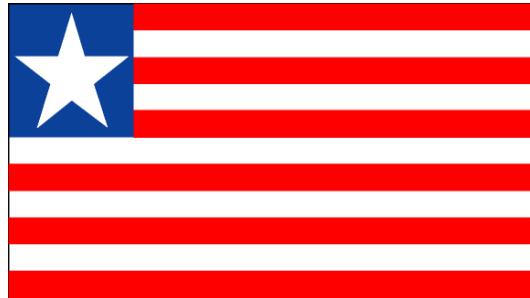


# COUNTRY REVIEW

## Liberia



21 August 2009

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**EULER HERMES COUNTRY RISK GRADE: D**

**Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.**

## COUNTRY PROFILE

Capital city:	Monrovia
GDP:	USD1,230mn (2008e)
Population:	3.75mn (2008e)
GDP per capita:	USD330 (2008e)
Currency:	Dollar (LRD)
Form of state:	Republic
Head of government:	President Ellen Johnson-Sirleaf
Next elections:	Presidential and legislative by October 2011

In elections generally deemed fairly contested, Ellen Johnson-Sirleaf won the presidential poll in November 2005 and took office in January 2006. She became **the country's first elected head of state** and took over in that role following **14 years of debilitating and violent civil war**, which ended in 2003. The president appears firmly in control of government, has appointed experienced and technically-competent ministers and is generally popular with the electorate, although there are now tentative signs of frustration that a "peace dividend" is being slow in resolving problems in service provision (including electricity and water supply) and there are perceptions of a lack of improvement in general living standards. Johnson-Sirleaf is also widely respected among African leaders and maintains **good relations with international organisations and the donor community**. The UN maintains a peacekeeping force of around 12,000 personnel but military elements within this number will be reduced gradually in the next two years. Progress has been made in the establishment of a new domestic army and police force, but there are concerns locally about their ability to deal with high levels of crime and potential regional threats to stability.

While international relations are now much improved, **the regional environment remains tense**. West Africa is a highly charged region, with neighbouring Côte d'Ivoire, Sierra Leone and Guinea of uncertain stability and the area has a history of localised disputes in one country being exported across porous borders.

The civil war destroyed Liberia's physical and economic structures, as well as the government's capacity to devise and implement policies. Starting from a very low base, government priorities from 2003 were to expand on the existing peace and security background, revitalise the economy, improve the rule of law, rebuild infrastructure and deliver basic services. The prospects for economic growth have improved considerably and annual average real GDP expanded by 6.5% in 2004-08. Donor-funded reconstruction activity and recovery in **agriculture (which accounts for over 60% of overall GDP)** led growth, but this was from a relatively weak base. The current global recession will have inevitable adverse effects on the economic recovery because of weaker commodity demand, reduced interest in investment in mining sectors and revised commitments in aid pledges. Nevertheless, continuing strong recovery in agricultural output and IFI support will limit the local downturn and **we forecast that real GDP growth will be around 5-7% in both 2009 and 2010**.

Local demand for US dollars remains high and that unit will continue to be preferred for settling imports (the USD is legal tender in Liberia, circulating alongside the local dollar). Donor inflows, foreign investment and workers' remittances are likely to continue to contribute valuable amounts of foreign currency, despite the global recession. Steps have also been taken to increase foreign exchange earnings from the country's export of **natural resources, including timber, diamonds, gold and coffee**. In July 2007, the government lifted a six-year moratorium on the mining, sale and export of gem diamonds. Both the timber and diamond trades were restricted by international bans at the height of the civil war, with the UN imposing sanctions in 2001 when ex-President Charles Taylor was accused of using the sale proceeds to fund regional wars, including in Sierra Leone. The UN lifted those sanctions in April 2007, following improved domestic regulations. Government-run diamond certification offices were established to ensure that gems mined in Liberia and neighbouring Sierra Leone are properly accredited under the international diamond certification scheme, or Kimberley Process.

With the diamond trade being resurrected and a general improvement in stability and business conditions, export revenues increased. However, imports have expanded more strongly as a result of reconstruction work and general economic rebuilding so that a **large current account deficit (still around 20% of GDP, including grants)** has been registered. Financing gaps are filled by loans,

grants and other aid disbursements from the international donor community. Accordingly, Liberia will **remain aid dependent** into the medium term.

Recent economic policy has focused on reconstruction and development, particularly in delivering basic services (including electricity and water) and laying the groundwork for sustainable economic growth. **Relations with the IMF, World Bank and donor community are likely to remain good** and this support will be crucial for positive and sustainable growth going forward. The African Union (AU) and ECOWAS (regional economic body) cancelled Liberia's arrears of membership contributions. Moreover, in December 2007, arrears to the World Bank's International Development Association (IDA) and to the African Development Bank were cleared. Liberia cleared its arrears to the IMF, amounting to SDR543mn, in March 2008 and **the Fund** has provided assistance through Staff Monitored Programmes (SMP), an Extended Finance Facility in 2008 and **currently extends a three-year Poverty Reduction and Growth Facility (PRGF), which runs until March 2011**. The Fund is broadly positive in relation to Liberia's adoption of appropriate policies, although it acknowledges that there are **significant capacity constraints and the rate of recovery has been slowed by the current global recession**, particularly in relation to the weak demand for commodity exports.

In February 2008, the IMF and World Bank classified Liberia as eligible for assistance under the enhanced Heavily Indebted Poor Countries (HIPC) initiative. However, **completion point has yet to be reached under the HIPC and full debt relief remains the next goal**, subject to continued satisfactory progress under the PRGF and appropriate completion of trigger points in relation to structural reforms, economic indicators and governance. In its latest review in June 2009, the Fund noted that Liberia had met most of the criteria set by the IMF through to end-2008.

On reaching its completion point under the HIPC, Liberia will qualify for unconditional debt relief. Moreover, it will receive further debt assistance under the Multilateral Debt Relief Initiative (MDRI) from the World Bank's IDA and the African Development Fund (AfDF), together with post-HIPC assistance from the IMF.

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