42 million in non-infrastructure spending including youth development and capacity development programs. The recurrent ceilings for most M&A's have been held constant through a freeze on operational costs. The general exception stems from the application of salary increases and consideration of key funding pressures anticipated in the ensuing budget. Some discretionary expenditure lines have been reviewed and reduced to create space for public investments, including transport, communications, and foreign travel.
- c) PSIP implementation has progressed, with significant public and donor disbursements related to roads and energy during FY2013 (US\$5 million for the government funded Thermal Diesel HFO Power Plants and US\$10 million for Mt Coffee). KfW and the European Investment Bank are expected to commence disbursements for the Mt. Coffee project by end-2013. Three port projects are now complete (the marginal wharf replacement, container yard construction, and dredging of Freeport and Buchanan), with review work taking place on a fourth (oil jetty replacement). The government is in discussions with potential creditors to finance repairs to the runway at Roberts International Airport (RIA).

- d) **We are committed to ensuring that spending is aligned with a realistic revenue envelope.** On the expenditure side, we remain committed to the fiscal rules introduced last fiscal year and we plan to work with the Legislature to ensure they can be adhered to

in order to create the much needed fiscal space for capital spending. The increase in revenue by the Legislature from the draft Budget amounts to about US\$29.7 million or 1.5 percent of GDP, of which US\$14.5 million is at risk. Therefore, we will consider them as contingent revenues and will not release these amounts for additional expenditure until the additional revenues materialize. Moreover, in line with the annual and balanced basis of the budget set in our Public Financial Management Act, we have approved, in consultation with the Legislature in November 2013 (prior action), a risk-management strategy which reflects the projected shortfalls in revenue collection, and identifies

**Liberia: FY2014 Budget Risk Management Measures**  
(in millions of U.S. dollars)

Budgetary Lines	Amount
Legislative Amendment Table 2	17
Operational Expenses	3
Unverified Claims	2
Fuel for Vehicles	1
Special Allowance	1.5
Legislative Amendment Table 3	1.5
Legislative Amendment Table 4	1.5
Repair & Maintenance Vehicle	0.5
Repair & Maintenance Civil	0.5
Intelligence Services	0.5
Special Operations Services	0.5
FDI for Concession	0.5
<b>Total</b>	<b>30</b>

budgetary savings in FY2014 in the amount of US\$30 million in current spending (as reflected in the table below) to compensate for the US\$22 million in FY2013 spending overruns (non-budgeted spending) and the repayment of US\$8 million to the CBL from the FY2012 bridge financing. However, should there be need for further actions in order to maintain peace and security of the Nation, the Government of Liberia will take the necessary steps accordingly while maintaining macroeconomic stability.

13. The financial statements for FY2013 submitted to the Legislature in November, 2013 mentioned the budgetary overruns and the need to identify savings, a copy of which has been shared with Fund staff.
14. **To ensure budget implementation is in line with these policy commitments, cash revenue collection and expenditure will be reconciled with spending commitments on a monthly basis.** Reports will be provided to Fund staff. In addition, we will continue to monitor government balances on a daily basis, and we will share with Fund staff the statements from the monthly sweep of government accounts. We also plan to close dormant accounts and transfer idle balances to the consolidated government account, which will facilitate monitoring while also helping to strengthen liquidity management and to move towards the Treasury Single Account.
15. **We are committed to ensure that priority capital spending, particularly on energy-related projects, is executed according to the amounts included in the public sector investment program.** Now that the budget has been approved by the Legislature, we have

distributed and released the budget allotment schedule to the Ministries and agencies that have presented satisfactory procurement plans (prior action), and, to complete a full Government cash plan, five key Ministries and three Agencies with the largest investment programs submitted by end-October 2013, their work, spending and procurement plans for projects that begin their execution in FY2014 (prior action) before allotments can take place.<sup>2</sup>

**16. We are in the process of strengthening key elements of the MTEF budget process.**

This includes early strategic guidance on Government priorities to enable Ministries and Agencies to develop projects earlier in the budget preparation cycle. Changes will be guided by the following strategic objectives:

- a) Integrating planning and budgeting processes to improve AfT delivery through the Budget;
- b) Devolving budget preparation and execution to line ministries to give them greater freedom to meet their service delivery and AfT objectives efficiently;
- c) Institutionalizing the Open Budget Initiative to ensure M&As are held to account for their performance; and
- d) The Project Management Office (PMO) has been set up within the Department of Budget. The PMO focuses on supporting ministries and agencies to develop project plans (including spending plans, work plans, risk registrar, and procurement plans) in line with the Agenda for Transformation. It is also developing a National Projects System (NPS) database to systematically collect project information to inform budget allocations. The NPS will eventually be linked to IFMIS uploading milestone schedules, cash plans, procurement plan, risk registry and detail project budget.

**17. The Legislature recently approved the merger of the Ministry of Finance with the Ministry of Planning and Economic Affairs.** The new Ministry of Finance and Development Planning will help to streamline the national planning and finance functions while fostering increased aid coordination within the government and with Liberia's development partners, as all of the country's aid coordination functions will now be undertaken in a centralized unit.

**18. The government is also taking a number of measures to continue broadening the tax base and liberalize trade:**

- a) **Value Added Tax.** A white paper has been drafted; Steering Committee established; stakeholder consultations held; and TA is being procured to draft legislation. We expect that the implementation of the Value Added Tax (VAT) will take place under the coordination of the recently approved Liberia Revenue Authority (LRA).

<sup>2</sup> The ministries and agencies include: Ministry of Public Works, Ministry of Agriculture, Ministry of Education, Ministry of Health, and the Ministry of Land, Mines and Energy, the Liberia Electricity Company, the National Port Authority, and the Liberia Water and Sewerage Company.

- b) **Liberia Revenue Authority (LRA).** On September 12, the Legislature also approved the creation of the LRA. The new semi-autonomous revenue department would be separate from the Ministry of Finance and Development Planning and would focus more on the efficient collection of revenues while working closely with the Ministry. Implementation will be phased in with the beginning of the next fiscal year.
- c) **Common External Tariff.** We have prepared our migration plan and waiting for approval from the Heads of States of ECOWAS. Once the protocol has been approved by the Heads of States, we will domesticate it and begin implementation. Approval by Heads of States is scheduled by end-2013.
- d) **World Trade Organization Accession.** We are working with the Ministry of Commerce to prepare our goods and services offer.

19. **On tax administration, the government is continuing its efforts to broaden the revenue base and increase tax compliance.** Planned measures include: tax payer education, particularly for small and medium businesses and taxpayers outside Monrovia; audits for all firms, including banks and insurance companies; and a 'block-mapping' exercise to uncover gaps in the real estate tax base.

20. **The Government—and the Ministry of Finance in particular—is responsible for tracking, managing and mitigating fiscal risks.** These are any events that pose a threat, or opportunity in the case of "upside" risks, to the Government's fiscal position and as a consequence, to the Liberian economy, or vice versa. The FY2014 Budget Framework Paper that accompanied the draft Budget highlights the most relevant revenue, expenditure, debt and execution/operational risks. A number of mitigation or management actions have been taken, including reporting by the new State Owned Enterprise (SOE) Monitoring Unit on SOE's financial positions; the commencement of analysis to consider the potential impact on Liberia and the national Budget of higher crude oil prices stemming from instability in the Middle East; and the prudent use of T-bills in the first few months of issuance to minimize roll-over risk.

## B. Governance and Public Financial Management

21. **Further enhancing liquidity and treasury management will be our priority over the coming months.**

- Progress has been made towards the implementation of the Treasury Single Account. The pilot of monthly sweeping of balances in operational accounts of eight M&As<sup>3</sup> held at the CBL into the treasury's operational account (structural benchmark) commenced on August 16, 2013. Daily sweeping is expected to follow by end-December 2013 (structural benchmark). To complement the above effort, the MoF has also developed a bank account registry comprising a substantial portion of M&As' operational bank accounts held at CBL and commercial banks, and we will use this registry to close all dormant accounts with zero

<sup>3</sup> Ministry of Finance, Ministry of Public Works, Ministry of Agriculture, Ministry of Foreign Affairs, Ministry of Health and Social Welfare, Ministry of Land, Mines and Energy, Ministry of Education and Ministry of State.

balances and consolidate accounts with small balances to facilitate monitoring (also by end-December 2013).

- The Treasury Management Liquidity Committee which is critical for cash planning and monitoring functions at a policy level has been formally established and meets regularly.
- The Office of the Comptroller and Accountant General (CAG) is in the process of piloting the migration of donor funded projects, currently managed by the Projects Financial Management Unit (PFMU) to the Government's financial management system (IFMIS). This will allow the streamlining of project bank accounts within the central treasury accounts, in accordance with the Public Financial Management Act, and facilitate the use of country systems. The "go live" event for the pilot process is scheduled for December 2013 after a parallel run phase (with the existing SUN system) from July to September 2013.

22. **We are also making progress in cleaning payrolls at line ministries and agencies.**

Migration of payrolls to the IFMIS (CSM module) has been completed. Payrolls for the months of July and August 2013 were generated from the system. Investigations of "double dippers and "ghosts" are underway. The payroll clean-up of 5 Ministries and Agencies<sup>4</sup> with the lowest current enrolment rates, involving verification of HR information against headcount and collection of biometric information, is progressing, but continues to face challenges; employees are spread throughout the counties and the rainy season makes transport and logistics difficult in some areas. The end-December target has been reset for March 2014. A 'pull' strategy requiring the remaining unregistered employees to register in person is currently being considered and HR verification and biometric information collection is expected to be completed for both the regular and supplemental payrolls by March 2014.

23. The new petroleum sector law was approved by the Senate on September 10, 2013, and is now awaiting ratification by the House of Representatives. The amendments to the revenue code have been submitted to the Legislature and are awaiting ratification (end-December 2013 benchmark).

24. The General Auditing Commission (GAC) now has full access to IFMIS and staff has received training in the use of the system. The audit of the FY2011 and FY2012 budgets has been completed, with a draft management letter, containing the outcome of the audits, received in September 2013 (end-December 2013 benchmark). We are committed to implementing the GAC recommendations, including the regular reconciliation of accounts and move towards the Treasury Single Account. In addition, the GAC successfully commissioned 31 audits, 63 percent of the targeted number of Ministries and Agencies were audited. Audits commissioned at these Ministries and Agencies include both Financial and Information Technology (IT) audits. The GAC also presented 79 completed reports, of previous periods, to the newly established Public Accounts Committee (PAC) of the National Legislature and, to improve the response and follow-up to GAC audit findings, the GAC met with the PAC of both houses. The GAC intends to:

---

<sup>4</sup> HR information check & biometric enrolment rates for the five M&As are: Ministry of Education 70% / 60%, Ministry of Internal Affairs 71% / 57%, Ministry of Health and Social Welfare 63% / 54%, Ministry of Justice 68% / 62%, and the central Legislature 85% / 85%.

engage with the Internal Audit Secretariat (IAS) to initiate more audits of M&As; to undertake an audit of all ICT Financial Systems, which include Freebalance, SIGTAS, ASYCUDA and CS-RDMS; and to complete staff training in security and forensic management.

25. As at July 1, 2013 the Freebalance-based IFMIS was rolled out to 19 M&As covering 62 percent of the draft national budget for FY2014. Over the next 7 months the Freebalance-based IFMIS will be upgraded to improve scalability and devolution of transactional processing using rules based execution to Ministries and Agencies.

26. The Public Account Committee, having been established in FY2013, has conducted two public hearings already. More hearings are expected in the upcoming months. Members of the PAC have been exposed to best practices through country tours and external training.

27. The State Owned Enterprises (SOE) Unit became fully operational in mid-March 2013 (previous structural benchmark), and immediately benefited from an IMF Technical Assistance Mission. The Mission provided guidance for the setting up of the reporting framework, including the information for the Budget Annex for the 2013/14 Budget. The third quarter (end-March) report for the 8 major SOEs<sup>5</sup> has been completed (structural benchmark) and the Unit is now finalizing the annual consolidated report. Most of the SoEs were unable to produce balance sheet reports based on reliable asset information and as such the analysis relied on profit and loss information. Partnerships have been developed between the SOE Unit and the relevant Government agencies. The Unit is working with the PMO on an SOE-specific module for inclusion in the PMO's project management analytical tool; with the Debt Management Unit to ensure close cooperation in the review process during the assessment of SOE borrowings; and with the General Auditing Commission to support audit findings, recommendations and their implementation.

28. Separate reporting of natural resource revenues will commence in the FY2014 first quarter outturn.

### C. Monetary Policy and Financial System

29. **Monetary policy will continue to focus largely on containing inflation to low single digits through a stable Liberian-U.S. dollar exchange rate.** Also, the use of CBL Notes will be given central role in the management of system-wide liquidity in the financial system with a view to deepening the money market with the interest rate serving as an effective policy tool in transmitting the monetary policy stance. In the medium-term, intervention in the foreign exchange market through the weekly foreign exchange auctions would be limited to smoothing excessive exchange rate fluctuations.

30. **We are committed to re-build reserves and attain the targets agreed at the time of the first ECF review for end-December 2013 and end-June 2014.** To that effect, we will closely

---

<sup>5</sup> Liberia Electricity Company (LEC), Liberia Maritime Authority (LMA), Liberia Petroleum and Refinery Company (LPRC), Liberia Telecommunications Authority (LTA), Liberia Water and Sewerage Company (LWSC), National Oil Company of Liberia (NOCAL), National Ports Authority (NPA) and Roberts International Airport (RIA).

coordinate with the government the net injection of Liberian dollars in the economy through the instruments at our disposal (i.e. the foreign exchange auction, the purchases of U.S. dollars from the government and the issuance of T-bills and CBL bills). The reimbursement to the CBL of the US\$7 million bank facility by end-December 2013 will also contribute to meeting the reserves target.

31. **We consider improving access to finance as essential to promote inclusive growth.** In the context of efforts by the CBL to improve the credit culture and recent success in reducing the amount of non-performing loans, the CBL has launched a number of credit stimulus schemes under which the CBL places medium-term deposits at participating commercial banks for on-lending at subsidized interest rates to targeted sectors. Going forward, the CBL will continue to lead the government of Liberia's efforts to promote credit, and help strengthen Liberian entrepreneurship. This will be done in the context of CBL policies that maintain macroeconomic stability, including rebuilding and maintaining an adequate level of reserves as agreed under the current ECF-supported program. Should there be need for further actions to promote credit, alternative approaches and funding sources will be considered, with a view to preserve market-based incentives and maximize effectiveness and efficiency in the allocation and the use of resources. That said, given limited resources and the priority the Government gives to re-build reserves, it is not the intention of the CBL to roll over placements to existing initiatives once they reach maturity, nor to extend new U.S. dollar resources to these initiatives.

32. **The government Treasury bills (T-bills) program was successfully launched on May 2, 2013.** Since the start of the program, the government has issued treasuries on a monthly basis with a 100 percent average oversubscription. The outstanding amount at end FY2013 was US\$5 million, and the average yield was 2.3 percent (annualized). T-bills will contribute to smooth revenue during the course of the year and help build depth in the Liberian financial markets. The government expects to continue to rollover maturing T-bills and to issue additional T-bills as deemed necessary as part of the cash management process. Given the success during the first five months of the T-bill program, we plan to increase of the T-bills program from the current US\$5 million limit to US\$10 million beginning in December 2013, and up to a maximum of US\$15 million beginning in January 2014, which will contribute further improve the government's liquidity management.

33. **The introduction of T-bills and CBL Notes, which are exclusively done in Liberian dollars, are measures by the CBL and the MoF in helping to improve wider use of Liberian dollars and strengthen money market development.** The Clean-Note Policy of the CBL, designed to ensure the continuous presence of quality bank notes in circulation, is still ongoing. Also, in order to ease the constraints faced by market actors due to the lack of coins, especially for small volume transactions, coins (fifty cents and one dollar) are expected to be introduced by the end of 2013. Considerations are being given to the printing of higher denomination CBL notes to help ease large volume transactions taking place in Liberian dollars.

34. The key policy objectives of the CBL relative to the financial system reforms include, but not limited, to the strengthening of the health of the banking sector by enhancing internal controls; pursuing a multifaceted approach to improve profitability of the banking sector including supporting loan syndication to finance critical infrastructure projects; engaging the fiscal authority to consider financing options involving the banks for key public projects;



addressing the problem of delinquent facilities; strengthening internal risk management and corporate governance; improving risk-based supervision; and fast-tracking the reform of the insurance sector.

35. **Efforts to modernize our payments system are ongoing.** The CBL has prepared and submitted the draft Payments System Act to the National Legislature for enactment into law. The House of Representatives has passed it and it is now before the Senate for Concurrence. The Act will provide the legal framework for the regulation and supervision of the National Payments System in Liberia. The CBL is also making effort towards the implementation of the National Electronic Payments Switch as part of the overall payments system modernization effort. The primary goal of this initiative is to provide efficient, reliable, secure, and cost-effective use of shared networks of ATMs and POS terminals as well as interbank electronic funds transfers and clearing services to the Liberian banking industry that meets international standards.

## Debt Management, Resolution and External Policies

36. **The Government of Liberia has an opportunity to borrow but must do so wisely.** There is no greater reminder of the burden that misspent debt can be to a country than the HIPC experience we went through. So, more than any country, we know that when we borrow again, it must not be wasted. The ability to borrow transforms Liberia's fiscal capacity, and so it transforms the challenges of managing our public finances and managing our debt. Our new Medium Term Debt Management Strategy (MTDS, end-December structural benchmark) will guide the government in its borrowing. This is a move from reactive to proactive, building for the future not just picking up the pieces from the past. The MTDS will take a comprehensive view of debt and fiscal risks including coverage of SOE guarantees and other government guarantees to banks or contingent claims. All such guarantees or claims will pass through the Debt Management Committee.

37. In the current fiscal year, the Government has engaged a number of creditors in order to meet the urgent demand for resources to finance infrastructure investment and will be working in conjunction with IMF staff to assess and ensure the fiscal sustainability of any new loans and to ensure ECF program thresholds are not breached.

38. In addition to the successful launch of the T-bill program in May, the government also contracted a 15 month line of credit of \$19.6 million (of which \$10 million is cash backed) at 8 percent, to finance a joint donor-government Thermal Diesel HFO Power Plant. This brought total domestic debt issuance during FY2013 to US\$14.9 million.

39. In FY2013 concessional loans ratified by the Legislature to support investment were US\$226.3 million equivalent to US\$91.4 million or 4.9 percent of GDP in NPV terms. So far in FY2014 a US\$65.9 million (US\$41.6 million in NPV terms) credit from the European Investment Bank has been approved by the Legislature which together with US\$222 million in concessional loan agreements and guarantees in the pipeline will total about US\$170 million or 8.3 percent of GDP in NPV terms, slightly above the three-year 4 percent of GDP in NPV terms under the ECF arrangement. However, debt is accumulating at a slower pace on a disbursement basis.

40. An agreement was signed with the Government of India to provide a \$144 million loan to finance transmission and distribution of electricity. Current estimates suggest the loan meets the 35 percent minimum concessionality requirement.

41. The central government has guaranteed one external debt agreement, the loan of US\$14 million from the Kuwait Fund for Arab Economic Development to the NPA for port rehabilitation (with a grant element of 33.4 percent).

42. The government has continued to settle existing domestic arrears in the form of court judgments regarding debts from pre-HIPC process, and has not incurred any new domestic or external arrears.

#### Liberia: Concessional Loans Ratified by the Legislature in FY2013 and FY2014

Project	Funding Agency	Amount (millions of U.S. dollars)	Grant Element
West African Power Pool	IDA	144.5	60%
Small Tree Crop Revitalization	IDA	15	60%
Small Tree Crop Revitalization	IFAD	16.8	56%
Redlight to Ganta Highway	IDA	50	60%
Mt. Coffee Hydroelectric Dam Rehabilitation	EIB	65	37%
<b>Total</b>		<b>291.3</b>	

#### Liberia: Loans in the Pipeline

Project	Funding Agency	Amount (millions of U.S. dollars)	Grant Element
Fishtown-Harper Road	ADB	34	60%
	Nigeria Trust Fund	10	42%
Electricity Transmission and Distribution	Indian EXIM Bank	144	36%
Liberia Health Systems Strengthening	IDA	10	60%
IDA Budget Support	IDA	10	60%
Port Rehabilitation	Kuwait Fund for Arab Economic Development	14	33.40%
<b>Total</b>		<b>222</b>	

43. **The Aid Management Unit within the Ministry of Finance will work to ensure better management of grants and off-budget aid programs ongoing in Liberia.**

- a) The Aid Management Platform has been configured and is now online, though awaiting the formal launch by the Minister of Finance. All projects for FY2014 have been uploaded into the system and it will be used by donors for reporting actual disbursement during this fiscal year.

- b) To improve coordination around budget support a Budget Support Working Group, chaired by the Minister of Finance, and a Budget Support Technical Team, chaired by Deputy Minister of Budget, have been established. The Budget Support Technical Team has formulated a Memorandum of Understanding (MoU), a Common Assessment Framework (CAF), and a Reporting Template.
- c) Risk analysis of budget support grants has continued and will be used as a tool, in conjunction with the newly established Working Group and Technical Team, to ensure timely disbursement of budget support.

## Other Structural Reforms

44. **The government recognizes the importance of good data in the implementation of effective policies, and measures will be taken to improve data collection and forecasting economic variables.**

45. **Some progress was made in compiling and publishing the results of the establishment survey** (structural benchmark), with preliminary results prepared in September 2013. The Household Income Expenditure Survey (structural benchmark) did not commence by end-August as desired due to delays in establishing the Multi Donor Trust Fund providing a portion of the financing for the project. This is expected to be resolved by end-September and work on the pilot surveys is now underway, with the full survey expected to commence in January 2014 and be published by mid-2015. The draft Budget submitted to the Legislature—and the anticipated approved Budget—includes an appropriation for US\$1.1 million to support the HIES and establishment survey.

## Program Monitoring

46. Program implementation will be monitored with quantitative financial targets and structural benchmarks (Tables 1, 4 and 5 below), and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The third review will be completed by May 15, 2014 based on end-December 2013 and other relevant PCs.

**Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, 2012–14**  
(Millions of US dollars, unless otherwise indicated)

	Dec. 12		Status	Mar. 13		June 13		Status	Sep. 13	Dec. 13		Mar. 14		June 14	
	Program	Actual		Program	Actual	Program	Actual		Program	Program Revised	Program Revised	Program Revised	Program Revised		
<b>Performance criteria</b> <sup>1, 2</sup>															
Floor on total revenue collection of the central government <sup>3</sup>	203.0	214.5	Met	325.7	324.9	447.5	446.1	Not met	120.3	230.3	230.3	347.8	347.8	492.1	492.1
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis) <sup>4, 10</sup>	0.0	0.0	Met	0.0	0.0	14.2	0.0	Met	14.2	14.2	14.2	14.2	14.2	14.2	14.2
Ceiling on new domestic borrowing of the central government <sup>5</sup>	15.0	0.0	Met	15.0	0.0	15.0	5.0	Met	15.0	20.0	30.0	20.0	35.0	20.0	35.0
Floor on CBL's net foreign exchange position <sup>6, 7</sup>	210.0	216.3	Met	207.0	212.3	232.0	217.9	Not met	232.0	237.0	237.0	241.0	241.0	253.0	253.0
Ceiling on CBL's gross direct credit to central government <sup>7</sup>	290.0	293.3	Not met	290.0	293.4	268.9	270.3	Not met	268.9	268.9	264.9	268.9	264.9	260.9	260.9
<b>Indicative Targets</b>															
Ceiling on gross external borrowing by the public sector <sup>8</sup>	126.7	0.0	Met	126.7	144.5	118.2	226.3	Not met	118.2	118.2	118.2	118.2	118.2	118.2	118.2
Ceiling on net domestic assets of the CBL <sup>6, 7</sup>	-10.0	-47.6	Met	-19.0	-12.6	-17.0	-21.5	Met	-17.0	-17.0	-17.0	-17.0	-17.0	-25.0	-25.0
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies) <sup>9</sup>	30.0	30.6	Met	30.0	27.6	30.0	25.5	Not met	30.0	30.0	30.0	30.0	30.0	30.0	30.0
<b>Memorandum items:</b>															
Memorandum item: Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	...	...	...	...	...	...	...	...	...	...	25.0	...	25.0	...	25.0
Memorandum item: Programmed receipt of external budget support grants and committed external loans <sup>2</sup>	4.4	15.0	...	...	30.9	33.5	45.7	...	12.6	53.3	53.3	55.9	55.9	83.5	83.5
Memorandum item: Overall fiscal balance <sup>2</sup>	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

<sup>1</sup> Test dates for performance criteria at end-December 2012, end-June 2013, end-December 2013, and end-June 2014, otherwise indicative targets.

<sup>2</sup> Fiscal targets are cumulative within each fiscal year (July 1-June 30).

<sup>3</sup> Total central government revenue collection includes all tax and non-tax receipt but excludes all contingent revenues and budget support grants.

<sup>4</sup> Nonconcessional financing will be adjusted by amount of agreed nonconcessional borrowing tied to projects independently evaluated as of high economic return.

<sup>5</sup> Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market.

<sup>6</sup> Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchange rate of 1 SDR=1.5844 US dollar.

<sup>7</sup> Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing up to a maximum of US\$20 million. In this event, floors will adjust downwards and ceilings adjust upwards by the extent this financing is utilized, up to a maximum of US\$20 million.

<sup>8</sup> Three-year average annual ceiling in NPV terms. Revised amount reflects the annual average for the remaining two years of the program given the space not used up to June 2013.

<sup>9</sup> Includes spending on education, health care, social development services, and energy.

<sup>10</sup> The modification of this PC was requested to include US \$14.2 million loan which was signed between the authorities and the Kuwaiti Development Fund for the rehabilitation of Port Greenville. At the time of the First Review the loan did not come into effect. The grant element of the loan is 34 percent (1 percent below the concessionality threshold).

Table 2. Liberia: Structural Benchmarks and Prior Actions for the First Review

Measure	Target Date	Justification	Current Status
<b>Enhancing budget programming, control and monitoring</b>			
Submit FY 2013/14 draft budget to Legislature for approval	End-April 2013	To ensure timely approval and execution of the budget.	Met.
Set up the state owned enterprises (SOE) Unit at Ministry of Finance (MoF).	First Review	Improve monitoring of public sector contingent liabilities and total public sector borrowing.	Met. Staffing and training completed in March–April 2013.
Fully connect the General Auditing Commission (GAC) to the Integrated Financial Management Information System (IFMIS) giving GAC full access to IFMIS.	First Review	Improve expenditure control for effective budget implementation.	Met. Connection completed in March 2013.
Set up the Treasury Single Account approach at Ministry of Finance.	First Review	Move towards stronger central government liquidity management to reduce idle balances at line ministries and agencies accounts.	Not met. M&As have provided to the Ministry of Finance relevant details on all accounts held for operational purposes at the Central Bank and commercial banks, awaiting further action.
<b>Improving capital spending execution and curbing current expenditure</b>			
Establish Project Management Office (PMO) at Ministry of Finance	End-Dec. 2012. First Review	Monitor progress in capital spending associated with PRS2 and debt sustainability.	Met. Staffing completed and office became operational in March 2013. PMO assisting implementing M&As in preparing public investment projects for inclusion in FY2013/14 budget.
<b>Developing the Financial System</b>			
Issue government treasury bills.	First Review	Support financial market development and add a liquidity management tool to the central bank, and for treasury cash management purposes.	Met. T-bills issued on May 2, 2013.

**Table 3. Liberia: Structural Benchmarks and Prior Actions for the Second Review, end-June 2013<sup>1</sup>**

Measure	Target Date	Justification	Current Status
<b>Enhancing budget programming, control and monitoring</b>			
Immediately distribute to ministries and agencies the budget allotment schedule upon budget approval, particularly those M&As that have submitted their cash and procurement plans.	Prior Action for Second Review	Ensure timely execution of public investment and other priority spending, including the budget for the household income expenditure survey.	Met. Budget signed into Law on October 21 with allotment schedule distributed on October 25.
Ministries and Agencies (M&As) submit to the Department of Budget and the Project Management Office of the MoF by end-June 2013 their cash and procurement plans for investment projects included in the FY2013/14 budget.	End-June 2013 Prior Action for Second Review	Improve execution rate of public sector investment projects by ensuring that cash and procurement plans are ready at the start of the new fiscal year (July 1, 2013).	Not met. Majority of M&As submitted their cash plan to the Department of Budget but not their procurement plans for investment projects included in FY2014 budget.  The prior action is for 5 Ministries and 3 Agencies to submit their procurement plans by end-October 2013. This has been met.
Approve a risk management strategy identifying US\$30 million in savings in the FY 2014 budget, in consultation with the requisite Legislative committees.	Prior action for second review	Compensate for the FY2013 overruns of US\$30 million.	Met. The Risk Management Strategy has been approved by Cabinet. The Risk Management Strategy Letter has been sent to spending Ministries and Agencies in November 2013, with copy to the requisite Legislative committees.
Regular reporting by 8 largest State Owned Enterprises (SOEs) on their financial performance to the SOE unit at Ministry of Finance, starting with the quarter ending March 2013.	End-June 2013	Improve monitoring of public sector contingent liabilities and total public sector borrowing.	Met. SOEs have commenced regular reporting of their financial performance to MoF's SOE unit (quarter ending in March 2013 included). Instead of eight as stated in the benchmark, eleven have reported.
Create the Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance.	End-June 2013	Support effective taxation of the natural resource sector.	Met. Operational since early 2013.

<sup>1</sup> The target dates have been revised to monitor implementation by a specific test date, instead of by the time of a specific program review.

**Table 3. Liberia: Structural Benchmarks and Prior Actions for the Second Review, end-June 2013 (concluded)**

Measure	Target Date	Justification	Current Status
<b>Enhancing budget programming, control and monitoring (cont.)</b>			
Activate the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM.	End-June 2013	Reduce payments to ghost workers and increase fiscal space for capital investment. The activation of the CSM module will contribute to ensure that the illegal introduction of new staff to the payroll is effectively restricted.	Implemented with delay. CSM module within IFMIS and HRMIS sub-module within CSM has been activated since early July with salary checks for all government employees now being printed through the system.
Implement monthly sweeping of balances in operational accounts of eight M&As held at the CBL into the treasury's operational account.	End-June 2013	Improve cash management with a view to eliminate idle accounts.	Implemented with delay. A pilot phase of monthly sweeping commenced on August 16 and sweeping for the month of September 2013 was concluded.
<b>Developing the Financial System</b>			
Submit to Legislature a revised Insurance Act	End-June 2013	Streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.	Not met. Following discussions with discussions with the Ministry of Justice concerns related to the application of other laws, the revised Insurance Act is expected to be submitted to the Legislature in January 2014. Proposed to be re-set for end-March 2014
Establish a collateral registry at CBL	End-June 2013	Support more secure lending practices and prevent borrowers from contracting loans from multiple banks based on the same collateral.	Not met. Proposed to be reset for end-December 2013. The Collateral Registry Regulations to guide the operations and management of the registry has been published. The CBL is waiting for the completion of the procurement process by the selection of a solution provider by IFC.
<b>Enhancing national accounts statistics</b>			
Compile and Publish Results of Establishment Survey	End-June 2013	Survey results needed to validate national accounts data needed for macroeconomic policy.	Not met. Proposed to be replaced by a new benchmark on compilation of national accounts for end-December 2014.  Compilation of the Establishment Survey still ongoing with preliminary results expected by September 2013. TA from the Fund has been required for October 2013 to validate preliminary results.

**Table 4. Liberia: Structural Benchmarks for the Third Review, end-December 2013**

Measure	Target Date	Justification	Current Status-Risks
<b>Enhancing budget programming, control and monitoring</b>			
Commence daily sweeping of balances in operational accounts of all M&As held at the CBL into the treasury's operational account.	End-Dec. 2013	Improve cash management with a view to eliminate idle accounts.	On track. Daily sweeping to begin by end December 2013.
<b>Improving capital spending execution and curbing current expenditure</b>			
Complete forward looking medium term debt strategy consistent with fully costed PRS2.	End-Dec. 2013	Ensure consistency between borrowing plans and PRS2 and maintaining debt sustainability.	On track. First draft of public debt policy has been drafted. The revised medium-term debt strategy will reflect recommendations provided by the Fund.
Submit to the Legislature the draft petroleum sector law and the amendments to the revenue code.	End-Dec. 2013	Ensure the tax regime for the petroleum sector generates the appropriate level of revenues to the GoL based on international best practice.	Already met. Drafts will be circulated for comments from FAD.
General Auditing Commission (GAC) to complete audit of the FY2011/12 budget using the Integrated Financial Management Information System (IFMIS).	End-Dec. 2013	Improve expenditure control for effective budget implementation.	Met. Audit has been completed with the draft management letter (outcome of audit) issued at end-September.
<b>Developing the Financial System</b>			
Establish a collateral registry at CBL	End-Dec. 2013	Support more secure lending practices and prevent borrowers from contracting loans from multiple banks based on the same collateral.	Proposed to be reset from end-June 2013. The Collateral Registry Regulations to guide the operations and management of the registry has been published.
<b>Enhancing national accounts statistics</b>			
Commence Household Income and Expenditure Survey.	August 2013	Survey needed to validate national accounts data.	Not met. Survey will start in January 2014. Proposed to be replaced with new benchmark on national accounts by end-June 2014.



Table 5. Liberia: Structural Benchmarks for 2014

Measure	Target Date	Justification	Current Status-Risks
<b>Enhancing budget programming, control and monitoring</b>			
Launch pilot phase of the TSA with zero-balance accounts for seven largest ministries.	End-June 2014	Improve cash management with a view to eliminate idle accounts.	Newly proposed.
Complete clean-up of payrolls of 5 Ministries and Agencies (M&As) and upload the cleaned payrolls to IFMIS	End-Dec. 2013 Reset for March 2014.	Reduce payments to ghost workers and increase fiscal space for capital investment.	Proposed to reset for March 2014. There are now 5 payrolls that remain to be cleaned up, but the process of cleaning up has been extended to March 2014 with risks of further delays to June 2014 due to the size and complexity of remaining payrolls.
Complete pilot phase for the migration of credit-financed projects to the Government's Integrated Financial System (IFMIS).	End-June 2014	Strengthen the tracking of off-budget government spending and comprehensiveness of the budget in line with the PFM Act.	Newly proposed. Pilot phase in progress.
<b>Enhancing national accounts statistics</b>			
Compile national accounts for 2008–13 using the results of the Establishment Survey	End-June 2014	Streamlining earlier conditionality and focusing on key program objective to produce enhanced national accounts statistics.	Newly proposed. To replace previous benchmarks on the Household Income and Expenditure Survey and the Establishment Survey.
<b>Developing the financial system</b>			
Submit to Legislature a revised Insurance Act	End-March 2014	Streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.	Proposed to reset for end-March 2014. The revised Insurance Act is expected to be submitted to the Legislature in January 2014.
Convert into T-bills 20 percent of non-marketable Central Government debt held by the CBL	End-December 2014	Support the develop of the financial system	Newly proposed.

## Attachment 2. Technical Memorandum of Understanding

*This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria and benchmarks for the three-year Extended Credit Facility (ECF), as well as the reporting requirements. The definitions are valid at the start of the program but may need to be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Liberian authorities and the IMF staff in monitoring the program.*

### Quantitative Performance Criteria and Benchmarks

#### A. Test Dates

1. Quantitative performance criteria have been set for end-December 2013 and end-June 2014 and indicative quantitative performance benchmarks have been set for end-September 2013 and March 2014.

#### B. Definitions and Computation

2. **For the purposes of the program, the Government is defined as the Central Government of Liberia (GoL).** This definition excludes legally autonomous state-owned enterprises whose budgets are not included in the central government budget. The operations of the central government will be presented in U.S. dollars with all revenues and expenditures that are denominated in Liberian dollars converted at the end of period exchange rate. The public sector comprises the central government, the Central Bank of Liberia (CBL), and public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget).
3. **Total Central Government revenue collection** includes all tax and nontax receipts (excluding contingent revenues) transferred into the GoL Revenue accounts at the CBL, including income and transfers from state-owned enterprises and public institutions (excluding external loans and grants). The GoL accounts at the CBL include the GoL Revenue Accounts in U.S. dollars, the Revenue Accounts in Liberian dollars, the Civil Servants Payroll Accounts in Liberian dollars, the General Operations Accounts in U.S. dollars, the General Operations Accounts in Liberian dollars, the GoL Special Rice Fund, and all Ministries and Agencies operational and other accounts. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF as well. For the purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the Revenue Account in U.S. dollars, the Revenue Account in Liberian dollars, and the GOL Special Rice Fund converted to U.S. dollars using the end of period exchange rate.

4. **For end-December 2013 and end-June 2014, social spending is defined as education, health, social development services, and energy sector spending** from the FY2014 budgets of the units listed below (payment vouchers approved by the Ministry of Finance) excluding contingent expenditure. It is evaluated as a share of total expenditure (payment vouchers approved by the Ministry of Finance), where total expenditure excludes contingent expenditure tied to contingent revenues and off budget expenditure tied to off-budget credit financed projects.

	<b>End Dec. 2013</b>	<b>End June 2014</b>
<b>Total Education, Health, Social Development Services, and Energy Spending</b>		
<b>Education</b>		
Ministry of Education		
University of Liberia		
Monrovia Consolidated School System (MCSS)		
Booker Washington Institution (BWI)		
Gbarnga Central High		
Forestry Training Institution (FTI)		
Cuttington University (CUC)		
National Commission on Higher Education (NCHE)		
W. V. S. Tubman Technical College (WVSTC)		
West African Examination Council (WAEC)		
Liberia Institute for Public Administration		
Agricultural and Industrial Training Bureau		
Zorzor Rural Teacher Training Institute		
Webbo Rural Teacher Training Institute		
Kakata Rural Teacher Training Institute		
Bassa County Community College		
Bomi County Community College		
Nimba Community College		
Lofa Community College		
Gboveh Community College		

	<b>End Dec. 2013</b>	<b>End June 2014</b>
<b>Health</b>		
Ministry of Health and Welfare JFK Medical Center (JFKMC) Phebe Hospital LIBR Jackson F. Doe Medical Hospital Liberia Medicines and Health Regulatory Authority National Aids Commission		
<b>Social Development Services</b>		
Ministry of Youth & Sports Ministry of Gender & Development Liberian Refugee Repatriation and Resettlement National Commission on Disabilities National Veterans Bureau Liberia Agency for Community Empowerment		
<b>Energy Sector</b>		
Thermal diesel (HFO) power station Transmissions and distribution Mount Coffee rehabilitation, transmission, and distribution to Bushrod Island		

5. **Social and other priority spending will be adjusted downward** by the undisbursed amounts from budgeted external financing (grants and borrowing) allocated to projects in the energy sector within the public sector investment program.

6. **New domestic borrowing of the Central Government** is defined as new domestic claims by residents on the central government since the start of the program. It will be measured by the change in the stock of all outstanding claims on the central government (domestic loans; advances; government guarantees; and contingent financial liabilities as stipulated in paragraph 7; and any government debt instruments, such as treasury bills and long-term

government securities issued in the domestic market) by the banking system. The definition also includes the issuance of debt instruments by the GoL to the nonbank sector. For the purposes of measurement, claims in Liberian dollars will be converted at the end of period exchange rate.

7. **Contingent financial liabilities of the central government (external and internal) include but are not limited to** (i) any guarantee of the performance or payment obligations of any private or public entity; (ii) any agreement, including any indemnification agreement, to hold another private or public entity harmless or to provide insurance or similar protection against risk of loss; (iii) any guarantee of economic return to another public or private entity including any guarantee of profit, income or rates of return; (iv) any agreement to provide financial support to another private or public entity in connection with specified activities of such other entity; and (v) any other agreement as provided by regulations under Liberia's Public Financial Management Act.

8. **Gross external borrowing by the public sector** is defined as cumulated new external claims by non-residents from July 1, 2012 on the public sector excluding borrowing for reserve management purposes by the CBL.

9. **The definition of external debt (both concessional and non-concessional) by the public sector**, for the purposes of the program, refers to the debt owed to non-residents, and it applies not only to the meaning set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (Executive Board Decisions No. 6230-(79/140) August 3, 1979, as amended and effective December 1, 2009 attached in Annex I), but also to commitments contracted or guaranteed for which value has not been received. External debt is considered as contracted or guaranteed for program monitoring purposes once the loan agreement has been ratified by the Legislature.

10. **The concessional nature of debt** will be determined on the basis of the commercial interest reference rates published by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of signature, the ratio between the present value of debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).

11. **The ceiling for contracting and guaranteeing nonconcessional external debt by the public sector will be set at US\$14 million continuously throughout the program period unless modified.** The ceiling for contracting and guaranteeing nonconcessional debt excludes short-term (debt contracted for the period less than one year) import-related credits, rescheduling arrangements, and borrowing from the Fund.

12. **The government undertakes not to incur payments arrears on external debt that it owes or guarantees**, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period.

13. **New domestic arrears/payables of the government** are calculated as the difference between government payment commitments and the actual payments made on such commitments, providing for a processing period of no more than 15 days from the date of commitment. Actual payments are defined as having taken place on the date of issuance of the checks by the Ministry of Finance. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Director of the Bureau of General Accounting (BGA), and expenditure that are now automatically approved, namely, wages and salaries, pensions, debt payments to the CBL and commercial banks, CBL bank charges, and transfers of ECOWAS levies into the ECOWAS account.

14. **CBL gross direct credit to central government** is defined as the sum of claims on central government, including loans, advances, guarantees and contingent financial liabilities as defined in paragraph 7, accounts receivable, bridge financing, overdrafts, and any government debt instrument as defined in the monetary survey template excluding CBL purchases of treasury bills in the secondary market. The gross credit to the government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at end-of-period exchange rate.

15. **The net foreign exchange position of the CBL** is defined as the difference between (a) the CBL's gross foreign reserves including SDR holdings; and (b) the sum of its gross foreign liquid liabilities, ECF arrangement liabilities, and liquid liabilities denominated in U.S. dollars. The net foreign exchange position of the CBL is presented in the U.S. dollar. Assets and liabilities denominated in SDR are valued at a fixed rate of the U.S. dollar against SDR, 1.5844. Other currencies are valued at cross-rates against the U.S. dollar as of end-June, 2012.

16. **The net domestic assets of the CBL** are defined as base money minus the net foreign assets of the CBL converted into United States dollars at program exchange rates as defined in paragraph 14. Base money is defined as the stock of Liberian dollars in circulation plus reserve deposits of commercial banks in Liberian dollars at the CBL, plus sight deposits of commercial banks in Liberian dollars at the CBL and plus vault cash of commercial banks in Liberian dollars. The net foreign assets of the CBL are defined as foreign assets minus foreign liabilities of the CBL balance sheet.

17. **External financing adjustor.** The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support grants and committed budgeted external loan disbursements up to a maximum of US\$20 million. The adjuster will be calculated on a cumulative basis from the start of the financial year (July 1).

**Cumulative Program External Budget Support and  
Committed Budgeted External Loan Disbursements**

(In millions of U.S. dollars)

September 2013	12.6
December 2013	53.3
March 2014	55.9
June 2014	61.6

## Program Monitoring

### A. Data Reporting to the IMF

18. To allow monitoring of developments under the program, the Ministry of Finance will coordinate and regularly report the following information to the staff of the IMF:

- Monthly fiscal reconciliation reports, where cash revenue and expenditure with spending commitments are reconciled (monthly, within three weeks after the end of the month);
- Detailed reports on monthly core and contingent revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations (monthly, within three weeks after the end of the month);
- Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies (monthly, within three weeks after the end of the month);
- A detailed report on disbursements of budget support grants and budgeted and off-budget loans, by donor and by project (monthly, within three weeks after the end of the month);
- Monthly sweeping reports showing the end of the month balances of the GoL accounts at the CBL and of all operations and other accounts at the CBL of the M&As (monthly, within three weeks after the end of the month). End-of-month balances of all operating and other accounts at the CBL of the line ministries and agencies receiving budgetary appropriations (monthly within three weeks after the end of the month);

- End-of-month balances of all operating and other accounts at the CBL of all other public institutions (monthly within three weeks after the end of the month);
- A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the program period, by budget category (wages, goods and services, etc.), including payment and stock of existing arrears from the previous ECF Arrangement, (monthly, within three weeks after the end of the month);
- The amount of new external debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- The amount of new domestic debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- A detailed report on monthly payments on external debt by category and creditors and the stock of external debt (monthly, within three weeks after the end of the month);
- A detailed report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);
- The balance sheet of the CBL in the monthly monetary survey (monthly, within three weeks after the end of the month);
- The full monthly monetary survey of the monetary sector (monthly, within three weeks after the end of the month);
- The detailed table of commercial banks loans and advances by sector (monthly, within three week of end of month);
- The core set of financial soundness indicators for the banking system, including the overall profitability of the banking sector (quarterly, within three weeks after the end of the quarter);
- The report on the results of foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL (weekly) and other currency exchange facilities;
- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount date, and rate of exchange (monthly, within three weeks after the end of the month);
- Indicators of overall economic trends, including but not limited to:
  - detailed tables of the monthly harmonized consumer price index (within three weeks after the end of the month);
  - daily foreign exchange rates (monthly);



## LIBERIA

- export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and noncommercial use) and petroleum products (monthly, within three weeks after the end of the month);
  - interest rates and commercial bank remittance inflows and outflows (monthly, within three weeks after the end of the month); and
  - production data in value and volume (monthly, within six weeks after the end of the month);
- Quarterly reports of state owned enterprise financial operations submitted to the Ministry of Finance within 45 days after the end of the quarter;
  - A detailed report on liquidity forecasting up to 6 months ahead, including: (i) projected government's cash flows (revenue, expenditure, repayments and disbursements of loans including T-bills) by currency; (ii) projected flows to the CBL's net exchange position, including but not limited to planned U.S. dollar sales in the foreign exchange auction, and planned foreign exchange transactions with the Government; and (iii) projected flows of Liberian dollar liquidity, including but not limited to planned CBL Notes issuance (monthly, within six weeks after the end of month);
  - The report on the status of implementation of the performance criteria and structural benchmarks specified in Tables 1, 4 and 5 of the MEFP (monthly, within three weeks after the end of the month).

19. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia, with copies to the local IMF economist, Mr. Deline (adeline@imf.org) for further transfer to the African Department of the IMF in Washington, D.C.

20. Moreover, we will provide the Fund with such information as the Fund requests in connection with the progress in implementing the policies and reaching the objectives of the program.

## Annex 1. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) August 3, 1979, as amended in 2009

- (a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
- (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
  - (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
  - (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
- (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.



# LIBERIA

November 26, 2013

## SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF A PERFORMANCE CRITERION— INFORMATIONAL ANNEX

Prepared By

African Department (In consultation with other departments)

### CONTENTS

RELATIONS WITH THE FUND	2
JOINT WORLD BANK-IMF WORK PROGRAM, 2012–13	7
RELATIONS WITH THE WORLD BANK GROUP	9
RELATIONS WITH THE AFRICAN DEVELOPMENT BANK	14
STATISTICAL ISSUES	18

## RELATIONS WITH THE FUND

(As of September 30, 2013)

**Membership Status:** Joined: March 28, 1962. Article XIV

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	129.20	100.00
Fund holdings of currency	129.18	99.99
Reserve Tranche Position	0.03	0.02

<b>SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	123.98	100.00
Holdings	164.86	132.98

<b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
ECF Arrangements	56.90	44.04

### Latest Financial Arrangements:

	<b>Date of Arrangement</b>	<b>Expiration Date</b>	<b>Amount Approved (SDR Million)</b>	<b>Amount Drawn (SDR Million)</b>
ECF	Nov. 19, 2012	Nov. 18, 2015	51.68	14.76
ECF <sup>1</sup>	Mar. 14, 2008	May 17, 2012	247.90	247.90
EFF	Mar. 14, 2008	Sep. 25, 2008	342.77	342.77
Stand-By	Dec. 07, 1984	Dec. 06, 1985	42.78	8.50

<sup>1</sup> Formerly PRGF.

### Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2013	2014	2015	2016	2017
Principal		2.10	3.69	5.46	7.68
Charges/Interest		0.00	0.13	0.12	0.11
<b>Total</b>		<b>2.10</b>	<b>3.82</b>	<b>5.59</b>	<b>7.79</b>

### Implementation of HIPC Initiative:

Enhanced Framework

I. Commitment of HIPC assistance	
Decision point date	March 2008
Assistance committed	
By all creditors (US\$ Million) <sup>1</sup>	2,739.20
Of which: IMF assistance (US\$ Million)	721.10
(SDR equivalent in millions)	440.90
Completion point date	June 2010

<sup>1</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	440.90
Interim assistance	30.14
Completion point balance	410.76
Additional disbursement of interest income <sup>2</sup>	10.99
Total disbursements	451.89

<sup>2</sup> Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

### Delivery of Debt Relief at the Completion Point:

I. Debt relief (SDR Million)	548.53
Financed by: Liberia Administered Account	116.20
Remaining HIPC resources	432.33
II. Debt relief by facility (SDR Million)	

Delivery Date	Eligible Debt		Total
	GRA	PRGT	
June 2010	342.77	205.76	548.53

### Safeguards Assessment

The update of the 2011 safeguards assessment, completed in August 2013, noted slow progress by the Central Bank of Liberia (CBL) in implementing recommendations from the 2011 assessment and a need to regain momentum in building robust safeguards at the CBL. Progress from the 2011 assessment includes clarifying the rights and obligations of the government and the CBL regarding IMF transactions. A number of previous recommendations have not been implemented, including strengthening the internal audit function through an external peer review, independent reviews of monetary program data by internal audit, and a review of the currency operations. At the same time, the recent technical breaches of the CBL Act with regard to credit to government raises safeguards concerns on governance and compliance mechanisms at the CBL.

Recommendations from the update of the safeguard assessment include continue appointing internationally reputable external auditors for the next three-year term, resuming independent internal audits of monetary data, and strengthening Board oversight on the (i) external audit process and (ii) compliance of bank operations with the CBL Act. Staff received assurances from the CBL on the planned continuation of external audits, in accordance with international standards. The recommendations arising from the update safeguards assessment do not require action in the context of the ECF arrangement, and will be monitored under the program.

### Exchange Rate Arrangement

Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender.

The exchange rate showed limited mobility for most of 2011 resulting in a short lived reclassification of the de facto exchange rate regime to 'stabilized arrangement' effective January 5, 2011. The de facto exchange rate regime was re-classified back to 'other managed' effective November 7, 2011 as the Liberian dollar diverged from the 2 percent six months band. The de jure exchange rate regime classification remains 'managed floating'. The exchange rate between the Liberian dollar and United States dollar at end-September 2013 was L\$80=US\$1 (mid-point between buying and selling rates).

#### **Article IV Consultation and Review of the ECF Arrangement**

The 2012 Article IV consultation discussions were held in Monrovia during September 4–21, 2012. The staff report (Country Report No. 12/340, December 2012) was discussed by the Executive Board on November 19, 2012 and is posted on the IMF website.

The first review of the three-year arrangement under the Extended Credit Facility was discussed by the Board on July 3, 2013 (Country Report No. 13/216, July 2013) and is posted on the IMF website.

#### **Technical Assistance 2010–13**

<b>Subject</b>	<b>Department</b>	<b>Date</b>
<b>Resident Advisors</b>		
Public Financial Management	FAD	July 2008–Present

<b>Topic</b>	<b>Date</b>
<b>Fiscal Affairs Department</b>	
Public Financial Management	October 2010
Tax Administration	March 2010
Revenue Administration	July 2010, September and Dec. 2010
Revenue Department Strategic Plan	November–December 2010 January–February 2011
Tax Policy	November–December 2010
Public Financial Management Strategy	October–December 2010, March–April 2011
Cash Flow Planning and Government Banking Arrangements	February 2011 April and December 2012
Medium Term Expenditure Framework	March and Sept. 2011, October 2013
County Treasury Framework	June 2011
Tax Administration	July, August, and September 2011

<b>Topic</b>	<b>Date</b>
Tax Policy	November–December 2011 and November–December 2012
Revenue Administration	January–February and September 2012, February and October 2013
SOE Financial Reporting Framework	March–April 2012 March–April , September 2013
Cash Flow Management	April and December 2012
Public Expenditure Financial Assessment (PEFA)	April and June 2012
County Treasuries	September 2012
Management of Public Investment Projects	October 2012
Tax Administration (Enforcement and TSC)	November–December 2012
Fiscal Reporting	December 2012 February 2013
Petroleum Fiscal Advisory	March and July 2013
PFM Monitoring and Evaluation Framework	February and September 2013
Fiscal Decentralization	September 2012 March–April 2013
Tax Administration	February, April–May and June 2013
ITAS Implementation and Taxpayer Survey	May–June 2013
Automated Audit Risk Selection Plan	July–August 2013
Sector Audit Training	August–September 2013
Progress under the Topical Trust Fund	June 2013
<b>Statistics Department</b>	
Monetary Finance Statistics	March–April 2010
National Accounts	April and July–August 2010 January 2011
Balance of Payments	March–April 2011
Statistics Department Monetary and Financial Statistics	August 2011
National Accounts Compilation	September 2011
Short-term Resident Advisor on National Accounts	May–August 2012
Statistics Department Monetary and Financial Statistics	April 2013
Government Finance Statistics	September 2013
Balance of Payments	March 2013
National Accounts	April 2013

Topic	Date
<b>Monetary and Capital Markets Department</b>	
Monetary Financial Statistics	March–April 2010
Central Bank Accounting Standards	May 2010
Monetary Operations	June–July 2010
Banking Supervision	August 2010
Bank Payment Systems	December 2010
Central Bank Accounting	January–February 2011
Central Bank Modernization	March–April 2011
Bank Payment Systems	May 2011
Banking Supervision	June–July 2011
Safeguards Assessment	July 2011
Monetary Financial Statistics	August 2011
Capacity building for national payment system	September–November 2011
Central Bank Accounting	December 2011
Accounting	January 2012
Monetary Operations	January 2012
Payment Systems Law	February 2012
Banking Supervision	March–April 2012
Central Bank Accounting (IFRS)	September 2012
Stress Testing	January 2012, August 2012, February 2013, April 2013
Monetary and Financial Statistics	March–April 2013
Managing Excess Liberian Dollar Liquidity and strengthening Research Department Analytical Capacity	February 2013
Evaluating and strengthening the Treasury Bill Program and Research Department Reporting	May 2013
Stress Testing – TA Evaluation	July 2013
Banking Supervision	October 2013
<b>Legal Department</b>	
Drafting Legislations	July 2010, March and August 2011

### Resident Representative

A resident representative has been posted in Monrovia since April 2, 2006. Mr. Sobolev assumed the position in July 2009 and his term expired in September 2013. The selection process for a new resident representative is ongoing.



# JOINT WORLD BANK-IMF WORK PROGRAM, 2012–13

(As of October 16, 2013)

Title	Products	Timing of mission	Expected delivery date	Status
<b>A. Mutual information on relevant work programs</b>				
1. World Bank work program	1. Liberia Poverty Assessment	January 2010	May 2012	Completed
	2. First Poverty Reduction Support Credit (PRSC I)	May 2013	July/August 2013	Approved
	3. Second Poverty Reduction Support Credit (PRSCII)	October 2013	July 2014	On-going
	4. Poverty Reduction Strategy – Support	November 2010	June 2012	Completed
	5. Public Expenditure Review Notes	November 2011	July 2013	Completed
	6. Diagnostic Trade Integration Study (Update)	October 2012	July 2013	On-going
	7. Decentralization Policy Note	January 2013	July 2013	Completed
	8. Household Income and Expenditure Survey	On-going	March 2015	On-going
2. IMF work program	1. Negotiation successor ECF	July–Sept. 2012	November 2012	New ECF Program approved on Nov. 19, 2013.
	2. Article IV Consultation	July–Sept. 2012	Nov. 2012	Completed
	3. First review of ECF Program	March 2013	July 3, 2013	Completed
	4. Second review of ECF Program	September 2013	Nov. 2013	On-going
	5. Managing Natural Resource Revenue in Liberia: Options for a Fiscal Framework		November 2012	Background paper. Completed
	6. Drivers of net interest margins and bank profitability in Liberia		November 2012	Background paper. Completed
	7. The Investment-Financing-Growth Nexus		November 2012	Background paper. Completed
	8. Promoting Inclusive Growth-Job Creation in Liberia		June 2013	Working Paper On-going
	9. Liberia's Monetary and Exchange Rate Policy Framework: Steps towards establishing a monetary anchor		June 2013	Working Paper On-going

<b>Title</b>	<b>Products</b>	<b>Timing of mission</b>	<b>Expected delivery date</b>	<b>Status</b>
	10. Assessing Liberia's External Sector Vulnerabilities		June 2013	Working Paper On-going
	11. Outreach program to Legislature, private sector associations, and students		March, September 2013	Completed
<b>A. Mutual information on relevant work programs (continued)</b>				
3. WB/IMF Joint work program	1. Joint Staff Assessments (JSA) on the second Poverty Reduction Strategy (PRS2).	March 2013	May 2013	Completed
	2. Technical Assistance for PFM reforms and decentralization.			On-going
	3. Assist the authorities in developing national accounts			Ongoing
	4. Revenue enhancement support			On-going
<b>B. Requests for work program inputs</b>				
4. Fund request to Bank	1. Country Assistance Strategy		July 2013	Completed
	2. World Bank Relations Note		As needed	
5. Bank request to Fund	1. Regular updates of performance under the Fund-supported program, macroeconomic projections and data following each IMF mission		Continuous	Last update October 2013
	2. IMF Relations Note		As needed	

## RELATIONS WITH THE WORLD BANK GROUP<sup>1</sup>

(As of October 15, 2013)

A new Bank Group Country Partnership Strategy (CPS) was discussed by the Board of the World Bank Group on July 30, 2013. The overarching objective of the CPS is to support the Government's Agenda for Transformation (AfT) to contribute to sustained growth, poverty reduction and shared prosperity while exiting fragility and building resilience. In this regard, the CPS pillars are aligned with three key pillars of the AfT: (i) **Economic Transformation** to reduce constraints to rapid, broad-based and sustained economic growth to create employment; (ii) **Human Development** to increase access and quality of basic social services and reduce vulnerability; and (iii) **Governance and Public Sector Institutions** to improve public sector and natural resources governance. In addition, the CPS focused on the themes of capacity development and gender equity both of which will be mainstreamed throughout the Bank Group's portfolio.

The World Bank Group's program under the CPS will involve a combination of development policy lending, investment lending and analytical work in support of the strategic pillars. The IDA allocation for the lending program for the CPS period is expected to be about US\$308 million encompassing the remaining period of IDA 16 (to June 2014) and the full IDA 17 allocation. The majority of the IDA financing during the CPS will focus on investment in the energy and transport sectors to help remove binding constraints to growth and improve well-being. In addition, a series of Poverty Reduction Support Credits (PRSCs) of approximately US\$10 million per year will support reforms under the three pillars of Economic Transformation, Human Development, and Governance and Public Institutions. IDA financing under the CPS will also support building institutional and human capacity essential for the effective implementation of the AfT and the country's long-term vision plan.

The International Finance Corporation (IFC) investment over the CPS period could average US\$25–35 million per year. The current IFC portfolio comprises US\$7 million in equity; US\$13 million credit and trade lines; US\$13 million seed investment in the West Africa Venture Fund for direct on-lending to, or equity in SMEs and US\$6 million debt financing in the rubber sector. The priority sectors for IFC's investments include agribusiness, infrastructure including power, financial services and mining. IFC's advisory service will include strategic engagement in investment climate improvement, education to foster employment, supplier linkages, agriculture, leasing, finance services infrastructure and private sector development.

### A. Active Projects

There are currently fourteen active<sup>2</sup> IDA projects in Liberia, including three regional projects, with a total commitment of approximately US\$312.2 million of which US\$136.6 million is undisbursed.

<sup>1</sup> Prepared by the World Bank.

<sup>2</sup> Effective and/or disbursing operations.

Three new credits were approved for FY13 to date for a total commitment of approximately US\$95 million. The new credits are summarized below:

There are currently fourteen (14) active<sup>3</sup> IDA projects in Liberia, including four regional projects, with a total commitment of approximately US\$312.2 million of which approximately US\$115 million is undisbursed. Four new credits were approved in FY13 for a total commitment of approximately US\$105 million. These new credits are summarized below:

**The Liberia Road Asset Management Project (LIBRAMP)** was first approved in June 2011 for US\$67.7 million. Additional financing for US\$50 million was approved in September 2012. The objective of the Road Asset Management Project for Liberia is to support the recipient's efforts to reduce transport costs along the road corridor from Monrovia to the Guinea border and to maintain the road in good condition over a ten year period. The project has the following two components: *Component 1: Design, Rehabilitation and Maintenance of Monrovia –Ganta–Guinea Border Road.* This component will finance Output- and Performance-based Road Contracts (OPRC) for two road lots, Monrovia to Gbarnga (approximately 180 km) and Gbarnga to Ganta—the Guinea border (approximately 69 km). This road is vital to the nation's reconstruction, connecting four of the country's five largest cities and providing critical cross-border connection. *Component 2: Consultant Services, Operating Costs, and Training.* This component will finance consultancy services for the management of the OPRCs, as well as technical assistance for road feasibility studies and the development of sector institutions through hiring of skilled staff and the provision of staff training programs.

**The Liberia Accelerated Electricity Expansion Project (LACEEP)** was approved in May 2013 for US\$35 million. The objectives of the project are to increase access to electricity and strengthen institutional capacity in the electricity sector. The project focuses on three of the most pressing issues for the implementation of the government's ambitious plans to expand electricity services in Liberia by 2030. *The first component* supports the expansion of the transmission and distribution grid, both in and outside of Monrovia. *The second component* will create the conditions to shift from diesel to HFO-based thermal generation, for the country to effectively benefit from the price differential of the two fuels on the international market. *The third component* focuses on the strengthening of the institutional capacity within the government to lead the development of the electricity sector.

**The Liberia Health Systems Strengthening Project** was approved in May 2013 for US\$10 million. The objective of the project is to improve the quality of maternal health, child health, and infectious disease services in selected secondary-level health facilities. *The first component* of the project focuses on strengthening the institutional capacity needed to improve the quality of selected health interventions at target facilities. *The second component* deals with improving health worker competencies to address key health-related concerns. *The third component* covers project management.

---

<sup>3</sup> Includes effective and or disbursing operations.

The **Liberia Poverty Reduction Support Credit** was approved in June 2013 for US\$10 million. The objectives of the operation are to sustain and deepen government-owned efforts to reform governance and civil service, and to support the broadening of reforms to include economic transformation and human development in the context of the implementation of the Agenda for Transformation. Specifically, these reforms are focused on: (i) strengthening governance with particular emphasis on transparency and accountability to reduce corruption, and enhance budget execution and oversight; (ii) creating the environment for economic transformation through addressing infrastructure constraints; land tenure issues and agricultural credit; and (iii) improving human capital development particularly through improved access and quality of education.

## B. Economic and Sector Work

**The World Bank has completed a comprehensive Public Expenditure Review (PER), which explores various options for fiscal space enlargement.** Given the large amount of additional expenditure required for the implementation of the government's second Poverty Reduction Strategy—the Agenda for Transformation, it is critical that all options are examined to accommodate these expenditures. The PER focuses on measures for: (a) improving the efficiency of public expenditure; (b) increasing the amount of external grants; (c) mobilizing greater revenue from taxes, non-tax revenue and natural resources; and (d) public sector borrowing.

**The World Bank has also completed a human development Public Expenditure Review (PER) covering the education, health and social protection sectors.** Public spending on the human development sector in Liberia is low by Sub-Saharan Africa (SSA) standards. The PER therefore examines a number of key public expenditure issues affecting progress in attaining the MDGs. The Review considers the sources and levels of funding, budgetary allocations across and within the sectors, and the quality, equity and efficiency of public expenditure on human development.

**A first public expenditure review focusing on the security and justice sector was completed in collaboration with the United Nations Mission in Liberia (UNMIL) in 2012.**

The Review was financed by the Bank-UN Partnership Trust Fund and in line with the policy implications of the 2011 World Development Report (WDR) on *Conflict, Security and Development*. It sought to assist the Government in identifying the core security functions and their associated financing costs and gap, as well as options to ensure smooth security transition beyond the drawdown of UNMIL peacekeepers beginning in October 2012. The report proposes a roadmap for prioritizing the security activities in the context of a medium-term expenditure framework.

**C. Financial Relations** (as at October 15, 2013)(Millions of U.S. dollars)<sup>1</sup>

Project	Closing Date	Approval (Fiscal Year)	Net Commitment Amount	Total Disbursed	Of Which: Credit Disbursement	Total Undisbursed Balance
West Africa Power Pool APL	11/29/2017	2010	1.9	1.5	0.0	0.4
LR: Youth, Employment, Skills Project	12/31/2014	2010	6.0	6.2	0.0	0.0
Community Empowerment II	7/31/2013	2007	5.0	5.1	0.0	0.0
LR-Agriculture & Infrastructure Development Project. ERL	10/31/2014	2008	53.0	50.0	0.0	3.8
LR-Econ. Governance & Institutional. Reform TAL	12/31/2014	2008	18.0	15.3	4.9	2.1
LR-Emergency Monrovia Urban Sanitation	12/31/2013	2010	4.0	1.6	1.6	2.4
LR-Urban and Rural Infra. Rehab. Project	6/30/2014	2009	64.0	63.5	0.0	3.2
West Africa Regional Fisheries Program	12/15/2014	2009	9.0	5.8	0.0	3.1
Liberia Electricity System Enhancement Project	12/31/2014	2012	32.0	6.5	6.5	25.2
West Africa Regional Communications Infrastructure Program	9/30/2015	2011	25.6	22.3	22.3	3.3
West Africa Agricultural Productivity Program APL	6/30/2016	2011	6.0	2.3	2.3	3.6
Liberia Integrated Public Financial Management Reform Project	6/30/2016	2012	5.0	4.9	4.9	0.0
Lr-Smallholder Tree Crop Revitalization Support Project	12/31/2016	2012	15.0	2.1	2.1	12.8
LR-Road Asset Management Project	6/30/2022	2011	67.7	10.9	10.9	55.1
<b>Total</b>	...	...	<b>312.2</b>	<b>198.0</b>	<b>55.5</b>	<b>115.0</b>

<sup>1</sup> Amounts may not add up to original principal due to changes in the SDR/US exchange rate since signing.

### IDA Disbursements and Debt Service (Quarterly since HIPC Completion Point)

US\$ Million	Jul- Sep 2010	Oct- Dec 2010	Jan- Mar 2011	Apr- Jun 2011	Jul- Sep 2011	Oct- Dec 2011	Jan- Mar 2012	Apr- Jun 2012	Jul- Sep 2012	Oct- Dec 2012	Jan- Mar 2013	Apr- Jun 2013	Jul- Sep 2013
Total	9.47	22.13	7.64	22.58	21.82	10.73	14.25	8.47	16.62	2.18	7.55	13.83	16.19
Repayments	0.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net	9.14	22.13	7.64	22.58	21.82	10.73	14.25	8.47	16.62	2.18	7.55	13.83	16.19
Interest and	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.07	0.00	0.02	0.10	0.12	0.02

Note: \*=revised data.

## RELATIONS WITH THE AFRICAN DEVELOPMENT BANK<sup>1</sup>

(As of October 1, 2013)

There are 13 active AfDB projects in Liberia, including two regional projects, with a total commitment of approximately UA 186 million, equivalent to US\$280 million, of which 29% is disbursed. A brief description of these projects is provided below.

1. **Economic Governance and Competitiveness Support Program:** This UA 30 million budget support operation aims to (i) improve PFM systems; (ii) strengthen tax and customs administration including transparency and accountability of revenue from the extractive industry; and (iii) improve business enabling environment for private sector development. It will also increase the government's fiscal space for pro-poor expenditure in line with the PRS. The program is an integral part of a broader set of interventions of the AfDB designed to support good financial and economic governance. The first tranche of UA 14 million was disbursed in December 2011, and the second tranche of UA 8 million was disbursed in June 2013.
2. **Integrated Public Financial Management Reform Project (IPFMRP):** The ADB's UA 3.0 million grant support for this project was approved on September 10, 2012. Supported by four donors—the ADB, World Bank, USAID, and SIDA—this US\$28.55 million project represents an innovative approach for the Bank to support a comprehensive government program for PFM reform. By using a pooled funding arrangement, the project harmonizes support from the four donors, increasing development effectiveness while decreasing the administrative burden on the Government. The project has five components, which are mutually reinforcing: (i) enhancing budget planning and credibility; (ii) strengthening budget execution, accounting and reporting; (iii) strengthening revenue administration; (iv) enhancing transparency and accountability; and (v) project management and capacity building.
3. **Payment systems development project:** This UA 5 million supplementary grant enables Liberia to join the West Africa Monetary Zone (WAMZ) Payments System Development Project. The project aims to improve the financial sector basic infrastructure in the WAMZ region through the upgrade of the payments systems of The Gambia, Guinea, Sierra Leone, and Liberia. The project components include: Real Time Gross Settlement (RTGS) system; Retail Payments Automation (RPA), a clearing system comprising Automated Checks Processing (ACP); Automated Clearing House (ACH); Central Banking Applications (CBA) system; and telecommunication infrastructure. The project will increase participation in the formal financial sector and enhance financial flows at the regional level.

---

<sup>1</sup> Prepared by the African Development Bank.



4. **Technical Assistance from Fragile States Facility:**
  - a. **LEITI - Phase II:** US\$409,000 grant assistance for Multi-Stakeholders Group costs; communication and outreach, staff training and capacity building of actors involved in extractive industries transparency related activities
  - b. **Dagliotti School of Medicine:** US\$300,600 grant assistance to retain for 12 months 3 professors at Dagliotti School including cost of carrying out medical research.
  - c. **Institutional Development and Capacity Building Support to the Governance Commission:** UA 438,338 grant assistance to strengthen the capacity of the Governance Commission and to accelerate the implementation of governance reforms.
  - d. **Technical Assistance for Services of Procurement Specialist/Transport Engineer to Support Ministry of Public Works:** UA 117,000 grant to strengthen the capacity of the Ministry of Public Works in conducting construction, rehabilitation and maintenance works of socio-economic infrastructure including roads.
  
5. **Liberia–Urban Water Supply and Sanitation Project (UWSSP).** This UA 25.2 million grant project aims to improve Monrovia’s water and sanitation facilities. The project will: (i) provide access to adequate, safe and reliable water supply and public sanitation services in Monrovia, Buchanan, Kakata, and Zwedru; and (ii) enhance the institutional, operational, management capability, and the long-term financial viability of LWSC. The Project’s components are: (i) Rehabilitation and augmentation of water treatment and distribution systems; (ii) Provision of public sanitation facilities; (iii) Institutional support; (iv) Environmental and Sanitation Sensitization.
  
6. **Agriculture Sector Rehabilitation Project (ASRP):** This UA 18.4 million project cost is financed by a UA 12.5 million grant from the Bank, UA 3.4 million grant from IFAD, and the balance financed in kind by the Government of Liberia. The project covers eight of the fifteen counties in Liberia. The overall goal of the Agriculture Sector Rehabilitation project is to contribute to food security and poverty reduction. Its specific objective is to increase the income of smallholder farmers and rural entrepreneurs including women on a sustainable basis. The project is implemented under three components: Agriculture Infrastructure Rehabilitation; Agricultural Production and Productivity Improvement; and Project Management, with Agriculture infrastructure constituting 60 percent of the cost.
  
7. **Smallholder Agricultural Productivity Enhancement and Commercialization (SAPEC) Project:** This UA 34.08 million project will be funded by a UA 29.08 million grant from the Global Agriculture and Food Security Program (GAFSP), a UA 4.0 million ADF loan, and UA 1.0 million by in-kind contributions from the Government of Liberia. The Intervention seeks to reduce rural poverty and household food insecurity by increasing income for smallholder farmers and rural entrepreneurs particularly women, youths and the physically-challenged. SAPEC will be

implemented in 12 of the 15 counties of Liberia over 2014 to 2017 and seeks to scale-up the on-going Agricultural Sector Rehabilitation Project (ASRP). The project consists of four components, namely: (i) Sustainable Crop Production Intensification; (ii) Value Addition and Marketing; (iii) Capacity Building and Institutional Strengthening; and (iv) Project Management.

8. **The Labour-Based Public Works Project (LBPWP):** The UA 20.24 million grant project aims to contribute to the improvement of productive livelihoods and service delivery. The project objective is to rehabilitate socio-economic infrastructure and improve capacities for infrastructure maintenance. Its components are: i) Rehabilitation of Socio-Economic Infrastructure; and ii) Capacity Development for Infrastructure Maintenance; and iii) Project Management. In 2011 the Bank provided a UA 5.00 million supplementary grant from the Fragile States Facility (FSF) to enable the financing of additional costs resulting from improved designs of the project infrastructure.

9. **Equity investment of US\$0.9 million in the share capital of Access Bank Liberia (ABL):** is a start-up microfinance bank sponsored by Access Microfinance Holding AG, with co-support by the International Finance Corporation (IFC) and the European Investment Bank (EIB). An additional capital increase of US\$209,000 has been approved.

10. **Rural Water, Sanitation and Hygiene Program Development Study:** This UA 924,138 study intends to inform the Government of Liberia on the most appropriate options for delivering sustainable and equitable access to safe and affordable drinking water supply, basic sanitation, and hygiene services in rural areas. The outputs of the study will include: (i) National Program and Investment Plan for Rural Water, Sanitation and Hygiene services; (ii) Program Implementation Manual; (iii) Monitoring and Evaluation Framework; (iv) Operational and Maintenance Plan; and (v) draft Mobilization White Paper.

11. **ECOWAS Peace and Development Project:** This US\$10 million grant project is implemented in Liberia, Bissau-Guinea, Sierra-Leone, and Guinea to contribute to promoting peace and development in the ECOWAS Member States. The project provides institutional capacity building for ECOWAS and civil society in conflict-affected countries with a view to improving coordination, management and implementation of conflict prevention actions, within a context of good governance. The project is closing at end-2013.

12. **Fostering Innovative Sanitation and Hygiene in Monrovia:** The objective of the grant of Euro 1.2 million from the African Water Facility administered by the ADB is to increase access to sustainable and affordable sanitation services with improved hygiene and livelihood for Monrovia's urban poor. The specific objectives include: (a) increase access to safe, sustainable and affordable sanitation services; (b) reduce the vulnerability of the urban poor populace to WASH related diseases caused by water contamination; and (c) implement an effective, efficient and sustainable FS management system with production of affordable FS fertilizer to increase scalable food security.

13. **Paving Fish Town-Harper Road Project (Phase I):** The objective of the Project is to provide efficient road transport access to South East Counties of Liberia and, by extension, to neighboring Mano River Union States. The project will involve upgrading from gravel to bitumen standard the Fish Town–Harper Road (Phase 1): Harper-Karloken section (50 km) at an estimated cost of UA 43.04 million including GoL counterpart funding of UA 1.0 million. The expected outcomes include: (a) improved socio-economic inclusion of population in south-east region; (b) attraction of investments with employment creation and stronger government presence; (c) facilitated cross-border trade in MRU member states; and (d) employment.

## STATISTICAL ISSUES

(As of October 16, 2013)

<b>I. Assessment of Data Adequacy for Surveillance</b>
<p><b>General:</b> Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the areas of national accounts, government finance, and balance of payments statistics.</p>
<p><b>National Accounts:</b> Comprehensive national accounts data are not available. Fund staff estimate GDP by activity using the production approach and primary source data provided by the Liberia Institute of Statistics and Geo-Information Services (LISGIS). Estimates for GDP by expenditure are not available. Liberia participates in the National Accounts Module of the UK Department for International Development supported Enhanced Data Dissemination Initiative (EDDI), which aims to strengthen annual national accounts, and to improve price statistics. During July–August, 2012 the LISGIS assisted by an STA mission conducted a second round of National Accounts Annual Survey (NAAS 2012) collecting information for the years 2010 and 2011. The World Bank has also appointed a consultant to guide the LISGIS in various aspects of the survey; it is expected that the survey results would become available by the end of June 2013. There are, however, challenges in estimating informal sector activities. The Household Income and Expenditure (HIES) Survey planned for 2014 will provide data from which such estimates may be developed. Through its technical assistance missions within the EDDI project, STA will continue to provide guidance on the use of existing and new source data to compile national accounts estimates and to build capacity in LISGIS to produce reliable national accounts statistics on an ongoing basis. With improved data sources (especially NAAS 2012 and HIES 2014), it is expected that reliable GDP estimates should be available by 2014.</p>
<p><b>Price Statistics:</b> In January 2007, the authorities formally adopted the Harmonized Consumer Price Index (HCPI). The HCPI is based on an expanded basket of goods and services consistent with the Economic Community of West African States (ECOWAS) harmonized market basket. The index reference base has also been changed from May 1998 =100 to December 2005=100. The HCPI covers only the Greater Monrovia and there is a need to extend the HCPI to include all the counties.</p>
<p><b>Government Finance Statistics:</b> The Ministry of Finance is in the process of phasing-in the <i>GFSM 2001</i> framework. There is still a number of areas where the government finance statistics need to be improved: lack of a legal framework to collect GFS; limited data sharing and coordination among data-producing agencies; inconsistent institutional coverage of the general government in other datasets (e.g., national accounts and monetary statistics); omission of some externally funded flows and nonmonetary transactions; missing data on stocks of other accounts payable and contingent liabilities; and incorrect reference exchange rate to convert data from Liberian dollars to U.S. dollars.</p>
<p><b>Monetary and Financial Statistics:</b> The Central Bank of Liberia (CBL) has made progress in adopting the statistical methodology recommended by the IMF's <i>Monetary and Financial Statistics Manual (MFSM)</i>. However, the reporting of monetary and financial statistics (MFS) has been suspended since September 2010. STA missions in March 2010 and August 2011 assisted authorities in advancing the introduction of standardized report forms (SRFs) and collecting data from commercial banks in accordance with the methodology in the <i>MFSM</i>. A follow up MFS mission in April 2013 provided further assistance to the authorities with their implementation of SRFs.</p>

**Financial sector surveillance:** Only basic market based indicators are available, and their coverage, valuation and timeliness vary across such indicators. Data are not sufficiently available to conduct stress tests of the banking system or Balance Sheet Approach analysis. Cross border exposure data for financial corporations are not available.

**External sector statistics:** Reporting is not comprehensive, and Fund staff prepares provisional balance of payments statistics for surveillance. Although some progress in collecting and reporting data has been made with STA support, most of the 2011 TA mission recommendations have not been implemented; several areas need improvement, particularly with regard to primary source data, methodology, compilation practices, and frequency and timeliness in data dissemination. In spite of some recent improvements in FDI and customs data, most of the coverage needs to be further improved, especially for: i) foreign direct investment, including direct investment in kind, that is likely to become significant as plans are underway for foreign companies to invest in mining activities; ii) technical assistance services, development aid, and compensation paid to locally employed workers of international organizations, which have a very large presence in Liberia; iii) banking sector transactions, as relevant monetary and financial statistics data are not used for balance of payments and there is a lack of financial account entries for the banking sector; and iv) other areas such as remittances, investment income, and the overall coverage of the financial account. A recent TA mission agreed with the authorities an action plan that consists on: 1) transmission of revised data by June–July 2013 that will include methodological reclassifications, flows for the banking sector, and inclusion of new data received in the last months; and 2) to compile by end of 2013, FDI data for 2012 based on a new FDI survey. However, as of end-September, 2013, data revisions have not yet been submitted to STA.

## II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since October 2005. Metadata for most data categories were updated in January 2013.

No Data Module of the Reports on the Observance of Standards and Codes (data ROSC) mission has been conducted.

## III. Reporting to STA

The authorities report for the related publications (*IFS, GFSY, and BOPSY*) annual balance of payments data and government finance statistics, the latter with a considerable lag (latest available data is 2008). The CBL agreed to start reporting the SRFs for the central bank, other depository corporations, and monetary aggregates by end-December 2011. However, no data in the format of SRFs have been received by STA. Instead, in June 2012, the CBL renewed reporting of monetary data in the old format. The latest available data are for June 2013. The authorities provide some financial soundness indicators (FSIs) to the IMF database; however, not all core FSIs are reported and the reported indicators are not timely.

Table of Common Indicators Required for Surveillance							
	Date of Latest Observation	Date Received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>	Memo Items: <sup>8</sup>	
						Data Quality – Methodological Soundness <sup>9</sup>	Data Quality – Accuracy and Reliability <sup>10</sup>
Exchange Rates	09/2013	14/10/2013	D	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	08/2013	27/09/2013	M	M	A		
Reserve/Base Money	08/2013	27/09/2013	M	M	A		
Broad Money	08/2013	27/09/2013	M	M	A		
Central Bank Balance Sheet	08/2013	27/09/2013	M	M	A		
Consolidated Balance Sheet of the Banking System	08/2013	27/09/2013	M	M	A		
Interest Rates <sup>2</sup>	08/2013	27/09/2013	M	M	A		
Consumer Price Index	08/2013	27/09/2013	M	M	A		
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	NA		
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	31/03/2013	29/04/2013	M	Q	I		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	31/03/2013	29/04/2013	Q	Q	I		
External Current Account Balance	31/03/2013	15/03/2013	A	A	A		
Exports and Imports of Goods and Services	08/2013	27/09/2013	M	M	A		
GDP/GNP	1992	NA	A	I	I		
Gross External Debt	31/03/2013	29/04/2013	Q	Q	Q		
International Investment Position <sup>6</sup>	NA	NA	NA	NA	NA		

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

<sup>8</sup> These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

<sup>9</sup> This reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

<sup>10</sup> Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.



# LIBERIA

November 26, 2013

## SECOND REVIEW OF THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF A PERFORMANCE CRITERION—DEBT SUSTAINABILITY ANALYSIS UPDATE<sup>1</sup>

Approved By  
**Abebe Aemro Selassie**  
and **Chris Lane (IMF);**  
**Jeffrey Lewis and**  
**Marcelo Giugale (IDA)**

The updated Debt Sustainability Analysis indicates that Liberia continues to have a low risk of debt distress. Although debt accumulation has accelerated during 2012–13, a more favorable growth outlook and application of a uniform 5 percent discount rate contribute to a slight improvement in the debt profile. The projected present value of the external debt stock would remain low and sustainable with all external debt indicators below the policy-related thresholds. Nonetheless, the faster debt accumulation in the context of the authorities' public investment program is bringing external borrowing close to the limits agreed under the ECF-supported arrangement.

---

<sup>1</sup> This document is the annual update of the analysis presented at the time of the current ECF request in November 2012 (IMF Country Report No. 12/340).



## KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO

1. **The Debt Sustainability Analysis update indicates that Liberia continues to have a low risk of debt distress.** Although recent external debt accumulation has been faster than initially envisaged, on balance the positive impact of a more favorable growth outlook and higher discount rate dominate to yield a slightly improved debt profile. Nominal external debt would rise to 15.4 percent of GDP in 2013–14, from 10.2 percent of GDP in 2011–12, and would peak at 33.1 percent of GDP by 2023. Public sector debt would rise from 11.8 percent of GDP in 2011–12 to 16.7 percent of GDP in 2013–14, peaking at 38.8 percent of GDP in 2023.

2. **The present update reflects a number of changes compared with the previous DSA.**

- **More favorable growth outlook.** The medium-term growth forecast has been revised upward, reflecting the expansion of the mining sector with a second major project coming on stream by end-2013 and gradually reaching its full potential by 2016; as well as the expected substantial increase in the public investment program. On average, real GDP growth has been revised upward by 1.5 percentage points over the next five years. The more favorable growth outlook improves Liberia's debt profile.

- **Higher discount rate.** The DSA has been updated using the new unified discount rate of five percent, which also contributes to a more favorable debt profile.<sup>2</sup>

- **Rapid accumulation of new borrowing.** After initial delays in securing external financing, debt accumulation has accelerated as Parliament recently ratified a number of loans, including US\$150 million from the World Bank for the regional West African Power Pool project. In addition, the government has reached agreement on a series of new external

loans, including a US\$144 million line of credit with India for transmission and distribution in the electricity sector. Accordingly, external borrowing is now projected to be larger than in the previous DSA by 17 percent on average for the entire projection period till 2033 and, provided signed agreements are all ratified, has already reached the limit envisaged for the duration of the ECF-supported program (Text Table 1).

**Text Table 1. Liberia: External Borrowing**  
(In millions of U.S. dollars, unless otherwise specified)

	FY2013–2015
Ratified Loan Agreements	292.2
Signed Agreements, Pending Ratification	221.6
Annual Average NPV/GDP (percent)	4.2

Source: Liberian authorities, and IMF staff calculations.

Note: The program sets the three-year average annual ceiling on public external borrowing to 4 percent of GDP, in NPV terms.

<sup>2</sup> On October 11, 2013, the Executive Boards of the IMF and the World Bank approved the reform of the discount rates resulting in a unique, unified 5 percent rate to be applied both to DSAs and to the calculation of the grant element ("Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries; IMF Policy Papers; www.imf.org).

- **A lower grant element for future loans.** Although a significant share of ratified loans was contracted on IDA terms (92 percent) in FY2013, Liberia has recently negotiated a few bilateral loans with relative low concessionality levels, including the loans from India and Kuwait. To reflect these developments, staff has revised the terms of projected new borrowing downwards from 60 percent to 47 percent.

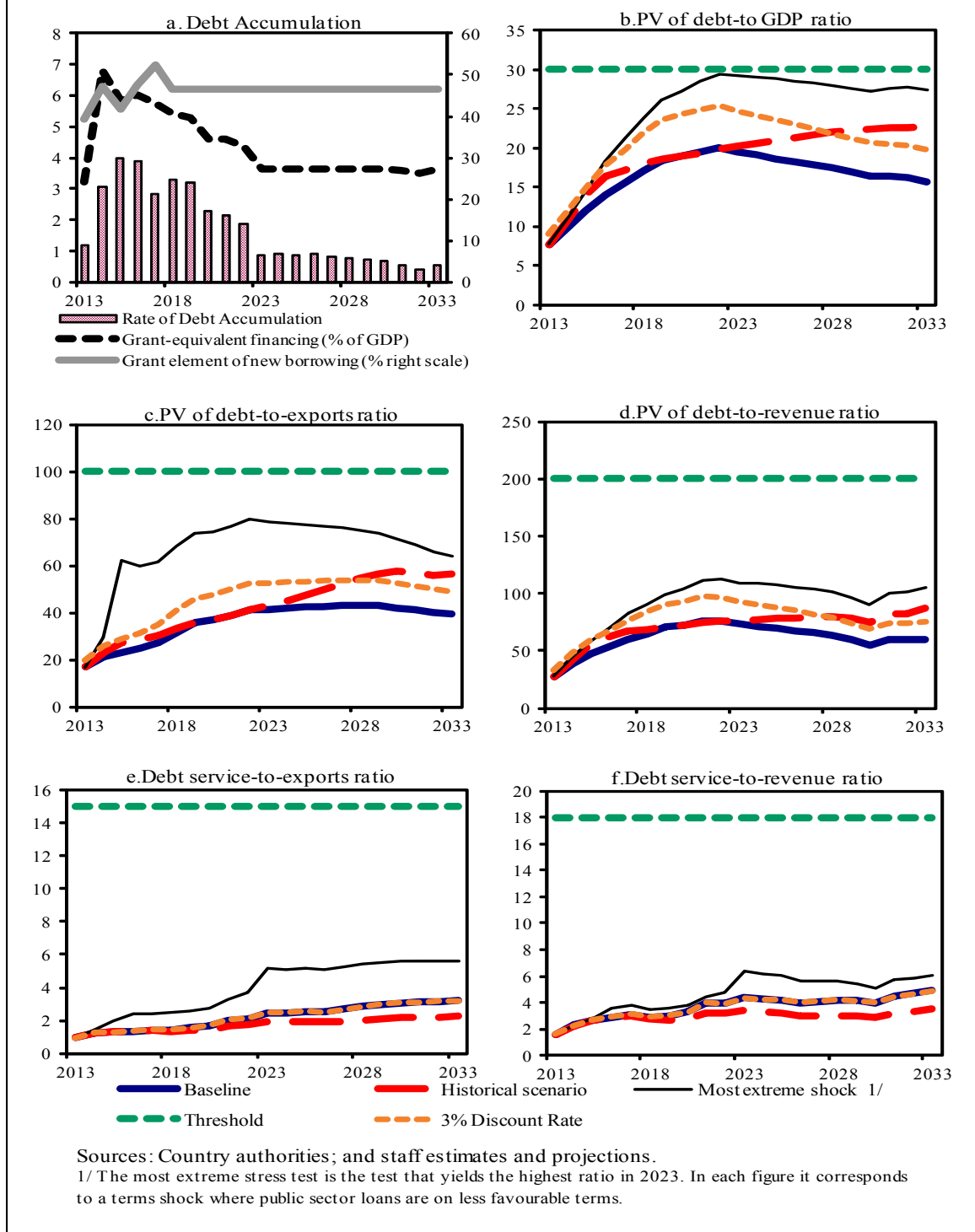
## PUBLIC AND EXTERNAL DEBT SUSTAINABILITY

3. **Both the external and public sector debt profiles are more favorable than in the previous DSA.** The effects of more positive growth outlook over the medium-term and the higher discount rate dominate the effects of higher level of borrowing assumed at the time of the ECF request. Overall the debt sustainability profile improves slightly compared with the last DSA. Liberia remains at low level of debt distress. (Tables 1 and 2 and Figures 1 and 2).
4. **Stress tests indicate that both external and public debt would remain sustainable, even under extreme scenarios** (Table 3 and figures 1 and 2). However, as in the previous DSA, public sector debt would be most sensitive to a negative growth shock. In the alternative scenario with less favorable financing terms, the PV of debt-to-GDP ratio is also close to the indicative target.

## CONCLUSION

5. **Although the updated DSA shows that Liberia's debt profile remains sustainable, recent loan agreements bring external debt close to the limits agreed under the ECF-supported arrangement.** The DSA assumes an annual average ceiling of new external public debt of 4 percent of GDP in net present value over the duration of the program to support the government's second poverty reduction strategy, the Agenda for Transformation. In particular, the government is actively seeking financing for strategic projects in energy and transportation sectors in order to address the main binding constraints to broad-based economic growth. However, the new borrowing in FY2013 (4.9 percent of GDP in NPV terms) has exceeded the ECF target (set at an annual average of 4 percent of GDP in NPV terms over FY2013–15). This highlights the need for the authorities to prioritize new financing for strategic projects and on highly concessional terms to ensure public debt remains sustainable, as well as to ensure that public investment is of high quality by strengthening project preparation, procurement, and monitoring.
6. **The authorities welcomed the DSA update and in particular the improved debt profile.** They noted that investment in strategic infrastructure projects will contribute to address Liberia's main binding constraints to broad-based growth in the coming years. Furthermore, some of the main projects have both high rates of economic and social returns and will not compromise the government's capacity to repay as they have embedded price recovery schemes in place, e.g., electricity.

**Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2013–33<sup>1</sup>**



**Table 1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2010–33<sup>1</sup>**  
(In percent of GDP, unless otherwise indicated)

	Actual			Historical <sup>6/</sup> Average	Standard <sup>6/</sup> Deviation	Projections						2013-2018		2019-2033	
	2010	2011	2012			2013	2014	2015	2016	2017	2018	Average	2023	2033	Average
<b>External debt (nominal) 1/</b>	<b>9.5</b>	<b>11.8</b>	<b>10.2</b>			<b>10.9</b>	<b>15.4</b>	<b>19.4</b>	<b>23.4</b>	<b>26.7</b>	<b>29.7</b>			<b>33.1</b>	<b>26.1</b>
o/w public and publicly guaranteed (PPG)	9.5	11.8	10.2			10.9	15.4	19.4	23.4	26.7	29.7			33.1	26.1
Change in external debt	-133.1	2.3	-1.6			0.7	4.5	4.0	4.1	3.3	3.0			-1.1	-0.7
Identified net debt-creating flows	-6.9	-2.1	-1.0			0.4	1.4	1.6	2.5	3.0	2.9			-0.5	-0.6
<b>Non-interest current account deficit</b>	<b>32.3</b>	<b>34.6</b>	<b>33.1</b>	<b>25.8</b>	<b>12.6</b>	<b>41.1</b>	<b>49.6</b>	<b>40.7</b>	<b>26.5</b>	<b>19.9</b>	<b>18.0</b>			<b>21.6</b>	<b>27.6</b>
Deficit in balance of goods and services	99.0	95.0	84.1			78.8	76.8	57.3	35.3	26.3	24.9			25.4	29.9
Exports	41.2	44.5	46.6			46.1	46.9	52.4	57.0	57.0	54.0			47.1	40.2
Imports	140.2	139.5	130.8			124.9	123.7	109.7	92.2	83.3	78.9			72.5	70.1
Net current transfers (negative = inflow)	-80.8	-73.1	-63.6	-97.7	43.9	-53.1	-44.7	-34.6	-27.1	-23.7	-21.4			-16.6	-12.2
o/w official	-28.6	-28.4	-26.8			-25.6	-24.6	-22.1	-19.9	-18.6	-17.4			-13.3	-9.7
Other current account flows (negative = net inflow)	14.1	12.7	12.6			15.5	17.6	18.0	18.4	17.3	14.5			12.7	9.9
<b>Net FDI (negative = inflow) 2/</b>	<b>-29.0</b>	<b>-35.5</b>	<b>-32.6</b>	<b>-23.8</b>	<b>10.6</b>	<b>-40.1</b>	<b>-47.7</b>	<b>-38.2</b>	<b>-23.0</b>	<b>-15.6</b>	<b>-13.3</b>			<b>-20.5</b>	<b>-27.0</b>
<b>Endogenous debt dynamics 3/</b>	<b>-10.3</b>	<b>-1.2</b>	<b>-1.5</b>			<b>-0.6</b>	<b>-0.6</b>	<b>-0.9</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-1.8</b>			<b>-1.5</b>	<b>-1.2</b>
Denominator: 1+g+r+gr	1.1	1.2	1.2			1.1	1.1	1.1	1.1	1.1	1.1			1.1	1.1
Contribution from nominal interest rate	0.0	0.1	0.1			0.1	0.1	0.2	0.2	0.3	0.3			0.4	0.3
Contribution from real GDP growth	-7.6	-0.6	-0.8			-0.7	-0.7	-1.0	-1.3	-1.6	-2.1			-1.9	-1.4
Contribution from price and exchange rate changes	-2.7	-0.7	-0.8			...	...	...	...	...	...			...	...
<b>Residual (3-4) 4/</b>	<b>-126.2</b>	<b>4.4</b>	<b>-0.5</b>			<b>0.3</b>	<b>3.1</b>	<b>2.4</b>	<b>1.6</b>	<b>0.3</b>	<b>0.1</b>			<b>-0.6</b>	<b>-0.1</b>
o/w exceptional financing	-9.0	-3.8	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
PV of external debt	...	...	7.3			7.7	9.9	12.1	14.1	15.5	17.2			19.5	15.7
In percent of exports	...	...	15.7			16.7	21.1	23.1	24.7	27.1	31.8			41.5	39.1
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>7.3</b>			<b>7.7</b>	<b>9.9</b>	<b>12.1</b>	<b>14.1</b>	<b>15.5</b>	<b>17.2</b>			<b>19.5</b>	<b>15.7</b>
In percent of exports	...	...	15.7			16.7	21.1	23.1	24.7	27.1	31.8			41.5	39.1
In percent of government revenues	...	...	27.8			27.9	39.0	47.6	53.7	60.1	65.1			73.0	60.0
<b>Debt service-to-exports ratio (in percent)</b>	<b>0.0</b>	<b>0.7</b>	<b>1.0</b>			<b>1.0</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>			<b>2.5</b>	<b>3.2</b>
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>0.0</b>	<b>0.7</b>	<b>1.0</b>			<b>1.0</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>			<b>2.5</b>	<b>3.2</b>
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>0.0</b>	<b>1.3</b>	<b>1.7</b>			<b>1.6</b>	<b>2.3</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>	<b>2.9</b>			<b>4.3</b>	<b>4.9</b>
Total gross financing need (Millions of U.S. dollars)	40.7	-8.4	15.2			27.1	51.8	72.4	114.7	147.3	174.7			103.9	160.5
Non-interest current account deficit that stabilizes debt ratio	165.5	32.3	34.7			40.5	45.1	36.7	22.5	16.6	15.0			22.6	28.3
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	5.7	7.0	8.1	5.0	7.7	8.2	7.4	7.7	7.9	7.3	8.6	7.9	5.8	5.7	5.9
GDP deflator in US dollar terms (change in percent)	1.9	8.1	7.0	7.5	3.2	4.1	2.9	5.4	5.8	2.2	1.0	3.6	1.2	1.1	1.1
Effective interest rate (percent) 5/	0.0	1.4	0.8	0.7	0.7	1.3	1.4	1.3	1.3	1.2	1.2	1.3	1.1	1.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	-7.8	24.9	21.4	17.7	16.1	11.4	12.4	26.7	24.1	9.7	4.0	14.7	3.8	5.7	5.0
Growth of imports of G&S (US dollar terms, in percent)	-10.2	15.1	8.4	43.1	78.2	7.6	9.4	0.7	-4.0	-1.0	3.9	2.8	6.7	5.1	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	39.3	47.1	41.9	47.4	52.2	46.7	45.8	46.7	46.7	46.7
Government revenues (excluding grants, in percent of GDP)	22.5	23.7	26.3			27.6	25.4	25.5	26.2	25.8	26.3			26.7	26.2
Aid flows (in Millions of US dollars) 7/	13.0	40.3	28.3			57.9	156.2	129.6	173.1	198.3	178.3			177.6	329.2
o/w Grants	13.0	40.3	28.3			45.7	83.7	72.5	71.7	78.6	86.3			129.8	240.7
o/w Concessional loans	0.0	0.0	0.0			12.2	72.6	57.1	101.4	119.7	92.0			47.8	88.5
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.2	6.8	5.9	6.0	5.7	5.4			3.7	3.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			73.7	69.1	60.8	62.2	67.5	63.7			77.4	77.4
<b>Memorandum items:</b>															
Nominal GDP (Millions of US dollars)	1221.5	1413.8	1635.8			1842.6	2035.7	2310.3	2637.3	2891.1	3173.5			4775.4	8852.9
Nominal dollar GDP growth	7.8	15.7	15.7			12.6	10.5	13.5	14.2	9.6	9.8	11.7	7.1	6.9	7.1
PV of PPG external debt (in Millions of US dollars)			119.4			138.5	195.4	276.5	366.2	441.3	537.0			917.4	1370.5
(Pvt-Pvt-1)/GDPT-1 (in percent)						1.2	3.1	4.0	3.9	2.8	3.3	3.0	0.9	0.6	1.2

Sources: Country authorities; and staff estimates and projections.

1/ Only includes public sector external debt due to lack of data availability of private debt. Fiscal year basis.

2/ Includes private financing flows, including for iron-ore related investment which was included in FDI in the previous DSA.

3/ Derived as  $[r - g - p(1+g)] / (1+g+p+gp)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $p$  = growth rate of GDP deflator in U.S. dollar terms.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are from 2004/05 to 2011/12 due to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

**Table 2. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33**  
(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	8	10	12	14	15	17	<b>20</b>	16
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	8	11	14	16	17	18	<b>20</b>	23
A2. New public sector loans on less favorable terms in 2013-2033 2	8	11	15	18	21	24	<b>29</b>	27
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	8	10	12	14	16	18	<b>20</b>	16
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	8	12	23	24	25	26	<b>26</b>	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	8	9	12	14	15	17	<b>19</b>	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	8	14	10	12	14	15	<b>18</b>	15
B5. Combination of B1-B4 using one-half standard deviation shocks	8	1	-11	-7	-4	-2	<b>5</b>	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	8	14	17	20	22	24	<b>27</b>	22
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	17	21	23	25	27	32	<b>41</b>	39
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	17	23	27	29	30	33	<b>43</b>	57
A2. New public sector loans on less favorable terms in 2013-2033 2	17	24	28	32	37	44	<b>62</b>	68
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	17	20	23	24	27	31	<b>41</b>	38
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	17	30	62	60	62	68	<b>79</b>	64
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	17	20	23	24	27	31	<b>41</b>	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	17	30	19	21	24	29	<b>38</b>	37
B5. Combination of B1-B4 using one-half standard deviation shocks	17	2	-24	-14	-9	-4	<b>13</b>	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	17	20	23	24	27	31	<b>41</b>	38
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	28	39	48	54	60	65	<b>73</b>	60
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	28	43	55	62	67	68	<b>76</b>	87
A2. New public sector loans on less favorable terms in 2013-2033 2	28	44	57	70	82	91	<b>109</b>	105
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	28	38	49	55	62	67	<b>75</b>	61
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	28	49	90	91	96	99	<b>98</b>	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	28	37	47	53	59	64	<b>72</b>	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	28	56	40	47	53	58	<b>67</b>	57
B5. Combination of B1-B4 using one-half standard deviation shocks	28	4	-41	-25	-17	-6	<b>19</b>	39
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	28	53	66	75	84	91	<b>101</b>	83

**Table 2. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33 (concluded)**  
(In percent)

	Projections							2033
	2013	2014	2015	2016	2017	2018	2023	
<b>Debt service-to-exports ratio</b>								
<b>Baseline</b>	1	1	1	1	1	1	2	3
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	1	1	1	1	1	1	2	2
A2. New public sector loans on less favorable terms in 2013-2033 2	1	1	1	2	2	2	3	5
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	1	1	1	1	1	1	2	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	1	1	2	2	2	2	5	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	1	1	1	1	1	1	2	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	1	1	1	1	1	1	2	3
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	1	1	1	0	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	1	1	1	1	1	1	2	3
<b>Debt service-to-revenue ratio</b>								
<b>Baseline</b>	2	2	3	3	3	3	4	5
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2013-2033 1/	2	2	3	3	3	3	3	4
A2. New public sector loans on less favorable terms in 2013-2033 2	2	2	3	3	4	4	6	8
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	3	3	3	3	5	5
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	2	3	4	4	4	6	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	3	3	3	3	4	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	2	3	3	3	3	4	5
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	1	2	2	0	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	3	4	4	4	4	6	7
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	45	45	45	45	45	45	45	45

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

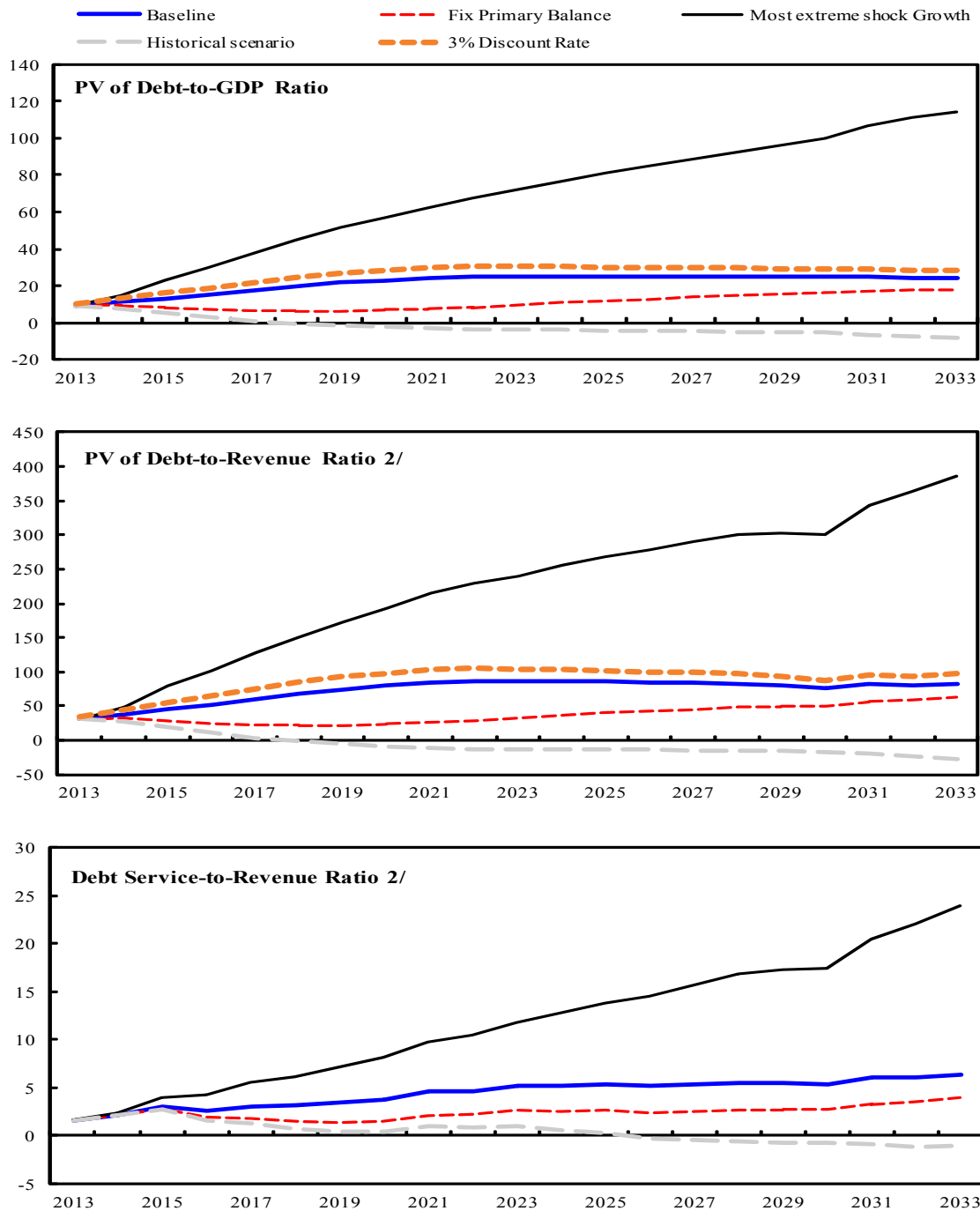
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

**Figure 2. Liberia: Indicators of Public under Alternative Scenarios, 2013–33<sup>1</sup>**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

**Table 3. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–33**  
(In percent of GDP, unless otherwise indicated)

	Actual			Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	Estimate			Projections					
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033
<b>Public sector debt 1/</b>	11.9	13.7	11.8			12.3	16.7	20.3	24.2	28.4	32.3		38.8	34.4
o/w foreign-currency denominated	11.9	13.7	11.8			12.3	16.7	20.3	24.2	27.4	30.4		33.6	26.3
Change in public sector debt	-133.4	1.8	-1.9			0.5	4.4	3.6	3.9	4.2	3.8		-0.5	-0.5
Identified debt-creating flows	-35.8	-113.6	1.5			0.5	2.6	2.9	3.0	3.5	2.7		-1.4	-0.7
Primary deficit	-0.5	0.4	3.3	-0.3	2.1	1.4	3.6	5.0	5.3	5.4	4.9	4.3	0.6	0.9
Revenue and grants	23.6	26.5	28.1			30.1	29.5	28.6	28.9	28.5	29.1		29.4	28.9
of which: grants	1.1	2.8	1.7			2.5	4.1	3.1	2.7	2.7	2.7		2.7	2.7
Primary (noninterest) expenditure	23.1	27.0	31.3			31.6	33.1	33.6	34.2	33.9	33.9		30.0	29.9
Automatic debt dynamics	-2.1	-1.7	-1.8			-1.0	-1.0	-2.1	-2.3	-1.8	-2.1		-2.0	-1.6
Contribution from interest rate/growth differential	-9.3	-0.8	-1.2			-0.9	-0.9	-1.3	-1.6	-1.8	-2.4		-2.3	-1.9
of which: contribution from average real interest rate	-1.5	-0.1	-0.1			0.0	0.0	-0.1	-0.1	-0.2	-0.1		-0.1	0.0
of which: contribution from real GDP growth	-7.9	-0.8	-1.0			-0.9	-0.9	-1.2	-1.5	-1.6	-2.3		-2.2	-1.9
Contribution from real exchange rate depreciation	7.3	-0.8	-0.6			0.0	-0.1	-0.8	-0.7	0.0	0.3		...	...
Other identified debt-creating flows	-33.3	-112.4	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	-33.3	-112.4	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	-97.5	115.4	-3.4			0.0	1.7	0.7	1.0	0.7	1.1		0.9	0.2
<b>Other Sustainability Indicators</b>														
<b>PV of public sector debt</b>	...	...	8.9			9.1	11.2	13.0	14.9	17.2	19.7		25.1	24.0
o/w foreign-currency denominated	...	...	8.9			9.1	11.2	13.0	14.9	16.2	17.8		19.9	16.0
o/w external	...	...	7.3			7.7	9.9	12.1	14.1	15.5	17.2		19.5	15.7
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	-0.3	0.9	3.8			1.9	4.2	5.8	6.1	6.3	5.8		2.1	2.8
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	31.8			30.3	37.8	45.5	51.4	60.4	67.8		85.4	83.0
PV of public sector debt-to-revenue ratio (in percent)	...	...	33.9			33.0	43.9	51.1	56.7	66.8	74.7		94.1	91.6
o/w external 3/	...	...	27.8			27.9	39.0	47.6	53.7	60.1	65.1		73.0	60.0
Debt service-to-revenue and grants ratio (in percent) 4/	0.9	1.6	1.8			1.6	2.1	3.1	2.6	3.1	3.1		5.2	6.4
Debt service-to-revenue ratio (in percent) 4/	1.0	1.8	1.9			1.8	2.5	3.4	2.9	3.4	3.4		5.7	7.1
Primary deficit that stabilizes the debt-to-GDP ratio	132.9	-1.4	5.2			1.0	-0.8	1.3	1.3	1.2	1.0		1.1	1.5
<b>Key macroeconomic and fiscal assumptions</b>														
Real GDP growth (in percent)	5.7	7.0	8.1	5.0	7.7	8.2	7.4	7.7	7.9	7.3	8.6	7.9	5.8	5.7
Average nominal interest rate on forex debt (in percent)	0.0	1.2	0.8	0.6	0.5	1.2	1.3	1.3	1.2	1.2	1.1	1.2	1.1	1.0
Average real interest rate on domestic debt (in percent)	3.0	-7.4	-5.2	-5.4	6.3	-6.0	...	...	...	...	11.0	2.5	4.1	3.6
Real exchange rate depreciation (in percent, + indicates depreciated)	5.4	-7.4	-5.1	-4.4	4.3	-0.1	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.4	11.4	8.2	9.9	4.2	7.3	9.2	10.4	8.6	5.0	3.9	7.4	4.4	4.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.2	0.3	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	39.3	47.1	41.9	47.4	52.2	46.7	45.8	46.7	46.7

Sources: Country authorities; and staff estimates and projections.

1/ The public sector comprises the central government, the Central Bank of Liberia (CBL), public enterprises and other official entities.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are derived over 2004/05 to 2009/10.



**Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt, 2013–33**  
(In percent of GDP, unless otherwise indicated)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	9	11	13	15	17	20	25	24
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	9	8	6	3	1	0	-4	-8
A2. Primary balance is unchanged from 2013	9	9	8	7	6	6	10	18
A3. Permanently lower GDP growth 1/	9	12	14	18	22	27	49	121
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	9	15	23	30	37	45	72	114
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	9	10	9	11	14	16	22	22
B3. Combination of B1-B2 using one half standard deviation shocks	9	9	8	14	19	25	45	71
B4. One-time 30 percent real depreciation in 2014	9	14	14	15	16	18	24	27
B5. 10 percent of GDP increase in other debt-creating flows in 2014	9	20	21	22	24	26	31	29
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	30	38	46	51	60	68	85	83
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	30	27	19	11	3	-1	-13	-27
A2. Primary balance is unchanged from 2013	30	31	29	24	22	22	32	63
A3. Permanently lower GDP growth 1/	30	40	50	61	76	91	165	404
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	30	49	79	102	129	151	240	387
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	30	33	31	38	48	56	76	75
B3. Combination of B1-B2 using one half standard deviation shocks	30	31	27	46	67	86	152	243
B4. One-time 30 percent real depreciation in 2014	30	47	50	51	57	62	81	93
B5. 10 percent of GDP increase in other debt-creating flows in 2014	30	68	73	77	85	91	104	99
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	2	2	3	3	3	3	5	6
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	2	2	3	2	1	1	1	-1
A2. Primary balance is unchanged from 2013	2	2	3	2	2	1	3	4
A3. Permanently lower GDP growth 1/	2	2	3	3	4	4	8	23
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	2	2	4	4	6	6	12	24
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	2	2	3	2	2	3	5	6
B3. Combination of B1-B2 using one half standard deviation shocks	2	2	3	2	3	4	8	15
B4. One-time 30 percent real depreciation in 2014	2	3	4	4	5	5	7	10
B5. 10 percent of GDP increase in other debt-creating flows in 2014	2	2	4	4	4	4	7	8

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

**Statement by the Staff Representative on Liberia**  
**Executive Board Meeting**  
**December 11, 2013**

1. This statement provides an update on recent developments in Liberia. It does not alter the thrust of the staff appraisal.
2. **Recent economic developments are favorable, although activity slowed down somewhat in July-September 2013.** Weak exports of forestry and rubber and the delayed budget approval contributed to sluggish demand. However, cement production remained strong, suggesting a pick-up in construction ahead of the dry season. Inflation reached 8.5 percent (y/y) in October, resulting from the pass-through of a 12 percent currency depreciation since end-2012. Credit grew steadily at around 20 percent on average from July to October (y/y), while nonperforming loans remained stable at about 19 percent of total loans.
3. **All three prior actions for the review have been met.** The FY2014 budget was signed into law on October 21, 2013 and the allotment schedule distributed on October 25. The largest line Ministries and agencies submitted full cash and procurement plans. Finally, the authorities identified, in consultation with Parliament, US\$30 million or 1½ percent of GDP in savings on current spending in the FY2014 budget so that the annual deficit target could be met. These savings were communicated by the Minister of Finance to all line Ministries and Agencies on November 22–25, along with revised cash plans.<sup>1</sup>
4. **Program performance is gradually improving.** Most end-September indicative targets have been met, though government revenue has underperformed and foreign reserves are being rebuilt, albeit at a slow pace (Table 1).
  - **Central government revenue fell short of the target by US\$15 million (0.7 percent of GDP), reflecting in part the delayed budget approval.** To address this shortfall, starting in December the authorities are reducing import duty exemptions on (i) repatriation of expatriates' personal property; (ii) used cars; (iii) NGOs and charitable organizations; and (iv) concession companies. In addition, a verification-based refund mechanism for duty-free imports of petroleum products will be introduced in January.
  - **Net foreign reserves were below the end-September indicative target by US\$22 million.** The pace of reserve accumulation has been slow but remains on track to meeting the end-December target. On the one hand, the exchange rate has stabilized somewhat since end-October, thus reducing the reliance on the foreign exchange auction. On the other hand, cooperation between the Ministry of Finance and the Central

---

<sup>1</sup> Half of the savings (US\$15 million) have already been realized: since approval of the FY2014 was delayed, monthly budget allocations remained at 1/12 of the FY2013 appropriation in July-September.

Bank on liquidity management is being enhanced, including through higher sales of U.S. dollars to the Central Bank, closer coordination on T-bill issuance to mop up excess liquidity, and an increase in the share of government revenue collected in Liberian dollars to match Liberian dollar spending.

5. **The pace of reform implementation has picked-up, with solid progress towards meeting the end-December structural benchmarks.** Two of the five benchmarks have already been met: a draft Petroleum law, in line with international best practices, has been submitted to Parliament in September, and the audit for the FY2012 budget has been completed. The remaining three benchmarks are on track to being completed in time: (i) the authorities have shared with staff a final draft of the medium-term debt strategy at end-November; (ii) the collateral registry is expected to be operational with core staff already recruited and office space identified; (iii) and daily sweeping of government accounts should begin as planned at end-December, following successful monthly sweeps since August 2013.

**Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, 2012–13**

(Millions of US dollars, unless otherwise indicated)

	Dec. 12		Status	Mar. 13		June 13		Status	Sep. 13		Dec. 13	
	Program	Actual		Program	Actual	Program	Actual		Program	Prel.	Program	Revised
<b>Performance criteria</b> <sup>1,2</sup>												
Floor on total revenue collection of the central government <sup>3</sup>	203.0	214.5	Met	325.7	324.9	447.5	446.1	Not met	120.3	105.0	230.3	230.3
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis) <sup>4,10</sup>	0.0	0.0	Met	0.0	0.0	14.2	0.0	Met	14.2	0.0	14.2	14.2
Ceiling on new domestic borrowing of the central government <sup>5</sup>	15.0	0.0	Met	15.0	0.0	15.0	5.0	Met	15.0	5.0	20.0	30.0
Floor on CBL's net foreign exchange position <sup>6,7</sup>	210.0	216.3	Met	207.0	212.3	232.0	217.9	Not met	232.0	210.5	237.0	237.0
Ceiling on CBL's gross direct credit to central government <sup>7</sup>	290.0	293.3	Not met	290.0	293.4	268.9	270.3	Not met	268.9	268.4	268.9	264.9
<b>Indicative Targets</b>												
Ceiling on gross external borrowing by the public sector <sup>8</sup>	126.7	0.0	Met	126.7	144.5	118.2	226.3	Not met	118.2	65.9	118.2	118.2
Ceiling on net domestic assets of the CBL <sup>6,7</sup>	-10.0	-47.6	Met	-19.0	-12.6	-17.0	-21.5	Met	-17.0	-13.4	-17.0	-17.0
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies) <sup>9</sup>	30.0	30.6	Met	30.0	27.6	30.0	25.5	Not met	30.0	32.0	30.0	30.0
Memorandum items:												
Memorandum item: Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	...	...	...	...	...	...	...	...	...	32.0	...	25.0
Memorandum item: Programmed receipt of external budget support grants and committed external loans <sup>2</sup>	4.4	15.0	...	...	30.9	33.5	45.7	...	12.6	2.4	53.3	53.3
Memorandum item: Overall fiscal balance <sup>2</sup>	...	...	...	...	...	...	...	...	...	...	...	...

<sup>1</sup> Test dates for performance criteria at end-December 2012, end-June 2013, end-December 2013, and end-June 2014, otherwise indicative targets.

<sup>2</sup> Fiscal targets are cumulative within each fiscal year (July 1-June 30).

<sup>3</sup> Total central government revenue collection includes all tax and non-tax receipt but excludes all contingent revenues and budget support grants.

<sup>4</sup> Nonconcessional financing will be adjusted by amount of agreed nonconcessional borrowing tied to projects independently evaluated as of high economic return.

<sup>5</sup> Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market.

<sup>6</sup> Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchange rate of 1 SDR=1.5844 US dollar.

<sup>7</sup> Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing up to a maximum of US\$20 million. In this event, floors will adjust downwards and ceilings adjust upwards by the extent this financing is utilized, up to a maximum of US\$20 million.

<sup>8</sup> Three-year average annual ceiling in NPV terms. Revised amount reflects the annual average for the remaining two years of the program given the space not used up to June 2013.

<sup>9</sup> Includes spending on education, health care, social development services, and energy.

<sup>10</sup> The modification of this PC was requested to include US \$14.2 million loan which was signed between the authorities and the Kuwaiti Development Fund for the rehabilitation of Port Greenville. At the time of the First Review the loan did not come into effect. The grant element of the loan is 34 percent (1 percent below the concessionality threshold).



INTERNATIONAL MONETARY FUND



Press Release No. 13/499  
FOR IMMEDIATE RELEASE  
December 11, 2013

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Concludes the Second Review under the Extended Credit Facility Arrangement with Liberia**

The Executive Board of the International Monetary Fund (IMF) today completed the second review under the three-year arrangement under the Extended Credit Facility (ECF) for Liberia. The completion of the review enables the disbursement of an amount equivalent to SDR 7.382 million (about US\$11.4 million), bringing the total disbursements under the arrangement to SDR 22.146 million (about US\$34.2 million). In completing the review, the Board approved the waiver for the nonobservance of the performance criteria on the floor on revenue collection of the central government, the ceiling on Central Bank of Liberia's gross direct credit to the government, and the floor on foreign reserves of the CBL. The Board also approved the authorities' requests for modification of end-December 2013 and end-June 2014 performance criterion on the ceiling on new domestic borrowing of the central government.

The ECF arrangement for Liberia for the equivalent of SDR 51.68 million (about US\$79.7 million) was approved by the IMF's Executive Board on November 19, 2012 (see [Press Release No. 12/449](#)).

Following the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Liberia's economic growth remains strong and the medium-term outlook is positive, provided new projects in the mining and plantation sectors come on stream. Non-resource real GDP growth is expected to continue to pick up in 2014–15, as the authorities continue to press ahead with the implementation of large energy and road infrastructure projects, in line with their Agenda for Transformation.

"While the authorities remain fully committed to reforms underpinned by the ECF arrangement, institutional and capacity constraints have affected recent program performance. Deviations on government revenue and domestic financing were minor, but foreign reserves fell below the program floor reflecting in part higher intervention in the foreign exchange market to mitigate depreciation pressures. The authorities are taking appropriate action to rebuild an adequate reserves buffer, including by strengthening the foreign exchange auction and enhancing liquidity management.

"Action is being taken to strengthen budget execution while scaling up public investment. The authorities have identified savings in the FY2014 budget to be able to meet their deficit target

while protecting capital spending. They are also enhancing cash management, including through establishing a Treasury Single Account. Timely approval of annual budgets, together with careful prioritization and preparation of investment projects, would help remove implementation bottlenecks.

“Financial sector reforms will continue to focus on addressing high credit risks and strengthening the legal and institutional environment to promote intermediation. Enhancing the credit reference system and establishing the collateral registry would directly help reduce credit risk. Other credit initiatives should be market-based, efficient, and recognized as fiscal initiatives financed by the government or donors.

“In light of the recent rapid debt accumulation and large remaining external financing needs, maintaining debt sustainability will require adhering to sound debt management principles, enshrined in the new medium-term debt strategy.”

**Statement by Momodou Bamba Saho, Executive Director for Liberia**  
**December 11, 2013**

**Introduction**

The Liberian authorities are appreciative of the Fund's continuous engagement and value the support under the Extended Credit Facility (ECF) arrangement. They also appreciate the extensive exchange of views with staff during discussions for the second review of the ECF arrangement. The authorities broadly agree with the views outlined in the staff report.

**Program performance**

The Liberian authorities remain committed to pursuing prudent macroeconomic and structural policies within the context of the Fund program. However, end-June 2013 program performance weakened relative to the last review and the earlier Fund supported ECF arrangements because of capacity constraints and challenges in inter-institutional coordination. The authorities met three out of six performance criteria (PC) and two out of the four indicative targets. The floor on revenue collection of the central government (core revenue) was missed by a small margin (US\$1.4 million), due to lower-than-projected taxes on international trade, mineral royalties, and agricultural and forestry revenue. The PC on the floor on international reserves of the central bank was missed by US\$14.0 million reflecting in part larger sales of U.S. dollars to mitigate exchange rate pressures. The PC on gross central bank financing of government was also missed by US\$1.4 million, owing to a temporary overdraft on one of the government accounts at the central bank.

My authorities have taken appropriate policy actions in order to restore compliance with these targets. The overdraft with the central bank was repaid in July 2013 and the authorities are committed to strengthen treasury management and protect priority spending should revenue shortfalls occur in the future. The central bank is committed to rebuilding an adequate reserve buffer of about three months of imports by reducing foreign exchange auction sizes and refraining from launching new U.S. dollar credit schemes while at the same time transferring to reserves repayments from existing placements at maturity.

On the basis of the above corrective actions and the strength of the authorities' future policy commitments, they request waivers for the three missed PCs. The authorities also ask for the completion of the second review of the ECF. The government of Liberia also seeks the Board's approval of their request for modifications of the end-December 2013 and end-June 2014 PCs on the ceiling on new domestic borrowing of the central government.

**Recent economic developments**

The prudent implementation of the authorities' economic strategy has resulted in an impressive improvement in the country's economic and financial performance in recent years, thus laying the foundation for a sustainable expansion in output. As a result, real GDP growth averaged 7.4 percent between 2010 and 2012 while annual change in consumer prices averaged 8.6 percent. Inflation reached 8.5 percent in October 2013 largely due to higher-than-expected international and domestic food prices and the pass-through of the recent depreciation of the domestic currency. To contain inflationary pressures, the Central Bank of Liberia (CBL) tightened monetary policy by introducing in

July 2013 CBL securities to absorb the excess liquidity in the system. Growth in 2013 is estimated at 8.1 percent driven by stronger than anticipated iron-ore production and the expansion in public and private investment in the first half of 2013.

The overall fiscal deficit including grants for FY2013 was broadly in line with the targets set in the program, although off-budget project execution was below the amounts envisaged. On the external front, the trade and current account balances are projected to widen in 2013 relative to 2011 and 2012 as public investment is being increased. The country's gross international reserves at end-June 2013 declined to 2.7 months of import cover, lower than the 3 months targeted under the program due largely to the central bank's increased intervention in the foreign exchange market.

### **Medium-term outlook and policies**

The authorities' medium-term macroeconomic policies will be anchored on the Agenda for Transformation. In this context, investment in infrastructure and institutions, improved delivery of basic social services and greater employment opportunities especially for the youth will form the centerpiece of this strategy. An immediate policy focus of the authorities is the expansion of electricity generation in order to support manufacturing industries and promote private sector development with a view to sustain growth. Against this backdrop, GDP growth in 2014 has been revised upwards to 6.8 percent (from 5.4 percent at the time of the first review) but is expected to rise to 8.6 percent in 2015. The better outlook reflects stronger activity in the mining and non-mining sectors. The medium-term outlook envisages low single digit inflation, declining from 8.5 percent in 2013 to 5.4 percent in 2016. With the pressure on the exchange rate subsiding, the country is expected to maintain gross international reserves at 3 months of import cover in 2016 and beyond.

### **Fiscal policy**

My authorities are committed to maintaining fiscal sustainability over the medium term by pursuing prudent fiscal management, while creating fiscal space to support their development priorities. Accordingly, they will intensify domestic revenue mobilization and scale back costly and poorly-targeted recurrent spending and subsidy programs in the budget in order to safeguard critical investment programs.

The ministry of finance will improve its revenue collection through a number of measures intended to improve tax administration efficiency. In addition, the formation of the Liberia Revenue Authority and the introduction of VAT next year, coupled with the introduction of a progressive tax regime in real estate, will further enhance revenue mobilization and broaden the tax base. The authorities are also taking some aggressive measures on closing loopholes in revenue collections by reducing duty exemptions on used cars, repatriation of expatriates' personal property, NGOs and charitable organizations, and concession companies.

On the expenditure front, the government remains committed to the fiscal rules introduced last fiscal year and they plan to work with the legislature to ensure they can be adhered to in order to create the much needed fiscal space for capital spending. Also, to ensure that budget implementation is in line with these policy commitments, they will strengthen liquidity management and move towards a single treasury account. The authorities, in collaboration with the legislature have identified US\$30 million or 1.5 percent of GDP in savings on current spending in the FY2014 budget in order to



meet the annual deficit target. Finally, to avoid budget overruns, my authorities will not disburse any funds related to the contingent revenues provided for in the budget by the legislature until the revenues materialize. However, if the contingent revenues materialize within the fiscal year, a supplementary budget will be forwarded to the legislature for approval.

### **Monetary and exchange rate policies**

The focus of monetary policy will be to contain inflation in the low single digits and maintain exchange rate stability. To this end, the central bank's monetary policy framework is being revised to enhance the potency of monetary instruments in sterilizing domestic liquidity, and to promote development of the interbank market. Central bank securities will be actively used to manage liquidity with the interest rate serving as a signaling tool in transmitting the monetary policy stance. To mop up excess liquidity, the CBL and ministry of finance will closely collaborate on treasury bills issuance.

The Liberian dollar has been under pressure in recent months. This has resulted to acceleration in consumer prices. To mitigate the exchange rate pressure, the ministry of finance will increase its sale of U.S. dollars to the CBL in order to boost the bank's foreign exchange reserves. In addition, the authorities have given all tax payers the option to pay their taxes in Liberian dollar at the exchange rate announced and published by the CBL on the day of the transaction. Similarly, importers of petroleum products have the option to pay the sales tax portion of their taxes in Liberian dollars. This action will ensure that tax payers do not buy U.S. dollars for the purpose of paying their taxes. In the medium term, interventions in the foreign exchange market through the weekly foreign exchange auctions would be limited to smoothing excessive exchange rate fluctuations.

### **Financial sector policy**

Despite continued pressure on commercial banks' operational and funding costs which eroded their profitability, the banking system continues to show signs of resilience evidenced by the growth in assets, capital and reserves. The average risk-weighted capital adequacy ratio remains well above the statutory requirement. Also, nonperforming loans declined from 25 percent at end-2012 to 19 percent at end-October 2013.

The CBL introduced strong measures to address the problem of delinquent loans, including publishing the names of delinquent borrowers in local newspapers, barring them from the use of the banking system, and foreclosing their properties based on rulings by the commercial court. The establishment of a commercial court has also brought some relief to the financial system, especially in fast-tracking the hearing of cases. The CBL is also making efforts to enhance its credit reference system which has been helpful in identifying delinquent borrowers.

As part of its efforts to strengthen the risk-based supervision framework, the CBL began the process of developing a stress testing framework during 2012. This framework will enable the CBL to be proactive in responding to potential systemic problem in the banking sector on a timely basis. Finally, the CBL continues to strengthen capacity at the supervision department both through maintaining adequate staffing levels and training.

**Debt management policy**

Improved public debt management remains a priority to the authorities to maintain external stability and expand fiscal space to invest in electricity, roads, ports and agriculture. The authorities' new Medium Term Debt Management Strategy (MTDS) will guide the government in its borrowing. The MTDS will take a comprehensive view of the debt and fiscal risks including coverage of SOE guarantees and other government guarantees to banks or contingent claims. All such guarantees or claims will pass through the Debt Management Committee. In the mean time, all efforts will be made to ensure that loans contracted are concessional. Non-concessional loans will be limited to critical investments in infrastructure projects that will have a knock-on effect of aiding economic growth and employment creation. Also, the authorities are committed to building the institutional and professional capacity of the Debt Management Unit at the Ministry of Finance.

**Conclusion**

The rapid response of my authorities in instituting appropriate corrective policy measures to address the program slippages underscore their commitment to the implementation of the ECF program. They remain committed to pursuing sound macroeconomic policies and undertaking structural reforms with a view to sustaining growth at high levels over the medium and long-term. Given the positive growth outlook, the authorities are determined that these prospects are translated to strong economic growth, wealth creation and improvement in the living standards of all Liberians.

Liberia endured years of conflict, which damaged infrastructure and institutions, human capital, agriculture, and hampered economic growth. Since 2005, the authorities focus was mainly on national reconciliation, building of institutions and maintaining the peace. Going forward, the government's development strategy, the Agenda for Transformation, focuses on pursuing inclusive growth and job creation by developing infrastructure, human resource capacity and cementing peace and stability. To this end, there is need to scale up public investment in electricity generation, building of road networks and ports as well as develop agriculture. It is this context that my Liberian authorities would welcome Executive Directors' consideration for a possible increase in the program's limit on new non-concessional borrowing.

My authorities appreciate the support from the IMF and the international community and count on the continuation of such support to realize their development goals.