FOR AGENDA

EBS/84/54

CONFIDENTIAL

March 12, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Liberia - Staff Report for the 1983 Article IV Consultation and Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Liberia and mid-term review under the stand-by arrangement. Draft decisions appear on pages 33 and 34.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Syvrud (ext. 73162) or Mr. Duran (ext. (5)8655.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

LIBERIA

Staff Report for the 1983 Article IV Consultation and Review Under Stand-By Arrangement

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by J.B. Zulu and S. Kanesa-Thasan

March 9, 1984

Contents | Pages

Contents | Pages

Text Tables

Appendices

Charts

I. Introduction

The 1983 Article IV consultation discussions and the review of Liberia's performance under the current one-year stand-by arrangement were held in Monrovia on December 5-18, 1983. The last Article IV consultation was in December 1982, and the staff report was considered by the Executive Board on February 25, 1983 (EBS/83/22, January 28, 1983). The stand-by arrangement in the amount of SDR 55 million, or 99 percent of previous quota 1/, was approved by the Executive Board on September 14, 1983 (EBS/83/175, August 17, 1983). As of December 30, 1983 Liberia had satisfied all the performance criteria and had purchased SDR 28 million under the stand-by arrangement. Further purchases are conditional on completion of this review and on reaching understandings with the Fund on budget performance, the rescheduling of public debt, and the operation of the petroleum sector. The attached letter (Appendix I) from the Minister of Finance of Liberia describes measures the authorities will take in these and other areas.

As of January 31, 1984 the Fund's holdings of Liberian dollars subject to repurchase amounted to SDR 196.4 million, or 275.4 percent of present quota of which SDR 45.0 million, or 63 percent of quota, were under the CFF. Liberia has paid its increased subscription under the Eighth General Review of Quotas. Liberia's relations with the Fund are outlined in Appendix II.

The World Bank is in the process of preparing a structural adjustment loan of US$30 million for fiscal year 1984/85 (July-June). Bank relations with Liberia are described in Appendix III.

The Liberian participants in the review and consultation discussions included Mr. G. Alvin Jones, Minister of Finance; Mr. E. Gardiner, Minister of Planning and Economic Affairs; Mr. Thomas D.V. Hanson, Governor of the National Bank of Liberia; Mr. F. Sherman, Director of the Budget Bureau; and General N. Podier, Vice-chairman of the People's Redemption Council and PRC representative on the Economic and Financial Management Committee. The mission leader met with Head of State Dr. Samuel K. Doe on December 6, 1983. The staff representatives were: Messrs. D. Syvrud (head-AFR); A. Faria (AFR), P. Duran (AFR), C. Schiller (FAD), and S. Christian (secretary-TRE). Mr. A. Linde, the Fund resident representative in Liberia, participated in all the discussions. Mr. N. Sangare, Executive Director, participated in the final meeting on December 17, 1983.

Liberia continues to avail itself of the transitional arrangements of Article XIV.

1/ Equals 77 percent of present quota.

II. Background

On the political front Liberia continues to progress toward approval of a new constitution and presidential elections in April 1985. On the economic front the Liberian economy is beginning to recover from a severe recession of three years' duration. Real GDP declined by an estimated average of 4 percent in each of the past three years, as world markets for Liberian exports remained depressed and a public sector wage policy, which in 1980 raised minimum wage levels by 100 percent, weakened Liberia's competitive position, thus creating unsustainable fiscal and balance of payments deficits (Table 1). In the context of those deficits, the Liberian authorities engaged in four successive adjustment programs supported by stand-by arrangements with the Fund.

Performance under the first two stand-by arrangements for FY 1980/81 (July-June) and FY 1981/82 was broadly satisfactory. Progress was made during these years in restoring domestic and external confidence even if the financial imbalances remained large. In the absence of an exchange rate option (since the U.S. dollar circulates as the main legal tender), the Liberian adjustment programs have centered on the budget; given the revenue constraint, the focus has been on expenditures. As part of the third stand-by arrangement for FY 1982/83, the authorities took an important first step toward reducing the public sector expenditures through a sharp cut in the wage bill. Effective January 1, 1983 public sector wages and salaries were cut by rates ranging from 16 2/3 percent for the lower income employees and 25 percent for the higher-salaried personnel. With these wage cuts and control of other spending, recurrent expenditures, including nonbudgetary expenditures, declined during FY 1982/83 by 12 percent and total expenditures by 9 percent. As a percentage of GDP, recurrent expenditures were reduced from 25 percent in 1981/82 to 23 percent in 1982/83 and total expenditure from 35 to 33 percent.

Despite these strong efforts on the expenditure side, the fiscal situation did not improve by as much as was expected in 1982/83 because revenues fell short of the budgeted level. The decline in revenues was almost entirely attributable to the impact of worsening external trade figures on customs duties and excise taxes. Consequently, the overall government deficit, as a percent of GDP, declined from 10.4 percent in 1981/82 to 9.5 percent in 1982/83, whereas the target had been 7.8 percent. Because of the excessive fiscal deficit and external payments arrears, Liberia did not meet the performance criteria and, therefore, was unable to make the final two purchases totaling SDR 20 million of the SDR 55 million scheduled under the 1982/83 Fund stand-by arrangement.

Table 1. Liberia: Selected Economic and Financial Indicators, 1980/81-1983/84 1/

	1980/81	1981/82	1982/83	1983/84 Program	
	Actual		Estimate	Original	Revised
	(Annual percentage change, unless otherwise specified)				
National income					
GDP at constant prices	-3.4	-1.3	-7.2	1.1	2.0
GDP at current market prices	2.1	2.1	-4.5	3.4	5.1
Consumer prices	10.0	7.0	4.7	3.7	2.0
External sector					
Exports, f.o.b.	-7.0	-8.3	-11.2	12.4	7.7
Imports, c.i.f.	-3.3	-6.9	-13.2	6.2	2.1
Non-oil imports, c.i.f.	-7.1	-12.8	2.5	6.2	2.0
Export volume	-7.5	-2.0	-9.7	7.3	4.4
Import volume	-13.4	-5.7	-10.0	3.1	4.1
Terms of trade (deterioration -)	-9.9	-5.2	1.9	1.6	5.4
Nominal effective exchange rate (appreciation)	7.3	14.8	8.4	...	...
Real effective exchange rate (appreciation)	5.6	13.2	6.6	...	...
Government budget					
Revenue and grants	7.4	15.2	-7.8	10.0	5.1
Total expenditure	13.8	11.2	-9.0	-8.7	-13.3
Money and credit					
Domestic bank credit	-9.7	34.7	16.4	13.7	14.4
Government (net)	(44.2)	(40.0)	(46.0)	(11.9)	(11.6)
Public corporations (net)	(280.5)	(146.2)	(60.4)	(28.7)	(39.4)
Private sector	(-49.1)	(3.0)	(-12.8)	(17.6)	(19.5)
Money and quasi-money	-15.1	10.3	8.5	6.6	8.0
Interest rate (annual rate on one-year deposits)	10.3	10.9	10.0	11.0	10.0
	(In percent of GDP)				
Government current account 2/ surplus or deficit (-)	-1.3	-5.5	-3.8	0.6	--
Government overall deficit 2/	-10.3	-10.4	-9.5	-3.6	-3.7
Domestic bank financing	3.5	4.5	7.5	2.6	2.6
Foreign financing	5.4	3.5	3.5	1.1	1.1
Gross domestic investment	19.7	17.4	14.9	18.8	17.1
Gross domestic savings	17.7	13.4	13.1	20.7	17.2
External current account deficit	-9.2	-7.3	-7.1	-4.3	-4.3
External debt (including use of Fund credit)	55.8	63.2	78.4	75.9	82.3
	(In percent of exports of goods and services)				
Debt service ratio	6.7	8.2	13.4	18.3	19.4
Interest payments	4.4	6.5	10.2	8.7	9.4
	(In millions of SDRs)				
Current account deficit	-81.9	-73.0	-71.1	-46.7	-46.7
Overall balance of payments deficit	-36.6	-45.7	-68.3	-14.8	-14.3
Gross official reserves	7.8	8.7	7.4	16.7	17.0
External payments arrears (end of period)	8.7	1.8	13.5	--	--

Sources: Data provided by the Liberian authorities; and staff estimates and projections.

1/ Fiscal year July to June.
2/ On a checks-issued basis.

III. Mid-Term Review

A summary of the policy measures outlined in the program and the status of their implementation are shown in Table 2. Liberia has observed all the quantitative performance criteria under the stand-by arrangement through the end of November 1983, as shown in Table 3.

1. Budgetary performance, 1983/84

The original budget for 1983/84 aimed at further adjustments in the Central Government's fiscal accounts, with a programmed reduction in the overall deficit on a checks-issued basis from $103.7 million in 1982/83, or 9.5 percent of GDP, to $42.4 million, or 3.7 percent of GDP (Table 4). These adjustments were to be brought about by a combination of revenue measures and a further significant reduction in expenditure, in nominal terms.

Revenues were projected in the program to increase by about 10 percent, and cash grants were estimated to be slightly higher than in the past year. The projected increase in revenue was expected to derive to a large extent from revenue measures. In addition, the recovery of economic activity in the second half of the fiscal year and intensified tax collection efforts were expected to have a healthy impact on tax revenue. The new revenue measures included a 60 cents per gallon increase in the gasoline tax, increases in a number of tax rates, and a broadening of the tax base in the areas of stamp tax, consular fees, customs duties, and excise taxes.

As regards expenditures, the program again focused on the recurrent component. The wage bill was projected to decline by about 10 percent, in large part reflecting the full-year impact of the 1983 wage cut and maintenance of the employment freeze. Other recurrent expenditures were cut back by $5 million; to ensure enforcement of the envisaged reduction, procedures for expenditure controls were tightened. As for the development budget, the program involved a $13.4 million drop in locally financed expenditures by deleting some projects from the original budget proposal.

By the end of November 1983 it became evident that the fiscal targets in the program could not be achieved without further measures. While expenditures remained well below target for the first five months of fiscal year 1983/84, revenue, as in the previous fiscal year, did not meet expectations. Revenue, when projected for the full fiscal year, fell short by about $14.5 million, the main factors being a general tax exemption for the rubber sector, which found itself in an economic slump in 1982/1983, and a shortfall in imports. Thus, on the basis of the first five months' experience, the overall fiscal deficit and the financing requirements for the full year were estimated to be $16.6 million higher than the $42.4 million in the original budget.

Table 2. Liberia: Policy Measures Under Stand-By Program for 1983/84 and Status of Implementation

Policy measures	Status of implementation
1. Fiscal measures	
a. New measures to provide additional \$17 million in revenues	Measures implemented July 25, 1983, but total revenue, when projected for the fiscal year, fell short by \$14.5 million as of end-Nov. 1983. Additional revenue measures and expenditure cuts were announced January 16, 1984
b. Recurrent expenditure other than interest payments to be reduced by 9 percent	Announced in budget message and implemented as of November 30, 1983
c. Freeze on all salaries and new hirings	Announced in budget message and implemented as of November 30, 1983
d. Reduce wage bill by 22 percent	On target as of November 30, 1983
e. Reduce foreign travel expenditures by \$2 million	Travel expenditures reported as \$900,000 for first three months. Monitoring system is not satisfactory
f. Abolish encumbrances	Encumbrances reduced significantly but not abolished
g. Refrain from nonbudgetary expenditure	Reduced but not abolished
h. Limit overall deficit to \$42.9 million	Additional budget cuts and revenue measure implemented on January 16, 1984
i. Physical count of payroll with assistance of consultant	Physical count completed for the Monrovia area
k. No increase in domestic arrears	Reduced by about \$14 million as of November 30, 1983

Table 2. (continued) Liberia: Policy Measures Under Stand-By Program for 1983/84 and Status of Implementation

Policy measures	Status of implementation
l. Improve budget control	Expenditures controlled through November 1983 but improved management needed to ensure more timely response to unforeseen developments
m. Other measures as necessary to implement program	Budget allocations for nonwage, noninterest recurrent and locally financed development expenditures reduced by $13.6 million on January 16, 1984. Gasoline tax raised by another 33 cents per gallon.
2. Public corporations	
a. Implement joint project with IBRD to rationalize public corporations	Decision taken to establish Bureau of State Enterprises. IBRD project progressing slowly. To be part of IBRD-SAL for FY 1984/85
b. Privatize petroleum sector	Decree issued in July 1983; guidelines issued in November 1983 not consistent with program. New guidelines approved January 16, 1984.
c. Eliminate subsidies, overdue taxes, and arrears	Project under way but not implemented
3. External policies	
a. Paris Club rescheduling	Paris Club meeting held December 22, 1983
b. London Club refinancing	Proceeding satisfactorily. Meeting scheduled before end-March 1984
c. Improve debt management	Fund technical consultant in place. Inadequate attention on part of EFMC

Table 2. (concluded) Liberia: Policy Measures Under Stand-By Program for 1983/84 and Status of Implementation

Policy measures	Status of implementation
d. Eliminate external arrears on schedule	External arrears reduced from \$14.5 million at end-June 1983 to \$8.4 million at end-November 1983, on target
e. Limit external credits of 1-12 years to \$5 million	Ceiling observed
f. Avoid multiple currency practices and exchange restrictions throughout program period	Being observed
4. Financial policies	
a. Limit credits to Govt., and to public corporations and net domestic assets of the National Bank of Liberia (see schedule)	Ceilings observed
b. Review reserve requirements on savings deposits	Review completed. Decision taken not to lower reserve requirements

Table 3. Liberia: Quantitative Performance Criteria for 1983/84 Stand-By Arrangement 1/

(In millions of U.S. dollars)

	1983	Nov. 1983			1984		
	June actual	Program original	Program (revised) 3/	Actuals	Feb.	May (revised) 3/	June 2/
Net domestic assets of National Bank of Liberia 4/	182	194	194	193	203	210	212
Net claims of banking system on public sector	274	290	289	288	299	308	310
Net claims of banking system on Government	259	267	271	267	280	287	289
Outstanding external payments arrears 5/	15	9	9	8	4	--	--
Net external borrowing contracted or guaranteed by Government of 1-12 years' maturity	...	5	5	5	5	5	5

1/ Limits apply to end of each period except for the limits on new external borrowings, which are cumulative.
2/ Indicative limits.
3/ Arising from a revision of the June (base) data because of misclassification of public sector claims and deposits and resulting revisions of credit ceilings under the program to reflect net increases originally sanctioned under the program.
4/ Net domestic assets are defined as equivalent to the net foreign liabilities of the National Bank of Liberia excluding gains and losses derived from exchange rate changes.
5/ Other than $26 million due to oil facility banks. Negotiations for consolidation of this amount into a medium-term loan are about to be concluded.

Table 4. Liberia: Summary of Central Government Fiscal Operations, 1981/82-1983/84 1/

(In millions of dollars)

	1980/81	1981/82	1982/83		1983/84		
	Actual	Actual	Program budget	Actual	Original budget	July-Nov 2/	Revised budget
Revenue and grants	242.4	279.3	283.0	257.4	282.0	96.0	270.5
Revenue	217.9	237.9	254.0	224.4	247.0	90.0	235.5
Grants 3/	24.5	41.4	38.0	33.0	35.0	6.0	35.0
Expenditure 4/	357.0	397.0	367.9	361.1	324.4	106.7	312.9
Recurrent	225.0	289.0	253.9	248.1	240.4	88.6	233.6
Wages	(138.1)	(157.7)	(141.9)	(135.8)	(122.5)	(53.3)	(122.5)
Interest	(20.8)	(39.2)	(48.7)	(44.2)	(54.9)	(12.0)	(54.9)
Other	(66.1)	(92.1)	(63.3)	(68.1)	(63.0)	(23.3)	(56.2)
Development	124.2	96.4	114.0	95.8	84.0	16.0	77.2
Local	(59.1)	(62.8)	(53.4)	(61.4)	(48.0)	(9.5)	(41.2)
Foreign 5/	(65.1)	(33.6)	(60.6)	(34.4)	(36.0)	(6.5)	(36.0)
Nonbudgetary 6/	7.8	11.6	--	17.2	--	2.1	2.1
Overall deficit:							
Checks-issued basis 4/	-114.6	-117.7	-84.9	-103.7	-42.4	-10.7	-42.4
Adjustment to cash 7/	-6.7	22.9	--	-16.4	--	-13.5	--
Overall deficit:							
Cash basis	-121.3	-94.8	-84.9	-120.1	-42.4	-24.2	-42.4
Financing	121.3	94.8	84.9	120.1	42.4	24.2	42.4
Foreign 8/	60.2	39.9	52.9	38.5	12.4	16.1 9/	12.4
Drawings	(67.2)	(46.4)	(75.6)	(44.1)	(51.0)	(18.5)	(51.0)
Repayments	(7.0)	(6.5)	(22.7)	(5.6)	(38.6)	(2.4)	(38.6)
Domestic	61.1	54.9	32.0	81.6	30.0	8.1	30.0
Bank	(38.8)	(50.7)	(32.0)	(81.6)	(30.0)	(8.1)	(30.0)
Nonbank	(22.3)	(4.2)	(--)	(--)	(--)	(--)	(--)
			(As percent of GDP) 10/				
Memorandum items:							
Revenue and grants	21.7	24.5	26.1	23.7	24.7	...	23.7
Expenditure	32.0	34.9	33.9	33.2	28.4	...	27.4
Overall deficit 11/	10.3	10.4	7.8	9.5	3.7	...	3.7
Domestic bank financing	3.5	4.5	2.9	7.5	2.6	...	2.6

Sources: Data provided by the Liberian authorities; and staff estimates.

1/ Financial year commences July 1.
2/ Preliminary.
3/ Excludes grants-in-kind.
4/ On the basis of checks entered into the cash book, except for wages, which are on a commitment basis, and interest payments, which are on a cash basis.
5/ Excludes expenditures financed by grants-in-kind.
6/ Includes encumbrances.
7/ Comprises adjustments from checks-issued to checks-cashed expenditure, domestic arrears, and unrecorded items.
8/ Includes PL-480 funds.
9/ Including bridge financing to U.S. ESF grants.
10/ At market prices.
11/ Checks-issued basis.

This estimate assumes that the $13.5 million "adjustment to cash" is eliminated by June 1984, consistent with the program assumptions. Adjustment to cash is the difference between the deficit on a check-issued basis and overall financing, and includes domestic arrears, check float, and unrecorded items. The $13.5 million reflected an unexpected improvement in recorded expenditure at the time of the November 30 review. If this improvement should continue for the full fiscal year, it would mean a further reduction in the deficit to an estimated 2.5 percent of GDP. Since the 1983/84 program already calls for a sharp reduction in the deficit to 3.7 percent from 9.5 percent in 1982/83, we feel that this additional reduction would hamper the normal functioning of the Government.

The authorities considered several alternatives with respect to reducing the deficit to the programmed amount. First, they felt that there was scope for a further increase in the gasoline tax. The authorities noted, for example, that the c.i.f. delivery price for gasoline at the Port of Monrovia had fallen from about $1.25 per gallon in July 1983 to less than 90 cents per gallon in November. (Since the closing of the Liberian oil refinery in December 1982, Liberia has been importing refined products.) An increase in the gasoline tax from 92 cents to $1.25 per gallon, they felt, could be accommodated within the existing pump price of $3.00 per gallon. This new measure, implemented on January 16, 1984, will provide an estimated $3 million in additional revenues for FY 1983/84. Second, they saw no alternative to a further reduction in the domestic costs of the development budget and nonwage, noninterest recurrent expenditures. These budget cuts, announced on January 16, 1984, are expected to provide $13.6 million in budgetary savings. Regarding recurrent expenditures, downward revisions of the budget were made by major code items, and each ministry and agency has been advised of their proportional cut in the recurrent budget. Regarding the development budget, the authorities have reduced the total amount by $6.8 million but have yet to specify the distribution of the cuts by project. To ensure that expenditures are contained within the revised budget, the authorities have established an expenditure control subcommittee of the cabinet-level Economic and Financial Management Committee. With these revenue and expenditure measures, the originally envisaged fiscal deficit is expected to be achieved, but will require timely and concerted efforts on the part of the authorities.

The authorities have made significant progress in identifying the nature and level of arrears among government agencies and public corporations in the form of unpaid bills, unpaid taxes, and unserviced debts. They advised the staff that they are engaged in a project to clear these amounts and to put all payments on a current operating basis. The World Bank is assisting them in this effort.

2. External public debt

The Liberian Government reduced its external payments arrears from the $14.5 million outstanding at the end of June 1983 to $8.4 million at the end of November, consistent with the schedule for gradually eliminating these payments arrears. A rescheduling of public and publicly-guaranteed debt, which was also an essential part of the adjustment program, is under way. Public debt to bilateral creditors was rescheduled in the context of the Paris Club meeting on December 22, 1983. (See SM/84/49, February 16, 1984). The budgetary and balance of payments savings derived during 1983/84 from this agreement amount to an estimated $17 million, which is consistent with previous staff projections.

The private banks have agreed to refinance principal falling due in 1983/84 and 1984/85 on terms and conditions comparable with their previous rescheduling covering 1981/82 and 1982/83. The group of banks in the oil financing facility, to whom arrears of $26 million had accrued in 1982/83, has also agreed to participate in this rescheduling on the same terms and conditions as the other banks. The gross relief for 1983/84 involved in this agreement with the private banks, estimated at $16 million, is also consistent with earlier staff projections.

3. Petroleum sector

The Liberian authorities have been slow in implementing their program to open the petroleum sector to private companies in competition with the Liberian Petroleum Refinery Company (LPRC), which has heretofore had a monopoly on imports of petroleum products. The Government of Liberia announced on July 25, 1983 the termination of LPRC's refining operations and authorized private companies to import petroleum products. Implementation of this announcement was deferred, according to the Liberian representatives, due mainly to procrastination by the LPRC. The operational guidelines issued by the LPRC on November 23, 1983 did not attract any potential importers for gasoline but the concessions imported other petroleum products to meet their requirements. The management of the LPRC was revamped on December 7, 1983, and new guidelines were issued on January 16, 1984 by the Economic and Financial Management Committee. It is too early to determine whether these new guidelines will lead to imports of gasoline by private importers. In any event, the reduced role of the LPRC in the petroleum sector has permitted the Government to absorb additional revenue of 93 cents per gallon without adding to the cost of gasoline to the consumer.

IV. Economic and Financial Developments--Report on the Discussions

1. Output, prices, and incomes

During the past three years there has been a sharp deterioration in the performance of the Liberian economy, with total output declining by 12 percent between 1979/80 and 1982/83 (Table 5). The downturn affected both the export-oriented and domestic sectors in the monetary economy. Reflecting the recession in Liberia's export markets, the fall in production in the export-oriented sectors was concentrated in 1980/81-1981/82 in the forestry sector and in 1982/83 in the iron ore sector. The general loss of confidence following the change in government in 1980 contributed to the substantial decline in output in the domestic-oriented sectors of the monetary economy. Production in the subsistence economy is estimated to have increased at an annual rate of 3 percent between 1979/80 and 1982/83. As a result, its share in total GDP rose from 16 percent in 1979/80 to 19 percent in 1982/83.

Revised estimates indicate that there was a substantial deepening of the recession in 1982/83, when total GDP fell by 7.2 percent, following declines of 3.4 percent in 1980/81 and 1.2 percent in 1981/82. Contrary to the previous two years, when the decline in GDP was mainly on account of developments in the domestic-oriented sectors of the monetary economy, in 1982/83 the fall in output in the export-oriented sectors accounted for 79 percent of the decline in total GDP. In response to a decline in shipments and an increase in stocks during the first half of 1982, iron ore production was reduced sharply, resulting in a 25 percent fall in value added in the mining sector.

Indications are for a turnaround in 1983/84, with total GDP projected to increase by 2 percent, compared with an originally projected increase of 1.1 percent. With a reduction in iron ore stocks during the second half of 1983 and a slight increase in shipments beginning in 1984, output in the mining sector is projected to increase by 5.6 percent in 1983/84. Modest increases are also expected in agricultural production for export, notably in rubber, coffee, and cocoa.

Table 5. Liberia: Gross Domestic Product, 1980/81-1983/84

(Percentage changes from preceding year at constant prices)

	1980/81	1981/82	1982/83	1983/84
		Estimates		Proj.
Export-oriented sectors	-0.3	-0.5	-16.5	4.2
Agriculture	-10.7	-7.1	1.3	1.9
Mining and quarrying	5.9	2.8	-24.7	5.6
Domestic-oriented sectors	-7.3	-3.3	-4.2	0.2
Total monetary economy	-4.5	-2.2	-9.4	1.8
Total subsistence economy	2.8	3.0	3.0	3.0
Total GDP	-3.4	-1.3	-7.2	2.0

Sources: Data provided by the Liberian authorities; and staff estimates and projections.

The authorities indicated that the recovery of the economy in 1983/84, after the very sharp fall in earlier years, was still very modest, but they were hopeful that recovery of the export markets for Liberia's products would accelerate in the coming months. The authorities on their part would intensify their efforts at strengthening Liberia's export position. In the iron ore sector, it was important for Liberia to bring its exports into new markets, most notably in developing countries and possibly also into the United States. The program of reduction in costs in the mining sector begun in 1983 would be continued in 1984, and it was expected to result in an elimination of losses in one of the two major companies. In the rubber sector the objective is to bring individual farmers back into the production process. The reduction in wages in the public sector and the temporary exemption from export taxes have already made rubber farming more attractive. With the increase in world market prices and the possible entrance of new producers in the concession sector, leading to increased competition for the farmers' product, producer prices could be increased. In the timber sector the authorities said that, in view of the competitive situation in European markets, a promotion effort would be undertaken, with a view to introducing Liberian timber products into the American market.

Looking into the medium term, the Liberian representatives stated that prospects are most promising for the agricultural sector, both for food and tree crops. However, in view of the current predominant position of the mining sector in the Liberian economy, despite diversification efforts, iron ore will remain a significant factor in the Liberian economy. The Government is currently studying proposals for the development of iron ore reserves in the western area, which are to replace the present ore deposits, expected to be depleted around 1987-88.

In the agricultural sector the representatives indicated that over the past years production of rice and cassava had increased steadily, in the case of rice in response to an increase in the producer price from 12 cents to 18 cents per pound in 1981 and as a result of increased productivity. Under the seed multiplication program, improved quality of rice seeds had resulted in higher yields, while, under the integrated agricultural development projects, production of swamp rice has been well above targets. Currently the major constraints are in the area of marketing of production. Limited capacity of storage, milling, and drying facilities has prevented marketing agencies from purchasing all production offered. In varying degrees marketing constraints also apply to export crops. Therefore, the authorities intend to give priority in the agricultural sector to projects for upgrading and expanding facilities for the different activities related to the marketing of agricultural products.

Regarding coffee and cocoa, the authorities explained that the marketing board (LPMC) is using part of the export proceeds for the financing of projects that benefit the farmer, a factor which has to be taken into account in assessing the adequacy of producer prices. However, losses incurred on the operations on palm products are charged against profits from coffee and cocoa. It is hoped that these losses will be eliminated as a result of efforts to rationalize the palm industry and to remove its operations from the LPMC. They also indicated that efforts would be made to reduce transportation costs for marketing and administrative costs of the LPMC. As a result of these actions, the authorities hope that it would be possible to consider an increase in producer prices for coffee and cocoa.

Commenting on the recent Donors' Conference for Liberia, the representatives indicated that they were in the process of reviewing the investment program, defining priorities, and bringing the size of investment in line with financing likely to become available. In view of the limited budgetary savings and the heavy external debt burden, the authorities realized that a larger share of total investment will have to be carried out and financed by the private sector. The authorities have stated their intention to encourage private sector initiatives by providing a favorable environment. Improvement in the public finance situation would go a long way to reducing uncertainties. The authorities are also in the process of reviewing the Investment Code with a view to simplifying its provisions and improving monitoring of operations that have benefited from tax incentives. They also indicated that procedures for authorizing investment under the Investment Code would be coordinated between the Ministry of Planning and the National Investment Commission.

Reflecting mainly developments in import prices and in particular the appreciation of the dollar during the past few years, the rate of increase in consumer prices in Liberia continued to slow in 1983. The annual average rate of increase in consumer prices declined from 10 percent in 1980/81 to 7 percent in 1981/82 and 4.7 percent in 1982/83, and further to 2 percent from October 1982 to October 1983. The slowdown in the rate of inflation affected all components of the price index, in particular drinks, tobacco, energy, and health services. There has been virtually no increase in rents since the first half of 1982.

2. Budget performance

a. Developments in FY 1979/80-1981/82

Budgetary trends prior to FY 1982/83 strongly reflect the effects of two events, the OAU Conference of July 1979 and the change of government in April 1980 (Chart 1). Against the background of a slow revenue growth, the OAU-related development expenditures resulted in a steep increase in the overall deficit, peaking at 14.0 percent of GDP in 1978/79. In FY 1979/80 the subsequent winding down of OAU-related expenditures led to a 37 percent cut in development expenditure, with a corresponding reduction in the deficit to 8.0 percent of GDP. With the change in government in the spring of 1980, however, new expenditure decisions again pushed the overall deficit to more than 10 percent of GDP in FY 1980/81 and FY 1981/82. In particular, the sharp increase in wage and salary rates led to a 67 percent growth in the wage bill during these two years.

During the four-year period FY 1978/79 to 1981/82 total revenue and grants grew at an average rate of 7.4, while GDP at current prices grew at an average annual rate of 3.2, implying a tax buoyancy of 2.3. Aside from a steep increase in foreign cash grants, this high rate was attributable to a number of revenue initiatives in FY 1980/81 and 1981/82, following a stagnation in revenue collections during the unsettled political conditions in FY 1979/80. In FY 1980/81 total revenue and grants again resumed growth, mainly as a consequence of a sizable increase in income tax collection, following the increase in the Government's wage bill, and several revenue initiatives. Despite almost no growth in nominal GDP, this trend continued in FY 1981/82, the main contributing factors being the trebling of the tax rates in respect to maritime revenues and the introduction of the National Reconstruction Tax. As a result, total revenues and grants reached the equivalent of 24.5 percent of GDP.

Total government expenditure as a percentage of GDP fell sharply in FY 1979/80 in the wake of the winding down of OAU-related expenditure, followed by a steady increase in the succeeding two fiscal years, due to the rapid growth in recurrent expenditure. In FY 1978/79 development expenditure accounted for more than half of total government expenditure, to a considerable extent reflecting unproductive OAU-related expenditure. In the following years development expenditure continued to fall in absolute terms. At the same time recurrent expenditure, including nonbudgeted expenditure, grew steadily, rising at rates of 17.5 to 29.8 percent in each year, fueled by the pressure to increase wages and salaries and by high interest obligations owing to the OAU-related commercial debt.

b. Developments in FY 1982/83

The 1982/83 budget of the Central Government aimed at reducing the overall deficit to 7.8 percent of GDP, compared with 10.4 percent of GDP in FY 1981/82, and at limiting the increase in domestic bank credit to 2.9 percent of GDP compared to 4.5 percent of GDP in FY 1981/82 (Table 4). However, the expected improvement in budgetary finances did not materialize. While total expenditures were kept within budgetary limits, revenues were far less than projected. Furthermore, an unprogrammed reduction of more than \$16 million in the outstanding check float and in domestic arrears and a shortfall in foreign financing intensified fiscal strains. As a consequence, the overall deficit on a checks-issued basis of \$103.7 million was only slightly lower than in FY 1981/82, with its share in GDP falling from 10.4 percent to 9.5 percent. At the same time the cash deficit increased by \$25 million over FY 1981/82 to \$120.1 million.

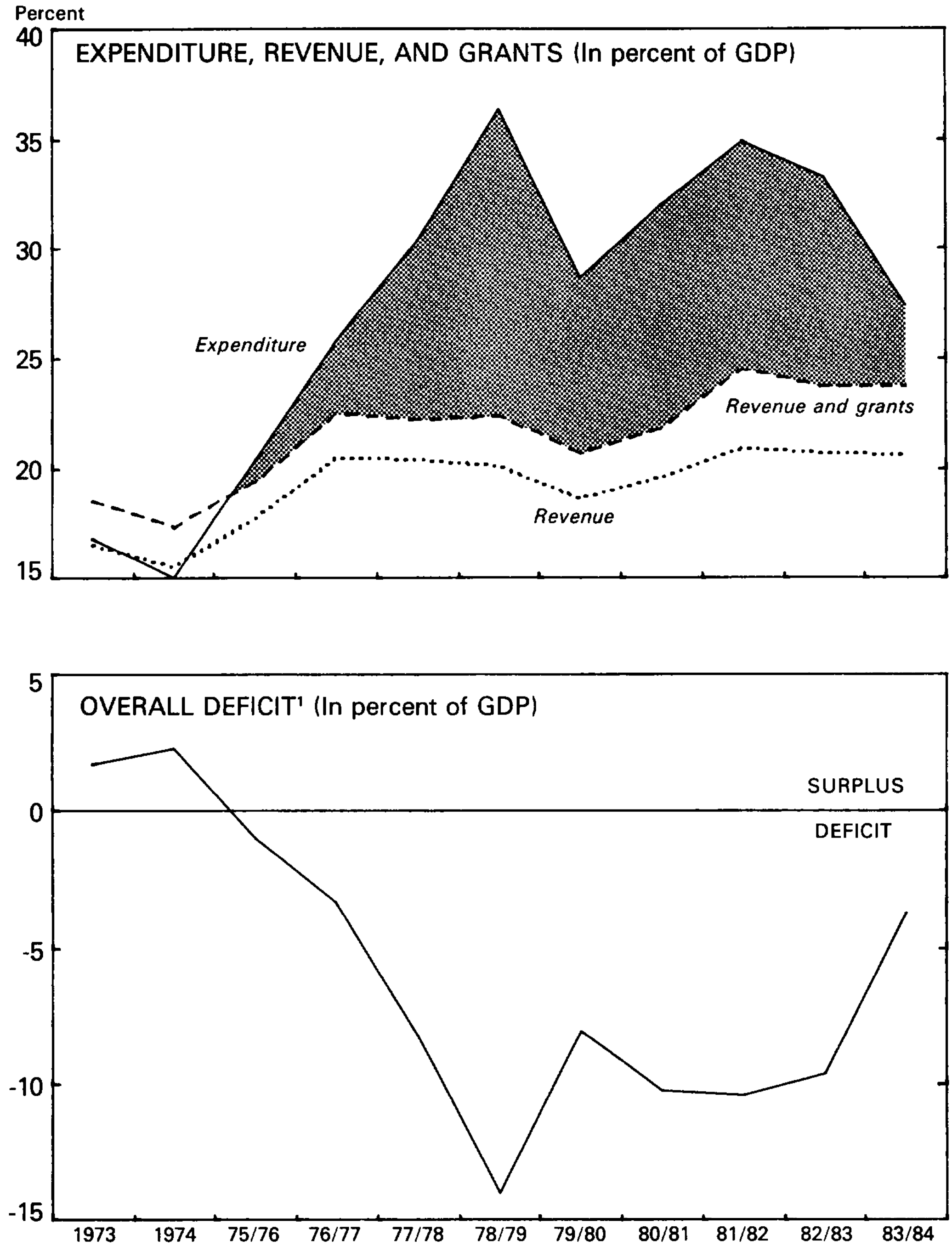
As for total revenue and grants, no changes in tax policy were contemplated in the original budget, and cash grants were expected to be \$9 million lower than in FY 1981/82 due to a bunching of disbursements in that year. Thus, total revenue and grants were projected to increase by 3 percent stemming from improved collection efforts and an increase in the rate of economic activity. These projections were not achieved, however, despite the introduction of some new tax measures during the course of the fiscal year and extraordinary efforts to collect back taxes 1/. Total revenue and grants fell short by more than \$30 million from the originally programmed level and were \$22 million less than the FY 1981/82 outturn and their share in GDP declined from 24.5 percent in FY 1981/82 to 23.7 percent in FY 1982/83.

1/ The tax measures introduced during the fiscal year comprised: (1) a local tax, abolished shortly after the 1980 change in government, was The shortfall in total revenue from the original targets can be reinstated in the rural areas; and (2) the interest penalty on due tax was raised from 6 percent to 18 percent.

CHART 1

LIBERIA

FINANCES OF CENTRAL GOVERNMENT, 1973-1983/84



Source: Data provided by the Liberian authorities.
[1] Checks-issued basis.

The shortfall in total revenue from the original targets can be ascribed to the following factors: (1) customs duties fell short of the budgeted targets by about $15 million, on account of a decline in imports, the removal of the import surcharge during the course of the fiscal year, and a number of ad hoc duty exemptions, particularly those granted to the rubber sector; (2) corporate and partnership tax receipts declined sharply with the diminution of business activities to their lowest level since 1977/78; (3) rubber sales tax receipts were very low because of low rubber prices and ad hoc tax exemptions; finally (4) as regards nontax revenue, the expected revenues from the introduction of the new identification card did not materialize.

On the expenditure side, total expenditure, on a checks-issued basis, was well below the program level and more than $30 million below the 1981/82 outturn, with almost the entire adjustment taking place in noninterest recurrent expenditure. The wage bill was reduced by about $20 million, or by 14 percent, and other recurrent expenditure fell by $24 million, or by 26 percent. Unfortunately, the gains here were offset by about $13 million of overruns in locally financed development expenditure and by another $17 million of extrabudgetary expenditures.

The wage bill was originally to be cut by 15 percent from the FY 1981/82 level by a number of employment-related actions. However, by the end of the first half of the fiscal year, the envisaged reduction in the wage bill was recognized as nonattainable without further policy measures. In an effort to redress the situation, wages in the public sector were reduced, effective January 1, 1983, by 16 2/3 percent for lower-income employees and 25 percent for higher-salaried employees. As a result, the wage bill was reduced by 14 percent from the FY 1981/82 level.

Actual development expenditures in FY 1982/83 were similar to those in the previous year, in terms of both level and structure. Total development expenditure had originally been programmed to increase by 28 percent over the 1981/82 outturn, stemming entirely from an almost doubling of foreign-financed expenditure. Following the mid-term review, the authorities agreed to cut back the locally financed development budget by $9 million, or by 15 percent. However, this cut was not realized, and locally financed development expenditure remained at the level of original appropriations. On the other hand, foreign-financed development expenditure fell far short of the program level because of the Government's inability to allocate sufficient funds for local counterparts.

3. Public corporations

The Liberian authorities have expressed their intention to rationalize the public corporations, but progress to date has been slow. These corporations continue to receive subsidies directly and indirectly and to burden the economy through inefficient operations. One exception is the petroleum sector, where some progress has been made, as described in Section III.

Rationalization of the public corporations is the major focus of a joint project with the World Bank, formally approved by the Head of State on November 22, 1982. This project includes: (a) identifying those corporations that should be sold to the private sector, either in a joint venture or outright (the Government of Liberia has identified a few public corporations for sale, including the Timber and Plywood Corporation and the Mesurado Group, and the IFC is currently assisting the Government in seeking private investors to buy into these corporations); (b) providing technical assistance to improve the efficiency of those remaining in the public sector; and (c) establishing a public agency, with adequate authority, to ensure that the above objectives are achieved. This project is currently being incorporated into the planned Structural Adjustment Loan (SAL) of the World Bank. A SAL mission, which visited Liberia early this year, reviewed the status of the project in terms of: (a) identification of actions for privatizing one or two public enterprises; (b) developing and agreeing on a strategy for settling inter-enterprise and enterprise-Government-of-Liberia arrears and for avoiding a recurrence of this problem; and (c) determining actual technical assistance and training needs in finance and accounting for selected major public enterprises.

The mission reviewed with the Liberian authorities the status of the National Iron Ore Company (NIOC) Rehabilitation Project. Severe financial constraints on the NIOC have crippled production and delayed the rehabilitation process. The NIOC management has requested additional cash inputs from the project participants to stay in operation. The World Bank and the other co-lenders have examined the additional cash requirements in the context of the prospects for NIOC in present world market conditions and, with one exception, have accepted the continuation of the project. The Liberian authorities indicated that the additional resources required from the Central Government will be included in the FY 1984/85 and 1985/86 development budgets. The staff believes that the required amounts can be accommodated in the budget if other projects of an unproductive nature are eliminated.

4. Money and credit

a. Monetary policy constraints

Monetary and credit trends in Liberia are dictated by the financing requirements of the Government and by developments in the external sector. In as much as Liberia uses the U.S. dollar as its primary medium of exchange, the range of policy instruments available to the Liberian monetary authorities is limited, and the conduct of monetary policy is largely passive. Owing to its limited right of currency issue and the shortage of foreign exchange reserves, the National Bank of Liberia (NBL) has no significant control over the availability of domestic credit, domestic interest rates, or the trend of the money supply. Moreover, the commercial banks provide only limited services to the domestic economy. Of the seven commercial banks operating in Liberia, five are branches or wholly owned subsidiaries of foreign banks. Only one of these, and two publicly owned banks provide a full range of banking services to residents of Liberia.

Recognizing the limited scope for monetary policy, the Liberian authorities have examined their policy options. They have considered the pros and cons of shifting to a Liberian national currency, and they have no plans to issue a national currency as a substitute for the U.S. dollar nor to issue coins in higher denominations than the $5 coins already in circulation. Within this policy constraint, however, the authorities have examined other measures to improve the functioning of the financial system in mobilizing domestic savings and channeling those savings to productive investments. A mission from the Central Banking and Legal Departments of the Fund examined the Liberian financial system and, in its February 1, 1983 report, concluded, "Until the fiscal problem is solved and confidence restored, efforts aimed at savings mobilization are likely to be only marginally successful." The report recommended that "the first priority of the Liberian authorities should be to ensure the success of their stabilization program, which is aimed at improving the financial structure of the public sector and at restoring the external balance of the economy."

b. Monetary developments

Evolution of the trend of recorded money supply and particularly bank deposits during the past few years reflects a gradual restoration of confidence. The recorded money supply, which excludes U.S. dollar currency in circulation, declined by 30 percent from December 1979 to December 1981. It has recovered gradually since that time, but as of September 1983 remains 7 percent below the December 1979 level. Adjusted for the trend of prices during these four years, the real money balances in Liberia remain sharply below the 1979 level, thus explaining the continuing tight liquidity condition in the economy.

During the FY 1982/83 program the recorded money supply increased by 8.5 percent (Table 6). Time and savings deposits, which more nearly reflect the confidence factor, rose by about the same percentage. These trends accelerated during the first quarter of the 1983/84 program. Preliminary data indicated a withdrawal of about $4 million of deposits from the banks during October and November. The Liberian authorities confirmed these trends in the course of the consultations but later (January 30, 1984) reported that deposits were returning to the banks.

The Central Government has been the only recipient of new credit in the economy during the past four years. During 1982/83, for example, domestic credit expanded by 16.4 percent: credit to Government rose by 46.0 percent, but credit to the private sector fell by 12.8 percent. Reflecting an improvement in the position of the LPRC, net credit to public corporations declined by 60.4 percent. Table 6 shows the dramatic change in the composition of domestic credit between June 1980 and June 1983. In the earlier year credit to Government accounted for 36 percent and credit to the private sector for 62 percent of total credit. By June 1983 credit to Government comprised 76 percent and credit to the private sector only 20 percent of total credit. Private sector credit at the end of June 1983 remained below the level obtained in June 1981.

The continued expansion of credit to the Government has depleted the gross foreign assets of the NBL and significantly increased its foreign liabilities. During the 12 months from June 1982 to June 1983, the net foreign assets position of the NBL deteriorated by $57.7 million, with the entire amount explained by increased liabilities to the Fund. The commercial banks, on the other hand, reduced their foreign liabilities by $29 million, reflecting a net outflow of dollars from Liberia. This trend was reversed during the first quarter of 1983/84 (July-September 1983), as the commercial banks experienced a net increase of $2.9 million in their net foreign liabilities.

The interest rates structure in Liberia is characterized by large spreads between deposit and lending rates, averaging about 11 percent. Lending rates have averaged 20 percent over the past two years, while deposit rates averaged slightly less than 9 percent. The authorities had attempted to reduce existing spreads by driving up minimum deposit rates through the introduction in May 1982 of short-term certificates of deposit (CDs) of 3 and 6 months' maturity bearing a coupon rate of 16.5 percent. The scheme met with little success and, to the extent that commercial banks were permitted to offset the CDs against excess

Table 6. Liberia: Monetary Survey, 1980-83

(In millions of U.S. dollars)

	1980	1981	1982			1983		
	June	June	June	Sept.	Dec.	March	June	Sept.
Net foreign assets	-81.8	-89.9	-162.3	-161.4	-200.8	-201.6	-190.7	-197.2
National Bank of Liberia	-41.2	-70.1	-124.6	-121.5	-165.1	-185.4	-182.3	-185.9
Of which:								
use of Fund credit	(-38.4)	(-62.1)	(-126.6)	(-124.3)	(-164.0)	(-190.1)	(-188.0)	(-195.5)
Commercial banks	-40.6	-19.8	-37.7	-39.9	-35.7	-16.2	-8.4	-11.3
Of which:								
balance with head offices and banks abroad	(-46.6)	(-27.9)	(-61.0)	(-63.9)	(-47.8)	(-41.2)	(-17.2)	(-17.5)
Domestic credit 1/	242.0	218.6	294.4	304.0	339.1	337.0	342.7	358.5
Claims on Government (net) 2/	87.8	126.6	177.3	195.9	223.6	240.8	258.9	274.7
Claims on public corporations (net)	4.1	15.6	38.4	30.5	36.9	28.6	15.2	14.0
Claims on the private sector	150.1	76.4	78.7	77.6	78.6	67.6	68.6	69.8
Recorded money supply 1/	112.4	95.4	105.2	111.4	113.9	112.7	114.1	119.7
Liberian coins outside banks	10.3	11.3	11.9	13.3	15.7	15.9	16.0	16.1
Demand deposits	48.3	40.7	41.3	40.7	39.7	43.6	42.3	44.5
Time deposits	18.8	11.2	14.6	17.9	20.7	14.3	16.0	19.0
Savings deposits	35.0	32.2	37.4	39.5	37.8	38.9	39.8	40.1
Other items (net)	47.8	33.3	26.9	31.2	24.4	22.7	37.9	41.6

Source: Data provided by the Liberian authorities.

1/ Data for June 1980, June 1981, and 1982 are not strictly comparable with quarterly data commencing September 1982 because of a comprehensive reclassification of claims on and deposits of the Government, public corporations, and the private sector with the National Housing and Savings Bank.

2/ Excluding Trust Fund.

reserve requirements, on which a 10 percent rate was being paid, represented some cost to the NBL. Subsequently, in September 1982 the NBL restricted the CD maturity to 6 months and permitted the rate to move with comparable rates in the United States; the NBL is currently offering the CDs at 12 percent.

5. External sector

Between 1980/81 and 1982/83 Liberia's external position deteriorated steadily, with the overall balance of payments deficit increasing from $46 million in 1980/81 to $74 million in 1982/83 (Table 7). The major factor contributing to the increasing deficits was the sharp reduction in net capital inflows, affecting both the private and public sectors. The current account deficit over the same period narrowed despite a 19 percent decline in exports reflecting depressed conditions in Liberia's export markets. Imports generally fell in line with declining exports as a result of a substantial slowdown in economic activity and lack of available foreign financing. A sharp increase in net transfer receipts, mainly official grants but also maritime revenue, accounted for the improvement in the current account.

Revised estimates indicate that the current account deficit declined slightly from $83 million, or 7.3 percent of GDP, in 1981/82 to $77 million, or 7.1 percent of GDP, in 1982/83. The surplus on the trade balance rose moderately despite an 11 percent decline in export receipts, with shipments of iron ore, Liberia's main export commodity, declining by 14 percent between 1981/82 and 1982/83. The fall in the export price index was limited to 2 percent, as the substantial reductions in export prices for rubber and diamonds were to some extent offset by the increase in average prices for iron ore. Imports fell by an estimated 13 percent as a consequence of a very sharp cut in petroleum imports. Contributing to the unprecedented decline in petroleum imports were the sharp fall in production, financing problems following the breakdown of the oil credit facility, and the strengthening of bill collection for domestic oil consumption. Import prices declined by 3.5 percent, so that the terms of trade are estimated to have improved by 1.9 percent in 1982/83.

The capital account continued to deteriorate in 1982/83, mainly as a result of the sharp increase in private sector capital outflow. Following an increase of $18 million in 1981/82, commercial banks in Liberia reduced their net foreign liabilities by $29 million in 1982/83. Capital movements of other segments of the private sector were in balance for the year. As in the previous year, most of the overall balance of payments deficit in 1982/83 was financed by use of Fund credit. External arrears on public debt service payments, which were reduced by $8 million in 1981/82, rose by $13 million in 1982/83, because Liberia was unable to make the last two purchases from the Fund.

Table 7. Liberia: Balance of Payments, 1980/81-1983/84

(In millions of dollars)

	1980/81 Actual	1981/82 Actual	1982/83 Estimates 1/	1983/84 Proj. Original	1983/84 Proj. Revised
Current account	-103	-83	-77	-50	-49
Trade balance	33	23	30	70	56
Exports, f.o.b.	(555)	(509)	(452)	(527)	(487)
Imports, c.i.f.	(-522)	(-486)	(-422)	(-457)	(-431)
Services (net)	-159	-170	-163	-167	-163
Of which: interest on external public debt 2/	(-25)	(-34)	(-47)	(-47)	(-47)
Transfers (net)	23	64	56	47	58
Capital account	52	31	3	34	34
Official long-term	59	41	32	19	19
Drawings	(69)	(46)	(44)	(51)	(51)
Amortization 2/	(-10)	(-5)	(-12)	(-32)	(-32)
Private (net)	-7	-10	-29	15	15
Commercial banks	(-21)	(18)	(-29) 3/	(10)	(10)
Other (including errors and omissions)	(14)	(-28)	(--)	(5)	(5)
SDR allocation	5	--	--	--	--
Overall balance	-46	-52	-74	-16	-15
Financing	46	52	74	16	15
National Bank of Liberia	36	60	61	30	30
Assets (increase -)	(11)	(-1)	(2)	(-10)	(-10)
Liabilities	(25)	(61)	(59)	(40)	(40)
Use of Fund credit	(31)	(71)	(65)	(40)	(40)
Other	(-6)	(-10)	(-6)	(--)	(--)
Arrears	10	-8	13 3/	-14	-15
Memorandum items:					
Overall balance, before debt relief	-59	-76	-96	-41	-40

Sources: Data provided by the Liberian authorities; and staff estimates and projections.

1/ Preliminary.
2/ After debt relief.
3/ Excludes $26 million debt incurred to the oil facility.

Revised projections for 1983/84 indicate an increase in exports of 8 percent compared with an increase of 12 percent expected when the program was set up. Reflecting a slower-than-expected recovery in export markets, the shortfall will affect mainly iron ore and timber export receipts. Iron ore shipments in 1983/84 are expected to be only slightly higher than in 1982/83, while prices for the year as a whole are likely to be somewhat lower than in 1982/83, resulting in a small decline in value compared with an original expected increase of some $30 million. Export receipts from timber are expected to remain unchanged in 1983/84, as demand conditions in European markets have not improved and because of the competition of lower-cost producers in neighboring countries. Rubber export receipts are also likely to be somewhat lower than originally projected, despite an expected increase in world prices for rubber between 1982/83 and 1983/84 of some 30 percent, due to an increase in the share of lower valued product in Liberian exports.

The current account deficit is projected to decline to $49 million or 4.3 percent of GDP, in line with original program projections for FY 1983/84. With restrictive budgetary policies and only a modest recovery in production in 1983/84, imports are expected to increase by only 2 percent in value terms and, on the basis of an expected decline in import prices, by 4 percent in volume, affecting both petroleum and other imports. The terms of trade should improve by 5.4 percent in 1983/84, also because of the expected increase in export prices.

The overall balance of payments target is likely to be reached in the 1983/84 program year. In particular, there are indications that private capital flows are being reversed as local commercial banks have already brought in external resources into Liberia. It is expected that the liberalization of the petroleum sector will result in additional capital inflows.

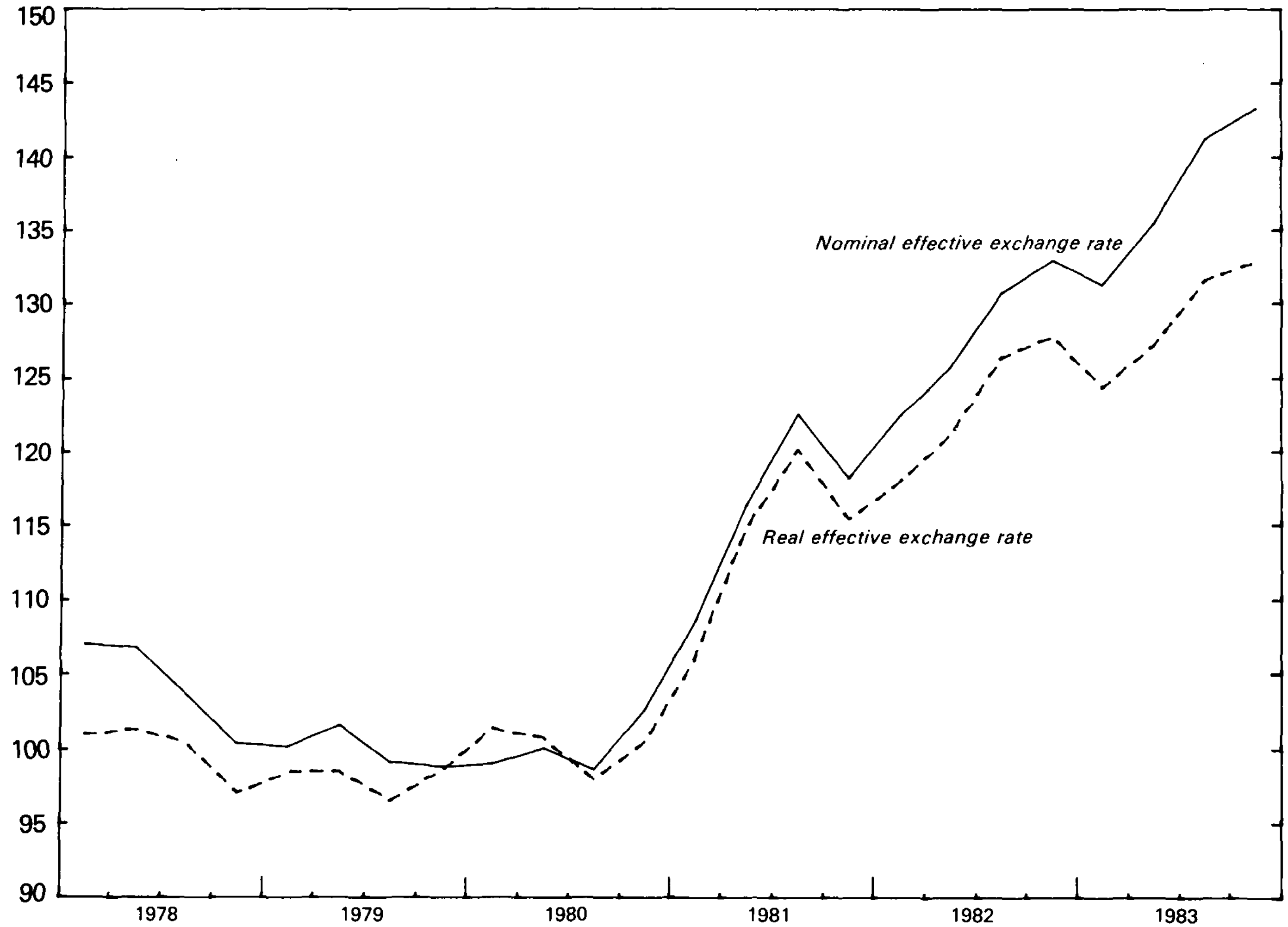
Measured on a trade-weighted basis, the Liberian dollar, which is at par with the U.S. dollar, appreciated substantially in the last two years (Chart 2). In nominal terms the Liberian dollar appreciated by 14.8 percent in 1981/82 and by 8.4 percent in 1982/83. Deflated by the consumer price indices of Liberia and its trading partners, the rates of appreciation were 13.2 percent and 6.6 percent, respectively, in the same two years. The Liberian authorities indicated that the appreciation of the Liberian currency had put pressure on the export sector, especially as it had occurred at a time of a major recession in world markets for Liberia's export commodities. The authorities agreed that, inasmuch as they have precluded an exchange rate option, the competitiveness of the Liberian economy can only be achieved through increased productive efficiency and compression of domestic costs. In the circumstances, in addition to cuts in nominal wages in the public sector in early 1983, Liberia embarked on a program of cost reduction in the iron ore and rubber sectors, which is still continuing. As a

CHART 2

LIBERIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATE TRADE-WEIGHTED INDICES, FIRST QUARTER 1978-FOURTH QUARTER 1983

1980 = 100



Source: IMF, Data Fund.

result, and despite continued weakness in iron ore prices, the financial position of the iron ore sector has improved, with one of the major companies expected to eliminate losses in 1984. With the substantial increase in export prices together with the reduction in costs, the increased profitability of the rubber sector has strengthened prospects for expansion of production in this sector.

As indicated earlier, outstanding arrears on external public debt service payments rose from about $2 million in June 1982 to $14.5 million in June 1983. Consistent with the program these arrears were reduced to $8.4 million in November 1983 and are expected to be eliminated by the end of May 1984.

Official debt service payments for 1983/84 are projected at $97 million, equivalent of about 19 percent of exports, after debt relief of $34 million. On December 22, 1983 the Paris Club agreed to a rescheduling of Liberia's debt service payments falling due in 1983/84 to official creditors, providing a saving of an estimated $17 million. An agreement in principle has also been reached with the London Club on the refinancing of amortization payments to commercial banks covering the period July 1983-June 1985. The group of banks in the oil financing facility has agreed to participate in the refinancing on the same terms and conditions as the London Club banks. A formal agreement is expected to be signed by the end of March 1984. The relief for 1983/84 is estimated at $16 million for fiscal year 1983/84.

A major objective of the program was to improve the liquidity position of the National Bank of Liberia. The Liberian authorities pointed out that, with the phasing of purchases from the Fund, scheduled repayment of external arrears, and government financial operations, the projected improvement in the reserve position of the National Bank of Liberia will come only toward the end of the program year. The authorities expect that, with prudent management of external resources, Liberia will be able to meet its foreign exchange commitments during the year.

6. Medium-term outlook

a. Central Government finance

Liberia's fiscal position is projected to improve further over the next two fiscal years (1984/85 and 1985/86), but serious financing problems will remain unless additional measures are taken. The overall deficit is projected to decline from 3.7 percent of GDP in the current fiscal year to 1.5 percent of GDP in FY 1985/86, reflecting a growth of total revenue in line with nominal GDP, stepped-up foreign cash grants, and a prudent fiscal policy in respect to expenditure.

Revenue is expected to grow by 8 percent per annum, assuming a growth of nominal GDP by the same rate and a tax buoyancy of unity, which is considerably lower than the average rate of 1.6 for the period 1972-1982/83. Consequently, the share of revenue in nominal GDP would remain at 20.6, the expected rate for the current year, which is slightly higher than the average rate of the period 1977/78-1982/83. Cash grants are projected to increase by $10 million as reflected in the FY 1984/85 draft budget of the United States. Total expenditure is projected to increase by 4 percent per annum over the next two fiscal years, considerably lower than nominal GDP. As a consequence, the share of government expenditure in GDP is expected to drop to 25.5 percent in FY 1985/86. The expenditure projection is based upon the following assumptions: (1) both the wage bill and other recurrent expenditures are frozen; (2) no further debt rescheduling, and interest payments will be slightly higher than in the current fiscal year; and (3) as regards the development budget, priority in the use of local funds will be given to counterpart financing of foreign assistance which would contribute to increasing the level of foreign-financed development expenditures. Such an increase seems to be realistic, given the considerable amount of undisbursed concessionary loans and the prospects for an SAL from the World Bank and given that total development expenditures would still be well below their level in the years 1977/78-1980/81. As a consequence of these expenditure projections, government net borrowing requirements are expected to be cut in half during the period.

b. Balance of payments

Liberia's balance of payments is expected to remain under pressure in the medium term (Table 8). On the basis of the assumptions outlined below, the current account deficits are projected to decline gradually from 4.2 percent of GDP in 1983/84 to 1.3 percent of GDP in 1987/88. Exports are projected to increase by an average of 10 percent in the next four years, reflecting a continuing gradual recovery in Liberia's export markets from the weak conditions prevailing in 1982/83. The increase in exports is based on the assumption that Liberia will continue its efforts at containing costs and increasing incentives for producers of agricultural exports, most notably rubber. Taking into account the very low level of imports in 1982/83 and 1983/84, import growth is projected at an average rate of 9.5 percent a year, compared with a projected growth rate of GDP of 8 percent. It is expected that imports of investment goods and raw materials will grow more rapidly than overall imports, consistent with projected higher levels of investment in the years ahead. The reduction in the share of consumption goods in overall imports will be made possible by the expected higher growth of agricultural production for the domestic market. Reflecting mainly movements in interest on the external public debt, net service payments are expected to increase moderately between 1983/84 and 1986/87, while net transfer receipts are projected to increase from $58 million in

Table 8. Liberia: Balance of Payments Projections 1/, 1983/84-1987/88

(In millions of dollars)

	1983/84	1984/85	1985/86	1986/87	1987/88
Trade balance	56	63	74	86	93
Exports, f.o.b.	487	541	592	651	713
Imports, c.i.f	-431	-478	-518	-565	-620
Services (net)	-163	-179	-183	-182	-181
Of which: interest on external public debt	(-47) 2/	(-60)	(-60)	(-54)	(-48)
Unrequited transfers (net)	58	66	68	68	68
Current account	-49	-50	-41	-28	-20
Capital account	34	27	48	67	66
Official long-term	19	2	13	12	11
Drawings	(51)	(63)	(80)	(95)	(90)
Amortization	(-32)	(-61)	(-67)	(-83)	(-79)
Private (net)	15	25	35	55	55
Overall balance	-15	-23	7	39	46
Financing	15	-27	-45	-53	-46
Arrears (decrease -)	-15	--	--	--	--
Reserves (increase -)	-10	--	--	--	-4
Fund credit	40	-27	-45	-53	-42
Purchases	(58)	(...)	(...)	(...)	(...)
Repurchases	(-18)	(-27)	(-45)	(-53)	(-42)
Financing gap	--	50	38	14	--

Sources: Data provided by the Liberian authorities; and staff projections.

1/ Without additional adjustment measures being implemented, especially a reduction in the public sector work force.
2/ After debt relief.

1983/84 to $68 million in 1985/86, at which level they would remain in the following two years.

On the capital account, net private sector capital inflows are projected to increase gradually from $15 million in 1983/84 to $55 million in 1985/86 and 1986/87, reflecting increasing confidence and the reorientation of development policies toward private sector investments. A large part of the financing required for the development of the Western Area ore reserves is expected to be provided from abroad. The projected increase in disbursements of official capital is based on the assumption of an increased share of foreign financing of development projects, including from the SAL of the World Bank. However, net inflows would remain low, as repayments would increase sharply starting in 1984/85 in the absence of debt relief.

The overall balance of payments would move into surplus starting in 1985/86, but the surpluses are not expected to be sufficient to cover the projected external liabilities of the National Bank of Liberia in 1985/86 and 1986/87.

c. External public debt

In the absence of debt relief after 1983/84, the debt service ratio is projected to rise from 19 percent in 1983/84 to about 28 percent in 1984/85-1986/87 before declining to 23 percent in 1987/88 (Table 9). The rapid increase in debt service also reflects increasing repurchases from the Fund and the repayment of debt relief obtained in the period 1980/81-1983/84. With substantial repurchases from the Fund and assuming no further purchases, total outstanding disbursed external debt is projected to decline from US$941 million at the end of 1983/84 to US$817 million at the end of 1987/88, with the ratio to GDP falling from 82 percent in 1983/84 to 53 percent in 1987/88.

d. Alternative scenario

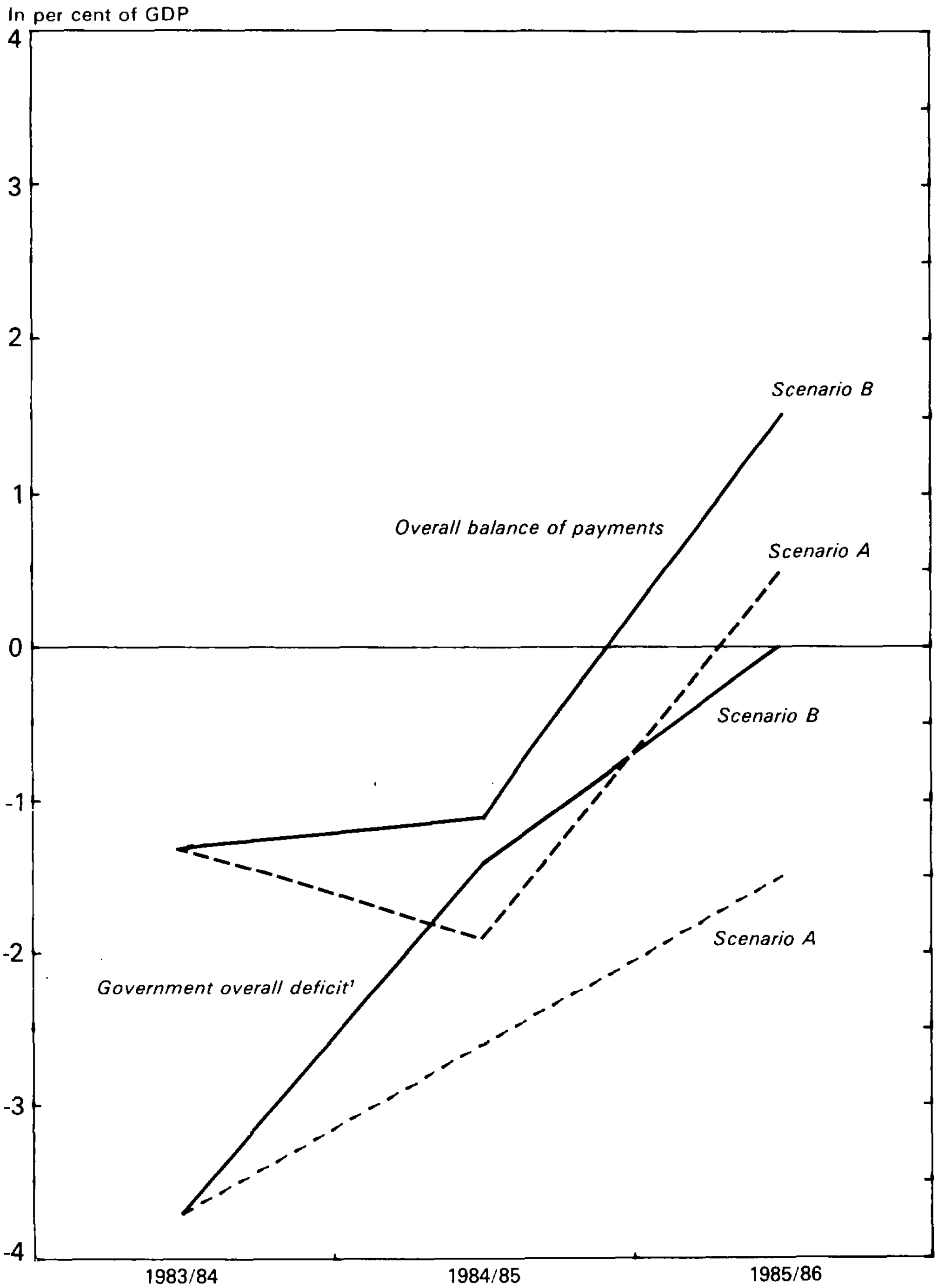
The fiscal and balance of payments projections described above assume the continuation of present policies. These projections are shown as Scenario A in Chart 3. This scenario shows that, in the absence of additional adjustment measures, Liberia would not achieve a viable balance of payments position by FY 1985/86 even though there would be a continued reduction in the fiscal deficit and the overall balance of payments deficit would move into a small surplus.

In the absence of additional external resources, liberia can only meet its external obligations over the next three to four years by running a fiscal surplus. Given the low level of gross foreign assets of the National Bank of Liberia (NBL), even after taking into account increases in net liabilities to the private sector, the NBL can only make scheduled repurchases from the Fund - its only major foreign

CHART 3

LIBERIA

CENTRAL GOVERNMENT BUDGET AND BALANCE OF PAYMENTS, 1983/84-1985/86



[1] Cash basis.

Table 9. Liberia: External Public Debt, 1982/83-1987/88

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
	Estimates	Projections				
			(In millions of dollars)			
Outstanding disbursed (end of period)	853	941	911	879	838	817
Medium- and long-term debt	665	719 1/	725	738	750	771
Use of Fund credit	188	222	186	141	88	46
Debt service	62	97	148	172	190	169
Amortization	15	50	88	112	136	121
Medium- and long-term debt	(12) 2/	(32) 2/	(61)	(67)	(83)	(79)
Repurchases from Fund	(3)	(18)	(27)	(45)	(53)	(42)
Interest payments	47	47	60	60	54	48
Medium- and long-term debt	(34) 2/	(30) 2/	(40)	(41)	(39)	(38)
Fund charges	(13)	(17)	(20)	(19)	(15)	(10)
Exports and goods and services	463	499	554	607	670	733
Gross domestic product	1,088	1,143	1,234	1,333	1,440	1,555
			(In percent)			
Ratios						
Debt service/Exports of goods and services	13.4 3/	19.4 4/	26.7	28.1	28.4	23.1
Interest payments/Exports of goods and services	10.2 5/	9.4 6/	10.8	9.8	8.1	6.5
Disbursed debt/GDP	78.4	82.3	73.8	65.9	58.2	52.5

Sources: Data provided by the Liberian authorities; IBRD, External Debt System; and staff estimates and projections.

1/ Including US$26 million under the oil facility expected to be refinanced with debt to London Club banks.
2/ After debt relief.
3/ Without debt rescheduling, the ratio would be 18.8 percent.
4/ Without debt rescheduling, the ratio would be 24.2 percent.
5/ Without debt rescheduling, the ratio would be 11.4 percent.
6/ Without debt rescheduling, the ratio would be 10.0 percent.

liability - by a reduction in its net claims on government. Taking into account the estimated net foreign borrowing and domestic financing from the private sector, the Central Government must achieve a sufficient surplus to repay the NBL, if the latter is to have the resources to cover its international obligations. Beyond four years, as repurchases from the Fund decline, the NBL will be in a position to meet its external obligations even while the public sector is in balance. Improved measures to mobilize additional domestic or external resources would even permit the public sector to run a deficit.

The Liberian authorities are currently considering additional measures to strengthen the budget through further cuts in the wage bill. On the assumption that these measures are implemented, Liberia could achieve a viable balance of payments and debt service position within the next few years. This outcome is projected in Scenario B in Chart 3. In this scenario, the Government budget would be balanced and the balance of payments would move into a surplus of 1.5 percent of GDP by FY 1985/86.

e. Financing the deficit

Neither the Scenario A nor Scenario B projections assume debt relief beyond the 1983/84 Paris and London Club reschedulings. The potential net debt relief from Paris and London Club reschedulings is estimated at $43 million for 1984/85, $36 million for 1985/86, and $27 million for 1986/87. 1/ The staff has not assumed further debt relief at this stage because it has urged the Liberian authorities to seek other sources of financing and to consider additional adjustment measures before engaging in further debt reschedulings. In the absence of additional adjustment measures (Scenario A), the financing gap could not be covered by the potential debt relief in 1984/85 nor 1985/86. With the fiscal measures assumed in Scenario B, the financing gap could be fully covered by the potential debt relief in each year. Moreover, the creditors would be more likely to agree to continued debt relief in the context of strong adjustment measures on Liberia's part.

1/ These estimates are based on the assumption that the terms and conditions of future rescheduling agreements are the same as those agreed upon in the 1983 Paris and London Clubs.

V. Staff Appraisal and Proposed Decision

The Liberian economy is beginning to grow again, by an estimated 2 percent in 1983/84, after three years of declining output. Nevertheless, some trouble spots remain. The prospects for the iron ore and timber industries do not appear as good as they did six months ago. The volume of Liberia's iron ore exports, which stagnated in 1983, are projected to increase in 1984, but falling prices may offset the volume gains. It also appears that the demand for timber in the European markets, especially Liberia's main market, France, has yet to recover fully. On the other hand, the rubber industry is experiencing a healthy recovery, with world prices up 30 percent during 1983, and agricultural output is increasing steadily as well.

The main factor behind the improvement in the Liberian economy is the resumption of economic growth in Liberia's major foreign markets, especially for rubber, and improved domestic fiscal discipline. In the absence of an exchange rate policy option, the burden of adjustment in Liberia has been on fiscal policy, in the broadest sense. And here the Liberian authorities can point to some significant achievements in FY 1982/83 and again in the current fiscal year 1983/84. Central government expenditures have declined in both nominal terms and relative to GDP, as shown in Table 4 on page 9 and Chart 1 on page 14a. Relative to GDP, for example, expenditures declined from 34.9 percent in FY 1981/82 to 33.2 percent in FY 1982/83 and are projected to decline to 27.4 percent in FY 1983/84. The overall government deficit, as a percent of GDP, declined from 10.4 percent in FY 1981/82 to 9.5 percent in FY 1982/83 and is expected to fall to 3.7 percent in FY 1983/84.

Despite the signs of modest recovery in the real economy and a significant degree of adjustment in fiscal performance, the Liberian economy continues to experience serious financial and structural imbalances. The financial imbalances require immediate attention; moreover, their resolution is an essential condition for dealing with the structural disequilibria. The most urgent financial issues are containment of public sector borrowings from the National Bank of Liberia and timely service on external debt. Resolution of these two issues will require concerted effort on the part of the Liberian authorities over the remainder of the program year.

The potential problem in containing domestic public sector borrowing within the program ceilings stems largely from a shortfall in revenues; total expenditures remained below budget during the first five months of the current fiscal year. Additional revenue measures and expenditure cuts, announced on January 16, 1984, will be helpful in meeting the deficit and borrowing targets for the year; the staff urge the authorities to ensure that these expenditure cuts are implemented as soon as is practicable.

Timely repayment of external debt service will remain a serious problem for the Liberian authorities as long as the National Bank of Liberia has no foreign exchange reserves. The level of reserves has remained in the range of $5-9 million over the past few years. In these circumstances sustained and reinforced adjustment policies are essential to ensure that adequate external resources of the Government are mobilized and allocated on a priority basis to meet external debt service payments. Since September 1983 a Fund consultant has been assisting the Finance Ministry in compiling data on the external debt, and for the first time, the authorities have a better idea of what is owed, to whom and when payments are due. Privatization of the petroleum sector would contribute to mobilizing additional external credits to the Liberian economy to assist in making external debt payments. Unfortunately, only limited progress has been made thus far in opening petroleum imports to the private sector.

Beyond this fiscal year, continued progress toward achieving a fiscal balance will require futher cuts in the wage bill. After-tax wage and salary levels have been reduced progressively over the past few years through compulsory savings bonds, the introduction of a development and progress tax, the National Reconstruction tax, and the January 1983 wage cut. Further cuts in the wage bill, at this stage, should derive primarily from a reduction in the number of public sector employees but some further cuts in wages of unskilled workers would be appropriate. The Liberian authorities are currently considering various proposals that would move a significant number of public sector employees into the private sector. With the recovery in the world demand for rubber, this industry could absorb some of these workers, but an increase in unemployment is unavoidable. At the same time, the authorities are considering a restructuring of the public sector wage scales so as to give adequate incentives to managerial level officials, whose salaries were not increased in 1980 along with the other employees but who have experienced larger than average cuts since that time. The staff believes that the authorities are on the right course on both points--the number of public sector employees should be reduced and the public sector wage scales should be restructured--and these measures should also apply to public sector corporations.

Another critical policy area that deserves attention to achieve financial balance in the medium term is the rationalization of the pubic corporations. A joint project with the World Bank is under way to address this critical need, but progress has been slow so far. Unless these corporations are quickly brought under effective management, subsidies eliminated, and credit needs moderated, there will continue to be significant financial leakages from these corporations that could undermine the efforts of the Central Government.

If the Liberian authorities can successfully resolve these financial issues, they can then give more attention to the structural imbalances in the economy. The timing is right for such a shift given that progress is being made toward a structural adjustment loan (SAL) from the World Bank for the next fiscal year (FY 1984/85). The first mission for a SAL occurred in November 1983, the second in February 1984, and the timetable is for the completion of negotiations in November 1984. The implementation of the World Bank's economic policy recommendations associated with the SAL should improve the medium-term outlook for the economy and also strengthen the prospects for an increase in external assistance to Liberia's development efforts.

The viability of the Liberian balance of payments in the medium-term will depend largely on the measures to generate a public sector balance. Assuming that the authorities implement these measures, Liberia should be able to reach a sustainable balance of payments position over the medium term.

The staff considers that adequate measures are in place to achieve the 1983/84 program objectives, that the authorities are committed to implementing additional measures, and that continued Fund support is justified. The staff proposes that the next Article IV consultation discussions with Liberia be held on the standard 12-month cycle.

The following draft decisions are proposed for adoption by the Executive Board:

1983 Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Liberia, in the light of the 1983 Article IV consultation with Liberia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Liberia continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Review Under Stand-By Arrangement

1. Liberia has consulted the Fund in accordance with paragraph 4(d) of the stand-by arrangement for Liberia (EBS/83/175, Supplement 1,

September 15, 1983) and paragraph 29 of the letter of July 14, 1983 attached thereto in order to review the progress made in the implementation of the program and to reach understandings on the budget performance, the rescheduling of public debt, and the operation of the petroleum sector.

2. The letter of the Minister of Finance dated January 27, 1984 shall be annexed to the stand-by arrangement for Liberia, and the letter of July 14, 1983 shall be read as modified and supplemented by the letter dated January 27, 1984.

3. Accordingly, the reference, in paragraph 4(a) (ii) and (iii) of the stand-by arrangement, to paragraph 27 of the letter of July 14, 1983 (relating to the limit on net credit of the banking system to the public sector, and to the Government, respectively) shall be read as a reference to paragraph 10 of the letter dated January 27, 1984.

January 27, 1984

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière,

1. We are pleased to advise you that the Liberian Government has met the quantitative performance criteria for the end of November 1983. In our July 14, 1983 letter to you we committed the Liberian Government to review with the Fund the progress on the implementation of our adjustment program not later than January 31, 1984. Three areas to which we have attributed special importance are budgetary performance, the external public debt, and the operation of the petroleum sector. But we have also reviewed financial policies and means of improving economic policy formulation and implementation.

Budgetary Performance

2. The review of budgetary performance for the first five months of FY 1983/84 has revealed a shortfall in revenues of $14.5 million (annual basis), while expenditures (checks-issued basis) have remained as budgeted. However, nonbudgeted expenditures of $2.1 million were incurred during the first quarter of the fiscal year. We intend to take the following steps to cover the $16.6 million financing gap. First, on the revenue side, the tax on gasoline (not kerosene) was increased effective January 16, 1984 from 92 cents to $1.25 per gallon, which was done without an increase in the consumer price. This measure is projected to generate an estimated $3 million in revenues for the January-June period. The remainder of the financing gap, $13.6 million, will be offset by equal reductions in the recurrent and development budgets. These cuts will be effected in areas other than salaries and debt service payments. All other original budgetary allocations will be proportionately reduced for all ministries and agencies. This will be implemented by withdrawing these amounts from original quarterly budgetary allotments for the second half of the current fiscal year.

External Public Debt

3. The Government of Liberia is exerting strong efforts to eliminate external arrears according to the agreed schedule and has initiated requests for rescheduling or refinancing of debt service payments due on public and publicly-guaranteed debt to bilateral creditors and private banks. The bilateral creditors met under the auspices of the Paris Club on December 22, 1983. The London Club banks have agreed to

refinance principal falling due in 1983/84 and 1984/85 on terms and conditions comparable with previous rescheduling, and we will use our best efforts to meet the terms specified in paragraph 4(d) of the stand-by arrangement.

4. The London Club banks have advised that the oil facility banks are willing to participate in the rescheduling, on the same terms and conditions as the other banks.

5. In the context of a depressed economy and high unemployment we have experienced strong pressure to engage in new external credits, especially for projects that would create new jobs. But we also recognize, in the context of the existing high external debt, the importance of imposing strict limits on new external credit. Since the Government has already accepted $5 million of new external credits, no new external credits, including suppliers' credits, of 1 to 12 years maturity will be accepted during the remainder of the stand-by arrangement.

Petroleum Sector

6. Consistent with our July 14 letter to you the Government of Liberia announced on July 25, 1983 that the refining operations of the Liberian Petroleum Refining Company (LPRC) had been terminated and that private companies, including concessions, would be permitted to import all such products in competition with each other and the LPRC. Moreover, the excise tax on petroleum products was raised at the same time from 30 to 92 cents per gallon.

7. Implementation of the above announcement has, however, been slow due mainly to procrastination by the LPRC regarding the privatization of petroleum products. Guidelines to authorize private firms to import were issued by the management of the LPRC only on November 22, 1983, and these guidelines were also not found by the private importers to be conducive to privatization of the importation of petroleum products. New guidelines, authorized by the EFMC, have been issued on January 31, 1984. Liberalization of petroleum imports is expected to result in increased foreign financing and with more favorable conditions.

8. Since the imposition of the 92 cents tax on gasoline in July 1983, the c.i.f. price of gasoline has fallen by about 35 cents per gallon. We have therefore decided to increase the excise tax on gasoline to $1.25 per gallon effective January 1, 1984.

Financial Policies

9. We have reviewed the reserve requirements on savings deposits but consider that at this stage no modification is warranted. With a view to retaining domestic savings within Liberia, the Government is taking steps to enforce strictly the regulation requiring insurance companies

to invest a minimum of 10 percent of gross premium income in domestic securities.

10. Re-examination of the accounts of the National Housing and Savings Bank (NHSB) has revealed some misclassification of claims and deposits of government agencies and public corporations, the effect of which has been to change the June 30, 1983 base for net credit to Government and net credit to the public sector from the banking system. Accordingly, the credit ceilings for each of the target dates have been appropriately adjusted to ensure consistency with the program, as shown in the attached Schedule.

Economic Management

11. The Economic and Financial Management Committee (EFMC), established in December 1982 and further empowered in later government decrees, has served more to coordinate financial than economic policies. In part this is attributable to its composition of largely financial officials. The Government intends to strengthen the economic arm of the EFMC. The EFMC has also established a secretariat to plan and follow up on EFMC decisions. The EFMC intends to meet on a weekly basis to review cash flow projections and to take steps necessary to meet all performance criteria under the stand-by agreement.

12. The measures outlined in this letter, we believe, are adequate to achieve the objectives of the adjustment program, but we will take any additional measures necessary to achieve these objectives. Liberia will continue to consult with the Fund on the adoption of such measures in accordance with the policies of the Fund.

With kind regards

Sincerely yours,

/s/

G. Alvin Jones
Minister of Finance

cc: Mr. Thomas D.V. Hanson
Governor
National Bank of Liberia

Schedule: Credit Ceilings

(In millions of dollars)

	Net domestic assets of the National Bank of Liberia	Net credit to Government from the banking system	Net credit to public sector from the banking system
June 30, 1983 1/	182	259	274
November 30, 1983 1/	194	267	288
February 29, 1984	203	280 2/	299 2/
May 31, 1984	210	287 2/	308 2/
June 30, 1984	212	289 2/	310 2/
Total change	30	30	36

1/ Actuals.
2/ Reflects adjustment for revised classification of public sector claims and deposits in June while maintaining net increases originally proposed.

LIBERIA - Relations with the Fund
(As of January 31, 1984)

IMF data

Date of membership:	March 28, 1962
Status:	Liberia continues to avail itself of the transitional arrangements of Article XIV.
Quota:	SDR 71.3 million
Intervention currency and the rate:	U.S. dollar; US$1 = LIB$1
SDR/Local currency equivalent:	SDR 1 = LIB$1.03409
Fund holdings of currency:	
Total	SDR 267.7 million, or 375.4 percent of quota
Use of Fund credit	SDR 196.4 million, or 275.4 percent of quota
CFF	SDR 45.0 million, or 63.0 percent of quota
Credit tranches	SDR 55.5 million, or 77.8 percent of quota
SFF	SDR 42.9 million, or 60.2 percent of quota
EAR	SDR 53.0 million, or 74.4 percent of quota
Holdings of SDRs:	No holdings. Net cumulative allocation of SDR 21.01 million.
Trust Fund loans outstanding:	SDR 27.38 million
Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980):	US$4.6 million
Gold distribution:	24,818.989 fine ounces

LIBERIA - Relations with the Fund (concluded)

Last Article IV consultation:	Staff discussions were held in Monrovia November 24-December 8, 1982, and the staff report (EBS/83/22) was discussed by the Executive Board on February 25, 1983.
Stand-by arrangement:	Staff discussions were held in Monrovia in the periods June 9-21, 1983 and July 10-14, 1983. The stand-by arrangement (EBS/83/178) was approved by the Executive Board on September 14, 1983.
Technical assistance:	CBD has provided both advisory and technical assistance to the National Bank of Liberia: advisory assistance in the field of Banking Legislation (with LEG); a total of 10 technical experts have been assigned, mainly in the fields of research, bank supervision, and general banking. At present three experts fill the posts of general manager, advisor in the research/statistical field, and advisor in the area of bank supervision.
	In addition CBD is providing to the Ministry of Finance a consultant on external debt.
Fund representative:	A Fund representative has been assigned to Monrovia since January 1981.

World Bank Loans/IDA Credits

(In millions of U.S. dollars)

	IBRD	IDA	Total
Disbursement during fiscal years			
1978	8.6	3.0	11.6
1979	12.4	4.0	16.4
1980	15.1	5.1	20.2
1981	20.1	6.3	26.4
1982	11.3	6.5	17.8
1983	8.9	8.0	16.9
1984 (projected)	10.0	14.8	24.8
Commitments			
Financial year 1982	20.0	25.5	45.5
Financial year 1983	--	15.3	15.3
Financial year 1984	--	10.7	10.7

Source: IBRD.

LIBERIA - Basic Data

Area, population, and GDP per capita

Area	111,370 square kilometers
Population: Total (1982)	2.06 million
Growth rate	3.4 percent
GDP per capita (1982)	$540 (SDR 490)

	1979/80	1980/81	1981/82	1982/83	1983/84 Program
			(In millions of dollars)		
GDP at constant 1971 prices					
Agriculture	62.9	56.2	52.2	52.9	53.9
Of which: rubber	(20.6)	(21.1)	(21.6)	(22.0)	(23.3)
Mining and quarrying	105.1	111.3	114.4	86.2	91.0
Of which: iron ore	(100.1)	(106.0)	(107.9)	(79.2)	(84.3)
Other monetary economy	254.9	236.3	228.5	218.8	219.3
Manufacturing	(29.5)	(24.8)	(...)	(...)	(...)
Construction	(17.5)	(14.5)	(...)	(...)	(...)
Government services	(39.6)	(41.5)	(42.9)	(42.0)	(41.5)
Other services	(168.3)	(155.5)	(...)	(...)	(...)
Total monetary economy	422.9	403.8	395.1	357.9	364.2
Subsistence economy	79.0	81.2	83.7	86.2	88.8
Total GDP	501.9	485.0	478.8	444.1	453.0
GDP at current market prices	1,092.2	1,115.0	1,138.6	1,087.6	1,142.9
Annual rates of growth of GDP and prices			(In percent)		
GDP at constant prices	-0.5	-3.4	-1.3	-7.2	2.0
GDP at current prices	8.6	2.1	2.1	-4.5	5.1
GDP deflator	9.1	5.7	3.4	3.0	3.0
Consumer price index	14.2	10.0	7.0	4.7	2.0
Central government finance			(In millions of dollars)		
Revenue and grants	225.8	242.4	279.3	257.4	270.5
Revenue	202.8	217.9	237.9	224.4	235.5
Grants	23.0	24.5	41.4	33.0	35.0
Expenditure	313.7	357.0	397.0	361.1	312.9
Recurrent	179.7	232.8	300.6	265.3	235.7
Development	134.0	124.2	96.4	95.8	77.2

LIBERIA - Basic Data (continued)

	1979/80	1980/81	1981/82	1982/83	1983/84 Program
	(In millions of dollars)				
Overall deficit: checks-issued basis	-87.9	-114.6	-117.7	-103.7	-42.4
Adjustment to cash	--	-6.7	22.9	-16.4	--
Overall deficit: cash basis	-87.9	-121.3	-94.8	-120.1	-42.4
Financing	87.9	121.3	94.8	120.1	42.4
Foreign (net)	65.5	60.2	39.9	38.5	12.4
Drawings	(87.0)	(67.2)	(46.4)	(44.1)	(51.0)
Amortization	(-21.5)	(-7.0)	(-6.5)	(-5.6)	(-38.6)
Domestic	22.4	61.1	54.9	81.6	30.0
Banking system	(42.1)	(38.8)	(50.7)	(81.6)	(30.0)
Other	(-19.7)	(22.3)	(4.2)	(--)	(--)
Money and credit					
Foreign assets (net)	-81.8	-89.9	-162.3	-190.7	-230.0
Domestic credit	242.0	218.6	294.4	342.7	392.0
Claims on Government (net)	87.8	126.6	177.3	258.9	289.0
Claims on public corporations	4.1	15.6	38.4	15.2	21.0
Claims on private sector	150.1	76.4	78.7	68.6	82.0
Recorded money supply	112.4	95.4	105.2	114.1	123.0
	(Annual rate of change)				
Domestic credit	22.0	-9.7	34.7	16.4	14.4
Claims on Government (net)	91.7	44.2	40.0	46.0	11.6
Claims on public corporations (net)	-56.8	280.5	146.2	-60.4	39.4
Claims on private sector	5.0	-49.1	3.0	-12.8	19.5
Recorded money supply	-11.4	-15.1	10.3	8.5	8.0
	(In millions of dollars)				
Balance of payments					
Trade balance	57	33	23	30	56
Exports, f.o.b.	(597)	(555)	(509)	(452)	(487)
Imports, c.i.f.	(-540)	(-522)	(-486)	(-422)	(-431)
Services (net)	-152	-159	-170	-163	-163
Transfers (net)	5	23	64	56	58
Current account balance	-90	-103	-83	-77	-49
Capital (net)	37	52	31	3	34
Allocation of SDRs	5	5	--	--	--
Overall balance	-48	-46	-52	-74	-15

LIBERIA - Basic Data (concluded)

	1979/80	1980/81	1981/82	1982/83	1983/84 Program
	(In millions of dollars)				
Gross official reserves (end of period)	20	9	9	8	18
External public debt					
Disbursed and outstanding (end of period) 1/	522	622	720	853	941
Debt service 1/	56	38 2/	43 2/	62 2/	97 2/
Interest	(22)	(25)	(34)	(47)	(47)
Amortization	(34)	(13)	(9)	(15)	(50)
Debt service 1/ (in percent of exports of goods and services)	9.2	6.7	8.2	13.4	19.4

1/ Including use of Fund credit.
2/ After debt relief.