

**FOR
AGENDA**

EBS/10/112

June 8, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Liberia—Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Modification of Performance Criteria, and Financing Assurances Review**

Attached for consideration by the Executive Directors is a paper on the fourth review under the three-year arrangement for Liberia under the Extended Credit Facility, Liberia's request for a modification of performance criteria, and the financing assurances review. A draft decision appears on pages 18–20. This paper, together with the completion point document for Liberia under the enhanced Initiative for Heavily Indebted Poor Countries (to be issued), is tentatively scheduled for discussion on **Wednesday, June 23, 2010**. Unless an objection from the authorities of Liberia is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Lane (ext. 39852), Mr. Oestreicher (ext. 37493), and Mr. Yoon (ext. 36997) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank and the European Commission, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

LIBERIA

Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Modification of Performance Criteria, and Financing Assurances Review

Prepared by African Department
(In consultation with other departments)

Approved by Seán Nolan and Dhaneshwar Ghura

June 7, 2010

- Messrs. Lane (head), Oestreicher, Yoon, and Ms. Nnaji (all AFR), Mr. Cipollone (SPR), Mr. Hughes (STA), and Mr. Sobolev (Resident Representative) conducted discussions for the fourth review of the ECF arrangement in Monrovia during April 5–19, 2010. Mr. Saidu (OED), Mr. Selassie (African Development Bank), and Mr. Graham (World Bank) joined the discussions.
- The mission met Minister of Finance Ngafuan, other senior government officials, Central Bank Executive Governor Mills Jones, representatives of the private sector, and development partners, and briefed President Johnson-Sirleaf.
- The third review of the ECF arrangement was concluded on December 18, 2009. Outstanding purchases and loans total Special Drawing Rights (SDR) 568 million (440.0 percent of quota) at end-May 2010. SDR 4.44 million (3.4 percent of quota) becomes available upon completion of the fourth review. Additional interim assistance under the HIPC initiative was approved in the amount of SDR 4.2 million for March 18, 2010–March 17, 2011.
- All performance criteria and structural benchmarks under the program through March 2010 were met.
- The HIPC Initiative completion point is scheduled for Board consideration alongside the fourth review of the ECF arrangement.
- The authorities' letter of intent, supplementary memorandum of economic and financial policies, and technical memorandum are in Attachment I.

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Abbreviations and Acronyms

ADB	African Development Bank
ASYCUDA	Automated System for Customs Data
BGA	Bureau of General Accounting
CBL	Central Bank of Liberia
DMC	Debt management committee
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
FDI	Foreign direct investment
GAC	General Auditing Commission
GDP	Gross domestic product
GoL	Government of Liberia
HIPC	Highly indebted poor countries
IFMIS	Integrated financial management information system
IFRS	International financial reporting standards
IMF	International Monetary Fund
IPD	Import permit declarations
ITAS	Integrated tax administration software
LISGIS	Liberia Institute of Statistics and Geo-Information Services
LRC	Liberian revenue code
MEFP	Memorandum of Economic and Financial Policies
NDA	Net domestic assets
NPV	Net present value
ODA	Overseas development assistance
OECD	Organization of Economic Cooperation and Development
PC	Performance criterion
PFM	Public financial management
PRS	Poverty Reduction Strategy
SDR	Special Drawing Rights
SITC	Standard international trade classification
TMU	Technical Memorandum of Understanding
UN	United Nations
WAMZ	West African Monetary Zone

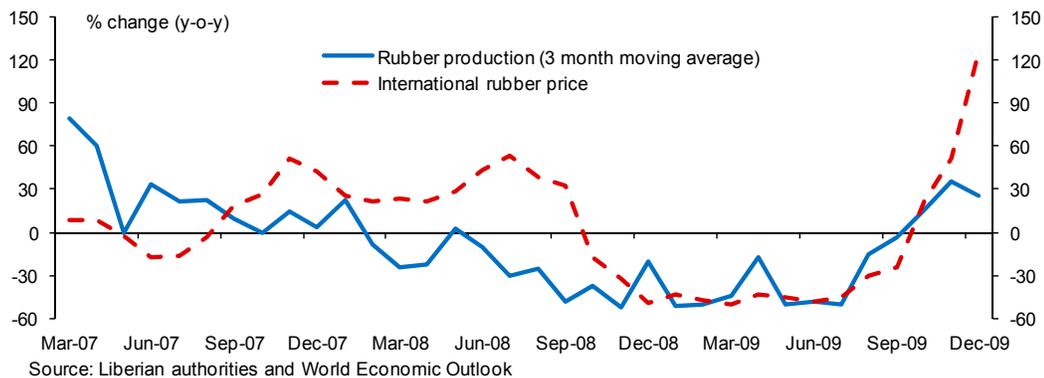
I. SUMMARY AND STAFF APPRAISAL

1. **Summary.** The quantitative program through end-2009 remains on track. Structural reform implementation through April 2010, including actions required for the heavily indebted poor countries (HIPC) completion point, has accelerated, notably in the areas of public financial management (PFM), debt management, and tax administration. Against a backdrop of strengthening commodity prices and foreign direct investment, economic growth is poised for recovery in 2010. The draft FY2011 budget (July 2010–June 2011) submitted to the Legislature supports implementation of the Poverty Reduction Strategy (PRS) and does not envisage any new borrowing. After the completion point, the authorities will likely seek concessional financing consistent with their prudent debt management strategy and the modified program fiscal framework. Additional reforms in tax and customs administration, financial oversight of state enterprises, and national accounts statistics have been added to the program.
2. **Staff welcome the continued good performance under the Extended Credit Facility (ECF) arrangement.** The authorities effectively adjusted to shortfalls in revenues against program estimates and pressures on the exchange rate from adverse balance of payments developments. Notably, the balanced cash-based budget objective was achieved and foreign exchange reserves improved.
3. **The authorities have significantly advanced implementation of their economic reform agenda.** All benchmarks under the program through end-March 2010 were met, including strengthening debt management, national accounts statistics, and fiscal accounting; restarting tax audits; and modernizing customs processing. In parallel, required actions for the HIPC completion point have been implemented, including audits of key ministries, continued implementation of the PFM law, and the elimination of discretionary tax incentives.
4. **Staff support the authorities' macroeconomic objectives for the remainder of the program.** The FY2011 budget submitted to the Legislature envisages prudent levels of revenue and expenditure, remains focused on PRS objectives, and has an appropriately cautious approach to domestic and external financing consistent with maintaining low vulnerabilities. Staff support the proposed program modifications to reflect the shift away from a “zero borrowing” policy following the achievement of the HIPC completion point.
5. **The authorities maintain a suitably ambitious program of structural reforms.** The planned launch of a treasury bill market would be a milestone for development of the financial sector and would provide a useful budget cash management tool. Other reforms envisaged correctly target further strengthening of PFM and tax administration.
6. Staff recommends completion of the fourth review under the ECF arrangement and the financing assurances review, and supports the fifth disbursement under the ECF arrangement on the basis of the significant progress achieved to date and the authorities' demonstrated commitment to achieving the key objectives of the program.

II. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

7. **Political pressure for faster delivery of tangible economic results has mounted against a backdrop of slower-than-expected economic growth, job losses in some sectors, and delays in infrastructure provision.** The security situation is generally stable, though fragile, and a sizeable United Nations (UN) peacekeeping force remains. The presidential elections scheduled for November 2011 are widely seen as a pivotal event in Liberia's post-conflict reconstruction.

8. **Macroeconomic performance weakened in 2009 owing to the global recession, but tentative signs of a turnaround have emerged** (Figure 1a–1b, Table 1). Economic growth slowed in 2009 as global demand for rubber—Liberia's principal export—fell, and delays in the start-up of mining and logging production lengthened. However, some early signs of recovery, notably rubber production, are evident.

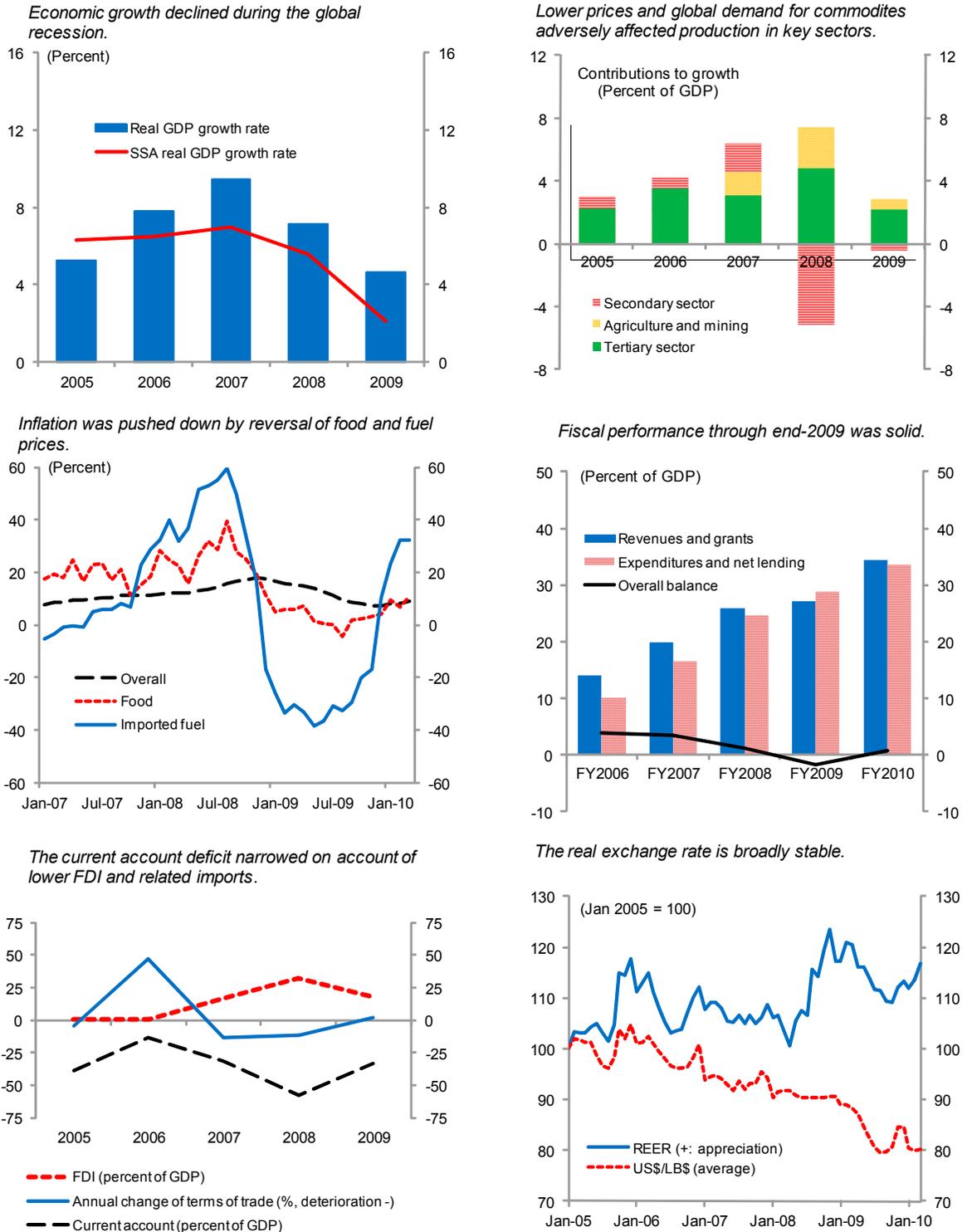


9. **Inflation remains on a downward trend.** Exchange rate depreciation boosted traded goods inflation slightly in early 2010, but these pressures were partly offset by lower imported fuel and domestic food prices. Inflation rose to 9 percent in April, but was significantly lower when measured in US dollars. Staff attributes the pressure on the exchange rate to a weakening of autonomous foreign exchange inflows, mainly exports, private capital and remittances.

10. **The external reserve position improved** (Table 2 and 3). The current account strengthened in 2009 as a result of reduced foreign direct investment (FDI)-financed imports while net official international reserves increased. Reserve cover rose to 3.2 months of imports¹ despite a modest increase in Central Bank of Liberia (CBL) intervention in the foreign currency market to dampen increased exchange rate volatility.

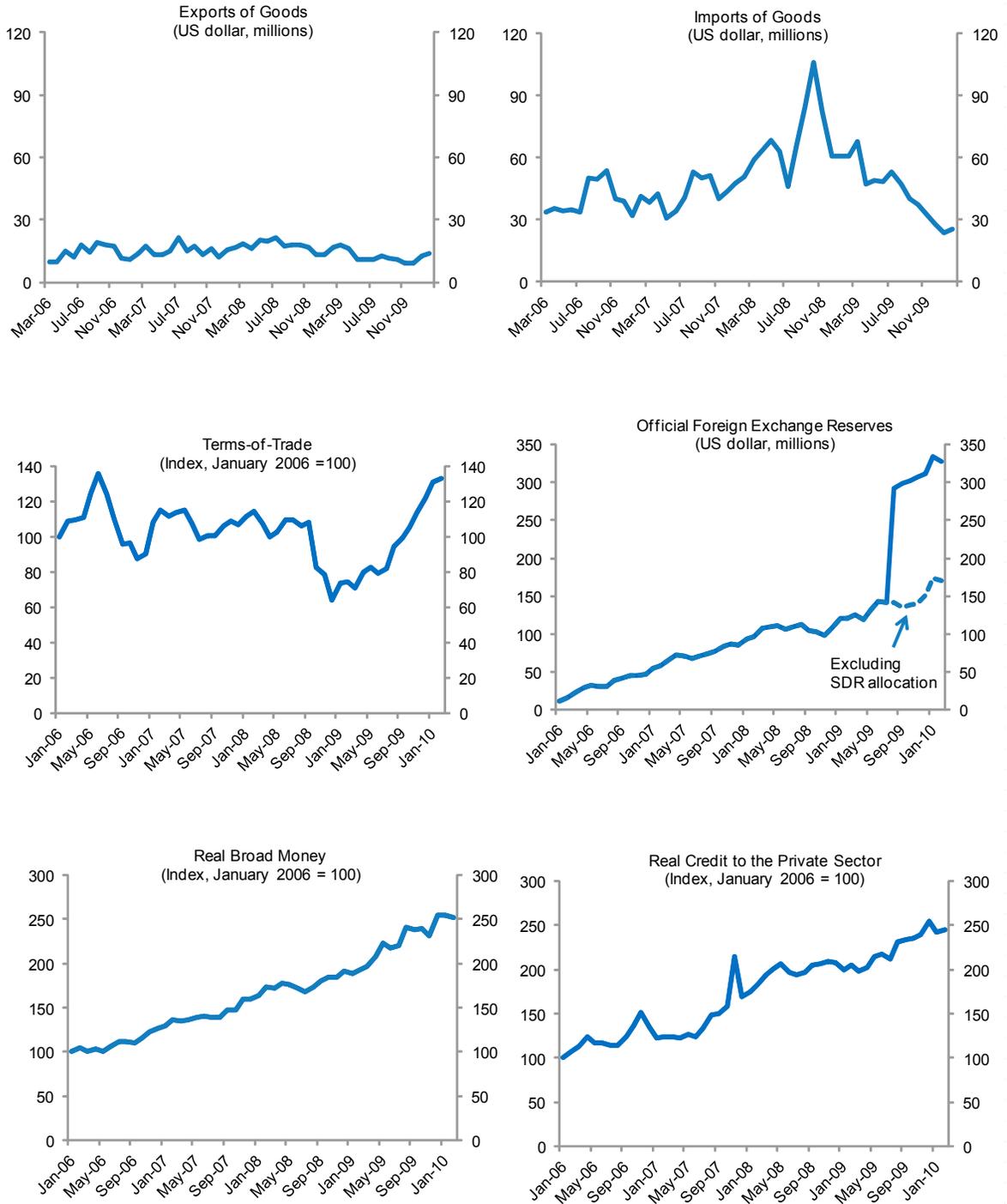
¹ The program definition of reserves excludes government US dollar deposits at the central bank, given that those holdings are needed for transaction purposes in a highly dollarized economy. Reserve import coverage is measured excluding imputed UN military services imports.

Figure 1a. Liberia: Recent Economic Developments, 2005–09
(12 month percent change, unless indicated otherwise)



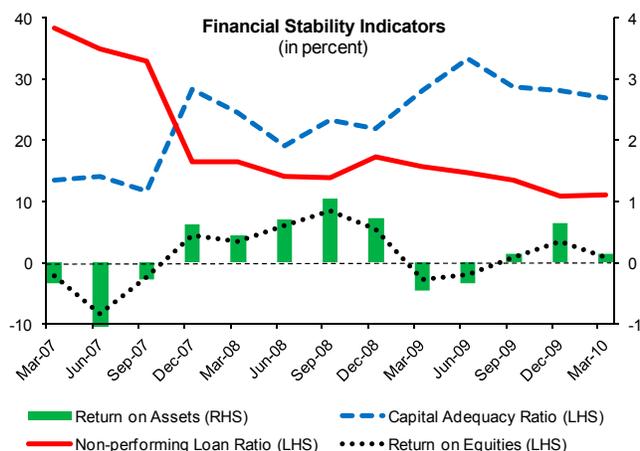
Sources: Liberian authorities; and IMF staff estimates and projections.

Figure 1b. Liberia: Recent Economic Developments



Sources: Liberian authorities; and IMF staff estimates and projections.

11. **Banking sector capitalization improved, though profitability remains low.** An increase of banks' required minimum capital was fully observed by February 2010, and the share of non-performing loans in bank portfolios declined. However, the limited number of well qualified borrowers, intensified competition from several new banks, and high levels of excess liquidity resulted in barely positive returns on assets for the banking system as a whole.



12. **Performance against the quantitative program has been strong** (Attachment I, Table 1). All performance criteria for December 2009 were met: the CBL exceeded the net foreign exchange position floor by a comfortable margin and continued its balanced budget policy; the central government achieved its adjusted total revenue floor, contracted no new external or domestic borrowing, accrued no new arrears, and met its indicative target on the share of PRS spending in total revenue.

13. **FY2010 budget execution is broadly on track despite resource shortfalls** (Tables 4a–4b). A projected shortfall in revenue and grants—due to delays in a mineral concession payment and a budget support grant—was limited by postponing scheduled income tax decreases to FY2011. The remaining gap (2 percent of GDP) was filled mainly by spending cuts targeted to protect PRS objectives.

Liberia: Summary of Central Government Operations (Cash Basis), FY2010

	3rd Review	IMF Proj.	Difference	
	US\$ million	US\$ million	US\$ million	Percent of GDP
Total revenue and grants	309.3	290.9	-18.5	-2.0
Total revenue	283.8	277.9	-6.0	-0.7
Tax revenue	188.6	204.3	15.7	1.7
Taxes on income and profit	51.7	68.1	16.4	1.8
Non-tax revenue	95.2	73.5	-21.7	-2.4
One time mineral payments	40.0	20.1	-19.9	-2.2
Community Development Funds	17.0	12.4	-4.6	-0.5
Grants	25.5	13.0	-12.5	-1.4
Total expenditure	301.0	287.6	-13.4	-1.5
Overall balance (including grants)	8.3	3.2	-5.1	-0.6

Source: Liberian authorities and IMF staff estimates.

14. Implementation of structural reforms under the program has accelerated.

Progress is particularly evident in PFM (Box 1) and tax administration. All other structural benchmarks through March 2010 have been met, while an end-April benchmark on reporting PFM reforms progress has faced minor delays.

Box 1: Public Financial Management Reforms

- **A comprehensive legal framework has been established:** The PFM law was passed in August 2009 and is being implemented on the basis of published regulations. The new law has governed the FY2011 budget preparation, including an analytical budget framework paper.
- **Transparency has increased:** Successive external audits of key government ministries were completed and published; a full reconciliation of tax payments made by firms in extractive industries, forestry, and commercial agriculture was carried out in line with the Extractive Industries Transparency Initiative; and procurement contracts have been regularly published.
- **Administrative reforms:** A Debt Management Committee (DMC) was appointed and a revised debt management strategy issued to govern post completion point policies; a unified accounting function was created in the Ministry of Finance; payroll management was strengthened, including through rapid expansion of direct deposit for civil service salaries; and tax audits were restarted.

III. POVERTY REDUCTION STRATEGY

15. The authorities have stepped up efforts to implement PRS objectives. The first annual progress report on implementation of the PRS covering the period to March 2009 candidly notes the human capacity constraints encountered.. To accelerate PRS implementation, monitoring has focused on shorter timeframes and considerable catch up was reported by November 2009 in finalizing those deliverables not met. The authorities are preparing a long-term national vision and strategy to promote rapid and inclusive growth.

IV. POLICY DISCUSSIONS

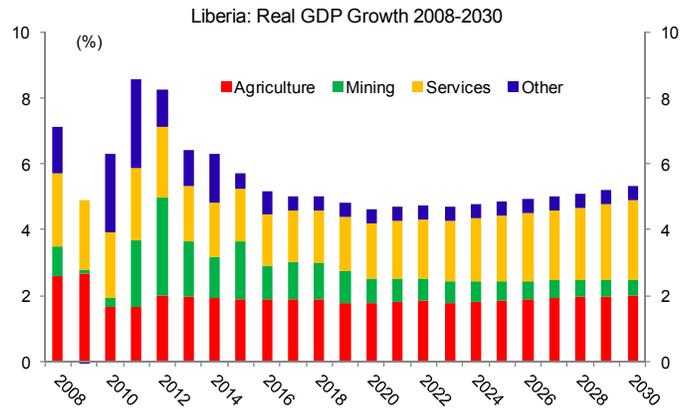
A. Macroeconomic Outlook and Debt Strategy

16. The economy should recover in 2010, albeit more slowly than previously projected. On the downside, heavy rain poses a risk for food production, while timber exports have restarted more slowly than expected. However, the pace of new investment in iron ore and commercial agriculture, and a rebound in rubber prices are expected to drive an overall pick up of growth. Accordingly, staff and the authorities envisage Gross Domestic Product (GDP) growth in 2010 at about 6 percent. Inflation is projected to moderate to around 7 percent as commodity import prices stabilize with broad exchange rate stability. An improvement in exports, driven by stronger commodity prices, will be more than offset by rising investment-related imports, with the increase in the current account deficit fully

financed by FDI and other inflows. Higher demand for local currency in line with nominal GDP growth should permit modest increases in reserves (Figure 2).

17. Medium-term prospects are favorable based on foreign investment commitments and continued donor support for rebuilding infrastructure and institutions (Table 5). The program

baseline projection assumes growing investor confidence built on political stability combined with sound macroeconomic and structural policies. Foreign investment commitments under ratified agreements, and projects where an investor has been shortlisted, amount to approximately US\$10 billion. Two companies are working to restart large-scale iron ore mining operations with negotiations ongoing for several other iron ore and gold mines. Investor interest in commercial agriculture is increasing.



Source: IMF Staff estimates and projections.

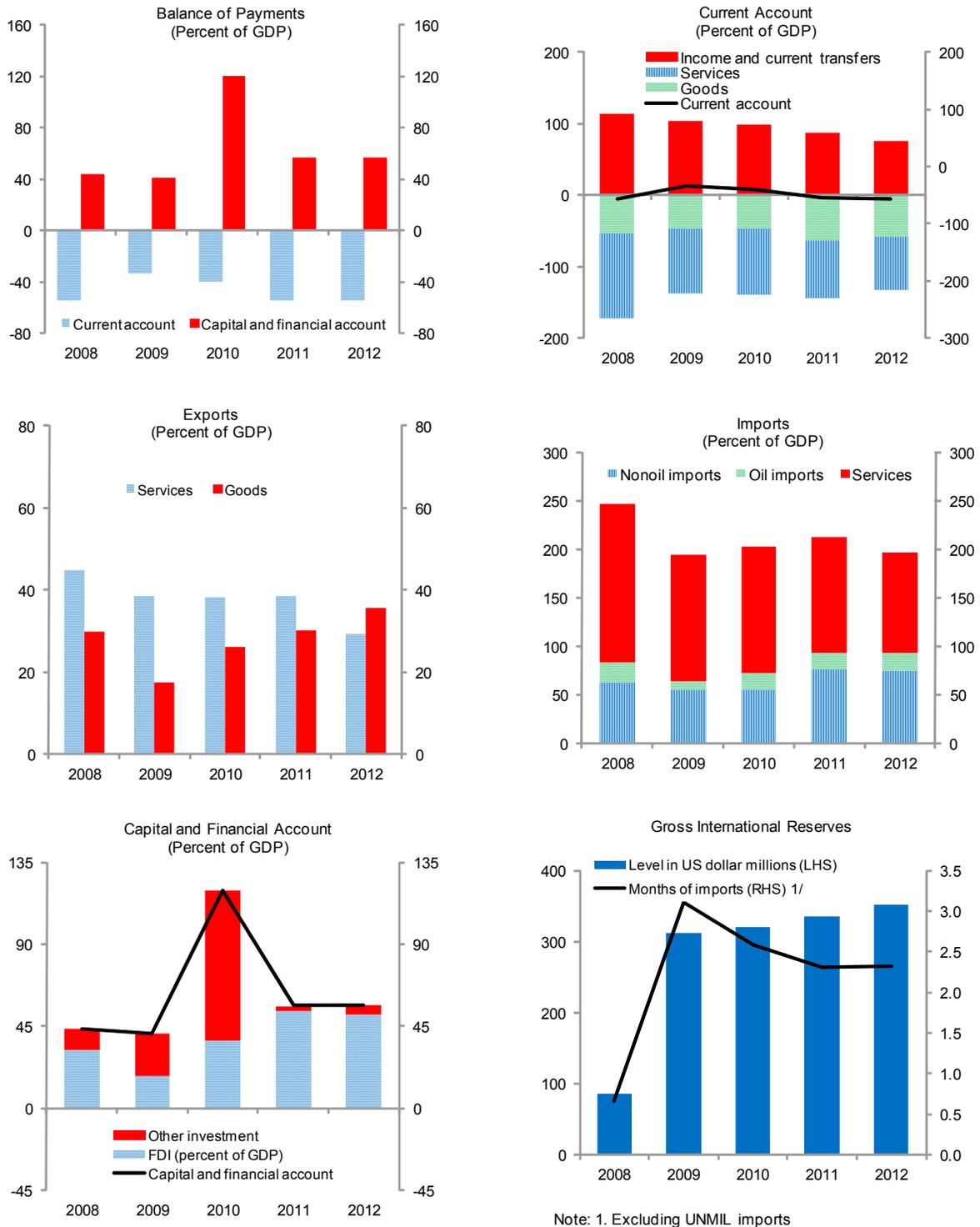
18. The authorities updated their post completion point debt strategy, seeking to maintain low debt vulnerabilities while also pushing ahead with critical infrastructure financing needs (Figure 3). The key elements of the strategy are:

- The public sector will not contract or guarantee non-concessional external debt. Exceptions to this policy will be decided on a case-by-case in consultation with Fund staff.
- Total borrowing of the public sector will be capped at 60 percent of GDP (about 30 percent in net present value (NPV) terms), while annual borrowing will not exceed 3 percent of GDP in NPV terms. The annual limit will be set in nominal terms as a performance criterion under the program. Borrowing above this ceiling will require an additional assessment, in consultation with Fund staff, of the impact of such borrowing on growth and debt vulnerability. Borrowing for reserve management purposes by the CBL is excluded from the annual ceiling.

B. Fiscal Program

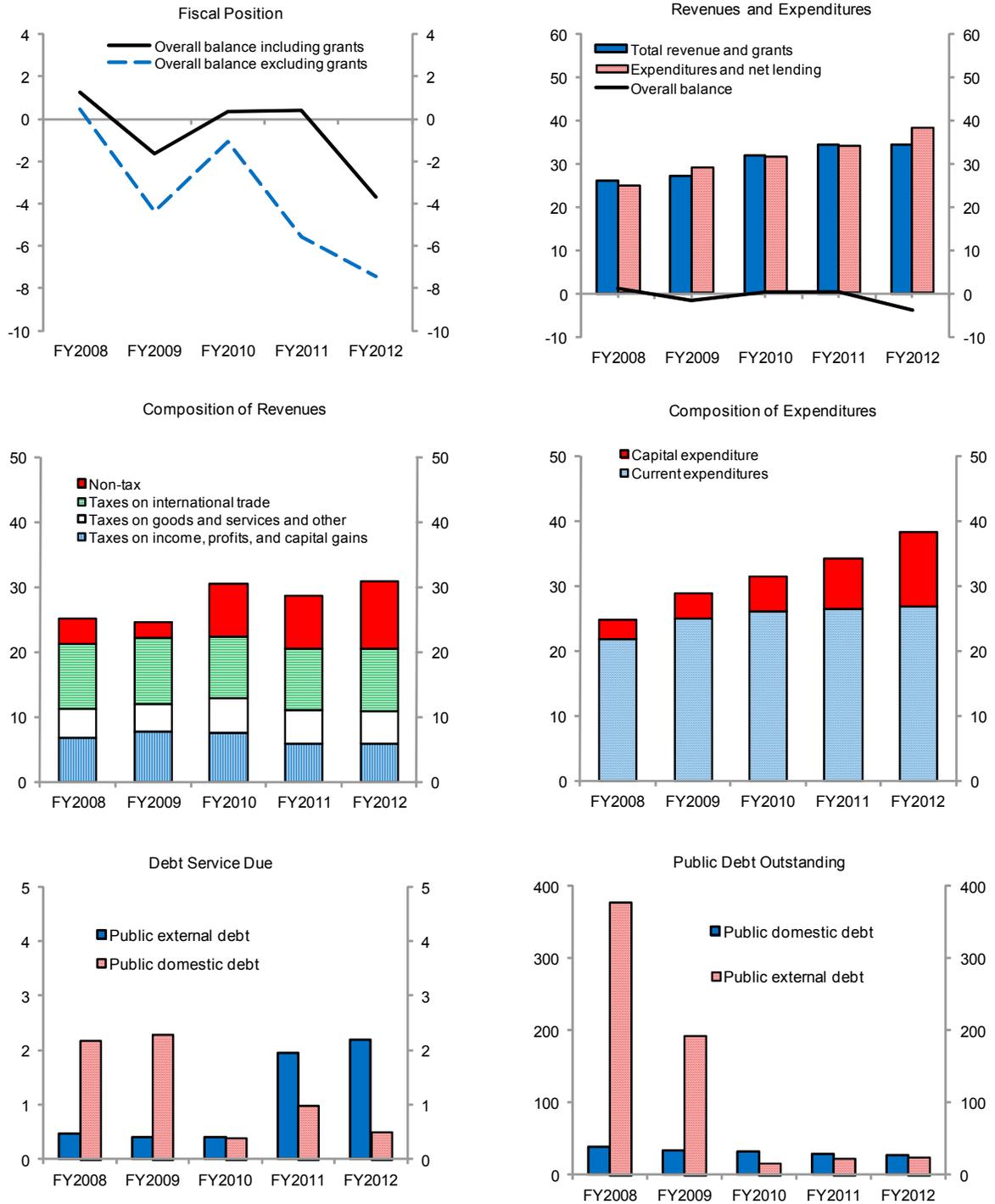
19. The draft FY2011 budget, submitted to the Legislature in May, was prepared in accordance with the new PFM law. The Budget does not envisage borrowing, as the completion point has not yet been reached and sources of funding have not been identified. Central bank financing of the budget is not envisaged, except for cash management purposes

Figure 2. Liberia: External Outlook, 2008–12



Sources: Liberian authorities; and IMF staff estimates and projections.

Figure 3. Liberia: Fiscal Outlook, FY2008–12
(Percent of GDP)



Sources: Liberian authorities; and IMF staff estimates and projections.

under clearly defined circumstances. After the completion point, the authorities may consider tabling a supplementary budget to authorize the contracting of concessional loans to finance critical infrastructure spending. They intend that any such borrowing would be consistent with their revised debt management strategy, and that the resulting budget would conform to a non-statutory basic balance rule—that borrowing is undertaken only for investment purposes.² The program provides for up to US\$46 million of concessional financing (present value equivalent to 3 percent of GDP).

20. **The budget is based on realistic revenue estimates, and projects both a small surplus and an increase in the share of spending devoted to PRS objectives.** Revenue growth of 3 percent is modest due to losses from a planned reduction in the top corporate and personal income tax rates from 35 to 25 percent—a measure delayed from FY2010 and designed to stimulate investment and growth. Nominal expenditure is projected to increase by 18 percent over the projected FY2010 outturn, boosted by a four-fold increase of budget support grants. Spending targeted at PRS deliverables is budgeted to increase from 60 to 65 percent of revenues (indicative target). Wage policy is largely unchanged but significant new recruitment of police and teachers raises the wage bill. A financing gap of approximately 3¼ percent of GDP was closed with external grant financing, expenditure compression and a deposit drawdown.

Liberia: FY2010 and Budget FY2011 (Cash Basis)

	FY2010 IMF Proj. US\$ million	FY2011 Budget US\$ million	Difference: Budget FY2011 on FY2010	
			US\$ million	Percent of GDP
Total revenue and grants	290.9	342.4	51.5	2.7
Total revenue	277.9	283.3	5.5	-1.9
Taxes on income and profit	68.1	57.6	-10.6	-1.7
Non-tax revenue	73.5	79.8	6.2	0.0
Grants	13.0	59.1	46.1	4.5
Total expenditure	287.6	338.4	50.7	2.6
Current expenditure	237.4	261.2	23.8	0.3
Capital expenditure	50.2	77.2	26.9	2.3
Overall balance	3.2	4.0	0.8	0.1

Source: Liberian authorities and IMF staff estimates.

² The basic balance is defined as total revenue and grants, excluding project grants, minus total expenditure excluding domestic and foreign financed investment spending. All foreign-financed projects would be treated as investment spending.

21. **The authorities favored developing cash management tools to counter the volatility of budget support grants and one-off mineral sector payments.** While the treasury bill market may over time provide an instrument to support timely budget execution, staff agreed it is unlikely to fully perform this function in FY2011. Accordingly, understandings were reached on an adjuster that would permit financing from the CBL for temporary shortfalls of budget support or one-off mineral revenues due from ratified concessions against a program path, up to a ceiling of US\$20 million.

C. Monetary and Financial Policy

22. **Monetary policy in 2010 continues to aim to contain excessive volatility of the exchange rate.** To prevent excessive exchange rate volatility, the CBL has varied its sales to the market since October 2009 in light of government sales of foreign exchange and broader exchange market developments. As anticipated, the pace of the buildup of CBL reserves slowed on account of weaker economic activity that lowered the demand for local currency.

23. **Over time, higher reserves are needed to strengthen the economy's resilience to shocks.** Staff suggested that the authorities consider additional measures to promote de-dollarization, such as issuing higher denomination notes and enforcing local currency pricing. The authorities noted that the use of Liberian dollars has been encouraged for tax payments and in mobile banking, but that further measures would need careful advance preparation.

24. **The CBL has stepped up efforts to monitor risks in the financial system and to safeguard the banking system.** The regulatory and supervisory framework for risk-based banking supervision was approved in December 2009. The CBL plans to train supervision staff with Fund technical assistance in 2010, and develop a capacity-building program for commercial banks to comply with international financial reporting standards by 2012.

D. Structural Reform Agenda

Fiscal Reforms

25. **The authorities attach a high priority to PFM reform.** The agenda for FY2011 includes: publishing a quarterly implementation report on the PFM law; improving payroll management and controls; completing direct deposit salary payments for all Monrovia-based civil servant salaries (benchmark); compiling asset registers in key ministries to better monitor government assets (benchmark); and, strengthening financial oversight of state-owned enterprises through regular quarterly reporting of their financial operations to the Ministry of Finance (new benchmark end-January 2011).

26. **Customs reform focuses on increasing capacity for revenue administration and trade facilitation.** The customs authorities plan to reconcile actual payments against assessed tax and duty to identify and follow up on discrepancies. The Automated System for

Customs Data (ASYCUDA) system in customs will be expanded to Roberts International Airport and Monrovia oil terminal (new benchmark end-December 2010). To reduce administrative costs, and remove administrative discretion, the authorities intend to eliminate import permit declarations except for a short positive list of strategic goods (benchmark).

Financial Sector Development

27. **The launch of a treasury bill market would be a milestone in the development of financial markets in Liberia.** Preparations involve developing the institutional framework for monetary operations, and strengthening capacity for liquidity management. The CBL will establish a legal framework for treasury market operation (benchmark) and set up the necessary infrastructure for payments, settlement, and depository arrangements. Initially, short-term bills of 90 days maturity would be sold at auction to commercial banks. The CBL could participate in the auction with noncompetitive bids, with the proceeds held in escrow for monetary management purposes.

28. **The authorities intend to modernize the payments system with technical assistance.** Liberia will harmonize and standardize its payments system with West African Monetary Zone (WAMZ) member countries. Improvements include development of a real-time gross settlement payment system, an automated clearing house, and a check processing facility.

29. **Financial services are being expanded to neglected groups.** To enhance credit assistance to agriculture and to small enterprises, a donor-funded credit guarantee mechanism will be available to cover up to half the principal on selected loans. To develop the microfinance sector, a national microfinance policy was established in February 2010. Supervisory guidelines are being prepared to allow microfinance institutions to accept deposits to broaden their funding base.

Governance

30. **Strengthened checks and balances are in place through the work of the Auditor General and the Anti-Corruption Commission.** The General Auditing Commission (GAC) submitted a second set of external audits of five key government ministries for FY2008 to the legislature in February 2010, highlighting weaknesses in systems and controls and recommending ways to improve procedures. The Liberia Anti-Corruption Commission has expanded education, prevention, and enforcement operations including, for example, recommendations to prosecute participants in a civil servant check fraud scheme in January 2010.

Statistics

31. **The compilation of revised and updated national accounts statistics is nearing completion.** The establishment survey is complete, with follow-up required for a handful of non-reporting large enterprises. With Fund technical assistance, preliminary national accounts data were reviewed in April 2010. Preliminary estimates for 2008 suggest an upward revision to nominal GDP, but coverage and methodology issues need to be satisfactorily resolved prior to publication. The Liberia Institute of Statistics and Geo-Information Services (LISGIS) expects to publish validated national accounts shortly (new benchmark end-September 2010).

E. Financing Assurances

32. **Liberia's debt restructuring is close to completion.** Sufficient financing assurances from external creditors are in place with creditors accounting for more than 96 percent of the total HIPC-eligible debt stock participating. The authorities are making best efforts to finalize agreements with the remaining official creditors that have not signed debt restructuring agreements, and are continuing good faith efforts to negotiate with external private creditors.

33. **Debt service projections for the post HIPC completion point period have been significantly increased relative to those made at the decision point.** This is largely due to an upward revision of the amount of non-overseas development assistance (ODA) post cutoff date debt held by Paris Club creditors and its short maturity—repayments are currently expected to begin December 2011 with the debt fully amortized in five years. This has opened financing gaps in FY2012–16, which will need to be closed, either through measures or new financing arrangements. Paris Club creditors will discuss Liberia's case after the completion point.

V. PROGRAM MONITORING AND WORK PROGRAM

34. **Program modifications are needed to reflect the shift away from a zero borrowing policy following the achievement of the HIPC completion point.** Various performance criteria on debt are set to support the authorities' broad growth strategy while maintaining low debt vulnerabilities (Attachment I):

- **Fiscal Program:** The program's fiscal anchor is a performance criterion (PC) on the foreign currency borrowing of the public sector, replacing a PC defined on a residency basis, intended to address risks from domestic foreign currency borrowing in a highly dollarized economy; a PC on domestic government borrowing is modified to accommodate the launch of the local currency treasury bill market by the central government. A new PC is introduced to govern the concessionality of external borrowing, which was not needed under the previous zero-borrowing program.

- **Monetary Program:** A new PC for CBL gross credit to the central government is introduced with an adjuster for temporary external financing shortfalls; a new indicative target on CBL net domestic assets is introduced to focus attention on developing liquidity forecasting; and the performance criterion on the CBL cash-based budget balance is deleted as it is no longer critical to program objectives in a post debt-distress environment and the CBL is committed to not incurring significant overall cash deficits.

35. **Work program.** The combined fifth review of the ECF arrangement and Article IV mission is scheduled for September 2010. The ECF arrangement expires in March 2011. Staff will initiate discussions on a possible successor ECF arrangement to demonstrate continued prudent macroeconomic management and to catalyze additional private and official financing in support of PRS objectives.

PROPOSED DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Liberia has consulted with the Fund in accordance with paragraph 4.B.(d) of the three-year arrangement for Liberia under the Extended Credit Facility (ECF) (EBS/08/26, 2/28/08, the “Arrangement”) in order to review program implementation.
2. The letter dated June 7, 2010 from the Minister of Finance and the Executive Governor of the Central Bank of Liberia (“CBL”) (the “June 2010 Letter”), along with the attached Supplementary Memorandum of Economic and Financial Policies (the “June 2010 MEFP”) and Technical Memorandum of Understanding (the “June 2010 TMU”), shall be attached to the Arrangement, and the letter dated February 27, 2008 with its attachments, as supplemented and modified shall be read as supplemented and modified by the June 2010 Letter with its attachments.
3. Accordingly, the Arrangement shall be amended as follows:
 - a. Subparagraph 4.C shall be deleted in its entirety and replaced with the following:
 - “C. the sixth disbursement specified in paragraph 2(f) above:
 - (a) if the Managing Director of the Trustee finds that with respect to the sixth disbursement, the data as of June 30, 2010 indicate that:
 1. the floor on total revenue collections,
 2. the floor on fiscal balance,
 3. the ceiling on new domestic borrowing of the central government,

4. the floor on CBL's cash-based budget balance, or
5. the floor on CBL's net foreign exchange position,

as set out in Table 1a of the June 2010 MEFP and further specified in the June 2010 TMU, was not observed; or

(b) until the Trustee has determined that, with respect to the sixth disbursement, the fifth program and financing assurances reviews referred to in the December 2009 Letter have been completed.”

- b. A new subparagraph D. shall be added to paragraph 4 as follows:

“D. the seventh disbursement specified in paragraph 2(g) above:

- a. If the Managing Director of the Trustee finds that with respect to the seventh disbursement, the data as of December 31, 2010 indicate that:

- (i) the floor on total revenue collection of the central government,
- (ii) the ceiling on the gross borrowing by the public sector in foreign currency,
- (iii) the ceiling on new domestic borrowing of the central government,
- (iv) the floor on CBL's foreign exchange position, or
- (v) the ceiling on CBL's gross credit to the central government,

as set out in Table 1b of the June 2010 MEFP and further specified in the June 2010 TMU, was not observed; or

- b. until the Trustee has determined that, with respect to the seventh disbursement, the sixth program and financing assurances review referred to in the December 2009 Letter have been completed.”

- c. Paragraph 5(a)(i)-(vi) shall be modified such that subparagraph (ii) shall be deleted and the remaining subparagraphs shall be renumbered as 5(a)(i)-(v).
- d. Until June 30, 2010, the ceilings referred to in paragraph 5(a)(i)-(v) of the Arrangement shall be as set out in Tables 1(a) of the June 2010 MEFP and further specified in the June 2010 TMU.
- e. After June 30, 2010, paragraph 5(a)(i)-(v) shall be modified to read as follows:
“5. Liberia will not request any disbursement under this arrangement, if at any time during this arrangement:
(a) (i) the ceiling on the new noncash tax/duty payment to the central government,
(ii) the ceiling on new domestic arrears/payables of the central government,
(iii) the ceiling on new external arrears of the central government,
(iv) the ceiling on non-concessional external borrowing of the public sector, or
(v) the ceiling on CBL payment arrears.”
- f. At any time after June 30, 2010, the ceilings referred to in paragraph 5(a)(i)-(v) of the Arrangement shall be as set out in Table 1b of the June 2010 MEFP and further specified in the June 2010 TMU.
4. The Fund decides that the fourth review and the financing assurances review contemplated in paragraph 4.B.(d) of the Arrangement are completed, and that Liberia may request the fifth loan disbursement referred to in paragraph 2(e) of the Arrangement.

Table 1. Liberia: Selected Economic and Financial Indicators, 2008–12

	2008	2009 Prel.	2010 Proj.	2011 Proj.	2012 Proj.
	(Percent, unless otherwise indicated)				
National account and prices					
GDP at constant prices	7.1	4.6	6.3	8.5	8.3
GDP deflator (US dollars)	6.4	-1.1	1.3	0.4	1.9
Nominal GDP (millions of US dollars)	849.6	874.1	952.9	1,032.2	1,138.9
Nominal GDP per capita (US dollars)	215.5	238.3	249.1	260.3	278.2
Consumer prices (average)	17.5	7.4	7.6	3.9	5.0
Consumer prices (end of period)	9.4	9.7	4.8	4.7	5.0
Consumer prices (US dollar denominated, year-on-year)	5.1	0.3	0.3	2.0	2.1
External sector					
Exports, f.o.b.	22.2	-39.7	62.3	25.5	29.7
Imports, f.o.b.	42.2	-20.6	22.6	39.5	10.2
Terms of trade (deterioration -) ^{2/}	-12.0	2.3	41.6	-22.2	-10.4
Average exchange rate (local currency per U.S. dollar)	63.2	68.3	...	...	...
Nominal effective exchange rate change (depreciation -)	-7.7	-2.9	...	...	...
Real effective exchange rate (depreciation -)	3.4	3.5	...	...	...
Import coverage of reserves (months)	0.5	2.2	2.0	1.8	1.9
Import coverage of reserves without UNMIL imports (months)	0.7	3.1	2.6	2.3	2.3
Gross official reserves (millions of US dollars)	86.2	312.2	334.2	351.5	361.9
Central government budget ^{3/}					
Total revenue and grants	39.5	13.5	23.8	17.7	9.4
Of which: total revenue	36.7	5.2	31.5	2.0	17.9
Total expenditure and net lending	60.2	26.3	15.6	17.6	22.6
Of which: current expenditure	62.9	24.2	10.4	10.0	11.1
capital expenditure	43.4	41.5	48.8	53.6	61.5
	(Annual percentage change; beginning period stock of broad money, unless otherwise indicated)				
Money and credit					
Net foreign assets	2.7	-21.8	253.9	5.9	5.9
Net domestic assets	38.7	65.0	-228.4	-2.5	6.2
Net claims on central government	10.5	40.6	-251.7	-0.4	-0.5
Claims on nongovernment	16.8	25.2	1.2	4.5	5.4
Other items (net)	11.4	-0.8	9.6	4.5	1.3
Broad money (M2) ^{4/}	41.4	43.1	12.6	10.2	11.5
Reserve money (annual percentage change)	13.1	12.4	24.3	16.1	14.3
Velocity (GDP-to-M2)	3.2	2.5	2.5	2.5	2.6
Money multiplier (M2/M0)	4.2	5.1	4.6	4.4	4.3
	(Percent of GDP)				
External sector					
Current account balance					
(including official grants)	-57.4	-33.3	-39.9	-55.8	-56.5
(excluding official grants)	-185.3	-148.2	-152.0	-149.3	-131.5
Trade balance	-53.5	-46.8	-46.3	-63.0	-57.6
Exports, f.o.b.	29.9	17.5	26.1	30.3	35.6
Imports, f.o.b.	-83.4	-64.4	-72.4	-93.3	-93.2
Central government budget ^{3/}					
Total revenue and grants	25.9	27.3	31.8	34.5	34.5
Of which: total revenue ^{5/}	25.2	24.5	31.0	28.5	30.8
Total expenditure and net lending	24.7	28.9	31.5	34.1	38.2
Of which: current expenditure	21.7	25.0	26.0	26.3	26.7
capital expenditure	3.0	3.9	5.5	7.8	11.5
Overall fiscal balance (including grants)	1.2	-1.6	0.4	0.4	-3.7
Overall fiscal balance (excluding grants)	0.5	-4.4	-1.1	-5.5	-7.5
Basic balance ^{6/}	4.2	2.3	5.9	8.2	0.7

Sources: Liberian authorities; and IMF staff estimates and projections.

1/ EBS/09/194, December 3, 2009.

2/ The base year is updated from 1997 to 2005 (2005 = 100).

3/ Fiscal year ending in June on a cash basis (debt service payments shown after all debt relief).

4/ Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and US dollars.

5/ Excluding additional tax revenue measures to close fiscal gaps for FY2011.

6/ Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

Table 2. Liberia: Balance of Payments, 2008–12
(Millions of US dollars, unless otherwise indicated)

	2008	2009 Prel.	2010 Proj.	2011 Proj.	2012 Proj.
Trade balance	-455	-409	-441	-651	-656
Exports, f.o.b.	254	153	249	312	405
Of which: rubber	225	93	157	130	124
Imports, f.o.b.	-709	-563	-690	-963	-1,061
Services (net)	-1,007	-792	-882	-835	-846
Of which: UNMIL services ^{1/}	-488	-455	-455	-418	-342
Income (net)	-160	-145	-185	-140	-105
Of which: public interest payments due ^{2/}	-90	-111	-109	-5	-4
Of which: IMF	-1	1	0	0	0
Current transfers	1,134	1,054	1,129	1,050	964
Donor transfers (net)	1,087	1,004	1,066	965	875
Of which: UNMIL transfers	646	600	600	550	450
Private transfers (net)	47	50	63	85	89
Current account balance	-488	-291	-380	-576	-643
Current account balance, excluding grants	-1,575	-1,296	-1,446	-1,541	-1,518
Capital and financial account (net)	370	358	1,139	584	644
Capital account (HIPC debt relief) ^{3/}	1,197	1,527	1,439	5	0
Financial account	-827	-1,168	-300	579	644
Foreign direct investment (net)	272	153	355	548	584
Portfolio investment (net)	0	0	0	0	0
Other investment (net)	-1,099	-1,322	-654	31	59
Official financing: Medium and long-term (net)	-1,210	-1,373	-672	-20	27
SDR allocation	0	163	0	0	0
Disbursements	0	0	0	0	48
Amortization ^{3/}	-1,210	-1,536	-672	-20	-21
Private financing (net) ^{4/}	111	52	18	52	33
Errors and omissions	43	0	0	0	0
Overall balance	-75	67	760	7	0
Financing	75	-67	-760	-16	-17
Change in net foreign assets (increase -) ^{5/}	-15	-178	-868	-16	-17
Of which: Net use of Fund credit and loans ^{3/}	22	18	-847	7	0
Disbursements	882	18	14	7	0
Repayments	-860	0	-861	0	0
Exceptional financing	90	111	108	0	0
Debt forgiveness	1,197	1,527	1,439	0	0
Change in arrears ^{6/}	-1,197	-1,527	-1,439	0	0
Debt rescheduling plus HIPC interim debt relief ^{7/}	90	111	108	0	0
Financing gap	0	0	0	9	17
<i>Memorandum items:</i>					
Current account balance (percent of GDP)					
Including grants	-57.4	-33.3	-39.9	-55.8	-56.5
Excluding grants	-185.3	-148.2	-151.8	-149.3	-131.5
Excluding grants and public interest payments due	-174.7	-135.6	-137.7	-146.2	-129.5
Trade Balance (percent of GDP)	-53.5	-46.8	-46.3	-63.0	-57.6
Donor transfers (net, percent of GDP)	127.9	114.9	111.9	93.4	76.8
Public sector external debt (medium and long-term)					
Debt outstanding, including arrears	3,203	1,677	149	161	188
(percent of exports of goods and services)	503.3	341.7	24.3	22.8	25.5
(percent of GDP)	377.0	191.9	15.6	21.8	24.2
Debt service charges (after relief)	13.6	0.0	3.4	24.8	25.1
(percent of GDP)	1.6	0.0	0.4	2.4	2.2
Terms of trade (2000=100)	102.6	104.9	148.6	115.6	103.6
Gross official reserves	86.2	312.2	334.2	351.5	361.9
Gross official reserves (months of imports) ^{8/}	0.7	3.1	2.6	2.3	2.3

Sources: Liberian authorities; and IMF staff estimates and projections.

1. Net of estimated value of goods and services purchased by UNMIL (and its staff) in Liberia.
2. From 2007, interest charged on debt stock after application of traditional debt relief mechanisms.
3. Assumes debt relief at the HIPC completion point in 2010.
4. Includes short-term trade credits and private sector operating balances abroad.
5. Includes SDR assets and excludes SDR liabilities for US\$ 163.2 million.
6. Includes debt forgiveness from multilateral creditors and Paris Club creditors.
7. Includes deferred debt service payments in the interim period.
8. Excludes UNMIL imported services

Table 3a. Liberia: Monetary Survey, 2008–12
(In millions of US dollar; unless otherwise indicated)

	2008	2009 Prel.	2010 Proj.	2011 Proj.	2012 Proj.
(Central Bank Survey)					
Net foreign assets	-764.2	-749.1	118.6	134.5	151.4
Net domestic assets	836.7	823.0	-29.4	-33.8	-39.6
Net claims on government	1,068.3	1,067.4	196.1	189.0	181.7
Claims on other public sector ^{1/}	0.0	0.0	0.0	0.0	0.0
Claims on private sector	1.8	1.8	1.9	2.1	2.3
Claims on commercial banks	0.0	0.0	0.0	0.0	0.0
Other items (net) ^{2/}	-233.4	-246.1	-227.4	-224.9	-223.5
Base money	72.4	73.9	89.2	100.7	111.9
(Monetary Survey)					
Net foreign assets	-674.0	-664.3	202.4	218.3	235.3
Of which: Fund credit and overdue charges	-858.0	-891.2	-53.1	-59.9	-59.9
CBL's gross foreign reserves ^{3/}	139.0	372.5	398.0	418.6	433.9
government US\$-denominated deposits at CBL	36.8	45.5	44.1	42.9	41.7
commercial banks' US\$-denominated deposits at CBL	52.8	60.2	63.7	67.1	72.0
CBL's net foreign exchange position ^{3/}	49.5	266.7	290.1	308.6	320.2
Net domestic assets	938.6	1,008.0	216.3	201.1	219.6
Net domestic credit	1,193.4	1,241.3	410.6	373.8	382.4
Net claims on government	1,076.0	1,074.3	202.8	195.6	188.1
Of which: IMF credit and overdue charges	836.4	851.3	0.0	0.0	0.0
Claims on nongovernment	117.4	167.0	166.2	178.2	194.3
Claims on private sector	103.8	136.5	148.8	161.2	177.9
Claims on public enterprises	1.0	17.9	17.4	16.9	16.4
Claims on nonbank financial institutions	0.0	0.0	0.0	0.0	0.0
Other Items (Net)	-254.8	-233.3	-194.3	-172.6	-162.8
Monetary aggregates					
Monetary Base (M0)	63.3	67.1	80.9	91.4	101.5
Currency in circulation	56.8	59.0	73.3	83.1	92.4
Required reserves	6.5	8.1	7.6	8.2	9.1
Commercial bank deposits	207.7	284.7	302.3	319.4	343.6
Total demand deposits	142.4	201.3	213.4	225.1	101.8
L\$-denominated deposits	12.1	12.3	13.4	14.5	25.3
US\$-denominated deposits	130.2	188.9	199.9	210.6	72.1
Time, savings and other deposits	65.4	83.5	88.9	94.3	241.8
L\$-denominated deposits	15.5	19.4	21.2	23.0	16.0
US\$-denominated deposits	49.9	64.0	67.8	71.4	188.5
Broad money (M2)	264.5	343.8	375.6	402.5	436.0
L\$ component	84.5	90.8	107.9	120.6	133.8
US\$ component	180.1	253.0	267.7	281.9	302.2
<i>Memorandum items:</i>					
Broad money (annual change)	38.0	29.9	9.3	7.2	8.3
L\$ component as percent of beginning period broad money	5.9	2.4	5.0	3.4	3.3
US\$ component as percent of beginning period broad money	32.1	27.6	4.3	3.8	5.1
Reserve money (annual change)	10.5	2.1	20.7	12.9	11.1
Base money (annual change)	8.8	6.0	20.5	12.9	11.1
Credit to government (annual change)	-0.5	-0.2	-81.1	-3.6	-3.9
Credit to private sector (annual change)	44.1	31.5	9.0	8.3	10.3
Velocity (GDP-to-M2)	3.2	2.5	2.5	2.6	2.6
Money multiplier (M2/M0)	4.2	5.1	4.6	4.4	4.3
CBL's gross official foreign reserves ^{3/}	86.2	312.2	334.2	351.5	361.9

Sources: Liberian authorities; and IMF staff estimates and projections.

^{1/}Include public enterprises and the local government.

^{2/}Including valuation.

^{3/}SDR holdings are included from December 2009.

Table 3b. Liberia: Monetary Survey, 2008–12
(In millions of Liberian dollar; unless otherwise indicated)

	2008	2009 Prel.	2010 Proj.	2011 Proj.	2012 Proj.
(Central Bank Survey)					
Net foreign assets	-48,911	-52,811	8,614	10,046	11,641
Net domestic assets	53,546	58,022	-2,136	-2,523	-3,041
Net claims on government	68,370	75,249	14,240	14,123	13,968
Claims on other public sector ^{1/}	0	0	0	0	0
Claims on private sector	113	124	139	155	176
Claims on commercial banks	0	0	0	0	0
Other items (net) ^{2/}	-14,937	-17,350	-16,515	-16,800	-17,185
Base money	4,635	5,211	6,477	7,523	8,600
(Monetary Survey)					
Net foreign assets	-43,137	-46,832	14,704	16,310	18,087
Of which: Fund credit and overdue charges	-54,910	-62,828	-3,856	-4,475	-4,609
CBL's gross foreign reserves ^{3/}	8,897	12,057	28,904	31,275	33,357
government US\$-denominated deposits at CBL	2,353	3,207	3,207	3,207	3,207
commercial banks' US\$-denominated deposits at CBL	3,378	4,247	4,630	5,016	5,534
CBL's net foreign exchange position ^{3/}	3,166	4,603	21,068	23,053	24,617
Net domestic assets	60,068	71,067	15,710	15,027	16,882
Net domestic credit	76,376	87,513	29,822	27,924	29,400
Net claims on government	68,862	75,740	14,731	14,614	14,460
Of which: IMF credit and overdue charges	53,530	60,017	0	0	0
Claims on nongovernment	7,514	11,774	12,075	13,310	14,941
Claims on private sector	6,646	9,626	10,810	12,046	13,677
Claims on public enterprises	64	1,264	1,264	1,264	1,264
Claims on nonbank financial institutions	0	0	0	0	0
Other Items (Net)	-16,308	-16,446	-14,112	-12,897	-12,518
Monetary aggregates					
Monetary Base (M0)	4,051	4,732	5,876	6,827	7,805
Currency in circulation	3,637	4,162	5,323	6,210	7,105
Required reserves	414	570	553	616	700
Commercial bank deposits	13,294	20,073	21,956	23,863	26,418
Total demand deposits	9,111	14,189	15,496	16,817	7,828
L\$-denominated deposits	776	868	975	1,087	1,947
US\$-denominated deposits	8,335	13,321	14,521	15,731	5,680
Time, savings and other deposits	4,183	5,884	6,460	7,046	18,589
L\$-denominated deposits	992	1,370	1,539	1,715	1,234
US\$-denominated deposits	3,191	4,514	4,921	5,331	14,839
Broad money (M2)	16,931	24,235	27,279	30,073	33,523
L\$ component	5,405	6,400	7,837	9,011	10,286
US\$ component	11,526	17,835	19,442	21,062	23,237
<i>Memorandum items:</i>					
Broad money (annual change)	41.4	43.1	12.6	10.2	11.5
L\$ component as percent of beginning period broad money	7.0	5.9	5.9	4.3	4.2
US\$ component as percent of beginning period broad money	34.4	37.3	6.6	5.9	7.2
Reserve money (annual change)	13.1	12.4	24.3	16.1	14.3
Base money (annual change)	11.5	16.8	24.2	16.2	14.3
Credit to government (annual change)	1.9	10.0	-80.6	-0.8	-1.1
Credit to private sector (annual change)	47.6	44.8	12.3	11.4	13.5
Velocity (GDP-to-M2)	3.2	2.5	2.5	2.5	2.6
Money multiplier (M2/M0)	4.2	5.1	4.6	4.4	4.3
Currency/deposits (percent; L\$ only)	205.7	185.9	211.7	221.7	223.4
CBL's gross official foreign reserves ^{3/}	5,519	7,810	24,274	26,260	27,823

Sources: Liberian authorities; and IMF staff estimates and projections.

^{1/}Include public enterprises and the local government.

^{2/}Including valuation.

^{3/}SDR holdings are included from December 2009.

Table 4a. Liberia: Fiscal Operations of the Central Government (Cash Basis), FY2008–12 ^{1/}
(In millions of US dollars)

	FY2008	FY2009	FY2010 Proj.	FY2011 Proj.	FY2012 Proj.
Total revenue and grants	206.9	234.9	290.9	342.4	374.7
Revenue	200.8	211.3	277.9	283.3	334.0
Tax Revenue	168.8	190.0	204.3	203.6	221.3
Taxes on income, profits, and capital gains	54.1	65.8	68.1	57.6	62.9
Taxes on goods and services	33.3	33.7	42.4	48.3	51.3
Taxes on international trade	79.1	87.9	87.5	94.3	103.4
Other taxes	2.2	2.6	6.3	3.4	3.7
Non-tax	32.0	21.3	73.5	79.8	112.6
Grants	6.1	23.6	13.0	59.1	40.7
Additional revenue measures	0.0	0.0	0.0	0.0	0.0
Expenditures and net lending	197.1	248.9	287.6	338.4	414.9
Current expenditures	173.2	215.1	237.4	261.2	290.3
Wages and salaries	68.0	91.4	114.0	134.6	147.2
Goods and services	61.2	75.3	74.5	77.8	85.1
Subsides and transfers	36.6	40.9	48.1	44.5	48.7
Interest ^{1/}	7.5	7.5	0.8	4.3	9.3
Capital expenditure	23.9	33.8	50.2	77.2	124.6
Foreign loan financed	0.0	0.0	0.0	0.0	32.6
Domestic and grant financed	23.9	33.8	50.2	77.2	92.0
Overall balance ^{2/}					
Including grants	9.8	-14.0	3.2	4.0	-40.2
Excluding grants	3.7	-37.6	-9.8	-55.1	-80.9
Identified financing	-9.8	14.0	-3.2	-4.0	22.5
External financing (net)	0.0	-3.7	-3.5	-2.7	12.5
Loans	0.0	0.0	0.0	0.0	32.6
Amortization (-)	0.0	-3.7	-3.5	-2.7	-20.1
Domestic Borrowing	-9.8	17.7	0.3	-1.3	10.0
Monetary Sector	0.0	19.3	2.0	3.9	10.0
Treasury bills	0.0	0.0	0.0	0.0	10.9
Other domestic financing	0.0	-0.4	-0.8	-0.8	-0.8
Accumulation in domestic debt trust fund (-)	0.0	0.0	0.0	0.0	0.0
Accumulation in GOL balances at CBL (-)	-3.3	19.7	2.8	4.7	0.0
Non-Monetary sector	0.0	-1.6	-1.7	-5.2	0.0
Domestic arrears and other financing	-6.5	-1.6	-1.7	-5.2	0.0
Unidentified financing	0.0	0.0	0.0	0.0	17.6
<i>Memorandum items:</i>					
Total public domestic debt	313.4	296.4	293.7	287.3	296.8
Foreign currency denominated domestic debt	298.0	282.7	280.4	274.5	273.9
Medium and Long Term domestic debt	313.4	296.4	293.7	287.3	296.8
Basic balance ^{3/}	33.7	19.8	53.5	81.1	84.4
Primary balance, including grants	17.3	-6.5	4.0	8.3	-30.9
Nominal GDP (in millions of US dollars)	797.6	861.9	913.5	992.6	1,085.6

Sources: Liberian authorities; and IMF staff estimates and projections.

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

2/ Through fiscal year 2009/10, budgets are assumed to be balanced on a cash basis. Non-zero fiscal balances reported up to 2009/10 are due to some budget expenditures (e.g., payments of arrears, amortization) being reported as financing items; and to the drawdown of government deposits accumulated in prior years.

3/ Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

Table 4b. Liberia: Fiscal Operations of the Central Government (Cash Basis), FY2008–12 ^{1/}
(Percent of GDP)

	FY2008	FY2009	FY2010 Proj.	FY2011 Proj.	2011/12 Proj.
Total revenue and grants	25.9	27.3	31.8	34.5	34.5
Revenue	25.2	24.5	30.4	28.5	30.8
Tax Revenue	21.2	22.0	22.4	20.5	20.4
Taxes on income, profits, and capital gains	6.8	7.6	7.5	5.8	5.8
Taxes on goods and services	4.2	3.9	4.6	4.9	4.7
Taxes on international trade	9.9	10.2	9.6	9.5	9.5
Other taxes	0.3	0.3	0.7	0.3	0.3
Non-tax	4.0	2.5	8.0	8.0	10.4
Grants	0.8	2.7	1.4	5.9	3.8
Additional revenue measures	0.0	0.0	0.0	0.0	0.0
Expenditures and net lending	24.7	28.9	31.5	34.1	38.2
Current expenditures	21.7	25.0	26.0	26.3	26.7
Wages and salaries	8.5	10.6	12.5	13.6	13.6
Goods and services	7.7	8.7	8.2	7.8	7.8
Subsidies and transfers	4.6	4.7	5.3	4.5	4.5
Interest ^{1/}	0.9	0.9	0.1	0.4	0.9
Capital expenditure	3.0	3.9	5.5	7.8	11.5
Foreign loan financed	0.0	0.0	0.0	0.0	3.0
Domestic and grant financed	3.0	3.9	5.5	7.8	8.5
Exceptional Financing Transactions, Net	0.0	0.0	0.0	0.0	0.0
Overall balance ^{2/}					
Including grants	1.2	-1.6	0.4	0.4	-3.7
Excluding grants	0.5	-4.4	-1.1	-5.5	-7.5
Identified financing	-1.2	1.6	-0.4	-0.4	2.1
External financing (net)	0.0	-0.4	-0.4	-0.3	1.2
Loans	0.0	0.0	0.0	0.0	3.0
Amortization (-)	0.0	-0.4	-0.4	-0.3	-1.8
Domestic Borrowing	-1.2	2.1	0.0	-0.1	0.9
Monetary Sector	0.0	2.2	0.2	0.4	0.9
Treasury bills	0.0	0.0	0.0	0.0	1.0
Other domestic financing	0.0	0.0	-0.1	-0.1	-0.1
Accumulation in domestic debt trust fund (-)	0.0	0.0	0.0	0.0	0.0
Accumulation in GOL balances at CBL (-)	-0.4	2.3	0.3	0.5	0.0
Non-Monetary sector	0.0	-0.2	-0.2	-0.5	0.0
Domestic arrears and other financing	-0.8	-0.2	-0.2	-0.5	0.0
Unidentified financing	0.0	0.0	0.0	0.0	1.6
<i>Memorandum items:</i>					
Total public domestic debt	39.3	34.4	32.2	28.9	27.3
Foreign currency denominated domestic debt	37.4	32.8	30.7	27.7	25.2
Medium and Long Term domestic debt	39.3	34.4	32.2	28.9	27.3
Basic balance ^{3/}	4.2	2.3	5.9	8.2	0.7
Primary balance, including grants	2.2	-0.7	0.4	0.8	-2.8

Sources: Liberian authorities; and IMF staff estimates and projections.

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

2/ Through fiscal year 2009/10, budgets are assumed to be balanced on a cash basis. Non-zero fiscal balances reported up to 2009/10 are due to some budget expenditures (e.g., payments of arrears, amortization) being reported as financing items; and to the drawdown of government deposits accumulated in prior years.

3/ Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

Table 5. Liberia: Medium-Term Outlook, 2009–14

	2009 Prel.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
(Annual percentage change)						
National income prices						
Real GDP	4.6	6.3	8.5	8.3	6.4	6.3
Agriculture & fisheries	6.3	3.9	3.9	5.0	5.0	5.0
Forestry	1.1	13.7	13.7	4.4	4.4	7.0
Mining & panning	8.1	14.7	112.9	83.4	28.0	17.3
Manufacturing	-3.8	2.9	4.5	4.2	3.9	4.0
Services	7.2	6.7	7.3	7.2	5.7	5.6
Real GDP excl. mining	4.5	6.1	6.5	5.3	4.7	5.0
Prices						
GDP deflator	-1.1	1.3	0.4	1.9	2.8	2.6
Consumer prices (annual average)	7.4	7.6	3.9	5.0	5.0	5.0
Consumer prices (end of period)	9.7	4.8	4.7	5.0	5.0	5.0
Real GDP per capita (US dollar)	144.9	147.7	154.7	162.2	167.6	173.2
Population (millions)	3.7	3.8	4.0	4.1	4.2	4.3
(Percent share)						
Nominal GDP						
Agriculture & fisheries	52.5	51.0	46.2	42.8	42.5	41.8
Forestry	10.7	12.3	13.8	13.5	13.3	13.7
Mining & panning	1.3	1.5	4.9	8.9	10.0	10.8
Manufacturing	6.0	5.5	5.3	5.2	5.0	4.9
Services	29.5	29.7	29.8	29.6	29.2	28.9
(Percent of GDP, fiscal year)						
Central government operations						
Total revenue and grants	27.3	31.8	34.5	34.5	32.5	32.7
Total revenue	24.5	30.4	28.5	30.8	28.3	28.0
Grants	2.7	1.4	5.9	3.8	4.3	4.8
Total expenditure and net lending	28.9	31.5	34.1	38.2	37.2	38.3
Current expenditure	25.0	26.0	26.3	26.7	26.7	26.7
Capital expenditure	3.9	5.5	7.8	11.5	10.4	11.6
Overall fiscal balance, including grants	-1.6	0.4	0.4	-3.7	-4.7	-5.6
Overall fiscal balance, excluding grants	-4.4	-1.1	-5.5	-7.5	-8.9	-10.4
(Percent of GDP, unless otherwise indicated)						
External sector						
Current account balance, including grants	-33.3	-39.9	-55.8	-56.5	-34.1	-34.9
Current account balance, excluding grants	-148.2	-152.0	-149.3	-131.5	-97.4	-68.0
Trade balance	-46.8	-46.3	-63.0	-57.6	-33.3	-31.4
Exports	17.5	26.1	30.3	35.6	35.6	35.7
Imports	-64.4	-72.4	-93.3	-93.2	-68.9	-67.0
Grants (donor transfers, net)	114.9	111.9	93.4	76.8	63.0	51.1
Gross official reserves (millions of US dollars)	312.2	334.2	351.5	361.9	372.1	381.9
Months of imports of goods and services ¹	3.1	2.6	2.3	2.3	2.8	2.8

Sources: Liberian authorities; and IMF staff estimates and projections.

^{1/} Excludes UNMIL service imports

Table 6. Liberia: Millennium Development Goals

	1990	1995	2000	2008
General Indicators				
Population (millions)	2.1	2.1	3.1	3.8
Gross national income (\$ billions)	0.6	0.3	0.4	0.6
GNI per capita (\$)	280.0	110.0	130.0	170.0
Adult literacy rate (percent of people of ages 15 and over)	...	41.0	...	...
Total fertility rate (births for women)	6.9	6.8	6.8	6.0
Life expectancy at birth (years)	41.0	42.0	43.0	58.0
Trade (% of GDP)	...	80.8	47.5	204.0
Goal 1. Eradicate extreme poverty and hunger				
2015 target = halve 1990 \$1 a day poverty and malnutrition rates:				
Prevalence of child malnutrition (percent of children under 5)	...	...	22.8	...
Population below minimum level of dietary energy consumption (in percent)	34.0	42.0	...	...
Goal 2. Achieve universal primary education				
2015 target: = net enrollment to 100				
Net primary enrollment ratio (percent of relevant age group)	...	...	...	58.0
Percentage of cohort reaching grade 5 (in percent)	...	...	...	...
Goal 3. Promote gender equality				
2005 targets = education ratio to 100				
Ratio of girls to boys in primary and secondary education (in percent)	...	...	73.0	86.0
Ratio of young literate females to males (percent of ages 15-24)	...	84.0	...	...
Share of women employed in the nonagricultural sector (in percent)	...	...	11.4	...
Proportion of seats held by women in national parliament (in percent)	...	6.0	8.0	13.0
Goal 4. Reduce child mortality				
2015 target = Reduce 1990 under 5 mortality by two-thirds				
Under five mortality rate (per 1000)	...	...	140.0	145.0
Infant mortality rate (per 1000 live births)	157.0	157.0	157.0	100.0
Immunization, measles (percent of children under 12 months)	...	...	52.0	64.0
Goal 5. Improve maternal health				
2015 target: Reduce 1990 maternal mortality by two-thirds				
Maternal mortality ratio (modeled estimate per 100,000 live births)	...	...	1,200.0	...
Births attended by skilled health staff (percent of total)	...	...	51.0	...
Goal 6. Combat HIV/AIDS, malaria and other diseases				
2015 target: = halted, and begin to reverse, AIDS, etc.				
Prevalence of HIV, total (percent of ages 15-24)	...	...	1.4	...
Contraceptive prevalence rate (percent of women of ages 15-49)	...	...	1.0	...
Incidence of tuberculosis (per 100,000 people)	147.0	198.0	287.0	283.0
Tuberculosis cases detected under Directly Observed Treatment, Short-course (in percent)	...	31.0	26.0	51.0
Goal 7. Ensure environmental sustainability				
Targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million dwellers.				
Forest area (percent of total land area)	...	...	36.0	...
Nationally protected areas (percent of total land area)	...	...	...	...
CO2 emissions (metric tons per capita)	0.1	0.2	0.1	...
Access to an improved water source (percent of population)	...	61.0	63.0	...
Access to improved sanitation (percent of population)	...	36.0	32.0	...
Goal 8. Develop a Global Partnership for Development				
Targets: Develop further an open rule-based, predictable, nondiscriminatory trading and financial system. Address the special needs of the least developed countries and landlocked countries and small islands developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with the private sector, make available the benefits of new technologies, specially information and communications.				
Aid per capita (current US\$)	75.0	57.0	23.8	101.2
Youth unemployment rate (percent of total labor force of ages 15-24)	...	...	...	...
Internet users (per 100 people)	...	0.0	0.0	1.0
Mobile cellular subscription (per 100 people)	...	0.0	0.0	19.0

Source: World Development Indicators database, April 2010.

Table 7. Liberia: Fund Credit Position and Projected Payments to the Fund, 2008–21
(In millions of SDRs unless otherwise indicated)

	2008 3/18-12/31	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Prospective drawings 1/														
ECF	214.26	11.44	8.88	4.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
EFF	342.77	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Projected debt service to the Fund 2/														
Repayments and repurchases	0.00	0.00	0.00	0.00	28.56	77.85	100.68	102.71	104.49	104.93	55.64	4.25	2.22	0.44
ECF-current	0.00	0.00	0.00	0.00	0.00	20.73	43.55	45.14	45.14	45.14	24.41	1.59	0.00	0.00
EFF	0.00	0.00	0.00	0.00	28.56	57.13	57.13	57.13	57.13	57.13	28.56	0.00	0.00	0.00
ECF-projected	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.44	2.22	2.66	2.66	2.66	2.22	0.44
HIPC Interim Relief	-11.15	-6.60	-2.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interests	11.51	7.07	4.34	4.35	4.91	4.29	3.47	2.64	1.80	0.95	0.17	0.01	0.00	0.00
ECF-current	0.83	1.09	0.02	0.00	0.56	0.55	0.45	0.34	0.23	0.12	0.02	0.00	0.00	0.00
EFF	10.68	5.97	4.32	4.35	4.31	3.71	2.98	2.26	1.54	0.81	0.13	0.00	0.00	0.00
PRGF-projected	0.00	0.00	0.00	0.00	0.03	0.03	0.03	0.03	0.03	0.02	0.02	0.01	0.00	0.00
Charges		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>In percent of</i>														
GDP	0.06	0.07	0.34	0.58	3.79	7.88	8.50	7.20	6.72	6.40	3.23	0.24	0.12	0.02
Gross Official Reserves	0.65	0.23	1.05	1.91	14.27	34.08	42.11	41.50	40.81	39.65	20.40	1.52	0.78	0.15
Exports of goods and services	0.15	0.20	0.93	1.56	13.93	36.07	48.45	51.69	51.62	51.83	26.65	1.98	1.00	0.19
Fiscal revenues (excluding grants)	0.28	0.33	1.22	2.21	15.96	34.37	37.87	30.32	23.89	19.84	8.95	0.62	0.31	0.06
Projected debt service to the Fund after HIPC and beyond-HIPC debt relief 3/														
	0.37	0.46	0.81	0.00	0.08	0.08	2.18	4.21	5.97	7.22	7.08	4.26	2.22	0.44
<i>In percent of</i>														
GDP	0.06	0.07	0.12	0.00	0.01	0.01	0.18	0.29	0.38	0.44	0.41	0.24	0.12	0.02
Gross Official Reserves	0.65	0.23	0.38	0.00	0.04	0.03	0.88	1.66	2.29	2.70	2.59	1.52	0.78	0.15
Exports of goods and services	0.15	0.20	0.33	0.00	0.03	0.04	1.01	2.06	2.90	3.53	3.38	1.98	1.00	0.19
Fiscal revenues (excluding grants)	0.28	0.33	0.44	0.00	0.04	0.03	0.79	1.21	1.34	1.35	1.13	0.62	0.31	0.06
Fund credit outstanding														
	557.03	568.47	28.84	33.28	33.28	33.28	33.28	30.73	24.83	18.47	11.30	4.25	0.44	0.00
<i>In percent of</i>														
GDP	103.65	102.81	4.78	5.10	4.62	4.22	3.87	3.26	2.44	1.68	0.95	0.33	0.03	0.00
Gross Official Reserves	1021.18	287.85	13.64	14.97	14.54	14.14	13.78	12.40	9.77	7.09	4.24	1.56	0.16	0.00
Exports of goods and services	138.37	183.09	7.44	7.42	7.13	6.96	6.73	5.58	4.22	2.80	1.53	0.52	0.05	0.00
Fiscal revenues (excluding grants)	417.10	341.85	1.07	16.80	13.89	13.11	12.01	10.34	7.84	5.48	3.17	1.13	0.11	0.00
Quota (under the 12th General Review)	431.14	439.99	22.32	25.76	25.76	25.76	25.76	23.79	19.22	14.30	8.75	3.29	0.34	0.00

Source: Finance Department and staff estimates.

1/ A PRGF/EFF-supported program with access in an amount equal to Liberia's stock of arrears to the Fund at arrears clearance (this amount is eligible for both HIPC and beyond HIPC debt relief), and new credit in available PRGF resources of SDR 38.8 million or 30 percent of quota to be disbursed in 7 semi-annual installments. The first disbursement of the new credit at decision point is eligible for HIPC debt relief.

2/ Data are actual through February 2010 and are projected after that. Effective on January 7, 2010 interest on ECF credit outstanding would be zero in 2010 and 2011. It is assumed the ECF interest rate would be at 0.25% from 2012 and onward.

3/ It is envisaged that the Fund would disburse HIPC interim assistance to cover forthcoming interest obligations to the Fund net of payment from the Liberian authorities during the HIPC interim period (assumed from March 2008 through June 2010).

Table 8. Liberia: External Financing Requirements and Sources, 2008–13
(US\$ millions)

	Est.	Projections				
	2008	2009	2010	2011	2012	2013
I. Total financing requirement	-4,857	-4,536	-4,425	-1,577	-1,556	-1,245
Current account (excluding donor grants)	-1,575	-1,295	-1,446	-1,541	-1,518	-1,209
Amortization (excluding IMF)	-1,210	-1,536	-672	-20	-21	-21
Amortization (IMF credit and loans)	-860	0	-861	0	0	0
Change in NFA (increase = -)	-15	-178	-7	-16	-17	-15
Reduction in arrears (reduction = -)	-1,197	-1,526	-1,439	0	0	0
II. Available financing	2,688	2,881	2,864	1,561	1,539	1,229
Current transfers	1,087	1,004	1,066	965	875	785
Capital transfers (debt forgiveness)	1,197	1,526	1,439	5	0	0
Foreign direct investment	272	153	355	548	592	319
Official medium- and long-term flows	0	0	0	0	48	65
Private Financing	132	34	4	45	25	61
SDR allocation		163				
Required Financing = I+II	-2,169	-1,655	-1,561	-16	-17	-16
Financing	2,169	1,654	1,561	7	0	0
Identified financing (provisional)						
Debt forgiveness and debt relief grants	1,197	1,526	1,439	0	0	0
Debt rescheduling ^{1/}	90	110	108	0	0	0
IMF ECF-EFF	882	18	14	7	0	0
Financing Gap	0	0	0	-9	-17	-16

Sources: Liberian authorities; and Fund staff estimates and projections.

1. Assumed to be financed by deferral of payments to official bilateral, commercial and multilateral creditors.

Table 9. Liberia: Schedule of Disbursements Under the ECF/EFF Arrangements, 2008–11

Amount	Actual Disbursement Date/ Date of Availability	Conditions for Disbursement ¹
Total : SDR 550.03 million ECF: SDR 207.26 million EFF: SDR 342.77 million	March 14, 2008	Executive Board approval of the three-year ECF/EFF arrangements
ECF: SDR 7.00 million	December 29, 2008	Executive Board approval of the first review under the three-year ECF arrangements
ECF: SDR 7.00 million	May 14, 2009	Executive Board approval of the second review under the three-year ECF arrangements
ECF: SDR 4.44 million	December 21, 2009	Executive Board approval of the third review under the three-year ECF arrangements
ECF: SDR 4.44 million	April 30, 2010	Observance of the performance criteria for December 31, 2009, completion of the fourth review of the arrangements, and financing assurances review
ECF: SDR 4.44 million	October 31, 2010	Observance of the performance criteria for June 30, 2010, completion of the fifth review of the arrangements, and financing assurances review
ECF: SDR 4.44 million	February 15, 2011	Observance of the performance criteria for December 31, 2010, completion of the sixth review of the arrangements, and financing assurances review

¹In addition to the conditions that normally apply to an ECF arrangement.

ATTACHMENT I. SUPPLEMENTARY LETTER OF INTENT

Monrovia, June 7, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Mr. Strauss-Kahn:

The global financial crisis continues to impact our economic growth and employment creation efforts, notably through reduced foreign investment flows and a reduction of government revenues, although signs of recovery are now evident. In this context, we have strengthened our efforts to implement our economic program. We have also completed, to the best of our ability, all of the governance, debt management, social, and public financial management reforms envisaged as HIPC completion point floating triggers, which should bring us to the completion point by June 2010.

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) outlines the implementation results of the ECF arrangement through March 2010 and our macroeconomic policy framework after the completion point.

All quantitative performance criteria under the program through end-December 2009 were observed. We also met all seven structural benchmarks set for completion under the program during October 2009–March 2010, as well as two earlier benchmarks that were met with delay.

We believe that the policies set forth in the attached supplementary MEFP are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. We will continue to consult closely with Fund staff as detailed in our letter of December 3, 2008.

We request modifications of the monitoring framework for end-December 2010 in respect of fiscal and monetary performance criteria in view of our much improved public debt position after the completion point as detailed in the attached Supplementary MEFP and the Technical Memorandum of Understanding (TMU).

On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, we request that the fourth review under the ECF arrangement be completed and the fifth disbursement in the amount of SDR 4.44 million be approved.

Maintaining our policy of openness, we consent to the publication of this letter, the attached MEFP, and the accompanying Executive Board documents on the IMF external website.

Sincerely yours,

/s/
Augustine Ngafuan
Minister of Finance
Ministry of Finance

/s/
Joseph Mills Jones
Executive Governor
Central Bank of Liberia

SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2010

I. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **Our economy is beginning to exit from over a year of setbacks mostly rooted in the global economic downturn.** Budget implementation has been hampered by shortfalls of grants and non-tax revenues. However, public expenditure was correspondingly reduced, and we met the zero borrowing program objective. External investment interest is reviving with significant progress towards restarting iron ore mining and oil palm production, timber exports have resumed, while exports of rubber have stabilized, albeit well below pre-crisis levels. Domestic food production through early 2010 has been buoyant, while growth is accelerating, particularly in construction and communications.

2. **Performance against the quantitative program has been excellent** (Tables 1a-b). All performance criteria at end-2009 were met: the CBL net external foreign exchange floor was exceeded, the CBL implemented a balanced budget in 2009, the adjusted total revenue floor was observed with a small margin, no external or domestic borrowing occurred and no new domestic or external arrears were accumulated. An indicative target on the share of PRS spending in total revenue and grants was met for December 2009; and fiscal indicative targets for end-March 2010 were also met.

3. **We registered good progress in implementing structural reforms under our economic program.** The first public financial management implementation report has been completed detailing progress through end-December 2009 in modernizing information systems, adopting a chart of accounts, setting up a consolidated fund, budget preparation in accordance with the PFM act, and in improving fiscal reporting, accounting and internal audit. A second implementation report is scheduled for May 2010. The ASYCUDA system was operational in the Freeport of Monrovia from January 2010. Tax audits recommenced in January within the context of a risk-based program and improvements in audit integrity. The national accounts establishment survey has been completed albeit with some under-reporting by large enterprises. A Fund expert advised on preliminary national accounts data in April 2010. Installation of debt management software faced logistical delays, but the system was up and running by end-May 2010.

II. HIPC INITIATIVE COMPLETION POINT

4. **We have completed the remaining actions necessary to reach the HIPC Initiative completion point**, with the intention of benefitting from comprehensive debt reduction by mid-2010.

- The first year of PRS implementation (through March 2009) proved challenging, but the adoption of a proactive approach to address underlying financial, logistical and

staffing constraints (detailed in our implementation report issued to the Bank and Fund boards) has re-established momentum.

- Efforts to strengthen public financial management have borne fruit including through implementation of the landmark Public Financial Management Act and its regulations, successive external audits of key government ministries, reconciling tax payments made by firms in extractive industries and forestry, strengthening payroll management and publishing procurement contracts.
- The passage of the new Investment Act and the repeal of the Investment Incentives Act of 1973 transfer investment incentives to the Liberian Revenue Code (LRC), and eliminate administrative discretion in granting fiscal incentives. Remaining incentives have been designed to attract private investments in strategic sectors, promote the use of local raw material in manufacturing, and increase activity in the least developed counties.
- We have made further improvements in our debt management capacity and revised our debt strategy for the post-Completion Point period.
- We have also progressed in raising the geographical coverage of primary health care services; and as a part of our broad governance agenda, the Liberia Anti-Corruption Commission has extended its education, prevention and enforcement operations.

III. ECONOMIC AND FINANCIAL POLICIES

A. Program Objectives

5. **Our core economic and social objectives remain unchanged:** maintaining a broadly stable macroeconomic environment; creating a vibrant private sector, underpinned by both Liberian entrepreneurial development and foreign direct investment; improvements in critical infrastructure, particularly roads, electricity supply, portable water, ports and housing; and improved health and education services, the latter being key to creating the cadre of human resource capacity that will support a broad-based development strategy. The overarching goal is to improve living conditions for the Liberian people, which is essential to maintaining peace and social cohesion.

6. **For the past few years, it has been necessary to focus on relieving the inordinate debt burden of the country, for which we have received invaluable support from the international community under the HIPC Initiative.** Reaching the completion point under this initiative should free up additional fiscal space that will help advance us towards the rapid economic growth needed for post-conflict reconstruction and development. Our efforts to increase fiscal space will include: strengthened domestic tax administration and resource mobilization; more efficient use of existing resources; and greater donor support, with an increasing share channeled through the budget over the medium-term. We will also need to

tap other sources of external financing in a prudent manner. For this reason, development of an ambitious but practical, medium-term public sector investment program—that will more sharply focus donor assistance on priority areas within a coherent program structure—must be a major component of our agenda.

B. Fiscal Policies

7. **In its preparation and substance, the FY11 budget reflects our ongoing commitment to responsible public financial management and sound fiscal policies.** The budget was prepared in close accordance with the new PFM law, including the first-time use of a Budget Framework Paper. Revenue has been realistically projected so as to increase the likelihood of full budget execution and minimize disruptions from unanticipated funding shortfalls. Total resources will increase substantially largely on account of increased budget support grants. However, the deferred implementation of income tax reductions will depress tax revenues in terms of GDP. We expect to be able to increase expenditure by about 2½ percent of GDP in FY11. Moreover, the effectiveness of expenditure will rise, as we will direct an increased share—65 percent of revenues—towards PRS objectives (indicative target).

8. **We may consider a supplementary budget to incorporate loan-financed capital expenditure after the completion point.** We intend to borrow only for capital projects, except in the event of a national emergency and for cash management purposes, thereby maintaining a positive basic balance.³ Such financing would be considered for strategic projects with high rates of return that address the pressing needs of the economy on concessional terms. Any such borrowing would need to be consistent with our updated debt management strategy (¶19).

9. **Our program does not envisage borrowing from the CBL by the central government** (performance criterion). However, in the event of a temporary delay in external budget support or ratified concession signature payments against the program baseline, the CBL may extend short-term credit to the central government up to a ceiling of US\$20 million to cover the external financing gap. Such credit will be lent at mutually acceptable terms, including interest rates, and would be repaid on receipt of delayed budget support (see Annex I, TMU).

10. Overall public sector borrowing over the medium term will be governed by our recently updated debt management strategy (see below).

³ The basic balance is defined as total revenue and grants excluding project grants minus total expenditure excluding domestic and foreign financed investment spending. All foreign financed projects would be treated as investment spending.

C. Monetary and Financial Policies

11. **While our reserve position is considerably strengthened by the SDR allocation, our efforts will continue to promote the use of Liberian dollars that could further enhance reserve adequacy.** To this end, we are committed to continuing to intervene through foreign exchange sales and purchases to contain excessive volatility in the exchange rate taking into account the need to maintain an adequate level of reserves. We are also promoting the use of Liberian dollars in government transactions and through mobile money transfers.

12. **Program modifications for CBL operations are needed after the completion point.** The revised monitoring framework covers external reserves, net domestic assets, payment arrears and central bank lending. Working in close collaboration with the Ministry of Finance we will start monitoring net domestic assets (NDA) of the CBL under the program (new indicative target) to strengthen our liquidity forecasting operations. Accordingly, we request that the performance criterion on the budget balance of the CBL be discontinued after reaching the HIPC completion point. Given the need to maintain foreign reserves, the CBL is committed to not incurring significant overall cash deficits.

13. **Our preparations for starting a treasury bill market are advancing.** Treasury bill auction regulations will be adopted and publicized by end-June 2010 (structural benchmark). To make the treasury bill market fully operational, we plan to set up settlement, payments and depository system with IMF technical assistance. It is anticipated that initially short-term bills of 90 days maturity would be sold by auction to commercial banks. We will aim to achieve zero net borrowing with treasury bill issuance used solely for cash management purposes. Maximum utilization would be set at US\$10 million in FY11 (performance criterion on domestic financing). The CBL would only participate in the market with non-competitive bids and the proceeds would be held in escrow to be used solely for monetary management purposes. Supported by donors' technical assistance, a modernized payments system will be developed to improve interbank settlements and support mobile banking and payments.

14. **The CBL has continued to implement measures to strengthen internal management and financial controls.** The backlog in check processing was cleared. The special audit of CBL data reporting for end-2009 was completed in April 2010 with a clean report of findings. Internal Audit staffing has been strengthened to implement risk-based audit and to get the international financial reporting standards (IFRS) audit system ready.

15. **We have made progress in strengthening the domestic banking system.** All commercial banks now meet the increased minimum capital requirement of US\$8 million. The share of non-performing loans in bank portfolios declined in 2009. The CBL approved a risk-based supervision policy framework in December 2009 to upgrade banking supervision from the traditional compliance-based approach. We will continue to train supervision staff

with technical assistance from the IMF and develop a capacity building program for commercial banks to comply with IFRS by 2012. We will also introduce an electronic financial analysis surveillance system by 2013. We are reviewing foreign exchange position guidelines for commercial banks to address issues related to capital denominated in foreign currency (US dollars) that result in long open positions for hedging purposes.

16. **Efforts continue to safeguard the banking system from financial contagion risks.** In light of extensive foreign ownership of commercial banks, we aim to reach memoranda of understandings with regional supervision authorities to establish information sharing in monitoring banking systems. A memorandum of understanding has already been signed with the Central Bank of Nigeria.

D. Public Financial Management and Governance

17. **Implementation of public financial management reforms has advanced significantly** as detailed in successive implementation reports. Key advances include:

- Adherence to the FY11 budget preparation timetable, including an analytical budget framework paper to inform ministries and agencies, and an annex with state enterprise financial reports and plans;
- Appointment of the DMC and issuance of a revised debt management strategy to govern post completion point policies;
- Creation of a unified accounting function in the Ministry of Finance by merging the functions of the Comptroller General and Bureau of General Accounting;
- The rapid expansion of direct deposit of civil service salaries nationwide, which is nearing completion. We intend to capitalize on this momentum by extending direct deposit to the Legislature and all other recipients of budgetary paychecks in Monrovia by June 2010;
- Progress toward introducing an integrated financial management information system (IFMIS). Suppliers have started deployment of a common IT platform for several financial applications. IFMIS testing will begin in FY11 with full implementation by the start of FY12 (a delay of a year due to procurement issues).

18. **Looking ahead we intend to press ahead with PFM reforms.** We plan to expand the rollout of the ASYCUDA customs system to the Monrovia oil terminal and the Robertsville International Airport (new structural benchmark for December 2010). We also intend to strengthen financial oversight of state owned enterprises in FY11 as envisaged in the PFM Act. Actions in this regard will include initiating regular quarterly reporting of financial data and annual budgets (new structural benchmark for January 2011). On the

internal revenue side we shall commence the automation project integrated tax administration software (ITAS) by July 2010.

E. Debt Management and External Policies

19. **After the HIPC Initiative completion point we will maintain low debt vulnerabilities through the following policies:**

- The public sector will not contract or guarantee non-concessional debt with non-residents with original maturities of one year or more. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent. Exceptions to this policy will be decided on a case-by-case basis in consultation with Fund staff. Key considerations are: concessional funding is insufficient; that the project is critical to economic development; and has high economic and social rates of return.
- All external debt contracted or guaranteed by the central government and public enterprises will require approval by a Debt Management Committee chaired by the Minister of Finance and separately by the Minister of Finance as envisaged under the Public Financial Management Act.
- Gross borrowing by the public sector in foreign currency in any financial year will not normally exceed a sustainable level of borrowing defined as 3 percent of previous year GDP in present value terms (US\$46 million in FY11). The sustainable level of borrowing is set as a performance criterion under the program and would be reviewed periodically in consultation with Fund staff. Borrowing for reserve management purposes by the CBL is excluded from the ceiling.
- Total domestic and external debt of the public sector will not exceed 60 percent of GDP in nominal terms.

20. **Our efforts toward eliminating import permit declarations (IPDs) to facilitate trade are close to completion** (benchmark June 2010). The negative list of goods for which IPDs will still be required will comprise certain foods, health, electrical and medical equipment, military goods and ammunition, and internationally prohibited tradable items. This will help enhance efficiency, reduce business cost and greatly improve our doing business rating in line with our objective to improve the business operating environment.

F. Statistics

21. Our preliminary national accounts data for 2008 suggest that an upward revision of nominal GDP may be appropriate. A program of technical assistance from the Fund and the World Bank will advise on further improvements and the statistical agency LISGIS is expected to release validated national account data by September 2010 and in advance of the fifth review of the ECF arrangement (new structural benchmark).

Table 1a. Liberia: Quantitative Performance Criteria and Indicative Targets, FY2010
(Millions of US dollars, unless otherwise indicated)

	Jun. 09		Sep. 09		Dec. 09			Mar. 10			Jun. 10
	Program	Actual	Program	Actual	Program	Adjusted Target	Actual	Program	Adjusted Target	Actual	Program
Performance criteria and indicative targets¹											
Fiscal targets²											
Floor on total revenue collection ³	230.3	211.3	39.5	52.7	121.5	102.0	116.6	181.5	185.3	204.9	277.6
Floor on fiscal balance ⁴	-20.4	-19.7	0.0	0.8	-4.1	-4.1	-0.9	-4.1	-4.1	19.6	-4.1
Floor on social and other priority spending (percent of total revenue and grants collected) ⁵	...	...	...	...	60.0	60.0	63.8	60.0	60.0	60.1	60.0
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...
Ceiling on new domestic borrowing of the central government	...	...	...	...	...	...	...	...	...	...	0.0
Ceiling on new external borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (continuous basis) ⁶	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new external arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central Bank of Liberia⁷											
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	-1.0	-0.2	-0.4	0.8	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Floor on CBL's net foreign exchange position ⁸	54.2	58.0	57.1	60.3	248.4	248.4	268.9	251.5	251.5	268.5	261.6
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects ⁹	...	...	...	...	20.0	...	0.5	20.0	...	23.8	47.4

¹ Performance criteria at end-June 2009 and end-December 2009 except where marked. All others indicative targets.

² Cumulative within each fiscal year (July 1-June 30).

³ Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level as described in paragraph 4 of the TMU).

⁴ Starting in September 2007, the fiscal balance, on a commitment basis, is defined as the difference between (a) total central government revenue plus budget support (excluding project grants), and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment expenditure), payment of arrears, amortization, and payments to the domestic trust fund. The program target for the floor on fiscal balance allows for a deficit given the accumulation of surpluses in the government's account at the central bank from previous fiscal years.

⁵ Indicative target. Social and other priority spending is defined as the fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.

⁶ Excluding the arrears arising from the current debt outstanding.

⁷ Cumulative; calendar year basis.

⁸ From December 2009, CBL's net foreign exchange position includes SDR holdings and is based on the scheduled disbursement on the current ECF-supported program. In the event of delays to ECF disbursements the floor would adjust down automatically.

⁹ Cumulative; fiscal year basis.

Table 1b. Liberia: Quantitative Performance Criteria and Indicative Targets, FY2011
(Millions of US dollars, unless otherwise indicated)

	Sep. 10	Dec. 10	Mar. 11	Jun. 11
	Program	Program	Program	Program
Performance criteria and indicative targets¹				
Fiscal²				
Floor on total revenue collection of the central government ³	48.2	103.1	198.5	283.3
Floor on social and other priority spending (percent of total revenue and grants collected, indicative target) ⁴	...	65.0	...	65.0
Ceiling on new noncash tax/duty payment to the central government (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables of the central government (continuous basis) ⁵	0.0	0.0	0.0	0.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on non-concessional external borrowing of the public sector (continuous basis) ⁶	0.0	0.0	0.0	0.0
Ceiling on gross borrowing by the public sector in foreign currency ⁷	46.0	46.0	46.0	46.0
Ceiling on new domestic borrowing of the central government ⁸	2.5	5.0	7.5	10.0
CBL				
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0
Floor on CBL's net foreign exchange position ^{8, 9}	264.6	274.5	...	...
Ceiling on CBL's gross credit to central government ^{8, 10}	0.0	0.0	0.0	0.0
Ceiling on net domestic assets of the CBL (indicative target) ^{8, 11}	-37.7	-28.1	...	...
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects ²	0.0	0.0	23.1	31.8
Memorandum item: Programmed receipt of external budget support and ratified concession payments ²	11.0	27.8	47.7	79.0
Memorandum item: Overall fiscal balance ²	1.6	7.8	-1.2	4.0

¹ Performance criteria at end-June 2010 and end-December 2010 except where marked. All others indicative targets.

² Cumulative within each fiscal year (July 1-June 30).

³ Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level as described in paragraph 4 of the TMU.

⁴ Indicative target. Social and other priority spending is defined as the fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.

⁵ Excluding the arrears arising from the current debt outstanding.

⁶ The public sector comprises the central government, the CBL, public enterprises, and other official sector entities as described in paragraph 1 of the TMU.

⁷ This is set at the US dollar term on the basis of net present value of debt to 2010 GDP.

⁸ Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and ratified concession signature payments 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.

⁹ From December 2009, CBL's net foreign exchange position includes SDR holdings and is based on the scheduled disbursement on the ECF program. In the event of delays to ECF disbursements, the floor would adjust down by the cumulated amount of financing relative to the programmed schedule of disbursements.

¹⁰ Cumulative change from June 30, 2010.

¹¹ Indicative target. The net domestic assets of the CBL are defined as base money minus the net foreign assets of the CBL converted into the U.S. dollars at program exchange rates as defined in paragraph 18 of the TMU.

Table 2a. Performance Criteria and Structural Benchmarks, 2009

Measures	Target Dates	Justification	Status
Performance criteria:			
External audit of the central government's accounts for Fiscal Year 2007/08 completed by the General Auditing Commission and submitted to the legislature.	End-March 2009	Critical measure of credible budget execution progress	Met
Program benchmarks:			
Revised foreign exchange auction procedures including guidelines on purchase auctions and direct foreign exchange sales adopted by the CBL Board and made public.	End-March 2009	Transparency in the auction is important to stabilizing the exchange rate—the main anchor for monetary policy in Liberia	Met
Regulations for the new comprehensive Public Financial Management Act issued by the Minister of Finance.	End-June 2009	Critical to implement the new PFM Law from FY 2009/10	Met with delay in December 2009.
Regulations and guidelines under the Public Procurement and Concessions Act approved by Cabinet and issued.	End-July 2009	Improve the pace and transparency of non wage spending by line ministries and agencies	Met with delay in December 2009.
First half-yearly on-site inspection report completed for each commercial bank, and reports, including directives and follow-up actions, approved by the Compliance Committee.	End-September 2009	Important for continued reinforcement of the soundness and stability of the banking system	Met (for all banks operating more than six months).
Full balance of payments statistics for 2008 completed and published by the CBL and LISGIS.	End-October 2009	Improve macroeconomic statistics and program monitoring	Met.
National Accounts establishment survey completed.	End-December 2009	Urgently needed to monitor program performance and post conflict recovery	Met with delay. Revised survey completed April 2010.
Debt management software installed to support data storage, analysis, reporting and interface between the CBL and the Ministry of Finance.	End-December 2009	Critical safeguard against the re-accumulation of unsustainable debt after Liberia's exit from the HIPC process	Met with delay. Interface still to be completed.

Table 2b. Structural Benchmarks, 2010

Measures	Target Dates	Justification	Status (April 2010)
Program benchmarks:			
Implementation of ASYCUDA in Monrovia Free Port.	End-February 2010	Trade facilitation and tax administration enhancement.	Met January 2010.
Restart tax audits of large taxpayers .	End-March 2010	Absence of tax audits of large taxpayers poses a significant revenue risk.	Met January 2010.
Adoption of comprehensive chart of accounts.	End-March 2010 (rephased from June 2009)	Strengthen budget transparency and credibility	Met January 2010.
Two successive quarterly implementation reports of the PFM law circulated to legislature, cabinet, GAC and development partners.	End-April 2010	Implementing PFM reforms and legislation is critical for delivering government services and mobilizing external support for the budget	Met with delay. 1 st quarterly report circulated February 2010. 2 nd report drafted in April 2010 and circulated June 3, 2010.
Remove the import permit declaration requirement for imports covered by ASYCUDA. (A positive list containing a limited number of goods that are subject to price controls or affect national security will require clearance by the Ministry of Commerce.)	End-June 2010	Removes a cumbersome administrative barrier that raises operating costs and prices through effective reduction of competition.	Inter-ministerial discussions ongoing.
Treasury bill auction regulation adopted by the CBL Board and publicized.	End-June 2010	Develop domestic capital market, provide an instrument for short-term domestic financing, and facilitate de-dollarization.	Treasury bill framework paper discussed with stakeholders.
Direct salary payments to banks for all Monrovia-based civil servants.	End-June 2010	Reduce scope for fraud and encourage monetization and de-dollarization.	87 percent of Monrovia employees covered at end-March 2010.
Compilation of a comprehensive computerized asset registry by the General Services Agency of all ministries and agencies.	End-June 2010	Enhance transparency and accountability of fiscal operation.	Ongoing., Electronic inventory completed for 85 of 89 ministries and agencies as of June 1, 2010.
Publication of validated national accounts data for 2008 by the Statistical agency LISGIS	End-September 2010 (new benchmark)	Provision of critical data for economic surveillance and macroeconomic policy.	
Extend ASYCUDA system to the Monrovia oil terminal and international airport	End-December 2010 (new benchmark)	Trade facilitation and tax administration enhancement.	
Regular quarterly reporting of state owned enterprise financial operations to Ministry of Finance.	End-January 2011 (new benchmark)	Essential for program monitoring of public sector borrowing.	

TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria and structural benchmarks for the Extended Credit Facility program, as well as the reporting requirements.

I. DEFINITIONS

1. **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, 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), and other official sector entities.

2. **Total revenue collection** includes all tax and nontax receipts transferred into the U.S. dollar GoL 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 General Account No. 2, the GoL Special Rice Fund, and the Liberian dollar account at the CBL comprising the GoL General Account. 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 four accounts specified above converted to U.S. dollars using the end of period exchange rate.

3. **The program floor on total revenue collection will be adjusted downward** to the extent that signing bonuses and payments into Social Development Funds from new iron ore projects fall short of the program schedule, cumulative within the fiscal year

Cumulative Signing Bonuses and Social Development Fund Payments
from New Iron Ore Projects, 2010/11
(U.S.\$ millions)

	Program path
September 2010	0.0
December 2010	0.0
March 2011	23.1
June 2011	31.8

4. **Social and other priority spending** is defined as fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.
5. **The overall fiscal balance of the central government through end-June 2010** is defined as—the difference between (a) revenue including grants and earmarked external loans; and (b) government current expenditure, plus capital expenditure plus payment of arrears, amortization, and payments to the domestic trust fund. From July 1, 2010 the overall fiscal balance **of the central government** is defined as—the difference between (a) total revenue including grants; and (b) total expenditure, excluding payment of arrears, amortization, and payments to the domestic trust fund.
6. **Noncash tax/duty payment** is defined as any noncash settlement of duty/tax obligations to the GoL through the exchange of goods or services.
7. **Gross borrowing by the public sector in foreign currency** is defined as cumulated new foreign currency claims by residents and non-residents from July 1, 2010 on the public sector excluding borrowing for reserve management purposes by the CBL.
8. **New domestic borrowing of the central government** is defined as new claims on the central government since the start of the program in domestic and foreign currency. It will be measured by the change in the stock of all outstanding claims on the central government (loans, advances, and any government debt instruments, such as long-term government securities) by the banking system plus the net issuance of debt instruments by the GoL to the nonbank sector. For the purposes of measurement, all claims in Liberian dollars will be converted to U.S. dollars at the end of period exchange rate.
9. **New domestic arrears/payables of the central 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 Economic Community of West African States (ECOWAS) levies into the ECOWAS account.
10. **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.

11. **Contracting or guaranteeing of new external debt by the public sector applies to borrowing with non-residents with original maturities of one year or more.** For the purposes of the program, external debt applies not only to the meaning set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. (79/140) adopted August 3, 1979, as amended August 31, 2009, effective December 1, 2009 attached in **Annex I**), but also to commitments contracted or guaranteed for which value has not been received.
12. **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).
13. **The ceiling for contracting and guaranteeing nonconcessional external debt by the public sector will be set at zero continuously throughout the program period except as agreed with Fund staff.** The ceiling for contracting and guaranteeing nonconcessional debt excludes short-term import-related credits, rescheduling arrangements, borrowing from the Fund.
14. **Payment arrears of the CBL** are calculated as the difference between payments due on commitments from the start of the program and actual payments made on those commitments. For the purpose of this memorandum, the CBL's commitments due include all expenditure for which goods and services have been delivered but have not been paid for.
15. **The CBL's cash-based budget balance** is defined as the difference between (a) total revenues (the sum of interest income and non-interest income) on a cash basis and (b) total current expenditure plus capital expenditure, on a cash basis. The CBL budget balance is monitored as a performance criterion under the arrangement through end-June 2010.
16. **CBL gross credit to central government** is defined as the sum of claims on central government, including loans, advances, accounts receivable, 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 government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at a fixed rate of the Liberian dollar against the U.S. dollar denominated claims, 72.00 as of September 30, 2009. Other currencies are valued at cross-rates against the U.S. dollar as of September 30, 2009.
17. **The net foreign exchange position of the CBL** is defined as the difference between (a) the CBL's gross foreign reserves including SDR holdings, as currently defined in the monthly monetary survey and (b) the sum of its gross foreign liquid liabilities and liquid liabilities denominated in U.S. dollars, as currently defined in the monthly monetary survey. In the event of delays to ECF disbursement, the floor of the net foreign exchange position of

the CBL will be adjusted down by the cumulative amount of financing relative to the programmed schedule of disbursements. The net foreign exchange position of the CBL is presented in the U.S. dollar. SDR holdings are valued at a fixed rate of the U.S. dollar against SDR, 1.5844 as of September 30, 2009. Other currencies are valued at cross-rates against the U.S. dollar as of September 30, 2009.

18. **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 16. Base money is defined as the stock of currency in circulation plus reserve deposits of commercial banks at the CBL, plus sight deposits of commercial banks at the CBL and plus vault cash of commercial banks. The net foreign assets of the CBL are defined as foreign assets minus foreign liabilities of the CBL balance sheet.

19. **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 and ratified concession signature payments. The adjuster will be calculated on a cumulative basis from July 1, 2010.

Cumulative Program External Budget Support and
Ratified Concession Signature Payments
(In millions of U.S. dollars)

September 2010	11.0
December 2010	27.8
March 2011	47.7
June 2011	79.0

II. PROGRAM MONITORING

A. Program–Monitoring Committee

20. The Liberian authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the CBL, and other relevant agencies. The IMF Resident Representative will have observer status on this committee. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of benchmarks. The committee shall provide the IMF with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

B. Data Reporting to the IMF

21. 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:

- Detailed reports on monthly 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);
- Disbursements of budget support grants and loans by donor (monthly, within three weeks after the end of the month);
- Daily balances in the GoL accounts at the CBL. These comprise the U.S. dollar: GoL General Account No. 2; the GoL Special Rice Fund; and Liberian dollar accounts: the GoL/CBL Civil Servant Payroll Account No.2, and the GoL General Account. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF also (daily, within three days from the date of the statement);
- End-of-month balances of all operating and other accounts of the line ministries and agencies receiving budgetary appropriations (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.) (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 report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);
- A report on monthly payments on foreign currency debt by category and the domestic debt stock (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 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 by individual financial institution, including the overall profitability of the banking sector (quarterly, within three weeks after the end of the quarter);
- CBL cash revenues and expenditures in U.S. dollar and Liberian dollar terms, on an aggregated basis (including both recurrent and capital expenditure), and CBL expenditures on a commitment basis (periodically in the context of program reviews);
- The report on foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL (weekly), including U.S. dollars offered and sold, the auction rate, the number of accepted and rejected bids, the total value of bids and of rejected bids, foreign exchange auction sales to non-bank customers;
- 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 (weekly);
 - export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and non-commercial 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 Ministry of Finance.

- The report on the status of implementation of the structural performance criteria and benchmarks specified in Table 2 of the MEFP (monthly, within three weeks after the end of the month).

22. 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.

Annex 1: Guidelines on Performance Criteria with Respect to External Debt

Excerpt from Executive Board Decision No. 6230-(79/140), as revised on August 24, 2000, as amended effective December 1, 2009.

(a) For the purpose of this guideline, 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 some time 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. For the purpose of the guideline, 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 this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are 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.