FOR AGENDA

EBS/84/234

CONFIDENTIAL

November 19, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Liberia - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a request from Liberia for a stand-by arrangement equivalent to SDR 42.78 million. A draft decision appears on page 31.

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).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

LIBERIA

Request for Stand-By Arrangement

Prepared by the African Department and
the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal,
Research, and the Treasurer's Departments)

Approved by A.D. Ouattara and Eduard Brau

November 16, 1984

I. Introduction

In the attached letter of intent dated October 19, 1984 the Government of Liberia requests an 18-month stand-by arrangement in an amount equivalent to SDR 42.78 million, or 60 percent of quota. Of this amount, SDR 21.39 million would be made available from the Fund's ordinary resources and SDR 21.39 million from borrowed resources. Under the previous one-year stand-by arrangement in the amount of SDR 55 million, 99 percent of the previous quota, approved on September 14, 1983 (EBS/83/175, August 17, 1983), Liberia made all four purchases amounting to SDR 55 million.

As of October 31, 1984, the Fund's holdings of Liberian dollars subject to repurchase amounted to SDR 206.3 million, or 289.3 percent of quota, including holdings arising from purchases under the compensatory financing facility of SDR 37.3 million, or 52.3 percent of quota. Liberia's use of Fund resources under the proposed stand-by arrangement is summarized in Table 1.

With full use of the proposed stand-by arrangement and scheduled repurchases, the Fund's holdings of Liberian dollars subject to repurchase would be reduced by SDR 14.0 million to SDR 190.6 million, or 267.3 percent of quota, between November 1984 and June 1986. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required.

Summaries of Liberia's relations with the Fund and with the World Bank Group are provided in Appendices II and III.

Table 1. Liberia: Fund Position During Period of Arrangement, 1984-86

	Outstanding at beginning of arrangement Nov. 30, 1984	1984 Dec.	1985 Jan.-Mar.	1985 Apr.-June	1985 July-Sept.	1985 Oct.-Dec.	1986 Jan.-Mar.	1986 Apr.-June
	(In thousands of SDRs)							
Transactions under tranche policies (net) 1/		7,025	3,024	1,079	-3,157	-4,476	-2,576	-2,830
Purchases		8,500	8,500	8,500	4,320	4,320	4,320	4,320
Ordinary resources		(4,250)	(4,250)	(4,250)	(2,160)	(2,160)	(2,160)	(2,160)
Enlarged access resources		(4,250)	(4,250)	(4,250)	(2,160)	(2,160)	(2,160)	(2,160)
Repurchases		-1,475	-5,476	-7,421	-7,477	-8,796	-6,896	-7,150
Ordinary resources		(-1,011)	(-4,147)	(-4,773)	(-5,398)	(-5,398)	(-4,817)	(-4,160)
Enlarged access resources 2/		(-464)	(1,329)	(-2,649)	(-2,079)	(-3,399)	(-2,079)	(-2,990)
Transactions under special facilities (net) 3/		-2,563	--	--	-875	-875	-4,337	-3,463
Purchases		--	--	--	--	--	--	--
Repurchases		-2,563	--	--	-875	-875	-4,337	-3,463
Total Fund credit outstanding (end of period)	204,632	209,094	212,118	213,197	209,165	203,814	196,901	190,608
Under tranche policies 1/	167,369	174,394	177,418	178,497	175,340	170,864	168,288	165,458
Special facilities 3/	37,263	34,700	34,700	34,700	33,825	32,950	28,613	25,150
	(In percent of quota)							
Total Fund credit outstanding (end of period)	287.0	293.3	297.5	299.0	293.3	285.9	276.1	267.3
Under tranche policies 1/	234.7	244.6	248.8	250.3	245.9	239.6	236.0	232.0
Special facilities 3/	52.3	48.7	48.7	48.7	47.4	46.2	40.1	35.3

Source: International Monetary Fund.

1/ Ordinary, Special Financing Facility and enlarged access resources.
2/ Includes Special Financing Facility.
3/ Compensatory Financing Facility.

Negotiations for the stand-by arrangement were substantively concluded during a mission to Liberia June 12-28, 1984. 1/ Understandings on measures to reduce the wage bill were reached only after protracted discussions eventually involving the newly formed Interim National Assembly, which first met on July 28, 1984, and concluded its deliberations on the budget on September 28, 1984. The mission remained in close collaboration with the World Bank at all stages of the negotiations, in particular with the World Bank mission to appraise a structural adjustment credit (SAC) which visited Liberia during July 1984. The objectives and policies of the proposed SAC are described in section IV.

The Liberian participants in the negotiations consisted of members of the Economic and Financial Management Committee (EFMC), composed of Mr. G. Alvin Jones, Chairman, Minister of Finance; Mr. E. Gardiner, Minister of Planning and Economic Affairs; Mr. F. Sherman, Director of the Budget Bureau; Mr. T.D.V. Hanson, Governor of the National Bank of Liberia. The mission met with Head of State Samuel K. Doe on June 20, 1984.

II. Background

After four years of stagnation, the Liberian economy is showing clear signs of recovery. Led by expansion in the export sector (iron ore, rubber, timber, and cocoa) GDP is projected to grow by about 4 percent in 1984/85, compared with less than 1 percent in 1983/84 and negative growth rates in the previous three years (Table 2). The rate of inflation continued to decline in 1983/84 to less than 2 percent per annum, down from about 5 percent in 1982/83.

The improved outlook for the Liberian private sector reflects both the growing external markets for Liberia's exports and the vigorous efforts of private firms to compress costs and raise productivity. Many of the firms which had dismissed personnel and pulled out of some operations are again rehiring and renewing operations.

While the outlook is improving in the private sector, the financial condition of the public sector is precarious. The Government was able to eliminate external arrears and reduce domestic arrears by the end of Liberian fiscal year 1983/84 (July-June), but it did so only by fully using all available foreign exchange and credit facilities. As the National Bank of Liberia (NBL) has virtually no foreign exchange reserves, it can only

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1/ The mission was composed of Messrs. D. Syvrud (head-AFR), P. Duran (AFR), C. Mansfield (FAD), and P.R. Menon (RES), and Mrs. R. Mungul (secretary-ADM). Mr. A. Linde, Fund Representative in Liberia, participated in all work of the mission.

Table 2. Liberia: Selected Economic and Financial Indicators, 1981/82-1984/85 1/

	1981/82	1982/83	1983/84 Program	1983/84 Estimate	1984/85 Program
	(Annual percentage change, unless otherwise specified)				
National income					
GDP at constant prices	-0.7	-8.1	1.1	0.9	3.9
GDP at current market prices	2.5	-4.9	3.4	2.5	5.1
Consumer prices	7.0	4.7	3.7	1.6	3.7
External sector					
Exports, f.o.b.	-8.3	-11.2	12.4	-2.7	8.4
Imports, c.i.f.	-9.2	-10.3	6.2	-0.5	6.6
Non-oil imports, c.i.f.	-13.1	--	6.2	--	6.6
Export volume	-1.0	-9.9	7.3	-2.7	7.5
Import volume	-8.0	-7.0	3.1	1.5	3.8
Terms of trade (deterioration -)	-6.3	2.4	1.6	2.0	-2.0
Nominal effective exchange rate (appreciation)	14.8	8.4	...	8.4	...
Real effective exchange rate (appreciation)	12.0	6.4	...	4.0	...
Government budget					
Revenue and grants	15.3	-7.9	10.0	1.2	11.5
Total expenditure	11.4	-9.2	-8.7	-11.0	7.4
Money and credit					
Domestic bank credit	34.7	16.4	13.7	15.8	-3.3
Government (net)	(40.0)	(46.0)	(11.9)	(15.9)	(--)
Public corporations (net)	(146.2)	(60.4)	(28.7)	(59.2)	(-91.7)
Private sector	(3.0)	(-12.8)	(17.6)	(9.2)	(12.1)
Money and quasi-money	10.3	8.5	6.6	8.9	7.9
Interest rate (annual rate on one-year deposits)	10.9	10.0	11.0	10.0	10.0
	(In percent of GDP)				
Government overall deficit 2/					
After rescheduling	10.5	9.7	3.6	5.5	...
Before rescheduling	10.9	10.0	3.9	5.9	4.9
Domestic bank financing	4.5	7.7	2.6	3.7	--
Foreign financing	3.9	4.1	1.4	3.5	3.7
Gross domestic investment	17.1	15.6	18.8	19.1	20.0
Gross domestic savings	14.8	12.4	20.7	16.0	17.8
External current account deficit (before rescheduling) 3/					
Excluding official grants	15.4	17.8	11.5	16.4	15.6
Including official grants	6.7	8.2	4.7	8.0	6.9
External current account deficit (after rescheduling)					
Excluding official grants	15.0	16.5	11.1	15.9	...
Including official grants	6.2	7.9	4.3	7.5	...
External debt (including use of Fund credit)	66.0	80.0	75.9	84.3	87.5
	(In percent of exports of goods and services)				
Debt service ratio 3/					
Before rescheduling	13.0	19.0	21.6	25.5	29.7
After rescheduling	8.2	13.4	18.3	17.3	22.1
Interest payments 3/ 4/	7.4	11.1	9.6	11.5	12.1
	(In millions of SDRs)				
Overall balance of payments deficit					
Before rescheduling 3/	67.7	92.3	47.6	63.6	36.5
After rescheduling	45.7	68.3	14.8	28.5	17.0
Gross official reserves	8.7	7.4	18.0	4.5	5.0
External payments arrears (end of period)	1.8	12.6	--	--	--

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

1/ Fiscal year July to June.
2/ On a checks-issued basis.
3/ Including debt service payments on previously rescheduled debt.
4/ Before rescheduling.

cover external obligations as external resources are received.1/ The past two Fund supported programs have aimed at increasing the NBL's gross reserves by $10-15 million, but this objective has not yet been achieved.

As Liberia completes its fourth successive Fund stand-by arrangement since September 1980, this is an appropriate occasion to review briefly the performance of the economy during these four years and the context in which the adjustment took place. On the domestic budget side, the authorities have been faced with huge external debt servicing payments, largely associated with expenditures for the OAU Conference in 1978/79, and an unsustainable wage bill, resulting from the doubling of the minimum wage level of public sector employees by the new Government in April 1980. Moreover, the change in government shocked business confidence, induced capital outflows and created a severe liquidity squeeze in an economy which uses the U.S. dollar as the primary medium of exchange. Then in 1982/83 a severe recession on the international scene dampened the market for Liberian exports (iron ore, rubber, timber), which by their nature are sensitive to cyclical fluctuations. Finally, the appreciation since 1980/81 of the U.S. dollar, added to Liberia's economic difficulties, by weakening its competitive position abroad.

In the face of these domestic and external difficulties, the Liberian authorities persisted in their economic adjustment programs supported by Fund resources. During the four years of the Fund supported programs Liberia experienced a degree of economic stability which it otherwise would not have had in the context of world recession. The adjustment measures have been associated with a reduction in costs, both in the private and public sectors, so that the Liberian economy is in a position to benefit from the current recovery in world markets for its products. As a consequence the Liberian economy is growing again for the first time in four years. Moreover, by the end of June 1984, the Government of Liberia was current on all its external payments, and bank deposits were on the rise.

Concerning the balance of payments, the deficit on the current account declined moderately from an estimated $107 million in 1980/81, the year of the first program, to an estimated $87 million in 1983/84. The decline would have been larger had there not been a turnaround in private capital flows which sustained import demand. This turnaround, from a net outflow of an estimated $7 million in 1980/81 to an estimated

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1/ Over the last year Liberia has frequently been late in meeting payments to the Fund (see Table 5 of EBS/84/211 (10/11/84) Overdue Financial Obligations to the Fund - Six-Monthly Report). On two occasions the overdue obligations were not settled until after the Executive Board had been informed of the delay; on the other occasions, the arrears were settled before the end of the period when the Executive Board is normally notified that payments are overdue.

net inflow of $14 million in 1983/84, along with a continued recovery in bank deposits, reflected a modest improvement in private sector confidence in the economy.

The key measures in achieving these results were the reductions in public sector expenditures--from 33 percent of GDP in 1980/81 to 30 percent of GDP in 1983/84--and the overall fiscal deficit--from 10.8 percent of GDP in 1980/81 to 5.9 percent of GDP in 1983/84 (or from $118 million to $64 million). The focus of the expenditure cut was the wage bill which, after rising from $95 million in 1978/79 to a peak of $158 million in 1981/82, declined to $126 million in 1983/84. In real terms the government wage bill is currently significantly below the 1978/79 level. Wage cuts in the public sector also set the stage for cost reduction measures in the private sector.

Further cost cutting in the public sector is particularly difficult at the present time as the country is in the process of returning to civilian rule. A new constitution was approved by referendum on July 3, 1984. As the first step toward civilian rule, the Head of State announced on July 22, 1984, the dissolution of the People's Redemption Council (PRC), which had ruled Liberia since April 1980, and the formation of an Interim National Assembly, which includes all members of the PRC and 35 civilians selected on the basis of regional representation. Also beginning July 26, 1984, political parties were permitted to be organized with a view to elections in November 1985. In its meeting of September 28, 1984 the Interim National Assembly approved the economic policies associated with the proposed Fund stand-by arrangement and the World Bank's SAC.

III. The 1983/84 Program

a. Objectives and outcome of the 1983/84 program

The 1983/84 adjustment program, as previous programs, continued to focus on the Liberian public sector and, particularly, on the budget of the Central Government. The principal targets and assumptions included a real GDP growth rate of one percent (compared with negative growth in each of the preceding three years), a further reduction in the rate of inflation to 3.7 percent, improvement in the balance of payments position and a reduction in the overall fiscal deficit. The targets and the principal policy measures to achieve these targets are summarized in Table 3.

Most of the macro economic targets were achieved during the program year. Real GDP grew by an estimated 1 percent, very much on target, and the rate of inflation fell below the projection to less than 2 percent. The overall balance of payments deficit after debt relief declined to 2.7 percent of GDP compared with the program target of 1.4 percent, while the current account deficit declined only marginally to 7.4 percent of GDP, compared with the program target of 4.3 percent.

Table 3. Liberia: Summary of Program Under Stand-By Arrangement for 1983/84 and Status of Implementation

1. Principal targets

	1983/84 Projected	1983/84 Estimates
	(In percent)	
Real GDP growth	1.1	0.9
Change in consumer prices	3.7	1.6
	(After debt relief; in percent of GDP)	
Balance of payments		
Current account deficit	4.3	7.5
Overall deficit	1.4	2.7
Government financial operations		
Overall deficit, checks-issued basis	3.6	5.5
Bank financing	2.6	3.7

2. Principal policy measures

Program	Status of implementation
a. Fiscal measures	
(1) New measures to provide additional $17 million in revenues	Measures implemented, but revenues fell $11 million short of projections.
(2) Recurrent expenditures other than interest payments to be reduced by 11 percent	Actual reduction in recurrent expenditures other than interest payments was 11.2 percent.
(3) Freeze on salaries and new hirings	Implemented.
(4) Improve budget control	EFMC strengthened to monitor and control, but implementation weak.
(5) Avoid new domestic arrears	Domestic arrears were reduced.
b. Public enterprises	
(1) Joint project with IBRD to rationalize public enterprises	Project under way but proceeding slowly.
(2) Monopoly of LPRC on imports of petroleum products to be abolished.	Implemented.
(3) Eliminate implied subsidies by ensuring timely payments	Not fully implemented. LPRC is providing oil to some public enterprises without full payment.
c. Monetary and credit policies	
(1) Review interest charges on lending to banks	Review completed. No action required.
(2) Review reserve requirements on savings deposits	Review completed. No action required.
d. External measures	
(1) Elimination of external arrears	Eliminated as of May 31, 1984.
(2) Rescheduling of debt service due in 1983/84 to Paris and London Clubs	Paris Club rescheduled Dec. 1983. Agreement reached with London Club, to be signed shortly.
(3) Improve debt management	Fund consultant arrived September 1983.
(4) No restrictions on payments and transfers for current transactions	Implemented.
(5) Contract no external debt of 1-12 years in excess of $5 million; increased to $8.7 million by Executive Board action, April 6, 1984	Observed.

Liberia met all the quantitative performance criteria under the 1983/84 program through May 1984 (Table 4), but, with the exception of foreign borrowing, the indicative limits for June 1984 were not met. There follows a discussion of each of the major policy areas, the status of implementation of the policy measures and the economic outcome.

b. Fiscal performance, 1983/84

Fiscal performance for 1983/84 reflected a large measure of adjustment from the previous year, though not as great as originally envisioned. The 1983/84 budget called for a reduction in the overall deficit (checks-issued basis) from 10.0 to 3.9 percent of GDP, or from $107 million to $45 million. This reduction aimed at a sharp break with the recent past, as the overall deficit had been in the range of 10-11 percent of GDP since 1980/81. The 1983/84 budget was revised in December 1983, when data for the first five months showed a large revenue shortfall. In order to meet the projected overall deficit reduction, the authorities implemented a further increase in the gasoline tax and, on the expenditure side, made cuts in domestic costs of the development budget as well as cuts in recurrent expenditure other than interest and wages.

Comparing the actual outcome in 1983/84 with the revised budget, Table 5 shows that the overall deficit on a checks-issued basis was reduced from 10 percent to 5.9 percent of GDP, compared with the program target of 3.9 percent of GDP. Expenditures amounted to $324 million, an absolute decrease from the previous year, and a relative decline from 34.1 percent to 29.6 percent of GDP. Expenditure overruns and revenue shortfalls both contributed to the larger deficit than projected in the revised budget. Higher interest payments accounted for most of the expenditure overrun, while revenue fell $11 million short despite $10 million in exceptional receipts for nonrecurring capital items. Net foreign financing was larger than projected in the revised budget, while bank financing showed an overrun of $11 million.

The stagnation of total revenue in recent years has reflected falling export receipts and declining real GDP, but import duty receipts have shown additional weakness, declining from $78 million in 1978/79 to $60 million by 1983/84. This decline reflected in part a fall in the dutiable import base, but has also been associated with administrative difficulties and ad hoc exemptions to corporations experiencing financial difficulties.

On a cash basis, the overall deficit was $15 million higher than on a checks-issued basis, reflecting an unprogrammed reduction of domestic arrears, check float, and possibly some unrecorded outlays.

c. Public corporations

Some modest progress was made in the rationalization of the public corporations in 1983/84, particularly the Liberia Petroleum Refining

Table 4. Liberia: Quantitative Performance Criteria for 1983/84 Stand-By Arrangement 1/

(In millions of Liberian dollars)

	1983		1984		
	June	Nov.	Feb.	May	June 2/
Net domestic assets of National Bank of Liberia 3/					
Ceiling	...	194	203	210	212
Actual	182	193	201	210	227
Net claims of banking system on public sector					
Ceiling	...	289	299	308	310
Actual	274	288	299	308	324
Net claims of banking system on Government					
Ceiling	...	271	280	287	289
Actual	259	267	277	286	300
Outstanding external payments arrears 4/					
Ceiling	...	9	4	--	--
Actual	15	8	4	--	--
New external borrowing contracted or guaranteed by Government of 1-12 years maturity					
Ceiling	...	5	8.4	8.4	8.4
Actual	...	5	8.4	8.4	8.4

Source: Data provided by the Liberian authorities.

1/ Limits apply to end of each period except for the limits on new external borrowings, which are cumulative.

2/ Indicative limits.

3/ 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 since June 30, 1983.

4/ Other than $26 million due to oil-facility banks. Agreement on consolidation of this amount into a medium-term loan in the context of the London Club is about to be signed.

Table 5. Liberia: Summary of Government Fiscal Operations, 1980/81-1983/84 1/

	1980/81 Actual	1981/82 Actual	1982/83 Actual	1983/84 Revised budget	1983/84 Actual 2/
	(In millions of dollars)				
Revenue and grants	242	279	257	270	260
Revenue	218	238	224	235	224
Grants 3/	24	41	33	35	36
Expenditure 4/	360	401	364	315	324
Recurrent	228	293	251	237	245
Wages	(138)	(158)	(136)	(122)	(126)
Interest	(24)	(43)	(47)	(58)	(68)
Others	(66)	(92)	(68)	(56)	(51)
Development	124	96	96	77	76
Local	(59)	(63)	(61)	(41)	(38)
Foreign 5/	(65)	(34)	(35)	(36)	(38)
Nonbudgetary	8	12	17	1	3
Overall deficit: checks-issued basis	-118	-122	-107	-45	-64
Adjustment to cash 6/	-6	23	-16	--	-15
Overall deficit: cash basis	-124	-99	-123	-45	-79
Financing	124	99	123	45	79
Foreign	63	44	41	15	38
Drawings	(67)	(46)	(44)	(51)	(45)
Repayments	(-13)	(-23)	(-25)	(-62)	(-39)
Debt relief	(9)	(21)	(22)	(26)	(32)
Domestic	61	55	82	30	41
Banking	(39)	(51)	(82)	(30)	(41)
Nonbank	(22)	(4)	(--)	(--)	(--)
	(In percent of GDP)				
Memorandum items					
Revenue and grants	22.1	24.9	24.1	23.6	23.8
Expenditure	32.9	35.7	34.1	27.6	29.6
Overall deficit (checks-issued)	10.8	10.9	10.0	3.9	5.9
Domestic financing	5.5	4.9	7.7	2.6	3.7

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

1/ Fiscal year begins 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.
5/ Excludes expenditures financed by grants-in-kind.
6/ Includes adjustments from checks-issued basis to cash basis, domestic arrears, and unrecorded items.

Company (LPRC). On July 25, 1983, the Government announced the termination of LPRC's refining operations and authorized private companies to import petroleum products, but effective operational guidelines were issued only on January 6, 1984. Management of the LPRC has been revamped and the LPRC currently imports refined petroleum products for the general public and the government. The large private corporations import their own products, although some of them use LPRC storage facilities. Meanwhile, the LPRC operations have been rationalized to the extent that it has absorbed an additional 93 cents per gallon tax on gasoline, imposed in two stages--July 1983 and January 1984, without adding to the cost of gasoline to the consumer. The corporation, however, has substantially reduced its deposits with the banking system. Further rationalization of the LPRC operations is being considered in the context of the World Bank's SAC.

d. Monetary and credit developments

The recorded money supply expanded by 9 percent in 1983/84, the same rate of increase as in 1982/83. The most significant development during 1983/84 was the sharp reduction in the rate of growth of credit from the banking system to government (Table 6). Compared with an average rate of expansion of 43 percent over the previous three years, net credit to Government in 1983/84 increased by 16 percent, which was, however, still above the target set in the program. In contrast, net credit to public enterprises, which fell sharply in 1982/83, rose by 59 percent in 1983/84 reflecting a reduction in deposits of the LPRC and the Liberian Produce Marketing Corporation (LPMC). Credit to the private sector increased by 9 percent in 1983/84 (following a decline by 13 percent in 1982/83) but still remains at half the June 1980 level reflecting the stagnation of the private sector over this period. Most of the increase in credit was directed to the commerce and services sectors.

The increase in net credit to the nonfinancial public sector from the banking system amounted to \$50 million compared with a program target of \$36 million. As outstanding net credit to the nonfinancial public sector from commercial banks was reduced by \$8 million there was considerable pressure on the NBL's resources. Apart from the increase in net foreign liabilities of \$37 million (including valuation gains of \$8 million), the expansion in net credit to the public sector by the NBL was financed by an increase in its indebtedness to commercial banks of \$25 million. Despite an increase in the required reserve ratio from 15 percent to 30 percent in February 1983, excess reserves of commercial banks with the Central Bank rose from \$6 million in June 1983 to \$20 million in May 1984. In the circumstances commercial banks became reluctant to accept government checks drawn on the NBL as it was unable to convert these checks into cash. This situation was corrected in May 1984 when the Government entered into an agreement with the commercial banks transferring most of the Government's financial transactions from the NBL to commercial banks. Under this agreement, NBL operations with the Government are currently

Table 6. Liberia: Monetary Survey, 1980-85

(In millions of Liberian dollars; end of June)

	1980	1981	1982	1983	1984	1985 1/
Net foreign assets	-81.8	-89.9	-161.4	-190.7	-231.0	-208.0
National Bank of Liberia	-41.2	-70.1	-121.5	-182.3	-218.9	-219.0
Of which: use of Fund credit	(-38.4)	(-62.1)	(-124.3)	(-188.0)	(-219.9)	(-220.0)
Commercial banks	-40.6	-19.8	-39.9	-8.4	-12.1	11.0 2/
Domestic credit 3/	242.0	218.6	294.4	342.7	399.1	386.0
Public sector (net)	91.9	142.2	215.7	274.1	324.2	302.0
Government (net)	(87.8)	(126.6)	(177.3)	(258.9)	(300.0)	(300.0)
Public corporations (net)	(4.1)	(15.6)	(38.4)	(15.2)	(24.2)	(2.0) 2/
Private sector	150.1	76.4	78.7	68.6	74.9	84.0
Recorded money supply 3/	112.4	95.4	105.2	114.1	124.2	134.0
Coins in circulation	10.3	11.3	11.9	16.0	19.4	21.0
Deposits 4/	102.1	84.1	93.3	98.1	104.8	113.0
Demand deposits	(48.3)	(40.7)	(41.3)	(42.3)	(51.4)	(...)
Time deposits	(18.8)	(11.2)	(14.6)	(16.0)	(16.6)	(...)
Savings deposits	(35.0)	(32.2)	(37.4)	(39.8)	(36.8)	(...)
Other items (net)	47.8	33.3	26.9	37.9	43.9	44.0

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

1/ Projections.

2/ As a result of the agreement with the London Club, the $26 million liability of the National Housing and Savings Bank to the oil-facility banks has been taken over by the Government in exchange for an equivalent transfer to the Government of the National Housing and Savings Bank's claims on the Liberian Petroleum Refining Company.

3/ The recorded money supply excludes U.S. notes in circulation. No data is available on the amount of these notes. Estimates very from $30 to $70 million.

4/ Data for June 1981 and June 1982 are not strictly comparable with data for later years because of a reclassification of claims and deposits of government, public corporations and private sector with the National Housing and Savings Bank.

limited to payroll, debt service, and disbursements of foreign loans and grants. The Government has agreed that it will not overdraw its accounts either at the National Bank or the commercial banks.

As a result of a higher-than-programed increase in credit to the public sector, gross international reserves of the NBL declined by $3 million to $5 million at the end of June 1984, equivalent to less than one week of imports. Nearly all of the increase in gross foreign liabilities of the NBL was on account of net use of Fund credit. Following a reduction by $29 million in 1982/83 net foreign liabilities of commercial banks increased by $4 million, mainly as a result of utilization of their balances with head offices abroad.

e. Balance of payments developments

The overall balance of payments deficit before debt relief declined from $99 million in 1982/83 to $67 million in 1983/84 (Table 7). With debt relief the overall deficit was reduced from $73 million in 1982/83 to $30 million in 1983/84. Preliminary estimates indicate that the current account deficit before debt relief remained virtually unchanged at an estimated $87 million, or 8 percent of GDP in 1983/84, as import demand was sustained by a turnaround in private capital flows. Despite the improvements relative to 1982/83, the overall deficit in 1983/84 exceeded the program targets by $14 million, reflecting the much larger financing of the Government by the NBL during June 1984 than provided under the program.

Exports declined by 3 percent in 1983/84 from the level of 1982/83, but rose during the course of the year. During the first half of 1984 exports were estimated to be about 5 percent higher than the first half of 1983. The decline in export receipts was fully attributable to iron ore exports, which fell by 13 percent with reductions in both unit values and volume of shipments. Because of the difficult situation of the world steel industry, iron ore shipments declined substantially during the second half of 1983 and iron ore contract prices were reduced in early 1984. Rubber exports, on the other hand, are estimated to have increased by 44 percent over the low level of 1982/83, with both unit values and volume of shipments estimated to have increased by 20 percent. The decline in the overall value of exports is explained entirely by a fall in export volume, with the overall unit value remaining unchanged.

Imports are estimated to have remained at about the level of 1982/83 in value terms, but to have increased by 1.5 percent in volume, slightly higher than the estimated rate of growth of GDP. Despite the fall in exports and the reduction in the budget deficit, import-demand in 1983/84 was sustained by a moderate reversal in private sector capital movements. Such capital flows, including errors and omissions, are estimated to have turned from a net outflow of $27 million in 1983/84 to a net inflow of $14 million in 1983/84. External resources brought in by local commercial

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

	1980/81	1981/82	1982/83	1983/84	
		Estimates		Program	Preliminary estimates
	(In millions of U.S. dollars)				
Current account	-107	-75	-88	-55	-87
Trade balance	33	35	27	70	17
Exports, f.o.b.	(555)	(509)	(452)	(527)	(440)
Imports, c.i.f.	(-522)	(-474)	(-425)	(-457)	(-423)
Services (net)	-163	-172	-171	-172	-160
Of which: interest on public debt	(-29)	(-41)	(-51)	(-52)	(-52)
Transfers (net)	23	62	56	47	56
Private	(-34)	(-36)	(-36)	(-33)	(-36)
Public	(57)	(98)	(92)	(80)	(92)
Capital	44	-2	-11	5	20
Official long-term	51	25	16	-10	6
Drawings	(69)	(52)	(51)	(51)	(51)
Amortization	(-18)	(-27)	(-35)	(-61)	(-45)
Private (net)	-7	-27	-27	15	14
Commerical banks	(-21)	(18)	(-29)	(10)	(4)
Other (including errors and omissions)	(14)	(-45)	(2)	(5)	(10)
SDR allocation	5	--	--	--	--
Overall balance (before debt rescheduling)	-58	-77	-99	-50	-67
Debt relief (net)	12	25	26	34	37
Interest	4	5	4	5	5
Principal	8	20	22	29	32
Overall balance (after debt rescheduling)	-46	-52	-73	-16	-30
Financing	46	52	73	16	30
National Bank of Liberia	36	60	61	30	44
Assets (increase -)	(11)	(-1)	(2)	(-10)	(3)
Liabilities	(25)	(61)	(59)	(40)	(41)
Use of Fund credit (net)	(31)	(71)	(65)	(40)	(39)
Other	(-6)	(-10)	(-6)	(--)	(2)
Arrears	10	-8	12 1/	-14	-14
Memorandum items:					
Current account deficit (after debt rescheduling)	-103	-70	-84	-50	-82
	(In percent of GDP)				
Before debt rescheduling					
Current account	-9.8	-6.7	-8.2	-4.7	-8.0
Overall balance	-5.3	-6.8	-9.3	-4.3	-6.1
After debt rescheduling					
Current account	-9.4	-6.2	-7.9	-4.3	-7.5
Overall balance	-4.2	-4.6	-6.8	-1.4	-2.7

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

1/ Excludes $26 million debt incurred to the oil-facility banks.

banks amounted to only $4 million after having reached $10 million, the program target for the year as a whole, by March 1984. In line with the program Liberia was able to eliminate in 1983/84 all external arrears, which amounted to $14 million at the end of June 1983. Most of the overall deficit, as well as the elimination of arrears, was financed by net use of Fund credit which amounted to $39 million in 1983/84.

The Liberian dollar, which is at par and interchangeable with the U.S. dollar, has appreciated significantly since 1980, measured on a trade-weighted basis (see Chart), reflecting the appreciation of the U.S. dollar. In nominal terms, between the third quarter of 1980 and the second quarter of 1984, the appreciation amounted to 48 percent. Since the last quarter of 1983 the rate of appreciation has slowed considerably and was only 3 percent between the third quarter of 1983 and the second quarter of 1984. In real terms, the effective exchange rate appreciated by 32 percent between the third quarter of 1980 and the third quarter of 1983, but since then has remained virtually unchanged. With a view to maintaining the competitiveness of the export sector, in the absence of an independent exchange rate policy, Liberia has pursued since early 1983 sustained efforts to compress costs and raise productivity, especially in iron ore and rubber, the two principal export sectors.

IV. The 1984/85 Program

In their letter of intent (Attachment to Appendix I) the Liberian authorities described the objectives and the policies to be implemented during the proposed program. They recognized that, while significant progress has been made over the past four years, much remains to be done to achieve financial stability, and additional measures taken to increase domestic savings, investment, output, and employment. Thus, the perspective of the proposed 1984/85 program has been broadened to aim, in a modest way, at a redeployment of some public sector employees into the private sector. The industry with the greatest potential for increased employment is rubber. Rubber is a labor intensive industry, with one third of Liberia's work force; rubber is considered the product in which Liberia has the greatest comparative advantage, and the prospects for world rubber demand are fairly good.

The specific elements of the proposed 1984/85 program supported by Fund resources are described below. Table 8 offers a summary of the principal targets, policy measures and status of implementation.

a. Fiscal policies (1984/85 program and medium-term outlook)

The 1984/85 program will continue the fiscal adjustment process, as the overall deficit (checks-issued basis) will decline from 5.9 percent to 4.9 percent of GDP. At the same time domestic financing will drop from 3.7 percent of GDP ($41 million) to zero. Recurrent expenditure other

Table 8. Liberia: Summary of Program Under Stand-By Arrangement for 1984/85 and Status of Implementation

1. Principal targets

	1983/84 Estimates	1984/85 Program
	(In percent)	
Real GDP growth	0.9	3.9
Change in consumer prices	1.6	3.7
	(Before debt relief; In percent of GDP)	
Balance of payments		
Current account deficit	8.0	6.9
Overall deficit	6.1	3.2
Government financial operations		
Overall deficit, checks-issued basis	5.9	4.9
Bank financing	3.7	--

2. Principal policy measures

Program	Status of implementation
a. Fiscal measures	
(1) New measures to reduce recurrent expenditures (wage bill) by $5 million	Implemented on October 1, 1984.
(2) Improved enforcement of tax collections	Task forces organized for real estate taxes and customs duties. All ad hoc exemptions were eliminated July 6, 1984. 5 percent import surcharge was imposed on October 1, 1984 to yield $4 million on annual basis.
(3) Improve budget control	Budget allotments are released quarterly and expenditure authorizations limited to projected revenue collections.
(4) Bank clearing arrangement	Implemented May 1984.
(5) Avoid new domestic arrears	Measures to enforce are in place.
b. Public corporations	
(1) Rationalize public enterprises	Implemented in co-operation with World Bank. Four corporations offered for sale; one already sold and second has prospective buyer.
c. Monetary and credit policies	Quantitative performance criteria to be met quarterly.
d. External measures	
(1) Avoid external arrears	--
(2) Rescheduling of debt service due in 1984/85 to Paris Club and London Club	Agreement to reschedule in London Club to be signed shortly Paris Club meeting scheduled for December 1984.
(3) No restrictions on payments and transfers for current transactions	Implemented.
(4) Contract no external debt of 1-12 years in excess of $15 million and no loans of 1-5 years except refinancing of existing loans	
e. Production and employment	
(1) Limit sales tax on Liberian rubber producers to 50 percent of standard rate.	Measure taken.

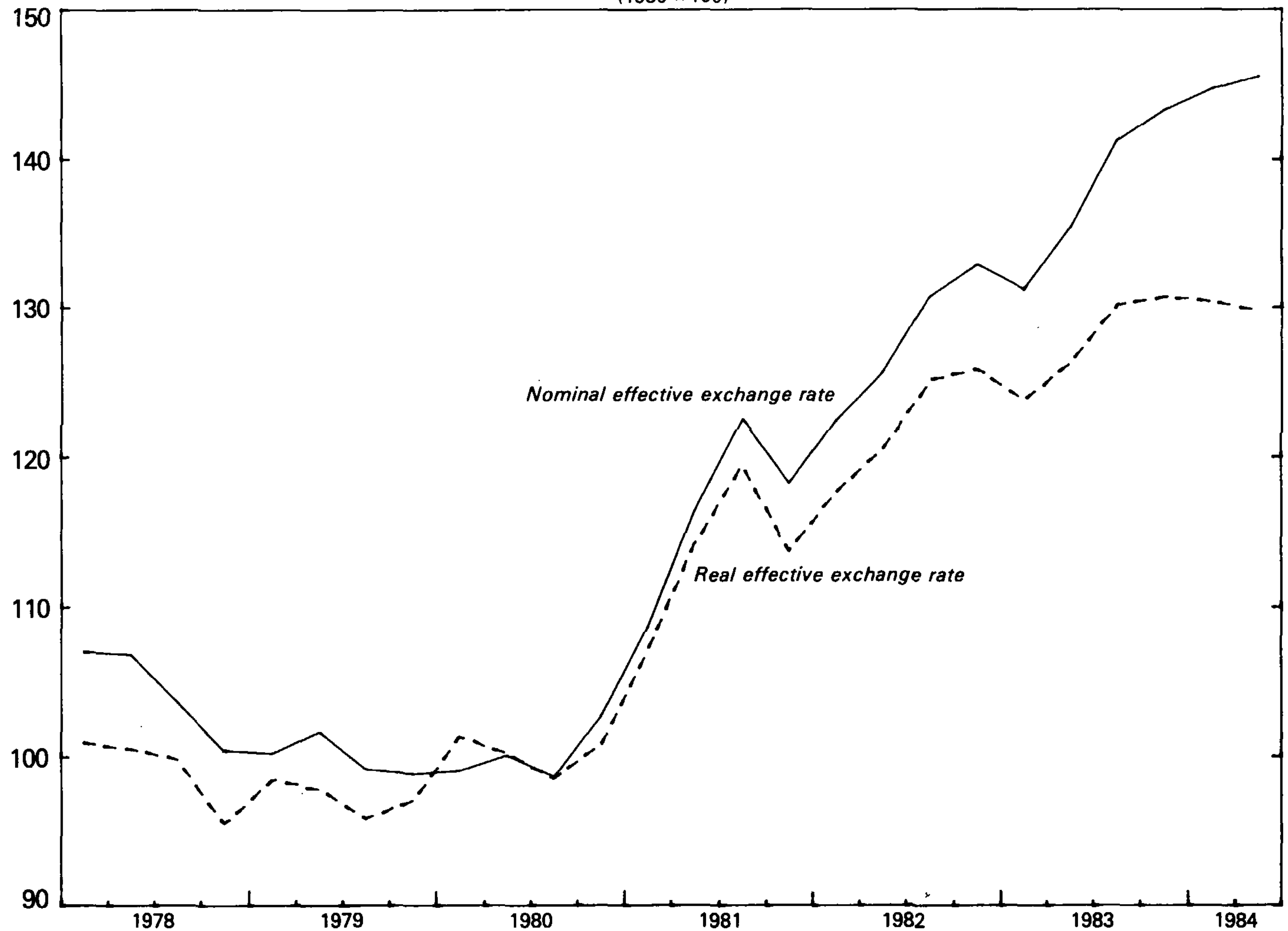
CHART

LIBERIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATE TRADE-WEIGHTED INDICES,

FIRST QUARTER 1978-SECOND QUARTER 1984

(1980 = 100)



Source: IMF, Data Fund.

than interest will rise by more than 5 percent to allow for necessary maintenance costs, while the wage bill will fall in absolute terms in keeping with the long-term objective of reducing wage costs. Local development expenditure will be kept at approximately the same level as 1983/84, with an emphasis on a core list of ongoing projects with high economic returns. Foreign development expenditure financed almost exclusively by concessionary loans will increase from $38 million to $50 million. The financing gap is expected to be covered by debt relief from the Paris Club (Table 9).

To achieve this further adjustment several important policy measures have been taken. Potentially, the most significant was a change in government banking procedures in May 1984. At that time the Government agreed to open deposit accounts in each commercial bank operating in Liberia, and to deposit in these accounts all checks for tax payments drawn on each bank. The Government also agreed to limit expenditures to existing balances. In addition, various government accounts with the National Bank have been consolidated into a single general account. Disbursements from this account are only made as balances allow. Since no overdrafts are permitted, this change in procedure requires closer monitoring of revenue and expenditure performance and helps carry out the commitment not to increase domestic arrears. Other institutional changes designed to contain expenditures and prevent any increase in domestic arrears have also been made. Budgetary allotments are released quarterly and expenditures are based on projected revenue collections rather than original budgetary allocations. In addition, payment vouchers are issued only after procurements have been approved by the Ministry of Finance.

On the wage front a continuing and successful effort has been made to reduce the wage bill from its peak of $158 million in 1981/82 to $126 million in 1983/84. This effort will be continued in the 1984/85 budget, as a $10 monthly deduction will be made from all public sector paychecks. In addition, wage payments will be made only in person, to avoid any padding of the wage bill. Other measures to reduce the wage bill include the retirement of 1,200 public employees 65 years or older, and the voluntary retirement of a target group of 1,200 employees to be implemented in three stages from October 1984 to April 1985. Through these measures the wage bill will be reduced to $121 million in 1984/85. Policies to further contain budgetary subsidies will complement other efforts to restrict the growth of recurrent outlays. In the near term this will entail ceilings to contain the provision of budgetary subsidies to the enterprises. In this context the World Bank is examining the operations of six public enterprises with a view to providing assistance to rationalize their operations.

The 1984/85 budget also includes several tax measures. A 5 percent import surcharge was imposed on dutiable imports (to yield $4 million over the remainder of the budget year), and a monthly tax of $5 on wage and salary earning citizens and foreign residents. In addition, the export

Table 9. Liberia: Summary of Government Fiscal Operations, 1983/84-1987/88

	1983/84 Actual	1984/85 Budget	1985/86 Projection	1986/87 Projection	1987/88 Projection
	(In millions of Liberian dollars)				
Revenue and grants	260	290	309	330	353
Revenue	224	245	264	285	308
Grants 1/	36	45	45	45	45
Expenditures	324	346	359	365	369
Recurrent	248	257	244	245	244
Wages 2/	(126)	(121)	(115)	(115)	(115)
Interest	(68)	(67)	(64)	(60)	(54)
Others	(51)	(69)	(65)	(70)	(75)
Nonbudgetary	(3)	(--)	(--)	(--)	(--)
Development	76	89	115	120	125
Local	(38)	(39)	(55)	(50)	(50)
Foreign 1/	(38)	(50)	(60)	(70)	(75)
Overall deficit: checks issued basis	-64	-56	-50	-35	-16
Adjustment to cash	-15	--	--	--	--
Overall deficit: cash basis	-79	-56	-50	-35	-16
Financing	79	42	12	-12	-5
Foreign	38	42	29	27	23
Drawings	(45)	(77)	(85)	(85)	(90)
Repayments	(-39)	(-53)	(-56)	(-58)	(-67)
Debt relief	(32)	(18)	(...)	(...)	(...)
Domestic	41	--	-21	(-39)	-28
National Bank of Liberia	(53)	(--)	(-26)	(-52)	(-44)
Other	(-12)3/	(--)	(5)	(13)	(16)
Gap	--	14	42	47	21
	(In percent of GDP)				
Revenue and grants	23.8	25.2	24.9	24.8	24.8
Expenditure	29.3	30.1	28.9	27.4	25.9
Overall deficit	5.9	4.9	4.0	2.6	1.1
Domestic financing	3.7	--	-1.4	-3.9	-3.3

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

1/ Does not include grants-in-kind of $15 million in 1983/84 and $24.5 million in 1984/85.

2/ Includes $6.0 million in transfers to a decentralized agency (JFK Hospital) which historically has been reported under central government wages.

3/ Commercial banks.

tax on rubber, applied to foreign concessions, had been withdrawn in 1983/84 but was re-imposed in 1984/85. The Government has also recognized that failure to collect existing taxes efficiently has contributed to revenue shortfalls from budgeted amounts. Import duties, an important component of revenue, declined from $77 million in 1980/81 to $60 million in 1983/84. Through the Economic and Financial Management Committee the Government will examine the level and composition of total and dutiable imports, as well as tax collection procedures. The study should result in specific recommendations for increasing customs revenue. In a related move the Government suspended all ad hoc duty-free privileges granted to corporations. Finally, a full-scale assessment of all properties in Monrovia is being undertaken in order to increase revenue from real estate taxes. Taking account of these measures and the expected upturn in exports and GDP, revenue is projected to increase by 9.4 percent in 1984/85.

In the medium term Liberia's fiscal position should benefit from the upturn in global demand for export products, such as rubber and iron ore, and the resulting growth in GDP. Revenue is projected to increase at an annual rate of 8 percent, compared with a 7 percent average annual increase in GDP in nominal terms. The slightly higher growth rate of revenue is based on expected improvements in tax collections. Recurrent and locally financed development expenditures are being held in check. Foreign concessionary loans are projected to increase moderately, as reflected in greater expenditure on foreign financed development projects.

Even though a gradual reduction is projected in the overall deficit, in the absence of debt relief beyond 1984/85 Liberia would face a financing gap in 1985/86-1987/88. Assuming no purchases from the Fund after the present arrangement, the Government would have to reduce its indebtedness to the NBL by $26 million in 1985/86 and by $52 million in 1986/87 to ensure that the NBL has the resources to service its external obligations. Even with the mobilization of domestic resources from the private sector, including commercial banks, elimination of the financing gap would require additional external resources, including further debt relief and an additional adjustment effort.

b. Monetary and credit policies

Monetary and credit policies during the program period aim at enhancing the external position of the NBL, avoiding any further build-up of unwanted excess reserves of commercial banks with the NBL and reserving the increase in domestic credit from the banking system for enterprises and households. To achieve these objectives the monetary program for 1984/85 provides for no increase in net domestic assets of the NBL, no increase in net credit to Government from the banking system and no increase in net credit to public enterprises from the NBL (Table 6). Ceilings limiting net domestic assets of the NBL, net credit to Government from the banking system and net credit to public enterprises from the

NBL at their June 1984 level have been established as performance criteria for end-December 1984, and end-March and end-June 1985. Ceilings for end-September 1985, end-December 1985 and end-March 1986 will be set in the context of the second review of the arrangement in August 1985 establishing the program for 1985/86.

Consistent with the balance of payments target and projected net purchases from the Fund, there would be no change during the program period in the difficult international reserve position of the NBL.

Given the ceilings on net credit to Government and public corporations from the NBL, there would be no further pressure for increases in excess reserves of commercial banks at the NBL. Within the constraints set by the ceiling on its net domestic assets the NBL, in conformity with its agreement with the commercial banks, will be able to begin the gradual reduction of excess reserves by using resources provided by additions to coins in circulation and increases in the level of required reserves resulting from the growth of deposits with commercial banks. With the decline in the cost of loanable funds resulting from the reduction in excess reserves, the monetary authorities will seek to lower the average interest rates on commercial bank loans which now stand at about 23 percent. A reduction of credit risks by a more expeditious enforcement of contractual obligations in the courts, to which the authorities are committed, will also contribute to reducing lending rates and increasing bank lending to the private sector.

c. External policies

The objective of the program for 1984/85 is to reduce the overall balance of payments deficit before debt relief, which was $67 million in 1983/84, to $37 million, (Table 10). The strengthening of the balance of payments would stem from a further improvement in the capital account and a reduction in the current account deficit, resulting from a lower deficit of the Government.

In the expectation of a continued growth in foreign demand for Liberian exports, which started in the first half of 1984, exports are projected to rise by 8 percent during 1984/85. Increased production in the agricultural sector in response to improved incentives to producers, most notably in the rubber sector, will also contribute to strengthening export performance. The increase in total export receipts would be mostly on account of a larger export volume, with the average export unit value expected to rise by about one percent. Iron ore exports account for 35 percent of the increase in total exports, resulting from a projected 5 percent rise in shipments to 16.3 million metric tons. The average export unit value for iron ore is projected to remain unchanged from 1983/84 as in early 1985, individual contract prices are expected to be restored to their 1983 level. Rubber exports account for 17 percent of the projected increase in total exports, on the basis of a projected 13 percent growth in volume of rubber shipments.

Table 10. Liberia: Balance of Payments, 1983/84-1988/89

	1983/84 Preliminary estimates	1984/85	1985/86	1986/87 Projections	1987/88	1988/89
	(In millions of U.S. dollars)					
Trade balance	17	26	38	50	64	79
Exports, f.o.b.	440	477	516	557	601	649
Imports, c.i.f.	-423	-451	-478	-507	-537	-570
Services (net)	-160	-169	-177	-176	-173	-170
Of which: interest on debt 1/	(-52)	(-59)	(-65)	(-62)	(-57)	(-51)
Transfers (net)	56	64	64	64	64	64
Current account	-87	-79	-75	-62	-45	-27
Capital movements	20	42	59	67	68	67
Public sector	6	22	29	27	23	17
Disbursements	(51)	(82)	(93)	(93)	(98)	(98)
Amortization 1/	(-45)	(-60)	(-64)	(-66)	(-75)	(-81)
Private (net)	14	20	30	40	45	50
Overall balance before debt relief	-67	-37	-16	5	23	40
Debt relief (net)	37 2/	20 3/	...	...	...	--
Overall balance after debt relief	-30	-17	-16	5	23	40
Financing	30	--	-26	-52	-44	-40
National Bank of Liberia	44	--	-26	-52	-47	-40
Assets (increase -)	3	--	--	--	--	-3
Use of Fund credit	39	--	-26	-52	-44	-37
Purchases	(57)	(26)	(18)	(...)	(...)	(...)
Repurchases	(-18)	(-26)	(-44)	(-52)	(-44)	(-37)
Other liabilities	2	--	--	--	--	--
Arrears	-14	--	--	--	--	--
Financing gap (net)	--	17	42	47	21	--
	(As percent of GDP)					
Memorandum items:						
Current account	-8.0	-6.9	-6.1	-4.7	-3.2	-1.8
Overall balance 4/	-6.1	-3.2	-1.3	0.4	1.6	2.7

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

1/ Including debt service payments on previously rescheduled debt.
2/ Of which $32 million in principal and $5 million in interest.
3/ Principal.
4/ Before debt relief.

Imports are projected to increase in 1984/85 by 7 percent in value terms, and 4 percent in volume, equal to the projected growth rate of real GDP. The composition of imports is likely to be changed with an increase in the share of investment goods reflecting the increase in official development expenditure in the 1984/85 budget. With an improved trade balance and most of the increase in net service payments offset by higher transfer receipts, the current account deficit before debt relief in 1984/85 is projected at $79 million or 6.9 percent of GDP compared with $87 million or 8.0 percent of GDP in 1983/84.

The expected improvement in the capital account in 1984/85 would result mainly from a projected increase in public and private sector capital inflows. The increase in public sector capital inflows from $52 million in 1983/84 to $82 million in 1984/85 reflects expected stepped up drawings from concessionary loans for government development expenditure and budgetary support.

Taking into account $20 million in debt relief obtained from the London Club and projected purchases and repurchases from the Fund, a financing gap of $17 million would remain in 1984/85. This outcome also assumes that gross reserves of the NBL would remain at their low level of June 1984. The unfinanced gap is expected to be covered by debt relief from the Paris Club. To this effect the Liberian authorities have already initiated contacts with the Paris Club aimed at reaching an early agreement on rescheduling of principal and interest payments falling due in 1984/85 on public debt to bilateral creditors.

Official debt service obligations before debt relief are projected at $145 million in 1984/85, equivalent to 30 percent of exports of goods and nonfactor services. The agreement reached with the London Club on the refinancing of principal obligations falling due in 1983/84 and 1984/85 is expected to be signed shortly. The group of banks in the oil financing facility have joined in the agreement to provide refinancing of the $26 million outstanding under the facility on the same terms and conditions as the London Club banks.

In view of the high and rising external debt service obligations the program specifies as a performance criterion that loans contracted or guaranteed by the Government or the National Bank of Liberia in the 5-12 years maturity range will not exceed $15 million, with no loans in the maturity range of 1-5 years. This limitation does not apply to borrowing at concessionary terms, Paris Club rescheduling, and London Club refinancing.

Under the program Liberia is committed to a timely settlement of its foreign exchange obligations and avoidance of new external payments arrears, which is a performance criterion under the program. In this respect, with a view to supplementing the very limited foreign exchange resources, the program allows for recourse to bridge financing up to a limit of $12 million to assure timely debt service payments. No other loans with a maturity less than one year are envisioned.

d. Medium-term prospects

Owing to the limited scope for expansion of the mining sector over the medium term, growth prospects of the Liberian economy are expected to be increasingly dependent on developments in the agricultural sector. Liberia has extensive areas of uncultivated land suitable for agricultural development as only about 5.3 percent of the total land area is currently used for agriculture. Moreover, the land to population ratio is very favorable. Monetized agriculture currently accounts for 11 percent of Liberian GDP and about 37 percent of agricultural value added. Rubber production occupies a dominant position in the monetized agricultural sector, accounting for about 43 percent of the value added by this sector and earnings from rubber exports account for about 15 percent of total export earnings. About one-third of the Liberian labor force is employed in the rubber industry.

Liberia has a comparative advantage in the production of rubber, coffee, cocoa, and palm oil. However, Liberia's exports to the members of the International Coffee Organization are restricted by its export quota. The more demanding ecological requirements of cocoa and palm oil are likely to prevent a widespread increase in cultivation of these crops. On the other hand, the production and export of rubber has the potential to be a major source of income and employment growth. The world market outlook for rubber is excellent. During the period between 1985 and 1995 total world demand for all types of rubber is projected to grow at an annual rate of 4.2 percent per annum while on the basis of the current planted acreage and present production technologies, world natural rubber supply is only expected to grow at an annual rate of 3 percent. On the basis of these supply and demand trends the market for natural rubber is expected to be buoyant; the World Bank projects that the spot price of RSS will increase from $0.58 per pound in 1984 to $0.64 per pound in 1985, $1.03 per pound in 1990, and $1.43 per pound in 1995.

Liberia, which presently accounts for less than 3 percent of the world rubber market, is well placed to take advantage of this favorable rubber market outlook. Small-scale rubber production is well suited to Liberian conditions because it is a relatively simple, labor intensive, activity requiring extensive areas of suitable land but relatively few traded inputs and very little in the way of administrative or managerial inputs. Liberia has a large area of mature rubber trees that are tapped only during periods of high rubber prices as well as extensive areas of unutilized land suitable for rubber cultivation. Moreover, production and productivity can be increased dramatically by replanting and new planting with the high-yielding clones that are already available in Liberia.

The main constraints and some possible approaches to expanding employment, output and exports in the rubber industry are outlined in a report prepared by the Commodities Division of the Fund for the Liberian authorities. The World Bank, as noted above, is also planning a study of the rubber sector.

In addition to export growth, the medium-term balance of payments outlook for Liberia will depend upon continued reduction in the government budget deficit, an increase in private sector capital inflows and increased mobilization of domestic savings. On the basis of reasonable assumptions for each of these areas, the overall balance of payments is projected to move into surplus by 1986/87 (Table 10). Nevertheless, a financing gap would remain in the years 1985/86-1987/88 and would need to be financed through additional balance of payments assistance including possible debt rescheduling.

Exports are projected to increase at an annual rate of 8 percent between 1984/85 and 1988/89 on the assumptions that the external environment would permit a continuing recovery of foreign demand for Liberian exports and that Liberia would continue its efforts at maintaining the competitiveness of its foreign trade sector. In the iron ore sector, it is assumed that an early decision will be made to ensure the continuation of production beyond 1987 by LAMCO, the largest iron ore company in Liberia, when the presently exploited ore deposits in the Nimba region will be depleted. Before deciding on mining operations in the western area, production from the present ore deposits could be extended by a few years by the opening up of the neighboring Tokadeh ore deposits. Finally, Liberia would be in a good position to increase substantially its exports of agricultural products, most notably rubber.

On the basis of the projected gradual reduction in the budget deficit the growth in import demand could be contained to an annual increase of 6 percent in value terms, and of 3 percent in volume. The slightly lower growth rate of imports than of GDP, projected at 7 percent per year in nominal terms and 3.5 percent in real terms, would be made possible by some modest import substitution. With the current review of agricultural policies under consideration with the World Bank, and the envisaged strengthening of incentives to producers, prospects for a substantial increase in food production and in particular, of rice are favorable. Under these assumptions, and with net services and transfers projected to remain basically unchanged, the current account deficit is projected to decline gradually from 6.9 percent of GDP in 1984/85 to 1.8 percent of GDP in 1988/89.

The projected improvement of the capital account in 1984/85-1988/89 would come from private capital movements. The gradual increase in private sector net capital inflows from $20 million in 1984/85 to $50 million in 1988/89 reflects enhanced confidence and renewed private sector investments, especially in the export sectors, as was the case in 1975-79. A large part of the financing required for the development of the western area iron ore reserves is expected to be provided from abroad. Net capital inflows of the public sector would decline gradually after 1986/87 as amortization obligations would increase rapidly and the share of the public sector in overall investment would be reduced.

The overall external debt service ratio before debt relief is projected to rise from 26 percent in 1983/84 to 33 percent in 1985/86 and then gradually decline to 28 percent in 1988/89 (Table 11). The largest part of the movements in the debt service ratio would be on account of payments to the Fund. Such payments, as a result of substantial purchases over the past four years are projected to increase from $34 million in 1983/84 to $72 million in 1986/87. On the basis of these projections, disbursed external debt as a ratio to GDP would decline from 88 percent in 1984/85 to 72 percent in 1988/89.

e. Relations with the World Bank

A World Bank "appraisal mission" visited Liberia in July 1984 as part of an ongoing process to agree upon a program of economic reforms to be supported by a SAC. The Bank mission reported that it has obtained agreement in principle on key economic policies to be followed under the SAC, primarily those for public expenditures, wages and employment, and the public enterprise sector, which would overlap with and supplement the proposed Fund stand-by arrangemnt. Negotiations for the $30 million SAC are expected to be completed in December 1984 for Executive Board consideration in March-April 1985. The Bank is projecting disbursements of $12.5 million prior to June 30, 1985, and $14.5 million in 1985/86. The remaining $3.0 million is reserved to finance the technical assistance necessary to implement the policy initiatives supported by the SAC. The World Bank is also discussing with the African Development Bank the prospects for co-financing which could supplement the resources which would be made available to Liberia.

f. Performance criteria and phasing

The proposed stand-by arrangement contains the following end of quarter quantitative performance criteria for fiscal year 1984/85: (a) a zero ceiling on the cumulative change from June 30, 1984 in net domestic assets of the NBL; (b) a zero ceiling on the cumulative change from June 30, 1984 in net credit to Government from the banking system; (c) a zero ceiling on the cumulative change from June 30, 1984 in net credit to public enterprises from the NBL. In addition ceilings on new external borrowing contracted or guaranteed by the Government or the NBL with maturities of, respectively, 5 to 12 years, 1 to 5 years, and less than 1 year apply as performance criteria for the entire program period. The quantitative performance criteria are shown in Table 12. The program contains also as performance criteria the avoidance of external arrears, the avoidance of overdue financial obligations to the Fund, and the

Table 11. Liberia: External Public Debt, 1983/84-1988/89 1/

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
	Estimates	Projections				
	(In millions of U.S. dollars)					
Outstanding disbursed (end of period)	922	1,006	1,051	1,077	1,085	1,075
Medium- and long-term debt	702	786 2/	857	935	987	1,014
Use of Fund credit	220	220	194	142	98	61
Debt service	115	145	175	186	186	182
Amortization	63	86	108	118	121	121
Medium- and long-term debt	(45) 3/	(60) 3/	(64)	(66)	(77)	(84)
Repurchases from Fund	(18)	(26)	(44)	(52)	(44)	(37)
Interest payments	52	59	67	68	65	61
Medium- and long-term debt	(36) 3/	(38)	(46)	(48)	(49)	(50)
Fund charges	(16)	(21)	(21)	(20)	(16)	(11)
Exports of goods and services	451	489	528	570	614	663
Gross domestic product	1,094	1,150	1,230	1,317	1,409	1,507
	(In percent of exports of goods and services)					
Debt service	25.5 4/	29.7 5/	33.1	32.6	30.3	27.5
Medium- and long-term debt	(18.0)	(20.1)	(20.7)	(20.0)	(20.5)	(20.2)
IMF	(7.5)	(9.6)	(12.4)	(12.6)	(9.8)	(7.3)
Interest payments	11.5 6/	12.1	12.7	11.9	10.6	9.2
Medium- and long-term debt	(8.0)	(7.8)	(8.7)	(8.4)	(8.0)	(7.5)
IMF	(3.5)	(4.3)	(4.0)	(3.5)	(2.6)	(1.7)
	(In percent of GDP)					
Disbursed debt	84.3	87.5	85.4	81.8	77.0	71.3

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

1/ Including the effects of previously rescheduled debt and additional financing required to close financing gap in the balance of payments.
2/ Including US$25 million under the oil facility refinanced with debt to London Club banks.
3/ Before debt relief obtained in current year.
4/ With debt rescheduling, the ratio is 17.3 percent.
5/ With debt rescheduling already obtained, the ratio is 22.1 percent.
6/ With debt rescheduling, the ratio is 10.2 percent.

Table 12. Liberia: Quantitative Performance Criteria for 1984-86 Stand-By Arrangement

(In millions of dollars)

	1984		1985					1986
	June	Dec.	Mar.		June	Sept.	Dec.	Mar.
	Stock	Ceiling on cumulative change from June 30, 1984						
Net domestic assets of NBL 1/	219	--	--		--	2/	2/	2/
Net claims of banking system on government	300	--	--		--	2/	2/	2/
Net claims of NBL on public corporations	6	--	--		--	2/	2/	2/
		Ceiling on new cumulative borrowing from July 1, 1984						
New external borrowing contracted or guaranteed by government or NBL								
a. 1-12 years maturity	...	15	15	15	15	15	15	15
b. 1-5 years maturity	...	--	--	--	--	--	--	--
c. less than 1 year maturity	...	12	12	12	12	12	12	12

Source: Letter of Intent (Appendix I, Attachment).

1/ Net domestic assets are defined as equivalent to the net foreign liabilities of the NBL, excluding gains and losses derived from exchange rate changes since June 30, 1984.
2/ Limits will be set during the second review of arrangement.

usual understandings relating to the exchange and trade system. Moreover, the stand-by arrangement provides for two reviews with the Fund, as performance criteria, to take place before end-March 1985, and end-August 1985. The first review will deal in particular with personnel policies, tax collections and the results of the agreement on rescheduling of payments due on external public debt to official creditors. The second will focus on budgetary policies for 1985/86 and will set credit ceilings for end-September 1985, end-December 1985, and end-March 1986.

There would be seven purchases under the stand-by arrangement. Following the initial purchase of SDR 8.5 million upon approval by the Executive Board, the second purchase, also of SDR 8.5 million, would be available after January 14, 1985, subject to the observance of the performance criteria relating to end-December 1984. The third and fourth purchases may be made by Liberia after the completion of the first review and subject to the satisfaction of the performance criteria relating, respectively to end-March and end-June 1985. The third purchase, of SDR 8.5 million would be available after April 14, 1985, while the fourth purchase, of SDR 4.32 million, would be available after July 14, 1985. The last three purchases, each of SDR 4.32 million, are subject to the completion of the second review and the satisfaction of the performance criteria for end-September 1985, end-December 1985 and end-March 1986; they would be available after October 14, 1985, January 14, 1986, and April 14, 1986 respectively.

The proposed phasing provides for two purchases of SDR 8.5 million each, or 39.7 percent of the arrangement, before the first review prior to end-March 1985. This is a high proportion for an arrangement for which debt relief from the Paris Club has not been obtained. It is noted, however, that the Paris Club meeting on Liberia is scheduled to convene soon, and the previous Paris Club agreement in December 1983 contained a good will clause for further rescheduling. The proposed phasing has become necessary because of a delay in implementing the program, which was initially negotiated in June 1984. The Liberian budget, on which the program was based, assumed purchases of SDR 25.5 million during FY 1984/85. This budget, which includes such politically sensitive issues as the sharp cut in the public sector wage bill, was finally approved and implemented after a lengthy delay on October 1, 1984. The reason for the delay was that the Liberian Head of State delegated responsibility for the budget to the Interim National Assembly (INA), composed of 55 appointed individuals and organized as part of the political liberalization process. The INA deliberated for some months over the wage issue and finally decided on the proposed net reduction in wages of $15 per worker per month.

On the basis of the significant adjustment efforts of the Liberian authorities, the additional measures implemented on October 1, 1984, the severely limited foreign exchange reserves of the NBL, and the prospective debt relief from the Paris Club, the staff believes the proposed phasing is justifiable.

V. Staff Appraisal and Proposed Decision

The 1983/84 adjustment program, the fourth consecutive such program supported by Fund resources, achieved a measurable degree of financial adjustment and a significant improvement in the economy. For the first time in four years Liberia achieved a positive, albeit modest real economic growth rate, which represented an important turnaround after four years of 3-4 percent declines. The rate of inflation continued to fall to below 2 percent. There also appears to have been some improvement in the employment picture with the recovery of the rubber industry, which employs about one-third of the Liberian labor force. Both the overall deficit of the central government and the domestic bank financing of that deficit fell sharply, from 10.0 to 5.9 percent of GDP and from 7.7 percent to 3.7 percent of GDP, respectively.

The balance of payments outcome reflects the adjustments made in government financial operations. The overall deficit before debt relief fell from 9.3 percent of GDP in 1982/83 to 6.1 percent in 1983/84, while the current account deficit remained at roughly 8 percent of GDP. Finally, external arrears of the central government were eliminated by the end of May 1984 and domestic arrears were reduced.

Despite these achievements in 1983/84, the financial condition of the Government of Liberia remains precarious. External debt service is rising sharply. Interest obligations, in particular, have tripled between 1980/81 and 1983/84, rising from 7 percent of total expenditures to 21 percent, and are continuing to increase. Liberia will have serious difficulties in servicing external debt during the next few years unless further domestic adjustment measures are taken and further debt rescheduling is obtained.

The main reason for the precarious financial condition of the Government, despite the reduction in total expenditures, has been the continuing stagnation in revenues. In 1983/84 revenues fell $4 million below the 1982/83 level, which in turn was $14 million below the 1981/82 level. Expenditures on the other hand, have been held close to the budgeted level. In 1983/84 expenditures were reduced by $42 million, or by 11.6 percent, largely at the expense of the development budget.

The proposed 1984/85 program marks a significant turning point for the Liberian economy and its relations with the Fund. During four successive Fund-supported programs, the Government of Liberia has liberalized the price structure, significantly reduced its fiscal imbalances and, in general, improved the competitive position of the economy. Moreover, the outlook for 1984/85 is for a real GDP growth rate of 4 percent, led by a 7 percent increase in exports. Even with these positive developments, achievement of sustainable fiscal and balance of payments positions in the medium term will require a continued commitment of the Liberian authorities to sound economic management, further improved growth prospects in world markets for Liberian exports and an expanded involvement of the World Bank.

The World Bank is accelerating its operations in Liberia. As described in Section IV, the World Bank is in the process of negotiating a $30 million SAC which overlaps with and supplements the proposed Fund stand-by arrangement in three critical areas: public expenditure, public enterprises, and wage and employment policies. Both the Fund and the Bank programs aim at containing recurrent expenditures so as to maximize the available resources for a core set of ongoing investment projects with high economic returns. They aim particularly at reducing the wage bill through a combination of voluntary retirement, attrition, and voluntary redeployment. The rubber industry, which is labor intensive and has favorable medium-term prospects, would appear to be the most likely area for redeployment. Measures to redeploy public sector employees to productive industries is key to the achievement of medium-term sustainability of the Liberian economy. While some modest progress has been made over the past two years in rationalizing the Liberian Petroleum Refining Corporation (LPRC), much remains to be done with the LPRC as well as many other public enterprises. The World Bank has selected several such enterprises for priority attention in the context of its SAC.

The growing involvement of the World Bank in Liberia is a positive step forward, but neither the Bank nor the Fund can substitute for a serious commitment on the part of the Liberian authorities to improve economic management. The world economy is on the upswing and the Liberian economy is poised to benefit from the growing markets for iron ore, rubber, and timber. The Liberian authorities have an opportunity to put their economy on a sound track. The key is sound economic management. The staff has urged the authorities to improve tax collections, to make timely payments on external debt service, to avoid any new domestic arrears, to adhere strictly to the new bank clearing arrangement and to manage the public corporations more efficiently. In this context, the Economic and Financial Management Committee, which has jurisdiction over all these areas, should play a stronger role.

If the proposed 1984/85 program is implemented, the budget would be reduced to the level of external financing, with no domestic bank financing. The proposed financing from the Fund, a significant reduction from earlier years, would result in a net outflow of SDR 14.0 million over the 18-month period, as repurchases to the Fund are increasing sharply. In the future increased net repurchases from the Fund would require a comparable repayment of government credit to the NBL. This can be achieved only on the assumption of further debt relief from both Paris and London Clubs and, as noted above, additional fiscal adjustment measures in the context of the 1985/86 budget.

The staff considers that adequate measures are in place to achieve the ojectives of the proposed program, that the authorities are committed to implementing these measures, and that continued Fund support is justified.

Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of Liberia has requested a stand-by arrangement for a period of 18 months from   , 1984 for an amount equivalent to SDR 42.78 million.

2. The Fund approves the stand-by arrangement attached to EBS/84/234.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Liberia - Stand-By Arrangement

Attached hereto is a letter dated October 19, 1984 from the Minister of Finance and the Governor of the National Bank of Liberia requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Liberia intend to pursue for the period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from , 1984 to , 1986 Liberia will have the right to make purchases from the Fund in an amount equivalent to SDR 42.780 million, subject to paragraphs 2, 3, 4, and 5 below.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 8.5 million until January 15, 1985, the equivalent of SDR 17.0 million until April 15, 1985, the equivalent of SDR 25.5 million until July 15, 1985, the equivalent of SDR 29.82 million until October 15, 1985, the equivalent of SDR 34.14 million until January 15, 1986 and the equivalent of SDR 38.46 million until April 15, 1986.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Liberian currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Liberia will not make purchases under this stand-by arrangement, other than the initial purchase equivalent to SDR 8.5 million that it may request within 15 days of the effective date of this arrangement, that would increase the Fund's holdings of Liberia's currency in the credit tranches beyond 25 pecent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

(a) during any period in which the data at the end of the preceding period indicate that

(i) the limit on the National Bank of Liberia's net domestic assets described in paragraph 22 of the attached letter, or

(ii) the limit on net credit of the National Bank of Liberia to public corporations described in paragraph 22 of the attached letter, or

(iii) the limit on net credit of the banking system to the Government described in paragraph 22 of the attached letter,

is not observed, or

(b) if Liberia fails to observe the limits on authorization of new public and publicly guaranteed foreign indebtedness described in paragraph 20 of the attached letter; or

(c) during any period after March 31, 1985 until appropriate understandings have been reached on personnel policies and tax collection measures, and on rescheduling of payments due on public debt to official creditors, pursuant to the first review contemplated in the last sentence of paragraph 23 and in paragraph 24 of the attached letter; or

(d) during any period after August 31, 1985 until understandings have been reached on budgetary policies for 1985/86 and suitable performance criteria have been established for end-September 1985, end-December 1985 and end-March 1986, in consultation with the Fund pursuant to the second review contemplated in the last sentence of paragraph 23 and in paragraph 24 of the attached letter or after such performance criteria have been established, while they are not being observed; or

(e) during the entire period of this stand-by arrangement, while Liberia has any outstanding external arrears; or

(f) during the entire period of this stand-by arrangement, while Liberia has any overdue financial obligation to the Fund, or if Liberia

(i) imposes restrictions on payments and transfers for current international transactions, or

(ii) introduces multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Liberia is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Liberia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Liberia's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Liberia. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Liberia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Liberia, the Fund agrees to provide them at the time of purchase.

7. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's rules and regulations. Liberia will consult the Fund on the timing of purchases involving borrowed resources, in accordance with Rule G-4(d).

8. Liberia shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Liberia shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases, as Liberia's balance of payments and reserve position improves.

(b) Any reductions in Liberia's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement Liberia shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Liberia or of representatives of Liberia to the Fund. Liberia shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Liberia in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraphs 23 and 24 of the attached letter Liberia will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Liberia has outstanding purchases in the upper credit tranches, the Govenment will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Liberia's balance of payments policies.

Monrovia, October 19, 1984

Dear Mr. de Larosière:

1. During the past four years, the Government of Liberia has committed itself to strong economic adjustment programs supported by the International Monetary Fund (Fund). These have not been easy years for the Liberian economy, as the world economy has been in recession, adversely affecting world demand for Liberia's major exports. Yet we have diligently adhered to our adjustment programs and we are pleased to say that, for fiscal year 1983/84, we fulfilled all the performance criteria for the stand-by arrangement with the Fund.

2. As a consequence of our adjustment efforts we have reduced our budget deficit (checks-issued basis) from 10.8 percent of GDP in 1980/81 to 5.9 percent in 1983/84 and our expenditures from 33 to 30 percent of GDP in these same years. Moreover, the deficit in the current account of our balance of payments declined from 9.8 to 8.0 percent of GDP between 1980/81 and 1983/84. These improvements in our financial position could not have been achieved without Fund support.

3. Fiscal year 1984/85 will be as difficult a year as any we have experienced. Moreover, this year the hard economic decisions will have to be made in the context of the political liberalization process designed to return to civilian rule, which began July 26, 1984. Nevertheless, we are committed to continuing the process of adjusting the Liberian economy to a sustainable position. To achieve this objective, we will need the continued support of the Fund, the World Bank, other international institutions, and friendly governments.

4. Achievement of the objectives of our 1983/84 program required additional measures because of the continuing shortfall in revenue. In 1983/84, this shortfall amounted to $11 million even after taking account of capital revenues, leaving 1983/84 revenue still below that of 1981/82. Given the revenue shortfall, emphasis had to be put on expenditure cuts, both in the recurrent and development budgets. These cuts made it possible to reduce domestic bank financing from the previous year. At the same time, external arrears were eliminated and domestic arrears were reduced.

5. In addition, important operational changes in the Government's cash management had to be adopted to prevent a further involuntary build-up of commercial banks' excess reserves with the National Bank of Liberia (NBL). This increase in the banks' domestic reserves was caused by the NBL's inability to convert into cash government checks drawn on the NBL and presented for payment by the commercial banks. On May 15, 1984, the Government entered into an agreement with all the commercial banks operating in Liberia, whereby new deposit accounts would be maintained

by the Government at the banks. Checks issued in favor of the Government for tax payments are now being deposited at the commercial bank on which the check is drawn by the taxpayer, and government expenditures are being limited to available balances. Various government accounts with the NBL have been consolidated into a single general account and, as in the case of the commercial banks, disbursements from this new account are being made only as balances allow. Because no overdrafts are permitted under this arrangement, very close monitoring of the revenue performance and the expenditure process is required to guard against an imbalance in the fiscal position.

6. We will continue our commitment not to allow any increase in domestic arrears. To ensure this commitment is fulfilled, budgetary allotments are being released on a quarterly basis, and expenditure authorizations are based on projected revenue collections, rather than original budgetary allocations. Government ministries and agencies have been instructed to adhere strictly to these rules, and local suppliers have been forewarned that payment vouchers will be issued only after procurements have been duly approved by the Ministry of Finance.

7. The agreement with the commercial banks also provides for a gradual reduction in the banks' present high level of excess reserves. As the cost of loanable funds fall over time, the authorities will seek a decline in average lending rates, which are currently about 23 percent.

8. Our intention is to maintain the position of zero domestic bank financing throughout FY 1984/85 and to aim at reducing outstanding net credit from the NBL to permit it to build up a small foreign reserve position. However, we are not persuaded that the latter objective can be achieved within the context of realistic revenue projections, and we would not wish to commit ourselves to it during this fiscal year. We recognize fully the need to reduce net domestic credit further in the years ahead in order to ensure that the NBL can service its external obligations and, to this end, we will seek to reduce outstanding net credit from the NBL in the context of the FY 1985/86 budget.

9. For 1984/85, the Government has adopted an economic and financial program which aims at zero net recourse to domestic financing compared to domestic financing of 7.7 percent of GDP in 1982/83 and 3.7 percent in 1983/84. The overall deficit on a commitment basis is also to decline from 5.9 percent of GDP in 1983/84 to no more than 4.9 percent this year. This deficit is to be financed with available commitments on concessional terms from bilateral and multilateral lenders, and exceptional financing through expected debt relief. The specific measures and policies to be pursued during FY 1984/85 are outlined below. In support of this program, the Government of Liberia requests an 18-month stand-by arrangement from the Fund in an amount of SDR 42.78 million (60 percent of quota).

Fiscal policy

10. Fiscal policy for 1984/85 combines macroeconomic goals, together with specific targets related to the composition of expenditure and revenue collection. On the macro level, the FY 1984/85 budget aims at a fiscal outcome which requires no net credit from the domestic banking system. However, we recognize that the present wage bill does not allow adequate expenditure for either maintenance or worthwhile development projects. The 1984/85 budget therefore calls for a net $5 million (or 4 percent) reduction in the wage bill. This reduction is to be accomplished by means of a $10 monthly wage reduction on all public employees which will be subtracted from wage payments. Further reductions in the wage bill through voluntary and mandatory retirements, and attrition and dismissals of unproductive employees are being considered as part of the structural adjustment program that is being negotiated with the World Bank. We intend to put these measures into effect during the course of the current fiscal year, but, because of incentives to be offered to encourage civil servants to leave government employment, it is unlikely that these programs will yield significant additional savings in personnel costs until 1985/86.

11. The adjustment process in recent years has been particularly difficult because it has taken place within the context of persistent revenue shortfalls with respect to budgetary projections. A special problem on the revenue side has been a failure to collect import duties effectively. While total revenue increased marginally from $218 million in 1980/81 to $224 million in 1983/84, import duties declined from $77 million to $60 million over the same period. This decline can be explained only in part by lower imports. To address this problem, the Government of Liberia has initiated, under the auspices of the Economic and Financial Management Committee, a thorough examination of the level and composition of total and dutiable imports, as well as tax collection procedures. The aim is to provide specific recommendations for increasing customs revenue. We intend to complete this review and begin implementation of the recommended actions not later than December 1984. Effective July 6, the Government suspended all ad hoc duty free privileges granted to corporations. In addition, a 5 percent import surcharge has been applied to all dutiable imports, to yield $4 million for the remainder of FY 1984/85. A monthly payroll tax of $5, applied to both private and public sector employees, is expected to provide an additional $6 million in revenues. Moreover, the Government intends to reassess all properties with the view to increasing revenues from real estate taxes. Finally, the Government of Liberia will not authorize any further drawback certificates against customs duties or any other taxes.

12. The Government of Liberia is in the process of negotiating a Structural Adjustment Credit (SAC) with the World Bank. $12.5 million of these funds have been included in the FY 1984/85 budget. In the event that additional SAC funds are disbursed during 1984/85, they will

only be used for the purpose of financing the budgeted local costs of development expenditures or to reduce government indebtedness to the National Bank of Liberia.

13. As noted above, an important institutional change was introduced in 1983/84, whereby most tax receipts and expenditures are being handled through accounts at the commercial banks. A monthly disbursement scheme is also being put into place to tighten expenditure control. These changes will help ensure a position of zero domestic bank financing.

Production and employment

14. The further adjustment efforts to which the Government is committed should be facilitated by an expected continued recovery in economic activity in 1984/85. Led by expansion in most of the export-oriented sectors, the growth of GDP is expected to increase from about 1 percent in 1983/84 to some 4 percent in 1984/85. The improved outlook for economic activity not only reflects the gradual recovery of world markets for Liberia's exports, but is also the result of the vigorous efforts Liberia has pursued over the last 18 months to compress costs and raise productivity, especially in the iron ore and rubber sectors. These efforts will be continued in 1984/85. In addition, the envisaged new incentives for producers in the agricultural sector, and in particular the rubber sector, will create additional employment, easing the impact of the reduction in the labor force in the public sector. The increased confidence resulting from continued improvement in public finances and in economic management will also contribute to increased investment and production in the private sector of the economy.

15. In this context, we have limited the sales tax on rubber for Liberian farmers to 50 percent of the standard rate to permit an increase in the net farm gate price of rubber and provide an incentive for new investment in the rubber subsector. This action is also expected to foster planting of new areas and replanting by the rubber concessions. Within the context of the proposed SAC from the World Bank, we intend to review the production, pricing, processing and marketing policies for rubber, palm oil, coffee, and cocoa in order to formulate appropriate development strategies for those commodities in which Liberia has a strong comparative advantage. We also intend to request that part of the proposed SAC be channeled into credit allocation for smallholder processing and marketing of tree crops. With regard to rice, in order to reduce costs and make local rice more competitive with imported rice, we undertake to pursue vigorously the ongoing projects to expand rice storage and milling capacity.

Public corporations

16. The Government intends to implement expeditiously the project agreed upon with the World Bank to rationalize the public corporations. This

project includes the sale of some of these corporations to the private sector either in full or in joint venture. In some cases, it may become necessary to scale down substantially the operations of certain public enterprises, or to discontinue them altogether. Arrangements are under way to convert the Liberian Timber and Plywood Corporation to a joint venture as a part of this process. The National Iron Ore Company (NIOC), which has required large government subsidies in recent years, has also been shut down temporarily, and more than two thirds of its work force has been laid off. The status of this corporation is to be reviewed in December 1984. We also wish to note that all of the properties confiscated at the time of the April 1980 change in Government were, as of May 1984, returned to their original owners.

External sector

17. Reflecting the substantial reduction in public sector deficits, Liberia's external position improved during FY 1983/84. The overall balance of payments deficit (after debt relief) fell from an estimated $73 million in 1982/83 to $30 million in 1983/84. Although exports during the first half of 1984 were about 5 percent higher than during the first half of 1983, for the year as a whole they remained 3 percent below the level of 1982/83. This outcome was fully on account of a reduction in both prices and volume of iron ore exports. The improvement in the current account would have been larger in the absence of a turnaround in private capital accounts which sustained import demand in 1983/84.

18. The economic program for 1984/85 aims at achieving an overall balance in the external accounts. This will be made possible by a substantial further improvement in the financial position of the Government. In line with projected developments in the overall budget deficit, the external current account deficit is projected to decline from 8.0 percent of GDP in 1983/84 to 6.9 percent of GDP in 1984/85. Imports are projected to increase by 7 percent in value and 4 percent in volume, the same rate as the projected growth rate of GDP. The projected 8 percent increase in exports is based on an expected further recovery of foreign demand for Liberian exports and increased production in the agricultural sector in response to improved incentives to producers. The balance of payments target for 1984/85 also assumes a further debt re-scheduling from the Paris and London Clubs. An agreement with the London Club for the refinancing of principal obligations falling due in 1983/84 and 1984/85 is to be signed shortly. This agreement provides for the refinancing of the $26 million oustanding with the oil import financing facility. Contacts with the Paris Club have also been initiated with a view to reaching an early agreement on the rescheduling of principal and interest payments falling due in 1984/85 on public debt to bilateral creditors.

19. An essential element of restoring confidence in the Liberian economy is the timely settlement of all external financial obligations. The Government notes with satisfaction that at the end of June 1984 all

external payments arrears were eliminated. The Government intends, by prudent management of its external resources, to meet its foreign exchange obligations on a timely basis and prevent the re-emergence of arrears.

20. Debt service on account of external public debt already contracted and disbursed will remain high over the medium term. Consequently, it will be necessary to pursue cautious foreign borrowing policies during the stand-by period. In order to enhance the prospects for medium-term viability in Liberia's balance of payments, borrowing will be limited to the financing of projects with a potential for increasing exports and reducing imports. Accordingly, during the stand-by arrangement, the Government or the NBL will not contract or guarantee more than $15 million of nonconcessional loans with maturities from 1-12 years inclusive, with no loans in the maturity range of 1-5 years except the rescheduling or refinancing of existing obligations. Nontrade credits with a maturity of less than 1 year will be restricted to bridge financing not to exceed $12 million contracted exclusively to ensure timely debt service payments.

21. Liberia's trade and exchange system is free of restrictions on current international payments and transfers. During the period of the new stand-by arrangement, the Government of Liberia will not introduce multiple currency practices, impose restrictions on payments and transfers for current international transactions, conclude any bilateral payments agreements with Fund members, or impose restrictions on imports for balance of payments reasons. The Government will continue to operate an open economy in order to obtain the full benefits of international trade in goods and services.

Financial policies

22. The Government intends to pursue the following financial targets during FY 1984/85. Consistent with the balance of payments objective for 1984/85, net domestic assets of the NBL will not be increased (above the June 30 level of $219 million) on December 31, 1984, March 31, 1985, and June 30, 1985. In addition, there will be no increase in net claims on the Central Government from the banking system (from the June 30 level of $300 million) on each of these dates. Finally, the NBL will not increase its net claims on public corporations above the June 30 level of $6 million lion on each of these dates. These performance criteria are based on the understanding that the Government will not allow any net increase in domestic arrears.

23. We believe that the policies and measures set forth in this letter are adequate to achieve the objectives of our adjustment program, but we will take any additional measures that may become necessary. Liberia will provide the Fund staff with all relevant information in connection with the progress toward achieving the program's objectives. In particular, the Liberian authorities will immediately consult with the Fund staff at any time revenue falls short of budget projections, or

expenditures exceed budget levels. Also, Liberia will consult with the Fund staff in the event of any increase in net credit to the Government from the banking system at the end of the previous month. The Liberian authorities will review with the Fund the progress in the implementation of the program, not later than March 31, 1985, and again not later than August 31, 1985.

24. In the context of the first review of the program, the Government will reach any further understandings on personnel policies that may be necessary to achieve the targeted reduction in the wage bill for 1984/85 and to implement the tax collection measures described in paragraph 11 above. The review will also cover the results of the agreement reached with the Paris Club on debt relief for 1984/85. The second review will concentrate on reaching understandings with the Fund on budgetary policies for 1985/86 and on establishing quantitative performance criteria on net domestic assets of the NBL and net credit from the banking system to the public sector and Government for end-September 1985, end-December 1985 and end-March 1986.

Very truly yours,

Thomas D.V. Hanson
Governor, National Bank of Liberia

G. Alvin Jones
Minister of Finance

Liberia - Relations with the Fund
(As of October 31, 1984)

I. Membership status

(a) Date of membership: March 28, 1962
(b) Status: Article XIV

(A) Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 71.3 million

	Millions of SDRs	Percent of quota
(b) Fund holdings of Liberian dollars	277.6	389.3
(c) Fund credit	206.3	289.3
Of which:		
credit tranches	49.4	69.3
supplementary financing facility	39.6	55.5
enlarged access	80.0	112.2
compensatory financing facility	37.3	52.3
(d) Reserve tranche position	--	--

III. Current stand-by arrangement and special facilities

(a) Proposed stand-by arrangement
(i) Duration: From November 1984 to May 1986
(ii) Amount: SDR 42.78 million (60.0 percent of quota)
(iii) Utilization to date: --
(iv) Undrawn balance: SDR 42.78 million

(b) Previous stand-by and extended arrangements:

Arrangement	Duration	Amount	Utilization	Undrawn balance
		(In millions of SDRs)		
Stand-by	8/14/74-8/13/75	4.0	--	4.0
Stand-by	1/14/76-1/13/77	5.0	--	5.0
Stand-by	3/21/79-3/20/80	9.25	9.25	--
Stand-by	9/15/80-8/25/81	65.0	32.0	33.0
Stand-by	8/26/81-8/25/82	55.0	55.0	--
Stand-by	9/29/82-9/13/83	55.0	35.0	20.0
Stand-by	9/14/83-9/13/84	55.0	55.0	--

(c) Special facilities:

Compensatory financing facility: June 18, 1982; SDR 7.0 million
Compensatory financing facility: Sept. 29, 1982; SDR 27.7 million

IV. SDR Department

(a) Net cumulative allocation: SDR 21.01 million
(b) Holdings: No holdings

V. Administered Accounts

(a) Trust Fund loans
  (i) Disbursed: SDR 28.34 million
  (ii) Outstanding: SDR 24.97 million
(b) SFF Subsidy Account
  Payment by the Fund: US$ 3.94 million

VI. Overdue Obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange Rate Arrangement:

The Liberian dollar is pegged to the U.S. dollar at the rate of Lib.$1.00 = US$1.00.

VIII. Last Article IV Consultation:

The last Article IV consultation discussions with Liberia were held in Monrovia during the period December 5-18, 1983. The staff report (EBS/84/54, 3/12/84) was discussed by the Executive Board on April 6, 1984, an the decision was:

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 trarsfers for current international transactions.

Consultations with Liberia are on the standard 12-month cycle.

IX. Technical Assistance

The Central Banking Department is providing three experts to the National Bank of Liberia to fill the posts, respectively, 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.

X. Resident Representative

A Fund resident representative has been assigned to Monrovia since January 1981.

LIBERIA - Relations with the World Bank Group

(As of June 30, 1984; in millions of U.S. dollars)

IBRD Loans and IDA Credits by Sector

	Total	Disbursed	Undisbursed
IBRD	155.20	125.53 1/	29.67
Agriculture	19.00	1.81	17.19
Rubber	(7.00)	(--)	(7.00)
Oil palm	(12.00)	(1.81)	(10.19)
Transportation	62.16	55.05	7.11
Highways	(48.03)	(48.03)	(--)
Feeder roads	(10.70)	(3.59)	(7.11)
Port of Monrovia	(3.43)	(3.43)	(--)
Energy	31.80	31.57	0.23
LEC	(26.80)	(26.80)	(--)
Petroleum exploration	(5.00)	(4.77)	(0.23)
Mining: iron ore	20.00	15.42	4.58
Education	10.30	10.30	--
Development finance	11.94	11.38	0.56
IDA	102.95	54.16 2/	48.79
Agriculture	46.53	26.86	19.67
Rubber	(6.00)	(4.41)	(1.59)
Forestry	(6.00)	(3.61)	(2.39)
Agricultural development	(34.53) 3/	(18.84)	(15.69) 3/
Transportation: highways	15.75 4/	4.12	11.63 4/
Education	20.19	11.95	8.24
Urban development	9.18	2.66	6.52
Water supply	8.00	8.00	--
Small- and medium-scale enterprises	3.30	0.57	2.73
Total	258.15	179.69	78.46
Of which: agriculture	65.53	28.67	36.86
transportation	77.91	59.17	18.74
education	30.49	22.25	8.24
Repayments	26.68		
IBRD	26.49		
IDA	0.19		
Total outstanding (including undisbursed)	231.47		

IFC Investments: equity held: 0.55

Source: IBRD.

1/ Of which $93.52 million for fifteen fully disbursed loans.
2/ Of which $31.91 million for six fully disbursed credits.
3/ Of which $11.40 milion not yet effective.
4/ Of which $6.70 million not yet effective.