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Liberia: Staff Report for the 1999 Article IV Consultation and Staff-Monitored Program

This report was prepared by a staff team of the International Monetary Fund following discussions with the officials of Liberia on economic developments and policies. The report was then considered by the IMF's Executive Board in the context of the IMF's periodic consultation with Liberia, as required under Article IV of the IMF Articles of Agreement. The views expressed in the staff report itself are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF or of the authorities of Liberia; a supplementary statement by IMF staff may also be included. The views of the Executive Board as expressed in the discussion of the Article IV consultation report and as summarized in a Public Information Notice (PIN) are also included. In addition, a statement by the member country authorities may be appended. Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports allows for the deletion of market sensitive information.

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INTERNATIONAL MONETARY FUND

LIBERIA

Staff Report for the 1999 Article IV Consultation and Staff-Monitored Program

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Paul A. Acquah and Christian Brachet

February 14, 2000

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Background

- Liberia's seven-year civil war caused widespread destruction to the country's physical infrastructure and nearly half of the population was displaced. Following a peace agreement in August 1996 and democratic elections in July 1997, the economy has experienced a strong recovery, though real GDP per capita remains only about one-third of the prewar level.

- The exchange rate and inflation have remained stable in 1998 and 1999 in the context of a balanced fiscal position (on a cash basis) and fixed supply of currency. There was a significant fiscal deterioration during the first 11 months of 1999 resulting from sizable extrabudgetary expenditures. The authorities took remedial measures in December and reduced the overall fiscal deficit on a commitment basis to ½ of 1 percent of GDP in 1999.

The January-June 2000 Staff-Monitored Program

- Real GDP is projected to grow by about 20 percent in 2000 and inflation is expected to remain in the range of 3-4 percent. The external current account deficit (including grants) is also expected to remain in the range of US$50 million.

- The program aims at achieving a balanced fiscal position on a cash basis, the avoidance of any accumulation of new domestic payments arrears, and the elimination of the current stock of domestic payments arrears. Financial policies are geared toward introducing a new currency during February-March 2000 to replace the existing stock of JJ Roberts and Liberty banknotes, to capitalize the central bank, and to substantially improve banking supervision capacity and oversight at the new central bank.

- Key structural reforms during January-June 2000 relate to: the full liberalization of rice imports; the development of an action plan to liberalize petroleum imports; and limited reforms in the civil service and public enterprises, dependent on donor financing.

Staff Position

- The authorities will need to establish a credible record of policy performance as a basis for a possible donors meeting in mid-2000, and to improve relations with the Fund and other external creditors. Fiscal performance and transparency will be critical in this regard.

- Macroeconomic policies in 2000 will need to be underpinned by tight expenditure management. Budget execution must be monitored on a monthly basis and fully reflect all expenditure commitments of the government.

- To restore private sector confidence and encourage foreign investment, full implementation of the structural reform agenda is needed. Institutional capacity will also need to be strengthened in the context of additional donor financial and technical support.

I. Introduction

1. **The 1999 Article IV consultation discussions were held in Monrovia during April 30–May 7, 1999 and November 30-December 13, 1999,** following a ten-year hiatus during the period of civil strife.[1] [2] In addition, discussions on a six-month staff-monitored program (SMP) covering the period January-June 2000 were completed during the November-December mission; the letter from the Minister of Finance, dated February 14, 2000, and the memorandum of economic and financial policies (MEFP) are attached (Appendix I). The Liberian authorities have agreed to publish the 1999 Article IV staff report and the letter of intent and memorandum of economic and financial policies.

2. **Liberia has been in continuous arrears to the Fund since December 1984.**[3] In concluding the most recent review of Liberia's overdue financial obligations to the Fund on October 13, 1999, Directors regretted that slippages in the fiscal area had not been addressed and that only one of the four prior actions for initiating discussions on a new SMP had been completed in full. They urged the authorities to redouble efforts to bring the budget back on track, to complete fully all remaining prior actions, and to provide all necessary information to the Fund. They indicated that this would greatly help to reach understandings expeditiously with the staff on a new staff-monitored program. Directors also noted that, if Liberia did not adequately strengthen cooperation with the Fund by the time of the next review, consideration would be given to the initiation of the procedure on suspension of Liberia's voting and related rights in the Fund.

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[1] The staff team during the April-May mission comprised Mr. Coe (head), Mr. Kyei, Mr. Bvumbe (all AFR), and Mr. Rizavi (PDR). The subsequent mission consisted of Mr. Moser (head), Mr. Kyei, Mr. Tjirongo, Ms. Kawakami (all AFR), and Mr. Staines (PDR). Mr. Jones, Advisor to the Executive Director for Liberia, participated in the discussions, and a World Bank mission took part in the November-December policy discussions. During the April-May mission, the staff met with Minister of Finance, John Bestman, Governor of the National Bank of Liberia, Charles Bright, and other senior government officials. Meetings during the November-December mission were held with Minister of Finance, Nathaniel Barnes, Minister of Planning, Lamin Kawa, Minister of Commerce, Amelia Ward, Governor of the Central Bank of Liberia, Elie Saleeby, and other senior officials in charge of economic policy issues, as well as with private sector, NGO, and donor representatives.

[2] Liberia's relations with the Fund and the World Bank Group are summarized in Appendixes II and III, respectively; social indicators are contained in Appendix IV; and a draft Public Information Notice (PIN) is contained in Appendix V.

[3] At end-December 1999, Liberia's arrears were SDR 470.0 million (659 percent of quota).

3. **The quality, coverage, and timeliness of statistical information in Liberia is poor,** with the civil war having destroyed much of the country's statistical base, as well as the capacity to prepare core statistical indicators (Appendix VI). While some progress has been made recently in preparing provisional GDP estimates, as well as monetary and balance of payments statistics, important deficiencies remain in these areas and the authorities have requested substantial technical assistance. Sizable revisions to data are likely as improvements to the quality and coverage of the data are made.

II. Background and Recent Economic Developments[4]

A. Background

4. **During Liberia's devastating seven-year civil war (1989-96), economic activity was severely disrupted and the country's physical infrastructure was largely destroyed.** With the collapse of central authority and mounting regional and ethnic fighting, the delivery of services collapsed, and the population became massively displaced, with a large number fleeing to neighboring countries.

5. **A peace agreement between the warring factions was signed in August 1996,** paving the way for the disarmament of combatants and national elections. Mr. Charles Taylor, leader of the National Patriotic Party (NPP), was elected President in July 1997. While the security situation has improved considerably in Liberia, it remains difficult in some regions in the north, following incursions from Guinea of Liberian ex-combatants in April and August 1999.

6. **The war took a heavy toll on the population, although the situation has recently begun to improve.** Of the total prewar population of 2.5 million, it is estimated that some 250,000 people died, while 480,000 became refugees in neighboring countries and about 700,000 were internally displaced. The newly elected government—with considerable assistance from the international donor community—began resettling refugees and internally displaced persons in late 1997; by end-1999, a large proportion had been resettled. At the same time, minimal levels of basic social services have resumed. With the assistance of donors and

Liberia: Social Indicators (1997-98)

	Liberia	Sub-Saharan Africa
GDP per capita (U.S. dollars)	150-200	503
Life expectancy at birth (years)	47	51
Birth rate per 1,000 people	46	41
Under-5-mortality rate (per 1,000 live births)	194	147
Physicians per 10,000 population	0.2	...
Adult literacy rate(in percent)	48	58

Source: World Bank, *World Development Indicators,* and Fund staff estimates.

[4] Developments in 1997-1998 have been reviewed in EBS/99/16 (2/12/99) and EBS/99/94 (6/11/99). Developments in 1999 are discussed in Appendix I (MEFP, paragraphs 3-11).

nongovernmental organizations (NGOs), the government has rehabilitated 230 health clinics, 14 hospitals, and 13 health centers, out of a prewar total of 330 clinics, 31 hospitals and 54 health centers. In addition, school enrollment (both primary and secondary levels) already exceeds prewar levels, thanks to government and NGO efforts to rehabilitate school facilities and ensure that teachers' salaries are paid on a timely basis.

7. **The authorities have maintained close relations with the Fund.** In January 1998, the Liberian authorities agreed on an economic and financial program that could be monitored informally by Fund staff. The first phase of the SMP was completed in June 1998, and a second phase (July 1998-March 1999) was agreed in October 1998. However, implementation during the second phase was weak, and the program veered off track in early 1999, largely as a result of substantial extrabudgetary expenditures.

8. **In May 1999, the staff identified four prior actions to initiate discussions on a new SMP.** [5] Three of the prior actions were subsequently completed, relating to (a) the full accounting of maritime revenues and expenditures in the budget; [6] (b) provision of a satisfactory explanation and accounting of the purchases of vehicles and related equipment for the government which had occurred outside the budget process (financed by the private petroleum importer, West Oil) in 1998 and 1999; and (c) inclusion in the 1999 budget of the revenue from the rice stabilization fee. The fourth prior action, related to balancing the budget during the first half of 1999 (on a commitment basis), was not achieved. However, the government significantly improved budget performance during December 1999 and implemented a number of measures to improve expenditure management, with a view to achieving a balanced budget in 2000.

B. Real Sector Developments

9. **Domestic production has rebounded strongly following the end of the civil war, although it still remains only about one-third the prewar level** (Table 1 and Figure 1).[7] Based on provisional data, real GDP is estimated to have about doubled in 1997 and increased by a further 25-30 percent in 1998, mainly reflecting a postwar surge in food and

[5] With the proliferation of off-budget expenditure in 1998 and early 1999, the prior actions were considered a necessary first step toward improving the transparency of the budget process and establishing a government-wide system of expenditure control.

[6] Maritime revenue reflects income generated from vessels registered under the Liberian flag.

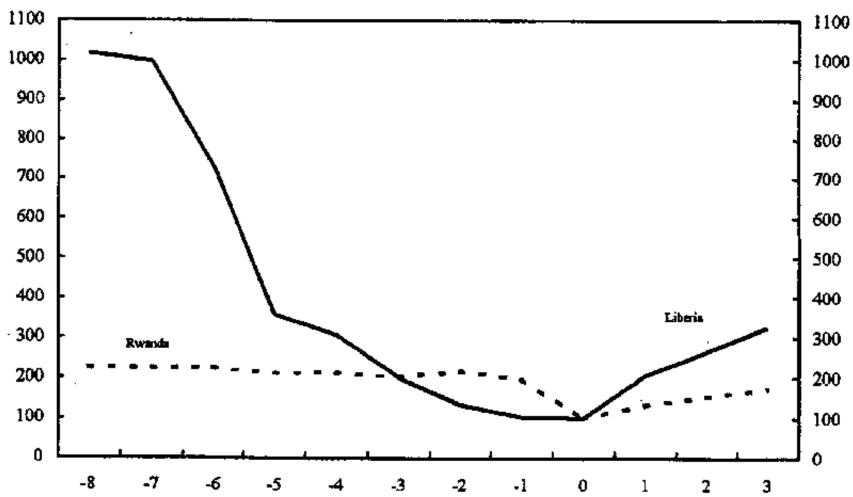
[7] Box 1 compares Liberia's postwar economic recovery with that of Rwanda, which experienced a similar dislocation and subsequent return of its population.

Box 1. Post-Conflict Economic Recovery: Experiences of Liberia and Rwanda

By the end of the war in 1996, domestic production in **Liberia** had plummeted to about 10 percent of the prewar level: the tertiary sector which had accounted for about half of the real GDP in the prewar era was paralyzed; the agricultural sector, the second largest contributor, suffered from displacement of the population;[1] and mining capacity was destroyed. In the immediate postwar period, real GDP is estimated to have rebounded significantly, doubling in 1997 and increasing by almost 30 percent in 1998, which together brought back domestic production to about one-third of the prewar level. The strong recovery was concentrated in agriculture and forestry and was largely attributable to the improvement in the security situation which allowed the return of internally displaced persons and refugees, as well as the startup of forestry and rubber operations.

The strong postwar economic recovery in Liberia resembles in many ways that of **Rwanda**, which also suffered from social and political conflict during 1990-94. Rwanda's development potential was significantly undermined by substantial loss of life, mass exodus, and internal displacement of the population during the civil war.[2] Following weak economic performance during 1987-93, real GDP in 1994 was estimated to have declined by more than one half, mainly driven by a 45 percent decline in agricultural output caused by disruption of normal agricultural activity as a result of the massive displacement of the population. Real GDP rebounded by 33 percent in 1995 and had almost fully recovered by 1997, owing in large part to the recovery in agricultural production, enabled by the return of internally displaced persons and refugees. The near-full recovery in three years is reflective of the initial postwar effect experienced in Liberia, with the return of the population to agriculture, though the initial loss was much greater in Liberia, and full recovery will take much longer.

Economic Decline and Recovery in Liberia and Rwanda
(Index, base year = 100) 1/



Sources: IMF, *World Economic Outlook;* and Fund staff estimates and projections.

1/ Base year is the year in which the war ended; 1994 for Rwanda and 1996 for Liberia

[1] It is estimated that some 250,000 people died during the conflict in Liberia, 700,000 were internally displaced, and 480,000 people became refugees in neighboring countries—equivalent in total to about 50 percent of the population.

[2] Out of a total population of about 7.9 million in early 1994 in Rwanda, it is estimated that up to 1 million died, 2.3 million became refugees in neighboring countries, and about 1.5 million were congregated in various camps—equivalent in total to about 60 percent of the population.

crop production, with particularly sharp increases in rice and cassava output.[8] The recovery in food crops has been facilitated by the return of displaced persons and refugees, and the provision of seeds and tools by the government, international agencies, and NGOs. In addition, the recovery in overall output has been supported by a sizable increase in rubber, timber, and charcoal production, although admittedly from a very low base. Real GDP per capita, at some US$150-200 in 1998-99, remains well below the prewar level of US$500.

10. **Preliminary crop estimates and trade data suggest sustained strong economic growth in 1999,** with sizable rice and cassava harvests, the further expansion of timber production, and the coming onstream of revitalized rubber operations. The two largest rubber producers (Firestone and LAC) initiated sizable medium-term investment projects to begin to restore operations to prewar levels, and a large foreign investor began timber operations in 1999.

11. **Inflation and the exchange rate have remained stable.** Twelve-month inflation averaged 3 percent in October 1999, although there were fluctuations related to the food supply situation.[9] The exchange rate in terms of the U.S. dollar—which had averaged about L$60 during the first half of 1997—appreciated to L$42 in August of that year as confidence returned following democratic elections (Figure 2).[10] During 1998, the Liberian dollar averaged L$41, despite a temporary loss of confidence triggered by the mid-September security incident in Monrovia. During the first 11 months of 1999, the rate averaged L$42, before appreciating to L$37 in December, largely reflecting seasonal factors related to remittances from Liberians living abroad.

C. Fiscal and Monetary Developments

12. **Fiscal policy was tight in 1998, but deteriorated significantly in the first 11 months of 1999 (Table 2 and Figure 3).** While a balanced budget was targeted for 1999 as a whole, a deficit of US$11 million (2½ percent of GDP) was recorded during January-November 1999 (on a commitment basis). Revenue performed broadly as programmed during this period, increasing by 35 percent over the corresponding period in 1998, largely because of higher customs and excise tax revenue. Expenditure commitments, however, were

[8] The Food and Agriculture Organization (FAO) estimates that rice and cassava output recovered to 70 percent and 90 percent of prewar levels, respectively, in 1998.

[9] May 1998 is the first month for which consumer price information is available.

[10] The currency of Liberia is the Liberian dollar, and includes Liberty and JJ Roberts banknotes, which trade at 2 Liberty=1 JJ. The official 1:1 parity of the Liberian dollar with the U.S. dollar was rescinded in August 1998. The exchange rate is market determined, and the U.S. dollar remains legal tender in the country. The officially quoted exchange rate refers to the rate between the Liberty dollar and the U.S. dollar.

70 percent higher than the same period in 1998, owing to some US$13 million in unbudgeted expenditures related to the purchase of government vehicles and equipment, the refurbishing of the Ministry of Foreign Affairs, and security-related outlays (Box 2). The deficit was financed by the accumulation of domestic payments arrears.

Box 2. Extrabudgetary Expenditures

During the half-yearly review of the 1999 budget, it was observed that certain expenditures had occurred outside the framework of the budget, relating to revenues withheld at source and spent by the collecting agencies. The 1999 budget now reflects these expenditures, including the following:

- Revenues withheld by the petroleum parastatal (LPRC) from the US$0.25 per gallon petroleum import levy in lieu of government payment for the purchase of Isuzu Troopers and other vehicles (US$5 million), and from the US$0.20 petroleum sales tax for development projects (US$4 million);
- Revenues from the US$1 per bag rice stabilization fee, which were spent on development projects (US$1.7 million);
- Stumpage fees withheld by the Forestry Development Authority to reimburse logging companies for the repair and opening of roads in the interior (US$0.7 million); and
- Property rental payments made directly to the Ministry of Foreign Affairs, which were withheld by the Ministry to reconstruct ministry buildings and renovate Liberian embassies abroad (US$2 million).

In addition, the authorities have provided detailed information on US$10 million of financing provided by the West Oil Corporation to the government in late 1998. Equipment purchases of US$8 million included Isuzu Troopers, buses, sedans, trucks, and concrete mixers. These items were supplied to the legislature and judiciary (35 percent); general administration (40 percent); social and community services (20 percent); and economic services sector (5 percent). The balance of US$2 million was allocated to security-related expenses following the incursion in Lofa county in 1999.

13. **In December 1999, the government took decisive actions to improve budget performance and reverse expenditure overruns.** Efforts to increase revenue collections were intensified, while an interagency budget management team was established to oversee monthly expenditure allotments. In addition, in an effort to improve expenditure controls, a task force completed its review of the outstanding stock of unpaid vouchers (US$10 million) that had accrued in 1999. The task force found that a large proportion of the domestic payments vouchers had been held up by the Ministry of Finance pending a review of the claims, and that some 80 percent (US$8 million) of the total vouchers did not have proper documentation or reflect underlying contracts. Confirming that goods and services had not yet been provided, the Ministry of Finance canceled these payments vouchers, requesting ministries to submit any new expenditure requests as part of the 2000 budget process.

14. **Consequently, the budget deficit for the year 1999 as a whole was reduced to US$2 million (½ of 1 percent of GDP)**, owing to strong revenue performance in December (US$2 million above projection) and the cancellation of the US$8 million in domestic payment vouchers. The fiscal deficit was financed by the accumulation of US$2.3 million in domestic payments arrears, yielding a cash surplus of US$0.3 million.

15. **With a fixed stock of money and an illiquid central bank, there has been limited scope for monetary policy in Liberia,** and monetary developments during 1998 and 1999 reflected the problems in the financial sector and the economy in general. Tentative balance sheets for the commercial banks and the central bank were compiled by the newly created Central Bank of Liberia during the November-December mission, with Fund technical assistance. These balance sheets are being reviewed by the authorities, as a number of inconsistencies remain. However, based on these tentative statements, broad money increased by 13 percent from December 1998 to September 1999,[11] owing primarily to the increase in demand deposits, financing a modest increase in the net foreign assets of the commercial banks; reserve money increased by 4 percent over the same period (Table 3). Credit to the private sector expanded by 18 percent during this period, largely reflecting the accrual of interest on the existing stock of credit, with commercial bank lending rates averaging 14 percent in real terms in the third quarter of 1999. Net claims on government increased by 3 percent for the period, primarily reflecting an accumulation of interest on bank claims.

16. **Following the passage of the new central bank law in March 1999, the Central Bank of Liberia (CBL) replaced the largely defunct and illiquid National Bank of Liberia (NBL) in October 1999.** Based on recommendations by the Financial Sector Reform Secretariat, a new Financial Institutions Act was passed in 1999. The Fund continued providing technical assistance to the central bank in 1999 in the areas of research, administration, banking supervision, and monetary policy.

D. External Sector Developments

17. **The external current account deficit has narrowed significantly since the end of the war,** from an estimated 27 percent of GDP in 1997 (including grants) to 9½ percent in 1999, as exports continued to recover and humanitarian-related imports declined (Table 4). Exports rose by 70 percent in 1998 and by a further 30 percent in 1999 (in U.S. dollar terms), mainly reflecting developments in the rubber and timber sectors. Nevertheless, exports remained at only 10 percent of prewar levels.[12] Imports, which fell by 34 percent

Liberia: Export Developments (in millions of US dollars)

	1988	1997	1998	1999
Exports	443	25	43	56
Rubber	107	19	29	32
(percent of total)	(24.1)	(76.7)	(66.7)	(56.9)
Timber	94	5	12	22
(percent of total)	(21.2)	(19.0)	(27.4)	(39.1)
Iron ore	208	0	0	0
(percent of total)	(47.0)	(0.0)	(0.0)	(0.0)
Other	34	1	3	2
(percent of total)	(7.7)	(4.3)	(5.9)	(3.9)

[11] These data must be viewed with caution, as commercial bank reporting is not yet considered reliable and a number of inconsistencies in the data remain to be addressed.

[12] Iron ore operations, which generated 45 percent of prewar exports, were destroyed during the war and will require significant investment before production can resume.

in 1998, rose by only 4 percent in 1999, thanks in large part to the decline in humanitarian imports and the shift to domestic food production.

18. The trade deficit averaged US$115 million per year in 1998-99 and was largely financed by donor grants, private remittances from Liberians living abroad, and foreign direct investment. (Donor financing is reviewed in detail in Box 3.) Lacking access to external financing and international reserves, official external debt-service obligations were financed through the accumulation of arrears in 1998 and 1999, with the exception of US$50,000 in monthly payments to the Fund. Liberia is faced with an onerous external debt (US$2.6 billion at end-1999, equivalent to 570 percent of GDP), much of which is in arrears. The current external debt situation is reviewed in Box 4.

E. Structural Reforms

19. **The implementation of structural reforms in Liberia was slow in 1998 and 1999**. In the area of statistics, the National Statistics Coordinating Committee has met quarterly since May 1999 to reestablish the economic database, and the Ministry of Planning and Economic Affairs has published monthly price developments since May 1998. A civil service audit was completed in July 1999, resulting in the identification of some 3,000 undocumented workers, while a new salary scale was introduced in August (increasing the minimum monthly wage from L$175 (US$4) to L$850 (US$20)). In an effort to begin the process of their reintegration into civil society, some 12,000 ex-combatants were brought onto the public sector payroll in the third quarter of 1999.

20. A World Bank-financed team from Liberia visited Senegal and The Gambia in October 1999 to study the experiences of the two countries in **liberalizing rice imports**. Drawing lessons from the experience in these countries, the team recommended a speedy liberalization of the rice sector in Liberia (described in Appendix I, MEFP (paragraph 30)).

III. Report on Discussions and Staff-Monitored Program

21. **The discussions took place against the backdrop of a strong postwar recovery in economic activity and an improved security situation in the region**. The authorities expressed concern, however, that the recovery could not be sustained or broadened to include all productive sectors unless actions were taken to rebuild the country's physical infrastructure and institutional capacity. They also agreed that key structural reforms would need to be implemented in tandem with the reconstruction program. The discussions focused on articulating a medium-term reconstruction and economic reform strategy and on a program for the first half of 2000 that could be monitored by Fund staff. The authorities expressed hope that satisfactory performance under the SMP and the articulation of a medium-term strategy would help form the basis for a donors' conference in mid-2000 to discuss the strategy and the substantial financing requirements that remain, as well as the initial steps to be taken to normalize relations with external creditors.

A. Medium-Term Reconstruction and Economic Reform Strategy

22. In early 1998, the newly elected government prepared a two-year national reconstruction program to guide its initial infrastructure and resettlement efforts (Box 3). Building on the success of this initial effort, **the authorities are in the process of developing a medium-term reconstruction and economic reform strategy**. The strategy

Box 3. The National Reconstruction Program and Donor Financial Support

In early 1998, the newly elected government developed a comprehensive, two-year reconstruction program, with an emphasis on infrastructure and social sector rehabilitation. In April 1998, the government presented the reconstruction program to the international donor community in Paris and requested financial and technical assistance support totaling US$433 million:

- US$318 million for reconstruction, including US$96 million for social sector rehabilitation and US$151 million for infrastructure;
- US$50 million for capacity building, including US$19 million for governance and civil service reform-related activities and US$16 million for economic management; and
- US$65 million in budget support, for civil service reform and economic management.

International donors suggested program implementation be phased, with the first phase oriented toward humanitarian assistance and resettlement of refugees and the internally displaced. In addition, concerned over capacity limitations in the government, donors announced their intention to provide financial support primarily through nongovernmental organizations. Of the US$220 million pledged by donors for the first phase, the European Union pledged US$100 million, the United States US$76 million, and the Netherlands US$20 million, with the remainder mainly from United Nations (UN) agencies. The authorities estimate that some 90 percent of donor pledges had been committed to specific projects by end-1999.

In terms of sector allocation, donors have provided the following assistance:

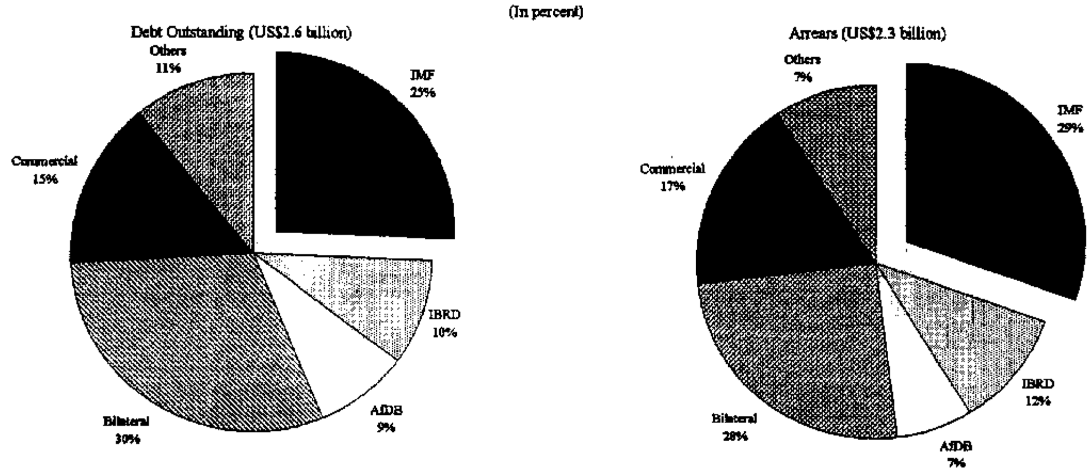
- The EU provided US$18 million for food aid, US$15 million for social sector support, US$15 million for repatriation and resettlement, US$11 million for agriculture and rural development, US$9 million for infrastructure, and US$5 million for governance and civil service reform. In addition, the EU has recently identified an additional US$30 million in program support (half of which would be for infrastructure).
- The United States during FY 1998 and FY 1999 provided US$77 million, comprising US$55 million for humanitarian assistance (mainly food aid and relief), US$11 million for resettlement and demobilization, US$6 million for governance and democracy and US$5 million for rehabilitation and reintegration.
- The Netherlands has provided US$20 million in assistance toward resettlement, the social sector, and capacity building and governance.
- The United Nations is providing its assistance largely for humanitarian relief, resettlement and demobilization, as well as agriculture, capacity building/governance, and the social sector.

A Bank-led multidonor mission visited Monrovia in mid-November 1999 and found good progress had been made in implementing the first phase of the government's reconstruction plan, despite security concerns. The mission also noted that the security situation had improved overall and that humanitarian relief had yielded positive results. The donor mission concluded that a second donors meeting could proceed as soon as possible after satisfactory performance under the first review of a new staff-monitored program. The emphasis of the second donors meeting would be on a comprehensive program of reconstruction and economic reform, donor financing for the second phase (which averaged US$110 million annually in 1998-99), and an initial discussion of the external debt situation.

Box 4. Liberia's Unsustainable External Debt Situation

Liberia's external debt at end-1999 was about US$2.6 billion (570 percent of GDP), including $2.3 billion in arrears (excluding estimates of interest on arrears). Financial obligations to the Fund of US$645 million—all in arrears—represented about 25 percent of total external debt and 29 percent of arrears. (52 percent of Fund debt represents interest and charges due.) Scheduled debt-service charges, excluding interest on arrears, were some US$52 million (11.6 percent of GDP and 79 percent of government revenue) in 1999, with US$14.5 million due to the Fund. The government allocated US $0.6 million for external debt-service payments to the Fund in 1999.

Liberia: Public Sector External Debt, End-1999
(In percent)



Source: Liberian authorities.

While detailed information on creditors is not yet available, it is estimated that multilaterals represent 52 percent of the total external debt stock and 53 percent of arrears at end-1999. With the Fund representing 29 percent of the total stock of arrears, it is clear that a strategy for external debt for Liberia will need to deal with the arrears to the Fund.

Official bilateral donors (almost entirely Paris Club) represent 30 percent of external debt and 28 percent of arrears. Debt to commercial creditors (primarily commercial banks loans) also represent an important though minority share.

Debt and Arrears of Liberia, end-1999

(US $ millions)	Liberia
Quota (millions of US dollars)	97
Debt to all creditors including arrears at end-1999	2553
of which: arrears to all creditors	2257
Debt to the Fund including arrears at end-1999	645
% of debt to all creditors	25
of which: arrears to the Fund	645
Arrears to the Fund as % quota	662
Arrears to the Fund as % of arrears to all creditors	29

takes into consideration the unique circumstances of Liberia, including the near-total destruction of the country's infrastructure, the still fragile security situation, the return of Liberian refugees from neighboring countries, the resettlement of internally displaced persons, and the reintegration of ex-combatants (totalling some 20,000). The authorities expect to complete the strategy by April 2000, with the assistance of Bank and Fund staff.

23. **The objectives of the government's medium-term strategy are to consolidate and sustain the current economic recovery and to achieve a considerable reduction in poverty.**[13] The key components of the framework include maintaining a stable macroeconomic environment; accelerating the reconstruction of core infrastructure; rebuilding institutional capacity; undertaking civil service and public enterprise reform; introducing further trade liberalization; and restructuring the financial sector. Improving transparency and promoting good governance and the rule of law also constitute core components of the strategy. The authorities are in the process of costing out the strategy and developing a financial plan. Medium-term projections prepared by the staff are provided in Appendix VII and include alternative scenarios based on financing availability.

24. **In discussing the medium-term strategy, the authorities underscored the need to attract foreign and domestic private investment to accelerate growth over the medium term,** particularly in the rubber, forestry, and mining sectors. The mission responded that a predictable legal and regulatory environment—in addition to a stable macroeconomic environment—would be needed to attract the necessary private investment. The mission also underscored the importance of maintaining a fully transparent and open process in the granting of concessions in these sectors. The authorities said they intended to develop an appropriate regulatory framework to ensure a level playing field for all investors and would seek technical assistance in this area.

B. January-June 2000 Program[14]

25. **The objectives of the government's program during January-June 2000 are to consolidate progress in restoring macroeconomic stability and rebuilding the economy, and to continue to restore public confidence.** Real GDP is projected to grow by over 20 percent in 2000, as food and cash crop production continues to increase and timber and rubber exports expand further. With a tight fiscal stance and a stable exchange rate, consumer price inflation is expected to remain below 4 percent in 2000, while the external current account deficit (including grants) is projected to be about US$50 million.

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[13] The strategy is described in detail in Appendix I (MEFP, paragraphs 12-18).

[14] The program is summarized in Box 5 and described in detail in Appendix I (MEFP, paragraphs 19-44).

Box 5. Staff-Monitored Program, January-June 2000

Objectives

- Establish credible track record of policy performance.
- Maintain macroeconomic stability.
- Accelerate structural reforms, particularly with respect to rice and petroleum importation.
- Build capacity to implement comprehensive reform and reconstruction program.
- Improve transparency and promote good governance.

Prior actions to complete discussions

- Substantially improve fiscal position in December 1999, with a view toward balancing budget in 2000. (Done)
- Receive satisfactory description of the extrabudgetary purchase and financing of Isuzu Troopers and other vehicles/equipment. (Done)
- Fully reflect Rice Stabilization Fund fees in the 1999 budget. (Done)
- Fully account for maritime revenue and expenditure in the budget. (Done)

Quarterly quantitative benchmarks[1]

- Cumulatively balance budget during the first six months of 2000 on a cash basis, with a floor on revenue and ceiling on expenditure, including reducing domestic payment arrears by US$2.7 million.
- Maintain ceiling of zero on new wage and nonwage government domestic arrears.
- Ensure no new credit from the banking system contracted or guaranteed by the central government.
- Ensure no new nonconcessional external borrowing contracted or guaranteed by the public sector.

Structural benchmarks[1]

- Prepare and submit balanced 2000/2001 budget to the legislature.
- Complete verification of all unpaid 1998/99 voucher claims.
- Fully liberalize rice imports, including elimination of minimum import requirements, quality requirements (except as related to health and safety concerns), and price controls. A monitoring system will be established prior to this to assure consumers of continued supply.
- Capitalize the CBL as specified in the Central Bank Act.
- Introduce prudential guidelines for commercial banks and adopt procedures for assessing banks' capital adequacy based on international best practices.

[1]Quantitative and structural benchmarks are provided in Annex I-II of Appendix I.

Fiscal policy

26. **The core of the government's stabilization policy in 2000 will be a balanced budget on a quarterly basis and the avoidance of any accumulation of new domestic payments arrears**. The authorities intend to implement an interim six-month budget for January–June 2000 and move to a July-June fiscal year on July 1, 2000, in conformity with

the 1977 Revenue and Finance Law. [15] It is expected that the new fiscal-year budget will be discussed with the authorities during the first review of the SMP, including reviewing revenue yields from the proposed revisions to the tax code, which remain to be finalized by the authorities. The authorities will submit a balanced budget for the 2000/01 fiscal year to the legislature by end-June 2000.

27. **Total revenue is programmed to be US$33 million during the January-June 2000 period,** with tax revenue of US$21 million, maritime revenue of US$7 million, and nontax revenue of US$5 million. With a view toward encouraging investment and expanding the tax base, the authorities, as noted above, will **introduce a new tax code** on July 1, 2000. The new code, drafted with Fund technical assistance, introduces a sales tax and revises the income and corporate tax codes (Box 6 and Appendix I provide a detailed review of the tax regime). Tax administration will be substantially strengthened during the year, with technical assistance provided by the Fund. The government will also review the numerous customs exemptions currently provided to various sectors and organizations by end-April 2000, and introduce measures to prioritize their application and reduce their level, based on best practices in the region, by July 2000.

28. **Total expenditure of US$33 million is programmed for January-June 2000,** including US$9 million for wages,[16] US$2½ million to reduce the stock of domestic payments arrears,[17] and US$6 million for priority social and community sector activities. While external interest obligations will not be fully serviced, the government will provide US$50,000 per month to the Fund.[18] With respect to expenditure control, a budget analysis task force has been established and will issue monthly budget execution reports within 15 days of the end of each month. In addition, a contingency reserve equivalent to some 6 percent of quarterly revenue (US$1 million) will be created to improve cash management. The authorities confirmed that no further wage awards would be granted during the supplemental budget period, and that all nonessential foreign travel would be frozen.

[15] A return to the July-June fiscal year cycle would also enable the budget to incorporate better the sizable maritime receipts, a sizable proportion of which are received during the last week of December or early January.

[16] The sizable increase in the wage bill reflects the August 1999 wage awards and the temporary inclusion of 12,000 ex-combatants onto the payroll.

[17] The stock of domestic payments arrears at end-1999 was US$2½ million, excluding US$120 million in war-related arrears currently under review.

[18] The interim six-month budget continues to include debt service on a cash basis in the budget, given the lack of reliable data on domestic and external obligations. It is expected that the 2000/01 budget will include estimates of debt service obligations.

Box 6. Developments in the Tax Regime

In October 1997, the government introduced a sweeping tax reform package in an effort to correct some of the main distortions in the tax system and to increase tax revenue. The May 1999 Fund techncial assistance mission found that revenue performance was poor and indirect taxes were relatively unimportant, while a number of new discretionary excise taxes had become important revenue sources. It also found that the personal income tax (PIT) created inequities, while the suspended business income tax was too complex for many small businesses. In addition, it was apparent that the tax base had been seriously eroded by numerous tax and duty exemptions. The authorities intend to overhaul the tax system by mid-2000, with a view to strengthening the tax base, moving toward an increased reliance on indirect taxation, and encouraging domestic and foreign investment.

The new tax code legislation, which is designed to take effect for most purposes on July 1, 2000, would put in place a reform package to replace the 1997 emergency business turnover tax. In addition it would:

- restore the suspended business tax in a revised form to permit generous but economically neutral investment incentives and reduce complexity;
- introduce an administratively simple sales and service tax to replace the many miscellaneous "nuisance" taxes that burden commerce;
- revise excise taxes to derive additional revenue from the production of goods that have ancillary social and environmental costs; and
- restore tax administration to streamline revenue collection and increase accountability on the part of both taxpayers and tax administrators.

October 1997 Emergency Tax Code

The 1997 tax code instituted the following changes:

- A 4 percent turnover tax temporarily replaced corporate income tax and the business trade levy.
- Taxes on individual, sole proprietors, partnerships, trusts and estates with a progressive schedule of marginal rates (ranging from 11 percent to 65 percent) and 12 income tax brackets.
- The number of import duty rates was reduced to four: 0 percent, 2.5 percent, 7.5 percent, 25 percent.
- An export duty of 5 percent was introduced on all agricultural products for export, excluding rubber which is taxed under a separate scheme.
- All taxes were made payable in the currency in which business transactions were conducted.

Proposed 2000 Tax Code

The proposed code would introduce the following changes:

- a revised PIT rate structure with maximum marginal rate of 35 percent and seven tax brackets;
- a new business income tax with a flat rate equal to the top PIT rate;
- a flat general sales tax of 7 percent;
- excise taxes on a few high-revenue-yielding commodities (alcoholic beverages, soft drinks, tobacco, petroleum products, and luxury cars); and
- the determination of tax liabilities in Liberian dollars.
- The proposed code would make no change in the external tariff structure.

In addition, the mission reiterated that all revenues and expenditures, including those related to security, should be transparently reflected in the budget.

Monetary and financial policy

29. **The monetary and financial policy discussions centered on the activities of the newly established central bank.** The CBL stressed that the overarching monetary policy objective of the new central bank would be price stability. However, it would take time before the monetary policy framework could be developed and operations instituted, as the CBL lacked the resources and institutional capacity. In this regard, during January-June 2000, the monetary program would continue to remain tight, as the CBL would refrain from extending credit to the government and the issuance of new currency would be limited to an exchange for the existing stock of currency. Consequently, reserve money would be expected to increase by some 4 percent during the first half of 2000, reflecting a modest increase in international reserves, as the authorities begin to rebuild international reserves gradually during the year. Broad money growth is expected to remain below the rate of real growth of the economy. The authorities are expected to begin to produce monthly monetary statistics by end-February 2000 and to prepare a monetary programming framework for the July-December 2000 period for discussions with Fund staff by April 2000.

30. **On exchange rate policy,** the monetary authorities confirmed that the exchange rate of the Liberian dollar would remain market determined, with the U.S. dollar retained as legal tender. They noted that a freely floating exchange rate, in the context of a tight fiscal stance and a constrained financial sector, would help maintain a stable macroeconomic environment that should encourage foreign and domestic private investment. They also stressed the benefits of a flexible exchange rate given the country's vulnerability to external shocks and lack of international reserves. The mission underscored the point that, with the introduction of a new currency and the rehabilitation of the banking system, it would be important to maintain a tight fiscal and monetary stance to increase confidence in, and the demand for, the Liberian dollar.

31. **The mission reviewed with the authorities the preparatory work under way with respect to issuing a new currency to replace the Liberty and JJ Roberts banknotes.** The authorities reported that financing for printing the currency had been secured and the exchange would take place by March 2000. The authorities explained they expected a two-step process. In the first step, the new currency would be exchanged through the banking system, retiring both JJ and Liberty banknotes. The current market exchange rate of 1JJ for 2 Liberty would be used in the exchange (the rate previously used to withdraw JJ notes in circulation), and one Liberty dollar would be exchanged for one dollar of the new currency. The second step would involve withdrawing banknotes outside the banking system, primarily in areas outside Monrovia. The mission supported the authorities' plans, but noted that there were substantial risks associated with the exchange, including maintaining confidence in the currency and the central bank, and encouraged the authorities to seek further technical assistance from the Fund, if needed.

32. **The staff stressed that there were serious problems in the banking system,** and urged the authorities to quickly complete the capitalization of the newly created central bank. Staff noted this would be necessary to allow the CBL to begin to restructure the banking system. In this regard, the mission also stressed the need for the monetary authorities to agree with the Ministry of Finance on the outstanding stock of government debt owed to the CBL by end-March 2000. This would allow the adoption of a plan to regularize the government's arrears to both the CBL and the commercial banks, by July 1, 2000, a critical initial step toward reforming the banking system.

33. **The mission supported the CBL's efforts to improve its capacity to adequately supervise the commercial banks.** The mission urged the authorities to accelerate their efforts in this area, within the context of their capacity constraints, and to introduce prudential guidelines for commercial banks, based on international standards, by end-April 2000.[19] The authorities explained that an initial financial assessment of each of the commercial banks was prepared in February 1999, with technical assistance from the Fund. A further assessment would be completed by the CBL in the first part of 2000, with Fund technical assistance, and banks that did not meet the minimum paid in capital requirement would be required to submit a program of corrective action before new provisional licenses would be issued to them. The mission reiterated that the CBL should proceed cautiously in licensing new banks until it had the capacity to inspect and supervise banks.

Structural reforms

34. **The discussions on structural reforms centered mainly on the civil service and the elimination of monopolies,** as the authorities agreed there was a need to focus attention on priority sectors, given institutional capacity constraints. The authorities agreed to fully liberalize rice imports by end-June 2000. At the same time, the mission and the authorities agreed that adequate buffer stocks would need to be made available and a public information campaign undertaken in advance of the liberalization date to ensure that rice shortages not occur.[20] The World Bank agreed to assist the authorities in establishing a monitoring system by end-February 2000 that would provide daily information on stocks of rice held by importers, as well as the price levels of various qualities in the domestic and international markets, to assure consumers of continued supply. In the area of petroleum imports, the authorities saw the benefits of liberalization, and suggested a study tour be undertaken similar to the one completed for rice. They agreed to prepare an action plan for the liberalization of petroleum imports, with the assistance of the World Bank, by June 2000. An independent accounting firm will prepare the operational and financial accounts of the

[19] The financial sector is reviewed in Box 7.

[20] There remains a deep-rooted fear of rice shortages, as rice riots in 1979 led to the coup that toppled the Tolbert government and brought the Doe regime to power.

Box 7. Financial Sector Assessment

The Liberian financial sector comprises the following:

- the Central Bank of Liberia (CBL), which was established in October 1999, replacing the largely defunct and illiquid National Bank of Liberia (NBL);
- 13 registered commercial banks, of which only 5 are active (including a newly licensed bank that commenced operations at the end of October 1999); of the five commercial banks operating, two are branches of foreign banks, two are locally incorporated subsidiaries, and one is a locally owned subsidiary;
- 11 active insurance companies; and
- a number of credit unions and informal savings associations.

State of the banking system
The banking system faces a number of structural problems, including the following:

- Substantial nonperforming assets accumulated largely as a result of the war, but also owing to the unfavorable legal and institutional environment for bank lending.
- The central bank is illiquid and thus is unable to put in place measures to deal with the confidence problems created by the closure of banks.
- As a result of the above, the operations of the banking system have been reduced. The total assets of the five active commercial banks at end-1998 were US$93.2 million, against the US$94.4 million for the inactive banks.
- About 85 percent of the total loan portfolio of commercial banks was classified as nonperforming at end-1998.

Source of banking problems
The problems started in the 1980s, when the U.S. dollar-based monetary system was transformed into a de facto national monetary system:

- Chronic budgetary and balance of payments deficits eroded confidence in the economy, resulting in a sharp decrease in U.S. dollar banknotes in circulation which in turn caused a significant contraction in the money supply and a shortage of liquidity in the economy.
- An expansionary monetary policy in response to the liquidity constraints, and the need to finance the soaring budget deficits, led to an increase in the supply of Liberian dollars, largely in the form of Liberty $5 coins and, since 1989, Liberty $5 notes, which became the principal medium of exchange in Liberia.
- Beginning in 1985, a parallel market thrived in Liberia, with the Liberian dollar trading at a substantial discount against the U.S. dollar. The monetary authorities retained a one-to-one exchange rate parity with the U.S. dollar when the Liberian dollar lacked international convertibility, and the government was unable to guarantee local convertibility.
- As foreign borrowing dwindled, the central bank borrowed heavily, including bankers' reserves, from the domestic banking system to on-lend to government, while credit to the private sector diminished.
- The interbank clearing system started to experience difficulties, partly due to increasing issuance of government checks against inadequate balances, and, as liquidity constraints worsened, commercial banks became reluctant to cash or accept checks drawn on the central bank or other banks.

Recent initiatives
On the policy front, several steps were taken during 1997-99 to restore and improve the soundness of the banking system:

- A Banking Commission was set up in 1997 to make recommendations to rehabilitate the banking system.
- The Financial Sector Reform Secretariat (FINREF) was established in 1998 to implement the recommendations of the Banking Commission.
- A new Central Bank Act, establishing the Central Bank of Liberia, was promulgated during 1999, and a new Financial Institutions Act became law during 1999.
- The CBL acted swiftly to implement the recommendations of the Banking Commission, including drawing plans for its own rehabilitation and of the banking system as a whole.
- The CBL has also introduced measures to replace the Liberty and JJ Roberts notes (the two Liberian currencies) with a new Liberian dollar by March 2000 and to reactivate the payments and check-clearing system.

petroleum parastatal (LPRC) by June 2000, and an independent financial audit (based on internationally accepted accounting standards) will be completed by end-December 2000.

35. **On public sector and public enterprise reforms, the mission welcomed the civil service audit, that had identified 3,000 "ghost workers,"** and the study conducted by the Public Sector Reform Commission on reform options. It was agreed, however, that in view of capacity and financial constraints, further progress in this area would hinge critically on donor support, and the next step would be the completion of a functional audit of the civil service, with World Bank support. The authorities noted that they had prepared a report on restructuring the security services, which they intended to implement. They also intend to reintegrate some 20,000 ex-combatants into civil society, but explained that they urgently needed technical and financial support to proceed. They explained that, as a necessary interim measure, 12,000 ex-combatants had been added to the public sector payroll. The mission responded that this should be viewed as a temporary measure, and the authorities noted that they intended to move forward with a reintegration program as soon as resources and technical assistance became available.

36. **Capacity constraints remain a key area of concern, and the government intends to solicit support from donors in priority areas in the coming months.** In particular, the authorities are currently discussing capacity building projects on economic management with the UNDP and the European Union, while the World Bank is providing grant assistance for capacity building across economic sectors of the government, largely in terms of the provision of equipment and technical assistance. In the coming year, the World Bank plans to concentrate on assisting the government in its efforts to liberalize rice and petroleum imports and restructure the civil service. The European Union is providing technical assistance in the areas of ports management and water, with a view to improving institutional capacity. The government is also discussing technical assistance requirements in the area of reforming the civil service and security services with UN agencies and key bilateral donors. In terms of the Fund, the authorities have requested continuing capacity-building technical assistance at the Central Bank of Liberia, the Ministry of Finance, and the Bureau of the Budget. The mission encouraged the authorities to accelerate their work with donors to ensure the provision of the necessary assistance for rebuilding institutional capacity.

37. **The mission agreed with the authorities that significant progress had been made in addressing the issues of poverty,** including the repatriation of refugees and resettlement of the internally displaced population. It was also agreed that significant additional financial aid was needed to consolidate the progress made to settle the internally displaced population, and to expand social services. The authorities expressed their intention to continue to address overcrowding in schools and inadequate health services in the context of annual budgetary allocations, while seeking donor support. In terms of social indicators, the mission was informed that the UNDP was currently drafting a human development report.

External sector policies

38. **The external current account deficit (including grants) is projected to remain in the range of 9½ percent of GDP in 2000.**[21] Export earnings are projected to increase by 30 percent, led by continued strong growth in timber and rubber, while imports are expected to rise by 12 percent, primarily reflecting higher world petroleum prices. Current transfers are expected to continue to largely finance the US$115 million trade deficit, including US$72 million in official grants and US$32 million in private remittances from Liberians living abroad.

39. **The capital account surplus is anticipated to increase to US$20 million in 2000,** owing to an increase in foreign private investment and a modest resumption in trade financing. Given the lack of external financing, the overall balance of payments deficit of US$45 million and a modest increase in international reserves (US$1.5 million) would be financed by a further accumulation of arrears on external debt.

40. **The government will continue to rely on grants and loans on concessional terms** and the Ministry of Finance (MOF) will remain the sole institution responsible for approving any new external borrowing contracted or guaranteed by the government. To prepare the ground for discussions with key donors and creditors, the government intends to strengthen the external debt-management capacity of the MOF, and will seek donor support in this area, including a loan-by-loan review of the outstanding stock of external debt. The authorities will also seek to improve the coordination of donor and NGO activities with ongoing government programs.

41. **The government intends to continue to make monthly payments to the Fund of US$50,000, with a view to reducing the rate of increase in the accumulation of arrears.** Given the difficult external situation and pressing need of the country to rebuild its infrastructure following the civil war, the authorities explained it would not be possible to increase payments at this time. The government places a high priority on restoring normal financial relations with its external creditors, both official and commercial, and plans to discuss its relationship with creditors later in 2000. The staff welcomed the government's intention to review its level of payments to the Fund and other multilateral donors as part of the 2000/2001 budget.

42. In the area of exchange and trade arrangements, the authorities indicated that **the Central Bank of Liberia Act, adopted on March 18, 1999, is the only legislation governing foreign exchange transactions**. The staff is currently reviewing the Central Bank law in order to determine whether it raises any jurisdictional issue under Article VIII Sections 2, 3, and 4. While there are official arrears on external debt to official and commercial creditors, the mission was not yet in a position to verify whether exchange

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[21] Excluding grants, the deficit rises to 26 percent of GDP in 2000.

restrictions arose from the lack of availability of foreign exchange for the making of payments and transfers for current international transactions. It was agreed that following the review of the relevant legislation and regulations and a complete assessment of the foreign exchange system, staff would subsequently discuss with the authorities their intention to accept the obligations of Article VIII Sections 2, 3, and 4. With respect to the trade regime, the authorities reiterated their desire to maintain a liberal trade regime. They believed the low simple average tariff rate of 11.6 percent (with four duty rates) reflected this priority.[22] Nonetheless, the authorities agreed to further review the tariff regime and consider removing the 5 percent export tax as soon as domestic tax collection permits. The authorities also expressed their desire to review and possibly renew regional trade agreements which had been allowed to lapse during the conflict.

Statistical issues

43. **The staff urged the authorities to press ahead with their efforts to reconstruct Liberia's statistical base**, and to regularly provide core statistical indicators to the Fund. The authorities indicated that they had begun preparing monthly consumer price and exchange rate data, and would soon be able to compile a monthly monetary survey. The authorities asked for further technical assistance in compiling the monetary statistics and for assistance with national income accounts and balance of payments statistics.

IV. STAFF APPRAISAL

44. The seven-year civil war devastated Liberia's infrastructure and human capital base, and the country has begun the long process of recovery and rehabilitation. It has made progress, with substantial assistance from the international donor community, in resettling a substantial proportion of the 480,000 refugees living in neighboring countries and the 700,000 internally displaced people.

45. The economy has rebounded strongly since the end of the war, particularly the agriculture and forestry sectors, though real income remains only about one-third of the prewar level. To maintain this momentum and broaden its impact on all productive sectors, the government will need to expand its focus from near-term relief and reconstruction to a more comprehensive reconstruction and economic reform program. While the authorities have outlined such a strategy, they will need to ensure that its implementation focuses on fostering private sector development, good governance, and transparency. At the same time, rehabilitating transport, communications, and public service infrastructure will be a costly and lengthy process, and require close coordination with the World Bank and key donors.

[22] There are currently four import tariff rates, ranging from 0 to 25 percent and averaging 6.6 percent. In addition, a customs user fee of 5 percent is levied on all imports. Further, a 5 percent tariff is imposed on selected agricultural exports, most importantly timber.

46. The macroeconomic situation has remained stable since the end of the conflict, with the 12-month inflation rate averaging 3 percent in October 1999 and the exchange rate in the range of L$41-L$42 per U.S. dollar in 1998 and 1999. The government remains committed to its economic and financial program monitored by Fund staff. After the program went off track in early 1999 as a consequence of substantial extrabudgetary expenditures, the government took corrective actions to improve fiscal performance in the fourth quarter of 1999. The outcome was helped by the timely cancellation of payments vouchers for which adequate documentation had not been submitted and for which goods and services had not been provided, underscoring the need to substantially and quickly improve expenditure management and controls.

47. The new SMP for January-June 2000 seeks to address the serious structural problems underlying expenditure management. In this regard, the establishment of an interagency budget-monitoring task force will help to coordinate the activities of the various agencies involved in approving expenditures and the review of monthly expenditures and revenue against cash-flow projections. Nonetheless, it will be important for the authorities to firmly maintain expenditures within the framework of the budget and accurately reflect all expenditure authorizations and transactions in the budget. The establishment of a contingency reserve should help in this regard. The introduction of the new tax code by July 2000 will also be an important measure to expand the tax base and improve tax administration. The authorities' commitment to publish the letter of intent and memorandum of economic and financial policies for the program monitored by the staff is a welcome effort toward improving the transparency in economic management in Liberia.

48. The staff supports the new Central Bank of Liberia's plans to develop a monetary policy framework based on reserve money programming, with technical assistance provided by the Fund, but cautions that the CBL will need to be adequately capitalized and its staff adequately trained to operate effectively. The continuation of an appropriately restrained monetary stance, supported by a tight fiscal position, will be important in the near term to build confidence in both the central bank and the new currency, and should allow for a gradual increase in international reserves. In the circumstances of Liberia, maintenance of a market-determined exchange rate is appropriate, including retaining the dollar as legal tender,. As an exporter of primary commodities, a flexible rate will help the country weather external shocks. Nonetheless, it will be necessary for the authorities to maintain a stable macroeconomic environment to support the exchange rate and to encourage a steady increase in demand for the new Liberian dollar.

49. The issuance of new currency to replace the existing stock of JJ Roberts and Liberty banknotes is important but should proceed with caution. To allow for a smooth transition and to foster confidence in the new currency during the transition period, the staff agrees with the authorities' comprehensive plans to retire the outstanding stock of JJ Roberts and Liberty banknotes. The staff supports maintaining the conversion rate for JJ Roberts and Liberty notes at 1 JJ for 2 Liberty, and the replacement of Liberty notes one-for-one with the new currency.

50. It is important that the authorities now focus on rebuilding the banking system, as a well-functioning financial sector will be critical for the continuation and expansion of the economic recovery. The CBL will need quickly to strengthen its capacity to supervise the banking system and should work expeditiously to assess the health of each of the existing commercial banks. It should require prompt corrective actions for those banks that do not meet minimum paid in capital requirements but are assessed to be viable institutions. Plans should also be developed to merge or close the remaining banks.

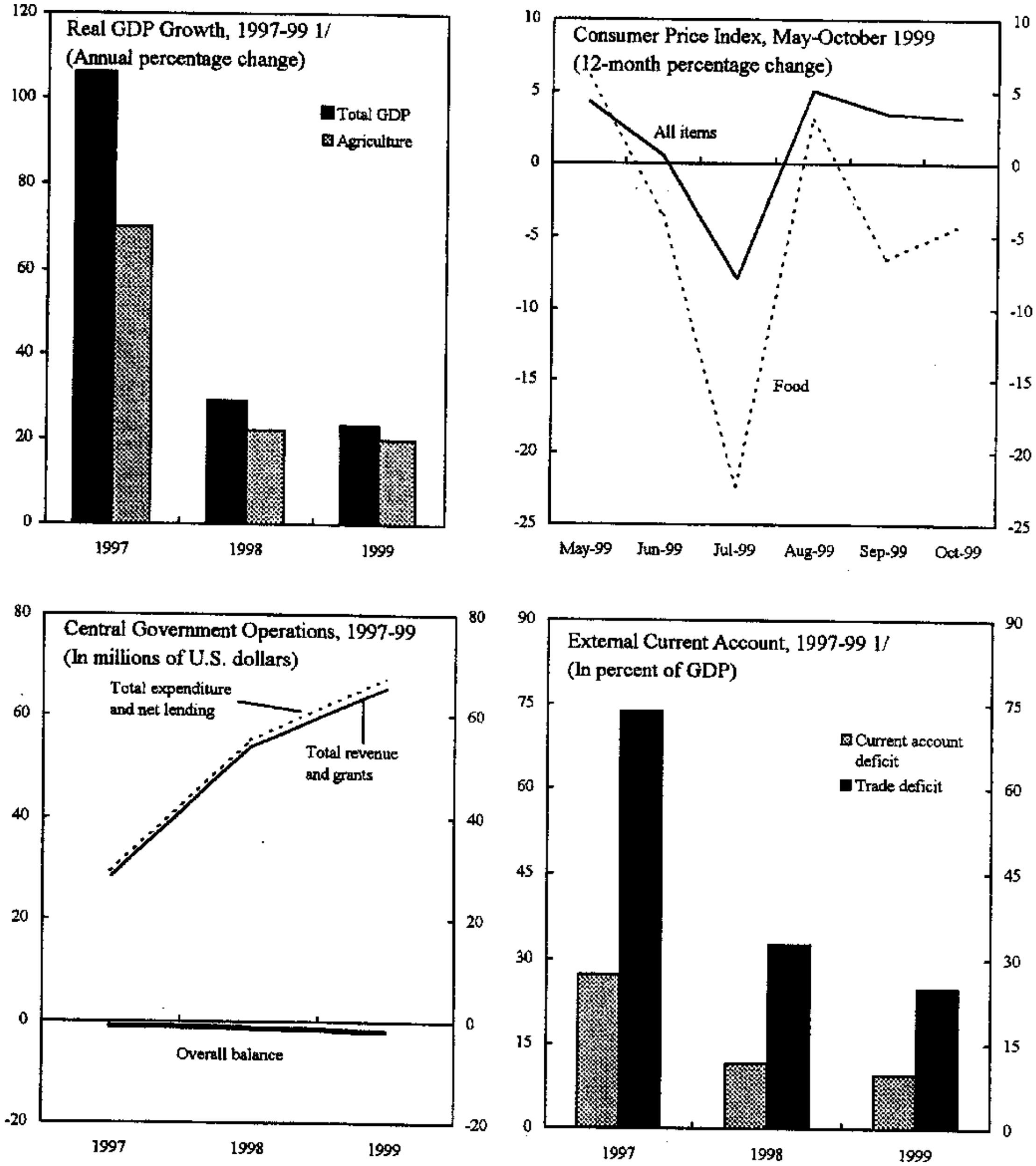
51. Structural reforms are critical to sustaining the economic recovery, and it will be important to fully liberalize rice imports by end-June 2000 as a first step. As rice is a staple commodity, it will be critical to first establish an effective market-monitoring system, with the assistance of the World Bank, during the first quarter of 2000. Liberalization of petroleum imports should proceed as well, and intention to develop an action plan by mid-2000 is welcome. At the same time, the authorities will need to push ahead with the civil service functional audit and the restructuring of the security services in the coming year, if adequate donor financial and technical assistance is available. Reintegration of some 20,000 ex-combatants into civil society also needs prompt attention, and the authorities are encouraged to seek donor support. The inclusion of some 12,000 ex-combatants onto the civil service payroll is not sustainable and actions should be taken to ensure that this is only a temporary measure.

52. The authorities are encouraged to continue to improve the statistical base, including the preparation of a monthly monetary survey, and the compilation of national income accounts and balance of payments statistics. Additional technical assistance will be needed in these areas. While the quality and timeliness of data provision to the Fund for surveillance purposes remains weak, it has improved considerably during the past two years.

53. The staff welcomes the authorities' commitment to continue regular monthly payments to the Fund of US$50,000. As economic conditions improve, the staff encourages the authorities to increase payments to the Fund and begin to normalize relations with other external creditors. The staff recognizes the authorities' desire to move as quickly as possible to a rights accumulation program. In this regard, a sustained and credible track record of policy performance is urgently needed to strengthen cooperation with the Fund and build support for the kind of concerted international effort needed to support Liberia's economic recovery and reconstruction program and a lasting solution to its debt problem. A donors' conference in mid-2000 would provide an important opportunity to discuss the authorities' medium-term strategy and financial and technical assistance needs. In the meantime, firm resolve in implementing the SMP and continued efforts to improve relations with donors and creditors will help pave the way to a rights program.

54. It is recommended that the next Article IV consultation discussions be held on the standard 12-month cycle.

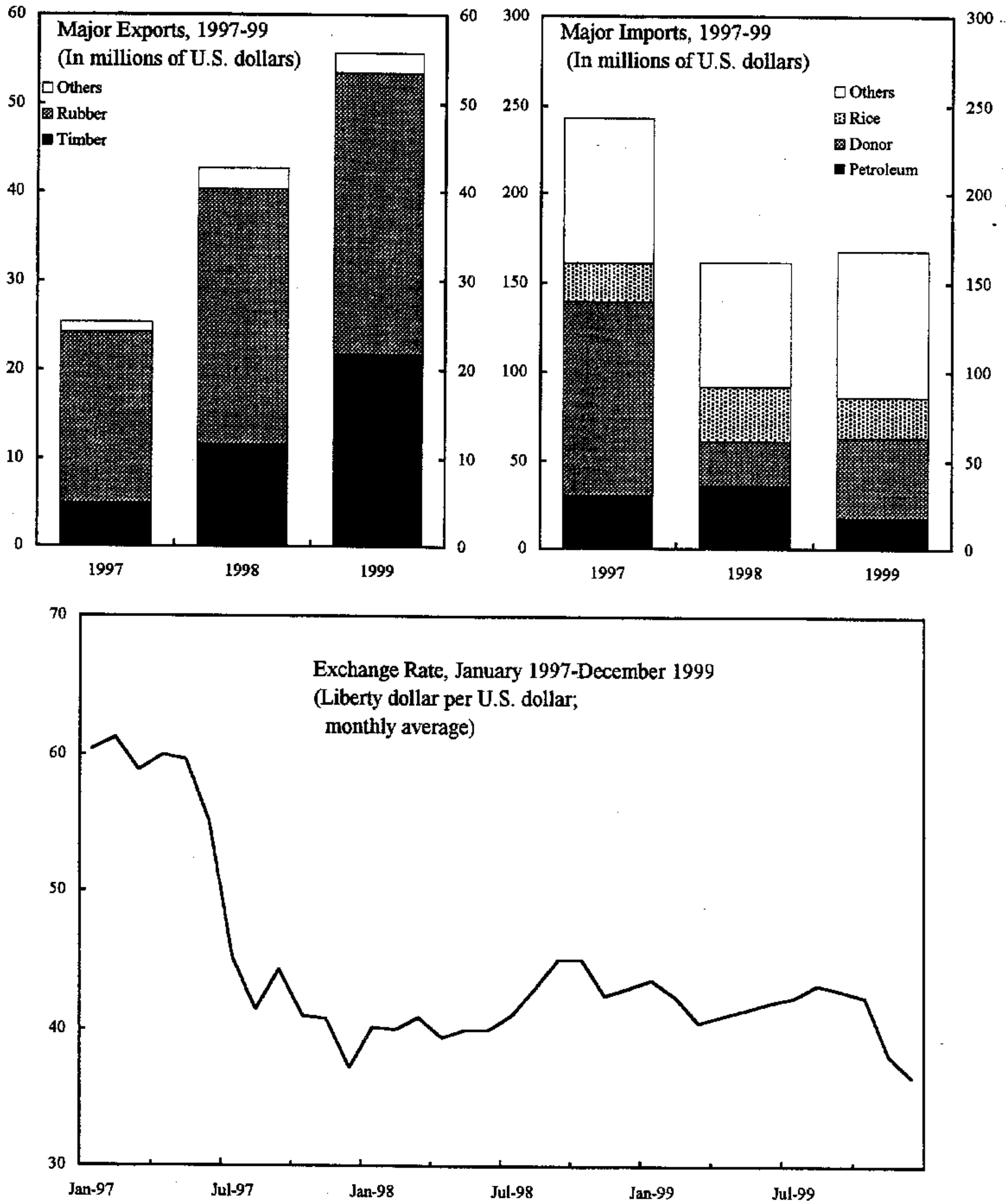
Figure 1. Liberia: Main Economic Indicators, 1997-99



Sources: Liberian authorities; and Fund staff estimates.

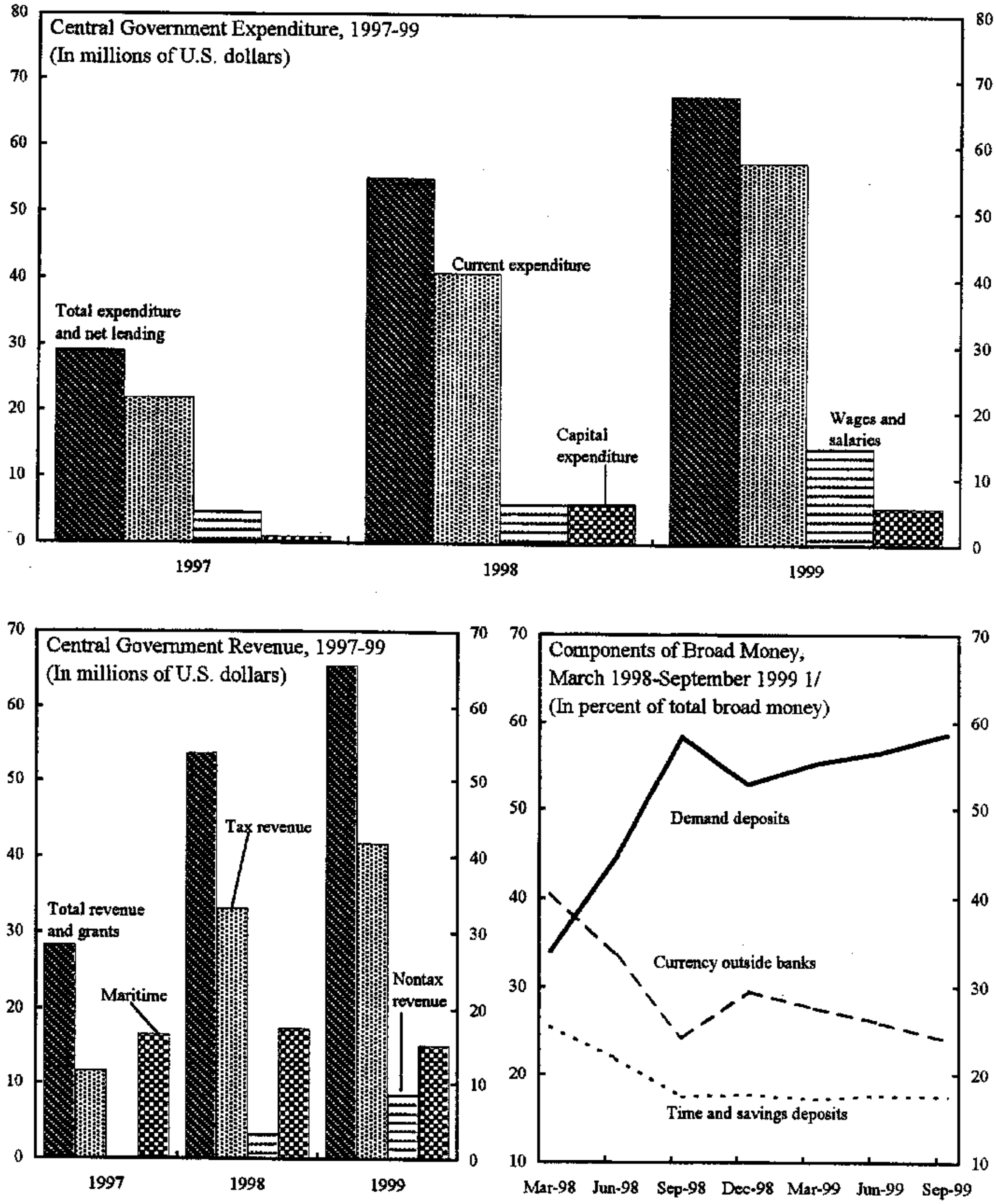
1/ Based on provisional estimates.

Figure 2. Liberia: Selected External Indicators, 1997-99



Sources: Liberian authorities; and Fund staff estimates.

Figure 3. Liberia: Selected Fiscal and Monetary Indicators, 1997-99



Sources: Liberian authorities; and Fund staff estimates.

1/ Based on provisional data

Table 1. Liberia: Selected Economic and Financial Indicators, 1997-2000

	1997	1998	1999 Est.	2000 Proj.
	(Annual percentage change, unless otherwise indicated)			
National income and prices 1/				
Real GDP (in U.S. dollar terms)	106.3	28.5	23.0	21.0
GDP deflator	-10.1	-4.0	-0.1	1.3
Consumer prices (annual average) 2/	...	...	1.4	3.0
Consumer prices (end of period)	...	...	4.0	3.0
Nominal GDP (in millions of U.S. dollars)	295.9	364.9	448.3	549.3
Real GDP per capita (in U.S. dollars)	...	169.3	169.0	181.1
External sector (in U.S. dollar terms) 1/				
Exports of goods, f.o.b.	...	68.8	30.4	29.8
Of which : rubber	...	47.0	11.2	21.1
timber	...	145.1	85.5	37.0
Imports of goods, c.i.f.	...	-33.7	3.9	11.7
Of which : petroleum	...	19.6	-52.0	34.4
rice	...	38.8	-24.7	7.0
donor	...	-76.9	82.4	-12.3
Terms of trade	...	13.7	-7.1	5.5
Nominal exchange rate (Liberian dollar per U.S. dollar; end of period) 3/	...	43.1	41.2	...
Central government operations (in U.S. dollar terms; January-December)				
Total revenue and grants	...	...	21.8	8.5
Of which : tax revenue	...	...	26.0	7.9
maritime	...	...	-12.3	11.8
Total expenditure and net lending	...	...	22.5	1.3
Of which : current expenditure	...	...	40.9	3.7
capital expenditure	...	...	-8.6	57.1
Money and banking (in Liberian dollar terms) 1/ 4/				
Net foreign assets	...	...	-0.9	...
Net domestic assets	...	...	-0.1	...
Net domestic credit	...	...	3.8	...
Net claim on government	...	...	3.3	...
Claims on nongovernment	...	...	21.4	...
Other items, net	...	...	18.4	...
Broad money	...	...	12.8	...
Velocity (GDP relative to broad money)	...	...	8.9	...
	(In percent of GDP)			
Central government operations (January-December)				
Total revenue and grants	...	14.7	14.6	12.9
Of which : tax revenue	...	9.1	9.3	8.2
maritime	...	4.8	3.4	3.1
Total expenditure and net lending	...	15.1	15.1	12.5
Of which : current expenditure	...	11.2	12.8	10.9
capital expenditure	...	1.7	1.2	1.6
Overall fiscal balance (commitment basis)	...	-0.4	-0.4	0.5
Changes in expenditure-related arrears	...	0.4	0.5	-0.5
Overall fiscal balance (cash basis)	...	0.1	0.1	0.0
External sector 1/				
Current account balance, including grants (deficit, -)	-27.3	-11.5	-9.4	-9.6
Current account balance, excluding grants (deficit, -)	-70.5	-31.2	-26.3	-22.7
Trade balance (deficit, -)	-73.6	-32.5	-24.9	-20.9
Exports, f.o.b.	8.6	11.7	12.4	13.2
Imports, c.i.f.	-82.2	-44.2	-37.4	-34.0
Public sector external debt outstanding (medium and long term)	827.0	692.4	569.5	469.1
Public sector external debt service	20.3	15.1	11.6	8.6
	(In millions of U.S. dollars, unless otherwise indicated)			
Current account balance including grants (deficit, -)	-80.7	-41.9	-42.3	-52.7
Trade balance (deficit, -)	-217.9	-118.5	-111.7	-114.6
Gross official reserves (end of period)	0.5	0.4	0.2	1.7
(in months of imports of goods and services)	0.0	0.0	0.0	0.1
Memorandum item:				
Population (in millions) 5/	...	2.0	2.4	2.7

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

1/ National income, monetary, and external sector data represent provisional estimates.

2/ For 1998, period average of May through December.

3/ For 1999, reflects end-October.

4/ Reflects year to date through September 1999.

5/ Assumes the return of refugees during 1998-2000.

Table 2. Liberia: Central Government Operations, 1988-2000 1/

	1988	1998	1999 (Cumulative from January)					2000 (Cumulative from January)		
			Budget	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Dec.
	Actual				Actual		Est.	Prog.		Proj.
					(In millions of U.S. dollars)					
Total revenue and grants	242.1	53.8	64.0	11.7	30.7	47.7	65.5	16.9	32.6	71.1
Tax revenue	193.4	33.2	38.0	7.2	17.1	30.5	41.8	10.4	21.1	45.1
Nontax revenue	16.3	3.3	8.0	1.5	5.4	6.4	8.5	2.2	4.6	9.0
Maritime	18.6	17.3	18.0	3.0	8.2	10.8	15.2	4.3	7.0	17.0
Grants	13.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	435.4	55.1	64.0	16.1	35.5	55.3	67.5	15.5	29.9	68.4
Current expenditure	336.0	40.8	47.2	13.7	30.4	46.6	57.5	13.7	26.3	59.6
Wages and salaries	112.9	6.0	9.8	1.4	4.3	8.2	14.6	4.5	9.0	18.0
Other goods and services	70.2	29.3	23.8	10.9	22.9	31.5	33.3	4.8	8.7	24.4
Of which: extrabudgetary 2/	...	...	...	0.5	4.2	5.7	7.8	0.0	0.0	0.0
Interest on external debt	108.4	1.4	3.3	0.2	0.3	0.5	0.6	0.2	0.3	0.6
Interest on domestic debt	27.7	0.6	0.6	0.5	0.9	2.1	2.9	1.2	2.3	4.6
Subsidies and transfers	16.8	3.4	9.7	0.7	1.8	4.3	6.0	3.0	6.0	12.0
Capital expenditure	29.5	6.1	12.6	1.2	3.4	5.6	5.6	1.8	3.6	8.8
Of which: West Oil 3/	...	1.5	...	0.7	1.4	2.4	4.9	0.9	1.7	3.4
Unallocable expenditure	69.9	8.2	4.2	1.2	1.8	3.1	4.4	0.0	0.0	0.0
Reserve	...	0.0	0.0	...	...	...	...	1.0	1.0	1.0
Overall surplus/deficit (commitment basis)	-193.3	-1.3	0.0	-4.4	-4.8	-7.6	-2.0	1.4	2.7	2.7
Change in expenditure-related arrears (increase, +)	98.8	1.6	0.0	4.0	3.8	7.2	2.3	-1.4	-2.7	-2.7
Overall surplus/deficit (cash basis)	-94.5	0.3	0.0	-0.4	-1.0	-0.4	0.3	0.0	0.0	0.0
Financing	94.5	-0.3	0.0	0.4	1.0	0.4	-0.3	0.0	0.0	0.0
Domestic financing	98.0	-0.3	0.0	0.4	1.0	0.4	-0.3	0.0	0.0	0.0
Banking system	155.7	-0.3	0.0	0.4	1.0	0.4	-0.3	0.0	0.0	0.0
Advances from central bank	156.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other domestic bank financing	-0.5	-0.3	0.0	0.4	1.0	0.4	-0.3	0.0	0.0	0.0
Nonbank financing	-58.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(In percent of GDP, unless otherwise indicated)					
Total revenue and grants	23.3	14.7	14.3	...	...	...	14.6	...	...	12.9
Tax revenue	18.6	9.1	8.5	...	...	...	9.3	...	...	8.2
Nontax revenue	1.3	0.9	1.8	...	...	...	1.9	...	...	1.6
Maritime	1.8	4.8	4.0	...	...	...	3.4	...	...	3.1
Total expenditure and net lending	41.9	15.1	14.3	...	...	...	15.1	...	...	12.5
Of which:										
Current expenditure	32.4	11.2	10.5	...	...	...	12.8	...	...	10.9
Of which: wages and salaries	10.9	1.7	2.2	...	...	...	3.3	...	...	3.3
health	1.8	0.4	1.3	...	...	...	0.6	...	...	1.0
education	4.3	0.9	1.2	...	...	...	1.5	...	...	1.1
defense	2.8	0.8	1.1	...	...	...	1.2	...	...	0.4
Capital expenditure	2.8	1.7	2.8	...	...	...	1.2	..	..	1.6
Overall surplus/deficit (commitment basis)	-18.6	-0.4	0.0	...	...	...	-0.4	...	...	0.5
Domestic financing	9.4	-0.1	0.0	...	...	...	-0.1	...	...	0.0
Memorandum item:										
GDP at current prices (in millions of U.S. dollars)	1,038.0	364.9	448.3	...	...	...	448.3	...	...	549.3

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

1/ Calendar year.

2/ Consists of taxes from petroleum import levy, logging fees, embassy rentals, 4 percent turnover tax, and rice levy withheld for specified projects.

3/ Reflects payments for purchases of equipment from West Oil.

Table 3. Liberia: Monetary Survey, December 1998-September 1999 1/

	1998	1999		
	Dec.	Mar.	Jun.	Sep.
	(In millions of Liberian dollars, unless otherwise indicated; end of period)			
Net foreign assets	-28,950	-25,943	-25,946	-28,675
Net domestic assets	30,864	27,931	27,967	30,834
Net domestic credit	39,158	36,794	37,340	40,655
Net claims on government	37,965	35,538	36,259	39,206
Claims on private sector	1,174	1,207	1,035	1,376
Claims on public enterprises	18	47	45	71
Claims on nonbank financial institutions	1	1	1	1
Other items, net	-8,294	-8,863	-9,373	-9,822
Of which : capital account	10,418	10,084	10,764	11,707
Broad money	1,914	1,988	2,021	2,159
Currency outside banks	566	549	525	518
Demand deposits	1,010	1,097	1,141	1,263
Time and savings deposits	339	342	355	377
Memorandum items:	(In percent, unless otherwise indicated)			
Velocity (GDP relative to broad money)	7.7	10.2	10.0	9.4
Currency/broad money	29.5	27.6	26.0	24.0
Currency/deposits	56.0	50.0	46.0	41.0

Sources: Liberian authorities; and Fund staff estimates.

1/ Based on provisional balance sheets. These data must be viewed with caution, as commercial bank reporting is not considered reliable and a number of inconsistencies in the data remain to be addressed.

Table 4. Liberia: Balance of Payments, 1988-2000 1/

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

	1988	1997	1998	1999 Est.	2000 Proj.
Current account balance	17.8	-80.7	-41.9	-42.3	-52.7
Current account balance(excluding grants)	-26.5	-208.7	-113.7	-118.1	-124.6
Trade balance	100.7	-217.9	-118.5	-111.7	-114.6
Exports, f.o.b.	442.8	25.3	42.7	55.7	72.4
Of which: rubber	...	19.4	28.5	31.7	38.4
timber	...	4.8	11.7	21.8	29.9
Imports, c.i.f.	-342.1	-243.2	-161.2	-167.5	-187.0
Petroleum	...	-30.2	-36.2	-17.4	-23.3
Rice	...	-21.6	-30.0	-22.6	-24.2
Donor	...	-108.8	-25.2	-45.9	-40.3
Others	...	-82.6	-69.9	-81.6	-99.2
Services (net)	17.5	-4.6	1.1	3.9	7.7
Income (net)	-151.1	-33.2	-38.7	-44.2	-49.7
Of which: public interest payments due	-108.2	-33.0	-30.0	-28.6	-26.0
Current transfers (net)	50.7	175.0	114.1	109.7	103.9
Public transfers	43.9	128.0	71.8	75.8	71.9
Private transfers	6.8	47.0	42.3	33.9	32.0
Capital and financial accounts	-182.0	14.9	3.5	3.0	19.9
Private financing	-102.2	41.9	21.2	26.0	41.0
Direct foreign investment	...	20.0	22.5	27.0	35.0
Trade credit	...	21.9	-1.3	-1.0	6.0
Official financing	-79.8	-27.0	-25.0	-23.3	-21.1
Disbursements	8.8	0.0	0.0	0.0	0.0
Amortization	-88.6	-27.0	-25.0	-23.3	-21.1
Errors and omissions	...	6.5	-16.1	-12.1	-12.1
Overall balance	-164.2	-59.4	-54.5	-51.4	-44.9
Financing	164.2	59.4	54.5	51.4	44.9
Change in official reserves (increase, -)	-41.7	0.0	0.1	0.2	-1.5
Arrears (accrual +)	205.9	59.4	54.4	51.2	46.4
Use of Fund credit (net increase in arrears, +)	...	13.9	13.9	13.9	13.9
Increase in non-Fund arrears	...	45.5	40.5	37.4	32.5
Memorandum items:					
Current account deficit, including grants (in percent of GDP)	1.7	-27.3	-11.5	-9.4	-9.6
Current account deficit, excluding grants (in percent of GDP)	-2.6	-70.5	-31.2	-26.3	-22.7
Trade deficit (in percent of GDP)	9.7	-73.6	-32.5	-24.9	-20.9
Public sector external debt (medium and long term)					
Debt outstanding	1,832	2,447	2,527	2,553	2,577
(in percent of GDP)	176.5	827	692	570	469
Debt service charges	-197	60	55	52	47
(in percent of GDP)	-19.0	20.3	15.1	11.6	8.6
Terms of trade (1997=100)	...	100.0	113.7	105.6	111.4
Gross official reserves (end of period)	...	0.5	0.4	0.2	1.7
(in months of imports of goods and services)	...	0.0	0.0	0.0	0.1

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

1/ Based on provisional data.

Table 5. Liberia: Public Sector External Debt Outstanding and Debt Service by Creditor, 1998-2000

	End-1998		End-1999, est. 1/		1999	2000
	Stock	*Of which* Arrears	Stock	*Of which* Arrears	Debt service Est.	Proj.
	(In millions of U.S. dollars, unless otherwise indicated)					
All creditors	2,527	2,205	2,553	2,257	52	47
Multilateral	1,315	1,154	1,337	1,186	32	28
IMF	650	650	645	645	14	15
IBRD	242	234	266	263	10	5
IDA	101	20	102	23	3	3
African Development Bank	218	146	221	151	5	5
Others	103	103	103	103	0	0
Official bilateral	773	613	778	633	20	20
Paris Club	741	582	746	602	20	20
Non-previously-rescheduled debt	542	383	546	403	19	19
Pre-cutoff	412	300	415	317	16	16
Post-cutoff	130	83	131	86	3	3
Previously-rescheduled debt	114	114	115	115	1	1
Other	85	85	85	85	0	0
Non-Paris Club	32	31	32	31	0	0
Commercial	394	394	394	394	0	0
Short term	44	44	44	44	0	0
	(In percent of total)					
All creditors	100	100	100	100	100	100
Multilateral	52	52	52	53	61	58
IMF	26	29	25	29	28	31
IBRD	10	11	10	12	18	10
IDA	4	1	4	1	5	6
African Development Bank	9	7	9	7	10	11
Others	4	5	4	5	0	0
Official bilateral	31	28	30	28	39	42
Paris Club	29	26	29	27	39	42
Non-previously-rescheduled debt	21	17	21	18	37	40
Pre-cutoff	16	14	16	14	31	34
Post-cutoff	5	4	5	4	6	6
Previously-rescheduled debt	5	5	4	5	1	2
Others	3	4	3	4	0	0
Non-Paris Club	1	1	1	1	0	0
Commercial	16	18	15	17	0	0
Short term	2	2	2	2	0	0

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

1/ Based on end-1998 debt stock and estimates on debt service, interest rates and exchange rates.

February 14, 2000

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

I would first like to express appreciation on behalf of the government of Liberia for the support and assistance the Fund has provided and continues to provide toward our economic reform and reconstruction efforts. Secondly, I would like to take this opportunity to brief you on recent developments in Liberia.

The government of Liberia recently held discussions with the Fund staff on the 1999 Article IV consultation and a new staff-monitored program (SMP). We are pleased to report that Liberia's macroeconomic performance improved in 1998 and 1999. Key indicators of this improvement include a significant increase in real GDP, low inflation, and a stable exchange rate. These improvements continue despite the September 1998 security incident and tension in the subregion. We have made significant progress in normalizing the security situation both nationally and in the subregion, which has resulted in the return of a large displaced population. We have also succeeded in our initial efforts to stabilize the macroeconomic situation and have begun to offer important social sector services.

Liberia is now at a critical crossroads in its economic and reconstruction efforts. The government of Liberia understands that there is a need to widen and deepen our economic and reconstruction strategy to establish the foundation for a sustainable increase in economic growth over the medium term that will benefit all segments of Liberian society and address the abject level of poverty in the country.

The attached memorandum of economic and financial policies, which was prepared in collaboration with IMF staff, assesses recent economic developments and prospects and presents a broad medium-term policy framework. It also lays out policies and measures that the government of Liberia intends to pursue during the period January–June 2000. We anticipate that the Fund staff will continue to monitor the government's program, which is aimed at further strengthening fiscal policy and accelerating structural reforms to facilitate the emergence of a vibrant private sector. We also intend to continue to make regular payments to the Fund as committed.

The government of Liberia believes that the policies and measures outlined in the attached memorandum are adequate to achieve the objectives of its economic and financial objectives. Needless to say, we will of course take advantage of all opportunities to exceed those objectives as they present themselves. If necessary, however, the government is prepared to take further measures to achieve these objectives in consultation with the management and staff of the Fund.

We also intend to continue to constructively engage the donor community for the provision of assistance in expanding capacity and creating an enabling environment to accomplish these important goals. We are confident that the pursuit of this strategy and the establishment of a track record of policy implementation consistent with our SMP will provide impetus for an effective donor conference in mid-2000. We would anticipate a donor conference focused on the massive reconstruction and reform effort needed to make substantive and lasting improvements in the standard of living, including the necessary financial assistance.

While recent macroeconomic improvements may be the result of the implementation of specific fiscal and structural policies, they are also a manifestation of the tenacity of the Liberian people and their desire for a better standard of living, self-sufficiency, and empowerment. This desire, however, is of little significance in the absence of the fundamental requisite capacity to accomplish key economic, social, and political objectives. Consequently, the government believes that all efforts at economic reform and reconstruction, social progress, and political stability must be done in concert with the strengthening of human capacity to implement and sustain these specific objectives.

We appreciate the technical assistance that the Fund is providing to the government of Liberia for the restoration of its economic policymaking capacity and hope to continue benefiting from such support in the future. However, donor support continues to be primarily in the form of emergency and humanitarian assistance, for which we are grateful, but there has yet to be external assistance provided for budgetary support to rebuild our capacity to implement reforms. Given the serious capacity limitations we face, we consider this capacity building a top priority for technical and financial assistance.

We hope that the timely and effective implementation of our program will continue to enhance cooperation with the Fund. As part of our effort to make economic policy and management transparent, we intend to publish the attached memorandum and periodic reviews of program implementation. Furthermore, we hope that establishment of a strong track record will enable us to begin the process of normalizing financial relations with our external creditors and provide a basis for a possible rights accumulation program with the Fund.

Sincerely yours,

/s/

M. Nathaniel Barnes
Minister of Finance

Attachment: Memorandum of Economic and Financial Policies

Memorandum of Economic and Financial Policies

I. Introduction

1. Following the end of Liberia's devastating seven-year civil war, the democratically elected government of Charles G. Taylor took office in August 1997. The new government immediately initiated a comprehensive program of reconciliation and reconstruction to begin the long process of rebuilding the country's physical and social infrastructure that had been virtually destroyed during the conflict.

2. Benefiting from substantial humanitarian and technical assistance from the international donor community, and a significant improvement in the security situation, the government has made impressive progress over the past two and a half years in resettling a large proportion of the nearly 480,000 Liberian refugees living in neighboring countries and some 700,000 internally displaced persons. The provision of basic social services has been a major priority of the government and, with the assistance of the donor community and nongovernmental organizations (NGOs), the government has rehabilitated 230 health clinics, 14 hospitals and 13 health centers, out of a prewar total of 330 clinics, 31 hospitals, and 54 health centers. In addition, the adoption of the government's assisted school enrollment program has led to increased enrollment at both the primary and secondary levels, with current levels exceeding those of the prewar era.

II. Recent Economic Developments and Performance in 1998-99

3. On the economic front, domestic production has rebounded strongly since the end of the civil war, though it still remains at only about one-third of the prewar level. Based on provisional data, real GDP is estimated to have grown by some 25-30 percent in 1998 and by 20-25 percent in 1999, led by the recovery in postwar agricultural output. Rice production is estimated by the Food and Agriculture Organization (FAO) to have increased to some 70 percent of the prewar level in 1998. The recovery has also been supported by a sizable increase in cash crop (rubber, coffee, and cocoa) and timber production.

4. Consumer price inflation and the exchange rate have remained relatively stable during the first eleven months of 1999. Consumer prices (12-month basis) increased by 3 percent in October 1999, compared with the same period in 1998, reflecting price hikes in services and fuel, which were partially offset by a decline in food prices. The Liberian dollar averaged L$42 per U.S. dollar during the first 11 months of 1999; it appreciated to L$37 per U.S. dollar in December, in part reflecting seasonal factors associated with holiday-related remittances from abroad.

5. Following the maintenance of a tight fiscal stance in 1998, the fiscal situation deteriorated significantly during the first three quarters of 1999. While a balanced budget was targeted for 1999 as a whole, a fiscal deficit of US$11 million (2½ percent of GDP) was recorded during January-November 1999 (on a commitment basis). Revenue performed largely as programmed during this period, increasing by some 35 percent over the

corresponding period in 1998, largely owing to higher customs and excise tax revenue. Expenditure, however, was 70 percent higher than during the same period in 1998, primarily because of sizable unbudgeted expenditures (on a commitment basis) related to the purchase of government vehicles and equipment, the refurbishing of the Ministry of Foreign Affairs, and security-related outlays. The deficit was financed by a further accumulation of domestic payment arrears. Expenditure overruns largely reflected the lack of adequate expenditure controls within the government, particularly with respect to extrabudgetary commitments, and the lack of coordination among the government agencies overseeing budget implementation.

6. The government took decisive actions in December 1999 to improve the fiscal situation. First, it accelerated efforts to improve revenue collections, with the effect of increasing revenue by US$2 million above the December revenue target, thanks partially to higher maritime receipts. Second, it closely monitored expenditure allotments, with the effect of realizing a cash surplus for the month of December of US$0.6 million. Finally, it completed an interagency review of the outstanding stock of US$10 million in payments vouchers that had been held up by the Ministry of Finance during 1999. The interagency task force found that US$8 million of the US$10 million in unpaid vouchers did not include proper documentation or approvals, did not include an underlying contractual commitment and did not reflect goods or services that had already been provided. Consequently, the Ministry of Finance cancelled the payments vouchers and asked ministries to reconsider any expenditure requests as part of the 2000 budget. As a result of these actions, the budget deficit for the year as a whole was reduced to US$2 million (½ of 1 percent of GDP) on a commitment basis, with a cash surplus of US$0.3 million. The government understands this action could put additional pressure on the 2000 budget but is committed to meeting the agreed budget targets during 2000.

7. With the passage of the new central bank law in March 1999, the Central Bank of Liberia (CBL) replaced the largely defunct and illiquid National Bank of Liberia (NBL) in October 1999. One of the first tasks of the new central bank was the compilation of preliminary balance sheets for the CBL and commercial banks for 1998-99, the first such monetary data in nearly a decade. The provisional monetary survey suggests that broad money growth has remained subdued, reaching only 2 percent on an annual basis at end-September 1999. Credit to the private sector also increased only modestly (by 3 percent) during the same period, reflecting both liquidity constraints in the banking sector and the highrisk lending environment. These factors contributed to high real rates of interest; commercial bank lending rates in real terms averaged some 14 percent in the third quarter of 1999. Government recourse to the banking system declined substantially during 1999, with net claims on government increasing marginally (1.2 percent) for the year ended September 1999, reflecting the accrual of interest on the outstanding stock of public debt.

8. Following a surge of nearly 70 percent in 1998, growth in exports in U.S. dollar terms continued to recover in 1999, though the rate of growth moderated to 30 percent, led largely by a strong pickup in rubber and timber exports (which account for about 95 percent of export earnings). With the completion of the large humanitarian aid program in 1997,

imports fell significantly (by 34 percent) in 1998. Notwithstanding the decline in unit import prices, import growth, at 4 percent, remained sluggish in 1999. The estimated trade deficit of US$112 million in 1999 (25 percent of GDP) was largely financed by donor grant assistance, private transfers, and foreign investment capital. Given the extremely difficult external situation, Liberia was unable to increase its official foreign exchange reserves in 1999, with the stock of official reserves estimated at only US$0.2 million at end-October. Liberia is a heavily indebted poor country, with a total stock of external public sector debt estimated at US$2.5 billion (692 percent of GDP) at end-1998, most of which (US$2.2 billion) is in arrears, including US$1.2 billion to multilateral institutions.

9. Some progress was made on structural reforms and institutional capacity building in 1999. In the area of statistics, the National Statistics Coordinating Committee has met monthly since May 1999 to reestablish the economic database, and the Ministry of Planning and Economic Affairs has published monthly price indexes since May 1998. The civil service audit was completed in July 1999, and the information obtained through the process of handing paychecks directly to employees in order to identify genuine workers is being reviewed. At the same time, in an effort to improve morale and productivity, a new salary scale was introduced in August (the minimum monthly wage was increased from L$175 (US$4) to L$850 (US$20)). In an effort to begin the process of reintegration into civil society, some 12, 000 ex-combatants were brought onto the public sector payroll, as an interim measure, in the third quarter of 1999.

10. A World Bank-financed team led by the Liberian Minister of Commerce and Industry visited Senegal and The Gambia in October 1999 to study the experiences of those two countries in liberalizing rice imports. Drawing lessons from the experience in these countries, the team recommended a speedy liberalization of the rice sector in Liberia (as described in paragraph 30 below).

11. In January 1998, the Liberian authorities agreed on an economic and financial program that could be monitored informally by the IMF staff. The first phase of the IMF staff-monitored program (SMP) was completed in June 1998 and a second phase (July 1998-March 1999) was agreed in October 1998. However, implementation during the second phase was weak and the program veered offtrack in the first quarter of 1999, largely as a result of substantial extrabudgetary expenditures. In the event, four prior actions were specified that would need to be completed before discussions on a new SMP could begin. Three of the four prior actions were subsequently completed, relating to (a) the full accounting of maritime revenues and expenditures in the budget; (b) provision of a full explanation and accounting of the government's fleet of vehicles and related purchases for the government by West Oil; and (c) inclusion in the 1999 budget of the first quarter 1999 rice stabilization fee revenue. The fourth prior action, which related to balancing the budget during the first six months of 1999 on a commitment basis, was not achieved. However, the government implemented a number of additional expenditure control measures in December 1999 and is committed to improving budget performance significantly during January-June 2000.

III. Medium-term Strategy

12. The government of Liberia is in the process of developing a comprehensive medium-term economic reform and reconstruction strategy, with a view to expanding the near-term relief and reconstruction focus of the National Reconstruction Plan. It is anticipated that elaboration of the strategy will be completed by April 2000 and could form the basis for subsequent discussions with the international donor community. The strategy takes into consideration the unique circumstances of Liberia, including the near-total destruction of the county's infrastructure, the still fragile security situation, the return of Liberian refugees from neighboring countries, the resettlement of internally-displaced persons, and the reintegration of ex-combatants (some 20,000).

13. The objectives of the government's medium-term strategy are to create an enabling environment to consolidate and sustain the current economic recovery and to lay the foundations for sustainable economic growth, with a view to achieving a considerable reduction in poverty. In this connection, the key tenets of the government's policy framework include: maintaining a stable macroeconomic environment; accelerating the reconstruction of core infrastructure destroyed during the war; rebuilding institutional capacity; undertaking civil service and public enterprise reform; introducing further trade liberalization; and restructuring the financial sector. Improving transparency and promoting good governance and the rule of law also constitute core components of the strategy.

14. Reconstruction and poverty reduction must take center stage over the medium term. Consequently, reconstruction of the country's physical infrastructure destroyed during the war (including roads, buildings, and public utilities) and rebuilding human capital must be accelerated if important gains in poverty reduction are to be achieved in the foreseeable future. The strategy will fully articulate a reconstruction and poverty reduction action plan, including the financing requirements necessary to achieve this objective.

15. Maintaining macroeconomic stability over the medium term will require a sound fiscal position, which itself will need to be based on a credible path for the postwar economic recovery and domestic revenue. In this regard, increased revenue mobilization will require continued tax reform, a sizable reduction in tax exemptions, and more efficient tax administration, as well as effective public debt management. Effective expenditure policy will depend on a comprehensive civil service reform, including rightsizing the civil and security services and allowing for a sizable increase in wages to remaining staff to boost morale and efficiency. In this regard, demobilization and demilitarization will require significant technical and financial assistance from the donor community. Given the current difficult state of the banking system and the need to preserve macroeconomic stability, fiscal policy over the medium term will aim to continue to achieve a balanced domestic budget.

16. The development of a functioning monetary and financial system will be a core component of the medium-term strategy. Accordingly, a consistent monetary policy framework with the objective of maintaining a low-inflation environment will be central in the medium-term policy framework, including operational rules and the development of

instruments for the CBL to conduct monetary policy. The emphasis in the financial sector will be on strengthening the banking system through compliance with prudential regulations and closer supervision. Resolution of the failed banks, as well as undertaking prompt corrective action to resolve weaknesses in a number of active commercial banks, will also be an important medium-term objective.

17. Measures to improve transparency and pursue good governance will be a critical aspect of the medium-term strategy, including actions to improve the transparency of the budget process and the adoption of international best practices in fiscal and monetary policies. In addition, the reform of the legal system, broad deregulation, and price decontrol will be crucial to establishing an investor-friendly environment.

18. Substantial external financing will be required to achieve the medium-term objectives of the government and, consequently, will be fully reviewed in the strategy. In addition, strategies and scenarios to address Liberia's unsustainable external debt burden will also be reviewed.

IV. Program For January-June 2000

19. The program aims to foster macroeconomic stability, consolidate progress in rebuilding the economy, and continue to restore public confidence. These objectives will be accomplished by further strengthening fiscal policies, reestablishing a viable central bank and issuing new currency, and undertaking key structural reforms. Under this program, the government will ensure that funding for priority sectors and basic social services in education and health is restored, and that the bulk of any additional revenue is directed toward these sectors. The government also intends to use the program to establish a credible record of policy implementation that could serve as a basis for possible discussions of a rights accumulation program with the IMF, as well as discussions with the donor community regarding additional financial and technical assistance. To improve policy coordination and monitoring under the program, the government has established an interministerial coordination committee that meets monthly.

20. The program seeks to support the economic recovery in 2000; GDP is expected to grow by some 20 percent, as food and cash crop production continues to rebound, and timber and mining exports continue to expand. With tight demand management policies, inflation is expected to remain below 4 percent, while the external current account deficit (including grants) is expected to be in the range of US$50 million (and the trade deficit in the range of US$115 million), assuming continued donor-financed imports in the range of US$40-45 million.

A. Fiscal Policy

21. Prudent fiscal policies will remain the cornerstone of the government's macroeconomic stabilization strategy in 2000, with a balanced budget targeted for the year as a whole, as well as on a quarterly basis. This will be achieved by maintaining a tight reign on

expenditure while implementing revenue-enhancing measures, including transparently reflecting all revenue and expenditures of the central government in the budget.

22. The government recognizes the need to adopt prudent fiscal policies to rebuild confidence in the economy and to encourage private sector activity. In this regard, the authorities have decided to deal with domestic payment arrears accrued in 1999 immediately through a supplementary budget for January – June 2000 which has been submitted to the legislature. As important, the supplementary budget brings the budget cycle into conformity with the 1977 Revenue and Finance Law which specifies the fiscal-year as July-June. A return to the legally mandated fiscal year cycle will also enable the budget to effectively incorporate the sizable maritime receipts, the bulk of which are received during the last week of December and which are often reflected in the statement of the following January.

23. The six-month transitional budget is a balanced budget on a cash basis, to be managed with no accumulation of domestic payments arrears and the reduction in the existing stock of domestic payments arrears by US$2.7 million. Based on tax yields in 1999 and taking into account seasonal patterns, total revenue is programmed to be US$33 million during the January-June 2000 period, with tax and maritime revenues totaling some US$21 million and US$7 million, respectively. Consequently, total expenditure of US$33 million is programmed for in the supplementary budget, including a payment of US$2.7 million to settle the existing domestic payments arrears that accrued during 1998 and 1999. In addition, US$2 million has been allocated toward repayment of the West Oil loan. To ensure appropriate funding for the social sector, US$6 million (18 percent) of the budget has been allotted to the priority social and community sectors of agriculture, education, health and sanitation. The budget assumes no domestic or foreign financing during the January-June 2000 period. Consequently, the government will consult with Fund staff before considering any potential financing offered to the government.

24. The fiscal program focuses extensively on strengthening government-wide expenditure controls. In this regard, a budget analysis task force—with representatives from the Ministry of Finance (MoF), the budget bureau, CBL, Civil Service Agency and the Ministry of Planning and Economy—was established in January 2000. The taskforce will issue a monthly budget execution report within 15 days of the end of each month; will meet monthly to review revenue and expenditure for the previous month; and make allotments for the coming month, taking into consideration the need to fund the priority social sectors. A monthly cash flow for January-June 2000 has been prepared, and will be reviewed and updated by the taskforce during their meetings.

25. To prevent wage arrears (which arose temporarily in the third quarter of 1999), the government will make available priority funding for the wage bill on a monthly basis. As part of the budget submission process, a contingency reserve has been established, equivalent to some 6 percent of quarterly revenue (US$1.0 million). In addition, as part of the expenditure policy, no further wage awards are anticipated during the supplemental budget period and all nonessential foreign travel has been frozen. In addition, the MoF will conduct a study of

foreign travel allowances, comparing Liberia with other countries in the region and countries with similar per capita income levels, and adopt an appropriate system.

26. With the technical assistance of the IMF, the authorities have reviewed the 1977 Revenue and Finance Law and have formulated a simple tax code that is intended to encourage investment and expand the tax base further. The new tax code, which incorporates a sales tax and revised income and corporate tax codes, is being reviewed and studied and will be submitted to the legislature by end-February 1999. At the same time, the authorities have initiated a public education campaign on the new tax code. The new code will become effective on July 1, 2000, tying in well with the new July-June fiscal year. The major feature of the new code is the introduction of a sales tax on imported goods (including petroleum products) and local manufactured goods that will be at the same rate for domestic and imported goods. The code will also rationalize the tax system—in particular the proliferation of excise duties. Excise taxes will remain on a few commodities yielding high revenue, such as petroleum products, alcoholic beverages, tobacco, soft drinks, and luxury cars. Under the new personal income tax, the marginal rate will be reduced from 65 percent to 35 percent and the number of tax brackets from 12 to 7, and the National Reconstruction Tax will be merged with the personal income tax and reflected in this new rate structure. Technical assistance will be provided to ensure a smooth and successful change in the tax system, and to improve administration.

27. The government inherited a system of numerous customs and tax exemptions for a wide variety of sectors and organizations. For customs duties alone, exemptions for January-November 1999 amounted to some $6 million. While the government continues to support the exemption from taxes and duties for certain high-priority sectors and diplomatic missions, it intends to undertake a review of exemptions by end-April 2000, and to introduce measures to prioritize their application and reduce the level, based on best practices in the region, by July 2000. The process of verifying all claims against the government made by vendors during the transitional pre-1998 period is under way and the government intends to complete this exercise by end-June 2000.

28. The balanced 2000/01 budget will be presented to the legislature by end-June 2000.

B. Structural and Poverty Issues

29. The government is committed to strengthening its legal and regulatory framework, in a way that will secure individual property rights, remove entry and exit barriers, and lower the cost of conducting business in Liberia. To this end, structural reforms will remain an integral part of the government's economic policy, given their critical importance in improving the business climate for private investment. A new "investor-friendly" Investment Code is being finalized and will be introduced by July 2000. Legislation is being prepared for the mineral and forestry sectors to ensure that those resources are exploited in an organized manner, and that the environmental implications of mining and forestry activities are adequately addressed. The government also intends to continue to improve the effectiveness of the court system and confidence in the rule of law. To improve the business climate, the

authorities have recently demolished the numerous checkpoints constructed in the city of Monrovia during the civil war and a modest supply of electricity was restored in Monrovia in late December 1999.

30. Monopoly rents represent a substantial cost to consumers in the form of higher prices and to the economy in the form of forgone benefits of competition and reduced scope for private sector activity. In this regard, the government will fully liberalize the importation of rice, including the elimination of minimum import requirements, quality requirements (except as related to health and safety), and price controls, by end-June 2000. At the same time, the government considers it important to set up a detailed monitoring system by February 2000, with the assistance of the World Bank, which will provide daily information on stocks of rice held by different importers, and the price levels of various qualities in the domestic and international markets. In the meantime, the authorities intend to embark on a public education drive beginning February 2000 in the news media on the proposed measures and the benefits to the consumer in terms of wider varieties available and a more competitive range of prices. The government is fully committed to the liberalization of the importation of rice. However, there must be appropriate safeguards to ensure an adequate supply of this strategic commodity at all times. Consequently, as an integral part of the liberalization process, the rice-monitoring committee will develop appropriate safeguards, in consultation with the World Bank, to assure the availability of a sufficient stock of rice.

31. Similar benefits to the consumer in terms of the liberalization of rice imports apply in the case of imports of petroleum products. Accordingly, with the assistance of the World Bank, the government will adopt a procedure similar to that used for rice imports by visiting countries in the region to study their experiences following the liberalization of imports of petroleum products. An action plan on the best approach to liberalizing petroleum imports will be prepared by June 2000, following the consideration of the report of the study group, which will address the issue of efficiency and the role of the Liberian Petroleum Refining Company (LPRC). As a result of the crisis in Liberia, a substantial portion of the accounting and operational records of the LPRC were destroyed or lost. The government will contract a domestic accounting firm to assist the corporation in reestablishing reliable and accurate accounting and operational records, to be completed by end-June 2000. Based on this information, the government will contract with an accounting firm to complete and publish a statutory audit of the LPRC for 1999 by end-December 2000, based on internationally accepted accounting standards.

32. Progress in civil service and public enterprise reform has been slow, owing to the lack of financial resources. Following the recent payroll audit, the next steps will be the functional audit of the civil service, which will be completed by May 2000, and the issuance of identification cards to all civil servants by September, if donor financial support is secured. The government remains fully committed to reform of the civil service and public enterprises, and has approached several donors for assistance. In view of existing financial constraints, progress in these areas will to a large extent depend on financial assistance.

33. Significant progress has been made in addressing poverty issues, much of which has been directly related to the civil war. With the assistance of the international community, the government has repatriated some 336,000 refugees to points throughout Liberia. Significant additional financial aid is still needed to consolidate the progress of the returnees and the internally displaced population. In addition, the reintegration of some 10,000 former combatants into civil society, most of them young and poorly educated, also remains a major challenge. There is a growing need for increased funding to the social sectors to address the problems of overcrowding in classrooms, improved teacher-student ratios, and improved provision of health services. The government intends to continue to address these issues in the context of annual budgetary allocations while seeking donor assistance.

C. Monetary and Financial Sector Policies

34. One of the main objectives of the newly created central bank during the January-June 2000 program period will be to issue a new stock of currency in exchange for the existing stock of Liberty and JJ Roberts notes in circulation and establish a properly functioning clearing and payments system at the CBL. Considerable preparatory work has already been done with respect to currency issuance, with the assistance of the IMF, and an action plan for the actual introduction was completed in January 2000. The CBL intends to request additional short-term technical assistance from the IMF to assist in the operational aspects of the currency exchange should the need arise. It is anticipated that the currency exchange will take place by March 2000. The conversion rate for the exchange will remain at the rate previously used—1JJ for 2 Liberty. To ensure credibility during this initial period, the CBL will refrain from issuing additional new currency through end-June 2000.

35. It is expected that the capitalization of the CBL will be completed by March 2000. However, it will be important that an action plan be prepared to ensure that the CBL has sufficient liquidity, including an allotment in the January-June 2000 supplemental budget. While the bank currently receives monthly payments of US$0.1 million from the Ministry of Finance, this amount is inadequate and—as important—does not generate an independent stream of income to cover operational costs. Therefore, the CBL, in conjunction with the MOF, will agree on the outstanding stock of government debt owed to the CBL and commercial banks by end-March 2000 and adopt a plan to regularize the arrears by end-June 2000, and include adequate provision for debt-service payments in the 2000/01 budget.

36. The overall objective of monetary policy will remain the achievement of price stability. The exchange rate of the Liberian dollar will remain market determined, and the central bank will seek to facilitate the establishment of interbank markets. To these ends, the CBL aims to maintain broad money growth generally in line with developments in the economy, though the current anemic state of the financial system will require a lower rate of growth in the near term. With the CBL refraining from providing financing to the government and currency issuance limited to an exchange for the existing stock of currency, reserve money is targeted (on an indicative basis) to increase by some 4-5 percent from end-December 1999 to end-June 2000. The CBL will also endeavor to begin to rebuild gross official reserves in 2000, though admittedly at a slow pace. The demand for credit to the

private sector is also expected to expand at a relatively slow pace in 2000, as the banking sector continues to undergo significant structural reforms. Consistent with fiscal policy, the monetary program will not provide for government recourse to the banking system.

37. During the program period, the central bank will draw on the recommendations of the IMF technical assistance missions and other experts to substantially strengthen its capacity to compile monetary statistics and by February 2000 will begin to prepare consolidated balance sheets of the CBL and commercial banks within 30 days of the end of each month. The CBL is developing prudential guidelines for commercial banks based on international standards and will introduce these by end-April 2000. The CBL will also request IMF technical assistance to establish a properly functioning payment and clearing system and reactivate clearing at the CBL by June 2000.

38. The financial position of most commercial banks remains fragile, and the quality of assets of the banks is severely impaired. At end-1998, 78 percent of assets were classified as nonperforming. To this end, the CBL will agree with commercial banks that do not meet the minimum paid-in capital requirement on a program of corrective action before issuing them provisional licenses. In addition, the CBL will prepare a comprehensive strategy for dealing with failed banks. It will also proceed cautiously in licensing new banks until it has the capacity to inspect and supervise banks.

D. External Sector Policies

39. External policies will aim at strengthening the balance of payments position in 2000 through the continued recovery of exports and the encouragement of domestic and foreign investment. The government will work toward the recovery of exports, which remain hampered by damage to the productive capacity and the transportation infrastructure. In this regard, the National Investment Commission has been established to coordinate and promote foreign investment.

40. The government of Liberia accumulated an external public debt of US$2.5 billion at end-1998; virtually all of it is in arrears, including US$650 million in arrears to the Fund. The government recognizes the urgent need to strengthen the external debt-management capacity of the Ministry of Finance in order to monitor and provide current information and analysis on this debt. The government will seek donor support to strengthen the debt-management capacity of the Ministry of Finance and will initiate a loan by loan review of the outstanding stock of external debt, including arrears.

41. Given the already high level of Liberia's external public debt, the government recognizes the urgency of minimizing the accumulation of further debt. Consequently, the government will rely on grants and loans on concessional terms. The Ministry of Finance will remain the sole institution responsible for approving any new external borrowing contracted or guaranteed by the government.

E. Statistical Issues

42. The civil war destroyed much of the country's statistical base. While there has been some progress made in the compilation of fiscal and monetary data with the help of technical assistance from the IMF, the World Bank, donors and NGOs, enormous weaknesses remain, especially in measuring agricultural and industrial production and balance of payments flows. The authorities are committed to improving the coverage, quality, and timeliness of the macroeconomic statistics to facilitate macroeconomic analysis and enhance the effectiveness of program monitoring. In this regard, it has been decided that the CBL will be the lead agency to compile BOP statistics. Technical assistance will be sought to compile balance of payments, national income accounts, agricultural production, and labor statistics.

V. Relations With the Fund and Other External Creditors

43. The government intends to continue to execute monthly payments to the Fund of US$50,000, with a view to reducing the rate of increase of arrears accumulation. However, given the difficult external situation and the pressing needs of the country to rebuild its infrastructure following the civil war, it is not possible to increase payments at this time. The government places a high priority on restoring normal financial relations with its external creditors and plans to discuss its relationship with creditors later in 2000. In particular, the government intends to review its level of payments to the Fund as well as to the World Bank and African Development Bank as part of the 2000/01 budget.

VI. Reporting and Monitoring

44. The policies set forth in this memorandum, which the government considers adequate to achieve the objectives of the January-June 2000 program, will be modified and complemented by additional measures, if necessary. Reporting and monitoring will be conducted as indicated in Annexes I-IV. Quarterly quantitative benchmarks for the first two quarters of 2000 have been set in Annex I for the following : (a) floor on central government revenue; (b) ceiling on total central government expenditure on a cash and commitment basis; (c) new government domestic arrears; (d) new credit from public enterprises to the central government; (e) new net credit from the banking system to the government; and (f) new nonconcessional external borrowing. Structural benchmarks under the program are presented in Annex II, and a summary of policy measures is provided in Annex III. To enhance the effectiveness of program monitoring, the government will provide the IMF with statistical data specified in Annex IV. To monitor progress under the program, a review of end-March 2000 performance will be conducted with Fund staff in the second quarter of this year on the implementation of the supplementary budget, the restructuring of the banking system, the liberalization of rice and petroleum markets, and civil service reforms. It is anticipated that the World Bank staff would participate in the review of rice and petroleum liberalization and civil service reform.

Liberia: Quantitative Benchmarks Under the Staff-Monitored Program 1/ 2/

(In millions of U.S. dollars)

	1999		2000 3/			
	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Est.	Prog.		Proj.	
Floor on government revenue	47.7	65.5	16.9	32.6	49.6	71.1
Ceiling on total expenditure 4/						
Cash basis	48.1	65.2	16.9	32.6	49.6	71.1
Commitment basis 5/	55.3	67.5	15.5	29.9	46.9	68.4
Changes in expenditure related arrears	7.2	2.3	-1.4	-2.7	-2.7	-2.7
New government domestic nonwage arrears	0.0	0.0	0.0	0.0	0.0	0.0
Government salary arrears	0.0	0.0	0.0	0.0	0.0	0.0
New credit from public enterprises	0.0	0.0	0.0	0.0	0.0	0.0
New net credit from the banking system 6/	0.0	0.0	0.0	0.0	0.0	0.0
New nonconcessional external borrowing 7/	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ All data are cumulative data from the beginning of the year.

2/ Assumes program exchange rate of L$40 per U.S. dollar.

3/ March 2000 and June 2000 program numbers refer to quantitative benchmarks under the SMP. September 2000 and December 2000 refer to indicative targets.

4/ Excluding foreign-financed outlays. These ceilings will be adjusted to the extent that actual revenue collections are higher than targeted in the program.

5/ Assumes repayment to West Oil and payment of expenditure-related arrears.

6/ Contracted or guaranteed by the central bank.

7/ Contracted or guaranteed by the public sector.

Liberia: Structural Benchmarks Under the Staff-Monitored Program, January - June 2000

Issue	Measures	Test Date
Budget policy	Prepare and submit 2000/01 budget to legislature.	June 30, 2000
Domestic payments arrears	Complete verification of all unpaid 1998/99 voucher claims.	January 30, 2000
Liberalize rice imports	Establish monitoring system to provide market information to the public.	February 29, 2000
	Fully liberalize rice imports, including elimination of minimum import requirements, quality requirements (except as related to health and safety concerns) and price controls.	June 30, 2000
Capitalization of CBL	Complete capitalization of CBL as specified in the Central Bank Act.	March 31, 2000
Prudential regulations	Introduce prudential guidelines for commercial banks and adopt procedures for assessing banks' capital adequacy based on international best practices.	April 30, 2000

Liberia: Macroeconomic and Structural Policies under the Staff-Monitored Program

Issue	Strategies/ Measures	Timing
I. Macroeconomic policies		
Short-term policy objectives	Rebuild public confidence, foster macroeconomic stability, and consolidate progress in rebuilding the economy.	2000
Medium-term policy objectives	Expand economic recovery to all sectors, reduce poverty, maintain stable macroeconomic environment, and pursue sustainable external position.	2000-02
	Develop comprehensive economic reform and reconstruction strategy to achieve medium-term objectives, including structural reform agenda and financing requirements.	End-April 2000
Macroeconomic projections for 2000	Continue the strong recovery. Based on provisional national income accounts data, real GDP is expected to grow by some 20 percent.	
	Keep inflation to below 4 percent.	
	Maintain trade deficit in the range of US$100 million, financed primarily by donors grants, foreign investment, and short-term trade finance.	
Exchange rate policy	Maintain market-determined floating exchange rate system and the U.S. dollar as legal tender in Liberia.	Ongoing
Policy coordination and monitoring	Establish interministerial coordination committee to monitor implementation and progress under the staff-monitored program.	January 2000
II. Fiscal sector		
Budget policy	Submit January-June 2000 supplementary budget to legislature.	End-December 1999 (Done)
	Consistent with the 1977 Revenue and Finance Law, beginning July 1, 2000 revert to July-June fiscal year for the budget.	July 2000
	Prepare and submit 2000/01 budget to legislature.	End-June 2000
	Present comprehensive budget, reflecting all revenues and expenditures of the central government.	Ongoing
	Institute appropriate measures to ensure balanced budget on quarterly basis (both on a commitment and cash basis).	January-June 2000
	Prepare monthly cash-flow projections for January-June 2000.	January 15, 2000 (Done)
	Establish budget analysis task force to review revenue and expenditure on biweekly basis and issue monthly budget execution report within 15 days of the end of each month.	Beginning January 2000 (Done)
Revenue policy	Submit new tax code, including on sales, income, and corporate taxes, to the legislature.	End-February 2000
	Promulgate new tax code regulations.	By end-April 2000
	Train tax administration staff.	March- May 2000
	Prepare publicity/education strategy for new tax code.	January 2000 (Done)
	Introduce new tax code.	July 1, 2000
	Undertake review of current customs duty and tax exemptions	April 2000

Liberia: Macroeconomic and Structural Policies under the Staff-Monitored Program

Issue	Strategies/ Measures	Timing
	Introduce measures to reduce level of exemptions substantially, based on best practices in the region.	End-July 2000
Expenditure policy	Ensure adequate funding for priority social sector and public service expenditures, including US$6 million for social services and agriculture and US$9 million for wages and salaries.	January-June 2000
	As part of budget submission to legislature, establish contingency reserve equivalent to 6 percent of quarterly revenue (US$1 million) as a line item in budget.	End-December 1999 (Done)
	Freeze all nonessential foreign travel.	End-December 1999 (Done)
	Prepare payment schedule for repayment to West Oil and include in supplemental budget.	End-December 1999 (Done)
	Limit expenditure to overall budget approved by legislature.	January-June 2000
	Introduce and operationalize cash management system, including monthly allotment process and sufficient funding for priority recurrent expenses.	January 2000 (Done)
Domestic payments arrears	Complete verification of all unpaid 1998-99 voucher claims.	End-January 2000 (Done)
	Reverse unsubstantiated 1999 unpaid vouchers.	December 1999 (Done)
	Include initial repayment plan for 1999 arrears in 2000 budget.	December 1999 (Done)
	Implement development plan to address outstanding domestic payments arrears prior to 1998, related to transition (US$110 million).	End-June 2000
III. Structural policies		
Liberalization of rice imports	Request World Bank technical assistance to set up rice market monitoring system.	December 1999 (Done)
	Establish monitoring system to provide information on stock level of rice of different importers, and price levels of rice import varieties in the domestic and international market.	February 2000
	Educate public with respect to the benefits of rice import liberalization.	February-June 2000
	Fully liberalize rice imports, including elimination of minimum import requirements, quality requirements (except as related to health and safety), and price controls.	End-June 2000
Liberalization of petroleum imports	Undertake study tour of successful programs to liberalize the importation of petroleum products in the region, with the assistance of the World Bank.	End-April 2000
	Prepare action plan to liberalize the import of petroleum products.	End-June 2000
	Prepare operational and financial accounts of petroleum parastatal (LPRC).	End-June 2000
	Conduct and publish financial audit of LPRC based on internationally accepted accounting standards.	End-December 2000
Civil service reform	Complete functional audit of civil service.	May 2000
	Issue identification cards to all civil servants.	September 2000

Liberia: Macroeconomic and Structural Policies under the Staff-Monitored Program

Issue	Strategies/ Measures	Timing
Forestry policy	Review existing forestry law and concession agreements and develop comprehensive and transparent forestry policy.	Ongoing
IV. Monetary/financial policies		
Currency reform	Complete action plan for currency reform.	January 2000 (Done)
	Undertake currency reform, including currency exchange, and limit issuance of new currency to exchange for existing currency.	February-March 2000
Monetary policy	Establish monetary policy framework based on inflation objective and reserve money operational targets.	April 2000
	During initial period after the introduction of the new currency, refrain from issuing additional currency through June 2000.	January-June 2000
Capitalization of Central Bank of Liberia (CBL)	Complete capitalization of CBL as specified in Central Bank Act.	March 2000
Government debt to banking system	In conjunction with CBL and Ministry of Finance, determine stock of domestic debt owed to the CBL and commercial banks.	End-March 2000
	Develop and implement plan to begin to service domestic debt.	July 1, 2000
Monetary statistics	Prepare consolidated balance sheets of the CBL and commercial banks within 30 days of the end of each month.	February 2000
Prudential regulations	Introduce prudential guidelines for commercial banks and adopt procedures for assessing banks' capital adequacy based on international best practices.	April 2000
Banking licenses	Reissue banking licenses for existing commercial banks that meet core capital requirements.	April 2000
	For those capital-deficient banks, agree on action plan to meet capital requirements before issuing provisional licenses.	April 2000
Payments system	Establish properly functioning payments system and reactivate clearing house at CBL.	June 2000
Failed banks	Develop comprehensive stratagy for dealing with failed banks.	End-June 2000
V. External sector		
Compilation balance of payments statistics	Establish capacity in the CBL to compile balance of payments statistics and publish them for 1999, with technical assistance from the IMF.	By end-July 2000
	Improve accuracy and consistency of trade, services, and banking data from various sources (Ministry of Planning and Economic Affairs (MPEA), CBL, and Ministry of Commerce).	Ongoing
Strengthening of external debt management	Establish external debt management unit in Ministry of Finance and initiate loan-by-loan review of outstanding stock of external public sector debt.	Ongoing
VI. Statistics		
National income accounts	Reactivate compilation of national income accounts.	Ongoing

Liberia: Reporting Requirements[1]

Weekly reporting

- Daily data for the posted buying and selling exchange rates (Liberian dollars per U.S. dollar) for bank and nonbank dealers.

Monthly reporting

- Consumer price index (May 1998=100) (four weeks).
- Actual outturn of central government revenue and expenditure by major category. Breakdown of expenditure by agency and object code, including a breakdown of GOL special commitments (two weeks).
- Monetary survey, balance sheet of the Central Bank of Liberia, and consolidated balance sheet of commercial banks beginning February 2000 (four weeks).
- External credits contracted by creditor, indicating loan terms (maturity, grace period, effective rate of charge, number of principal repayments) (four weeks).
- Exports, f.o.b., and imports, c.i.f., data by major commodity (value and volumes), including import data on rice and petroleum products (four weeks).

Quarterly reporting

- Balance of payments data by major category and direction of trade (three months).

Other reporting

- Monthly developments in the National Statistical Coordinating Committee (NSCC).
- Any significant changes in fiscal, monetary, and exchange rate policies, as well as structural policies.

[1] Figure in parentheses denotes maximum period for transmittal of information.

Liberia: Relations with the Fund
(As of December 31, 1999)

Membership Status Joined: 03/28/1962; Article XIV

General Resources Account	SDR Million	%Quota
Quota	71.30	100.0
Fund Holdings of Currency	272.74	382.5
Reserve position in Fund	0.03	0.0

SDR Department	SDR Million	%Allocation
Net cumulative allocation	21.01	100.0

Outstanding Purchases and Loans	SDR Million	%Quota
Stand-by arrangements	166.76	233.9
Contingency and Compensatory	34.70	48.7
Trust Fund	23.36	32.8

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By Arrangement	12/07/1984	12/06/1985	42.78	8.50
Stand-By Arrangement	9/14/1983	9/13/1984	55.00	55.00
Stand-by Arrangement	9/29/1982	9/13/1983	55.00	35.00

Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs): 1/

	Overdue			Forthcoming		
	12/31/1999	2000	2001	2002	2003	2004
Principal	224.8	0.0	0.0	0.0	0.0	0.0
Charges/interest	245.2	10.9	10.9	10.9	10.9	10.9
Total	470.0	10.9	10.9	10.9	10.9	10.9

1/ The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

Exchange rate arrangement

The currency of Liberia is the Liberian dollar. There are two Liberian dollar notes, Liberty notes and J.J. Roberts notes. The official 1:1 parity of the Liberian dollar with the U.S. dollar was officially rescinded in August 1998. The exchange rate of the Liberian dollar is market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies, including the U.S. dollar, at market-determined exchange rates.

Article IV consultation

The 1989 Article IV consultation discussions were held in Monrovia during the period August 14-30, 1989. The staff report SM/89/251 (11/21/89) was discussed by the Executive Board on December 18, 1989.

Technical assistance

Mission: currency and exchange arrangement reform	MAE	1995
Mission: currency arrangement and financial system reform	MAE	1998
Advisor: Banking Commission	MAE short term	1998
Advisor: general operations	MAE long term	1998-2000
Advisor: audit and accounting	MAE long term	1998-2000
Advisor: research	MAE long term	1998-2000
Advisor: bank supervision	MAE long term	1999-2000
Mission: budget preparation and expenditure execution	FAD	1997
Mission: strategy for fiscal reform	FAD	1998
Advisor: budget preparation and classification	FAD short and long term	1998-2000
Advisor: budget execution	FAD repeated short term	1998-2000
Mission: reform of tax system	FAD	1999
Mission: preparation of tax code	FAD	1999
Mission: tax administration	FAD	1999
Mission: preassessment for multisector statistics	STA	1997
Mission: multisector statistics	STA	1998
Mission: money and banking statistics	STA	February 1999
Mission: money and banking statistics	STA	November 1999

Liberia: Relations with the World Bank Group
(As of December 31, 1999)

The attached table summarizes the World Bank's lending operations. As of December 31, 1999, the World Bank had made 22 loans totaling US$141.3 million, and 17 IDA credits totaling US$91.5 million to Liberia. Owing to Liberia's arrears to the Bank, disbursements were suspended in December 1986, and, in view of nonpayment of outstanding debt obligations, Liberia's loans were placed in nonaccrual status as of June 1, 1987. Arrears totaled US$239.8 million, including an exchange adjustment of US$38.7 million on World Bank loans, as of December 31, 1999.

Pending the resolution of the arrears problem, the World Bank is engaged in policy dialogue with the government and is providing technical assistance to build institutional capacity, as well as finance for early reconstruction activities. The technical assistance is being funded by the Institutional Development Fund (IDF) grant of US$0.45 million for strengthening the capacity to restore basic government functions; the Population and Human Resources Development (PHRD) grant of US$0.2 million to fund reconstruction and capacity-building activities; and the Development Grant Facility (DGF) of US$2.0 million for capacity building and humanitarian assistance.

Liberia: Relations with the World Bank Group
(In millions of U.S. dollars; disbursements as of December 31, 1999)

	Total	Disbursed	Undisbursed 1/
Total	270.5	233.0	37.5
IBRD	156.0	141.4	14.6
Agriculture	34.0	22.1	11.9
Rubber	7.0	2.5	4.5
Oil palm	12.0	4.6	7.4
Coffee	15.0	15.0	0.0
Transportation	62.9	60.4	2.5
Highways	48.6	48.1	0.5
Feeder roads	10.7	8.9	1.8
Ports	3.6	3.4	0.2
Energy	16.8	16.7	0.0
Liberia Electricity Corporation	11.8	11.8	0.0
Petroleum exploration	5.0	4.9	0.1
Mining			
Iron ore	20.0	20.0	0.0
Education	10.3	10.3	0.0
Development finance	12.0	11.9	0.0
IDA	114.5	91.6	22.9
Agriculture	48.4	39.6	9.6
Rubber	6.0	6.0	0.0
Forestry	6.0	5.6	0.4
Agricultural development	36.4	28.0	8.3
Transportation			
Highways	15.8	10.7	5.1
Education	20.7	18.4	2.3
Small and medium-scale enterprises	4.0	2.8	1.2
Urban development	10.0	7.5	2.5
Water supply	13.0	11.7	1.3
Energy			
Petroleum technical assistance	2.6	0.9	1.7
Loans and credits summary			
	IBRD	IDA	Total
Original principal	156.0	114.5	270.5
Cancellations	14.7	20.6	35.3
Disbursed	141.3	91.5	232.8
Undisbursed	0.0	3.0	3.0
Repaid	42.9	0.7	43.6
Due	98.0	103.2	201.1
Exchange adjustment	38.7	0.0	38.7
Borrower's obligation	136.7	103.2	239.8
Sold third party	0.4	0.0	0.4
Repaid third party	0.4	0.0	0.4
Due third party	0.0	0.0	0.0

Source: World Bank Group.

1/ Most of these have been cancelled.

Liberia: Social and Demographic Indicators

	Liberia	Sub-Saharan Africa
Area (1,000 square kilometers)	111	23,628
Population		
Total (million)	1.8 1/	612.4 3/
Growth rate (percent a year)	...	3.1 3/
Density (per square kilometers)	16.2 1/	25.9 3/
GDP per capita (U.S. dollars)	150-200 2/	503 5/
Population characteristics		
Life expectancy at birth (years)	47 3/	51.00 3/
Birth rate per 1,000 people	45.7 3/	40.8 3/
Under-5-mortality rate (per 1,000 live births)	194 3/	147 3/
Labor force (in million)	1.2 3/	268.3 3/
Female (in percent of total)	39.4 3/	42.2 3/
Health		
Physicians per 10,000 population	0.2 3/	...
Education		
Primary school enrollment (in percent, gross)	...	77 6/
Secondary school enrollment (in percent, gross)	...	27 6/
Adult literacy rate (in percent)	48 3/	58 3/

Source: World Bank, *World Development Indicators*.

1/ Fund staff estimates for 1998.
2/ Fund staff estimates on GDP per capita at 1992 constant prices during 1997-98.
3/ Estimates for 1997.
4/ Estimates for 1996.
5/ GNP per capita at 1995 constant prices for 1997.
6/ Estimates for 1994.

Liberia: Statistical Issues

1. There are enormous weaknesses in Liberia's economic and financial statistics, largely because of the effects of the seven-year civil war that caused widespread destruction of databases and the loss of administrative and institutional capacity for systematic compilation of economic statistics. A multi-sector Fund statistics mission visited Monrovia in 1998 and assisted the authorities in establishing short- and long-term objectives for the restoration of economic statistics. Action plans and timetables in support of these objectives were developed, taking into account the state of Liberia's postwar economy, the likely budget and manpower constraints, and the reduced technical capabilities of the compiling agencies. The National Statistics Coordination Committee (NSCC) was reinstated in March 1998, but its work has been hampered by a lack of financial resources. The NSCC has started holding regular quarterly meetings since May 1999 to reconstruct the database.

Real sector

2. Annual estimates of GDP are prepared by the Ministry of Planning and Economic Affairs (MPEA). The last official GDP data are for 1987. The MPEA has begun to collect data on production and external trade, but its work is hampered by the lack of financial resources. Fund staff has prepared preliminary estimates for the period 1988–99, with the assistance of the MPEA.

Prices

3. The MPEA began producing a consumer price index (CPI) in late 1998 with May 1998 as the starting date and reference period. However, the weights are based on an expenditure survey conducted in the early 1960s. The database of a price survey conducted in 1988-89 with the assistance of GTZ, a German governmental organization, was lost during the civil war. The authorities have approached the GTZ for assistance in reconstructing the database.

Government finance statistics

4. The authorities have been able to provide the staff with current information on fiscal accounts. The Ministry of Finance provides data on government revenue, current and capital expenditure, and the financing of the deficit/surplus, to missions, in most cases with good disaggregation. The authorities are expected to provide these data to the staff on a regular (monthly) basis during 2000. There is scope for improvement in the reporting of government finance statistics, especially in the area of expenditure and revenue classification, where FAD is providing technical assistance.

Monetary statistics

5. Liberia's money and banking data in the latest issue of *International Financial Statistics (IFS)* (February 2000) cover the period only through November 1996 for the National Bank of Liberia (NBL), the former central bank, and December 1997 for deposit money banks (DMBs). Interest rate data have not been reported since October 1997. Money and interest rate data, although compiled by the authorities, have yet to be reported to STA because of problems in the Liberian postal system. In addition, the NBL and DMBs data could not be used for economic analysis and publication because they were compiled irregularly and suffered from inconsistent valuation procedures arising from the emergence of a dual currency system, as well as an inadequate sectorization of accounts. These issues were addressed during the multisector mission in 1998 and the money and banking statistics mission in February and November 1999.

6. The November 1999 money and banking statistics mission reviewed in detail methodology for the collection and compilation of monetary data, established procedures for their regular compilation, and suggested changes in the central bank's accounting records and commercial banks' reporting to improve the overall quality of data. In cooperation with the authorities and based on available information, the mission compiled monetary data for the period January 1998-October 1999. The authorities responded positively to the mission's recommendations regarding the reporting of data and provided modified data for the above period in January 2000. Further improvement of quality of data depends on the introduction of new reporting system from commercial banks, which is expected to commence in February 2000.

Balance of payments and external debt

7. Official balance of payments statistics have not been reported since the 1988 Article IV consultation. The responsibility for compiling the BOP now resides with the Central Bank of Liberia (CBL), which will be required to coordinate with the MPEA and MOF. The MOF is updating its database on external debt but will require assistance in terms of equipment and training. Provisional BOP statistics have been prepared by Fund staff with support from the MPEA, CBL and the Ministry of Commerce. At this time, external trade data are obtained from only one source, the Ministry of Commerce, but down the road the staff would verify its reliability when customs data become available. Technical assistance is expected from STA.

Liberia: Core Statistical Indicators

(As of January 31, 2000)

	Exchange Rates	International Reserves 1/	Reserve/ Base Money 1/	Central Bank Balance Sheet 1/	Broad Money 1/	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP	External Debt
Date of latest observation	12/99	10/99	10/99	10/99	10/99	10/99	10/99	09/99	12/98	12/99	12/99	12/99
Date received	01/00	01/00	01/00	01/00	01/00	01/00	11/99	11/99	12/99 2/	01/99	12/99	12/99 2/
Frequency of data 3/	W	n.a.	M	M	M	M	M	M	A	M	A	A
Frequency of reporting 3/	M	n.a.	n.a.	n.a.	n.a.	n.a.	M	Q	A	M	n.a.	A
Source of data 4/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 5/	C	n.a.	C, V	C, V	C, V	C, V	V	V	V	C, V	n.a.	C, V
Confidentiality 6/	C	C	C	C	C	C	C	C	C	D	C	D
Frequency of Publication 3/	D	n.a.	Q	Q	Q	Q	M	Q	n.a.	A	n.a.	n.a.

Note: The seven-year civil war during 1989-96 caused widespread destruction of databases and the loss of administrative and institutional capacity for systemic compilation of economic statistics.

1/ Monetary data are preliminary and will be reviewed with the authorities during the upcoming STA monetary statistics technical assistance mission.
2/ During the mission.
3/ A=annually; D=daily; M=monthly; Q=quarterly; and W=weekly.
4/ A=direct reporting by central bank, ministry of finance, or other official agency.
5/ C=cable or facsimile; and V=staff visits.
6/ C=unrestricted use; D=restricted until officially published.

Liberia: Medium-Term Projections, 2000-2002

The medium-term scenarios presented in the attached table are an illustrative exercise aimed at capturing the impact of developments mainly in the external sector. In the absence of external financial support, the extent of future restructuring of the economy, such as public enterprises and the financial system, is unclear.

The key features/assumptions of the **baseline scenario** are the following:

- The political and security environment will be stable, allowing Liberia to continue on a steady though protracted course of reconstruction.
- Current policies will remain unchanged—the government is expected to adopt prudent fiscal and monetary policies under a staff-monitored program (SMP), including maintaining a balanced budget over the medium term and holding monetary growth in line with real demand. Inflation is projected to remain at less than 4 percent, with a stable exchange rate.
- Donor assistance will be reduced, as emphasis shifts from humanitarian to reconstruction needs, with no presumption of external budgetary support. Therefore, progress will continue to be impeded by various bottlenecks, especially in institutional capacity and availability of financial resources for infrastructure reconstruction.
- On a commitment basis, a fiscal surplus of US$2.7 million is expected in 2000, as expenditure will be cut, mainly through a rationalization of government purchases. Balanced budgets are expected in 2001-02. Revenue will initially fall as a share of GDP to 12.9 percent in 2000, as the rebound in revenue slows, as strong growth in the economy will continue in sectors where tax rates are low (agriculture and forestry). Revenue will subsequently increase to 13.5 percent of GDP as the new tax structure expands the tax base.
- On this basis, output growth is projected to continue to decelerate but remain robust, slowing to 15 percent in 2002, with output reaching about 60 percent of the prewar level by that year. The agriculture and forestry sectors, which are now the force behind the recovery, would continue to grow, and the tertiary sector—including construction and financial services, whose output remained subdued at 10 percent of the prewar level in 1998—would begin to recover.
- The external sector is expected to remain a drag on the economy, with the external current account deficit (including grants) expected to remain in the range of US$45-50 million per year, though it would fall from 9½ percent of GDP in 1999 to 6 percent in 2002. Reconstruction is expected to continue to exert a large draw on imports, while the recovery of exports, especially those of rubber and timber, will continue to be impeded by damage to the infrastructure. The financing of the trade deficit would remain difficult since donors are expected to reduce assistance. The country would continue to rely on earnings from maritime operations, transfers from Liberians living abroad, and foreign direct investment. The baseline scenario assumes a modest increase in debt-service payments, but well below debt service due, so that the debt stock,including arrears (but

Liberia: Medium-Term Projections, 1998-2002

	1998	1999	2000	2001	2002
		Est.	Projections		
Baseline scenario					
		(Annual percentage change, unless otherwise indicated)			
National income and prices					
Real GDP (in U.S. dollar terms)	28.5	23.0	21.0	18.0	15.0
Consumer prices (end of period)	...	4.0	1.8	3.0	3.0
Real GDP per capita (in U.S. dollars)	169.3	169.0	181.1	208.7	234.3
External sector (in U.S. dollar terms)					
Exports, f.o.b.	68.8	30.4	29.8	26.0	20.4
Imports, c.i.f.	-33.7	3.9	11.7	9.6	10.5
		(In percent of GDP, unless otherwise indicated)			
Central government operations (January- December)					
Total revenue and grants	14.7	14.6	12.9	13.5	13.5
Total expenditure and net lending	15.1	15.1	12.5	13.5	13.5
Of which : current expenditure	11.2	12.8	10.9	10.9	11.0
capital expenditure	1.7	1.2	1.6	2.3	2.1
Fiscal balance, including grants (commitment basis)	-0.4	-0.4	0.5	0.0	0.0
Fiscal balance, excluding grants (commitment basis)	-0.4	-0.4	0.5	0.0	0.0
External sector					
Current account balance, including grants (deficit, -)	-11.5	-9.4	-9.6	-7.2	-5.9
Current account balance, excluding grants (deficit, -)	-31.2	-26.3	-22.7	-17.5	-13.6
Trade balance (deficit, -)	-32.5	-24.9	-20.9	-17.3	-15.0
Public sector external debt outstanding (medium and long term)	692.4	569.5	469.1	394.3	335.3
Memorandum items:					
Donor grants (in millions of U.S. dollars)	71.8	75.8	71.9	67.7	59.9
Nominal GDP (in millions of U.S. dollars)	364.9	448.3	549.3	658.9	781.1
Gross official reserves (in millions of U.S. dollars; end of period)	0.4	0.2	1.7	4.7	9.7
(in months of imports of goods and services)	0.0	0.0	0.1	0.3	0.5
Social sector spending (in percent of GDP) 1/	1.6	1.7	2.2	2.5	2.4
Alternative scenario 2/					
		(Annual percentage change, unless otherwise indicated)			
National income and prices					
Real GDP (in U.S. dollar terms)	28.5	23.0	23.0	20.0	17.0
Consumer prices (end of period)	...	4.0	1.8	3.0	3.0
Real GDP per capita (in U.S. dollars)	169.3	169.0	184.3	215.9	246.5
External sector (in U.S. dollar terms)					
Exports, f.o.b.	68.8	30.4	40.8	27.3	25.9
Imports, c.i.f.	-33.7	3.9	26.0	8.5	10.5
		(In percent of GDP, unless otherwise indicated)			
Central government operations (January-December)					
Total revenue and grants	14.7	14.6	16.3	16.3	15.9
Total expenditure and net lending	15.1	15.1	14.8	16.3	15.9
Of which : current expenditure	11.2	12.8	10.5	11.5	11.5
capital expenditure	1.7	1.2	4.1	4.5	4.0
Fiscal balance, including grants (commitment basis)	-0.4	-0.4	1.5	0.0	0.0
Fiscal balance, excluding grants (commitment basis)	-0.4	-0.4	-2.1	-3.0	-2.5
External sector					
Current account balance, including grants (deficit, -)	-11.5	-9.4	-4.3	-3.2	-2.7
Current account balance, excluding grants (deficit, -)	-31.2	-26.3	-25.4	-20.8	-16.6
Trade balance (deficit, -)	-32.5	-24.9	-22.9	-19.1	-15.7
Public sector external debt outstanding (medium and long term)	692.4	569.5	459.8	386.9	329.1
Memorandum items:					
Donor grants (in millions of U.S. dollars)	71.8	75.8	111.9	107.7	99.9
Nominal GDP (in millions of U.S. dollars)	364.9	448.3	559.3	668.9	791.1
Gross official reserves (in millions of U.S. dollars; end of period)	0.4	0.2	11.7	24.7	39.7
(in months of imports of goods and services)	0.0	0.0	0.7	1.4	2.0
Social sector spending (in percent of GDP) 1/	1.6	1.7	3.4	3.4	3.4

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

1/Includes current and capital expenditure on education, health, and rural development.

2/ Real GDP during 2000-02 is projected to increase by 2 percent a year above the baseline scenario, under the following assumptions: a)donor grants during 2000-02 increase by US$40 million a year, with an emphasis on reconstruction and capacity building; and b)half of the donor assistance is given as budget support (US$15 million to capital imports, and US$ 5 million to interest payments).

excluding interest on arrears), would rise to some US$2.7 billion in 2002, although declining to about 335 percent of GDP. Only modest increases in international reserves would be possible.

The main assumptions behind the **alternative scenario** are as follows:

- The donor community will respond favorably to Liberia's good performance under the SMP and increase assistance by US$40 million each year over 2000-02 relative to the baseline scenario. Furthermore, donors will provide half of this assistance as budgetary support.
- The government will maintain a balanced budget, excluding external grants, on a cash basis. Of the US$20 million in grant budget assistance each year,US$15 million would be allocated to capital spending, and the remainder to debt service payments. Half of the increased capital spending will be allocated to the social sector. Of the remaining US$20 million in additional donor assistance, US$10 million will be used to finance technical assistance, half of which is imported, and the rest is to be used to build up official reserves.
- As a result, the increased government spending would give further momentum to growth directly. By reducing bottlenecks in the economy, real GDP growth would increase by about 2 percentage points per year above the baseline scenario. Increased government spending would be focused on infrastructure and the social sectors, with social sector spending increasing by 1 percentage point of GDP above the baseline scenario.
- The external current account deficit would narrow to some 3 percent of GDP by 2002, including grants, as a result of the higher donor assistance. Under this scenario, imports would increase in line with the increase in domestic demand and the trade balance would deteriorate; however, higher infrastructure spending would allow for a stronger recovery of exports, partially offsetting the increase in imports. External debt would decline to 329 percent of GDP, as government payments rise marginally.

INTERNATIONAL MONETARY FUND
Public Information Notice
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Public Information Notice (PIN) No. 00/30
FOR IMMEDIATE RELEASE
April 11, 2000

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Liberia

On February 28, 2000, the Executive Board concluded the Article IV consultation with Liberia.[1]

Background

During Liberia's devastating seven-year civil war, economic activity was severely disrupted. The war took a heavy toll on the population and the country's infrastructure was largely destroyed. Following a peace agreement in August 1996, Mr. Charles Taylor was elected President in July 1997. The security situation has recently improved considerably, though some areas in the northern part of the country have remained difficult.

Domestic production has rebounded strongly following the end of the civil war, although it still remains only about one-third the prewar level. Based on provisional data, real GDP is estimated to have about doubled in 1997 and increased by a further 25-30 percent in 1998, mainly reflecting a postwar surge in food and cash crop production, with particularly sharp increases in rice and cassava output. Agricultural production and trade projections suggest the economy continued to recover strongly in 1999. Real per capita GDP is currently estimated to be in the range of US$150-200.

Inflation and the exchange rate have stabilized. Inflation on a 12-month basis averaged 3 percent in October 1999, although there were fluctuations related to the food supply situation. The exchange rate in terms of the U.S. dollar has broadly stabilized since August 1997, averaging L$41 in 1998 and L$42 in 1999.

Following a tight fiscal policy in 1998, the overall fiscal balance deteriorated significantly in the first 11 months of 1999, recording a deficit of US$11 million (2½ percent of GDP) on a commitment

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

basis. The significant deterioration mostly reflected expenditure overruns relating to the purchase of government vehicles and equipment and refurbishing of the Ministry of Foreign Affairs to facilitate government operations, and security-related outlays. In December 1999, the government took decisive actions to improve budget performance and reverse expenditure overruns, canceling US$8 million in domestic payments vouchers than did not reflect underlying contracts or completed transactions. Consequently, the budget deficit for the year 1999 as a whole was reduced to US$2 million (½ of 1 percent of GDP) on a commitment basis.

The Central Bank of Liberia replaced the largely defunct and illiquid National Bank of Liberia in October 1999. However, the scope for monetary policy in Liberia has remained limited since the end of the war. Monetary developments during 1998 and 1999 reflected the fixed stock of currency, the balanced central government budget (on a cash basis), and the problems in the financial sector and the economy in general. Broad money is estimated (based on provisional data) to have increased by 13 percent during the December 1998-September 1999 period.

Based on provisional data, the external current account deficit has fallen significantly since the end of the war, from 27 percent of GDP in 1997 (including grants) to 9½ percent in 1999. The trade deficit averaged US$115 million per year in 1998-99, and was largely financed by donor grants, private remittances from Liberians living abroad and foreign direct investment. Lacking access to external financing and international reserves, external debt service obligations were financed through the accumulation of arrears in 1998 and 1999, with the exception of US$50,000 in monthly payments to the Fund. Liberia is faced with an onerous external debt (US$2.6 billion at end-1999, equivalent to 570 percent of GDP), much of which is in arrears.

On the structural front, with regard to rice imports, a World Bank-financed team, which visited Senegal and The Gambia in October 1999, recommended a speedy liberalization of the sector, drawing on lessons in these two countries.

Executive Board Assessment

Executive Directors noted that the Liberian economy has rebounded rapidly following the end of the devastating seven-year civil war. Nonetheless, real per capita income still remains only about one-third of the pre-war level and poverty is widespread. Directors emphasized that to maintain the growth momentum, and to broaden its impact on all productive sectors, the authorities will need to expand their focus from near-term relief to a more comprehensive reconstruction and economic reform program. More generally, they observed that the situation is still fragile and the task ahead daunting, pointing to the many post-conflict issues that need to be addressed. In these endeavors, in addition to determined efforts by the authorities, Directors welcomed the provision of technical assistance by the Fund, and noted that technical and financial support from the donor community will also be extremely important. Directors encouraged the authorities to ensure that the medium-term strategy they are developing focuses on fostering private sector development, good governance, and transparency; and they noted the need for the authorities to begin working on a poverty reduction strategy.

Directors noted the recent positive developments in the macroeconomic situation, including the achievement of a stable exchange rate and a reduction in inflation. They expressed concern, however, about the deterioration in the fiscal situation in the first half of 1999, owing to substantial extrabudgetary expenditures. Directors welcomed the authorities' recent corrective actions to improve fiscal performance, but underscored, nonetheless, the need for substantially strengthening expenditure management and control. In particular, they emphasized the importance of consolidating expenditure authority within the budget.

Directors were encouraged by the adoption of a comprehensive fiscal policy framework for January–June 2000 that seeks to address the serious structural problems underlying expenditure management. In this regard, they supported the establishment of an interagency budget-monitoring task force that would help coordinate the activities of the various budget agencies as well as review monthly expenditures and revenue against cash-flow projections. These efforts would be crucial for enhancing transparency in the fiscal accounts and eliminating extrabudgetary spending. Directors supported the introduction of the new tax code by July 2000 as an important measure to expand the tax base and improve tax administration. They considered that such efforts on the expenditure and revenue side would be necessary for providing adequate resources to priority social sector and poverty reduction programs.

Directors acknowledged the need for the new central bank to develop a monetary policy framework based on reserve money programming, but cautioned that the Central Bank of Liberia will need to be adequately capitalized and its staff trained to operate effectively. They emphasized that continuation of an appropriately restrained monetary stance, supported by a tight fiscal position, will be important in the near term to build confidence in both the central bank and the new currency, as well as in light of the inability of the government to borrow internationally or internally.

Directors agreed with the authorities that a well-functioning financial sector will be critical for the continuation and expansion of the economic recovery. To this end, they emphasized that the central bank will need to strengthen quickly its capacity to supervise the banking system and should work expeditiously to assess the health of each of the existing commercial banks.

Directors stressed that structural reforms in other areas were also critical for broadening the economic recovery. In this regard, they welcomed the authorities' commitment to liberalize rice imports by June 2000, and urged the authorities, in collaboration with the World Bank, to proceed with the liberalization of petroleum imports. Directors also encouraged the authorities to push ahead with the civil service functional audit and the restructuring of the security services in the coming year. They cautioned that the inclusion of ex-combatants in the civil service payroll was not sustainable and urged the authorities to reconsider this action.

Directors welcomed the improvement in statistical reporting during the past two years, but observed that the quality and timeliness of data provision to the Fund for surveillance purposes remains weak. They underscored the importance of continued efforts to improve the statistical base, including the preparation of a monthly monetary survey, as well as the compilation of national income accounts and balance of payments statistics.

Directors supported the authorities' desire to move quickly to a rights accumulation program (RAP) and called for continued efforts to improve relations with donors and creditors in order to help pave the way for a potential RAP. In this connection, they stressed that a sustained and credible track record of policy performance under the staff-monitored program was essential to strengthen cooperation with the Fund and build support for the kind of concerted international effort needed to support Liberia's economic recovery and reconstruction program as well as to achieve a lasting solution to its debt problem. In this light, the donors' conference in mid-2000 would provide an important opportunity to discuss the authorities' medium-term strategy and financial and technical assistance needs.

Directors welcomed Liberia's intention to accept the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement in the near future, and encouraged the authorities to work with the staff to identify and eliminate remaining exchange restrictions.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. As part of a pilot project, the staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 1999 Article IV consultation with Liberia is also available.

Liberia: Selected Economic Indicators

	1997	1998	1999
Output and prices (change in percent) 1/			
Real GDP	106.3	28.5	23.0
Consumer prices (end of period) 2/	...	...	3.0
Central government finance (percent of GDP)			
Total revenue and grants	...	14.7	14.6
Total expenditure and net lending	...	15.1	15.1
Overall fiscal balance (commitment basis)	...	-0.4	-0.4
Changes in expenditure-related arrears	...	0.4	0.5
Overall fiscal balance (cash basis)	...	0.1	0.1
Total public sector external debt outstanding	827.0	692.4	569.5
Money and credit 1/ 3/			
Broad money (percent change)	...	...	12.8
External sector (millions of U.S. dollars) 1/			
Trade balance	-217.9	-118.5	-111.7
Current account balance	-80.7	-41.9	-42.3
Gross official reserves (end of period)	0.5	0.4	0.2
External sector (percent of GDP) 1/			
Trade balance	-73.6	-32.5	-24.9
Current account balance	-27.3	-11.5	-9.4
Exchange rates			
Liberty dollar per U.S. dollar (period average)	...	41	42

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

1/ Based on provisional estimates.

2/ October 1999.

3/ Reflects year-to-date through September 1999.