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Liberia: 2002 Article IV Consultation, Overdue Financial Obligations to the Fund—Review Following Declaration of Ineligibility, and Decision on Suspension of Voting and Related Rights—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Liberia

In the context of the 2002 Article IV consultation, overdue financial obligations to the Fund—review following declaration of ineligibility, and decision on suspension of voting and related rights, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV Consultation, overdue financial obligations to the Fund—review following declaration of ineligibility, and decision on suspension of voting and related rights, prepared by a staff team of the IMF, following discussions that ended on **December 18, 2002,** with the officials of Liberia on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on February 19, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **March 5, 2003** updating information on recent developments.

- a Public Information Notice (PIN) and Press Release summarizing the **views of the Executive Board as expressed during its March 5, 2003 discussion** of the staff report that completed the review.

- a statement by the Executive Director for Liberia.

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

Selected Issues and Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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LIBERIA

Staff Report for the 2002 Article IV Consultation, Overdue Financial Obligations to the Fund—Review Following Declaration of Ineligibility, and Decision on Suspension of Voting and Related Rights

Prepared by the African and Treasurer's Departments

(In consultation with External Relations, Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, and Statistics Departments)

Approved by Donal Donovan, Eduard Brau, and Matthew Fisher

February 19, 2003

The discussions for the 2002 Article IV consultation and review of overdue financial obligations were held in Monrovia during December 4–December 18, 2002. The Liberian representatives included the Minister of Finance, the Governor of the Central Bank of Liberia, and the Ministers of Agriculture, Commerce, Land, Mines and Energy, Labor, and Planning and Economic Affairs. The staff team also met with representatives of the Bureau of Maritime Affairs, Forestry Development Authority, Liberian Petroleum Refining Corporation, National Investment Commission, Chamber of Commerce, West Oil, the commercial banks, diplomatic missions, the Roman Catholic Church, and nongovernmental organizations.

The authorities have not yet expressed their intention regarding the publication of this staff report.

The staff representatives were Mr. Shields (Head), Mr. Thomas and Mr. Haacker (all AFR), Mr. Fallon (PDR), and Mr. Honda (TRE).

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Executive Summary

- **The Liberian economy remains in a dire state.** The recovery from the 1989–96 civil war has stalled, leaving the infrastructure highly depleted; virtually no productive capacity outside the timber, rubber, and smallholder agriculture sectors; and a barely functioning government. Rebel activity has disrupted production in several counties, donor assistance has ceased, foreign direct investment is minimal, and UN sanctions on diamond exports and arms imports have been in place since May 2001.

- **GDP growth slowed to 3.3 percent in 2002, consumer prices rose by an average of 14 percent over the year**, and the exchange rate depreciated in terms of the U.S. dollar by 24 percent through end-December. The monetary base rose by 10.3 percent in the year to September 2002.

- **Government revenue fell to 12.9 percent of GDP in 2002.** With rising expenditure on security and capital projects and no access to borrowing, spending on other recurrent activities was restricted to 4.6 percent of GDP. **Arrears to government employees now amount to eight months of the wage and salary bill.**

- **The authorities have taken little substantive action despite a series of recommendations by the Executive Board at the conclusion of the last Article IV consultation to improve the desperate fiscal situation.** Accountability for revenue from maritime and timber operations remains superficial, and no independent audits of off-budget agencies have been documented, adding to concerns about the scale of illicit diversion of revenues. Substantial monopoly rents in the petroleum and rice sectors arising from government restrictions remain in the hands of private agents. No progress has been made in improving the prioritization, monitoring, and control of government spending, or in rolling back the inefficient and abused practice of crediting logging and other companies against tax liabilities for work in kind.

- **Monetary policy, constrained by the deteriorating fiscal position, has been marked by uncontrolled emissions of currency and a volatile exchange rate.** Rising government arrears, increasing nonperforming loans and the burden of large, unremunerated reserve requirements threaten the profitability of commercial banks, which could be further undermined by exchange rate movements.

- The staff's view is that Liberia has not adequately improved its cooperation with the Fund since the Executive Board agreed in February 2002 to initiate the procedure on the suspension of Liberia's voting and related rights. **Accordingly, the staff recommends that the Executive Board suspend Liberia's voting and related rights in the Fund.**

I. Introduction

1. At the conclusion of the 2001 Article IV consultations and review of Liberia's overdue financial obligations to the Fund on February 25, 2002, the Executive Board decided that Liberia had persistently failed to cooperate adequately with the Fund in the areas of policy implementation and payments to the Fund. Executive Directors noted in particular the weak revenue performance, the lack of progress on fiscal transparency and accountability, and the poor control and prioritization of government spending, which had resulted in a failure to clear wage or other arrears or to maintain social services. Substantial governance issues needed to be addressed and critical structural reforms, particularly in the petroleum and rice sectors, had not been undertaken. Directors also noted the inadequate level and irregularity of Liberia's monthly payments to the Fund, and the lack of steps to normalize relations with external creditors and donors. Accordingly, the Executive Board agreed that the procedure to suspend Liberia's voting and related rights in the Fund should be initiated. The Managing Director issued a complaint to this effect on April 8, 2002.

2. The Executive Board considered the Managing Director's complaint on October 4, 2002.[1] In regretting the further accumulation of arrears to the Fund, despite the improved timeliness of monthly payments to the Fund, and the limited action taken by the authorities to improve economic policy implementation, Executive Directors noted in particular the failure to implement fully the measures outlined in the Managing Director's letter to the Minister of Finance of April 18, 2002 (Box 1). The Executive Board decided to consider again the suspension of Liberia's voting and related rights in the Fund no later than March 4, 2003[2]. The Managing Director subsequently informed the Minister of Finance of the serious concerns expressed by the Executive Board at its October 4 meeting and further urged the Liberian authorities to strengthen their cooperation and payments performance with the Fund. Since the October 4 meeting, the authorities have announced decisions to end the derogation for domestically-produced cement in respect of the goods and services tax from February 15, 2003 and to ask the General Auditing Office to engage a local accounting firm to conduct financial audits of the agencies responsible for maritime and timber operations and revenues. Monthly payments to the Fund have been maintained at US$50,000.

3. **In the view of the staff, Liberia has neither adequately strengthened its policy cooperation with the Fund, nor improved its payments performance, since the**

[1] A staff visit planned for July 2002 in preparation for the October 4 meeting of the Executive Board was postponed twice and ultimately canceled at the request of the authorities.

[2] Executive Board Decision No. 12869-(02/104) (Appendix I).

Executive Board agreed on February 25, 2002 that the procedure to suspend Liberia's voting and related rights should be initiated. The staff therefore recommends that the Executive Board suspend the voting and related rights of Liberia in the Fund.

4. Liberia's record on overdue and forthcoming obligations to the Fund is examined further in Section VI and Appendix III. The procedure for suspending voting and related rights in the Fund is described in Appendix II. Summaries of Liberia's relations with the Fund and with the World Bank Group are presented in Appendices IV and V respectively. A discussion of statistical issues is contained in Appendix VI, while selected social and demographic indicators are provided in Appendix VII. Medium-term growth prospects are described in Appendix VIII. Appendix IX reviews Fund technical assistance since 1999, and a tentative work program is presented in Appendix X. Selected economic and financial indicators are provided in Table 1.

II. Background

5. **Liberia's physical and economic structure was largely destroyed in the civil war of 1989–96**. By the end of the war, hundreds of thousands of people had been killed, injured, or displaced, and agriculture and other key elements of the economy, including iron ore production, had collapsed. GDP had fallen to barely one-tenth of its pre-war level. In the period 1997–2000, Liberia took some limited steps toward economic revival with the assistance of the international community. Smallholder agriculture partially recovered, timber and rubber activities resumed, GDP rose to about half its pre-war level, and a few measures were taken to rehabilitate monetary and fiscal institutions. However, the economy has stagnated in the past two years, with rebel fighting and government abuses contributing to fiscal stress, a cessation of donor support, the disruption of production, a volatile exchange rate, and increased inflation.

6. Data on social conditions in Liberia are generally outdated and of poor quality. The last survey of household expenditure, conducted in August 2000, [3] indicated that 76 percent of the population was living on less than US$1 per day. Poverty was generally associated with low educational attainment and a reliance on agricultural employment; and serious deficiencies in the health and educational and sanitation standards of the population were not being addressed. **In 1999, Liberia ranked 174 out of 175 countries on the United Nations Development Program (UNDP) Aggregate Human Development Index.[4]** Since then, a large proportion of the population of three counties (well in excess of 100,000 people) has been given shelter in camps for internally displaced people, refugees have fled from neighboring countries, and there has been little progress in either documenting the prevalence

[3] UNDP, "*Poverty Profile of Liberia*" (Monrovia: January 2001).

[4] UNDP, "*Human Development Report*", 2001.

of HIV/AIDS or in tackling the problem. Per capita GDP, at US$169 in 2002, is among the lowest in Africa.

7. **Liberia remains trapped in a quagmire of domestic conflict, government corruption, institutional neglect, destroyed infrastructure, and UN sanctions**. The rebel faction, Liberians United for Reconciliation and Democracy (LURD), was reportedly in control of one-third of the countryside in early 2002, prompting a declaration of a state of emergency, and at one stage was within 15 miles of the capital, Monrovia. Potential sources of government revenue, including duties on logging activity and monopoly rents from petroleum distribution, are being diverted, according to several reports, for covert military use and private gain. Government departments are understaffed, with substantial wage arrears. UN sanctions, imposed by the Security Council in May 2001 for Liberia's alleged role in supporting rebels in neighboring states, were extended in May 2002 and include bans on weapons sales to Liberia[5] and diamond exports, and restrictions on travel by senior members of the government; the UN has also called for audits of government revenues from the Liberian shipping registry and the timber industry.

8. **Peace initiatives have so far had limited impact.** Talks under the Rabat process between the three countries of the Mano River Union—Liberia, Guinea, and Sierra Leone—resulted only in limited agreement on monitoring of the borders. Rebel factions did not attend the National Peace and Reconciliation Conference in Liberia in August–September 2002. However, after government action pushed back rebel forces in the north west of the country, the state of emergency was lifted in September 2002, and greater freedom was provided to conduct political activity. The International Contact Group on Liberia met in Dakar in December, 2002. More recently, the conflict in Côte d'Ivoire has resulted in the return of Liberian refugees and new strains in international relations, following reports of cross-border incursions, and further rebel action has been reported northwest of Monrovia.

9. **Presidential and legislative elections are scheduled for October 14, 2003.** The President, Charles Taylor, is expected to be a candidate for a second six-year term. Members of Parliament will be elected on a constituency basis. At least eighteen political parties have already registered for the elections. Serious concerns have been voiced by the churches, local NGOs, and the international community about the possible conduct of the elections because no national census has been conducted since 1984, many voters are displaced from their home constituencies, and there has been little administrative preparation or promise of finance.

10. Neither the World Bank nor the African Development Bank is engaged in any significant activities in Liberia at the present time. The European Union (EU) has suspended

[5] The report of the UN Panel of Experts on Liberia of October 7, 2002 provided evidence of arms shipments from Yugoslavia in defiance of UN sanctions.

all new financial assistance, other than humanitarian aid, pending agreement on moves to address concerns on human rights, democracy (including election law), and governance (including revenue transparency and corruption). Although the UN's humanitarian agencies continue to operate in Liberia, alongside several NGOs, the authorities received no direct assistance from donors in 2002 because of UN sanctions, human rights abuses, and evidence of government corruption.

III. Recent Economic Developments

A. Growth and Inflation

11. **The recovery from the 1989–96 civil war has stalled.** After recording an average growth of 24 percent in the period 1998–2000, largely accounted for by a restoration of production in timber and smallholder agriculture, GDP rose by about 5 percent in 2001 and 3.3 percent in 2002 (Table 1). Rebel fighting has disrupted rubber, logging, and farming activity in the northwest of the country, and capacity in the rubber sector has been restricted by a failure to replant in recent years. The small manufacturing sector has continued to suffer from an unreliable supply of domestic utilities and a virtual absence of foreign investment.

12. **Consumer price inflation peaked at a 12-month rate of 24 percent in March 2002** after a surge in prices emanating from the monetary expansion and exchange rate decline of mid-2001. The relatively high dependence of the Liberian economy on imported goods, the extensive use of the U.S. dollar (which is legal tender alongside the Liberian dollar), and the specification of price ceilings in U.S. dollars for certain staples, including rice and petroleum, resulted in a quick pass-through from the exchange rate to domestic prices (Figure 1). For 2002 as a whole, the 12-month rate of consumer price inflation averaged 14 percent.

B. Public Finances

13. **Total government revenue (including grants),** which was forecast to stay constant in the government's initial budget projection for the fiscal-year 2001/02 (July–June) at US$83 million (15.3 percent of GDP), is estimated to have declined by over 13 percent to US$72 million. No grant income was received by the government (compared with transfers equivalent to up to 10 percent of revenues in previous years), and the only buoyant areas of revenue were stumpage fees on timber production and (in the first half of 2002) transfers from the maritime agency. The slowing economy and tax derogations appear to have substantially depleted tax receipts from international trade and expenditure and income taxes. In order to ensure a fiscal outcome near to balance in cash terms in 2001/02, nonmilitary expenditure was heavily reduced, and arrears were again accumulated. The adverse revenue trends continued through the remainder of 2002, resulting in a further pruning of spending on health, education, and other social services. For calendar-year 2002, total government revenue fell to 12.9 percent of GDP from 15.8 percent in 2000, and current expenditure dropped to 4.6 percent of GDP from 8.8 percent over the same period. Despite the spending

cuts, the available fiscal data point to a cash deficit of US$7.3 million (1.3 percent of GDP) for 2002 (Table 2).

14. The shrinkage in cash expenditure in 2002 meant that no further progress was made in reducing the backlog in civil service wages: in December, salary payments were still eight months in arrears. Recorded unpaid obligations to domestic suppliers amounted to about US$52 million (10 percent of GDP). However, the growing practice of allowing credits to taxpayers in respect of work undertaken for government departments may imply that actual arrears to domestic suppliers are substantially larger.

C. Money and Banking

15. With very limited monetary policy instruments available, the fiscal position of the central government and central bank continued to dominate monetary developments. Liberian currency in circulation rose by 14 percent in the 12 months to September 2002, and total reserve money grew by 10 percent[6] (Table 4). The Liberian dollar component of the broad money supply rose by 17 percent, while total M2 (which includes bank deposits denominated in U.S. dollars, but excludes U.S. banknotes) rose by 33 percent, reflecting in part the depreciation of the Liberian dollar of 29 percent through the period in terms of the U.S. dollar. The weakening of the currency occurred mainly in the first half of 2002, with the steepest period of fall coinciding with reports of rebel activity close to Monrovia. From the beginning of October, however, the exchange rate recovered, as perceptions of the security situation improved and as inward transfers contributed to the usual pre-Christmas strengthening of the currency. The central bank also acted to discourage speculation by various means, including the investigation of evidence of collusion between foreign exchange bureaux, reprimands to commercial banks for taking excessive foreign exchange positions, and moral suasion. The exchange rate weakened sharply in terms of the U.S. dollar at the end of December 2002, to a level of L$65, 24 percent below that of a year earlier.

16. The profitability and asset quality of the commercial banks came under continued pressure as the deteriorating economic environment caused a rise in nonperforming loans, the government failed to pay interest due, and new restrictions were placed on banks' lending rates. Two banks reported operating losses in the quarter ended September 2002. However, capital adequacy ratios did not suggest immediate problems at the four active banks (Table 5).[7] The central bank set a limit of 10 percentage points on the spread that could be

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[6] Reserve money is measured as the sum of Liberian banknotes and coins in circulation and the required reserves and current accounts at the central bank of the four active commercial banks that are denominated in Liberian dollars.

[7] The staff was nonetheless concerned about the likely under-estimation of the scale of non-performing loans to the private sector and the quality of loans to the public sector.

earned on the interest rates charged on lending above the weighted average cost of funds, with an absolute ceiling on lending rates of 18 percent. Previously, average lending interest rates—in both Liberian and U.S. dollars—had been about 22 percent; meanwhile, deposit rates for savings accounts—in both currencies—stood at 6 percent.

17. In December 2002, the Central Bank of Liberia (CBL) reimbursed L$55 million to depositors at the Liberian United Bank (LUBI), which had been seized in April 2000. To smooth the impact on liquidity and the exchange rate—which is market determined—the CBL at the same time issued certificates of deposit (CDs) of equivalent value to four private companies. The three-month CDs will not accrue interest, but they will be repayable in U.S. dollars at a fixed rate substantially more generous than that ruling at the issue date, thus providing a guaranteed annualized rate of return in U.S. dollars which the CBL estimates at 33 percent. **This high rate of return implies that there has been an exchange premium in excess of 2 percent over spot transactions which as determined by the Fund's Legal Department, gives rise to a multiple currency practice subject to Fund approval under Articles VIII and XIV, Section 3 of the Articles of Agreement.** The CBL will also be exposed to exchange rate risk on the dollar liabilities. Although the central bank continued to exert occasional periodic influence over the exchange market through the timing and rates at which it offered foreign exchange to the commercial banks for designated customers, there was no net intervention over the period and holdings of foreign currency remained in the range of US$1½-2 million.

D. External Balance of Payments

18. **Liberia's external current account balance**, including grants but excluding interest payments due on public sector debt, improved substantially in 2002, moving from an estimated deficit of 8.0 percent of GDP in 2001 to a surplus of 2.9 percent of GDP (Table 6). This largely reflected movements in the recorded trade balance. Merchandise exports rose by some 3.6 percent of GDP, owing to a higher rubber price and a substantial increase in timber production. In contrast, the heightened security situation and border closures led to a sharp decline in goods imports of an estimated 4.5 percent of GDP, with major reductions in purchases of imported consumer goods and machinery. The impact of the real effective depreciation of the Liberian dollar since mid-2000 was limited by the lack of a potential supply response in the export sectors (rubber and timber) and the low capacity of import-competing industries (Figure 3). Current transfers rose by some 2.2 percent of GDP, mainly because of larger inflows of humanitarian aid by NGOs.

19. On an accruals basis (including payments due on public sector debt), the current account was in deficit by 5.1 percent of GDP in 2002. Together with a deficit of 4.0 percent of GDP on the estimated capital and financial account, this was financed by a further accumulation of arrears. There was a negligible amount (0.5 percent of GDP) of foreign direct investment. Errors and omissions of about 2.7 percent of GDP reflect the incompleteness of the data collected on the balance of payments. Liberia's external debt

amounted to close to US$2.8 billion at end-2002 (498 percent of GDP), of which US$2.5 billion was in arrears (Box 2).

20. No changes were made to the overall structure of import tariffs, which was revised substantially in July 2001. Most tariffs now fall in one of six bands, between 2.5 percent and 25 percent, with an average overall tariff rate of around 12 percent. Firearms and military equipment are subject to a 50 percent tariff. Liberia currently has an overall IMF trade restrictiveness rating of 5 (on a scale of 1 to 10, with 1 being the most restrictive). Although a member of the Economic Community of West African States (ECOWAS), Liberia has implemented few of its commitments on trade.

E. Structural Developments

21. **There has been only a small amount of movement toward the liberalization of key domestic markets.** Government controls remain on several critical prices, including the retail prices of the three products that dominate the monetized part of Liberia's domestic economy: cement, rice, and petroleum products. Petroleum imports are restricted to a single supplier; de facto restrictions still seem to have limited entry to the rice market (although the market share of the two largest distributors has declined); and the single cement producer benefits from sizable tax concessions and restrictions on imports. Large monopoly rents are earned from the importation and distribution of rice and petroleum products, and prices of petroleum products (allowing for petroleum taxes) have recently been substantially higher than in neighboring countries, having failed to decline during periods of favorable movements in world prices.

22. Although concerns remain about "ghost" workers on the government payroll and overmanning in part of the civil service, no further progress has been reported on civil service reform.

F. Governance

23. **Government revenue performance and expenditure control continue to be severely impaired by a lack of transparency, inadequate political commitment, and resistance from the major vested interests.** The substantial monopoly rents earned in the principal monetized sectors as a result of government regulation and bureaucratic discretion are not taxed effectively, while government spending is authorized or tax credits are issued without apparent enforcement of appropriate budgetary procedures. Accountability for the principal off-budget agencies is extremely limited.

24. **Little substantive action has yet been taken on the measures identified by the Executive Board during the 2001 Article IV consultation as needed to improve revenue performance and enforce transparency.** Of the five categories of measures that the Managing Director specifically drew to the authorities' attention (Box 1), evidence has been provided of a response in only three categories, and, in each case, only partial action appears to have been taken: 90 percent of the revenues remitted by Liberia's corporate and shipping

registry (LISCR) are now deposited directly in the CBL (although the Bureau of Maritime Affairs (BMA) retains discretion over the remaining 10 percent); a survey has been conducted of the commercial banks to identify the deposits of all government agencies (although no attempt has been made to identify other financial assets, and the Forestry Development Authority (FDA) was excluded from the survey); and the derogation against the goods and services tax has been revoked for domestically produced cement (but not for the financially more significant commodities, petroleum and rice) with effect from February 15, 2003. No action has been documented in respect of the funding and authorization of spending by the FDA; the transfer of balances of off-budget agencies (other than the LISCR) to the CBL; or the implementation of independent financial audits of the BMA, the FDA and the Liberian Petroleum Refining Corporation (LPRC).

25. In response to the call by the UN Security Council on May 6, 2002 [8] that the government take urgent steps to ensure that revenue derived from the Liberian shipping registry and timber industry is used for legitimate social, humanitarian, and development purposes, the authorities asked several internationally recognized accountancy firms to tender for a "management and systems" audit of maritime and forestry revenues and expenditure. However, the company that was awarded the contract withdrew in December 2002 after completing the first, mainly descriptive stage.

26. The mission was unable to attain any meaningful comprehensive financial information on petroleum transactions or, even on an unaudited basis, for the BMA or FDA. The staff was also not given access to material that would have permitted it to verify the composition of public spending, particularly in relation to the category classified as capital spending, which accounted for nearly 70 percent of recorded expenditure in 2001/02. It was thus unable to assess the extent to which this category included security-related expenditure or the widely reported contention that much of this spending may have been diverted for personal gain. Information was also not provided on the composition of recorded arrears to domestic suppliers or lenders, or of debt servicing.

G. Data Issues

27. The provision of **economic data** to the Fund continues to be unreliable in timing, limited in scope, and of poor quality. Basic information, such as exchange and interest rates, consumer price inflation, and government revenue and expenditure, has been supplied only irregularly, and significant errors have been found in the monthly monetary data submitted to International Financial Statistics (IFS). There are also deficiencies in quality and integrity throughout the statistical reporting mechanism and in the capacity to compile and validate economic data; for example, production data are incomplete, outdated weights are used for the consumer price index, balance of payments data are largely confined to trade values, and

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[8] UN Security Council Resolution No 1408 (2002).

mistakes have been discovered in the definitions used to derive the monetary aggregates. It was not possible for the mission to reconcile data from the government's fiscal accounts with the estimates of financing recorded by the central bank and commercial banking sectors.

IV. Economic Prospects

28. **The short-term economic outlook is dismal.** Despite the lifting of the state of emergency, internally displaced people are reluctant to return to their homes, and a new wave of refugees from Cote d'Ivoire (including returning Liberians) is placing additional stress on revenues and domestic security. Borders are closed to transit trade, and agricultural production, including timber, rubber, and rice, remains severely restricted in the areas still considered vulnerable to rebel attack. In the absence of domestic peace, and a satisfactory response to the international community's concerns about involvement in neighboring conflicts, human rights and governance, there is little prospect of a resumption in international assistance. Growth prospects will hinge entirely on activity in the logging sector in the regions unaffected by domestic conflict, and environmental considerations may impose restrictions in this area also.

29. **In 2003, GDP growth is expected to decline to below 3 percent.** Output in the timber, rubber, and smallholder agriculture sectors is assumed to continue to be affected by the threat of rebel activity in northwestern counties, and there is likely to be a moderation in the recent major expansion of timber activity in the southeast; this growth has partly reflected the opening of a new plywood factory in the port of Buchanan and the more intensive logging of available species. The low level of investment recently recorded in other productive sectors precludes much increase in activity in the short term, while the growth of cell phone usage has probably peaked. In public services, although a substantial recruitment of teachers would be required to meet parliament's recently confirmed objective of free universal primary education, no funding is expected to be available.

30. **The external current account deficit (including grants) is expected to widen by about US$25 million (4.0 percent of GDP) in 2003.** While imports are likely to rebound following the improvement in the security situation since September 2002, and to return to their earlier growth path, there will also be some buoyancy in export values of rubber and timber, owing to higher world prices. In the absence of budgetary support, aggregate current transfers are expected to fall in 2003, and no revival is anticipated in direct private investment. Liberia is expected to increase its external arrears by some US$67.4 million (11.1 percent of GDP).

31. **Looking further ahead, the security situation, governance, and the state of international relations will remain crucial. Indeed, it is extremely difficult to construct a viable medium-term scenario in the absence of progress on these fronts.** The low level of government revenue (about 13 percent of GDP in 2003) is unlikely to be adequate to sustain basic government functions (including the payment of wages) because high priority continues to be given to capital spending, which includes security-related expenditures. Although a

tenuous production sector might continue at roughly current levels, there is a sizable risk of a spiral of declining output, currency volatility, and fiscal collapse.

32. **A scenario, based on the assumptions that there are no major changes in the security situation or international relations and that policy improvements are not implemented, indicates that, even if this downward spiral is avoided, overall GDP growth is unlikely to rise above an average of 3 percent over the next five years** (Appendix IX). The only significant source of growth or new investment would be the timber sector. With limited government revenue, the choice would become even starker between maintaining some semblance of current government services and continuing to fund capital expenditure, including security-related spending. Imports would be severely constrained, and living standards would decline for the bulk of the population.

33. Resolution of the domestic conflict, improvements in governance, and the restoration of normal international relations would, however, open the economy to a possible revitalization of the fiscal and balance of payments positions through external assistance and a resumption of direct investment and, possibly, debt relief. Although the paucity of sectoral data and the considerable uncertainty surrounding the security and political outlook inhibit the potential for constructing detailed medium-term scenarios, Appendix IX also provides a broad outline of a more optimistic medium-term outlook. This is based on the assumptions of improved governance, enhanced transparency, adoption of the recommended revenue improvements, enforcement of expenditure priorities, and full liberalization of the petroleum, rice, and cement sectors. **It demonstrates that a resumption of external support would permit a significant improvement in growth performance.** However, raising GDP growth to the range of 6 percent to 8 percent, as assumed in Liberia's first Five-Year Medium-Term Plan (MTP),[9] would be unlikely within such a horizon because of the depleted state of the infrastructure, limited exploitable natural resources, and low capacity. Past sources of growth, apart from smallholder agriculture, will not provide significant additional contributions to GDP in the future: planting for the renewal of rubber production has been neglected; the future exploitation of timber resources will be constrained by environmental considerations; and iron ore extraction operations have been largely abandoned. The best shorter-term hopes may be in the coffee, cocoa, and palm oil sectors and in the extraction of precious metals and stones. For the longer term, plans are being developed to permit the exploitation of offshore oil and to encourage large-scale mining activity, perhaps covering all three countries of the Mano River Union. Substantial external support would be required for the rebuilding of the country's physical infrastructure and administrative capacity and resumption of public services and for dealing eventually with the enormous overhang of external public debt.

[9] Government of Liberia, *Five-Year National Reconstruction and Development Plan: 2002-2007,* July 2002, Monrovia.

V. Report on the Discussions

34. **The Minister of Finance and the Governor of the CBL and their officials emphasized their desire for an improved working relationship with the Fund** and were assiduous in arranging all the meetings asked for by the mission and in trying to follow up on requests for data and background information. They drew the mission's attention, nonetheless, to the extremely difficult circumstances facing the country as a result of the depleted infrastructure, limited exploitable resources, insurrections by rebel forces, unrest in neighboring countries, UN sanctions, and the virtual cessation of foreign assistance to the government. With few available sources of additional revenue and no reflux of skilled labor, the government has been unable to improve its own capacity, redirect resources, or develop or implement policy initiatives over the last year. It has also to draw on its extremely limited resources to meet even the token monthly payments to the Fund.

35. Discussions focused on five main areas: revenue enforcement and transparency; expenditure prioritization and control; monetary data and policy and the weak financial position of the CBL; risk management in the banking sector; and petroleum imports. Particular attention was paid to measures that could be executed without requiring external technical assistance or involving substantial additional government resources, as outlined in the Managing Director's letter to the Liberian authorities of April 18, 2002 (Box 1).

A. Public Finances

36. The budget for 2002/03 is based on the assumption that revenue will be maintained at the previous year's outturn of US$70 million (12 percent of GDP). This appears to be a conservative assumption because the recent surge in timber production and recovery in maritime revenues have boosted the revenue base and receipts from import tariffs should increase in 2003 as imports rebound from the apparent postponement of imports last year. Nevertheless, officials noted the potential impact of the closure of many customs offices at land borders (particularly those close to Côte d'Ivoire) and slower activity through the port of Monrovia. No donor support is anticipated in the budget.

37. **The tight revenue situation is imposing a considerable strain on government current expenditures.** The budget envisaged that capital spending, which includes expenditures presumed to relate to national security, would fall back to US$34.5 million in 2002/03 from actual expenditure of US$53.8 million in 2001/02. However, in the first half of 2002/03, capital spending overshot (to US$21.6 million), while spending on goods and services fell to negligible levels (US$2.4 million). Spending on wages and salaries was largely consistent with budgeted levels: although some one-off salary payments were made in November and December, the bulk of government wages and salaries remained eight months in arrears.

38. **The mission urged the authorities to take immediate steps to expand the revenue base and improve collection procedures and oversight.** It noted in particular that the

Executive Board had identified a number of actions that could be taken quickly, including the revocation of the temporary derogations for petroleum products, domestically produced cement, and rice, which were made against petroleum excise tax and the goods and services tax (GST) of 7 percent when it was introduced in July 2001. Shifts in the tax system to reflect changes in technology and the structure of expenditure could also bring in additional revenues, notably by increasing the effective tax rate on usage of mobile telephones. Measures to restrict the scale of exemptions and allowances against import duties and other taxes and charges are long overdue; as many of these are provided on a discretionary basis, short-term measures could be taken to increase these revenue flows, provided there is a clear political commitment. Similarly, more intensive inspection of logging activities and exports could reduce the extent of undervaluation of timber products and underrecording of production. Immediate consideration should be given to raising substantially the overall level of taxation on petroleum products: even if the derogations against the GST and excise tax were revoked (which would add about US$0.25 per gallon), total taxes would still amount to less than US$0.85 per gallon, much lower than in neighboring countries. The government's revenue share from activity in the timber sector is also small by international standards. To improve oversight of revenues, a priority remains the incorporation of the major off-budget agencies (the BMA, FDA, and LPRC) into the formal budget procedures to ensure that the available revenues reach the central government; expenditure from these revenues would then also be appropriately authorized.

39. To lend support to the revenue measures, **the mission urged quick action on government expenditure procedures, prioritization, and control.** The increasing share of expenditure that is carried out by logging companies and other large taxpayers and then credited against tax liabilities raises important issues of efficiency, accountability, predictability, and control. Within the current budget, the bulk of regional development expenditures (previously described as the County Development Fund) are undertaken in this manner. There are also an undisclosed number of cases in which suppliers simply present the tax authorities with receipts for goods or services previously authorized by government departments (or, in at least one case, evidence of interest payments due). Effective scrutiny of this procedure is both operationally and politically difficult for the revenue authorities. The mission urged the speedy termination of these procedures; the incentives for abuse were increasing as the authorization process was further undermined, and the erosion of cash revenue from the tax system was inhibiting the government's ability to reorder expenditure priorities within the fiscal year.

40. **The authorities agreed on the gravity of the situation but saw limited scope for action in the current circumstances**. They considered that social and political factors ruled out any increase in taxes on petroleum or rice, particularly the latter, as the existing rice stabilization fee raised an amount of revenue similar to that which would be due under a 7 percent GST. Phase II of the Revenue Code of Liberia (phase I came into effect in July 2001) would provide a unified framework for the taxation of agriculture and resource extractions, and bring the existing exemptions into the framework of the code. However, the authorities noted that preparation of the new code was being slowed by weak capacity. The

authorities also observed that they had no effective way of stopping timber companies from exporting products at below-current world prices, even though they accepted that this practice was likely to reflect the transfer-pricing decisions of connected companies rather than a lack of available markets. They were also skeptical that any alternative ways to the crediting of tax payments could be found, either for getting public sector projects completed or for ensuring payment of tax liabilities in the current circumstances. The authorities nevertheless agreed on the case for ending the derogation on cement.

B. Monetary and Exchange Rate Policy

41. **The mission observed that the conduct of monetary policy was at a crucial juncture**. Developments in the domestic security situation and in Liberia's international relations, including the termination of most donor support and direct investment, have contributed to an underlying deterioration in the balance of payments position and declining confidence in the exchange rate, which–as appropriate–floats freely. The exchange rate has exhibited both a trend decline and considerable volatility over the last two years. As Liberia is a highly open economy, in which U.S. banknotes are exchanged freely as legal tender alongside the Liberian dollar, these exchange rate developments have been reflected quickly in the inflation rate. **In these circumstances, it will be particularly important for firm control to be maintained over monetary developments.**

42. The authorities have a very narrow range of instruments available to influence monetary conditions. The underlying fiscal position is dire, with public sector indebtedness in U.S. dollar terms rising by over 10 percent of GDP per year. Although direct monetary financing by the central bank appears so far to have been limited, with most of the government's borrowing financed by the accumulation of arrears, it is not possible fully to reconcile financing data with the government's cash accounts. The central bank has largely accounted for the interest payments due to it from the central government by increasing credit to the government and has covered its own expenses by issuing currency. Currency emissions in the year to September 2002 amounted to about 11 percent of reserve money. With the minimum reserve ratio for Liberian dollar-denominated deposits already set at 50 percent and no market for government or central bank securities, the monetary authorities lack any means of mopping up this liquidity should it prove necessary; only fiscal retrenchment would reduce its supply.

43. **The mission nevertheless cautioned the CBL about the further use of CDs, such as those issued in December 2002, for monetary or exchange management purposes.** They entailed a significant exchange rate risk and the method of placement—at a fixed price to selected nonbank participants—may have opened them to abuse and increased their cost, which is very high. These factors were particularly important, as the central bank was already facing pressures on its net income position in cash terms as a result of low interest payments by the government, and was exposed in both liquidity and profitability terms to large shifts in the exchange rate. The CDs have also given rise to a multiple currency practice subject to Fund approval. The mission noted that, while the nonbank sector was being provided with a

high rate of return by the CBL's action on CDs, the profitability of the commercial banks, in contrast, had been adversely affected by the other recent steps taken by the CBL, such as the increase in Liberian dollar reserve requirements in 2001 from 22 percent to 50 percent, without remuneration, and the caps placed in 2002 on banks' lending rates. These developments threatened to reduce further the incentives for banks to supply private sector finance, which was already effectively limited to short-term credit against expected foreign currency receipts, to render financial intermediation unviable if deposit rates rise, and to increase the vulnerability of the commercial banks, some of which, the mission was concerned, were also exposed to significant exchange rate risk.

44. **In response, the Governor of the CBL expressed confidence that monetary influences over the exchange rate could be contained and that the legal-tender status of the U.S. dollar made it unnecessary to impose specific limits on the exposure of the commercial banks and reduced the need for the central bank to hold U.S. dollar reserves**. The thinness of the foreign exchange rate market, and the need for the central bank to exert some influence over the timing and availability of foreign exchange, justified the current system of placing foreign currency with the commercial banks to meet the expected needs of specified customers. The Governor said that the commercial banks were free to set deposit rates as they wished, even though all time deposit rates had in practice remained static at 6 percent.

45. **The mission expressed considerable concern about the quality of monetary data**, in the light of the numerous mistakes in the monthly returns provided for the *IFS* and the staff's discovery that erroneous definitions had been used for some time for the monetary aggregates and the assets of the monetary authorities, including foreign currency. While acknowledging capacity constraints and the disruption caused by the departure of Fund advisors in 2000, the mission urged that more attention be devoted at the senior level to quality control, and that data be dispatched in more timely fashion to the Fund to increase the likelihood that remaining inconsistencies could be quickly detected.

46. Apart from the multiple currency practice identified with respect to the CDs issued by the CBL, Liberia's exchange system appears to be free of any other restrictions on the making of payments and transfers for current international transactions. The authorities did not indicate any immediate plans to accept the obligations of Article VIII.

C. Structural Policies

47. **The mission urged the authorities to take action as soon as possible to remove the monopoly privileges for oil importation and finance given by the LPRC to West Oil in 1999** and, as long as market restrictions remained, to ensure that the ceilings applied to retail sales of petroleum products were adjusted regularly to limit the margins that could be earned on the financing of oil importation; these margins had apparently exceeded US$1 per gallon during periods of 2001 and 2002. The current contract with West Oil expires in

September 2003. The mission advised against the resumption of any oil importation or distribution activities by the LPRC, which should be restricted to regulatory duties or service functions in order to limit conflicts of interest. On the cement industry, the mission observed that prices to domestic consumers would probably be significantly reduced if import restrictions (which were currently lifted only on a discretionary basis) were removed entirely, even following the imposition of the 7 percent GST on domestically produced cement. There would be little additional risk to the security of the supply of cement to the domestic market if the domestic producer were unable to compete on this basis, as that company already relies on imported raw materials.

D. Governance Issues

48. The authorities assured the mission of their determination to undertake financial audits of the main off-budget agencies as soon as possible. The authorities said that they had been disturbed by the withdrawal of the international auditing company from the management and systems audits of the BMA and FDA. As it might take some time to agree terms of reference with the EU for full audits by an international company, secure finance, and follow the required tender process, the authorities intend to adopt a dual-track approach by simultaneously asking the General Auditing Office to engage directly the services of a local accounting firm to conduct financial audits of the BMA and FDA. Meanwhile, an audit of the LPRC has been completed for 2000 and 2001; and the audit for 2002 will commence soon. **The mission noted that speed was essential for all these audits, to ensure that relevant information for 2001-02 and previous years was not lost and to respond to international concerns.**

49. **The mission also urged the authorities to make further progress on the other governance measures recommended by the Executive Board.** All cash balances of the off-budget agencies should be identified and plans completed to transfer them to the central bank; the FDA and BMA should be brought within the budget, with revenues deposited at the CBL and funding taking place via budget authorization; and the audit of the LPRC should be a full financial audit. In addition, all the concerns raised in previous consultations about the management of public expenditure remain in urgent need of resolution.

50. The authorities agreed to respond to the Fund's questionnaire on Anti-Money Laundering and Combating the Funding of Terrorism, but they have not yet provided the staff with a completed return.

E. Statistics

51. The authorities indicated that they had been unable to implement any significant improvements in data for the national accounts, consumer prices, public finance, or the balance of payments because of continuing resource constraints. However, the use and dissemination of these data have been improved through the reporting of monetary statistics to the *IFS*, and the publication of a quarterly financial and economic bulletin and bimonthly

financial statistics by the CBL. Aggregate annual data for GDP are scheduled to be compiled and published for the first time during 2003.

VI. Overdue Financial Obligations to the Fund

52. **Liberia's arrears to the Fund have continued to increase since the last review in October 2002 (Appendix III).** Liberia has been in continuous arrears to the Fund since December 19, 1984 and has been ineligible to use the Fund's general resources for the past 16 years. A declaration of noncooperation was issued almost 13 years ago. As of end-January 2003, Liberia's arrears to the Fund amounted to SDR 498 million, or almost 700 percent of quota.[10] Liberia's forthcoming obligations—consisting only of charges and interest on principal and net SDR charges[11]—are estimated to amount to about SDR 6 million annually.

53. **Liberia's payments to the Fund have remained well below the level needed to stabilize its arrears.** The authorities committed themselves to making monthly payments of US$50,000 to the Fund in December 1997. While payments were frequently delayed in early 2001, they were maintained on schedule from October 2001 through January 2003. The authorities cited Liberia's limited access to foreign exchange and its tight fiscal position as explanations for its failure to respond to the Executive Board's call, issued in November 2000, to increase the level of Liberia's monthly payments to the Fund. Liberia's current payments represent only about 7 percent of obligations falling due.

54. **Liberia's arrears impose financial costs on the Fund and its membership.** Liberia's arrears to the General Resources Account (GRA) have thus far imposed a direct financial cost in excess of SDR 240 million on the membership through burden sharing for deferred charges. Liberia also has arrears of SDR 30 million to the Trust Fund, which, if settled, would accrue to the Reserve Account of the PRGF Trust.

55. **Liberia's arrears to multilateral creditors other than the Fund are also rising.** As of mid-January 2003, Liberia's arrears to the World Bank Group amounted to US$366.5 million (of which US$33 million to IDA and US$332 million to the IBRD). Arrears to the African Development Bank Group amounted to SDR 142 million (equivalent to US$187 million) at end-October 2002.

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[10] Liberia's quota under the Eighth General Review of Quotas is SDR 71.3 million. Liberia cannot consent to its new quota of SDR 129.2 million under the Eleventh General Review of Quotas, as long as it remains in arrears to the Fund.

[11] All Fund credit outstanding to Liberia is in arrears. The Fund does not apply special charges on GRA interest obligations overdue for more than six months.

VII. Staff Appraisal

56. **Liberia's economy is in a dire state.** The recovery from the 1989–96 civil war has stalled, with GDP below half of its level in 1988 and barely any reconstruction completed of the destroyed transport and utility infrastructure. Only the logging sector retains any buoyancy, and this is plagued by concerns about environmental sustainability and governance. Agriculture in the northwest of the country has been disrupted by rebel activity. The exchange rate has been weakened by declining confidence and a virtual cessation of donor support, and inflation spiked above 20 percent during 2002.

57. **At the heart of these problems lie issues of domestic security, governance, international isolation, and an inadequately funded and managed public sector**. Provision of social services by the government has virtually ceased, a growing proportion of the population is displaced, and HIV/AIDS is a continuing threat. In current circumstances, assistance from United Nations and NGOs is limited in its coverage. Without action by the Liberian authorities to address its internal conflict, as well as the concerns of the international community on its involvement in neighboring conflicts, governance, and human rights, there is no prospect of achieving a viable recovery in the economy or developing a foundation for sustained growth and poverty alleviation.

58. **The implementation of economic policy in 2002 was poor.** On the fiscal side, no significant actions were taken in respect of mobilizing revenue, improving expenditure control, or increasing transparency or accountability. Spending was concentrated in unproductive areas, and arrears continued to accumulate. These failures also severely restricted monetary policy, and the effects were compounded by inadequate attention to data and discretionary actions by the CBL with respect to financial instruments, foreign exchange sales, and restrictions on commercial banks. Market restrictions on petroleum, rice, and cement continued to impose extra costs on consumers and provide economic rents to protected importers and distributors.

59. **There is an increasingly urgent need for measures to improve government revenue**. Despite a series of recommendations from the Executive Board on measures that could be taken to increase revenue and improve fiscal transparency, without having recourse to additional technical assistance or external financing, action has been restricted to a partial response in only three categories: the transfer on a regular basis of 90 percent of maritime revenue to the CBL; the completion of a survey of deposits by the off-budget agencies; and the revocation from February 15, 2003 of the derogation against domestically produced cement. Measures that could substantially increase government revenue from petroleum importation and timber operations, and prevent the wasteful and corrupt use of public expenditure, remain to be considered. At the same time, there has been no substantive attempt to produce a more effective revenue base by reducing exemptions and allowances, or by identifying relatively buoyant but lightly taxed activities, such as usage of cell phones.

60. **Issues of fiscal transparency have yet to be seriously addressed.** Although the authorities have entered into negotiations with two international companies on auditing issues, they have not specified terms of reference for full financial audits of maritime, timber, or petroleum operations, as recommended by the international community. The FDA and BMA remain only superficially accountable for their expenditure, and there has been no thorough examination of the financial assets of the off-budget agencies. Furthermore, it appears that the practice of commissioning or compensating logging and other companies for the provision of goods or services against tax liabilities has increased, thereby further undermining the quality and integrity of public expenditure control and increasing the unproductive concentration on capital and security-related expenditure at the expense of essential services and reductions in wage and salary arrears. The current budgetary system appears to be unable to protect government revenue and spending from abuse by the executive, unapproved military spending, or possible diversion for private gain.

61. **Monetary policy has been poorly executed.** Little attention has been paid to the measurement or control of the monetary aggregates, or to the implications for currency emission and, hence, for the broader economy of spending undertaken by the central bank on its own account. Foreign exchange operations, which have been conducted on a discretionary, noncompetitive basis, have failed to smooth out substantial fluctuations in the exchange rate. **The monetary instrument that has been introduced has provided exceptionally high returns to a few, selected customers, exposed the central bank to exchange rate risk, and also has given rise to a multiple currency practice subject to Fund approval. Since this measure has been introduced for reasons different from a balance of payments problem, Fund approval for its retention is not proposed.**

62. **Further structural reform is required. While the government's recently renewed commitment to ensure the complete liberalization of the rice market is welcome,** restrictions on the importation of petroleum, in conjunction with opaque and inflexible price ceilings, continue to provide substantial monopoly rents at the expense of consumers.

63. **In the view of the staff, Liberia has not adequately strengthened its policy cooperation with the Fund since the last review,** as evidenced by the limited action taken to complete the specific recommendations set out in the Managing Director's letter of April 2002. This has been a particularly disappointing response to the flexibility demonstrated by the Executive Board in providing extra time for Liberia to implement necessary measures before considering whether to suspend Liberia's voting and related rights in the Fund.

64. **Furthermore, there has been no improvement in Liberia's payments performance, and its arrears to the Fund have continued to increase.** While Liberia has recently made its intended monthly payments, the level of these payments has fallen well short of obligations falling due, so that Liberia's arrears to the Fund have risen further since the last review.

65. **Against this background, the staff recommends that the Executive Board suspend the voting and related rights of Liberia in the Fund.** A draft decision is provided below.

66. It is proposed that the next Article IV consultation discussions with Liberia be held on the standard 12-month cycle.

Box 1. Fiscal Measures Reported by the Authorities

On April 18, 2002, the Managing Director wrote to Mr. N. Barnes, then Minister of Finance of Liberia, to inform him of the Executive Board's decision to initiate promptly the procedure to suspend Liberia's voting and related rights in the Fund. The Managing Director also identified a series of specific measures that he urged the Liberian authorities to implement expeditiously as part of a comprehensive policy program to improve budgetary oversight and transparency, as emphasized by the Fund's Executive Board at its February 2002 meeting. This would provide an opportunity for Liberia to signal clearly a strengthening of its cooperation on policy with the Fund.

The five categories of measures, together with actions notified to the staff by the authorities, are listed below:

1. Efforts should be made to fully centralize revenues at the Central Bank of Liberia (CBL). Specifically:

   a) Liberia's corporate and shipping registry (LISCR) should be instructed to transfer revenue collected directly to a Ministry of Finance account rather than being deposited initially in Liberian Embassy or Bureau of Maritime Affairs (BMA) accounts in the United States. Funding for the BMA and other relevant agencies would take place via budget authorization. **90 percent of the revenues remitted by LISCR are now deposited directly in the CBL. However, the BMA retains discretion over the remaining 10 percent and is not subject to the budget authorization process.**

   b) In the forestry sector, the Forestry Development Authority (FDA) should be instructed to collect all taxes and fees due, without deductions, and to transfer all funds collected directly to the CBL. Funding for the FDA would also take place via budget authorization **No action has been notified.**

   c) For other government budgetary entities, the authorities should undertake a complete inventory of cash balances held outside of the CBL and adopt a plan with a specific calendar for implementation, reviewed by the Office of the Auditor General, for the transfer of such balances (including any future balances) to the CBL. **The Central Bank has conducted a survey of deposits of government agencies at commercial banks. The FDA was not included in the survey. There has been no action to identify other possible cash balances of the agencies. No plans have been notified for the transfer of the balances of off-budget agencies (other than LISCR) to the CBL.**

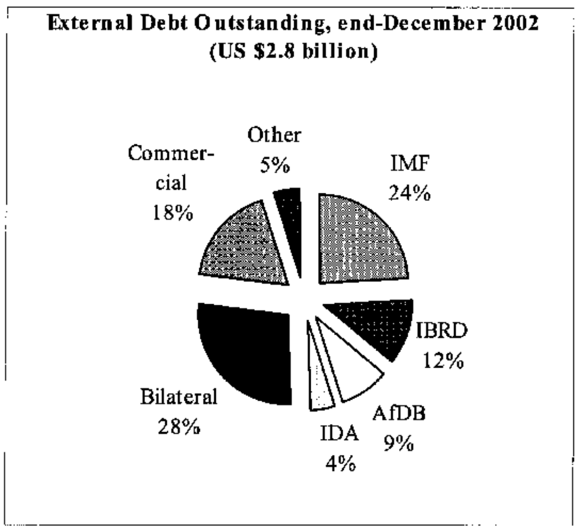
2. Derogations to the Revenue Code of Liberia, Phase I in mid-2001, which have substantially eroded the tax base, should be reversed. This applies specifically to the temporary exemptions from excise taxes and the goods and services tax (GST) for key commodities (including petroleum products, rice, and cement). **The government has announced the removal of the tax exemption against GST for locally-produced cement. There have been no changes to the exemptions for petroleum products and rice.**

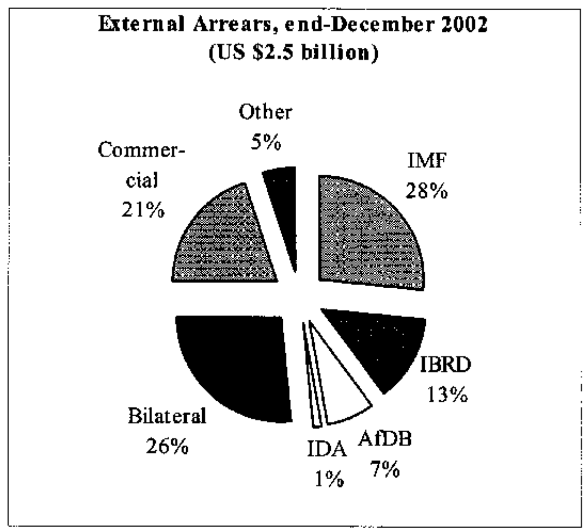
3. As shipping registry and forestry activities account for a substantial share of government revenue and the Liberian Petroleum Refining Corporation (LPRC) is a significant potential revenue source, independent audits of the BMA, the FDA, and the LPRC should be undertaken promptly. A calendar for the completion of these audits should be prepared and the process should be started expeditiously. **No action has been documented on the implementation of independent financial audits of the BMA or the FDA. The authorities have indicated their intention to commission such audits soon from both local and international firms. The authorities have drawn the staff's attention to an audit being conducted on the Liberian Petroleum Refining Corporation for 2000 and 2001, but no information has been provided on its scope.**

Box 2. Public Sector Arrears

The stock of Liberian public sector debt amounted to approximately US$ 3.1 billion (550 percent of GDP) at the end of 2002. Of this, US$2.76 billion was external debt, one-fourth of which was owed to the IMF and one-fourth to other multilateral creditors (World Bank and the African Development Bank). Domestic debt was estimated at US$0.32 billion as of September 30, 2002, most of which was outstanding to the central bank. Per capita, Liberia's stock of external debt amounted to $964 in 2002; more than three times that of the average debt per capita of sub-Saharan African countries.

Nearly all of Liberia's external and domestic debt is in arrears. External arrears amounted to US$2.5 billion at end-2002, and domestic arrears were estimated at over SS0.3 billion.





Source: Liberian authorities and Fund staff calculations

External arrears

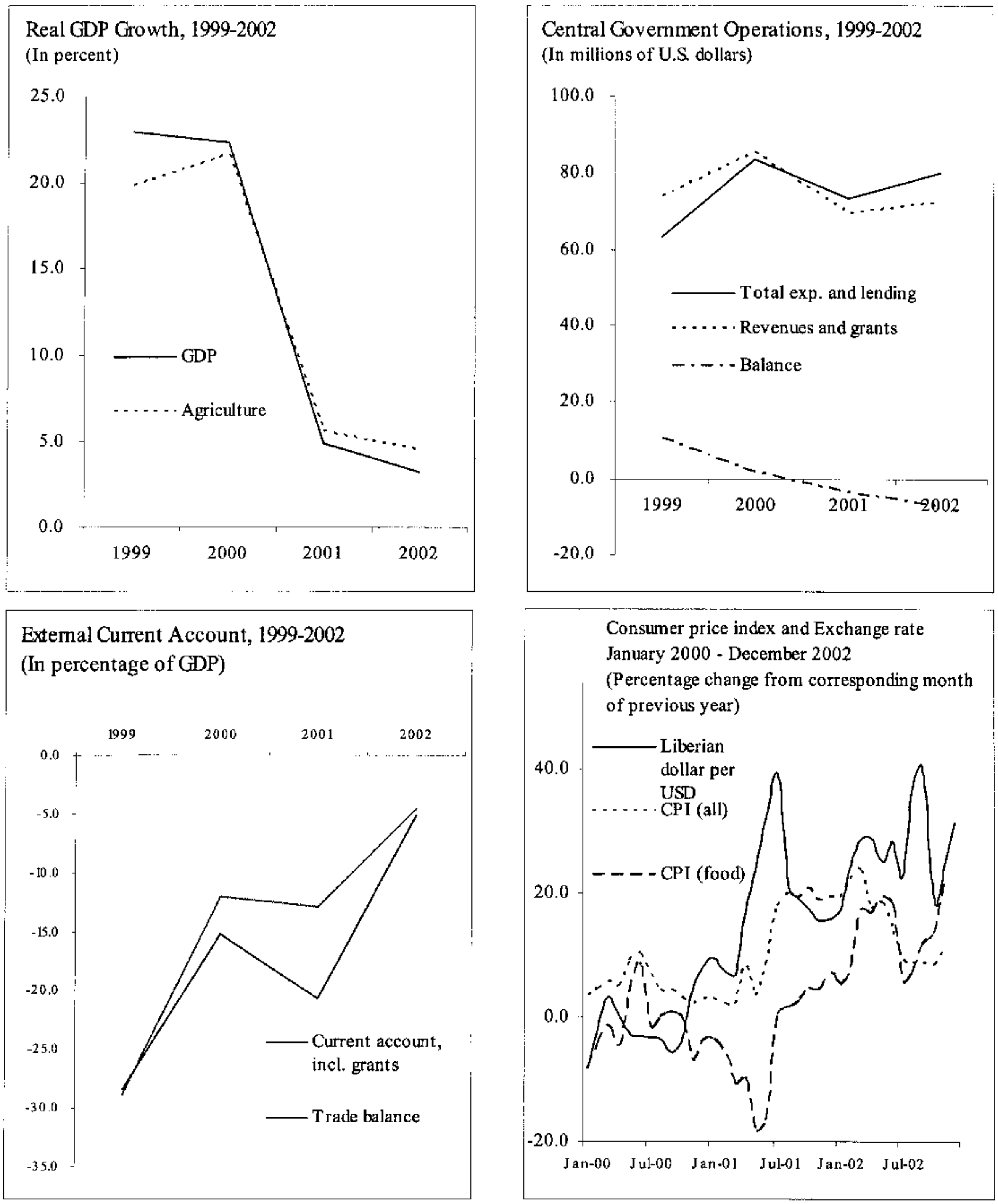
Liberia accumulated the bulk of its external public debt before the 1989-96 civil war. By 1982, Liberia had accumulated an external debt of US$726 million (equivalent to 75 percent of GDP), with debt-service payments of US$45 million (9 percent of export earnings). Following massive and largely unproductive public investment, financed by external borrowing—mainly on commercial terms—during the 1980s, the fiscal position deteriorated sharply. By 1988, the stock of external public debt had risen to US $1.8 billion (164 percent of GDP), and annual debt-service obligations, few of which were being met, had increased to $197 million (40 percent of exports).

Although Liberia received four Paris Club reschedulings (most recently in 1984) and two commercial bank reschedulings, external debt and arrears continued to accumulate. By end-2002, Liberia's external arrears had reached approximately US$2.5 billion.

Domestic arrears

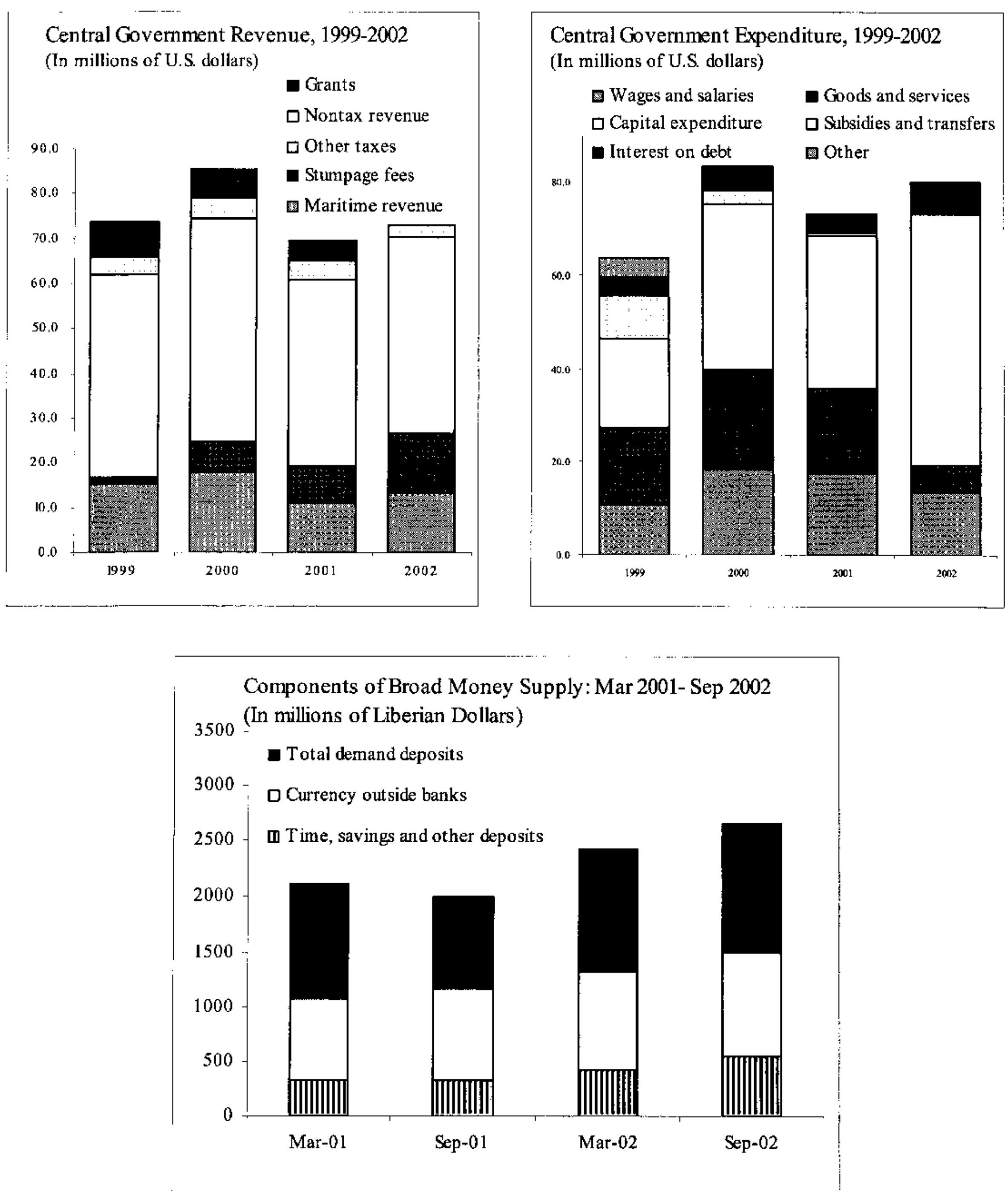
Of government domestic debt of US$322 million on September 30, 2002, US$305 million (52 percent of GDP) was in arrears. This was largely accounted for by arrears to the Central Bank of Liberia (US$239 million), suppliers (US$52 million) and commercial banks (US$8 million). Arrears to public employees amounted to about eight months of wages and salaries at end-2002.

Figure 1. Liberia: Main Economic Indicators



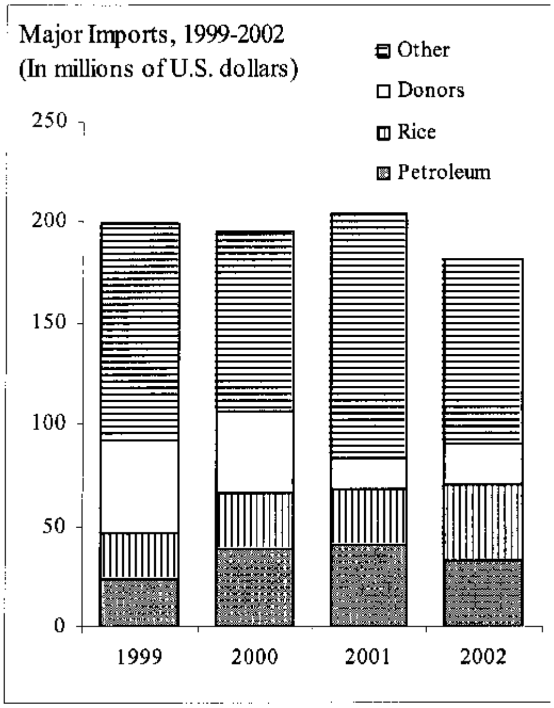
Sources: Liberian authorities; and Fund staff estimates.

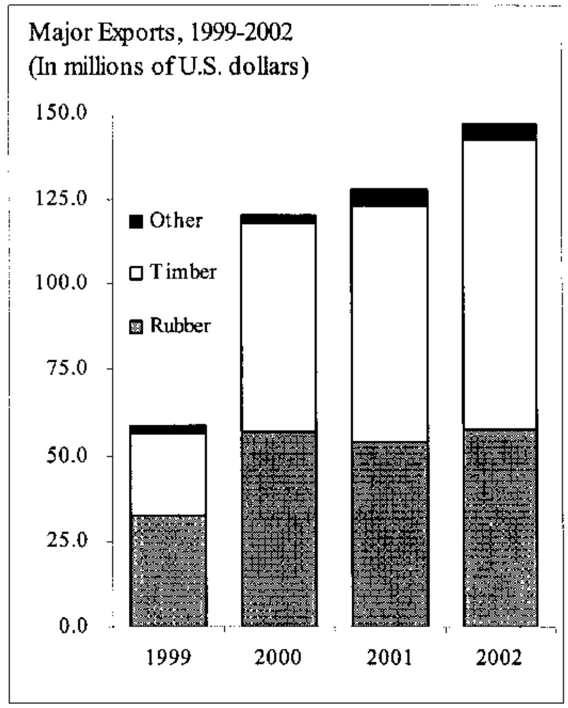
Figure 2. Liberia: Selected Fiscal and Monetary Indicators

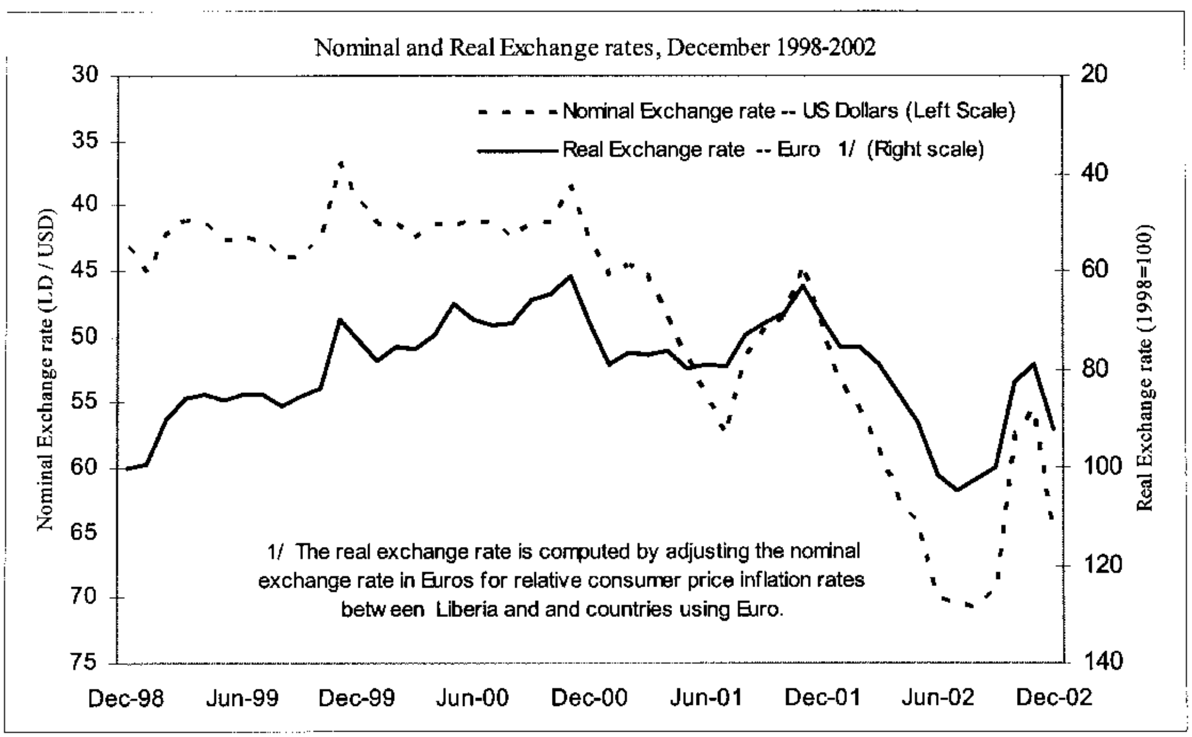


Sources: Liberian authorities; and Fund staff estimates.

Figure 3. Liberia: Main External Indicators







Sources: Liberian authorities; and Fund staff estimates.

Table 1. Liberia: Selected Economic and Financial Indicators, 1999-2003

	1999	2000	2001	2002 Est.	2003 Proj. 1/
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
Real GDP	22.9	22.4	4.9	3.3	2.8
Consumer prices (annual average)	2.0	5.3	12.1	14.2	12.5
Consumer prices (end of period)	8.1	3.2	19.3	11.1	15.0
Nominal GDP (in millions of U.S. dollars)	441.8	541.5	534.4	561.8	607.9
GDP deflator in U.S. dollars	0.0	0.2	-5.9	1.8	5.2
Real GDP per capita (in constant 1992 U.S. dollars)	132.7	158.0	160.8	161.3	161.0
External sector (in U.S. dollar terms)					
Exports of goods, f.o.b.	37.6	104.3	6.4	15.1	7.4
Imports of goods, c.i.f.	31.4	-0.4	6.3	-12.3	21.5
Terms of trade	-4.9	7.9	-21.4	14.1	4.4
Official exchange rate (Liberian dollars per per U.S.dollar; end of period)	39.5	42.8	49.5	65.0	...
Central government operations (in U.S. dollar terms; January-December)					
Total revenue and grants	24.1	15.5	-18.5	4.7	8.7
Of which : tax revenue	19.2	20.5	-18.3	15.8	8.7
Total expenditure and net lending	9.1	31.7	-12.3	9.2	-1.3
Of which : current expenditure	9.2	18.0	-14.9	-36.2	37.7
capital expenditure	47.0	88.5	-8.6	65.7	-20.1
Money and banking (stocks, in billions of Liberian dollars) 2/					
Net foreign assets	...	...	-31.6	-46.1	...
Net domestic assets	...	...	33.6	48.7	...
Net domestic credit	...	...	44.9	64.1	...
Net claim on government	...	...	43.8	62.9	...
Claims on nongovernment	...	...	1.1	1.2	...
Other items, net	...	...	-11.4	-15.4	...
Reserve money (rate of growth) 2/	...	...	...	10.3	...
Broad money (rate of growth) 2/ 3/	...	...	...	32.9	...
Velocity (GDP relative to broad money) 2/ (stocks)	...	...	13.2	14.8	...
	(In percent of GDP)				
Central government operations (January-December)					
Total revenue and grants	16.7	15.8	13.0	12.9	13.0
Of which : tax revenue	14.0	13.7	11.4	12.5	12.6
Total expenditure and net lending	14.4	15.4	13.7	14.2	13.0
Of which : current expenditure	9.2	8.8	7.6	4.6	5.9
capital expenditure	4.3	6.6	6.1	9.6	7.1
Overall fiscal balance (cash basis)	2.3	0.3	-0.7	-1.3	0.0
External sector					
Current account balance, including grants (deficit, -)	-28.3	-15.3	-20.6	-5.1	-8.8
Of which : Public interest payments due	-17.9	-16.8	-12.7	-8.0	-7.3
Current account balance, excluding grants (deficit, -)	-44.6	-25.3	-26.6	-12.7	-14.3
Trade balance (deficit, -)	-28.8	-12.0	-12.9	-4.6	-8.5
Exports, f.o.b.	13.3	22.2	23.9	26.2	26.0
Imports, c.i.f.	-42.1	-34.2	-36.9	-30.7	-34.5
Public sector external debt outstanding (total)	574.5	473.8	486.4	497.6	467.4
	(In millions of U.S. dollars, unless otherwise indicated)				
Current account balance including grants (deficit, -)	-125.2	-82.7	-110.3	-28.7	-53.6
Trade balance (deficit, -)	-127.1	-64.9	-69.0	-25.6	-51.9
Gross official reserves 2/	...	...	...	1.8	
(in months of imports of goods and services)	...	...	...	0.1	

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

1/ Original projections are based on the staff report for 2002 Article IV consultation (March 2003).

2/ Monetary and reserves numbers are for September 2001 and September 2002.

3/ Broad money includes demand, time, and savings deposits in both Liberian and U.S. dollars.

Table 2. Liberia: Summary of Central Government Operations, 1999-2003 1/

	1999	2000	2001	2002	2003 Proj.
	(In millions of U.S. dollars)				
Total revenue and grants	73.8	85.3	69.5	72.7	79.0
Tax revenue	61.7	74.3	60.7	70.3	76.4
Of which: maritime revenues	15.2	17.9	11.0	13.4	13.8
stumpage fees and land rental	1.7	6.7	8.4	13.0	13.1
Nontax revenue	3.8	4.6	4.1	2.4	2.6
Grants	8.3	6.3	4.6	0.0	0.0
Total expenditure and net lending (cash basis)	63.5	83.6	73.3	80.1	79.0
Current expenditure	40.5	47.8	40.7	26.0	35.8
Wages and salaries	10.5	18.4	17.6	13.4	16.6
Other goods and services	17.0	21.3	18.2	5.9	14.5
Interest on debt	3.8	5.1	4.0	6.3	4.2
External	0.6	0.4	0.6	0.6	0.6
Domestic	3.2	4.7	3.4	5.7	3.6
Subsidies, transfers and net lending	9.2	3.0	0.9	0.4	0.5
Capital expenditure 4/	18.9	35.7	32.6	54.1	43.2
Internally financed	12.5	29.4	28.0	54.1	43.2
Externally financed	6.4	6.3	4.6	0.0	0.0
Unallocable	4.0	0.0	0.0	0.0	0.0
Errors and Omissions	5.1	0.0	0.0	0.0	0.0
Overall surplus/deficit (cash basis) 2/	10.3	1.7	-3.9	-7.3	0.0
Financing 3/	-10.3	-1.7	3.9	7.3	0.0
	(In percent of GDP, unless otherwise indicated)				
Total revenue and grants	16.7	15.8	13.0	12.9	13.0
Tax revenue	14.0	13.7	11.4	12.5	12.6
Nontax revenue	0.9	0.9	0.8	0.4	0.4
Grants	1.9	1.2	0.9	0.0	0.0
Total expenditure and net lending	14.4	15.4	13.7	14.2	13.0
Current expenditure	9.2	8.8	7.6	4.6	5.9
Of which: wages and salaries	2.4	3.4	3.3	2.4	2.7
Capital expenditure 4/	4.3	6.6	6.1	9.6	7.1
Overall surplus/deficit (cash basis)	2.3	0.3	-0.7	-1.3	0.0
Memorandum item:					
GDP at current prices (millions of U.S. dollars)	441.8	541.5	534.4	561.8	607.9

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

1/ Calendar year; cash basis.

2/ Excludes accumulation of sizable arrears on domestic and external debt interest, suppliers' credits and wages.

3/ There is no reliable information on the composition of financing.

4/ Includes expenditure related to national security.

Table 3. Liberia: Central Government Revenue, 1998-2002
(In millions of U.S. dollars)

	1998	1999	2000	2001	2002
Tax revenue	51.8	61.7	74.3	60.7	70.3
Taxes on income and profits	10.6	15.1	15.9	11.5	14.4
Of which : corporate and partnership	8.0	7.7	4.8	4.2	7.2
Of which : individual income tax	1.9	5.5	9.3	6.1	6.7
Taxes on goods and services	4.9	11.7	17.3	19.7	25.5
Goods and service tax	0.0	0.0	0.0	2.0	3.5
Stumpage fees and land rental	0.7	1.7	6.7	8.4	13.0
Petroleum sales tax	2.9	6.1	7.2	6.1	6.0
Other	1.3	3.9	3.4	3.3	3.0
Maritime revenue	17.3	15.2	17.9	11.0	13.4
Taxes on international trade	18.8	19.7	23.2	18.6	17.0
Taxes on imports	18.4	19.3	22.9	18.4	16.8
Of which : petroleum	...	...	3.3	4.2	4.1
Taxes on exports	0.4	0.4	0.3	0.1	0.2
Other taxes	0.2	0.0	0.0	0.0	0.0
Nontax revenue	2.2	3.8	4.6	4.1	2.4
Total revenue	54.0	65.5	78.9	64.9	72.7
Grants	5.5	8.3	6.3	4.6	0.0
Total revenue and grants	59.5	73.8	85.3	69.5	72.7
Memorandum item:					
Forestry income retained by FDA (not included above) 1/	...	3.1	12.2	10.1	12.5

Sources: Liberian authorities; and Fund staff estimates.

1/ Fund staff estimate. Some forestry revenue is retained by the Forestry Development Authority (FDA); there are no published accounts on these funds.

Table 4. Liberia: Monetary Survey, March 2001- September 2002

(In millions of Liberian dollars, end of period; unless otherwise indicated)

	2001 Mar.	2001 Sep.	2002 Mar.	2002 Sep.
Net foreign assets	-28,644	-31,569	-34,416	-46,068
of which: Fund credit and overdue charges	-28,513	-31,259	-33,911	-45,641
Net domestic assets	30,767	33,576	36,836	48,732
Net domestic credit	39,503	44,930	49,519	64,127
Net claims on government	38,803	43,848	48,341	62,902
Of which: Fund credit and overdue charges	28,513	31,259	33,911	45,641
Claims on private sector	616	844	965	1,027
Claims on public enterprises	16	94	75	47
Claims on nonbank financial institutions	69	144	138	150
Other items, net	-8,736	-11,354	-12,683	-15,395
Monetary aggregates				
Currency outside banks (Liberian banknotes and coins only)	746	838	902	956
Commercial banks' reserves at Central Bank of Liberia 1/	126	194	177	182
Reserve money 2/	872	1,032	1,079	1,138
Total demand deposits 3/	1,050	839	1,102	1,163
Time, savings, and other deposits 3/	327	329	417	545
Broad money (M2) 4/	2,123	2,006	2,420	2,664
Of which: Liberian dollar component	938	1,085	1,169	1,273
Memorandum items:				
Velocity (GDP relative to broad money)	11.5	13.2	13.6	14.8
Currency/deposits (Liberian dollars only; in percent)	54	72	59	56
Nominal GDP (millions of Liberian dollars; annualized basis)	24,315	26,453	32,865	39,326

Sources: Liberian authorities; and Fund staff estimates.

1/ Derived from commercial banks' balance sheets (Liberian dollar denominated).

2/ Liberian dollar currency in circulation and commercial banks reserves (Liberian dollar denominated) held at central ba

3/ Liberian dollar and U.S. dollar denominated.

4/ Defined as Liberian currency outside banks plus demand, time, and savings deposits (Liberian and U.S. dollar denomin

Table 5 . Financial Status of Active Banks (2001-2002)

	Quarter ended September 2001		Quarter ended September 2002	
	Amount 1/	Ratio 2/	Amount 1/	Ratio 2/
Net interest income	58	6	66	5
Non-interest income	203	21.9	265	21.7
of which: fees and charges 3/	145	15.6	154	12.6
Operating expenses	241	26	328	27
Provisions	61	6.6	49	4.0
Tax	0	0	0	
Net income after tax	-41	-4.4	-46	-3.8
Non-performing loans outstanding 4/	121	22	148	21
Capital Adequacy Ratio 5/		16		15

Sources: CBL and Fund staff estimates

1/ In millions of Liberian dollars.
2/ In percentage of total assets, annually adjusted basis.
3/ Fees and charges only include service charges on deposits, commissions and fees, and credit related fees.
4/ Excluding government loans. The ratio is calculated against the total loan portfolio.
5/ Risk adjusted basis, based on the CBL's regulations.

Table 6. Liberia: Balance of Payments, 1999-2003

(In millions of U.S. dollars, unless otherwise indicated) 1/

	1999	2000	2001	2002 Est.	2003 Proj.
Current account balance	-125.2	-82.7	-110.3	-28.7	-53.6
Current account balance, excluding grants	-197.1	-137.1	-142.4	-71.3	-86.9
Trade balance	-127.1	-64.9	-69.0	-25.6	-51.9
Exports, f.o.b.	58.9	120.3	127.9	147.2	158.0
Of which: rubber	33.1	57.1	54.0	57.4	62.4
timber	23.4	61.0	69.2	84.9	95.6
Imports, c.i.f.	-185.9	-185.2	-196.9	-172.8	-209.9
Of which: petroleum	-23.7	-38.7	-40.8	-32.8	-32.2
rice	-22.4	-27.5	-27.6	-38.1	-42.5
donor	-45.9	-40.3	-15.2	-19.5	-20.1
other	-94.0	-78.7	-113.3	-82.4	-115.1
Services (net)	5.4	13.9	14.7	16.1	19.1
Income (net)	-106.6	-116.8	-109.4	-84.8	-76.9
Of which: public interest payments due	-79.0	-91.2	-67.8	-44.8	-44.5
Current transfers (net)	103.0	85.2	53.4	65.6	56.1
Donor/nongovernmental organization transfers (net)	71.8	54.4	32.1	42.6	33.3
Private transfers (net)	31.2	30.7	21.3	23.0	22.8
Of which: workers remittances	16.0	12.8	10.2	9.6	9.0
maritime	15.2	17.9	11.0	13.4	13.8
Capital and financial account	3.5	0.5	-10.2	-22.5	-16.6
Official financing	-25.1	-24.6	-22.5	-22.4	-23.5
Disbursements	0.0	0.0	0.0	0.0	0.0
Amortization	-25.1	-24.6	-22.5	-22.4	-23.5
Private financing	28.6	25.1	12.3	-0.1	6.9
Direct foreign investment	27.0	20.8	8.3	2.8	2.8
Other investment	1.6	4.3	4.0	-2.8	4.1
Errors and omissions 2/	18.2	-33.0	30.8	-15.5	2.8
Overall balance	-103.5	-115.2	-89.7	-66.6	-67.4
Financing	103.5	115.2	89.7	66.6	67.4
Change in official reserves (increase -)				0.0	0.0
Arrears (accrual +)	103.5	115.2	89.7	66.6	67.4
Use of Fund credit (net change in arrears)	14.5	14.3	15.4	8.7	7.5
Increase in non-Fund arrears	89.1	100.9	74.3	58.0	59.9
Memorandum items:					
Current account balance (in percent of GDP):					
Including grants	-28.3	-15.3	-20.6	-5.1	-8.8
Excluding grants	-44.6	-25.3	-26.6	-12.7	-14.3
Excluding public interest payments due	-10.5	1.6	-8.0	2.9	-1.5
Trade balance (in percent of GDP)	-28.8	-12.0	-12.9	-4.6	-8.5
Public sector external debt (total)					
Debt outstanding, including arrears	2,538.2	2,565.3	2,599.4	2,796.0	2,841.0
(in percent of GDP)	574.5	473.8	486.4	497.6	467.4
Debt service charges	104.1	115.8	90.3	67.2	68.0
(in percent of GDP)	23.6	21.4	16.9	12.0	11.2
Terms of trade (1997=100)	104.3	112.6	88.4	100.9	105.3
International reserves	...	...	...	1.8	1.8
International reserves (in months of imports)	...	...	...	0.1	0.1
GDP at current prices	441.8	541.5	534.4	561.8	607.9

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

1/ Accrued basis.

2/ For years 1999-2001, errors and omissions includes change in official reserves.

INTERNATIONAL MONETARY FUND

Liberia—Review of Overdue Financial Obligations to the Fund—Consideration of Complaint with Respect to Suspension of Voting and Related Rights in the Fund

Executive Board Decision No. 12869-(02/104)
Adopted October 4, 2002

1. On April 8, 2002, the Managing Director issued a complaint to the Executive Board pursuant to Article XXVI, Section 2(*b*), setting out the facts on the basis of which it appeared to him that Liberia had persisted in its failure to fulfill its obligations under the Articles of Agreement of the Fund after the expiration of a reasonable time period following the declaration of ineligibility under Article XXVI, Section 2(*a*) on January 24, 1986. The complaint was communicated to the authorities of Liberia on April 18, 2002.

2. The Executive Board regretted the further accumulation of arrears to the Fund by Liberia and limited actions taken by the authorities to improve economic policy implementation. It urged Liberia to quickly adopt and implement an economic adjustment program that would improve economic performance and that could form the basis for a resolution of its overdue obligations to the Fund.

3. The Fund will again consider the Managing Director's complaint before March 4, 2003 or at the time of the Board's consideration of the next Article IV consultation with Liberia, whichever is earlier, so as to provide a further opportunity for the authorities of Liberia to strengthen their economic policies and increase payments to the Fund. If the Executive Board determines at the time of the next review that Liberia has not strengthened its cooperation with the Fund in the areas of policy implementation and payments to the Fund, it could at that time decide to suspend Liberia's voting and related rights in the Fund.

Procedure on Suspension of Voting Rights

The procedure leading to the suspension of voting rights of a member involves the following steps:

a) The procedure is initiated by a complaint against an ineligible member pursuant to Article XXVI, Section 2(*b*). The complaint must be based on the persistence by the member in its failure to fulfill any obligation under the Articles (except for the breach of an obligation with respect to special drawing rights) after the expiration of a reasonable period following the declaration of ineligibility. This complaint may be issued by the Managing Director or by any member of the Fund (through its Executive Director).

b) The Board places the complaint on its agenda for substantive consideration. In setting the date for such consideration the Board must take into account (under Rule K-6 of the Rules and Regulations) the need to inform the member "in reasonable time" of the complaint against it and to give the member "adequate opportunity for stating its case, both orally and in writing" to the Executive Board.

c) At the meeting for substantive consideration of the complaint, the Executive Board will decide whether to suspend the voting rights of the member. The decision to suspend the voting rights of the member, which requires a 70 percent majority of the total voting power, may be taken only when the conditions prescribed by the Articles are met, that is:

i. the member has been declared ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2 (*a*);

ii. a reasonable period has expired following the declaration of ineligibility, and the member persists in failing to fulfill any of its obligations under the Articles (except obligations with respect to special drawing rights); and

iii. the member has been informed in reasonable time of the complaint against it and given an adequate opportunity to state its case, both orally and in writing.

Even if these conditions for suspension of voting rights of the member are met, the adoption of such a decision is at the discretion of the Executive Board.

Liberia: Overdue Financial Obligations to the Fund

Current Overdue Financial Obligations as of January 31, 2003
(In millions of SDRs)

Type of Obligation	Total Amount Overdue	Date of the Longest Outstanding Overdue Obligation
Principal	223.7	
Repurchases	200.8	5/30/85
Trust Fund (TF) repayments	22.9	7/25/85
Interest and charges	274.5	
Quarterly charges	132.3	5/6/85
Semiannual charges	80.5	7/18/85
Assessments	0.1	4/30/86
Net SDR charges	23.2	8/1/88
Trust Fund interest	2.2	6/28/85
Special charges (General Resources Account (GRA)	31.1	5/28/86
Special charges (TF)	5.0	5/28/86
Total	498.2	

Projected Forthcoming Financial Obligations
(In millions of SDRs)

Type of Obligation	Outstanding as of 12/31/2002	Forthcoming 1/ 2003	2004	2005	Total Through 2005
Repurchases	200.8	--	--	--	200.8
Periodic charges	212.9	5.1	5.1	5.1	228.2
Trust Fund repayments and interest	30.1	0.1	0.1	0.1	30.5
GRA special charges	31.1	--	--	--	31.1
Net SDR charges	23.2	0.9	0.8	0.8	25.8
Total	**498.2**	**6.1**	**6.0**	**6.0**	**516.3**

1/ Subject to change in light of Liberia's payments to the Fund and changes in the SDR interest rate.

Liberia: Relations with the Fund

(As of December 31, 2002)

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

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	71.30	100.00
Fund holdings of currency	272.06	381.57
Reserve position in Fund	0.03	0.04

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	21.01	100.0

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
Stand-By Arrangements	166.08	232.93
Contingency and Compensatory	34.70	48.67
Trust Fund	22.89	32.10

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	12/07/1984	12/06/85	42.78	8.50
Stand-By	09/14/1983	09/13/84	55.00	55.00
Stand-By	09/29/1982	09/13/83	55.00	35.00

VI. Projected Obligations to Fund[12] (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	12/31/2001	2003	2004	2005	2006	2007
Principal	223.7					
Charges/interest	274.5	6.1	6.0	6.0	6.0	6.0
Total	498.2	6.1	6.0	6.0	6.0	6.0

Exchange rate arrangement

[12] 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. The estimates of amounts of charges and their due dates are estimates and subject to change.

The currency of Liberia is the Liberian dollar. The current exchange rate arrangement is an independent float. The exchange rate of the Liberian dollar is basically market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies, including the U.S. dollar. However, the Certificates of Deposit (CDs) issued by the Central Bank of Liberia in December 2002 appear to give rise to a multiple currency practice. The Liberian dollar denominated three-month CDs will be repayable in U.S. dollars at a fixed rate substantially above that ruling at the issue dates. This high rate of return implies that there has been an excess exchange premium which, as determined by the Fund's Legal Department, gives rise to a multiple currency practice subject to Fund approval under Articles VIII and XIV, Section 3 of the Articles of Agreement. Liberia's exchange rate at end January 2003 was L$65.0 = US$1.

Last Article IV Consultation

The last Article IV consultation discussions were held in Monrovia during the period November 26-December 7, 2001. The staff report EBS/02/22 (2/11/02) was discussed by the Executive Board on February 25, 2002.

Resident Representative

There is currently no provision for a resident representative in Liberia

Liberia: Relations with the World Bank Group
(As of December 31, 2002)

The World Bank suspended disbursements to Liberia in December 1986, as a result of mounting arrears. Liberia's loans were placed in nonaccrual status as of June 1, 1987. To that date, disbursements had totaled million US$141.3 million from 22 loans and US$91.5 million from 17 IDA credits; only US$ 43.6 million owing on these disbursements has been repaid.

By December 2002, Liberia's arrears to the World Bank had mounted to US$366.5 million, reflecting further interest charges. Liberia is obligated to make payment to the World Bank, by June 30, 2003, of approximately US$2.2 million to fulfill the Maintenance of Value (MOV) clause in the Bank's Articles of Agreement. Failure to pay its MOV obligations may lead to suspension of membership under the Articles of Agreement.

The World Bank is not engaged in any significant activities in Liberia at present. Arrangements are being made to prepare a watching brief on a periodic basis. The World Bank's relationship with Liberia would be reevaluated if the U.N. sanctions are lifted.

World Bank Group: Loans/Credits Summary in U.S. Dollars at December 31, 2002

	IBRD	IDA	Total
Original Principal	155,950,000	114,500,000	270,450,000
Cancellations	14,693,266	22,765,013	37,458,279
Disbursed	141,256,734	91,541,500	232,798,234
Undisbursed	0	0	0
Repaid	42,874,103	723,744	43,597,847
Due	97,977,632	97,937,910	195,915,542
Exchange adjustment	25,147,398	0	25,147,398
Borrowers' obligation	123,125,028	97,937,910	221,062,938
Sold third party	405,000	0	405,000
Repaid third party	405,000	0	405,000
Due third party	0	0	0

Source: World Bank, Integrated Controller's System. Contact person at World Bank: Emmanuel Akpa; 202-473-4367.

Liberia: Statistical Issues

4. There are substantial weaknesses in Liberia's economic and financial statistics, largely because the seven-year civil war caused widespread destruction of databases and the loss of administrative and institutional capacity for the systematic compilation of economic statistics. A multisector Fund statistics mission visited Monrovia in 1998 and assisted the authorities in establishing short- and long-term objectives for the restoration of economic statistics. A National Statistics Coordination Committee (NSCC) was reinstated in March 1998, but its work has been hampered by a lack of financial resources.

5. The Central Bank of Liberia (CBL) is now regularly reporting monetary, banking, and exchange rate statistics for publication to *International Financial Statistics (IFS)*, but their timeliness needs to be improved.

6. The CBL publishes data on money and banking, prices and output, fiscal operations and debt, interest and exchange rates, and foreign trade in its statistical bulletin, *Liberia Financial Statistics*, on a bimonthly basis with a lag of about six months. It also publishes the quarterly *Financial and Economic Bulletin* with a lag of about six months. This provides some commentary and tables on developments over the previous four quarters.

Real sector

7. Annual estimates of production by sector are prepared by the National Accounts Unit of the Ministry of Planning and Economic Affairs (MPEA). The Fund staff has estimated total GDP by sectoral origin for the period from 1988-2002 with the assistance of the MPEA. There is currently no basis for estimating GDP by expenditure.

Prices

8. The Price Unit of the MPEA began producing a consumer price index in late 1998, with May 1998 as the starting date and reference period. However, the weights are based on an expenditure survey of 100 Monrovia households conducted in 1963-64. The database of a price survey conducted in 1988-89 with the assistance of the German governmental organization GTZ was lost during the civil war. Targeted sampling frequencies vary from bimonthly for food items to biannual for rents and personal care and services, with actual collections often delayed. Monthly data have not been reported to the Fund in advance of publication, which generally involves a lag of about six months.

Government finance statistics

9. The authorities have provided information on fiscal accounts to the staff on an irregular basis but they have not reported data for publication in the *Government Financial Statistics Yearbook* (GFS) for several years. The Ministry of Finance provides monthly data on government revenue, and current and capital expenditure, in most cases with good disaggregation. There is, however, considerable scope for improvement in the reporting of

government finance statistics, particularly in respect of government agencies not currently included in the budget. The reporting of data on domestic arrears, and the financing of the deficit/surplus, is currently mandatory.

Monetary statistics

10. The November 1999 money and banking statistics mission reviewed in detail the methodology for the collection 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-August 1999. A subsequent mission (May 2000) found that the CBL had made substantial progress in compiling monetary aggregates according to international standards, and that the reporting of data by commercial banks had improved.

11. While progress has been made in moving toward international standards, substantial weaknesses persist. The 2002 Article IV staff mission found significant errors in definitions and in calculations in the CBL's balance sheet and in the monetary survey. Important steps to strengthen the central bank's accounting system remain to be taken, including proper accounting for foreign reserves and the appropriate segregation of required reserves by currency denomination and classification of other assets and liabilities. In addition, while the reporting of preliminary statistics by commercial banks has improved, the response by banks to requests for explanations and follow-up to noted incongruities continues to be weak.

12. The money and banking data reported monthly to IFS are usually submitted by fax with a two-month lag; the latest return includes data up to September 2002.

Balance of payments and external debt

13. Official balance of payments statistics have not been reported since the 1988 Article IV consultation; however, the Fund staff has prepared provisional balance of payments statistics in cooperation with the CBL, the Ministry of Commerce, MPEA, and the Ministry of Finance. The CBL is responsible for compiling the balance of payments in coordination with other agencies, but further development of balance of payments statistics is currently on hold. Almost all external commodity trade data are collected and compiled by the Ministry of Commerce, although the Liberian Petroleum Refining Corporation is the only source of data on oil imports. The MPEA is currently making progress in assembling data on external official transfers, while the Ministry of Finance maintains a database on external debt. Two balance of payments statistics missions in 2000 yielded mixed results. While some progress was made in compiling certain current and financial account items and designing a reporting system for inward private remittances, the missions were hampered by a lack of primary source data.

Liberia: Core Statistical Indicators

(As of December 31, 2002)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP	External Debt
Date of latest observation	9/02	9/02	9/02	9/02	9/02	9/02	9/02	9/02	...	10/02	...	10/02
Date received	12/02	12/02	12/02	12/02	12/02	12/02	12/02	12/02	...	12/02	...	12/02
Frequency of data 2/	D	M	M	M	M	M	M	M	...	M	...	Q
Frequency of reporting 2/	M,B	M	M	M	M	M	M	Q	...	Q	...	B
Source of data 3/	A	A	A	A	A	A	A	A	...	A	...	A
Mode of reporting 4/	V	V	V	V	V	V	V	V	...	C,V	...	C,V
Confidentiality 5/	C	C	C	C	C	C	C	C	...	D	...	D
Frequency of Publication 2/	B	B	B	B	B	B	B	Q	...	B	...	B

1/ The authorities compile data for key components of agricultural, mining, and manufacturing output only, by volume and value, which are available on a monthly basis with a lag of about six months.

2/ A=annually; S=semiannually; Q=quarterly; B=bimonthly; M=monthly; W=weekly; and D=daily.

3/ A=direct reporting by Central Bank of Liberia, Ministry of Finance, or other official agency.

4/ C=cable or facsimile; and V=staff visits.

5/ C=unrestricted use; and D=restricted until officially published.

Liberia: Selected Social and Demographic Indicators 1/

Area	**Population 2/**	**Population density**
96,364 sq. km.	3,044,050	31.6 per sq. km.

Population characteristics	
Population growth rate (percent)	2.75
Life expectancy at birth (years)	47.2
Infant mortality rate (per thousand)	112.8
Total fertility rate (percent of total)	6.1
Urban population (percent of total)	44.3
Population younger than 15 years (percent of total)	45.0
GDP per capita (2002)	US$169
Population in Poverty (2000) 5/	76.2%

Health	
Population per physician (2001)	29,270
Public health and social expenditure (2001 percent of GDP) 4/	0.5
HIV-prevalence rate 3/ (percent of population, ages 15-49)	2.8
Education 5/	
Adult literacy rate, male (percent)	40.0
Adult literacy rate, female (percent)	26.3

Sources: World Bank, *World Development Indicators, 2001*; Ministry of Health, Joint UN Program on HIV/AIDS, (UNAIDS), *Report on the Global HIV/AIDS epidemic, June 2002*; and Fund staff estimates.

1/ Data refer to 1999, unless otherwise indicated.
2/ World Bank, *African Development Indicators*, 2001,
3/ Source: UNAIDS. According to the Ministry of Health, HIV prevalence rates are now substantially higher, at about 10 percent of the total population, and about 20 percent of the working-age population.
4/ Fund staff estimate.
5/ Source: UNDP, Poverty Profile of Liberia, January 2001.

Liberia: Medium-Term Economic Projections

1. **Liberia has limited potential sources of economic growth over the next five years.** While output in the largest exporting sector, timber, is expected to rise following the opening of a large plywood factory in the port of Buchanan, rubber output will stagnate and eventually decline unless major replanting operations begin soon, as high costs and the uncertain environment has discouraged the replanting of trees and current plantations are nearing the end of their productive life cycle. Agricultural output, including some timber and rubber plantations, remains constrained by the domestic security situation. Mining operations, which flourished prior to the civil war, have been abandoned. Exploitation of precious metals is hampered by inadequate investment and corrupt distribution networks. The limited data available suggest that domestic investment in the economy is very low, and foreign direct investment has fallen to a level of about US$3 million (0.5 percent of GDP).

2. **Without a major improvement in the domestic security situation, a return to normal international relations (including circumstances propitious to a resumption of substantial donor assistance), and improved economic policies, prospects of exploiting even the limited growth potential of the economy are poor.** Indeed, although the scenario presented in Table 1 below presents a possible medium-term scenario of slow but steady growth on the assumption of unchanged circumstances and policies, the outcome could be significantly worse if the fiscal situation is further undermined by revenue diversion and inadequate expenditure control.

3. **On this scenario, real GDP is projected to grow at around 3 percent per annum.** This means that per capita real GDP would increase only barely (or not at all) over 2003-07. Government revenues are projected to increase modestly from 12.9 percent of GDP in 2002 to 13.1 percent of GDP in 2007. While stumpage fees rise from 1.2 percent to 1.6 percent of GDP and income taxes increase from 2.6 percent to 3.0 percent of GDP, maritime revenue increases only modestly in U.S. dollar terms and declines from 2.8 percent to 2.4 percent of GDP. Grant income is projected to remain at zero. Some significant shifts could, however, occur on the expenditure side. Even without an improvement in the domestic security situation, the government could reallocate some funds from development expenditure (which here also includes security-related spending) to current expenditure. However, weak budgetary controls and a still fragile security situation mean that development expenditure may continue to overshoot allocated levels, crowding out current expenditure.

4. **An alternative, more optimistic scenario is also presented below,** based on an improved security situation, the resumption of foreign assistance, the adoption of the revenue measures recommended at the last Article IV consultation by the IMF Executive Board, and an expansion of government services, financed by increased tax collection and foreign aid (both loans and grants). **In this scenario, real GDP is expected to rise at an average rate of about 5 percent.** While output growth in the timber sector would stay largely unchanged (with a resumption of activity in areas previously affected by rebel activity offset by lower

depletion rates elsewhere because of environmental considerations) and a recovery in rubber output would be slow to take hold, there would be significant improvements in the output of other parts of the agricultural sector (such as rice, coffee, cocoa and palm oil), construction, and various services, including education and other government services.

5. The alternative scenario assumes that the government would take some revenue measures, including the derogation of exemptions to the Revenue Code of Liberia, in the short run. Improved transparency and administration of taxes in key sectors could yield some further gains over time. Budgetary assistance, now zero, would pick up slowly, with some initial disbursements in 2004. Access to loans is assumed to remain constrained in the medium run, rising relatively modestly, to 5 percent of GDP, by 2007. No explicit account is made for possible debt relief and Heavily Indebted Poor Countries (HIPC) initiative assistance, although resumption of lending to Liberia would require understandings regarding its enormous outstanding loans in arrears. On the expenditure side, this optimistic scenario assumes that development expenditure (including expenditure related to national security) is restrained from the expected overshooting of budgeted levels in 2003, thus allowing a substantial increase in current expenditure, including the clearance of some wage arrears and the employment of additional teachers to satisfy the new statutory provision of universal, free primary education.

6. Much of the projected increase in external aid, to the government or to nongovernmental organizations (NGOs) operating in Liberia, will translate into an increase in imports. By 2007, with an increase in donor imports and in domestic demand, total imports will rise by US$203 million, and the trade balance will deteriorate by about US$149 million.

7. The alternative scenario is less optimistic about sustainable economic growth rates than the five-year Medium Term Plan (MTP) launched by the Government of Liberia in July, 2002. The objectives of the MTP–also described as the National Reconstruction and Development Plan–include sustained real economic growth rates of 6-8 percent, inflation in the range of 5-7 percent, a stable exchange rate, the introduction of compulsory basic education by 2004, a reduction in the number of households in poverty from 76 percent to 64 percent, and an increase in the adult literacy rate form 37 percent to 60 percent. Policies to achieve these objectives would include wide-ranging improvements in governance, limiting the fiscal deficit to the range of 2-4 percent of GDP while eliminating domestic arrears, market liberalization, and seeking debt relief. However, the MTP acknowledges the major challenges of implementation which it would face.

Table 1. Liberia: Medium-Term Economic Prospects, 2002-07 (Current Policies)

	2002 Est.	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
(Annual percentage change, unless otherwise indicated)						
National income and prices						
Real GDP	3.3	2.8	3.2	3.2	2.6	2.7
Consumer prices (annual average)	14.2	15.0	15.0	15.0	15.0	15.0
Consumer prices (end of period)	11.1	15.0	15.0	15.0	15.0	15.0
Nominal GDP (in millions of U.S. dollars)	561.8	607.9	654.2	701.1	739.4	770.9
GDP (deflator in US dollars)	1.8	5.2	4.3	3.8	2.8	1.5
Real GDP per capita (in constant 1992 U.S. dollars)	161.3	161.0	161.0	161.6	161.0	160.6
External sector (in U.S. dollar terms)						
Exports of goods, f.o.b.	15.1	7.4	12.5	10.1	5.7	3.2
Imports of goods, c.i.f.	-12.3	21.5	5.3	5.3	4.0	4.2
Terms of trade	14.1	4.4	3.5	2.7	2.7	1.7
Official exchange rate (Liberian dollars per U.S. dollar; end of period)	65.0	71.1	74.0	85.1	97.9	112.5
Central government operations (in U.S. dollars; Jan-Dec)						
Total revenue and grants	4.7	8.6	7.4	7.2	5.7	5.1
Of which : tax revenue	15.8	8.7	7.4	7.2	5.7	5.1
Total expenditure and net lending	9.2	-1.3	7.4	7.2	5.7	5.1
Current expenditure	-36.2	37.9	40.4	19.0	5.7	5.1
Capital expenditure	65.7	-20.1	-20.0	-10.0	5.7	5.1
(In percent of GDP, unless otherwise indicated)						
Central government operations (January-December)						
Total revenue and grants	12.9	13.0	13.0	13.0	13.0	13.1
Of which : tax revenue	12.5	12.6	12.5	12.5	12.6	12.7
Total expenditure and net lending	14.2	13.0	13.0	13.0	13.0	13.1
Of which : Current expenditure	4.6	5.9	7.7	8.5	8.6	8.6
Capital expenditure	9.6	7.1	5.3	4.4	4.4	4.5
Overall fiscal balance (cash basis)	-1.3	0.0	0.0	0.0	0.0	0.0
External sector						
Trade balance (deficit, -)	-4.6	-8.5	-6.6	-5.3	-4.8	-5.0
Exports, f.o.b.	26.2	26.0	27.2	27.9	28.0	27.7
Imports, c.i.f.	-30.7	-34.5	-33.8	-33.2	-32.7	-32.7
Trade balance (deficit, -; in millions of U.S. dollars)	-25.6	-51.9	-43.3	-37.1	-35.2	-38.6

Source: Fund staff projections.

Table 2. Liberia: Medium-Term Economic Prospects, 2002-07 (Alternative scenario)

	2002 Est.	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
(Annual percentage change, unless otherwise indicated)						
National income and prices						
Real GDP	3.3	2.8	7.3	5.3	4.8	4.6
Consumer prices (annual average)	14.2	11.0	8.4	5.0	3.5	3.0
Consumer prices (end of period)	11.1	11.0	7.0	4.0	3.0	3.0
Nominal GDP (in millions of U.S. dollars)	561.8	607.9	696.9	771.5	836.9	894.6
GDP deflator (in U.S. dollars)	1.8	5.2	6.9	5.1	3.5	2.2
Real GDP per capita (in constant 1992 U.S. dollars)	161.3	161.0	167.7	171.4	174.5	177.2
External sector (in U.S. dollar terms)						
Exports of goods, f.o.b.	15.1	7.4	15.3	10.7	7.9	3.8
Imports of goods, c.i.f.	-12.4	26.7	18.9	14.5	12.9	11.7
Terms of trade	14.1	4.4	3.5	2.7	2.7	1.7
Official exchange rate (L$ per U.S.$; end of period)	65.0	64.4	61.1	61.1	61.1	61.1
Central government operations (in U.S. dollars; Jan.-Dec.)						
Total revenue and grants	4.7	17.0	32.5	28.6	21.1	13.5
Of which : domestic revenue	12.2	17.0	12.0	11.6	10.0	9.2
Total expenditure and net lending	9.2	6.3	48.8	38.8	23.7	12.3
Current expenditure	-36.2	98.9	51.1	33.4	24.5	12.4
Capital expenditure	65.7	-38.2	45.4	47.5	22.4	12.0
(In percent of GDP)						
Central government operations (January-December)						
Total revenue and grants	12.9	14.0	16.2	18.8	21.0	22.3
Of which : domestic revenue	12.9	14.0	13.7	13.8	14.0	14.3
Total expenditure and net lending	14.2	14.0	18.2	22.8	26.0	27.3
Current expenditure	4.6	8.5	11.2	13.5	15.5	16.3
Capital expenditure	9.6	5.5	7.0	9.3	10.5	11.0
Overall fiscal balance (cash basis)	-1.3	0.0	-2.0	-4.0	-5.0	-5.0
External sector						
Trade balance (deficit, -)	-4.6	-9.9	-11.1	-12.4	-14.1	-16.7
Exports, f.o.b.	26.2	26.0	26.1	26.2	26.0	25.3
Imports, c.i.f.	-30.7	-35.9	-37.3	-38.6	-39.1	-39.4
Trade balance (deficit -; in millions of U.S. dollars)	-25.6	-60.4	-77.5	-95.8	-118.2	-149.3

Source: Fund staff projections.

Liberia: Fund Technical Assistance Since 1995

Subject	Department		Date
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		1999–2001
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 short and long term		1998–2000
Mission: reform of tax system	FAD		1999
Mission: preparation of tax code	FAD		1999
Mission: tax administration	FAD		1999
Advisor: tax administration	FAD short term		2000
Mission: preassessment for multisector statistics	STA		1997
Mission: multisector statistics	STA		1998
Mission: money and banking statistics	STA	Feb.	1999
Mission: money and banking statistics	STA	Nov.	1999
Mission: money and banking statistics	STA	May	2000
Advisor: balance of payments compilation	STA short term	Sep.	2000
Mission: balance of payments statistics	STA	Nov.-Dec.	2000

Liberia: Tentative Work Program 2003

A. Article IV consultation, review of overdue financial obligations to the Fund, and consideration of Managing Director's complaint with respect to suspension of voting and related rights in the Fund.

Executive Board consideration	March 5, 2003
Mission	December, 2003

B. Technical assistance

Liberia has not received technical assistance from the Fund since December 2000, when the security situation deteriorated.

C. World Bank

The World Bank is not engaged in any significant activities in Liberia at the present time.

Statement by the IMF Staff Representative
March 5, 2003

1. This statement reflects information provided by the Liberian authorities since the circulation of the staff report to the Executive Board on February 20, 2003.

2. The Liberian Minister of Finance, Mr. Charles Bright, informed staff on Monday, March 4, 2003 that the Government of Liberia had decided to increase its monthly payment to the Fund from US$50,000 to US$75,000 effective from the start of its next fiscal year, beginning July 1, 2003. Mr. Bright also provided staff with a copy of the financial audit of the Liberian Petroleum Refining Corporation (LPRC) for 2000 and 2001 recently completed by the audit firm Pannel Kerr Foster, Inc. He indicated that the audit for 2002 is expected to be available within the next six weeks.

3. Mr. Bright clarified that no commitment has yet been made by the European Union (EU) on the funding of independent financial audits of the Bureau of Maritime Affairs (BMA), Forestry Development Authority (FDA), and LPRC. The European Commission has confirmed that some resources would be available within the current envelope for Liberia, but that additional resources would probably need to be mobilized if a decision were taken to finance the audits. To date, the only action that has been undertaken with respect to the audits is the circulation of a preliminary draft of terms of reference.

4. If Liberia's payments to the Fund increase to US$75,000 per month from July 2003, total payments in 2003 would represent 0.1 percent of Liberia's arrears to the Fund or about 10 percent of its obligations falling due. They would be equivalent to 0.5 percent of Liberia's recorded exports of goods in 2002.

5. This information does not affect the thrust of the staff appraisal or the staff's assessment that Liberia has not adequately strengthened its cooperation with the Fund since the last review.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 03/107
FOR IMMEDIATE RELEASE
September 3, 2003

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

IMF Concludes 2002 Article IV Consultation with Liberia

On March 05, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Liberia.[1]

Background

The 1989-1996 civil war in Liberia resulted in destruction of most of the infrastructure and a reduction in GDP to one tenth of its pre-war level. Recovery in activity was initially fast, based on a revival of rubber and smallholder agricultural production and exploitation of forestry resources. By the end of 2000, GDP had returned to nearly half of its pre-war level. However, iron ore extraction–which had previously been responsible for 10 percent of GDP and 50 percent of exports–was not resumed and no significant reconstruction work was undertaken on the infrastructure.

The pace of economic activity has since slowed markedly, with GDP rising by about 5 percent in 2001 and 3.3 percent in 2002. Rebel fighting in the north and west of the country has disrupted local rubber, logging, and farming activity, and capacity in the rubber sector has been further restricted by the failure to replant in recent years. The small manufacturing sector has continued to suffer from an unreliable supply of domestic utilities and a virtual absence of foreign investment. However, in the logging sector, there has been a substantial rise in production in those regions that have been unaffected by rebel activity, and growth has continued in the informal and services sectors, including mobile telephones.

[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.

Despite some appreciation of the exchange rate during the last quarters of 2001 and 2002, the Liberian dollar has been on a steep downwards trend, declining by 34 percent in terms of the US dollar in the two years to end-December 2002. With many prices denominated in US dollars, which is legal tender in Liberia alongside the Liberian dollar, consumer prices have risen sharply and the 12-month inflation rate spiked above 20 percent in March 2002.

The fiscal position has continued to deteriorate. Total government revenue (including grants) is estimated to have declined by around 13 percent in fiscal year 2001/02, to US$72 million. No grant income was received by the government, and the only buoyant areas of revenue were stumpage fees on timber production and (in the first half of 2002) transfers from the maritime agency. The slowing economy and tax derogations appear to have substantially depleted other tax receipts. In order to ensure a fiscal outcome near to balance in cash terms in 2001/02, nonmilitary expenditure was heavily reduced, and further domestic and external arrears were accumulated. The adverse revenue trends continued through the remainder of 2002, resulting in a further pruning of spending on health, education, and other social services. For calendar year 2002, total government revenue fell to 12.9 percent of GDP from 15.8 percent in 2000, and current expenditure dropped to 4.6 percent of GDP from 9.8 percent over the same period. Wage and salary payments to government employees were eight months in arrears in December 2002.

Tax policy performance and expenditure control have continued to be weak. There have been no moves to increase the taxes levied on the substantial monopoly rents earned in the rice and petroleum sectors as a result of government regulation and bureaucratic discretion, while government spending has been authorized and tax credits have been issued without apparent enforcement of appropriate budgetary procedures. Accountability for the principal off-budget agencies has been extremely limited.

The adverse fiscal position of the central government and central bank has continued to dominate monetary developments. Liberian currency in circulation rose by 14 percent in the 12 months to September 2002 and total reserve money grew by 10 percent. The Liberian dollar component of the broad money supply rose by 17 percent. Total broad money M2 (which includes bank deposits denominated in U.S. dollars, but excludes U.S. banknotes) rose by 33 percent, reflecting in part the depreciation of the Liberian dollar by 29 percent in terms of the US dollar through the period. Holdings of foreign currency by the Central Bank of Liberia (CBL) remained in the range of US$1.5 million-2 million.

The profitability and asset quality of the commercial banks continued to be under pressure as the deteriorating economic environment caused some rise in nonperforming loans, the government failed to pay interest due, and new restrictions were placed on banks' lending rates. The central bank set a limit of 10 percentage points on the spread that could be earned on the interest rates charged on lending above the weighted average cost of funds, with an absolute ceiling on lending rates of 18 percent. In December 2002, the CBL reimbursed L$55 million to depositors at the Liberian United Bank (LUBI), which had been seized in April 2000, and simultaneously issued certificates of deposit (CDs) of equivalent value to four private companies. The three-month CDs will not accrue interest, but they will be repayable in U.S. dollars at a fixed rate substantially more beneficial than that ruling at the issue date, thus providing a guaranteed annualized rate of return in U.S. dollars, which the CBL estimates at 33 percent. The CDs give rise to a multiple currency practice subject to Fund approval.

Liberia's external current account balance (including grants) improved substantially in 2002, to an estimated deficit of 5.1 percent of GDP, compared with a deficit of 20.6 percent of GDP in 2001. Merchandise exports rose by some 3.6 percent of GDP, owing to a higher rubber price and the substantial increase in timber production. In contrast, the deterioration in the security situation and border closures led to a sharp decline in goods imports of an estimated 4.5 percent of GDP. Liberia has been subject to UN sanctions, which prohibit arms imports and diamond exports, since May 2001. Liberia's external debt amounted to close to US$2.8 billion at end-2002 (498 percent of GDP), of which US$2.5 billion was in arrears.

The government has retained a strong influence on key domestic markets, including the imposition of maximum retail prices on the three products that dominate the monetized part of Liberia's domestic economy: rice, petroleum products, and cement. Rice and petroleum prices, net of tax, are substantially higher than in neighboring countries; petroleum imports are restricted to a single supplier; de facto restrictions still seem to have limited entry to the rice market; and the single cement producer has benefited from a range of tax concessions and restrictions on imports. However, the government has recently issued press advertisements confirming the freedom of rice importation from government restriction and has removed the derogation against the goods and services tax for domestically produced cement.

Liberia has been in continuous arrears to the IMF since December 1984. At the end of January 2003, Liberia's arrears to the IMF amounted to SDR 498.1 million (US$681 million). Liberia was declared ineligible to use the general resources of the IMF on January 24, 1986, and a declaration of noncooperation with respect to Liberia was issued on March 30, 1990. On February 25, 2002, the Executive Board of the IMF decided that the procedure to suspend Liberia's voting and related rights in the Fund be initiated.

Executive Board Assessment

Directors noted with great concern the continued deterioration in the Liberian economy during 2002: GDP growth had slowed further; inflation had been high and volatile; and the exchange rate had depreciated substantially. Moreover, poverty remained widespread, only rudimentary social services were being provided, and arrears in government wages and salaries could not be reduced.

Directors observed that the deepening domestic conflict had displaced large numbers of the rural poor in 2002, had reduced economic activity, notably in rice production and manufacturing, and had dampened timber and rubber exports. Together with persistent weaknesses in governance, transparency, and the rule of law, the conflict had further eroded international confidence, causing foreign direct investment virtually to dry up and leading to a cessation of donor assistance to the government. U.N. sanctions remain in place.

Directors expressed concern about the dire prospects facing the economy. Without progress on the security situation, substantial progress in macroeconomic stabilization and structural reforms, and improvements in governance, growth prospects would be entirely dependent on the output of the timber sector in regions unaffected by the conflict. At the same time, timber production might need to be restrained in order to ensure environmental viability and the long-term sustainability of the sector. Also, rubber production will be constrained by the failure to rejuvenate plantations in recent years. For 2003, GDP growth is expected to decline, with little prospect of improvement in subsequent years, and GDP per capita will remain amongst the lowest in the world. The country's widespread poverty and social needs are thus not likely to be addressed.

Directors acknowledged that the authorities had taken some positive steps notwithstanding the deteriorating security situation in the country, including structural measures regarding the corporate and shipping registries, financial auditing of the petroleum company, the ending of the concession against the goods and services tax for domestically-produced cement, and the confirmation of liberalization of trading in the rice market. Directors nevertheless expressed disappointment that several other long-overdue reforms—identified again at the last Article IV consultation—had not been taken. They stressed the importance of increasing revenue and improving fiscal transparency. Full financial audits of maritime, timber and petroleum operations should be undertaken; petroleum product taxation increased; and the cash balances of all government agencies should be transferred to the central bank. Exemptions and allowances against taxes and duties should be reduced, and the accuracy of valuations improved, particularly in respect of the logging industry. Consideration should be given to increasing tax rates on discretionary consumer goods and services, such as cellular telephone usage.

Directors expressed serious concern about the composition of public spending and the inadequate level of monitoring, transparency, and control. About half of budgeted expenditure for the current fiscal year is allocated to capital spending, and most appears to be related to security outlays. The granting of tax offsets to private companies for work they performed on capital and other projects should be discontinued, as it undermines the tender process and effective project costing, and is open to abuse. The expenditure of the off-budget agencies, including particularly the Forestry Development Authority, the Bureau of Maritime Affairs, and the Liberian Petroleum Refining Corporation, should be brought urgently into the budget authorization process to strengthen accountability and discourage the misappropriation of funds.

Directors observed the close association in the last two years between increases in reserve money, the depreciation of the Liberian dollar, and surges in the domestic price level, which pointed to the need to improve monetary policy execution. Directors emphasized the need to ensure that decisions of the central bank concerning financial instruments, foreign exchange sales, and regulations on commercial banks are based on sound economic principles, and are free of conflicts of interest. The central bank's decision in 2002 to issue certificates of deposit with above-market repayment terms to selected private creditors should not be repeated; these certificates were expensive to the central bank and gave rise to a multiple currency practice.

Directors welcomed the government's public statement that rice importation is free of restrictions, but stressed the need to remove quickly the import monopolies for petroleum and cement, which have provided monopoly rents to private individuals and led to high prices to consumers.

Directors again drew attention to weaknesses in the collection, compilation and dissemination of statistics, including errors in the monetary data, the use of outdated weights in the consumer price index, incomplete production and balance of payments data, and unreliable reporting to the Fund.

Directors reviewed Liberia's overdue financial obligations to the Fund, and regretted that Liberia's cooperation with the Fund had not improved since the last review. Accordingly, the Executive Board decided to suspend Liberia's voting and related rights in the Fund, with immediate effect. Directors urged the authorities to take necessary steps to strengthen Liberia's cooperation with the Fund, including through policy action and increased monthly payments to the Fund. They noted in this regard the authorities' intention to increase payments to the Fund starting in July 2003. Directors emphasized that they stood ready to reinstate Liberia's voting and related rights once there was evidence that its cooperation with the Fund had improved significantly. The decision on suspension will be reviewed in six months' time.

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. The Staff Report for the 2002 Article IV Consultation with Liberia is also available.

Liberia: Selected Economic and Financial Indicators

	2000	2001	2002 Est.
	(Annual percentage change)		
Output and Prices			
Real GDP	22.4	4.9	3.3
Consumer prices (annual average)	5.3	12.1	14.2
	(In percent of GDP)		
Central government			
Total revenue and grants	15.8	13.0	12.9
Of which : tax revenue	13.7	11.4	12.5
Total expenditure and net lending (cash basis)	15.4	13.7	14.2
Of which : current expenditure	9.8	7.6	4.6
capital expenditure	6.6	6.1	9.6
Overall fiscal balance (cash basis)	-0.6	-0.7	-1.3
External sector			
Current account balance, including grants (deficit, -)	-15.9	-20.6	-5.1
Current account balance, excluding grants (deficit, -)	-28.6	-28.7	-15.1
Trade balance (deficit, -)	-12.0	-12.9	-4.5
Exports, f.o.b.	22.2	23.9	26.2
Imports, c.i.f.	-34.2	-36.9	-30.7
Public sector external debt outstanding	473.8	486.4	497.6
	(In millions of U.S. dollars)		
Current account balance including grants (deficit, -)	-86.2	-110.3	-28.7
Trade balance (deficit, -)	-64.9	-69.0	-25.6
Nominal GDP	541.5	534.4	561.8
	(Liberian dollars per U.S. dollar)		
Official exchange rate (end of period)	42.8	49.5	65.0

Sources: Liberian authorities; and IMF staff estimates.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 03/27
FOR IMMEDIATE RELEASE
March 6, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Suspends Liberia's Voting Rights in the Fund

The Executive Board of the International Monetary Fund (IMF) has suspended Liberia's voting and related rights in the Fund, after having determined that Liberia had failed to strengthen its cooperation with the IMF in the areas of policy implementation and payments to the IMF. As a result of the Board's decision, Liberia can no longer appoint a Governor or Alternate Governor to the IMF, participate in the election of an Executive Director for its Board, and cast its vote in decisions on Fund policy and country matters.

Liberia has been in continuous arrears to the Fund since December 1984. The suspension of a member's voting and related rights is one in a series of escalating remedial measures that the Fund applies to members that fail to meet their obligations under the Articles of Agreement of the Fund. Liberia was declared ineligible to use the general resources of the Fund on January 24, 1986. On February 25, 2002, the Executive Board decided that the procedure to suspend Liberia's voting and related rights in the IMF be initiated, and the Managing Director's complaint regarding the suspension was issued on April 8, 2002. On October 4, 2002, the Executive Board of the IMF decided to defer the suspension of Liberia's voting and related rights in the Fund to provide a further opportunity for the authorities of Liberia to strengthen economic policies and increase payments to the Fund. At that time, the Executive Board decided to consider this issue again within five months.

As of end-February 2003, Liberia's arrears to the IMF amounted to SDR 499.6 million (US$685 million). For more information, please refer to the IMF's external website at http://www.imf.org/external/np/tre/tad/exfin1.cfm.

The Executive Board will review Liberia's overdue financial obligation to the Fund within six months of March 5, 2003.

Additional information on how the Fund deals with overdue financial obligations is available in Chapter V of *Financial Organization and Operations of the IMF* (IMF Pamphlet Series No. 45, 6th ed., 2001). This publication is also posted on the Fund's external website at http://www.imf.org/external/pubs/ft/pam/pam45/contents.htm

Statement by Ismaila Usman, Executive Director for Liberia
March 5, 2003

Introduction

We thank staff for a detailed and candid report. My Liberian authorities wish to express their deep appreciations of the Fund Management's patience and understanding of their concerted efforts to arrest the country's declining economic conditions, as well as to address the problem of their overdue financial obligations to the Fund. However, these efforts to deliver on the reforms spelt out in the Managing Director's letter of complaint and in the last decisions of the Executive Board have been seriously constrained by the harsh and very difficult political, social and economic conditions which they face, including the persistence of the unfavourable external environment that has prevailed. Indeed, the external conditions difficulties have been compounded by the drying up of foreign aid flows making it extremely difficult to meet even the token monthly payments.

However, as mentioned in the staff report, the Liberian authorities have endeavoured since the last Executive Board discussion, within the opportunities presented by the prevailing circumstances, to deliver on the recommended structural reforms. Following the last staff mission, the Government of Liberia has also taken several economic measures to further address the outstanding issues of concern to the Fund. These measures will be highlighted in the course of this statement. Also, in their desire to improve their working relationship with the Fund, they were assiduous in arranging all the meetings asked for by the staff mission and have tried desperately to meet the staff requests for data and background information.

My authorities would therefore wish to emphasize that the Executive Board in arriving at its decision, should take account of the realities of their economic circumstances and the strong desire of the Government of Liberia to remain constructively engaged with the Fund as evidenced by these efforts, and that they would continue to address all remaining areas of the Board's concern.

2. The adverse domestic political and social conditions confronting the authorities are enormous and are still prevalent

Rebel faction reportedly control one-third of the countryside and render the Liberian government barely functioning. The recent conflict in neighbouring Cote d'Ivoire is compounding the security and social situation in Liberia with the return of a large number of Liberian refugees causing new strains in international relations. The long years of conflict has also led to serious depletion of infrastructure, limited exploitable resources, as well as shortage of capacity. Even the attempt to resolve the political impasse was frustrated by the rebel factions which failed to attend the National Reconciliation Conference in Liberia in August-September 2002.

These harsh realities which prevailed during the last Board discussions in October still characterize the Liberian political and economic environment, with the result that the country still faces an extremely difficult economic circumstances. Government departments are understaffed, with substantial wage arrears, while the authorities have also been drawing on their extremely limited resources to meet even the token monthly payments to the Fund.

3. International isolation has further contributed to the exacerbation of domestic economic conditions

The United Nations sanctions, including restrictions on travel by senior members of the government, which have been in place since May 2001, were extended in May 2002, and even prevented the erstwhile Liberian Finance Minister from attending the last Executive Board discussion to present Liberia's case. Much the same fate would likely be the lot of the current Minister of Finance who is desirous of coming to address the Executive Board during the current discussions.

Other than humanitarian aid, the authorities have received no direct assistance from donors in 2002 as against transfers equivalent to about 10 per cent of revenues in the previous years. The small manufacturing sector has also continued to suffer from a virtual absence of foreign investment as a result of the adverse impact of the UN sanctions and cessation of donor support.

4. In spite of the identified constraints, the Liberian authorities have undertaken some far-reaching reforms.

Since the October 4, 2002 meeting of the Executive Board, as much as 90 per cent of the revenues remitted by Liberia's corporate and shipping registry (LISCR) are now deposited directly in the Central bank, with only 10 per cent retained by the Bureau of Maritime Affairs for its operations.

A survey of the commercial banks has been conducted to identify the deposits of all government agencies, and the General Auditing Office has been instructed to engage a local accounting firm to conduct financial audits of the agencies responsible for maritime (BMA) and timber operations and revenues (FDA). The Management and Services audit of these two agencies was re-awarded, after the initial project was abandoned at the Review stage by the Accounting Firm of Deloitte & Touche, which claimed that it had been coerced by its New York and London offices to disengage from the contract. The second phase of the audit has been completed by the local firm and a copy of the report has been submitted to the staff. My authorities promise to forward progress reports to the Fund as they become available. Also, the financial audit of the Liberia Petroleum Corporation (LPRC) covering 2000 and 2001 is almost completed by a local accounting firm, and copies of the reports will be forwarded to the staff soon.

The Liberian authorities have improved on the timeliness of monthly payments to the Fund on the agreed amount of US$50,000. In foreign exchange management, the central bank

acted to discourage speculation in the market including the investigation of evidence of collusion between foreign exchange bureau operators, reprimands to commercial banks for taking excessive foreign exchange positions, and through moral suasion.
The overall tariff structure has been simplified and most tariffs now fall in one of six bands, between 2.5 per cent and 25 per cent, with an average overall tariff rate of around 12 per cent, making it one of the lowest in the region. For the product market, there is a proposal and renewed commitment by the authorities to ensure the complete liberalisation of the rice market, while for now, the market share of the two largest distributors has declined.

Further reforms in the tax system and product liberalisation are being proposed by my authorities in the near term. These include the introduction of the Phase II of the Revenue Code, which would provide a unified framework for the taxation of agriculture and resource extractions, and bring the existing exceptions into the framework of the code.

There has also been improvement in the area of governance. After government succeeded in pushing back rebel forces in the wake of the incursions in 2002, the state of emergency was lifted in September, and greater freedom was provided to conduct political activity.

In addition to these earlier reforms and following the last staff mission in December 2002, the Government of Liberia has also taken additional measures to address the outstanding concerns of the Board. In the area of financial audits, the European Union (EU) has consented and identified funds to conduct independent financial audits of the Bureau of Maritime Affairs (BMA), the Forestry Development Authority (FDA) and the Liberia Petroleum Refining Company (LPRC). The EU has recently furnished the Liberian authorities with the Terms of Reference covering this engagement, and the document has been circulated among the relevant government agencies for their review and comment. My Liberian authorities anticipate that this exercise would be completed shortly.

On rice importation, my Liberian authorities have always maintained that it does not encourage any monopoly or oligopoly position and that rice imports are subject purely to market factors. They are, however, concerned, because of the sensitive and strategic nature of rice, that there is always sufficient buffer stock in warehouses around the country. Nonetheless, the Ministry of Commerce & Industry, on January 29th, commenced publicity in which it reminded all interested business houses of the openness of the market.

My authorities have also kept the promise to reverse the Administrative Regulations on the suspension of the implementation of the Goods and Services Tax (GST) on some items. It would be recalled that the Liberian authorities, during the last Board discussion, informed the Fund that the introduction of these regulations was time sensitive and that when conditions changed, they would be reversed.

One such reversal was effected by the authorities from February 15 this year, when they decided to end the derogation and have made application of the goods and services tax to cover domestically produced and imported cement.

5. Prospects for the Liberian economy remain bleak unless there are positive changes in the domestic political situation and in international relations

Liberia's growth prospects will hinge largely on the resolution of the domestic conflict, as well as a positive change in the attitude of the international community to the country. While activity in the logging sector will drive the growth process, domestic conflict in the regions still under rebel control and other environmental considerations may impose restrictions in the performance of the sector. In a similar vein, output in the timer, rubber, and smallholder agriculture sectors may also continue to be affected by threat of rebel activity and low level of investment, leading to a decline below 3.0 per cent in the GDP growth for 2003. The closure of many customs offices at land borders, particularly those close to Cote d'Ivoire and slower activity through the port of Monrovia will also impact adversely on government revenue and thereby put a strain on government current expenditures.

The external current account deficit is also projected to widen as a result of a rebound in imports, despite a moderate increase in export value, owing to higher world prices. In the absence of budgetary support from donors and since no revival is anticipated in direct private investment, aggregate current transfers are expected to fall in 2003, resulting in an increase in Liberia's external arrears by some US$67.4 million or 11.1 per cent of GDP.

6. My authorities appeal for the understanding and cooperation of Liberia's development partners in this onerous task of reviving the economy

My authorities appreciate the past efforts of the development partners in Liberia's economic development, and they still count on their continued support in addressing the outstanding issues that would pave the way for sustainable real growth and poverty alleviation. The authorities recognise that reforms can only be effectively undertaken if adequate external resources and foreign technical assistance are provided to build capacity in the relevant areas.

One very crucial area of immediate need of technical assistance is in the provision of data for information and economic planning. For instance, the outstanding reforms in the provision of important economic data on national accounts, social conditions, exchange and interest rates, consumer price inflation, monetary data and government fiscal account, as well as in the preparation of the proposed new Revenue Code, have been constrained by continuing lack of resources and inadequate capacity. Also, little progress has been made in either documenting the prevalence of HIV/AIDS or in tackling the problem for similar reasons. The crucial role of foreign technical assistance was clearly demonstrated by the capacity constraints and disruption caused by the departure of Fund Advisors in 2000, while the current reengagement of the EU has helped to revive the abandoned financial audit of some government agencies, and has underlined the indispensability of foreign partners in Liberia's economic development process.

As a result of limited financial assistance from foreign donors, including the limited activities of NGOs, the provision of social services by the Liberian government continues to be under severe pressure in the face of a growing proportion of the population being displaced and the continuing threat of the HIV/AIDS pandemic.

The prospect of achieving a viable recovery of the economy in the medium-term or even developing a foundation for sustained growth and poverty alleviation, therefore, becomes a mirage, not likely to be overcome by sole reliance on declining domestic resources. A resumption of external support, therefore, will permit a significant improvement in Liberia's growth performance, support the rebuilding of the country's physical infrastructure, accelerate resumption of direct private investment and help in resolving the external debt overhang.

7. Conclusion

i. Political instability coupled with a tense security situation;
ii. U.N. sanction together with travel ban on the President and his Ministers;
iii. Dried up donor aid and near zero DFI;
iv. Lack of administrative, technical, institutional and human capacity;
v. Absence of a motivated, skilled and dedicated personnel to confront the challenges;
vi. An economy in a "dire state", with high poverty rate, serious deficiencies in health and educational and sanitation standards and a per capita GDP at US$169 in 2002, among the lowest even in Africa;
vii. Dismal short term economic outlook with limited sources of economic growth over the next 5 years; and
viii. Prospects of increasing regional conflict, political instability and security concerns.

The foregoing indeed summarizes the staff report, giving a gloomy picture and the sad story of Liberia. It shows that overall, Liberia's economic prospects are not only difficult to formulate, but also projections into the future are near impossible because of the many constraints, uncertainties and enormous challenges.

Against this background a decision to suspend the voting and related rights of Liberia in the Fund would serve little or no useful purpose. In fact, it is unlikely it would help improve Liberia's economic prospects or enhance its chances of meeting its overdue financial obligations to the Fund or indeed any other creditor. If anything, it is more likely to worsen Liberia's situation. Liberia would not only be denied any form of technical assistance and support from the Fund, which it so desperately needs to address the many deficiencies and challenges highlighted by staff, but there is also the apparent signaling to the rest of the international community not to bother to provide the necessary external resources needed to facilitate bringing Liberia out of the "quagmire" it has been "trapped in", and its early integration with the rest of the international community.

The Liberian people have suffered tremendously from their unfortunate situation and will continue to suffer more with a decision to suspend Liberia. But Liberia now more than ever, needs all the support, all the technical assistance, all the advice, and all the guidance it can get from the BWIs, particularly from the Fund. The economy needs to be put in an intensive care unit and would require necessary rehabilitation, counseling and guidance from the Fund and not further isolation or exclusion.

The authorities do recognize that they need to deliver on reforms, especially in the areas of governance, and security. They recognize also that they need assistance to rebuild administrative, technical and institutional capacity so seriously lacking in order to significantly arrest the slide and reverse the decline. They have indicated their renewed commitment and continued readiness to make the necessary policy reforms and to stay constructively engaged with the Fund.

Presidential and Legislative elections are scheduled for October 14, 2003 and a large number of political parties have registered for the elections. The people of Liberia deserve another chance. There is at least a window of opportunity and some glimmer of light and hope at the end of the tunnel. Their appeal to the Executive Board deserves sympathetic consideration.