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# Liberia: 2001 Article IV Consultation and Overdue Financial Obligations to the Fund—Review Following Declaration of Ineligibility—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Liberia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2001 Article IV consultation with Liberia and Overdue Financial Obligations to the Fund—Review Following Declaration of Ineligibility, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation and Overdue Financial Obligations to the Fund—Review Following Declaration of Ineligibility, prepared by a staff team of the IMF, following discussions that ended on **December 7, 2001,** 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 11, 2002.** 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 Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its February 25, 2002 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Liberia.

The document(s) listed below have been or will be separately released.

Statistical Appendix

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

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INTERNATIONAL MONETARY FUND

LIBERIA

# Staff Report for the 2001 Article IV Consultation and Overdue Financial Obligations to the Fund—Review Following Declaration of Ineligibility

Prepared by the African Department and Treasurer's Department

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

Approved by Anupam Basu, Masood Ahmed, and Michael Kuhn

February 11, 2002

The discussions for the 2001 Article IV consultation and for the review of overdue financial obligations were held in Monrovia during November 26-December 7, 2001. The Liberian representatives included the Minister of Finance, the Governor of the Central Bank of Liberia (CBL), the Ministers of Agriculture, Commerce, Planning and Economic Affairs, and the Auditor General. The staff team also met with commercial bankers, the Chamber of Commerce, and several NGOs.

The authorities have noted their intention to publish this staff report.

The staff representatives were Mr. Meyers (Head), Mr. Haacker (AFR), Mr. Fallon (PDR), and Mr. Bhatia (EP, TRE).

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## EXECUTIVE SUMMARY

The drive to restore a semblance of normalcy to the Liberian economy has encountered renewed obstacles, as domestic conflict continues in some regions and relations with the international community have deteriorated sharply in response to allegations of serious human rights abuses, support for an armed insurgency in Sierra Leone, and widespread government corruption. Additional UN sanctions were introduced in May 2001.

GDP growth decelerated substantially from the high levels achieved following the conclusion of the civil war to about 5 percent in 2001, as rubber and logging activities apparently reached a plateau. Inflation increased from low single digits in 2000 to 18—20 percent by the third quarter of 2001, as the exchange rate depreciated in the wake of a large monetary expansion.

In the wake of retention by the supervising agencies of significant revenue from the shipping registry and logging assessments and the usage of very sizable resources for security purposes, a committee was set up to prioritize the allocation of cash receipts. Spending on security takes up about half of income, and, following a decision to reduce civil service wage arrears from ten months to four, nonwage domestic arrears continued to accumulate from the end-2000 level of about US$55 million (10 percent of GDP).

Governance problems pervade Liberia's financial administration. Budgeting has become dysfunctional, tax incentives for large projects are granted on an ad hoc basis, the procurement system is weak, there are no apparent rules or oversight for purchases by the military, and income reported by Liberia's shipping registry does not match with receipts recorded by the Ministry of Finance. With the Auditor General's office largely unfunded, there is little or no independent oversight of government operations.

With the authorities facing a substantial long-term economic deterioration—failing an improvement in the economic environment, Liberia's rubber sector could begin an irreversible decline in the period ahead—actions to address structural inefficiencies have stalled. Although a modest step has been taken toward opening the domestic rice market, government controls remain in place with respect to retail prices on petroleum, rice, and cement, and farmgate prices for coffee and cocoa.

With official reserves at less than one week of imports and in the absence of a domestic securities market, the central bank was unable to check a substantial expansion in the money supply during 2001. Despite having raised the reserve ratio for Liberian dollar deposits to 50 percent, the domestic currency component of broad money rose by 38 percent in the twelve months ended August 2001. Liberia's banking system, in which two out of four operating commercial banks face difficulties, is under serious stress.

Liberia has been in arrears to the Fund continuously since December 1984. The stock of arrears to the Fund now stands at SDR 492 million, with payments falling due during 2002 projected at SDR 6.6 million. Liberia committed itself to making token payments of

US$50,000 per month beginning in December 1997. As of January 31, 2001 payments were 1 1/2 months behind schedule.

## I. Introduction

1. **The last Article IV consultation was concluded on February 28, 2000.** At that time, the authorities had adopted a comprehensive staff-monitored program (SMP) intended to establish a record of policy performance. While some advances were made under the SMP, including the introduction of monetary and financial sector reforms, sizable extrabudgetary expenditures and a failure to proceed with the agreed liberalization of rice and petroleum markets undermined the achievement of program objectives.

2. **At the last review of Liberia's overdue financial obligations to the Fund, Executive Directors regretted the weakening of policy implementation** and urged the authorities to bring policies back on track by adopting measures to curb extrabudgetary spending, eliminate civil service wage arrears and substantially reduce nonwage domestic arrears, account for and reduce tax concessions, adopt a new tax code, and liberalize rice and petroleum imports. The Board also urged Liberia to increase the level of its monthly payments to the Fund and improve their timeliness, with a view to making full and timely settlement of its overdue obligations to the Fund while improving relations with external creditors and donors.

3. The Board decided that, **in the event that Liberia had not adequately strengthened its cooperation with the Fund by the time of the next review of its overdue financial obligations to the Fund, consideration would be given to the initiation of the procedure on suspension of Liberia's voting and related rights in the Fund.**[1]

4. **Liberia's policy performance, as well as its relations with donors and creditors, has deteriorated** since the conclusion of the last Article IV consultation and the last postineligibility review. Payments to the Fund have become increasingly irregular, while relations with the World Bank remain in hiatus. The UN Security Council imposed sanctions on Liberia on March 7, 2001, and the European Union initiated censure proceedings that could culminate in the termination of its rehabilitation assistance program (Box 1).

5. **In view of Liberia's failure to implement fully the measures envisaged in Executive Board Decision No. 12327-(00/112), the staff proposes that the Executive Board note the intention to initiate the procedure on the suspension of Liberia's voting and related rights in the Fund** in accordance with Article XXVI, Section 2(*b*) and Schedule L of the Articles of Agreement.[2]

6. **Data on Liberia's overdue and forthcoming obligations to the Fund are provided in Appendices II and III.** Summaries of Liberia's relations with the Fund and with the

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[1] The review, originally scheduled to take place by May 15, 2001, was postponed twice in view of the delay of the mission to Monrovia due to security concerns (EBS/01/68, 5/4/01; and EBS/01/183, 11/6/01).

[2] The procedure on the suspension of voting rights is described in Appendix I.

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 1995, and a tentative work program is presented in Appendix X. Selected economic and financial indicators are provided in Table 1.

## II. Background and Recent Economic Developments

### A. Background

7. **Liberia's economic infrastructure was largely destroyed in the civil war of 1989-96**. Utility and rail lines were stripped, hydroelectric generators were wrecked, and the water purification system and iron mining assets were lost. The Buchanan port was severely damaged, and a large part of the country's commercial, residential, and government structures were left uninhabitable.

8. **Beyond the loss of physical capital lies a more difficult record of human costs as a result of the conflict**. Liberia's last census was conducted in 1963. Estimates of the numbers killed (about 5 percent of the total population), injured, and internally displaced, and of the number of emigrants, are, for the most part, educated guesses. Five years after the end of the generalized civil conflict, there are still some 50,000 to 100,000 internally displaced persons and about 200,000 refugees in Guinea and Côte d'Ivoire, out of a population of about 3 million. Anecdotal evidence indicates that the outflow of professionals and those with critical technical skills has been substantial—according to the Ministry of Health, there are now only 104 registered physicians in the country.

9. **In this context, efforts, beginning in 1997, to reconstruct and rehabilitate Liberia's economy were of critical importance**. Assistance from the international community to Liberia during 1997-2000 was substantial and played a key role in supporting the resettlement of large numbers of refugees and internally displaced persons. Official grant inflows during this period are estimated to have totaled over US$300 million—about 14 percent of GDP on average. In addition to resettlement and emergency food aid, donors helped finance the rebuilding of schools and clinics, restored civil aviation, facilitated the revival of smallholder farming, and provided technical assistance and training in a number of key sectors. These efforts allowed for a substantial economic recovery, with annual GDP growth averaging an estimated 24 percent during 1998-2000. Smallholder agriculture, rubber production, and forestry all registered substantial increases in activity, generating income, employment, and government revenue.

10. **The drive to restore a semblance of normalcy to the Liberian economy suffered a blow in 2001, as relations with the international community deteriorated sharply** in response to allegations of serious human rights abuses, support for an armed insurgency in Sierra Leone, and widespread government corruption. It is apparent that Liberia's responses to these charges have not fully satisfied the international community—grant inflows are estimated to have fallen to US$32 million in 2001, while, as mentioned above, the UN

Security Council has imposed additional sanctions and the European Union is conducting discussions under Article 96 of the Cotonou Convention (see Box 1). As is common in post-conflict countries, current aid inflows, largely humanitarian in nature, are generally being channeled through nongovernmental organizations (NGOs), rather than via the government.

**Box 1. Security, Sanctions, and Governance**

**Liberia's economic recovery has been dogged by a difficult political transition.** Armed cross-border incursions by rebel forces based in Guinea, first reported in April 1999 and independently corroborated by a panel of experts appointed by the UN Security Council, have triggered a new and widening domestic conflict, now reportedly affecting the Liberian counties of Lofa, Bapulu, and Nimba. At present, about one-half of Liberian government revenue has been earmarked for security-related spending.

**The UN Security Council, under Resolution 1343 of March 7, 2001, imposed an arms embargo on Liberia.** In that resolution, the Security Council determined that Liberia's active support for armed rebels in neighboring countries constituted a threat to international peace and security in the region. The Security Council demanded that Liberia expel Sierra Leonean members of the rebel (RUF) from its territory, cease financial and military support to the RUF, and end all direct and indirect imports of rough diamonds from Sierra Leone, except for those controlled through the certificate of origin regime under Resolution 1306. Subsequently, in May 2001, bans on the export and reexport of rough diamonds from Liberia and on the overseas travel of selected senior government officials and their spouses were put in place. The Security Council is expected to decide in the next few months on whether to extend, and possibly widen, sanctions against Liberia

The European Union initiated proceedings under Article 96 of the Cotonou Convention in November 2001 to review Liberia's observance of its commitments on human rights and governance. Discussions under Article 96 began in Brussels during November 2001 and were continued in Monrovia in December. The EU is expected in the near future to decide whether to take action based on those discussions.

## B. Statistical Developments

11. **Continuing significant weaknesses in the collection and compilation of economic and financial statistics for Liberia limit the analysis of recent economic and financial developments.** In the real sector, while some special studies have been conducted, the absence of a recent survey of agricultural production limits the assessment of developments in smallholder farming, which was a major facet of the postconflict economic recovery. Similarly, there is no systematic collection of data on activity in the services sector. Statistics on forestry activity are derived from reports submitted by logging companies. The estimates in this report partly reflect extrapolation from available data series, taking into account qualitative assessments of experts and information on marketed production. Regarding movements in consumer prices, the price index is based on a 1963-64 survey of 100 Monrovia households. Targeted sampling frequencies vary from bimonthly for collections of food items to biannually for rents and personal care and services. Actual collections of data are often substantially delayed.

## C. Real Sector Developments

12. **Political developments, the continued poor state of critical infrastructure, and weak international markets have contributed to a recent deterioration in economic activity**. Available production data indicate that real GDP growth decelerated from an annual average of 24 percent during 1998-2000 to 5 percent in 2001 (Table 1). The high growth rates that were registered immediately following the resolution of the civil conflict reflect a substantial recovery in smallholder agriculture, rubber, and forestry activities. With international market prices for rubber and hardwood 13 to 16 percent below year-earlier levels, rubber production increased by only 11 percent in 2001, while logging output, also limited by extended rains, stagnated. Growth in smallholder agriculture during 2001, centered on rice, cassava, and vegetables, is estimated at 7 percent. It is estimated that there was little change in the growth rate of manufacturing and services output in 2001.

13. **This deceleration in activity was accompanied by an erosion in price stability, as the impact of monetary expansion and corresponding exchange rate depreciation was rapidly reflected in an economy in which both the U.S. and Liberian dollar circulate as legal tender**. The annualized rate of inflation, as measured by the consumer price index for Monrovia, rose from low single digits during most of 2000 to 8 percent in April 2001 and reached 21 percent in October. Declines in the food price subindex, which stood 16 percent below year-earlier levels at end-June, were reversed beginning in July 2001. Subsequently, year-on-year inflation rose from 9 percent in June to 18 percent in July and remained between 18 percent and 20 percent during August-November 2001. Administratively determined retail price ceilings for rice, petroleum, and cement as well as the low survey frequency, moderate movements in the official price index.

## D. Public Finances

14. **With slowing growth and rising inflation, government financial performance also deteriorated**. Although total revenue had risen by some US$10 million — to US$82 million (16 percent of GDP) — in 2000 (Table 2). The government, as a result of a substantial rise in the wage bill and unprogrammed spending for security purposes (estimated at 8 percent of GDP), began 2001 ten months in arrears on civil service wages (equivalent to US$14 million) and with unpaid obligations to domestic suppliers amounting to about US$55 million (10 percent of GDP).

15. **Declining tax buoyancy contributed to an increasing strain on government finances**. Government grant income is estimated to have risen by some US$1.4 million during 2001 while tax revenue declined by a similar amount, leaving total government inflows roughly unchanged from previous year's level. The structure of the tax base, however, changed substantially. Partly reflecting the impact of a new tax code (see Box 2), the shares in total revenue of income and profit taxes and international trade taxes each fell by 6 percentage points, to 15 percent and 25 percent respectively, while the contribution of goods and services taxes rose by 9 percentage points to 35 percent. A US$6 million increase in taxes on logging activity, possibly reflecting an improvement in the efficiency of assessment, accounted for almost all of the increase in goods and services taxes, as

collections from the newly introduced sales tax were reduced by lower taxes on petroleum sales.

16. **At the same time, government spending lacked a guiding framework**. As a budget for July 1, 2001 to June 30, 2002 (fiscal year 2001/02) was not submitted to the legislature until December 2001, the government has operated on a continuing resolution since July 1, 2001. However, with revenue falling short of projections for the second half of 2001 and with continuing expenditures of an extraordinary nature, spending could not be fully funded at the corresponding prorata levels. In this context, the government established a Financial Management Committee (FMC) to prioritize spending and allocate available funds.

**Box 2. Developments in the Tax Regime**

On July 1, 2001, the Revenue Code of Liberia, Phase One, came into force, replacing the 1997 Emergency Tax Code. The new tax code aims at strengthening the tax base, especially for indirect taxes, and encouraging domestic and foreign investment. It comprises a revised personal income tax, a reintroduced business income tax and a real property tax (which had been suspended in the 1997 tax code). It also introduces a goods and services tax and a revised schedule for excise taxes and customs duties, and provides a legal framework for fees imposed by various ministries, municipalities, and other government agencies. At the same time, the national reconstruction tax (a surcharge on the income tax) and several taxes on specific goods and services were suspended. A second phase of the Revenue Code will include new provisions on the taxation of agriculture and natural resource extraction,is planned.

The revised personal income tax structure provides for marginal tax rates ranging from 2 percent to 35 percent, with no minimum income threshold; the maximum rate is applied to income exceeding L$1.2 million annually. Previously, the highest marginal tax rate was at 65 percent, payable on income exceeding L$ 99,000. The new tax code reintroduces a business income tax with a flat rate of 35 percent. The turnover tax of 4 percent, which temporarily replaced the business income tax in 1997, remains in force, but it is deductible from the business income tax due. Smaller businesses (with turnover not exceeding L$5 million) are liable for turnover tax only. Individuals with gross income of less than L$200,000 are assessed a flat petty trader fee.

A goods tax was also introduced, as an ad valorem tax of 7 percent payable on locally produced and imported goods, excluding goods destined for export, capital goods inputs for use in manufacturing, goods incidental to a supply of taxable services, some educational and medical goods, and goods for use in humanitarian emergencies. However, the goods tax on locally produced cement, imported rice, and petroleum products was suspended until at least December 31, 2001. The service tax is an ad valorem tax of 7 percent covering electricity services, telecommunications services, the provision of water for a fee, hotel accommodation, meals in restaurants, gambling, transport, and sports.

The new tax code consolidates existing excise taxes on specific goods and expands the range of taxable goods. Key commodities taxed include petroleum (at a rate of 7 percent, but suspended until at least December 31, 2001), rubber and latex (20 percent), alcoholic beverages (5 percent if locally produced, 15 percent if imported), diamonds and precious metals (20 percent), and various luxury goods (20 percent).

Import tariffs have been reduced, and the customs user fee (an ad valorem tax of 5 percent) has been suspended. With the exception of firearms and military equipment (50 percent), tariff rates range from 2.5 percent to 25 percent. However, 87 percent of tariff headings fell within one of six bands at 2.5 percent, 5 percent, 7.5 percent, 15 percent, 20 percent and 25 percent, with an overall average of 11.8 percent. About six percent of tariff headings are subject to specific unit tariffs.

17. **In these circumstances, and given the policy decision to reduce the stock of wage arrears to about four months by end-2001 and the continuation of expenditures for security purposes continuing at a high level, government spending, including, importantly, in the social sectors, was cut by 17 percent in 2001 in order to remain in balance on a cash basis.** While capital spending more than doubled to about US$17 million, some US$4 million of this corresponded to road works by logging companies in lieu of taxes. Although data are not yet available, it seems likely that substantial new nonwage arrears were accumulated by end-2001.

## E. Money and Banking

18. **The deterioration in economic conditions during 2001 extended to the monetary sector.** The money supply expanded significantly, following a substantial emission of Liberian banknotes by the Central Bank of Liberia (CBL), counterpart to an external grant to the government to cover the banknotes' cost, and a rise in credit to the private sector in mid-2001 (Table 3). At end-September 2001, broad money stood 28.6 percent above the year-earlier level. The expansion in the Liberian dollar component of the money supply, excluding a nonliquid deposit at the CBL that was counterpart to the settlement of a legal dispute, peaked at just under 40 percent in June 2001. Currency emissions were accompanied by a depreciation of 31 percent in the Liberian dollar-U.S. dollar exchange rate between end-2000 and July 2001.

19. **The CBL acted to stem the monetary expansion at end-June 2001, increasing the reserve requirement on Liberian dollar-denominated deposits from 22 percent to 44 percent** and decreasing the requirement for U.S. dollar-denominated deposits from 22 percent to 18 percent. Subsequently, in July, the requirement on Liberian dollar-denominated deposits was further increased to 50 percent. With the Liberian dollar continuing to come under pressure during the third quarter of 2001, the CBL intervened in the foreign exchange market on several occasions and relaxed requirements on U.S. dollar reserves of commercial banks in order to prevent a further depreciation.

20. **With the economy slowing, the exchange rate depreciating, and government domestic arrears building, two of the four commercial banks in operation came under stress during 2001**. In November 2001, the CBL acted to close the Liberia United Bank International, which had been under its supervision since a run on the bank in 1999. Of the remaining four banks, at least one appears to have a structural operating deficit, occasioned by the loss of a major client, while a second, whose portfolio has a substantial nonperforming government claim, likely had a substantial capital deficiency at end-2001. The mission was not able to clarify the underlying situation of the third bank, which has experienced substantial changes in the structure of its balance sheet.

## F. External Balance of Payments

21. **While falling international market prices helped to slow economic activity, the impact on the external balance of payments was offset by lower import unit values.**

Liberia's external current account deficit, on an accrual basis, narrowed from some US$75 million in 2000 to US$57 million in 2001 (equivalent to 11 percent of GDP) (Table 4). **On a cash basis**, however (Liberia has not serviced its external debt in recent years), **the current account balance remained roughly unchanged**, as a reduction in external interest due on a commitment basis accounted for US$20 million of the improvement. Merchandise exports, reflecting a slowed but continuing increase in timber and rubber sales, rose by some US$7 million (6 percent), while a US$8 million decline in goods imports was largely accounted for by a drop in petroleum product purchases. As a consequence, the trade balance improved by US$16 million during 2001. At the same time, a US$23 million decline in current transfers, mostly owing to donor cutbacks, was only partially offset by reduced payments on the services account.

22. **As Liberia cannot, at present, borrow from international sources, the current account balance, along with a US$6 million deficit on the capital and financial account, was financed by the accumulation of a further US$76 million in external arrears,** however, the increase in the total stock of external debt was moderated by the impact of exchange rate valuation changes on nonU.S.dollardenominated debt. Foreign direct investment declined by US$12 million from 2000 as investor interest flagged. Errors and omissions of about US$13 million reflect the incompleteness of data collection on the balance of payments. Liberia's external debt amounted to just over US$2.6 billion at end-2001 (equivalent to 488 percent of GDP), most of which was in arrears (Box 3).

## G. Structural Developments

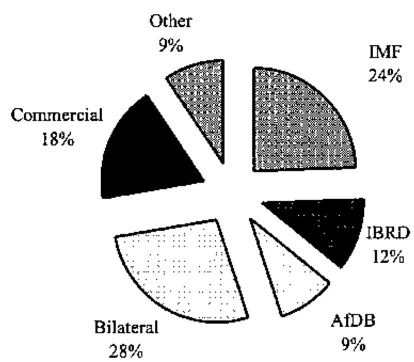
23. **Recent progress toward the liberalization of key domestic markets has been limited**. Government controls on retail prices of cement, rice, and petroleum products, as well as on farmgate prices for coffee and cocoa, have remained in place, with periodic adjustments made to reflect prevailing economic conditions. In the petroleum sector, the Liberian Petroleum Refining Corporation (LPRC) has maintained its regulatory monopoly on the provision of petroleum products to the market. Although international market prices for gasoline fell substantially during 2001, and taxes on gasoline remained at US$0.60 per gallon, the LPRC raised the retail price for gasoline from US$2.30 per gallon in 2000 to US$3.05 per gallon in 2001. However, some tentative steps toward liberalizing the domestic rice market were taken during 2001 as the Ministry of Commerce began issuing import permits to any rice importer having the requisite financing and warehousing facilities. As a result, the number of importers issued permits increased from six in 2000 to nine in 2001, and the share of total permitted rice imports (by volume) of the four largest importers dropped from 99 percent to 89 percent during the same period.

24. **Some 2,100 military personnel who were found to be away without leave were removed from the rolls**. However, in the absence of technical assistance and the financing required for the introduction of a centralized identification card system for all civil servants, no steps were taken to reduce the number of civilian employees on the government payroll.

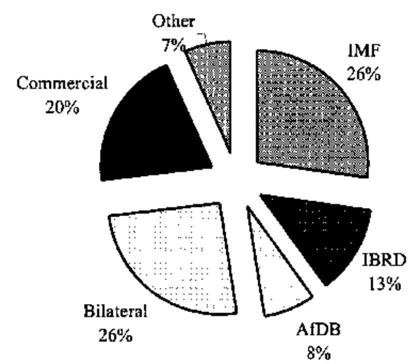
**Box 3. Liberia's External Debt Situation at End 2001s**

Liberia's external debt at end-2001 was about US$2.6 billion (488 percent of GDP), including nearly US$2.3 billion in arrears. Financial obligations to the Fund of USD$621 million—all in arrears—represented about 24 percent of total external debt and 26 percent of arrears (54 percent of Find debt represents interest and charges due). Scheduled debt-service charges, excluding interest on arrears, were about US$76 million (15 percent of GDP and – percent of government revenue) in 2001, with US$16.1 million due to the Fund. Since 1999, the government has allocated US$0.6 million per year for external debt-service payments to the Fund.

Debt Outstanding (US$2.6 billion)




Arrears (US$2.3 billion)




Multilaterals represented 53 percent of the total external debt stock and 52 percent of total arrears at end-2001. Debt to the Fund accounted for 26 percent of total arrears.

Official bilateral donors (almost entirely Paris Club) represent 27 percent of external debt and 26 percent of arrears. Debt to commercial creditors (primarily commercial bank loans) also represents a significant though minor share.

| US$ millions | Liberia |
|---|---|
| Quota | 97 |
| Debt to all creditors including arrears | 2,551 |
| Of which: arrears to all creditors | 2,289 |
| Debt to the Fund including arrears | 621 |
| percent total debt | 24 |
| Of which: arrears to the Fund | 621 |
| Arrears to the Fund as percent of quota | 640 |
| Arrears to the Fund as percent of total arrears | 26 |

## H. Economic Governance

25. **Given the weak revenue performance in 2001 which was accompanied by substantial unprogrammed security spending, the FMC**, co-chaired by the Chairman of the Council of Economic Advisors and the Minister of Finance and including the Ministers of

Planning and Commerce, the Director General of the Bureau of the Budget, and the Central Bank Governor, **was tasked in 2001 with the management of a cash budget**. As no budget had been enacted for 2001/02 (July-June) as of early-December 2001, a continuing resolution has provided general spending authority since July 1. The FMC exercised broad discretion, setting priorities that included the funding of security-related activities and the reduction of civil service wage arrears. In October 2001, the authorities directed that government bank accounts be moved from commercial banks to the CBL. Despite the directive, some budgetary agencies, including the Bureau of Maritime Affairs (BMA) and the Forest Development Authority (FDA), continued to maintain accounts outside the central bank.

26. **Movements in banking system credit to the the government differed from the reported cumulative balance on government financial operations by some US$3.5 million during January-September 2001, reflecting the incomplete accounting framework**. In addition, reported payments from the shipping registry to the government differed from collections at the Ministry of Finance by some US$2 million, possibly reflecting deductions at the source by the BMA or timing differences in the transfer of funds from offshore accounts.

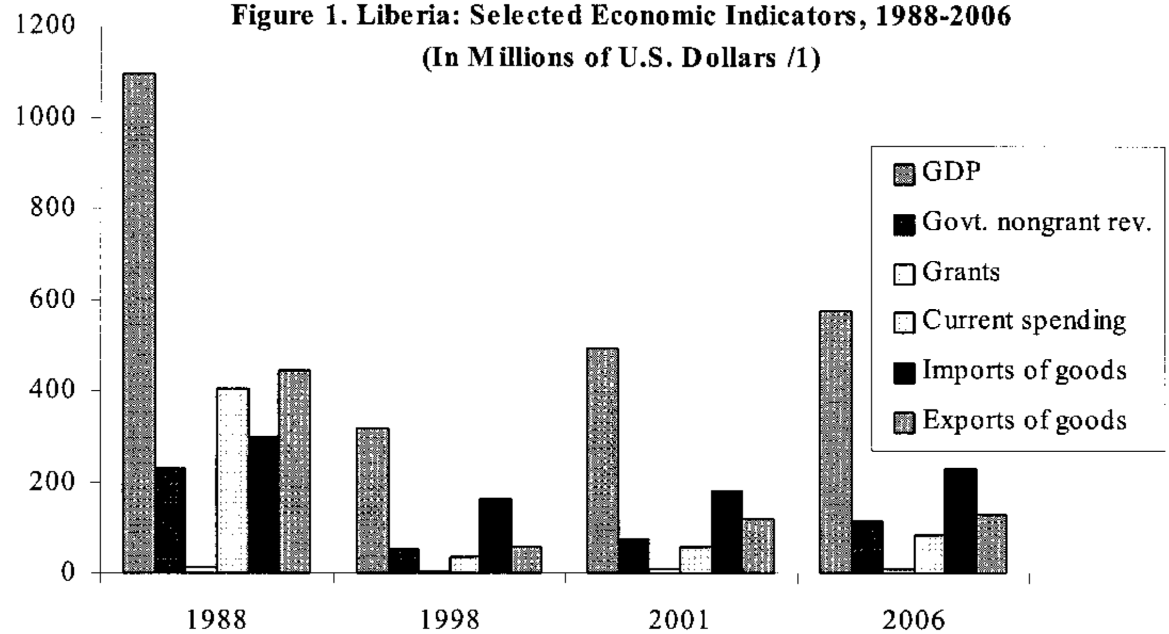
## III. Medium-Term Economic Prospects

27. **Given its current difficult international relations and the domestic insurgency, the focus of government management and planning is short term.** While the authorities have drafted a Medium Term Plan for Reconstruction and Development, 2001-2006 with the assistance of the United Nations Development Program (UNDP), that document does not include specific projects or an assessment of the available resource envelope.

28. In the current circumstances, **there is little basis for projecting increases in external resource inflows over the medium term**. The outlook based on continuing reliance on domestically generated resources, however, is sobering. As discussed in Section IV below, there is a risk that the government's income base could substantially weaken in the period ahead, and, with public health services at a very low level, it appears that the prevalence of HIV/AIDS is rapidly increasing, clearly posing a further threat to Liberia's future prospects.

29. The keys to Liberia's post-1997 recovery were a rebound in rubber production, increased logging, and a revival in smallholder agriculture. **Looking forward, it seems likely that growth will moderate substantially in each of these areas, while there appears to be little prospect of increased activity in other areas**. With a gestation period for rubber trees of five to six years, a significant part of existing plantations coming to the end of their productive life, and no significant recent replanting under way, the rise in rubber production is likely to, at best, slow significantly during the next few years. Any output

**Figure 1. Liberia: Selected Economic Indicators, 1988-2006**
**(In Millions of U.S. Dollars /1)**




1/ GDP at 1990 constant prices, all other variables at current prices

increases will come from outgrowers tapping idle stands as international prices recover. Similarly, concerns regarding the sustainability of production under current logging practices may well cause logging growth to moderate substantially. With traditional sources for resource generation circumscribed, it appears that there will be limited impetus for an expansion in services and manufacturing, leaving smallholder agriculture as the key growth factor. The basis for projecting the prospects for smallholder output is weak. However, given the apparent population shift to urban centers, a substantial recouping of output to preconflict output levels, and a reduction in land under cultivation in areas where conflict persists, it is projected that growth in this area will moderate to about 3.5 percent per year in the period ahead.

30. Thus, **overall GDP growth could well fall to about 3 percent per annum over the next five years**; with such a growth rate, it would rise in real terms, to only 52 percent of the 1988 level by 2006 (Figure 1). Investment in manufacturing would be insubstantial, and informal sector activity would continue to serve as the backstop for a growing number of unemployed (Box 4). The profitability of commercial banks, already in a weak position, would continue to deteriorate.

31. **Under this scenario, the tax base would stagnate at about 11 percent of GDP.** Income from the shipping registry and from logging activities together would remain at about US$30 million, and tax revenue would rise from US$69 million (12 percent of GDP) in 2001 to US$86 million (11 percent of GDP) by 2006. In such a situation, even with a diminution in the level of resource use for security purposes, the authorities would not be in a position to fully regularize domestic arrears, pay external obligations falling due, increase the provision of social services significantly, or undertake necessary civil service reforms. Moreover, were

spending on security to continue at the 2001 level, it is not clear that resources would be sufficient to maintain the current reduced level of government operations, as petroleum and food costs are projected to increase in U.S. dollar terms.

**Box 4. The Informal Sector in Liberia**

The informal sector grew rapidly in Liberia in response to the collapse of the formal economy and the widespread displacement of population towards urban areas resulting from the civil war and post-war conflict. A steep drop in the number of formal sector jobs caused many workers to seek informal means of support as an alternative to unemployment. While labor force statistics are lacking, it is widely agreed that the informal sector is now the largest source of non-agricultural employment. An extensive household survey carried out by the UNDP in August, 2000 found that 29 percent of household heads declared informal business activities as their primary occupation—nearly ten times the number declaring formal business as the primary occupation. This percentage was much lower in rural areas where only 8 percent of households declared informal sector activities as their primary occupation. The informal sector consists mainly of trading activities, mostly in imported goods, and sidewalk services such as haircutting or shoe shining. In contrast with most other sub-Saharan African countries, there are relatively little traditional crafts or manufacturing undertaken in Liberia's informal sector, although some scrap metal is recycled to make cooking pans. About 80 percent of the workforce engaged in informal sector activities are women.

Households dependent on the informal sector as their main income source are less susceptible to poverty than those relying on formal sector salaries or wages. The sharp decline in real wages received by civil servants and other wage earners pushed many households earning a living from the formal sector below the poverty line. The UNDP survey found that, in Liberia as a whole, 55.3 percent of informal households fell below the poverty line compared with 61.6 percent among wage earners. The contrast was greater in urban areas—for example, in Monrovia poverty incidence was 37 percent among informal households compared with 50 percent among those relying on wage incomes, while similar differences in poverty incidence were observed in county seats and concession towns. Rural areas present a different picture as 88.3 percent of informal households lay below the poverty line, a similar proportion to that found among households mainly engaged in farming activities (87.7 percent) but well above the poverty rate of 63.2 percent observed among wage earners.

## IV. Report on the Discussions

32. **The authorities stressed their serious concerns regarding recent developments and the continuing very difficult economic outlook.** While recognizing the exceptional nature of current economic management practices, they pointed to threats to national security, the impact of UN sanctions on investment, and human resource constraints as factors circumscribing available options. With respect to improving relations with the international community, the authorities stated that addressing concerns on human rights and governance would depend on improved training for concerned government personnel, and noted that they currently lacked the required resources for making progress in this area.

33. **The authorities, nevertheless, pointed to actions undertaken to improve economic and financial policy and administration during the preceding 12 months.** These comprised the previously noted implementation of a new tax code, a reduction in the settlement period from 15 days to 1 day following CBL-directed improvements in the interbank settlement system, movement toward the liberalization of the rice market, the transfer of government bank accounts to the CBL, a restructuring of operations at the free

port of Monrovia, a streamlining of the tax payment process, the prioritization of government spending through the FMC, and institutional capacity building, particularly within the customs services.

34. **While recognizing these positive steps, the staff emphasized the contrast between an economic system in crisis and the relatively modest actions taken to address a limited subset of the challenges faced by the authorities**. For example, while the risk of an irrecoverable decline in the rubber industry was widely acknowledged, the authorities have not developed a plan of action to forestall this possibility.

### A. Public Finance

35. **Liberia is facing the prospect of a further contraction in its revenue base, with tax buoyancy falling from 13 percent of GDP in 2001 to a projected 12 percent in 2002**. Reductions in collections from the shipping registry (US$2 million), income and profit taxes (US$1.6 million) and customs duties (US$3.7 million) in 2002 are projected to be only partly offset by increased income from logging taxes (US$2 million). However, realization of the latter is highly uncertain and depends importantly on weather, the domestic security situation, the impact of pressure from environmental interest groups, and improved tax administration. Given these factors and the severe constraints faced in critical spending areas, the mission urged the authorities to reconsider the removal of ad hoc exceptions granted in the wake of the 2001 tax reforms; to improve customs administration at the ports; to review FDA assessments and the management of taxes on logging activities; and to take necessary steps to improve the transparency and control of revenue from the shipping registry.

36. **The authorities noted that exceptions to the tax reforms were put in place to counter the impact of mounting public service wage arrears and the rise in consumer prices,** including for gasoline, the retail price of which had risen from US$1 per gallon in 1998 to almost US$3 per gallon in 2001. They indicated that as petroleum products were already subject to a special sales tax (US$0.35 per gallon) and to excises (US$0.20 to US$0.25 per gallon), and as the factors underlying the erosion of real income had persisted, they were unlikely to reverse these measures at present. With respect to customs administration, the authorities stated that administrative reforms in this area would continue to focus on improved training of personnel: the staff noted, however, that customs controls at the free port of Monrovia were reportedly undermined by official interference.

37. **Regarding the steps needed to improve fiscal controls related to the logging operations and the shipping registry**, the authorities indicated that, beginning in 2002, **all government revenue, including for the BMA and the FDA, could be collected through the Ministry of Finance**, rather than at source. In conjunction with the transfer of most government bank accounts to the CBL, they view this step as substantially improving the basis for monitoring revenue performance in these areas. The authorities stated that while they did not believe that NGO and trade union lobbying would lead many ship owners to change flags, thus lowering maritime revenue, they would endeavor to identify a credible external agency to certify that receipts from the shipping registry were fully deposited and appropriately credited to government accounts at the CBL.

38. **The proposed budget for 2001/02 retains as its base the US$83 million collected during the preceding fiscal year, including US$2 million in grants** from Taiwan Province of China, earmarked for a proposed County Development Fund (CDF). While the mission noted that revenue collections had weakened during the second half of 2001 and that projections for 2001/02 appeared optimistic, the authorities said that, in the absence of reliable statistics on economic activity and given the uncertain economic climate, the retention of the previous fiscal year's resource envelope was a reasonable approach.

39. **With the revenue base unchanged and financial operations in balance on a cash basis, the proposed 2001/02 budget provides for a radical change in the structure of spending.** Of the US$85 million in projected income, US$35 million (41 percent) is earmarked for "priority development projects, " including US$17 million (3 percent of GDP) for the CDF noted above, to be allocated to 15 county governments for development purposes, US$14 million for unspecified priority projects, and US$4 million for ongoing projects. In addition, the budget proposal provides US$9.5 million for unspecified government "special commitments. " The wage bill under the budget amounts to US$23 million, allowing for current wages of US$1.4 million per month, along with the clearance of the remaining four months of wage arrears. This leaves only US$17 million to cover purchases of goods and services, domestic interest, payments to the Fund, and to accommodate domestic transfers—a reduction of more than 60 percent from the 2000/01 level.

40. In this regard, **the mission indicated that the structure of the proposed 2001/02 budget seemed ill-advised.** It noted that, under the proposal, county governments would be charged with preparing, implementing, and monitoring project budgets, a task that could go well beyond their administrative capacities. The mission also pointed to the continuing need to undertake civil service reforms—which were not reflected in the budget proposal. In response, the authorities stated that the CDF was designed "to ensure that rural development efforts are not ad hoc, sporadic and intermittent" and that CDF projects would be "carefully considered and meticulously designed" in a process that would include "local ownership and commitment for sustainability." Regarding civil service reform, the authorities, while accepting that the wage bill was too large, reiterated that they had neither the resources nor the technical capacity required to move forward in this area at present.

### B. Money and Exchange Rate Policy

41. **Following a year during which the Liberian dollar had weakened and inflation had escalated sharply, central bank officials recognized the limitations on their capacity to have a to substantially direct influence on real economic activity.** In the absence of a market for government or central bank securities and with minimal official reserves (about US$350,000 at end-October 2001), the central bank's key policy tool has been the reserve requirement. However, with the reserve requirement for Liberian dollar-denominated deposits now at 50 percent, they saw limited possibilities for further raising this reserve ratio. In light of this situation, CBL officials stated that they would not extend new credits to the government during 2002 and that currency emission would be kept in line with projected growth. In this regard, the mission suggested that the CBL issue new banknotes only in

exchange for foreign currency,thereby permitting the central bank to increase its international reserves.

42. **Central bank officials expressed the view that, given the thin foreign exchange market (about US$1 million per week in transactions), a continued central bank presence was needed to counter speculative pressures.** They noted that CBL intervention of the order of US$250,000 per week was being conducted by offering foreign exchange, through a majority government-owned bank, to selected businesses at slightly better terms (1 to 2 percent) than through the prevailing market rate, and that this policy had helped to counter speculative movements during the third quarter of 2001. While no explicit exchange rate was being targeted, CBL officials did not view a substantial depreciation as being warranted by underlying fundamentals.

43. **The mission agreed that, given the limited availability of reliable data on current economic developments and the impact of domestic security concerns, it would be difficult for the CBL to determine an exchange rate target.** The mission pointed to the substantial monetary expansion during 2001 as a key explanator for exchange rate depreciation and underscored the importance of avoiding similar occurrences in the period ahead. As regards maintaining an orderly market, the mission suggested that the CBL conduct only needed intervention via auction sales to commercial banks, instead of targeting selected businesses.

44. **CBL officials agreed with the mission's observations regarding the poor health of the commercial banks and noted that the banks were cutting costs and improving recovery rates on problem loans**; however, unless economic performance improved, the profitability of the banks would remain poor, at best.

## C. Structural Policies

45. **The authorities expressed a general commitment to implement structural reforms, including for the domestic rice and petroleum regimes.** In this regard, they indicated that the limited progress achieved to date had been to a combination of the continuing domestic conflict, human resource constraints and the lack of significant external development assistance. The mission was not able to discuss with the LPRC the price-setting mechanism or any possible steps to liberalize the monopoly on petroleum supply. However, the mission noted that domestic price movements for petroleum products were at odds with movements for such products in the international market and that the LPRC's price for gasoline appeared to be at least US$1 per gallon above the expected level, taking into account estimates for freight and operating costs.

46. **The authorities noted that their intention in setting ceilings for retail prices for cement and rice was to encourage domestic competition and to ensure that import prices did not exceed set limits.** While remaining ready to fully liberalize the market, they have technical support from international partners as a necessary prerequisite. For coffee and cocoa production, the mission was told that baseline prices had been set to encourage higher farmgate prices for those commodities. The mission indicated that the processes for market

intervention are opaque and had led to substantial distortions, and urged that any regulation of markets be limited to well-defined and appropriate sanctions when anticompetitive behavior was verified. The mission observed that the three largest rice importers continued to account for about 90 percent of market supply and noted that the margin between domestic and international prices for rice had increased substantially between 1999 and 2001.

### D. Governance Issues

47. **A significant part of the government's capacity for financial administration was lost during Liberia's civil conflict**. The rebuilding process has been ad hoc, reflecting in part resource constraints and recent strains with cooperating partners that have limited technical and other assistance. The authorities recognized significant weaknesses in most key areas, including budgeting, revenue administration, expenditure management, procurement, accounting, and financial auditing/review. They noted that the Bureau of the Budget had begun preparing budget outlook papers as an interim step toward strengthening the review of priorities and programs, and that they intended to continue limited training programs in the Revenue Department of the Ministry of Finance.

48. While recognizing these constraints, **the mission observed that the authorities could take a number of actions to improve economic governance**. In particular, the authorities were encouraged to deposit all budgetary revenue, including from the shipping registry and from logging activities, into Ministry of Finance accounts at the CBL. The cash management system could be made comprehensive and the allocation process rules-based, instead of discretionary, to the fullest extent possible. In order to limit recourse to extrabudgetary spending, appropriations for security-related activities based on realistic assessments should be authorized under the budget. Also, in order to improve transparency and accountability, the granting of "tax rebates" against public works implemented by logging companies under contract from the FDA should be discontinued. In a similar vein, the current discretionary system for the award of tax concessions on investment projects over US$10 million could be replaced by a rules-based approach.

### E. Statistics

49. **Severe weaknesses in data collection and compilation for national accounts, consumer prices, public finance, and the balance of payments need to be addressed**. In addition, CBL authorities indicated that they had identified flaws in their accounting system, including the recording of CBL reserves. The mission noted that, in some cases (for example, improving the timeliness of collection of data on consumer prices and the compilation of statistics on direct foreign investment and on official and private transfers) improvements in the statistical base could be achieved without a substantial addition of resources.

50. **The authorities indicated that, with the move of government bank accounts to the central bank in October 2001, they would be in a better position to assemble and analyze data on public finances**. The adoption of *Government Finance Statistics (GFS)* definitions had been completed in November 2000 but a move to a revised *GFS* classification would require assistance from the Fund staff.

## V. Overdue Financial Obligations and Payments to the Fund

51. **Liberia has been in continuous arrears to the Fund for 17 years (since December 19, 1984) and has been ineligible to use the Fund's general resources for 16 years.** A declaration of noncooperation was issued almost 12 years ago. While the Fund's timetable of remedial procedures would normally call for Board consideration of the suspension of the voting and representation rights of a member in arrears to the Fund about three months after a declaration of noncooperation, such consideration was postponed in the case of Liberia partly because of the outbreak of a seven-year civil war in late 1989 and Liberia's efforts at postconflict recovery from 1997 onward. As of end-January 2002, Liberia's arrears to the Fund amounted to SDR 492 million (Appendix II), equivalent to 690 percent of quota.[3] With all principal outstanding to Liberia in arrears, forthcoming obligations consist exclusively of interest and charges, projected at SDR 6.6 million per year (Appendix III).

52. **As of end-2001, the direct financial costs imposed on the Fund by Liberia's arrears** included SDR 239.6 million of deferred income resulting from overdue charges, of which SDR 187.3 million had been burden shared. At the same time, overdue Trust Fund obligations that would have been available to the Poverty Reduction and Growth Facility (PRGF) Reserve Account, if repaid, amounted to SDR 30 million. Liberia's overdue repurchase obligations, SDR 201 million as of end-2001, constitute some 23 percent of all overdue repurchases to the General Resources Account.

53. **Liberia's record of payments to the Fund has been erratic.** Liberia made no payments to the Fund from May 1990 to August 1994, and three payments totaling SDR 0.8 million in 1994-95. In December 1997, the authorities committed themselves to making payments to the Fund of US$50,000 per month. These payments were made in a broadly timely manner until end-2000, but delays became frequent and lengthy in 2001, with the backlog widening to five months by early August; however, payments were made to narrow the gap to two months by –year's end. A payment received in mid-January 2002 covered Liberia's monthly commitment through the first half of December 2001. Between December 1997 and end-January 2002, Liberia's payments to the Fund amounted to SDR 1.8 million, equivalent to 4 percent of obligations falling due during the same period.

## VI. Staff Appraisal

54. **Liberia faces unprecedented economic and financial challenges**. Five years after the close of the general civil conflict, there has been little or no progress in the reconstruction of electricity, telecommunications, water, ports, and other critical infrastructure. Real activity

[3] Liberia's quota remains at the level approved under the Eighth General Review of Quotas, SDR 71.3 million. For as long as it remains in arrears to the General Resources Account, Liberia may neither consent to nor pay for its proposed quota increase to SDR 129.2 million under the Eleventh General Review..

in the formal sector now rests on three main pillars: rubber, timber, and smallholder agriculture. Of these, rubber is on the precipice of an irreversible decline and, given the pressures from the international environmental movement and questions regarding the sustainability of current logging practices, the prospects for timber are uncertain. Moreover, with social services sharply curtailed, an HIV/AIDS crisis appears to be in the offing. In short, unless dramatic steps are taken to address critical problems, including normalizing relations with the international community, Liberia appears likely to suffer a long-term deterioration in economic activity.

55. Against the background of continuing domestic conflict and relative isolation from the international community, policymaking has been short- term in nature, decision-making is often ad hoc, and the checks and balances associated with administrative operations have largely been dismantled. In this context, **the sustainability of government financial operations has become increasingly tenuous**.

56. **The government revenue base is increasingly fragile, with about 40 percent of tax collections emerging from the shipping registry and logging activities**. As a result of competition from other offshore registries and lobbying from international NGOs, several shipowners are reconsidering their flags of choice, casting further uncertainties on this part of the government revenue base. Derogations to the noteworthy tax reforms implemented in mid-2001 undermined their objectives and undercut an already feeble tax base. In these circumstances, the staff urges that the temporary exceptions be removed and the Bureau of Customs be given full authority to enforce customs collections. Efforts to simplify the trade regime should be continued and the revenue base should be strengthened by eliminating tariff exemptions. In this regard, the authorities should also review fully all tax incentives outstanding, including in the logging sector, eliminating exemptions wherever possible they should refrain from granting new incentives, including for large projects.

57. Given the precarious revenue situation and the high proportion of resources allocated to security-related activities, domestic arrears have accumulated rapidly. While the payment of six months' civil service wage arrears during 2001 was commendable, the government's spending program remained incoherent and unfocused. With the FDA and the BMA retaining (without budgetary authorization) substantial income at source, priorities for cash allocations were limited to the residual revenue base; given the competing demands, only 11 percent of expenditure was allocated to social sectors. **As the financing possibilities have been reduced further in the proposed 2001/02 budget, it seems inevitable that the nonwage domestic arrears will continue to accumulate and that the maintenance of even minimal government operations will become increasingly tenuous**.

58. In these circumstances, **it is critically important to move promptly to a comprehensive and meaningful budgeting process,** which should reflect reasonable costing for continuing basic government operations without a further accumulation of domestic arrears and the provision of an appropriate level of expenditure on social services. The authorities should also develop a program to verify and settle legitimate outstanding arrears. The staff is concerned that ***the plan to reallocate a significant share of budgetary revenue to the County Development Fund is ill-advised in the absence of such a process***

***and administrative structure.*** In these circumstances, oversight on the collection and use of government resources should be improved, including by undertaking audits of the BMA, the FDA and the shipping registry as soon as possible. The substantial lacunae in procurement procedures, including for security-related expenditures, should be addressed, using standard approaches.

59. **Liberia's liberal exchange regime, which has helped assure relative price stability and has served the economy well**, has begun to come under significant pressure. The monetization of a recently received grant, accompanied by a rapid expansion in credit to the private sector, has fueled inflation and weakened the Liberian dollar. It is critical that the central bank have available the required information, as well as the necessary policy tools, to prevent a depreciation-inflation spiral from taking hold. As official reserves are exceedingly low, the CBL should begin to accumulate reserves by issuing currency only for foreign exchange.

60. **The weak condition of Liberia's banking system is a cause for concern.** Opportunities for lending have narrowed, banks have accumulated substantial unremunerated free reserves, and profitability has decreased sharply. Bank supervision will need to be tightened, and the central bank must be ready to react promptly to any deterioration in bank soundness.

61. **While the staff welcomes the initial steps taken by the government to liberalize the domestic rice import regime, the system remains far from transparent**. The authorities are encouraged to issue import permits liberally and to announce that administrative prices are to be viewed only as indicative ceilings. To allay possible concerns regarding adequate market supply, the authorities may wish to maintain and publish information on domestic rice stocks.

62. **In the staff's view, Liberia's cooperation with the Fund has weakened since the last review of its overdue financial obligations.** On policies, of the nine measures called for by the Board in its decision of November 15, 2000, only four were partially implemented in 2001, and no strengthened program of adjustment has been adopted to bring policies back on track. On the external front, relations with creditors and donors have deteriorated further, meanwhile, payments to the Fund have frequently been delayed and have represented only a small fraction of obligations falling due. As a result, Liberia's arrears to the Fund have continued to mount.

63. In view of these developments and as envisaged by the Board decision adopted at the time of the last review, the staff proposes that the Board note that it is intended to initiate the procedure to suspend Liberia's voting and related rights in the Fund. Following the adoption of the proposed decision by a majority of the votes cast, the Managing Director would submit a complaint to the Executive Board with respect to the suspension of Liberia's voting and related rights in the Fund. The Board would then note the complaint and set a date for its substantive consideration that would allow Liberia reasonable time and adequate opportunity to state its case both orally and in writing. A decision on suspension, requiring a 70 percent majority of the total voting power, could be taken at the meeting so scheduled.

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

Table 1. Liberia: Selected Economic and Financial Indicators, 1998-2002

| | 1998 | 1999 | 2000 | 2001 Est. | 2002 Proj. |
|---|---|---|---|---|---|
| (Annual percentage change, unless otherwise indicated) | | | | | |
| National income and prices | | | | | |
| Real GDP | 29.7 | 22.9 | 20.4 | 5.3 | 4.2 |
| GDP deflator | -4.1 | 0.0 | -1.1 | -5.5 | 3.5 |
| Consumer prices (annual average) | ... | 2.0 | 5.3 | 12.4 | 10.0 |
| Consumer prices (end of period) | ... | 8.1 | 3.2 | 16.8 | 9.0 |
| Nominal GDP (in millions of U.S. dollars) | 359.6 | 441.8 | 525.6 | 522.9 | 563.8 |
| Real GDP per capita (in U.S. dollars) | 157.3 | 161.2 | 172.4 | 176.3 | 178.4 |
| External sector (in U.S. dollar terms) | | | | | |
| Exports of goods, f.o.b. | 68.9 | 37.6 | 104.3 | 5.9 | -1.2 |
| Imports of goods, c.i.f. | -33.6 | 30.0 | -9.7 | -4.4 | 3.4 |
| Terms of trade | 10.4 | -6.3 | 9.4 | -4.4 | -4.6 |
| Official exchange rate (L$ per U.S.$; end of period) | 43.3 | 39.5 | 42.8 | 45.0 | 53.7 |
| Central government operations (in U.S. dollar terms; January-December) | | | | | |
| Total revenue and grants | 560.9 | 21.3 | 13.8 | -1.4 | 2.3 |
| *Of which* : tax revenue | 501.7 | 19.7 | 14.9 | -3.0 | -0.2 |
| Total expenditure and net lending | 67.8 | 9.5 | 39.3 | -17.4 | 12.0 |
| *Of which* : current expenditure | 35.4 | 9.8 | 96.5 | -30.0 | 17.5 |
| capital expenditure | 1,331.9 | 47.0 | -59.1 | 123.9 | -5.5 |
| Money and banking (in Liberian dollar terms)/ 3/ | | | | | |
| Net foreign assets | ... | 10.8 | -7.6 | -16.1 | ... |
| Net domestic assets | ... | -9.4 | 8.4 | 16.5 | ... |
| Net domestic credit | ... | -8.8 | 12.2 | 21.9 | ... |
| Net claim on government | ... | -8.4 | 12.9 | 18.5 | ... |
| Claims on nongovernment | ... | -18.1 | -10.4 | 167.3 | ... |
| Other items, net | ... | 6.0 | -28.3 | -26.4 | ... |
| Broad money | ... | 11.6 | 18.3 | 21.1 | ... |
| Velocity (GDP relative to broad money) (level) | ... | 8.2 | 8.2 | 8.3 | ... |
| (In percent of GDP) | | | | | |
| Central government operations (January-December) | | | | | |
| Total revenue and grants | 16.5 | 16.3 | 15.6 | 15.4 | 14.6 |
| *Of which* : tax revenue | 14.3 | 14.0 | 13.5 | 13.1 | 12.1 |
| Total expenditure and net lending | 16.1 | 14.4 | 16.8 | 14.0 | 14.5 |
| *Of which* : current expenditure | 10.3 | 9.2 | 15.1 | 10.7 | 11.6 |
| capital expenditure | 3.6 | 4.3 | 1.5 | 3.3 | 2.9 |
| Overall fiscal balance (commitment basis) | -0.1 | 1.4 | ... | ... | ... |
| Changes in expenditure-related arrears | 0.4 | 0.5 | ... | ... | ... |
| Overall fiscal balance (cash basis) | 0.4 | 1.9 | -1.3 | 1.5 | 0.1 |
| External sector 1/ | | | | | |
| Current account balance, including grants (deficit, -) | -5.7 | -28.6 | -14.2 | -10.7 | -8.4 |
| Current account balance, excluding grants (deficit, -) | -30.5 | -48.3 | -27.4 | -19.9 | -17.3 |
| Trade balance (deficit, -) | -32.9 | -34.1 | -13.1 | -10.2 | -10.9 |
| Exports, f.o.b. | 11.9 | 13.3 | 22.9 | 24.4 | 22.3 |
| Imports, c.i.f. | -44.8 | -47.4 | -36.0 | -34.6 | -33.2 |
| Public sector external debt outstanding (medium and long term | 682.1 | 564.8 | 473.3 | 480.1 | 452.4 |
| (In millions of U.S. dollars, unless otherwise indicated) | | | | | |
| Current account balance including grants (deficit, -) | -20.4 | -126.4 | -74.9 | -56.2 | -47.4 |
| Trade balance (deficit, -) | -118.5 | -150.7 | -69.1 | -53.5 | -61.2 |
| Gross official reserves (end of period) | 0.6 | 0.4 | 0.3 | 0.4 | 0.7 |
| (in months of imports of goods and services) | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 |

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

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

2/ For 1999, change over May-December 1998 period average.

3/ For 2001, change over Dec 2000-Oct 2001.

Table 2. Liberia: Summary of Central Government Operations, 1998-2001 1/

| | 1998 | 1999 | 2000 | 2001 Est. |
|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | |
| Total revenue and grants | 59.3 | 71.9 | 81.8 | 80.7 |
| Tax revenue | 51.6 | 61.7 | 70.9 | 68.7 |
| of which: Maritime revenues | 17.3 | 15.2 | 14.5 | 16.0 |
| Stumpage fees | 0.7 | 1.7 | 6.7 | 12.8 |
| Nontax revenue | 2.2 | 3.8 | 4.6 | 5.3 |
| Grants | 5.5 | 6.4 | 6.3 | 6.7 |
| | | | | |
| Total expenditure and net lending | 58.0 | 63.5 | 88.4 | 73.1 |
| Current expenditure | 36.9 | 40.5 | 79.6 | 55.7 |
| Wages and salaries | 6.1 | 10.5 | 17.7 | 20.4 |
| Other goods and services | 22.7 | 17.0 | 36.9 | 30.8 |
| Interest on debt | 4.1 | 3.8 | 9.6 | 3.3 |
| Subsidies and transfers | 4.0 | 9.2 | 15.5 | 1.2 |
| Capital expenditure | 12.9 | 18.9 | 7.8 | 17.4 |
| Internally financed | 7.4 | 12.5 | 1.4 | 10.7 |
| Externally financed | 5.5 | 6.4 | 6.3 | 6.7 |
| Unallocable | 8.2 | 4.0 | 1.0 | 0.0 |
| | | | | |
| Errors and omissions | 0.0 | 5.1 | 0.0 | 0.0 |
| | | | | |
| Overall surplus/deficit (commitment basis) | -0.3 | 6.1 | ... | ... |
| Changes in expenditure-related arrears | 1.6 | 2.3 | ... | ... |
| Overall surplus/deficit (cash basis) | 1.3 | 8.4 | -6.6 | 7.7 |
| | | | | |
| Financing | -1.3 | -8.4 | 6.6 | -7.7 |
| Domestic financing | -1.3 | -8.4 | 6.6 | -7.7 |
| External financing | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Data provided by Liberian authorities; and staff estimates

1/ Calendar year; cash basis

Table 3. Liberia: Monetary Survey, December 1998- October 2001

| | 1998 Dec. | 1999 Dec. | 2000 Dec. | 2001 Oct. |
|---|---|---|---|---|
| (In millions of Liberian dollars, unless otherwise indicated, end of period) | | | | |
| Net foreign assets | -28,262 | -25,216 | -27,130 | -31,495 |
| Net domestic assets | 30,171 | 27,347 | 29,651 | 34,547 |
| Net domestic credit | 36,937 | 33,704 | 37,809 | 44,860 |
| Net claims on government | 35,744 | 32,727 | 36,934 | 43,752 |
| Contra-entry for use of Fund credit and overdue charg | 28,159 | 25,479 | 26,825 | 31,259 |
| Other, monetary authorities | 7,390 | 7,055 | 9,818 | 12,054 |
| Commercial banks | 194 | 193 | 291 | 438 |
| Claims on private sector | 1,174 | 926 | 712 | 847 |
| Claims on public enterprises | 18 | 50 | 39 | 86 |
| Claims on nonbank financial institutions | 1 | 1 | 124 | 176 |
| Other items, net | -6,766 | -6,357 | -8,158 | -10,313 |
| *Of which:* capital accounts | 9,296 | 8,421 | 8,565 | 9,307 |
| Broad money | 1,910 | 2,131 | 2,522 | 3,053 |
| Currency outside banks | 566 | 557 | 698 | 753 |
| Demand deposits | 1,005 | 1,248 | 899 | 1,084 |
| Time, savings and other deposits | 339 | 326 | 925 | 1,216 |
| (In percent, unless otherwise indicated) | | | | |
| Memorandum items: | | | | |
| Velocity (GDP relative to broad money) | 8.14 | 8.19 | 8.23 | 8.32 |
| Currency/broad money (In percent) | 33.9 | 30.4 | 32.6 | 28.7 |
| Currency/deposits (In percent) | 44.4 | 37.2 | 41.9 | 36.2 |

Sources: Liberian authorities and Fund staff estimates.

Table 4. Liberia: Balance of Payments, 1988-2002

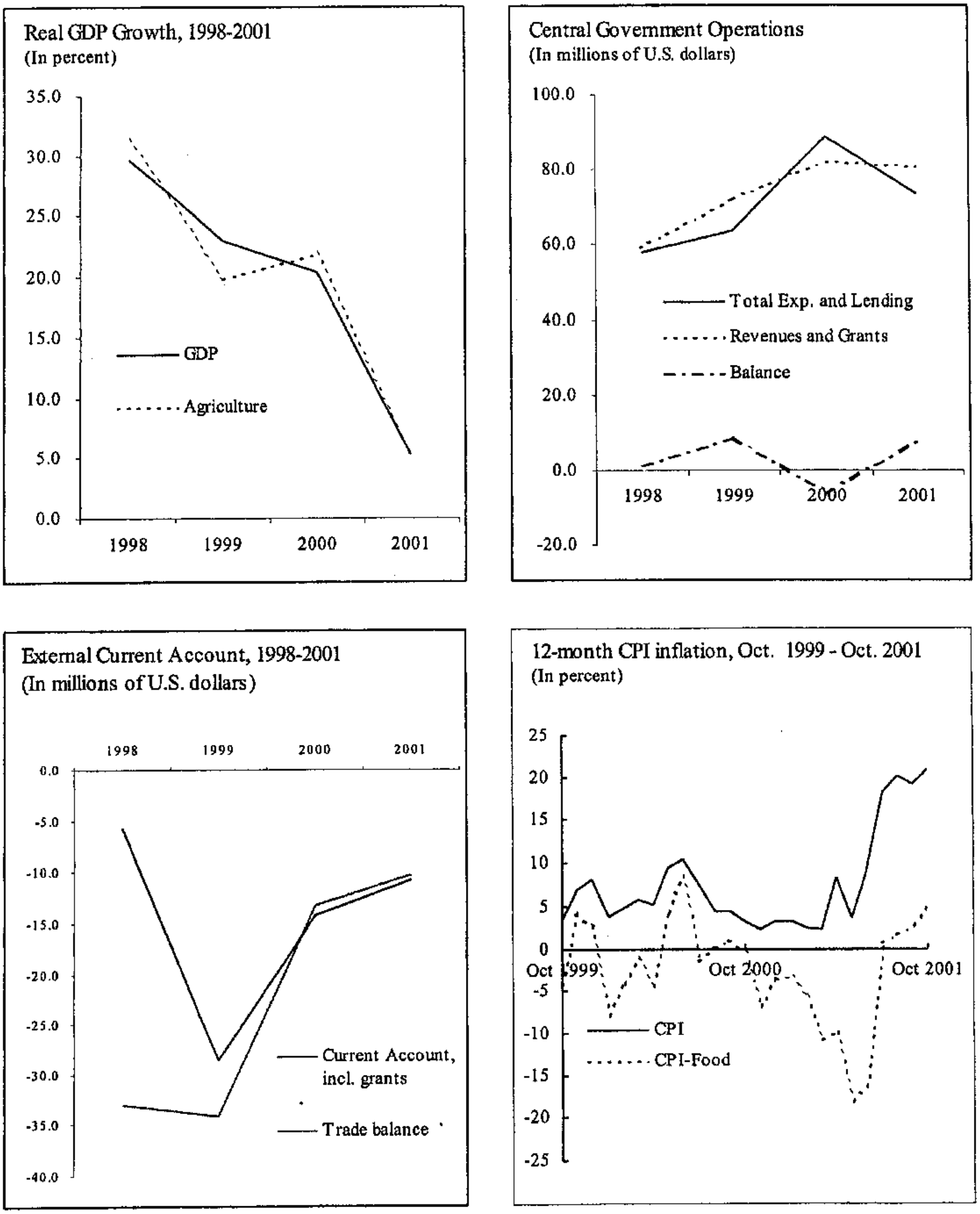
(In millions of US dollars, unless otherwise stated) 1/

| | 1988 | 1999 | 2000 | 2001 Est. | 2002 Proj. |
|---|---|---|---|---|---|
| Current account balance | 0.0 | -126.5 | -74.9 | -57.2 | -51.4 |
| Current accout excluding grants | -43.9 | -198.3 | -129.3 | -89.2 | -87.4 |
| Trade balance | 83.4 | -150.7 | -69.1 | -53.5 | -61.2 |
| Exports, f.o.b. | 452.1 | 58.9 | 120.3 | 127.4 | 125.9 |
| *Of which* : rubber | 91.3 | 33.1 | 57.1 | 67.4 | 66.5 |
| timber | 23.5 | 23.4 | 61.0 | 58.9 | 58.8 |
| Imports, c.i.f. | -368.7 | -209.6 | -189.3 | -180.9 | -187.1 |
| Petroleum | -61.7 | -47.3 | -42.9 | -35.2 | -29.8 |
| Rice | -49.8 | -21.8 | -26.2 | -30.7 | -33.5 |
| Donor | .... | -45.9 | -40.3 | -15.2 | -16.2 |
| Other | -257.2 | -94.6 | -80.0 | -99.9 | -107.5 |
| Services (net) | 17.5 | 5.4 | 13.9 | 18.5 | 17.4 |
| Income (net) | -151.6 | -84.2 | -101.4 | -80.4 | -67.2 |
| *Of which:* public interest payments due | -108.2 | -66.4 | -77.5 | -55.6 | -41.5 |
| Current transfers (net) | 50.7 | 103.0 | 81.7 | 58.3 | 59.6 |
| Official transfers (net) | 43.9 | 71.8 | 54.4 | 32.1 | 36.0 |
| Private transfers (net) | 6.8 | 31.2 | 27.3 | 26.2 | 23.6 |
| *Of which:* Maritime | -- | 15.2 | 14.5 | 16.0 | 14.0 |
| Capital and financial account | -182.0 | 7.8 | 1.3 | -5.6 | -9.8 |
| Official financing | -79.8 | -25.1 | -24.6 | -20.5 | -20.4 |
| Disbursements | 8.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -88.6 | -25.1 | -24.6 | -20.5 | -20.4 |
| Private Financing | -102.2 | 32.9 | 25.9 | 14.9 | 10.6 |
| Direct foreign investment | -- | 27.0 | 20.8 | 8.3 | 4.0 |
| Other investment | -- | 5.9 | 5.1 | 6.6 | 6.6 |
| Errors and Omissions | 18.1 | 27.9 | -27.8 | -13.2 | 0.0 |
| Overall balance | -163.9 | -90.7 | -101.3 | -76.0 | -61.2 |
| Financing | 163.9 | 90.7 | 101.3 | 76.0 | 61.2 |
| Change in official reserves (increase -) | -0.1 | -0.2 | -0.2 | 0.5 | -0.1 |
| Arrears (accrual +) | 196.8 | 90.9 | 101.5 | 75.5 | 61.3 |
| Use of Fund credit (net change in arrears) | -41.9 | 14.5 | 14.3 | 15.9 | 15.5 |
| Increase in non-Fund arrears | 247.8 | 76.4 | 87.2 | 59.6 | 45.8 |
| Memorandum items | | | | | |
| Current account balance (in percent of GDP) | 2.7 | -28.6 | -14.2 | -10.9 | -9.1 |
| Current account balance excl. grants (in percent of GDP) | 2.7 | -44.9 | -24.6 | -17.1 | -15.5 |
| Trade balance (in percent of GDP) | 10.5 | -34.1 | -13.1 | -10.2 | -10.9 |
| Public sector external debt (medium- and long-term) | | | | | |
| Debt outstanding, including arrears | 2,279.0 | 2,538.2 | 2,528.4 | 2,547.2 | 2,583.0 |
| (in percent of GDP) | 214.7 | 574.5 | 481.0 | 487.1 | 458.1 |
| Debt service charges | 196.8 | 91.5 | 102.1 | 76.1 | 61.9 |
| (in percent of GDP) | 18.5 | 20.7 | 19.4 | 14.6 | 11.0 |
| Terms of trade, 1997=100 | 176.6 | 103.5 | 113.2 | 108.2 | 103.2 |
| International reserves | 0.4 | 0.4 | 0.3 | 0.7 | 0.6 |
| International reserves (in months imports) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| GDP at current prices (in millions of US dollars) | 1,061.2 | 441.8 | 525.6 | 522.9 | 563.8 |

Sources: Liberian authorities, and Fund staff estimates and projections

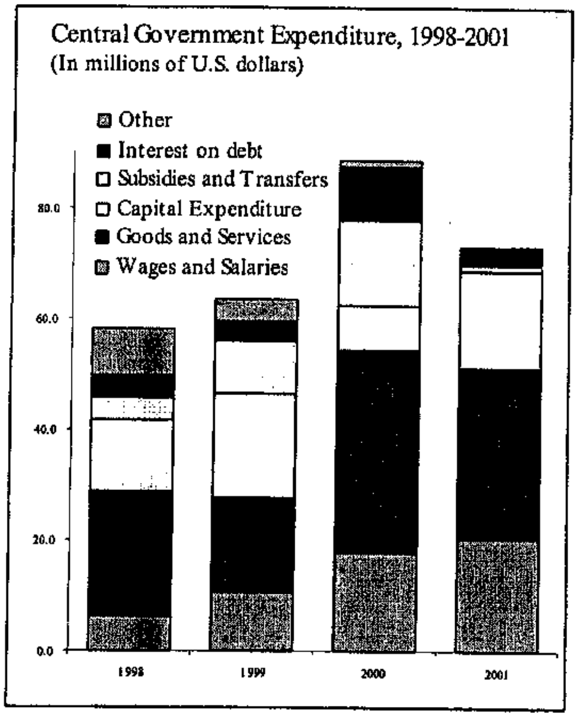
1/ Accrued basis.

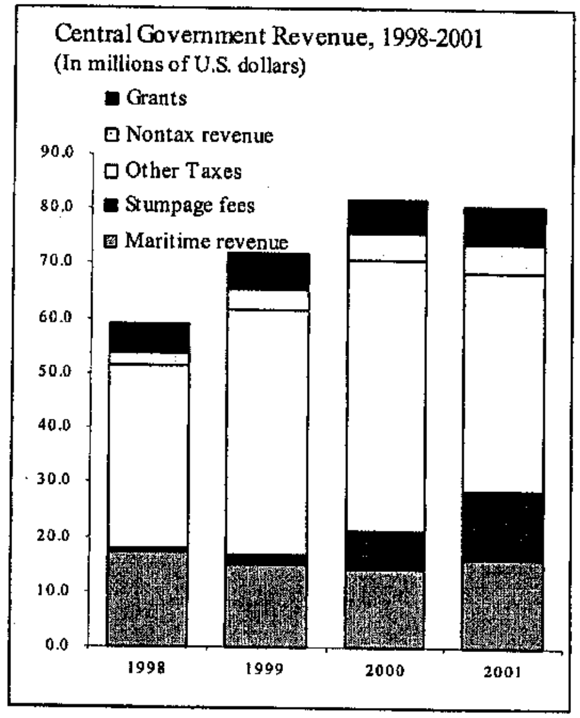
Figure 2. Liberia: Main Economic Indicators, 1998-2001




Source: Liberian authorities, and Fund staff estimates.

## Figure 3. Liberia: Selected Fiscal and Monetary Indicators, 1998-2001



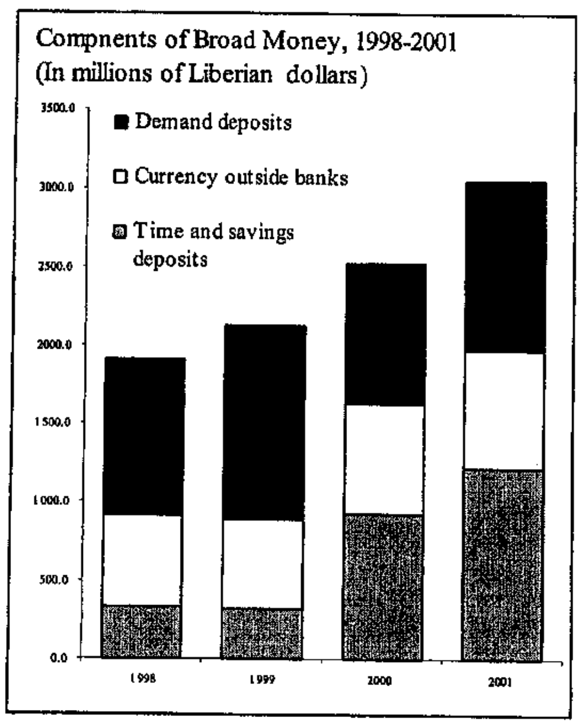
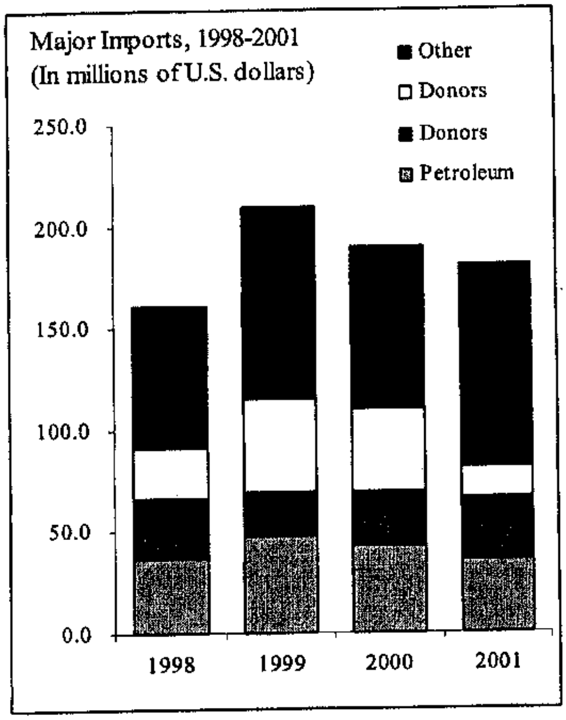
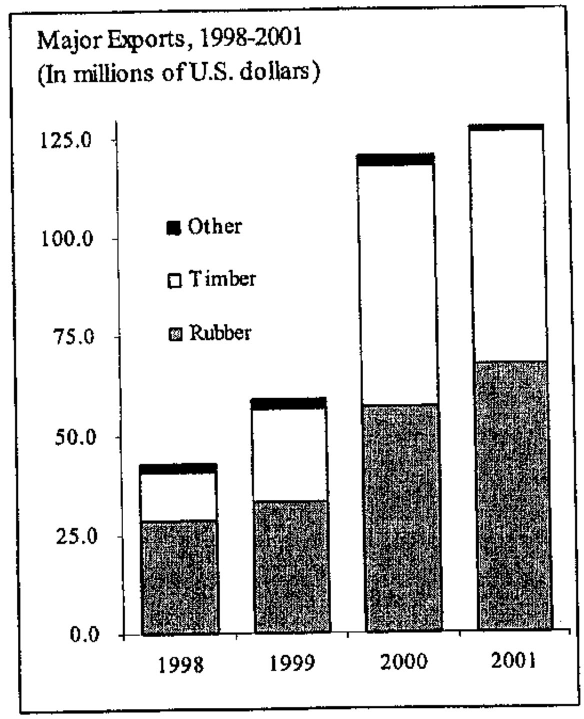
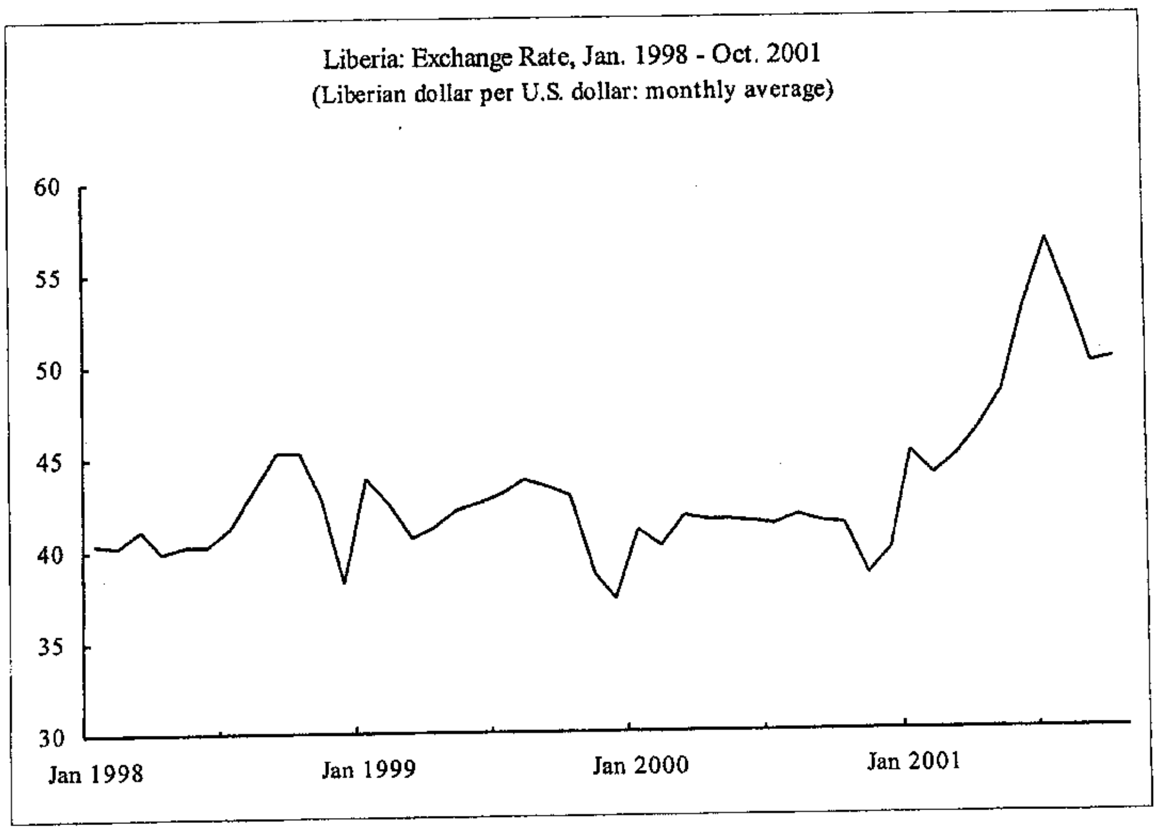



Figure 4. Liberia: Selected External Indicators, 1998-2001




Source: Liberian authorities, and Fund staff estimates.

## 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
as of [January 31, 2002]

| Type of Obligation | Total Amount Overdue (In SDRs) | Date of the Longest Outstanding Overdue Obligation |
|---|---|---|
| 1. Principal | | |
| Repurchases | 200,960,813 | 5/3/1985 |
| Trust Fund Repayments | 22,889,926 | 7/25/1985 |
| Subtotal | 223,850,739 | |
| 2. Interest and Charges | | |
| Quarterly charges | 126,832,523 | 5/6/1985 |
| Semiannual charges | 80,548,713 | 7/18/1985 |
| Assessments | 58,925 | 4/30/1986 |
| Net SDR charges | 22,230,208 | 8/1/1988 |
| Trust Fund interest | 2,080,618 | 6/28/1985 |
| Special charges (GRA) | 31,289,482 | 5/28/1986 |
| Special charges (TF) | 5,049,347 | 5/28/1986 |
| Subtotal | 268,089,816 | |
| TOTAL: | 491,940,555 | |

Liberia—Overdue and Forthcoming Financial Obligations
as of [January 31, 2002]

(In millions of SDRs)

| Type of Obligation | Overdue as of 1/31/2002 | Forthcoming 1/ | | | | | Total Through 2006 6/ |
|---|---|---|---|---|---|---|---|
| | | 2002 2/ | 2003 | 2004 | 2005 | 2006 | |
| Repurchases | 201.0 | -- | -- | -- | -- | -- | 201.0 |
| Periodic charges | 207.4 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 234.9 |
| Trust Fund repayments and interest 3/ 4/ | 30.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 30.6 |
| GRA special charges | 31.3 | -- | -- | -- | -- | -- | 31.3 |
| Net SDR charges | 22.2 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 27.1 |
| Total 5/ 6/ | 491.9 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 524.8 |

1/ Estimated on the basis of Liberia's present use of Fund credit, Trust Fund loans outstanding, and position in the SDR Department. Charges are projected on the basis of current rates of charge. Forthcoming charges and interest are estimated on the assumption that overdue financial obligations remain outstanding and forthcoming obligations are not settled during the period covered above; to the extent that obligations are settled, forthcoming charges and interests would be lower.

2/ Due after [January 31, 2002].

3/ Forthcoming Trust Fund obligations consist solely of interest.

4/ Includes Trust Fund special charges.

5/ Includes overdue SDR assessments.

6/ Totals may not add due to rounding.

## Liberia: Relations with the Fund
(As of December 31, 2001)

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

| | | SDR Million | % Quota |
|---|---|---|---|
| **II.** | **General Resources Account**: | **SDR Million** | **% Quota** |
| | Quota | 71.30 | 100.0 |
| | Fund holdings of currency | 272.30 | 381.9 |
| | Reserve position in Fund | 0.03 | 0.0 |
| **III.** | **SDR Department:** | **SDR Million** | **% Allocation** |
| | Net cumulative allocation | 21.01 | 100.0 |
| **IV.** | **Outstanding Purchases and Loans:** | **SDR Million** | **% Quota** |
| | Stand-By Arrangements | 166.32 | 233.3 |
| | Contingency and Compensatory | 34.70 | 48.7 |
| | Trust Fund | 22.89 | 32.1 |

**V. Latest Financial Arrangements:**

| Type | Approval Date | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-By | 12/07/1984 | 12/06/1985 | 42.78 | 8.50 |
| Stand-By | 09/14/1983 | 09/13/1984 | 55.00 | 55.00 |
| Stand-By | 09/29/1982 | 09/13/1983 | 55.00 | 35.00 |

**VI. Projected Obligations to Fund**[4] (SDR million; based on existing use of resources and present holdings of SDRs):

| | Overdue | Forthcoming | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Principal | 223.9 | | | | | |
| Charges/interest | 268.1 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |
| Total | 492.0 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |

[4] 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.

**Exchange rate arrangement**

The currency of Liberia is the Liberian dollar. A new Liberian dollar replaced the Liberty notes and J.J. Roberts notes. The exchange rate of the Liberian dollar is market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies, including the U.S. dollar, at market-determined exchange rates. Liberia's exchange rate at end-October 2001 was L$48.15 = US$1.

**Article IV Consultation**

The 1999 Article IV consultation discussions were held in Monrovia during the period April-May and November-December 1999. The staff report EBS/00/25 (02/14/00) was discussed by the Executive Board on February 28, 2000.

**Technical Assistance**

| 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 |

**Resident Representative**

There is currently no provision for a resident representative in Liberia.

## Liberia: Relations with the World Bank Group

(As of December 31, 2001)

As of December 31, 2001, the World Bank had made 22 loans totaling US$141.3 million and 17 IDA credits totaling US$91.5 million to Liberia. Owing to Liberia's arrears to the World Bank, disbursements were suspended in December 1986, and, in view of nonpayment of outstanding debt obligations, Liberia's loans were placed in nonaccrual status as of June 1, 1987. Arrears totaled US$221.1 million, including an exchange adjustment of US$25.1 million on World Bank loans. The attached table summarizes the World Bank's lending operations, as of December 31, 2001.

In view of the sanctions that the UN placed on Liberia last year, the Bank is not engaged in any significant activities in Liberia at the present time. Arrangements are being made to have a watching brief prepared on Liberia on a periodic basis by a UN agency still resident in the country. The Bank's relationship with Liberia would be reevaluated if the UN lifts sanctions.

World Bank Group: Loans/Credits Summary in U.S. Dollars

| | 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 |
| Borrower's Obligation | 123,125,028 | 97,937,910 | 221,062,938 |
| Sold 3rd Party | 405,000 | 0 | 405,000 |
| Repaid 3rd Party | 405,000 | 0 | 405,000 |
| Due 3rd Party | 0 | 0 | 0 |

Source: World Bank, Integrated Controller's System.

## Liberia: Statistical Issues

1. 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 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.

2. The Central Bank of Liberia (CBL) compiles data covering money and banking, prices and output, fiscal operations, foreign trade, and exchange rates in its statistical bulletin, *Liberia Financial Statistics*, which is published on a bimonthly basis with a lag of about 6 months. The CBL is now reporting monetary, banking, and exchange rate statistics regularly to *International Financial Statistics* (IFS).

### Real sector

3. Annual estimates of GDP are prepared by the National Accounts Unit of the Ministry of Planning and Economic Affairs (MPEA). The last official GDP data are for 1987. The MPEA has begun to collect data on production and external trade, but its work is hampered by the lack of financial resources. Fund staff prepared preliminary estimates of GDP by sectoral origin for the period 1988-99 with the assistance of the MPEA, and subsequently updated these to include 2000-01. There is currently no basis for estimating GDP by expenditure.

### Prices

4. 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 GTZ, a German governmental organization, 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.

### Government finance statistics

5. The authorities have been able to provide the staff with current information on fiscal accounts, but they have not reported government finance statistics for publication in the *Government Financial Statistics Yearbook* (GFS) for several years. The Ministry of Finance provides data on government revenue, and current and capital expenditure to missions, in most cases with good disaggregation. There is scope for improvement in the reporting of government finance statistics, especially in the areas of government agencies not currently included in the budget, domestic arrears, and the financing of the deficit/surplus.

**Monetary statistics**

6. The November 1999 money and banking statistics mission reviewed in detail methodology for the collection and compilation of monetary data, established procedures for their regular compilation, and suggested changes in the central bank's accounting records and commercial banks' reporting to improve the overall quality of data. In cooperation with the authorities and based on available information, the mission compiled monetary data for the period January 1998-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.

7. While progress has been made in moving toward international standards, some substantial weaknesses persist. In this regard, steps to strengthen the central bank's accounting system, including the appropriate segregation of required reserves by currency denomination and classification of other assets and liabilities, remain to be taken. 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, reportedly, weak. Confidence in reported statistics would improve substantially once these issues have been addressed.

8. Liberia is now reporting money and banking data regularly to IFS. Usually, the data are submitted by fax with a two-month lag; the latest issue of International Financial Statistics (IFS) (January 2002) provides data through September 2001.

**Balance of payments and external debt**

9. Official balance of payments statistics have not been reported since the 1988 Article IV consultation, although Fund staff have prepared provisional balance of payments statistics with support from the Central Bank of Liberia (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 data.

Liberia: Core Statistical Indicators

(As of December 31, 2001)

| | 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 | 10/01 | 10/01 | 10/01 | 10/01 | 10/01 | 10/01 | 10/01 | 10/01 | ... | 9/01 | ... | 6/01 |
| Date received | 1/02 | 1/02 | 1/02 | 1/02 | 1/02 | 1/02 | 1/02 | 12/01 | ... | 12/01 | ... | 12/01 |
| Frequency of data 2/ | D | M | M | M | M | M | M | M | ... | M | ... | M |
| Frequency of reporting 2/ | M | M | M | M | M | M | M | Q | ... | B | ... | B |
| Source of data 3/ | A | A | A | A | A | A | A | A | ... | A | ... | A |
| Mode of reporting 4/ | C,V | C | C | C | C | C | C | V | ... | V | ... | V |
| Confidentiality 5/ | C | C | C | C | C | C | C | C | ... | D | ... | D |
| Frequency of publication 2/ | B | M | M | M | M | M | M | 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, ministry of finance, or other official agency.

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

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

Liberia: Selected Social and Demographic Indicators 1/

| | | | |
|---|---|---|---|
| **Area** | **Population** | **Population density** | |
| 96,364 sq. km. | 3,044,050 | 31.6 per sq. km. | |
| **Population characteristics** | | **Health** | |
| Population growth rate (percent) | 2.75 | Population per physician (2001) | 29,270 |
| Life expectancy at birth (years) | 47.2 | Public health and social expenditure, 2001 (percent of GDP) 3/ | 0.7 |
| Infant mortality rate (per thousand) | 112.8 | HIV-prevalence rate 2/ (percent of population, ages 15-49) | 2.8 |
| Total fertility rate (percent of total) | 6.1 | | |
| Urban population (percent of total) | 44.3 | **Education** | |
| Population younger than 15 years of age (percent of total) | 45.0 | Adult literacy rate, male (percent) | 69.3 |
| **GDP per capita (2001)** | US$162 | Adult literacy rate, female (percent) | 36.9 |

Sources: World Bank, *World Development Indicators, 2001*; Ministry of Health; Joint UN Progran on HIV/AIDS; and Fund staff estimates.

1/ Data refer to 1999, unless otherwise indicated.
2/ 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.
3/ Fund staff estimate. Includes a grant of US$2 million (0.4 percent of GDP) for the rehabilitation of the John F. Kennedy Medical Center, administered by a special commission.

## Liberia: Medium-Term Economic Projections

1. The analysis of Liberia's medium-term outlook is constrained by data limitations — for example, no estimates exist for saving-investment accounts, and output estimates for smallholder agriculture are based on extrapolations from limited ad hoc studies — and uncertainties related to political developments. In this regard, the Liberian National Investment Commission noted that, follow the imposition of UN sanctions in 2001, all major approved investment projects were put on hold. Nonetheless, a view of the medium-term outlook, along broad lines, can be developed from what is known.

2. The lack of economic and financial support from the international community is a key element informing Liberia's medium-term outlook. At present, neither the multinational development agencies nor Liberia's bilateral partners have any major projects under way or in preparation. This factor critically limits prospects for the rehabilitation of key economic infrastructure — telecommunications, electricity, ports, water and sanitation, and roads — that could provide growth stimulus, both through a direct impact on investment activity and indirectly, by improving economic efficiency.

3. The potential sources of economic growth are limited. Agriculture and silviculture currently account for about 70 percent of GDP. The major contributors to commercial agriculture and silviculture are rubber and logging. Medium-term prospects for the rubber sector are poor. A substantial share (as much as one-third) of Liberia's rubber trees will come to the end of their productive life over the next five to ten years. As the gestation period for new trees is five to eight years and as commercial growers have done no major replanting, rubber output will almost certainly decline over the medium term. Regarding silviculture, scientists have classified Liberia's forest as the single most important forest in West Africa and as one of 25 "biodiversity hotspots" in the world. Given the conservationists' alarm over the current scale of logging, the significant movement to limit the rate of exploitation in this sector, and the supporting port and road infrastructures coming under increasing strain, it seems unlikely that logging output will grow significantly over the medium term.

4. Taking into account current the limited prospects for external support for reconstructions and the issues confronting commercial agriculture and silviculture, it appears likely that the rate of GDP growth could decelerate steadily to about 2.4 percent — 0.3 percent below the projected population growth rate. Thus, under this medium-term scenario, GDP per capita would peak in 2004 at US$180, or 37 percent of the 1987 level.

5. With this growth perspective, Liberia's fiscal outlook is severely constrained. Tax revenue has been less than buoyant in the postconflict period, having fallen from 14.3 percent of GDP in 1998 to an estimated 13.1 percent in 2001. Without a reversal of derogations to the tax reform introduced in mid-2001, and improvements in the efficiency of collections from the forestry sector, and given limited prospects for growth in the formal sector economy, tax buoyancy would continue to decline, reaching 10.5 percent by 2006.

6. Taking into account the severely limited access to external financing for government operations and the limited prospects for direct grant assistance and assuming that revenue from its shipping and corporate registry could be sustained at the 2001 level, government spending would steadily decline from 14.5 percent of GDP in 2002 to 13.1 percent of GDP in 2006, in order to avoid resort to inflationary and destabilizing domestic financing.

7. Prospects for the external sector are similarly limited over the medium term. The impact of declining rubber output and constrained logging growth on the trade balance is likely to be more than offset by improvements in the terms-of-trade as rubber and timber prices rise from currently depressed levels. In these circumstances, the trade balance would fall from 11 percent of GDP in 2001 to around 5 percent in 2006. The deficit on the external current account (on an accrual basis including grants) would remain in the range of US$50 million to US$55 million (around 7 percent of GDP). This amount would be financed by donor assistance, primarily channeled through nongovernmental organizations (NGOs), maritime income, foreign direct investment, current transfers from Liberians living abroad and a continued accumulation of arrears to external creditors. There would be limited room for the central bank to build its foreign exchange reserves from their current low level.

8. In this outlook, official debt would continue to accumulate, although at a slower rate than in recent years, as interest rates remain low. The rate at which external arrears have accumulated has, in the most recent period, been slowed by declines in interest rates. Over the medium term, the rate or accumulation would again mount as interest rates recover. This, in turn, would limit the development of project and other assistance from the international community.

Liberia: Medium-term Economic Prospects, 2002 - 2006

| | 2002<br>Proj. | 2003<br>Proj. | 2004<br>Proj. | 2005<br>Proj. | 2006<br>Proj. |
|---|---|---|---|---|---|
| (Annual percentage change, unless otherwise indicated) | | | | | |
| National income and prices | | | | | |
| Real GDP | 4.2 | 3.7 | 3.3 | 2.8 | 2.4 |
| GDP deflator | 3.5 | 6.7 | 7.5 | 5.9 | 4.1 |
| Consumer prices (annual average) | 10.0 | 8.0 | 7.0 | 6.0 | 5.0 |
| Consumer prices (end of period) | 9.0 | 7.5 | 6.5 | 5.5 | 4.5 |
| Nominal GDP (in millions of U.S. dollars) | 563.8 | 623.6 | 692.5 | 753.3 | 802.9 |
| Real GDP per capita (in U.S. dollars) | 178.4 | 179.5 | 180.1 | 179.7 | 178.7 |
| External sector (in U.S. dollar terms) | | | | | |
| Exports of goods, f.o.b. | -1.2 | 12.4 | 17.4 | 8.5 | 2.6 |
| Imports of goods, c.i.f. | 3.4 | 4.4 | 5.7 | 5.4 | 4.3 |
| Terms of trade | -4.6 | 8.3 | 9.5 | 7.3 | 2.6 |
| Official exchange rate (L$ per U.S.$; end of period) | 53.7 | 56.4 | 58.7 | 60.4 | 61.6 |
| Central government operations (in U.S. dollar terms; January-December) | | | | | |
| Total revenue and grants | 2.3 | 6.9 | 7.4 | 6.1 | 4.7 |
| *Of which* : tax revenue | -0.2 | 4.6 | 5.1 | 4.3 | 3.3 |
| Total expenditure and net lending | 12.0 | 7.9 | 7.4 | 6.1 | 4.7 |
| *Of which* : current expenditure | 17.5 | 7.9 | 7.4 | 6.1 | 4.7 |
| capital expenditure | -5.5 | 7.9 | 7.4 | 6.1 | 4.7 |
| (In percent of GDP) | | | | | |
| Central government operations (January-December) | | | | | |
| Total revenue and grants | 14.6 | 14.2 | 13.7 | 13.4 | 13.1 |
| *Of which* : tax revenue | 12.1 | 17.2 | 16.3 | 15.6 | 15.1 |
| Total expenditure and net lending | 14.5 | 14.2 | 13.7 | 13.4 | 13.1 |
| *Of which* : current expenditure | 11.6 | 11.3 | 10.9 | 10.7 | 10.5 |
| capital expenditure | 2.9 | 2.8 | 2.7 | 2.7 | 2.6 |
| Overall fiscal balance (commitment basis) | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes in expenditure-related arrears | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall fiscal balance (cash basis) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| External sector | | | | | |
| Trade balance (deficit, -) | -10.9 | -8.6 | -5.8 | -5.0 | -5.2 |
| Exports, f.o.b. | 22.3 | 22.7 | 24.0 | 23.9 | 23.0 |
| Imports, c.i.f. | -33.2 | -31.3 | -29.8 | -28.9 | -28.3 |
| Trade balance (deficit, -; in millions of U.S. dollars) | -61.2 | -53.7 | -40.4 | -37.3 | -41.9 |

Sources: 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 2002-03

A. Review of overdue financial obligations to the Fund

| | |
|---|---|
| Staff visit | July, 2002 |
| Staff report issuance | End-August, 2002 |
| Executive Board consideration | September, 2003 |

B. Article IV consultation and review of overdue financial obligations to the Fund

| | |
|---|---|
| Mission | January, 2003 |
| Staff report issuance | End-February, 2003 |
| Executive Board consideration | March, 2003 |

C. Technical assistance

Liberia is not receiving technical assistance from the Fund; further technical assistance would require that the level of cooperation among government agencies be improved.

D. World Bank

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

INTERNATIONAL MONETARY FUND
*Public Information Notice*
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 02/72
FOR IMMEDIATE RELEASE
July 18, 2002

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

# IMF Concludes 2001 Article IV Consultation with Liberia

On February 25, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Liberia.[1]

## Background

The pace of economic recovery following Liberia's 1989–96 civil war has slowed substantially. GDP grew by 5 percent in 2001 compared with an average annual growth rate of 24 percent in the previous three years. Political developments—including domestic conflict, poor governance and deteriorating international relations—have contributed to the slowdown, alongside the continued poor state of critical infrastructure and weak international markets. Logging activity, limited by extended rains, stagnated while the growth in rubber output fell to 11 per cent in 2001. Smallholder agriculture, manufacturing and services also grew at a more moderate pace than in the preceding years. Nominal per capita GDP in 2001 is estimated at US$188. Consumer price inflation rose from a 12--month rate of 8 percent in April 2001 to 21 percent in October 2001, reflecting a rapid depreciation in the exchange rate for the Liberian dollar.

Slowing growth and rising inflation added to strains on government finances. Although total government inflows remained roughly unchanged in 2001 in US dollar terms, there was a decline in tax revenue, offset by increased grant income. The structure of the tax base,

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[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.

reflecting the implementation of a new tax code at mid-year, and subsequent derogations to that code during July-August, changed substantially; taxes on income and international trade fell sharply while the share of tax revenues accounted for by taxes on goods and services rose from 26 percent to 35 percent.

In the absence of an approved budget for 2001/02, beginning in July 2001, the government operated under a continuing resolution. A Financial Management Committee (FMC) was given the task of establishing priorities and allocating available funds. With spending for security purposes continuing at a high level, and given a policy decision to reduce civil service wage arrears to four months by end-2001, it was decided to implement a further cut of 17 percent in other government spending, including the social sectors, in order to remain within financing constraints.

In December 2001, a budget for FY2001/2002 was submitted to the legislature. This envisaged an unchanged revenue base, while proposing a radical change in the structure of spending. In particular, it earmarked around US$35 million (41 percent of projected income) for priority development projects. Included in this was US$17 million (equivalent to 3 percent of GDP) in transfers to county government administrations for development purposes. A further US$14 million was designated for unspecified priority projects. The budget proposal also allocated US$9.5 million to unspecified government special commitments and US$23 million to civil service wages, leaving US$17 million to cover the purchase of goods and services–a 60 percent reduction from the level in 2000/2001.

Monetary growth accelerated in the first half of 2001, with the 12-month expansion of the major Liberian dollar component of the money supply peaking at 40 percent in June. There was an associated depreciation of the Liberian dollar by 31 percent against the US dollar between end-2000 and July 2001. Acting to stem the monetary expansion, the Central Bank of Liberia (CBL) increased the reserve requirement on Liberian dollar-denominated deposits at end-June 2001 from 22 percent to 44 percent, while decreasing the requirement for US dollar-denominated deposits from 22 percent to 18 percent. In July 2001, the reserve requirement for Liberian dollar-denominated deposits was further increased to 50 percent. Nonetheless, the Liberian dollar continued to come under pressure during the third quarter of 2001 and the CBL intervened in the foreign exchange market on several occasions in order to counter further depreciation of the exchange rate.

While falling international prices contributed to slowing economic activity, the impact on Liberia's external balance of payments was offset by lower import unit values. On a cash basis, Liberia's external current account deficit remained roughly unchanged between 2000 and 2001. With lower interest falling due, the deficit narrowed on an accrual basis from US$75 million in 2000 to US$57 million in 2001. A further US$76 million in external arrears was accumulated. At the end of 2001, Liberia's medium and long-term external debt amounted to about US$2.5 billion (equivalent to 480 percent of GDP).

Recent progress towards the liberalization of key domestic markets in Liberia has been limited. Government controls remain in place on the retail prices for cement, rice, and petroleum products as well as on farm gate prices for coffee and cocoa. In the petroleum sector, the Liberia Petroleum Refinery Corporation retains a regulatory monopoly on the provision of petroleum products to the market and prices seem to be substantially above the levels that would be expected on the basis of international prices, freight and operating costs, and taxes. In the domestic rice market, some tentative steps were taken towards liberalization and the share of the four largest importers declined. However, they continue to dominate the market, accounting for about 90 percent of permitted rice imports.

**Executive Board Assessment**

Executive Directors expressed concern regarding the deterioration in Liberia's economy in the last two years. They noted that the combination of growing domestic conflict, the absence of normalized relations with the international community—which has limited Liberia's access to critical external assistance—and problems of governance had cut short the economic recovery that had been underway following the civil war of 1989-96. In this regard, with the substantial decline in economic growth in 2001, reflecting paused reconstruction activities and the poor environment for investment, per capita income has stalled at just over one-third of the pre-war level. Directors expressed concern that, in the absence of remedial action, prospects for re-establishing a sound economic foundation and for reducing poverty appear very bleak, given especially the growing prevalence of HIV/AIDS, an impending deterioration in rubber production coupled with environmental limits on logging activities, and a further decline in the terms of trade.

Directors noted that Liberia's liberal exchange regime has helped ensure price stability and has served the economy well. However, the impact of monetary expansion during 2001 eroded price stability and gave rise to a substantial depreciation of the Liberian dollar. Given the central bank's limited official reserves and narrow policy options, Directors cautioned that a failure to implement prudent monetary policies in the period ahead could give rise to a depreciation-inflation spiral. In this context, Directors suggested that government net borrowing from the banking system be strictly limited and that the central bank issue currency only for foreign exchange.

Directors urged the authorities to address the substantial issues of governance surrounding Liberia's financial administration. They observed that an inadequately functioning budgeting process, non-transparent arrangements for granting incentives for large projects, and limited overall budgetary oversight have undermined the integrity of government finances, and urged that remedial action be taken as a high priority.

Directors observed that the sustainability of government financial operations has become increasingly tenuous. They noted the government's increasing dependence on logging activities and the shipping registry for revenue generation, both of which are at some risk. While acknowledging the introduction of a first phase of tax reform during 2001, Directors expressed concerns that ad hoc derogations to the reforms have undercut an already weak tax base, and urged the removal of these temporary exceptions. They also advised the authorities to improve accountability with respect to income receipts from the shipping registry and logging activities, grant the Bureau of Customs full authority to enforce customs collections, and fully review the tax incentives outstanding, eliminating exemptions and refraining from granting new tax incentives wherever possible.

While recognizing the difficult circumstances under which expenditure management is being undertaken, Directors were concerned about the high proportion of resources allocated to security-related activities, the ad hoc and short-term focus of the spending program, and limited oversight of the operations of the Bureau of Maritime Affairs and the Forest Development Authority. They noted that, in the absence of a well-functioning budgeting process and administrative structure, the plan to reallocate a significant share of budgetary revenue to a County Development Fund in 2002 could detract significantly from ensuring a well-targeted social spending program.

Directors stressed that structural reforms will be critical to economic recovery. Directors expressed disappointment, however, with the general weakening of policy implementation during 2001, especially as regards continued extra budgetary spending, and the absence of progress in reducing non-wage domestic arrears, satisfactory accounting for tax incentives and reducing concessions, and liberalizing petroleum imports. In addition, they urged greater efforts to reduce civil service wage arrears and intensify the reforms in the rice importation sector.

Directors noted that severe weaknesses in data collection and compilation persist. They urged the authorities to pay more attention to improving data systems especially in the areas of consumer prices, public finance and balance of payments.

Directors noted that Liberia has been in continuous arrears to the Fund since December 1984, has been declared ineligible to use the general resources of the Fund, and that a declaration of non-cooperation was issued in respect of its arrears. Directors regretted that Liberia's cooperation with the Fund had not improved since the last review of its overdue financial obligations, that delays had been encountered in Liberia's monthly payments of US$50,000 to the Fund, and that its arrears to the Fund have continued to mount. In view of these developments, and as envisaged at the time of the last review, a majority of Directors noted the intention to initiate the procedure to suspend Liberia's voting and related rights in the Fund. Directors encouraged the authorities to use the period ahead to build up their policy implementation and relations with the Fund. They urged the authorities to take advantage of any technical assistance that the Fund may make available during this period. Directors encouraged the Fund and Liberia to work toward developing a roadmap to help Liberia set realistic goals for reducing its arrears to the Fund.

***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 Article IV Consultation with Liberia is also available.

**Liberia: Selected Economic Indicators**

| | 1999 | 2000 | 2001 (Est.) |
|---|---|---|---|
| (Annual percentage change; unless otherwise indicated) | | | |
| **Output and prices** | | | |
| Real GDP | 22.9 | 20.4 | 5.3 |
| Consumer prices | 2.0 | 5.3 | 12.4 |
| **Money and Credit ( Liberian dollars)** | | | |
| Net foreign assets | 10.8 | -7.6 | -16.1[1] |
| Net domestic assets | -9.4 | 8.4 | 16.5[1] |
| Net domestic credit | -8.8 | 12.2 | 21.9[1] |
| Net claim on government | -8.4 | 12.9 | 18.5[1] |
| Claims on nongovernment | -18.1 | -10.4 | 167.3[1] |
| Broad money | 11.6 | 18.3 | 21.1[1] |
| Velocity (GDP relative to broad money) (level) | 8.2 | 8.2 | 8.3 |
| (In percent of GDP) | | | |
| **Central Government** | | | |
| Total revenue and grants | 16.3 | 15.6 | 15.4 |
| *Of which* : tax revenue | 14.0 | 13.5 | 13.1 |
| Total expenditure and net lending | 14.4 | 16.8 | 14.0 |
| *Of which* : current expenditure | 9.2 | 15.1 | 10.7 |
| capital expenditure | 4.3 | 1.5 | 3.3 |
| Overall fiscal balance (commitment basis) | 1.4 | ... | ... |
| Changes in expenditure-related arrears | 0.5 | ... | ... |
| Overall fiscal balance (cash basis) | 1.9 | -1.3 | 1.5 |
| **External sector** | | | |
| Current account balance, including grants (deficit, -) | -28.6 | -14.2 | -10.7 |
| Current account balance, excluding grants (deficit, -) | -48.3 | -27.4 | -19.9 |
| Trade balance (deficit, -) | -34.1 | -13.1 | -10.2 |
| Exports, f.o.b. | 13.3 | 22.9 | 24.4 |
| Imports, c.i.f. | -47.4 | -36.0 | -34.6 |
| Public sector external debt outstanding (medium and long term) | 564.8 | 473.3 | 480.1 |
| (In millions of U.S dollars; unless otherwise indicated) | | | |
| Current account balance including grants (deficit, -) | -126.4 | -74.9 | -56.2 |
| Gross official reserves (end of period) | 0.4 | 0.3 | 0.4 |
| (in months of imports of goods and services) | 0.1 | 0.0 | 0.0 |
| Official exchange rate (L$ per U.S.$; end of period) | 39.5 | 42.8 | 49.5 |

Source: Liberian authorities; and IMF staff estimates and projections.
1/ For 2001, change from Dec 2000-Oct 2001.

**Statement by Cyrus D.R. Rustomjee, Executive Director for Liberia**
**February 25, 2002**

**Key Issues**

- *Liberia is an economic system in crisis, dogged by a difficult political transition, persistent domestic insurgency, large number of refugees and loss of substantial infrastructure and critical technical skill, among others*
- *All of these factors have posed serious constraints to the current development efforts and by extension, to the authorities' inability to fully meet its financial obligations to the Fund. Indeed, the likelihood of a continuation of current harsh economic realities into the near future is very strong, given the prevailing conditions. This and the uncertainities with respect to donor support make Liberia's medium-term economic outlook very bleak*
- *Notwithstanding these ongoing and extraordinarily difficult challenges, my authorities have cooperated to the fullest extent possible in their repayment schedule to the Fund. They have also undertaken substantial reforms under the current SMP, while proposing further reforms to improve on existing performance*
- *In these contexts, the authorities are appealing for the continued understanding as well as the support of the international community in the areas of financial and technical assistance to bring the economy back to real growths and in meeting their financial obligations to the Fund*
- *On their part, the Liberian authorities have agreed to step up efforts to normalize relations with the international community in order that donor assistance could continue and the payment obligations to the Fund would resume*

## Introduction

We thank staff for a candid and informative report, both in regards to the Article IV consultation and on the complex issue of Liberia's overdue obligations to the Fund, the latter which has also been a source of concern to my authorities. At the outset, my Liberian authorities would like to appreciate the perseverance of the Fund as well as its continued understanding of the economy's peculiar circumstances. In regards to the authorities' overdue status they wish to emphasize that they are not unaware of the implications of the continuance of overdue obligations to the Fund, but want to affirm that this state of affairs has not been deliberate. The authorities have been substantially constrained in complying with the agreed schedule of payments by serious political and social factors which are beyond their control.

Liberia is an economic system in crisis. Its economic recovery has been dogged by a difficult political transition, which has made the government to earmark one-half of its revenue presently to security-related expenditures in a bid to address persistent domestic insurgency and other internal security problems. Furthermore, the country faces daunting and unprecedented economic and financial challenges. Its physical infrastructure, which was destroyed during the civil war, is still largely unrehabilitated, while there are some 100,000 internally displaced persons and about 200,000 refugees in neighbouring countries. Among the refugees are a large number of professionals and people with critical technical skills, who could have made a substantial difference to the country's reconstruction and economic development efforts.

All of these have not only posed serious constraints in the current development efforts, but they will remain difficult challenges for the medium-term. The medium-term economic outlook itself appears very bleak in the light of other similar fundamental challenges such as a weakening of fiscal revenue, limited prospects for expansion in the services and manufacturing industries and the prevalence of HIV/AIDS in the face of poor public health services.

In these contexts, my authorities, in their onerous task of addressing these multi-faceted social, political and economic problems, are appealing for the continued understanding and support of the international community to bring the economy back to real growth, as well as providing flexibility in current extraordinarily difficult circumstances, in meeting their financial obligations to the Fund. My authorities wish to stress that the challenge of meeting even the limited repayment schedule to the fund, has been extraordinarily difficult under the circumstances and that even in such circumstances almost all of Liberia's agreed repayments have been made.

**Recent Developments**

During the period 1997-2000, the international community played a key role in Liberia's rehabilitation and reconstruction efforts. Official grant inflows totaling some $300 million or 14 percent of GDP, including the provision of technical assistance and training in a number of key sectors, have helped towards substantial increases in economic activity in all sectors. These efforts also assisted in creating employment, generating income and increasing government revenue. As a result, overall economic growth has averaged an estimated 24 percent annually from 1998-2000.

However, as a result of a deterioration in relations with the international community, the economy suffered a setback in 2001 with grant inflows falling to US$32 million in 2001 and current humanitarian aid inflows being channeled through non-governmental organizations. Furthermore, adverse political developments, the continued poor state of critical infrastructure and weak international markets have also contributed to the deterioration in economic activity, which in turn has been accompanied by erosion in price stability, exchange rate depreciation and high unemployment in the formal sector with the resultant rapid growth of the informal sector. All of these have culminated in the real GDP growth rate decelerating to 5 percent, and a 31 percent depreciation in the exchange rate of the Liberian dollar vis-à-vis the US dollar. The inflation rate rose from low single digits to 21 percent, while there was a strain on government fiscal operations, mainly because of declining tax revenue coupled with unprogrammed spending for security purposes.

With the slowdown in economic activities and growth, the year 2001 started with ten months in arrears on civil service wages, huge unpaid obligations to domestic suppliers and with two of the four commercial banks in operation coming under stress. The external account deficit also increased and was financed by the accumulation of a further US$76 million in external arrears, owing to the country's current inability to borrow from international sources and a US$23 million decline in current transfers, especially of donors. Also, foreign investment declined as investor interest flagged, while the external debt amounted to US$2.6 billion or 488 percent of GDP. The bulk of the external debt (US$2.3 billion) is in arrears, of which financial obligations to the Fund amount to US$621 million, representing 24 percent of total external debt.

**Medium-Term Prospects**

Liberia's medium-term economic outlook is bleak due to uncertainties with respect to the prospects of economic and financial support from the international community. This indicates that the economy's prospects are largely tied to the normalization of relations with the international donors and creditors as well as the resolution of the persistent sporadic domestic security insurgency. At present, neither the multinational development agencies nor bilateral partners have any major projects underway or in preparation in the country. This translates to limited prospects for the rehabilitation of key economic infrastructure that were destroyed during the war, such as telecommunications, electricity, water, ports and roads, the absence of which directly impacts on investment activity and limits prospects for enhanced economic growth.

Consequently, in the context of current uncertainties, government fiscal planning is short-term because there is little basis for projecting for external resource inflows over the medium-term. In addition, tax revenue may decline from the current level of 13.1 percent of GDP to 10.5 percent by 2006 unless there is an improvement in the efficiency of collections, which requires substantial technical assistance. The prospects are also poor for commercial agriculture, rubber production and logging, the mainstay for the domestic economy and for exports. This is because the bulk of the trees from which they are produced will soon reach the end of their productive lives, as the war years did not allow major replanting of the rubber trees or limiting the rate of exploitation in the logging sector. In the same vein, prospects in the external sector are also limited with official debt continuing to accumulate and the external deficit remaining in the range of US$50 million to US$55 million or 7 percent of GDP. These deficits would need to be financed by donor assistance among other sources.

Nonetheless, it is estimated that growth could moderate substantially with the normalization of relations, which would be expected to bring about a resumption of donor support along with the provision of essential technical assistance and training of official personnel in the relevant areas to build capacity and enhance economic management. Thus, under this scenario, GDP per capita could peak in 2004, but would still be only 37 per cent of the 1987 level. As noted in my introductory comment, Liberia's economy is in an extraordinary crisis and the Fund's response to Liberia's ongoing overdue obligation needs to be considered in this context

**Progress on Reforms and Other Proposals**

My Liberian authorities have taken some major reforms under the current Staff-Monitored Programme (SMP) to improve economic and financial policy and administration, and have proposed to take other necessary positive steps towards addressing the existing identified threats to the medium-term goal of appreciable real growth, especially in the areas of fiscal and monetary management. Furthermore, in spite of the current acute human resource and capacity constraints, the authorities have drafted a Medium Term Plan for Reconstruction and Development, 2001-2006 with the assistance of the UNDP.

In fiscal operations, the authorities have set up a Financial Management Committee, tasked with the management of a cash budget, to prioritize spending and allocate available funds. This is with a view to resolving the problem of extraordinary spending in the face of weak and declining revenue, and in undertaking strategies towards reducing the accumulated civil service wage arrears. As a result of this measure, government was able to reduce the stock of civil service wage arrears to about four months with the payment of six months' arrears during the year under review. Additionally, some 2,100 military personnel who were found to be away without leave were removed from the civil service payroll. To improve fiscal policy and the basis for monitoring revenue performance, government bank accounts were transferred to the Central Bank of Liberia. In addition, the Phase One of the Revenue Code of Liberia, which revised old tax regimes and introduced new ones, was implemented during the year to replace the 1997 Emergency Tax Code. This is with a view to arresting the decline in tax revenue, strengthening the tax base and encouraging domestic and foreign investment,

To address the systemic distress in the banking system, the Central Bank of Liberia (CBL) began actions to close the Liberia United Bank International, which had been under its supervision since a run on the bank in 1999. The CBL also directed improvements in the settlement system, which has helped to reduce the inter-bank settlement period from 15 days to 1 day, and in activating the banking sector. Another reform measure undertaken was in the real sector in which the domestic rice market has been liberalized through the issuance of import permits by the Ministry of Commerce to importers with the requisite financing and warehousing facilities.

My authorities are also proposing other policy and structural reforms in the near term to improve the economic environment. These include the policy of collecting government revenue from the logging operations and shipping registry through the Ministry of Finance, rather than at source, in a bid to further improve fiscal controls and enhance transparency in those sectors. A second phase of the Revenue Code, which will include new provisions on the taxation of agriculture and natural resources, is also being planned. Also, the 2001/2 budget has made provision for the clearance of the remaining four months of wage arrears.

With regard to governance, the Bureau of the Budget has begun preparing budget outlook papers as an interim step toward strengthening the review of priorities and programmes, while as part of the efforts to minimize identified weaknesses in fiscal management, my authorities intend to continue with a limited training programme in the Revenue Department of the Ministry of Finance.

As part of the strategies to decentralize the reconstruction and economic recovery strategies and to ensure that rural development efforts are not ad hoc and intermittent, my authorities have proposed to set up a Country Development Fund (CDF). The Fund is to be allocated to 15 county governments for priority development projects, which would be carefully considered and designed in a process that would include local ownership and commitment for sustainability. In this regard, they wish to acknowledge and appreciate the grant received from the Taiwan Province of China, which has been earmarked for the Fund.

However, my authorities could not proceed on other desired reforms because of lack of financing and essential technical assistance in the relevant areas. For instance, no substantial action could be taken on reducing the wage bill and on civil service reform in the absence of technical assistance and the financing required for the introduction of centralized identification card system for all civil servants. In the same vein, efficient customs administration and the needed reforms in this area are being constrained by lack of training of customs personnel.

**Outstanding Challenges**

My Liberian authorities are aware of the enormous challenges remaining in their efforts at economic reconstruction and rehabilitation after many years of civil war and with the persistent domestic insurgency. These challenges, which informed the adoption of the current SMP, are still prevalent in spite of the identified areas of performance on the programme. No doubt, some of the areas of non-performance arose from factors beyond the control of the authorities. Nonetheless, the proposed further reforms analyzed earlier reflect the desire of my authorities to press ahead and improve on the existing record of performance.

My authorities have also identified and agreed with staff on the outstanding challenges that constrain the attainment of the medium-term economic goals as well as the necessary strategies to tackle them. For instance, having identified that the key to increased government revenue and the economy's medium-term recovery and real growth is a rebound in rubber production, increased logging and a revival of the smallholder agriculture, the authorities are braced up to implement policy strategies to address the problems in these sectors. They also intend to address the weak conditions in the banking sector, which had narrowed opportunities for lending, through tighter banking supervision and prompt intervention of the Central Bank of Liberia (CBL) to any deterioration in bank soundness. Similarly, the CBL has agreed not to extend new credit to the government during 2002 while at the same time keeping the currency emission in line with projected growth.

**External Debt and Payment Obligations to the Fund**

The major challenge facing my authorities currently, which also is the focal point of the staff report, is the extraordinarily high level of Liberia's external debt (US$2.6 billion or 488 percent of GDP), including its outstanding financial obligations to the Fund, which currently stand at US$621 million. While my Liberian authorities express their serious concern regarding the defaults in their payment obligations, they seek the understanding of the Fund and its appreciation of the internal difficulties they are facing. They wish to assure the Fund that it is not lack of willingness on their part to pay, but rather due to factors and other exigencies that are beyond their control. For instance, the threats to national security and the impact of UN sanctions have left them with no available options than to adopt the current exceptional economic management practices, in which government economic management and planning have been an ad hoc process and of a short-term horizon. In addition, the massive destruction of the economic and social infrastructure coupled with the large number of refugees and the attendant loss of technical skills have combined to dampen investment and slow down the speed of the reconstruction efforts and of appreciable economic recovery. Indeed, there appears to be the likelihood of a continuation of current harsh realities in the country's social and economic conditions for some time to come. Notwithstanding these ongoing and extraordinarily difficult challenges, my authorities have succeeded in meeting the fully agreed repayment schedule to the Fund.

In the current paper, staff have argued that the process of commencing steps to suspend Liberia's voting rights in the Fund should now commence. My Liberian authorities urge the Board to consider refraining from this very significant step. The authorities have tried to do the best they can under the current circumstances. Despite very difficult internal and external constraints, they have instituted a series of reform measures which will help rebuild the economy in the longer term. And they have cooperated to the fullest extent possible under the existing enormous constraint, in trying to meet their agreed payment schedule. My authorities are of the view that it would be unfair to take the extraordinarily significant step of commencing the process of suspending Liberia's voting rights in the Fund and they appeal for a further period in which the results of the current reform initiatives and their proposed further reforms can bear fruit. They very much hope that the Executive Board will consider their earnest appeal favourably.

In view of these precarious economic conditions, with every indication that the application of the traditional mechanism for debt relief may not effectively address Liberia's debt problem, my authorities are appealing for the adoption of another debt relief strategy that would frontally tackle the country's peculiar economic circumstances.

**Support Needed from the International Community**

There is no doubt that for sometime, the Liberian economy will continue to depend on the support of the international community for economic reconstruction and rehabilitation, and in achieving real growth. This support will be needed in the provision of financial resources, as well as in substantial technical assistance for capacity building in economic management.

While there is a dire need for a rescheduling of the debt arrears and further financing support to allow the economy the necessary breather to fully recover, technical assistance would be required in several sectors in order to attain speedy recovery and growth and to exit the present debt overhang.

My authorities would like to acknowledge and appreciate the various technical assistance support given by the Fund in the past. However, further technical assistance and financial resources support would be needed to implement the reforms in the civil service and in customs administration, liberalize the domestic market and in rebuilding the government capacity for financial administration, which was lost during the civil conflict. In addition, improvements in the statistical base, especially in the timeliness and quality of data collection for national accounts, consumer prices, public finance and the balance of payments, and a move to a revised GFS classification would also require substantial technical assistance.

**Conclusion**

My authorities would like to note that while donor assistance was in place and the economy was recording remarkable progress, the country's payment commitments to the Fund were made in a broadly timely manner. They are therefore committed to taking measures to address the issues that led to the deterioration in relations with the international community so that donor assistance could continue and the payment of financial obligations to the Fund would resume.

Meanwhile, in view of Liberia's special circumstances and the recent Board consensus for case-by-case treatment of countries with protracted debt arrears, we appeal that the treatment of Liberia's protracted payment obligations should be given the special attention it deserves. In this context, while we recognise that the staff are pre-occupied with work in the area of protracted debt arrears with many countries, we wish to advance that they undertake to prepare a paper on the way forward in resolving Liberia's current debt problem in view of the country's special circumstances.