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EBS/83/22

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January 28, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Liberia - Staff Report for the 1982 Article IV Consultation and Review of Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with Liberia and on the mid-year review of the stand-by arrangement for Liberia. The text of the proposed decisions to be taken in concluding the 1982 Article IV consultation and the review of the stand-by arrangement for Liberia will be circulated after Liberia has completed current negotiations with foreign commercial banks on the maintenance of the oil facility arrangement.

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

Att: (1)

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INTERNATIONAL MONETARY FUND

LIBERIA

Staff Report for the 1982 Article IV Consultation and Review of Stand-By Arrangement

Prepared by the Staff Representatives for the 1982 Consultation with Liberia

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

January 27, 1983

I. Introduction

The 1982 Article IV consultation discussions and the review of Liberia's performance under the current one year stand-by arrangement were held in Monrovia during the period November 24 to December 8, 1982. On September 29, 1982, the Executive Board approved a one-year stand-by arrangement in the amount of SDR 55 million, or 99 per cent of quota. So far Liberia has purchased SDR 5 million under the arrangement. 1/ Further purchases are conditional on reaching understandings with the Fund on budgetary policy and on the elimination of external payments arrears. A letter from the Minister of Finance and the Governor of the National Bank of Liberia describing measures in these two areas is presented in Appendix I.

The Liberian representatives included Mr. G. Alvin Jones, Minister of Finance; Mr. Emmanuel Gardiner, Minister of Planning and Economic Affairs; Mr. Thomas Hanson, Governor of the National Bank of Liberia; Mr. Fonie Sherman, Director of the Budget Bureau; and other senior officials concerned with economic and financial matters. The mission was received by the Head of State on December 9, 1982. The staff representatives were: Messrs. D. Syvrud (head-AFR); P. Heller (FAD); S. Leite (CBD); P. Duran (AFR); and Ms. R. Mungui (secretary-ADM). Mr. G. Alibaruho (World Bank) and Mr. J. Hauvonen (Fund resident representative in Monrovia) also participated in the work of the mission.

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

1/ A schedule of purchases and repurchases by Liberia during the period of the stand-by arrangement is presented in Appendix III.

II. Background to the Discussions

The Liberian economy has experienced great difficulties in the last three years. Depressed conditions in world markets for Liberian exports and sharply reduced capital inflows following the change of government of April 1980 have resulted in sharp declines in real incomes, large increases in unemployment, and unsustainable balance of payments deficits.

Confronted with these problems, the Liberian authorities undertook three successive stabilization programs supported by stand-by arrangements with the Fund. Performance under the first two stand-by arrangements for FY 1980/81 (July to June) and 1981/82 was satisfactory, and some progress was made in 1982 in restoring domestic and external confidence, as reflected in a modest increase in private sector bank deposits and the elimination of external payments arrears. Nevertheless, financial imbalances remained large. The overall fiscal deficit in FY 1981/82 was still at $117.7 million, or 10.2 per cent of gross domestic product (GDP), and domestic bank financing of this deficit at $46.8 million, or 4.1 per cent of GDP (Table 1). The deficit in the current account of the balance of payments for the same period is estimated at $92 million, or 8.0 per cent of GDP, and would have been significantly larger but for one-time increases in grant aid and maritime fees. Moreover, external payments arrears re-emerged during the second half of 1982, and the external reserve position of the National Bank of Liberia (NBL) remains precarious.

The 1982/83 stand-by program called for increased budgetary discipline, a reduction in recurrent expenditures, a shift in public expenditure toward productive investment, an improvement in the operations of public corporations, and a strengthening of Liberia's capacity for resource mobilization. The current status of the implementation of these policy measures is summarized in Table 2. Liberia successfully met all the quantitative performance criteria for end-October 1982, as shown in Table 3.

The Liberian authorities have consistently demonstrated their willingness to implement--albeit with some delay--measures necessary to help correct the situation and to achieve the objectives of stand-by arrangement programs. Especially noteworthy in the context of the current program for 1982/83, and the shortfalls in revenues and continued budgetary pressures was the reduction in the wages and salaries of all public sector employees announced on December 1, 1982. Additional measures to bring the budgetary expenditures under control have also been announced and are being implemented. Moreover, in January 1983 the authorities initiated an intensive campaign to enforce tax collections and increase revenues. Further discussion of each of these developments, program objectives, and policies measures is included in Section III.

Table 1. Liberia: Selected Economic and Financial Indicators, July 1980-June 1983

	1980/81	1981/82		1982/83 Program	
	Actual	Program	Actual	Original	Revised
	(Annual percentage change, unless otherwise specified)				
National income					
GDP at constant prices	-2.5 1/	--	-0.8 1/	2.0	-1.2
GDP at current market prices	2.4 1/	9.0	2.9 1/	10.0	4.8
Consumer prices	10.0	8.5	7.0	8.0	7.0
External sector					
Exports, f.o.b.	-7.0	2.0	-8.3	5.6	-6.3
Imports, c.i.f.	-3.3	5.0	-6.9	3.3	-7.2
Non-oil imports, c.i.f.	-7.1	1.0	-12.8	1.0	-6.1
Export volume	-7.5	2.0	-1.1 1/	2.0	-11.9
Import volume	-13.4	-3.0	-8.3 1/	1.1	-5.8
Terms of trade (deterioration -)	-9.9	-7.5	-9.4 1/	4.3	8.0
Nominal effective exchange rate (appreciation)	5.3	...	11.8	...	...
Real effective exchange rate (appreciation)	3.9	...	11.1	...	...
Government budget					
Revenue and grants	7.4	25.0	15.2	4.0	1.3
Total expenditure	13.8	4.3	11.2	-6.0	-7.3
Money and credit					
Domestic bank credit	-13.2	37.0	24.3	23.5	22.6
Government	(24.5)	(35.0)	(30.4)	(17.5)	(15.8)
Private sector	(-38.8)	(40.0)	(16.0)	(30.4)	(32.9)
Money and quasi-money	-17.9	...	2.2	16.8	16.9
Velocity (GDP relative to M_2)	...	...	...	...	...
Interest rate (annual rate on one-year deposits)	10.3	11.0	10.9	12.0	10.0
	(In per cent of GDP)				
Government current account surplus or deficit (-) (excluding grants)	-1.3	-0.7	-5.5	0.6	-0.7
Government overall deficit	10.3	6.0	10.2	6.9	7.0
Domestic bank financing	2.6	3.5	4.1	2.5	2.7
Foreign financing	5.4	2.6	3.5	4.4	4.4
Gross domestic investment	22.0 1/	22.4	18.3 1/	22.0	21.5
Gross domestic savings	20.0 1/	18.0	14.4 1/	18.0	19.5
External current account deficit	-9.4 1/		-8.0 1/	-4.5	-6.7
External debt (including use of Fund credit)	52.8 1/	61.0	58.3 1/	66.8	66.3
	(In per cent of exports of goods, nonfactor services, and private transfers)				
Debt service ratio	6.7 1/	12.5	8.1 1/	17.0	13.3
Interest payments	4.4 1/	7.5	6.5 1/	9.0	8.9
	(In millions of SDRs, unless otherwise specified)				
Current account deficit	-84.0 1/	-72.0	-77.0 1/	-56.0	-74.0
Overall balance of payments deficit	-32.0	-55.0	-40.0	-58.4	-45.0
Gross official reserves (months of imports)	0.2	0.2	0.2	1.0	0.8
External payments arrears (end of period)	8.7	--	1.8	--	--

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

1/ Estimates.

Table 2. Liberia: Policy Measures Under Stand-By Program for 1982/83: Current Status of Implementation

Program	Status of Implementation
1. Fiscal measures	
a. Recurrent expenditures, except interest payments, to be reduced by 22 per cent from FY 1981/82	Wages and salary rates cut 16 2/3 to 25 per cent effective January 1, 1983. Total of other noninterest recurrent expenditures budgeted to be cut by 39 per cent from 1981/82 level.
b. Establish economic management team	Established July 5, 1982.
c. Freeze on all salaries and new hirings	Both salaries and personnel reduced.
d. Improve tax administration and collection procedures	Partly implemented. Additional technical advisers requested from U.S. Customs, U.K. Finance Ministry to improve collection procedures.
e. Domestic nonwage, noninterest arrears will not exceed $8 million outstanding at end-June 1982 by end-June 1983	To be determined.
f. Other measures as necessary	Introduced hut tax, reduced import surcharge.
2. Monetary measures	
a. Increase interest rates on CDs one per cent above U.S.	Increased rates by five percentage points.
b. Review reserve requirements	Reviewed in October 1982 with assistance of CBD technical mission.
c. Review financial institutions with CBD	Report of CBD due in January 1983.
3. Public corporations	
a. Agree with IBRD on project to rationalize public corporations	Agreed November 22, 1982 but project not initiated.
b. Return of reacquired properties to their previous owners	Largely completed.
c. Reduce arrears	Not done, particularly the Liberian Petroleum Refining Company. Financial audit and monthly review included in new letter of intent.
4. External sector	
a. Understanding on the elimination of external arrears	London Club rescheduling signed December 1, 1982. Oil facility under negotiation.
b. Contract no external debt of 1-12 years	Implemented.
c. Avoid restrictions on current transactions	Implemented.
d. Make timely offshore payments for oil imports and debt service	Oil payments went into arrears and are under negotiation.

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

Table 3. Liberia: Performance Criteria Under the Stand-By Arrangement, June 1982-June 1983

(In millions of dollars)

	1982		1983		
	June	Oct.	Jan.	Apr.	June
Net domestic assets of the National Bank of Liberia 1/					
Ceiling	...	150.0	165.0	178.0	188.0
Actual	124.6	128.8 2/	...	...	...
Net claims of public banks 3/ on public sector 4/					
Ceiling	...	185.0	194.0	199.0	205.0
Actual	169.9	179.4	...	...	...
Net claims of public banks on Government					
Ceiling	...	180.0	188.0	194.0	200.0
Actual	168.0	178.4	...	...	...
Net external borrowing of 1-12 years' maturity					
Ceiling	...	--	--	--	--
Actual	--	--	...	...	...

Source: Data provided by the Liberian authorities.

1/ Defined as equivalent to net foreign liabilities of the National Bank adjusted for changes in the valuation of foreign assets and liabilities subsequent to June 30, 1982.

2/ The end October position reflects an improvement in gross reserves as the result of a disbursement of U.S. grant aid and Fund purchase during the month. These reserves were drawn down during November and December to pay for oil imports.

3/ Public banks are defined as the National Bank of Liberia and National Housing and Savings Bank.

4/ The public sector is defined to include the Central Government and the public corporations, excluding the Liberian Petroleum Refining Company and the Liberia Produce Marketing Corporation.

III. Economic and Financial Developments and Report on the Discussions

The recession in world markets for Liberia's main exports, iron ore, rubber, and timber, has more than offset the effects of improvements in domestic economic management and policies over the past two years. Real GDP declined in 1982 by an estimated 0.6 per cent, following declines of 1 per cent in 1981 and 4 per cent in 1980, and the outlook for 1983 is for another year of falling GDP, by a projected 1.8 per cent.

In June 1982 the staff appraised (EBS/82/169, September 3, 1982) the Liberian economy as being characterized by two major developments: first, economic activity had slackened under the impact of the international recession and, second, there had been some progress in the process of restoring domestic and external confidence. By November 1982 the latter process had slowed down as a result of a further--unexpected--weakening of the Liberian economy. Declining export prices and volumes in the two major natural resource industries, iron ore and rubber, owing to the recession in Western Europe and the United States, caused heavy losses for all the concessionaires operating in Liberia. One of the two leading iron producers, LAMCO, announced in November 1982 the layoff of a third (1,300) of its work force. Firestone, the largest rubber producer, notified the Government, also in November, of its intention to close one of its major plantations. Another large rubber company, which had planned a major new investment, decided to postpone it. Apart from the short run impact on employment and economic activity in Liberia, these developments raised questions about the medium-term prospects of the Liberian economy.

1. Output, prices, and incomes

According to preliminary estimates, real GDP declined by 0.6 per cent in 1982, compared with declines of 1 per cent in 1981 and 4 per cent in 1980. As in 1981, the fall in GDP in 1982 was on account of the poor performance of the export-oriented sector. Increased production of coffee and palm products was not sufficient to offset reductions registered in the iron ore and rubber sectors. Production in the domestically oriented sectors is estimated to have increased by about 2 per cent in 1982. The outlook for 1983 is for a distinct worsening of economic performance. With an expected reduction in output in the export-oriented sector by 10 per cent, real GDP is projected to fall by 1.8 per cent in 1982. For the program year July 1982-June 1983 real GDP is projected to decline by 1.2 per cent, compared with an initially expected growth of 2 per cent. Developments of output in the various sectors are summarized in Table 4.

Table 4. Liberia: Gross Domestic Product, 1979-83

(Percentage changes from preceding year at constant prices)

	1979	1980	1981	1982	1983
	Actual		Estimates		Projected
Export-oriented sectors	5.7	7.5	-8.1	-5.1	-10.4
Agriculture	4.8	0.3	-21.6	-4.9	5.7
Mining and quarrying	6.2	12.0	-0.5	-5.2	-17.7
Domestic-oriented sectors	2.8	-9.4	1.7	1.7	2.1
Monetary economy	3.5	-13.6	1.0	1.4	1.9
Subsistence economy	1.0	2.6	3.0	2.3	2.7
GDP	3.3	-4.1	-1.0	-0.6	-1.8

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

The Liberian representatives pointed out that improvement in the economic performance in future years depends, in the first place, on a recovery in world markets of their principal export products and continued efforts on the part of Liberia to contain production costs. With a view to reducing dependence on external conditions, the authorities intend to give priority to a more rapid development of the agricultural sector for domestic food production. Regarding the industrial sector, the Liberian representatives stated that the envisaged rationalization of public corporations and the return of confiscated properties to the private sector would contribute to increased productivity. It was also hoped that, with the return of confidence, resumed private sector investment would accelerate growth in the industrial sector.

Incomes in the monetary sector are expected to decline significantly in 1982/83. In the public sector, the substantial cut in wages affecting both the civil service and public corporations beginning January 1, 1983, together with the hiring freeze, will reduce the wage bill significantly. In the private sector, the fall in production and the measures taken to reduce costs, especially in the concession sector, will entail a decline in employment and income.

The deceleration in the rate of increase of consumer prices continued during the first half of 1982. The average annual increase, which declined from 15 per cent in 1980 to 8 per cent in 1981, fell further to 6 per cent from June 1981 to June 1982. With the exception of rent and clothing, the slowdown in the rate of inflation during the first half of 1982 affected all components of the price index, in particular beverages and tobacco, fuel, and household goods. Rents, which had declined by 11 per cent in July 1981, rose slightly in January 1982.

2. Budget performance, 1981/82 1/

The 1981/82 budget of the Central Government aimed at a reduction in the overall deficit from $114.6 million (10.3 per cent of GDP in FY 1980/81) to $69.5 million (6.0 per cent of GDP), of which $40 million was to be bank financed and the residual amount financed from foreign borrowing (Table 5). Several new revenue measures were enacted, including the substitution of a graduated national reconstruction tax (ranging from 2 per cent to 10 per cent) on all wage and salary income for the previously compulsory national savings bond scheme, increased excises on gasoline and beer, liability to duty on all imports by government agencies and public corporations, and improved tax collection procedures.

Faced with rising wage and salary costs and a sharp increase in the debt service burden, adjustments were sought in other expenditures. Both the domestic and foreign-financed development budgets were pruned by about 17 per cent from the 1980/81 level. A limit was established on the total of recurrent cash expenditure as well as on total wages and salaries. A freeze was imposed on all public sector hiring, and vacancies were not to be filled. Rice subsidies, reflected in the losses of the Liberia Produce Marketing Corporation (LPMC), were eliminated by increasing the fixed price of rice. Military purchases were to be limited to those financed by concessional bilateral aid.

The actual outturn for 1981/82 was less favorable than had been hoped. The overall deficit, on a commitment basis, at $117.7 million, was slightly higher than that in 1980/81; with the small growth in nominal GDP, its share in GDP fell only slightly to 10.2 per cent. Thus, overall there was little or no improvement in the underlying fiscal situation in 1981/82. Furthermore, as discussed below, there was a substantial accumulation of domestic arrears and an increase in the check float by the Government, and the cash basis deficit (or total financing) was $91 million, or 7.9 per cent of GDP. Revenue grew far less rapidly than originally envisaged, falling $30 million below the targeted level, and was only partly offset, grants being $6 million higher than anticipated in the original target.

1/ Since final data on the 1981/82 budget were not available at the time of the stand-by negotiations, this section is the first description of the outcome of the 1981/82 budget.

Table 5. Liberia: Government Fiscal Operations, 1980/81-1982/83

(In millions of dollars)

	1980/81	1981/82		1982/83	
	Actual	Program	Actual	Original Program	Revised Program
Revenue and grants	242.4	303.0	279.3	290.5	283.0 1/
Revenue	217.9	268.0	237.9	258.0	245.0
Grants	24.5	35.0	41.4	32.5	38.0
Expenditure 2/	357.0	372.5	397.0	373.4	367.9 1/
Recurrent	232.8	276.0	300.6	250.2	253.9
Wages and salaries	(138.1)	(156.6)	(157.7)	(133.6)	(141.9)
Interest on debt	(20.8)	(36.5)	(39.2)	(48.7)	(48.7)
Other	(73.9)	(83.5)	(103.7)	(67.9)	(63.3)
Development	124.2	96.5	96.4	123.2	114.0
Local	(59.1)	(49.0)	(62.8)	(62.6)	(53.4)
Foreign	(65.1)	(47.5)	(33.6)	(60.6)	(60.6)
Overall deficit:					
Commitments basis 2/	-114.6	-69.5	-117.7	-82.9	-84.9
Increase in check float and arrears	1.9	--	26.8 5/	--	--
Overall deficit: cash basis	-112.7	-69.5	-90.9	-82.9	-84.9
Foreign borrowing 3/	60.2	29.5	39.9	52.9	52.9
Drawings	(67.2)	(55.5)	(46.4)	(75.6)	(75.6)
Repayments	(-7.0)	(-26.0)	(-6.5)	(-22.7)	(-22.7)
Domestic borrowing	52.5	40.0	51.0	30.0	32.0
Banking system 4/	30.2	40.0	46.8	30.0	32.0
Central bank	(29.5)	(40.0)	(44.5)	(30.0)	(32.0)
Commercial banks	(0.7)	(--)	(2.3)	(--)	(--)
National savings bonds	22.3	--	4.2	--	--

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

1/ Excludes $5.3 million of extrabudgetary revenue arising from sale of a Boeing 737 as well as expenditure of $5.1 million on purchase of a Boeing 727.

2/ On the basis of checks issued and entered into the cash book. This does not include commitments that have been made but where checks have been issued after closing of the books for the concluded fiscal year.

3/ Includes PL 480 funds. Excludes external grants in kind of $23 million in 1981/82 and $24 million in 1982/83.

4/ On the basis of checks cleared with the banking system.

5/ Includes about $9 million in drawn checks which were recorded in the cashbook but not actually released, and an unusually large volume of checks which were issued on the last day of the fiscal year.

Revenues, although increasing as a percentage of GDP (from 19.5 per cent to 20.7 per cent from 1980/81 to 1981/82), did not meet expected levels, due to several factors. First, popular opposition led to a reduction in the national reconstruction tax rates; the 2 per cent rate was lowered to 1 per cent, the 5 per cent rate to 4.5 per cent, the 8 per cent rate to 7.5 per cent, and the 10 per cent rate to 8 per cent. Second, both excise and import duty revenues fell far short of the budgeted targets. The increases in transshipment and excise tax rates had led to increased smuggling, evasion, and reduced shipments and consumption, with a deleterious effect on revenues. As a result, the excise tax on beer, which had been raised from $0.59 to $1.10 per liter on August 1, 1981, was subsequently lowered to $0.90; the transshipment tax on foreign goods transported through Liberia was reduced on an ad valorem basis from 7.5 per cent to 2.5 per cent. Third, some measures were not fully implemented, e.g., the liability for duty on imports by government agencies and public corporations and planned improvements in tax administration. In addition to these factors, however, the weakness of the iron and timber industries led to a sharp decline in revenues collected from iron ore profit sharing and stumpage fees.

On the expenditure side, total expenditure on a commitment basis was $25 million in excess of the programmed level, rising to 34.5 per cent of GDP, in contrast to 32.4 per cent in the original program. The main area of slippage in expenditure concerned nonwage and noninterest recurrent expenditure, which was 25 per cent above the target. This reflected excess expenditure on equipment purchases, subsidies, and $11.6 million on encumbrances and other nonbudgeted items. Wage and interest expenditures were both slightly in excess of the original targets and were significantly above the rate of the previous year. Total cash disbursements on development spending in aggregate terms were at the budgeted level, though the share of locally financed project spending was higher than planned.

The overall cash deficit was financed through central bank credits of $44.5 million, or 49 per cent of the total, 1/ approximately $4.2 million of national savings bonds issued in the early part of the year, and the remainder by foreign credits. Net disbursements on foreign loans, including PL 480 counterpart funds, were approximately $40 million, in comparison with $60 million in the previous year.

3. Budget outlook for 1982/83

The original budget for 1982/83 sought further adjustment in the Central Government's accounts, with a programmed reduction in public

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1/ This figure is not strictly comparable with the $40 million performance criteria as the former includes changes in Trust Fund loans and excludes changes in some deposits of independent government units such as the University of Liberia.

bank credit to the Central Government to a level of $30 million and an improved balance between recurrent and development expenditure. The overall deficit was targeted to fall to $83 million, or 6.9 per cent of GDP, in contrast to 10.2 per cent in 1981/82. Confronted with a further anticipated increase in the debt service burden, the principal focus of expenditure control was a reduction in noninterest recurrent expenditure to $201.5 million, roughly a 22 per cent cut from the actual outturn in FY 1981/82. Some of the savings accruing from the reduction in the recurrent budget were programmed toward an increase in domestic resources for the development budget, with total development expenditure rising by 28 per cent over the 1981/82 outturn. To achieve the expenditure cuts, annual and quarterly cash limits were to be set on the total of all recurrent cash expenditures, exclusive of interest, as well as on total personnel expenditure. The reduction in personnel costs was to be achieved by freezing wage rates and employment, deleting all unfilled and vacant posts, retiring all long-service and elderly personnel who had reached a pensionable status, and eliminating nonproductive or redundant staff positions. Other limitations were to be placed on the purchase of new vehicles, gasoline allocations, and the number of additional overseas mission.

Revenues were projected to increase by about 8 per cent over the 1981/82 level, based on assumptions of improved collection efforts and an increase in the rate of economic activity. This increase would more than offset the expected reduction, from $41.4 million to $32.5 million, in grants from the United States. No changes in tax policy were contemplated.

By the end of November 1982 the fiscal and policy targets in the program were increasingly recognized as nonattainable without further policy measures. Detailed audits of the Government's payroll yielded at best only a 4 per cent savings in total personnel costs, or $0.5 million per month. The unexpected marked deterioration in the economic and financial situation since the beginning of the fiscal year was mirrored by a serious revenue shortfall, particularly in customs revenue, corporate taxation, iron ore profit sharing, and stumpage fees. Nonbudgeted expenditure of $2.4 million further strained the fiscal picture. The inevitable drawdown in the outstanding check float from the previous fiscal year placed severe pressures on the Government's liquidity. By the end of October the Government had fallen into salary arrears of almost two months (including the 1981/82 salary arrears), and its domestic nonwage noninterest arrears had increased by $10.5 million over the end-June 1982 level.

In an effort to redress the situation, the Head of State and the People's Redemption Council agreed upon a series of measures, announced on December 1, 1982. Effective January 1, 1983, the wages of all employees of the Government (including the military) and public corporations were reduced, with cuts of 16 2/3 per cent for lower income employees to as high as 25 per cent for higher salaried employees. On a gross basis this would save approximately $14 million in the current fiscal year in central government wages and $1.2 million in reduced subsidies to, or increased transfers from, the public corporations. Cutbacks of $9.2 million were also planned from the locally financed development budget, with 10-20 per cent cuts made in projects in most sectors. An earlier decision to cut sharply the nonwage, noninterest recurrent expenditure budget was reconfirmed, with the program target of $63.3 million. In a Supplementary Budget issued on January 14, 1983, the authorities have attempted to ensure that the distribution of these cuts is equitable across ministries and objects of expenditure in an effort to avoid seriously impairing the functioning of the Government or the provision of its services (Attachment I to Appendix I). Use of a bulk purchasing scheme will also allow some economies in these expenditures. Moreover, the authorities decided not to go ahead with the purchase of a Boeing 707. Further limits were placed on foreign travel by government employees. Government purchases of gasoline were put on a duty-paid basis, primarily as a means of curbing the evasion of gasoline excises.

On the revenue side, the authorities are focusing on improved enforcement and collection of existing taxes. In this context, they have proclaimed 1983 as the "year of rigid enforcement of tax collections" and have raised the interest penalty on due taxes from 6 per cent to 18 per cent. Special efforts are to be made in the area of individual income tax collections, in order to offset the projected loss of $3 million in revenues due to the wage reduction measures. They have also taken a few other measures to increase revenues during the fiscal year. A hut tax, which was reinstated in the rural areas, is expected to yield an additional $1.5 million. To reduce the burden on wage earners of the cut in wages, the authorities announced on December 1, 1982, a decision to eliminate the import surcharge on all nonluxury goods; however, upon a subsequent review of the cost of the measure ($5.5 million in FY 1982/83), it was decided to narrow the list of commodities for which the surcharge would be dropped, reducing the revenue loss to $2.5 million in this fiscal year. Finally, in response to a request by the Liberians, authorities in the United States agreed to change the timing of its disbursements of grants so as to increase Liberia's receipts from $32.5 million to $38 million in FY 1982/83.

As a result of these measures, the authorities expect to limit the overall deficit to $85 million, only $2 million above the original program targets. Moreover, the authorities have committed themselves to reporting monthly data on revenue, recurrent expenditure and other fiscal variables on a monthly basis. Public bank financing would reach $32 million compared to $44.5 million in the previous year. The authorities would limit domestic nonwage, noninterest arrears to the $8 million outstanding at the end of June 1982, although this implies a continuation of the high level of cash float and a possible continued delay in salary payments of about one month.

4. Public corporations

The mission reviewed three developments concerning the public corporations. First, the stand-by arrangement established a ceiling on net credit from the public banks to the public sector, including the public corporations. The results for the end of October are shown in Table 3. During the four months from end-June to end-October, net credit by the public banks to the public corporations had decreased by $0.9 million, compared with the programmed increase of $3.0 million.

Rationalization of the public corporations so as to improve their general financial operations and reduce their dependence on the Government for subsidies was a second development reviewed by the mission. On July 5, 1982, the Head of State announced a series of measures aimed at a 15 per cent reduction in recurrent costs for the Government, which was also applicable to the public corporations, but data for the end of September indicate only limited cuts in the costs of the public corporations as a consequence of these measures. On December 1, 1982, the Head of State announced further measures affecting the public corporations, including an across-the-board graduated reduction in wages and salaries of all public employees. This measure, effective January 1, 1983, is expected to result in savings of $1.2 million over the remainder of FY 1982/83.

Third, the rationalization of public corporations in the medium term involves a thorough examination of the operation of each corporation and, in some instances, the sale, in whole or in part, of some of them to the private sector. With the advice of the World Bank, the Government has agreed to implement a series of recommendations, including rehabilitation, privatization, and contract management of the major public corporations. The Bank plans to finance a project to implement these decisions, including the cost of studies necessary to prepare the project. As a result of the dialogue with the World Bank, the Government has distinguished those corporations: (a) which should be retained in the public sector; (b) which the Government would be prepared to put up for joint venture arrangements with the private sector; and (c) which the Government would be prepared to sell outright to the private sector. On November 22, 1982, the Head of State formally advised the World Bank of these government decisions which amount to acceptance of the Bank's principal recommendations. The World Bank is now in the process of preparing the public enterprises reform project. In addition, the Government has already implemented a decree returning many reacquired properties to their previous owners. Consideration is being given to the possibility of selling the remaining properties, mainly the companies in the Mesurado Group.

5. Monetary developments

Monetary developments in Liberia over the past few years were shaped largely by the political events of April 1980 and their economic aftermath, which shook public confidence in the banking system. Some progress has been made in restoring public confidence, as the recorded money supply--which declined by 11 per cent in 1981--increased by 6 per cent (September 1981 to September 1982) and by 23 per cent during the first nine months of 1982.

Despite the recovery in the private holdings of money, high domestic credit expansion on account of the continued financing of the budget deficit and the liquidation of the Bank of Liberia in connection with which the National Bank of Liberia (NBL) extended credits in excess of $30 million led to the exhaustion of the gross foreign assets of the NBL and a substantial increase in net foreign liabilities. Under these conditions, it was often impossible for the NBL to provide cash to the commercial banks on demand or to effect outward transfers for them. Thus, the commercial banks were faced, particularly in 1982, with an involuntary accumulation of reserves at the NBL at a time when the decline in export receipts was already placing a serious squeeze in the overall liquidity of the system. The present limited capacity of the banking system to effect outward transfers induced the commercial banks to increase their lending rates substantially as a means of allocating the limited offshore resources.

Credit to the private sector declined by 39 per cent during 1980 and has stagnated at that level (Table 6). Credit to the public enterprises which, since 1978, had shown a generally rising trend, declined by 13 per cent from September 1981 to September 1982. Despite this, net domestic assets of the banking system increased by 25 per cent over the same 12-month period as a result of a 27 per cent increase in net credit to Government.

In an effort to increase deposit rates and reduce the large interest rate spread now prevalent in Liberia, in May 1982 the National Bank of Liberia issued certificates of deposit with an interest rate 1 1/4 percentage points above comparable rates in New York. Despite the recent declines in New York rates, the NBL has maintained the rates on its certificates of deposit unchanged, resulting in a premium of more than 5 per cent above comparable New York maturities. Nevertheless, confidence factors have so far prevented significant sales of those certificates.

The accumulation of large excess liabilities to the commercial banks has caused the NBL to incur a heavy burden of interest payments to the commercial banks and is likely to result in a loss for the NBL in 1982. To reduce these interest charges somewhat, the NBL has stopped paying interest on the excess reserves of the public banks, placing these banks at a competitive disadvantage vis-à-vis other banks. Presently, the commercial banks are required to keep 15 per cent of

Table 6. Liberia: Summary Accounts of the Banking System, 1978-September 1982

(In millions of dollars; end of period)

	1978	1979	1980	1981 Mar.	1981 June	1981 Sept.	1981 Dec.	1982 Mar.	1982 June	1982 Sept.
Net foreign assets 1/	-7.2	-66.9	-138.2	-126.8	-122.4	-136.7	-160.8	-184.1	-193.2	-191.7
Net domestic assets	161.1	229.2	254.0	238.4	238.3	255.1	263.4	299.8	311.7	317.7
Domestic credit	202.8	273.4	279.3	282.7	265.4	294.9	298.3	332.6	330.1	340.6
Claims on Government (net) 1/	(59.3)	(89.1)	(149.7)	(154.3)	(153.5)	(174.0)	(190.5)	(205.3)	(200.3)	(221.2)
Claims on public corporations	(11.3)	(38.0)	(40.9)	(50.7)	(36.1)	(47.4)	(33.1)	(45.9)	(51.7)	(41.4)
Claims on private sector 2/	(132.2)	(146.3)	(88.7)	(77.7)	(75.8)	(73.5)	(74.7)	(81.4)	(78.1)	(78.0)
Unclassified items (net)	-41.7	-44.2	-25.3	-44.3	-27.1	-39.8	-34.9	-32.8	-18.4	-22.9
Recorded money supply	153.9	162.3	115.8	111.6	115.9	118.4	102.6	115.7	118.5	126.0
Liberian coins outside banks	10.2	11.0	11.3	11.1	11.3	10.4	11.6	10.9	11.9	13.2
Demand deposits	66.1	69.2	55.6	50.6	53.7	55.1	39.9	48.8	46.3	47.3
Time and savings deposits	77.5	82.2	48.9	49.9	50.9	52.9	51.1	56.0	60.3	

Sources: IMF, International Financial Statistics; and National Bank of Liberia, Statistical Bulletin.

1/ Includes Trust Fund.
2/ Includes nonbank financial institutions.

their average daily deposits as reserves with the NBL, but at the end of October commercial bank deposits with the NBL represented 28 per cent of their average daily deposits. 1/ In June 1982 the NBL received authority to raise the reserve ratio to 30 per cent, but to date has not exercised that authority. The mission told the authorities that an increase in reserve requirements would strengthen the financial position of the NBL, regularize the present situation of high excess reserves, and limit the potential pressure on its foreign exchange reserves. The authorities agreed to consider this issue following receipt of the report of the CBD technical mission.

Under the present stabilization program, ceilings have been set for the expansion of net domestic assets of the NBL and for net claims of the public banks on the public sector and the Government. For October 1982 all these quantitative criteria have been met (Table 3). However, to accommodate partially the larger-than-expected decline in government revenues during the program period, the Liberian authorities propose in the attached letter of intent to raise the ceiling on net credit from the public banks to the Government by $2 million for April and June. No change is proposed on the remaining ceilings.

Since the U.S. dollar is used as the primary medium of exchange in Liberia, the Liberian authorities are constrained in their use of monetary policy and exchange rate policy. The Liberian authorities are aware of the pros and cons of shifting to a Liberian national currency, but did not feel, for confidence reasons, a discussion of this issue would be timely in the present circumstances. They indicated that they have no plans to substitute the U.S. dollar by Liberian currency, nor to issue coins of higher denomination than those already in circulation.

6. External sector

Liberia's balance of payments has been under pressure for the past several years. Efforts undertaken by the authorities to strengthen the external position have been hampered by the unfavorable world economic environment. Revised balance of payments estimates indicate that the current account deficit was reduced from $105 million, or 9.4 per cent of GDP in 1980/81, to $92 million, or 8.0 per cent of GDP in 1981/82 (Table 7). This reduction was brought about by a very substantial increase in net inflows of transfer payments, mainly grant aid but also maritime revenue. Despite a fall in the value of exports by 8 per cent, the trade balance remained in surplus as imports fell by 7 per cent, reflecting the slowdown in economic activity and adjustment measures taken. Although the increase in import prices slowed significantly, the substantial fall in Liberia's export prices caused the terms of trade to deteriorate by some 9 per cent.

1/ Excludes the overdrawn position of the Bank of Liberia.

Table 7. Liberia: Balance of Payments, 1980/81-1982/83

(In millions of dollars)

	1980/81 Revised estimates	1981/82 Revised estimates	1982/83 Projections Original	1982/83 Projections Revised
Current account	-105	-92	-60	-81
Trade balance	33	23	45	26
Exports, f.o.b.	(555)	(509)	(510)	(477)
Imports, c.i.f.	(-522)	(-486)	(-465)	(-451)
Services (net)	-158	-170	-140	-161
Transfers (net)	20	55	35	54
Capital account	61	46	-3	32
Official long-term	59	41	31	60
Drawings	(69)	(46)	(76)	(76)
Amortization	(-10)	(-5)	(-45) 1/	(-16)
Private (net)	2	5	-34	-28
Commercial banks	(-21)	(18)	(...)	(...)
Other (including errors and omissions)	(23)	(-13)	(...)	(...)
SDR allocation	5	--	--	--
Overall balance	-39	-46	-63	-49
Financing	39	46	63	49
National Bank of Liberia	29	54	63	51
Assets (increase -)	(11)	(-1)	(-10)	(-22)
Liabilities	(18)	(55)	(73)	(73)
Use of Fund credit	(24)	(65)	(73)	(73)
Other	(-6)	(-10)	(--)	(--)
Arrears	10	-8	--	-2

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

1/ Excludes Paris and London Club debt rescheduling.

Net capital inflow fell in 1981/82, mainly on account of a slowdown in disbursements of official capital. Commercial banks resumed their net borrowing from abroad in 1981/82, following a reduction of their foreign indebtedness in 1980/81, and such borrowing was more than sufficient to offset a net outflow of other private sector capital. With substantially higher use of Fund credit in 1981/82, outstanding arrears were reduced from US$10 million to US$2 million, and there was a small increase in official reserves. 1/

Despite unfavorable external conditions, the current account deficit is projected to be reduced to $81 million, or 6.7 per cent of GDP in 1982/83. As a result of a further weakening of markets abroad for Liberia's principal exports, iron ore and rubber, exports are projected to decline further by 6 per cent compared with the recovery of 6 per cent which was expected when the program was set up. The shortfall is on account of a substantial decline in export volume, with iron ore shipments expected to fall by some 15 per cent. The overall export price index is projected to increase by 6 per cent as a result of the change in the composition of iron ore exports following cutbacks in shipments which affected mainly less valuable products. Export prices of other commodities, and especially of rubber, are expected to decline; however, imports are projected to decline by 7 per cent under the impact of a fall in production and incomes, and actions undertaken by the Government. In particular, the measures taken to conserve energy by the public sector and the strengthening of bill collection procedures for domestic oil consumption are expected to result in a reduction in the import of petroleum products, while other imports should fall in response to the cut in government expenditures.

The overall balance of payments deficit is projected at $49 million, $14 million less than the original projections. This reduction in the overall deficit, in the context of an increase in the current account deficit, is explained by larger inflows of official capital and smaller outflows of private capital, than previously projected. This balance of payments outcome should allow an increase in gross international reserve of $22 million, and the staff believe that the proposed increase in commercial bank reserve requirements would be helpful in achieving this outcome.

Measured on a trade-weighted basis the Liberian dollar, which is at par with the U.S. dollar, appreciated substantially in the last two years (Chart 1). In nominal terms, following an appreciation of 5.3 per cent in 1980/81, the Liberian dollar appreciated by a further 11.8 per cent in 1981/82. Deflated by the consumer price indices of Liberia and its trading partners, the rates of appreciation were 3.9 per cent and 11.1 per cent,

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1/ At the time the current program was formulated (EBS/82/169), it was assumed that arrears were fully eliminated by the end of 1981/82.

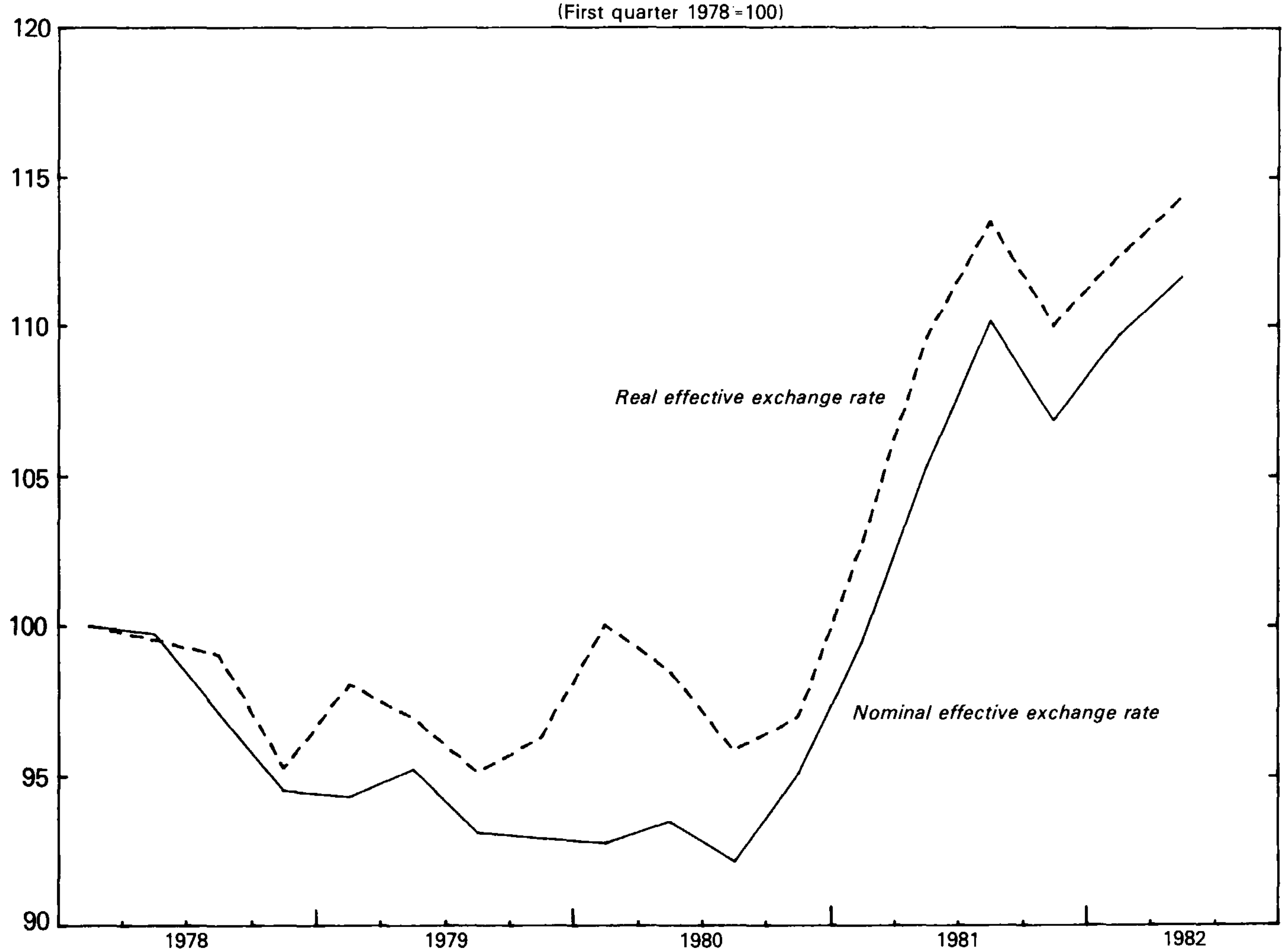
CHART 1

LIBERIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES TRADE WEIGHTED

FIRST QUARTER 1978 - SECOND QUARTER 1982

(First quarter 1978 = 100)



Source: IMF, Data Fund.

respectively. In the circumstances, faced with a weakening of their export sector, the Liberian authorities accepted a program of cost reduction in the mining sector. It is expected that the recently enacted cuts in nominal wages in the public sector will set a standard for wages in the private sector, helping improve the competitiveness of the Liberian export sector.

Although increasing from $38 million in 1980/81 to a projected $65 million in 1982/83, Liberia's external debt service remains low as a result of debt relief obtained from its official creditors and commercial banks (Table 8). Debt payments to Paris Club members falling due in the period July 1980-June 1983 were rescheduled in December 1980 and December 1981. An agreement on refinancing of amortization payments due to a group of commercial banks (London Club banks), covering the period July 1981-June 1983, was signed on December 1, 1982. Projections indicate that, with an average increase of exports of goods and services of 10 per cent in 1983/84-1986/87 and perseverance of strong adjustment efforts, the current account deficit will be gradually reduced to about 3 per cent of GDP in 1986/87. 1/ Despite the improvement in the current account, in the absence of further debt rescheduling the debt service ratio is projected to rise to a peak of 28 per cent in 1985/86 before declining slightly in 1986/87. The increase reflects not only substantial amortization of previously contracted debt but also increased interest payments on new loans for financing the current account deficit.

As provided under the 1981/82 program, Liberia had eliminated all external payments arrears by end-May 1982 and the program for 1982/83 assumed that no new arrears would be incurred. However, at the time of Board approval of the current stand-by arrangement on September 29, 1982, Liberia had incurred new arrears of $10 million to the group of banks financing Liberia's oil imports. In approving the arrangement the Board required that Liberia should reach understandings with the Fund on the elimination of external payments arrears before making any further purchases from the Fund. Since September new arrears have accumulated under the oil financing facility and also on public external debt service. Outstanding arrears on external public debt service payments at the end of November 1982 were estimated at $17 million (of which $7 million was owed on interest to the London Club banks) and arrears to the oil financing facility amounted to $26.0 million. The emergence of new arrears since June 1982 can be attributed to three factors. The first factor was the weak position of the government budget resulting from a shortfall in revenues and delays in reducing the wage bill. Secondly, since the oil facility banks were unwilling to open new letters of credit, the LPRC had to purchase oil

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1/ The projected 10 per cent increase in the value of exports, based on an assumption of a gradual recovery of the world markets and continued Liberian efforts to contain costs, would still leave exports in 1984/85 below their 1979/80 level.

Table 8. Liberia: External Current Account and External Public Debt Service, 1980/81-1986/87

(In millions of dollars)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
	Estimates		Projections				
External current account							
Exports, f.o.b.	555	509	477	525	580	632	690
Imports, c.i.f.	-522	-486	-451	-480	-515	-553	-595
Services and transfers (net) 1/	-138	-115	-104	-114	-120	-117	-117
Current account deficit 1/	-105	-92	-78	-69	-55	-38	-22
Current account deficit inclusive of interest payments on new debt contracted 1982/83-1986/87	-105	-92	-81	-77	-70	-60	-52
(As per cent of GDP)	(9.4)	(8.0)	(6.7)	(6.0)	(5.0)	(3.9)	(3.1)
Debt service							
1. Service payments on debt contracted through June 1982	38	43	65	118	135	153	147
Principal	13	9	22	69	88	111	115
Interest	25	34	43	49	47	42	32
Of which: IMF 2/	(5)	(11)	(19)	(33)	(45)	(62)	(67)
Repurchases	(3)	(4)	(6)	(16)	(27)	(46)	(55)
Charges	(2)	(7)	(13)	(17)	(18)	(16)	(12)
2. Service payments on debt contracted during 1982/83-1986/87 3/	--	--	3	8	15	32	42
Principal	--	--	--	--	--	--	2
Interest	--	--	3	8	15	22	30
3. Total service payments (1 + 2)	38	43	68	126	150	185	189
Principal	13	9	22	69	88	121	127
Interest	25	34	46	57	62	64	62
Debt service ratio 4/	6.7	8.1	13.3	23.1	24.9	28.2	26.4
Interest payment ratio 4/	4.4	6.5	8.9	10.5	10.3	9.8	8.7
Memorandum items:							
Exports of goods and services and private transfers	571	526	496	545	602	655	716
Disbursed debt in per cent of GDP 5/	52.8	58.3	66.3	70.2	68.4	63.8	59.3

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

1/ Excludes interest payments on new debt contracted in 1982/83-1986/87.
2/ Includes repurchases in respect of stand-by purchases of SDR 55 million in 1982/83 and 1983/84.
3/ Increase in debt outstanding to finance current account deficit, taking into account expected private sector capital inflows. Also, because of a large share anticipated for concessionary loans, new drawings are assumed to have a 7 per cent rate and a grace period of four years. Includes also debt service payments on rescheduled commercial bank debt.
4/ In per cent of exports of goods and services, and private transfers.
5/ Average debt outstanding during year.

on a cash basis, leaving inadequate funds to repay the outstanding amount to the oil facility banks. Thirdly, the arrears to the London Club banks were due to a delay in the activation of the rescheduling agreement that was already assumed in the program.

Funds for the repayment of arrears on the external public debt service are provided for in the budget for FY 1982/83. Interest in arrears owed to the London Club banks is expected to be paid before the end of January 1983, in line with the agreement reached in December 1982. This would activate the provisions of the agreement related to the rescheduling of the overdue principal amount. Regarding the oil facility, an agreement is expected to be reached shortly on reactivation of the facility and restoration of the exposure of the banks involved to the level prevailing at the beginning of the program year. It is expected that all other arrears will be eliminated by the end of February 1983. The Liberian authorities are aware that further purchases under the stand-by arrangement are contingent on all these steps being implemented and also on the Liberia Petroleum Refining Company (LPRC) being strengthened to make it more current on its financial operations. The Head of State has authorized the Finance Minister to commission an independent external audit of the financial operations of the LPRC, in keeping with paragraph 9 of the appended letter of intent.

IV. Staff Appraisal

The economic situation in Liberia has weakened markedly in recent months. The major export industries, iron ore, rubber, and timber, contrary to earlier expectations, have all experienced deteriorating export markets. Export prices and volume have declined as a result of the recession in Western Europe and the United States. All of the major concessionaires in Liberia are experiencing severe losses; some of them are closing out operations and laying off workers, and many are failing to pay royalties and taxes due to the Government. Reflecting adverse external conditions, real GDP is projected to continue to decline in 1983, as cutbacks in production for exports will exceed the modest expansion in the domestic sectors. On the budgetary side, while external factors have led to an expected shortfall in government revenue of at least $13 million compared with original estimates, delays in implementing expenditure reductions have limited the authorities' policy flexibility and have postponed the programmed fiscal improvements.

In this context, the Liberian authorities have had to take strong measures to keep their program with the Fund on track. On December 1 the Head of State announced a graduated reduction in salaries of all public sector employees ranging from 16 2/3 per cent for the lowest paid workers to 25 per cent for the highest salaried employees. This unprecedented measure was essential to achieve the 22 per cent reduction in noninterest recurrent spending from the 1980/81 outturn that is programmed in the FY 1982/83 budget. The authorities have expressed their commitment to taking any additional measures necessary to keep the program on target.

As indicated in the appraisal of Liberia's request for the current stand-by arrangement (page 22 of EBS/82/169, 9/3/82), the staff at that time was concerned about the adequacy and implications of the measures taken to reduce recurrent expenditures and urged the authorities to make every effort to contain the wage bill to the program level. While the December 1 reduction in salaries improved the situation significantly, shortfalls in revenues due to external circumstances and the delay in implementing the budget cuts required additional measures. The Liberian authorities responded to this need on January 14, 1983 with, the issuance of a supplementary budget with sharp cuts and a more rational distribution of allotments for other recurrent spending. These cuts are large, will be difficult to achieve, and may impair the functioning of some government agencies. They also reduced the domestic development budget by 14 per cent from the originally budgeted level. With these measures the authorities expect to limit the overall deficit for FY 1982/83 to $85 million, which would be $2 million above the program target. They have requested an increase in the performance criterion on bank financing for April and June 1983 to cover this amount. The staff believes that there are reasonable prospects for achieving the budget targets for the remainder of the program period and supports the request for an increase in the ceiling. The staff continues to be concerned that no reduction in domestic arrears is in prospect this fiscal year. However, the budgetary prospects for FY 1983/84, when the full impact of the wage reduction will be felt in the budget, would be significantly improved.

Improvement in the efficiency of the public corporations is also essential to the economic recovery of Liberia. Some progress has been made made in returning reacquired properties to their owners and a joint project with the World Bank is under way to rationalize or sell to the private sector the 13 largest public corporations. The staff believes that the highest priority should be given to the Liberian Petroleum Refining Corporation (LPRC), whose operations have a major significance for the budget, the credit system, and the balance of payments. The staff urged the Liberian authorities to give immediate attention to the LPRC operations, but the other public corporations also deserve expeditious treatment in the context of this rationalization project.

The re-emergence of substantial external payments arrears on external debt service and to commercial banks during the second half of 1982 is inconsistent with the program. However, the authorities have already made budgetary provision for repayment of debt-related arrears and with activation of the agreement signed in December 1982 on rescheduling of Liberia's obligations to the London Club banks and the agreement expected to be reached shortly with the oil facility banks on the reactivation of the oil facility, a firm basis would exist for the early elimination of all outstanding arrears. The staff has urged the oil facility banks, who are currently engaged in negotiations with the Liberian authorities, to come to an agreement that would maintain their exposure in Liberia, as assumed in the Fund program. In that context, the staff has drawn their attention to the fact that, without such action, Liberia would not be able to make further purchases from the Fund.

The Liberian authorities have adopted the monetary and credit measures subsumed in their stabilization program. The limited success in restoring public confidence in the financial system, however, continues to impose severe limitations on the resources at the disposal of the NBL. To the extent that the credit ceilings contained in the stabilization program are met, the drawings on the Fund will provide the NBL with enough foreign assets to help alleviate the present tight liquidity in the Liberian economy. In the medium term, however, the liquidity of the system will continue to depend basically on the performance of the export sector and on the success of efforts to mobilize domestic savings. A Fund staff technical assistance mission visited Monrovia recently and its recommendations to improve domestic savings mobilization are expected shortly. In this context, the staff believes that an increase in reserve requirements would be helpful and has urged the authorities to raise required reserves to 30 per cent. The Liberian authorities have agreed to consider this measure in the context of the other recommendations in the report of the technical assistance mission.

Liberia's medium-term prospects are dependent on the trend of prices and demand in the world markets for its major exports--iron ore, rubber, and timber. A recovery of the housing and automobile industries in the United States and Western Europe is essential for the growth of the Liberian economy in the medium term. While medium-term balance of payments projections are a hazardous exercise in an economy such as Liberia's, staff estimates indicate that, with a moderate recovery in exports and the continued pursuit of stringent demand policies, Liberia should be able to expect a substantial further reduction in its external current account deficit/GDP ratio over the medium term.

During the present period of weak demand for Liberian exports, Liberia must adhere to its course of financial and economic consolidation. This involves improving the efficiency of central government operations, rationalization of the operations of the public corporations, elimination of arrears, both domestic and external, and, in general, putting all financial transactions on a current basis. With a view to improving its competitive position, especially in the absence of the exchange rate instrument, it is essential for Liberia to increase efforts at containing costs. The heavy dependence of the Liberian economy on external conditions points to the need for a diversificaton of production in particular through the development of agriculture, and particularly of domestic food production.

For a small, open economy, heavily dependent on external trade and world developments, the restoration of growth also depends upon the restoration of private sector confidence. An essential condition for restoring confidence is sound management of the central government operations. The staff believes that the Liberian authorities have demonstrated commendable courage in implementing a severe adjustment program. It is also convinced that they will continue to implement appropriate adjustment policies on a sustained basis.

Office of the Minister
Monrovia, December 9, 1982

Dear Mr. de Larosière:

1. We are pleased to advise you that the Liberian Government has met the quantitative performance criteria for the end of October 1982, as outlined in the July 21, 1982 letter to you. This has been accomplished in the context of a continuing deterioration in the world markets for Liberian exports, and in the Liberian economy. External factors have directly led to an expected revenue shortfall of at least $13 million compared to our original revenue estimates for this fiscal year.

2. In our July 21 letter to you, we advised that the Government had approved the reduction of the recurrent costs of Government, including personnel costs of all ministries, agencies, and public corporations, by 15 per cent for FY 1982/83. While government expenditures, as a whole, have been contained within the budgeted level, this has been accomplished in a manner which is not sustainable. Payment of government salaries has been significantly delayed, and we have not been able to fully realize the full reduction in the wage bill through more rigorous screening of the payroll accounts. Similarly, the reduction in the nonwage component of the operating budgets of many ministries proved excessive in terms of their operating efficiency.

3. Recognizing that the measures in place were not sustainable, the Government decided to implement a number of measures to reduce recurrent expenditures to the budgeted level. On December 1, 1982, the Head of State, Dr. Samuel K. Doe, announced a national "Salary Readjustment Scheme" for the entire public sector which, within the Central Government alone, will reduce the gross monthly wage bill by about $2.3 million per month, or at an annual rate of $27 million. This salary readjustment, which also applies to the public corporations, provides for cuts in wages and salaries graduated from 25 per cent for the high salaried personnel to 16-2/3 per cent for those at the lower income levels. This measure will take effect on January 1, 1983, and is expected to reduce the Government's wage bill to an annual rate of less than $130 million, compared with $157 million in FY 1981/82 and the program target rate of $134 million agreed with the Fund for FY 1982/83.

4. In order to reduce some of the impact of this wage measure, the Head of State also announced the removal of the surcharge levied on all imported items, except on luxury goods, effective January 1, 1983. However, the commodities affected by this measure will be limited to basic essentials and will be selected so as to ensure that the tax losses resulting therefrom do not exceed $2.5 million in this fiscal year. We will send to

you the list of the affected commodities before the introduction of this measure on January 1, 1983.

5. In view of the deterioration in revenues since the current budget was approved, the Government has found it necessary to implement additional measures affecting both revenues and expenditures. On the revenue side, the Government has decided to implement a local tax to be used primarily for rural development purposes, effective January 1, 1983. These revenues will be included in central government revenue. The details for implementing collection of this tax will be worked out by the Ministry of Finance in association with the Ministry of Internal Affairs. We will send you details on this tax before January 7, 1983.

Second, the Government, with the technical assistance of the U.S. Internal Revenue Service, is continuing to improve the effectiveness of the income tax collections. Individual income tax revenues are already above the level projected for the first four months of the fiscal year, and we expect to realize a sufficient surplus to offset the loss in revenues that will arise from the public sector wage cut.

Third, equally vigorous enforcement of corporate income, customs, excises, and other taxes will be pursued with the assistance of technicians from the U.S. Customs Bureau and the United Kingdom.

Fourth, after an experimental two-year period during which responsibility for the collection of stumpage fees had been assigned to the Forestry Development Authority, we have decided that the Ministry of Finance will take an active role in assisting the Forestry Development Authority in the collection of these fees.

Finally, by January 31, 1983, we shall have begun the implementation of a National Identification Card system, and this will ensure the realization of our $6 million target for this program in this fiscal year.

6. On the expenditure side, the Government has cut sharply some budgeted items and reallocated other items within their expenditure categories to provide for the minimum requirements of government operations.

First, recurrent costs other than wages and salaries will be limited to $60.4 million in FY 1982/83, $1.5 million less than the budgeted level of $61.9 million. The additional $1.5 million reduction is a result of the wage and salary savings within the public corporations, effective January 1, 1983, and leading to reduced subsidies to such corporations. The composition of other recurrent expenditure has also been revised from the originally budgeted level, as shown in Attachment I, to ensure that the minimum operating requirements of the Government are met. This revised allocation will be reflected in a supplemental budget, which is to be approved by the Minister of Finance and the Director of the Bureau of the Budget in keeping with the decree enacting the FY 1982/83 budget, and which will be submitted to each ministry by January 1, 1983. This revised budget will indicate that the burden of the cut in "other recurrent expenditure" will be distributed in a reasonably equal way across ministries and across the different objects of expenditure. We will forward to you a copy of these budget revisions by January 1, 1983. The Head of State has also ordered strict limits on foreign travel by civil servants.

Second, the domestic costs of the development budget have been reduced by $8.7 million from the originally budgeted level of $62.6 million. We have carefully examined the items cut from the budget to ensure that resources are available for the highest priority sectors, especially agriculture and rural feeder roads.

7. We request that the stand-by arrangement be modified with regard to the ceiling on net credit to the Government. In our letter of July 21, 1982, we expressed our intent to limit the increase in the net credit of the public banks to the public sector to $35 million, and, within this ceiling, to limit the increase in the net credit of the public banks to the Government to $30 million in the 12 months ending June 30, 1983. In view of the situation described above, we request that the ceiling on net credit of the public banks to the Government be increased to $32 million. We will continue to limit the increases in the net credit of the public banks to the public sector, including the public corporations and the Central Government, to $35 million in the 12 months ending June 30, 1983 in accordance with the schedule (Attachment II).

8. Liberia's external payments position has been seriously affected by the declining prices and markets for its exports. The downward trend in FY 1981/82 accelerated in the first quarter of FY 1982/83 and is continuing into the second quarter. As a result, Liberia has not maintained its debt service payments on a current basis. Attachment III shows the current status of our debt payments and arrears. We are currently negotiating with some of our creditors to eliminate external arrears under a reasonable schedule in order to bring our debt payments on a current basis. Our negotiations with the London Club banks were successfully completed and signed on December 1, 1982. We have also presented to the "Oil Facility" (a group of 24 banks which have been financing Liberia's oil imports) a proposal to continue this facility. The Chairman of the Oil Facility has agreed to recommend to the other participants support for this proposal. In conjunction with the support extended by the London Club banks, we expect to be able to bring the outstanding arrears of payments under the Paris Club Agreement, amounting to $2.4 million, on a current basis. The overall schedule of existing arrears and their elimination shown in Attachment III becomes an integral part of the

Government's stabilization program and will be rigidly implemented. No new arrears in respect of current payments will be incurred.

9. The financing of oil imports has been a major drain on Liberia's limited foreign exchange resources. As described by the Head of State in his December 1 address to the nation, oil imports amount to $12 million per month, which is about 31 per cent of the total import bill. The acquisition of offshore dollars to finance these oil imports is a serious problem. Part of the problem is attributable to the $42.3 million of outstanding bills owed to the Liberian Petroleum Refinery Company (LPRC). The Government intends to monitor the operations of the LPRC monthly to ensure that their domestic arrears are collected without delay. Part of the problem is also attributable to the failure of the LPRC to provide to the public sector banks all of the offshore balances it receives from the concessionaires. The Government intends to initiate, before January 7, 1983, an audit of the LPRC financial operations to ensure that all offshore balances received by the LPRC are channeled to the public sector banks under the overall supervision of the Governor of the National Bank of Liberia.

10. Two additional measures in the energy sector will be implemented without delay. First, the Head of State has mandated the LPRC to introduce cost-efficient management. The World Bank group has been requested to provide financial support and technical assistance to rationalize all public corporations. The LPRC will be given top priority in this project.

11. Second, the Head of State also mandated measures to be taken to conserve energy and has already announced:

(a) elimination of gasoline coupons to government officials; (b) sale of official cars to their respective users, effective January 1, 1983; and (c) elimination of duty-free purchases of gasoline by government agencies. The Government also intends to keep under active consideration possible increases in the gasoline tax, and a possible energy surcharge on electricity rates.

12. Finally, we are looking forward to the report of the recent technical mission from the Central Banking Department with the assistance of the Legal Department of the Fund to improve the mobilization of domestic financial resources. The recommendations of this mission will be given careful and timely consideration.

13. We believe that the measures described above are sufficient to achieve the programmed targets under the current stand-by arrangement. We will, of

course, implement any additional measures that may become necessary. We will continue to consult with the Fund on the adoption of such measures in accordance with the policies of the Fund.

Sincerely yours,

Thomas D. Voer Hanson
Governor
National Bank of Liberia

G. Alvin Jones
Minister of Finance

Attachments

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

Supplementary Budget
FY 1982/83 Reallocation of Recurrent Supportive Services

	200	300	400	500	600	Totals
P.R.C.	891,101	368,508	95,829	--	57,478	1,412,916
Presidential Affairs	1,268,321	284,225	57,491	--	--	1,610,037
N.S.A.	244,212	98,193	45,477	--	--	387,882
S.S.S.	150,559	323,087	5,339	--	--	478,985
U.C.C.	11,154	7,520	5,721	--	--	24,395
Budget Bureau	101,125	5,159	68,913	--	--	175,197
Finance	525,454	417,001	--	--	--	942,455
Internal Affairs	301,834	194,584	105,581	--	--	601,999
Planning	308,151	65,358	--	--	77,237	450,746
Civil Service Agency	54,795	29,536	5,721	--	4,401	94,453
General Services Agency	158,133	70,708	64,516	12,257	--	305,614
N.F.A.A.	36,102	72,510	--	--	--	108,612
General Auditing	94,705	22,376	18,447	--	--	135,528
I.P.A.	101,033	33,780	10,929	--	9,517	155,259
N.F.E.C.	6,591	8,123	--	--	--	14,714
Judiciary (PST)	175,542	68,950	34,276	--	--	278,768
Justice	504,255	1,010,464	379,740	--	33,956	1,928,415
Foreign Affairs	2,639,994	197,689	52,021	--	187,530	3,077,234
Defense	1,854,335	2,498,442	167,581	--	316,130	4,836,488
S.M.T.	20,200	8,938	--	--	--	29,138
Special Court	6,604	4,577	--	--	--	11,181
Education	2,115,674	2,423,348	148,706	--	5,228,845	9,916,573
Health	1,324,450	3,623,736	190,696	--	3,180,852	8,319,734
Labor	142,416	50,400	24,204	--	7,038	224,058
National Sports	224,692	165,065	58,674	--	71,722	520,153
Public Works	480,870	2,049,802	108,030	14,469	--	2,653,171
Information	298,725	130,061	30,992	--	8,435	468,213
Culture & Tourism	31,169	50,282	24,923	--	--	106,374
C.N.D.R.	17,491	23,516	--	--	1,409	42,416
Rural Development	165,260	184,193	30,938	26,726	--	407,117
A.I.T.B.	9,015	14,512	13,629	--	--	37,156
Agriculture	357,557	363,710	81,450	--	66,214	868,931
Lands & Mines	372,012	246,716	--	--	63,319	682,047
Commerce	250,797	90,217	45,524	--	273,856	660,394
Postal Affairs	197,951	50,089	36,675	--	31,870	316,585
General Government	13,914,000	--	--	--	4,723,100	18,637,100
Total	$29,356,229	15,255,375	1,912,023	53,452	14,342,909	60,920,038

Approved January 14, 1983

Schedule: Credit Ceilings

(In millions of dollars)

	Net Domestic Assets of the National Bank of Liberia 1/	Net Credit to the Public Sector from Public Banks 2/ 3/	Of Which: Net Credit to Government from Public Banks 2/
June 30, 1982	(124.6)	(169.9)	(168.0)
October 29, 1982	150	185	180
January 31, 1983	165	194	188
April 29, 1983	178	199	194
June 30, 1983	188	205	200
Total change	63	35	32

1/ Defined as equivalent to net foreign liabilities of the National Bank of Liberia (NBL) adjusted for changes in the valuation of foreign assets and liabilities subsequent to June 30, 1982.

2/ Public banks are defined as NBL and National Housing and Savings Bank.

3/ Public sector is defined to include Central Government and public corporations, excluding the Liberian Petroleum Refining Company and the Liberia Produce Marketing Corporation.

External Debt Service Payments in Arrears
as of December 1, 1982

(In millions of dollars)

Creditor	Interest	Total
Multilateral	2.4	4.6
Bilateral (other than Paris Club)	--	2.1
Paris Club 1980	1.8	2.2
Paris Club 1981	--	0.2
London Club	6.8	6.8
Other financial institutions	1.0	1.0
Total public external debt	12.0	16.9 1/
Oil facility	--	26.0

1/ Includes all obligations past due by one day or more.

Liberia - Relations with the Fund
(As of December 31, 1982)

IMF data

Date of membership:	March 28, 1962
Status:	Liberia continues to avail itself of the transitional arrangements of Article XIV
Quota:	SDR 55.5 million
Intervention currency and the rate:	U.S. dollar; US$1 = LIB$1
SDR/Local currency equialent:	SDR 1 = LIB$1.1031
Fund holdings of currency:	
Total	SDR 204.1 million, or 367.8 per cent of quota
CFF	SDR 55.2 million, or 99.5 per cent of quota
Credit tranches	SDR 46.9 million, or 84.5 per cent of quota
SFF	SDR 42.9 million, or 77.3 per cent of quota
EAR	SDR 3.7 million, or 6.6 per cent of quota
Holdings of SDRs:	SDR 0.01 million, equivalent to 0.03 per cent of net cumulative allocation of SDR 21.01 million
Trust Fund loan disbursements:	
First period	SDR 12.02 million
Second period	SDR 16.32 million
Total	SDR 28.34 million
Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980):	US$4.6 million
Gold distribution:	24,818.989 fine ounces
Last Article IV consultation:	Staff discussions were held in Monrovia May 27-June 10, 1981, and the staff report (EBS/81/164) was discussed by the Executive Board on August 26, 1981.

Stand-by arrangement:	Staff discussions were held in Monrovia in the period June 16-July 1, 1982 and in Washington in July 18-22, 1982. Staff report (EBS/82/169) was discussed and the stand-by arrangement and CFF approved by the Executive Board on September 29, 1982.
Technical assistance:	CBD has provided both advisory and technical assistance to the National Bank of Liberia; advisory in the fields of Banking Legislation (with LEG); a total of 10 technical experts have been assigned mainly in the fields of research, bank supervision and general banking. At present three experts fill the posts of General Manager, General Advisor, and Advisor in the research/ statistical field, respectively.
Fund representatives:	A Fund representative has been assigned to Monrovia since January 1981.

Liberia: Schedule of Purchases and Repurchases, October 1982-September 1983

	1982	1983		
	Oct.-Dec.	Jan.-March	Apr.-June	July-Sept.
		(In millions of SDRs)		
Purchases	32.70	30.00	10.00	10.00
Stand-by arrangement	5.00	30.00	10.00	10.00
Ordinary resources	(2.27)	(8.62)	(--)	(--)
Borrowed resources	(2.73	(21.38)	(10.00)	(10.00)
CFF	27.70	--	--	--
Repurchases: CFF	--	2.56	2.56	2.56
Net purchases	32.70	27.44	7.44	7.44
Fund holdings 1/	204.14	231.58	239.02	246.46
		(In per cent of quota)		
Total holdings 1/	367.8	417.3	430.7	444.1
Holdings excluding purchases under CFF 1/	270.8	322.4	340.4	357.7

Sources: Data provided by the IMF Treasurer's Department; and Stand-by Arrangement (EBS/82/160).

1/ End of period.

World Bank Loans/IDA Credits

(In millions of U.S. dollars)

	IBRD	IDA	Total
Disbursement during fiscal years			
1978	8.6	3.0	11.6
1979	12.4	4.0	16.4
1980	15.1	5.1	20.2
1981	20.1	6.3	26.4
1982	11.3	6.5	17.8
1983 (projected)	--	--	49.8
Commitments			
FY 1982	20.0	25.5	45.5
FY 1983 (to Dec. 31, 1982)	--	15.2	15.2

Source: IBRD.

Liberia - Basic Data

Area, population, and GDP per capita

Area	43,000 square miles (111,370 square kilometers)
Population: Total (1981)	1.97 million
Growth rate	3.3 per cent
GDP per capita	$568 (SDR 482)

	1977	1978	1979	1980	1981
GDP at constant 1971 prices	(In millions of dollars)				
Monetized GDP at factor cost	354.2	368.2	384.4	366.2	354.2
Agriculture	54.9	59.9	62.8	63.0	49.4
Of which: rubber	(23.1)	(21.9)	(20.2)	(21.0)	(21.3)
forestry	(16.4)	(21.2)	(23.3)	(23.0)	(12.3)
Mining and quarrying	94.3	93.3	99.1	111.0	110.5
Of which: iron ore	(89.7)	(88.3)	(94.2)	(106.8)	(104.8)
Manufacturing	29.2	30.7	33.0	26.0	...
Construction	19.2	22.0	20.0	15.0	...
Government services	35.1	36.9	39.6	39.6	39.6
Other services	121.5	125.4	129.9	111.6	...
Subsistence economy	77.2	77.2	78.0	80.0	82.4
Total GDP at market prices	473.6	496.2	512.4	491.4	486.3
GDP at current market prices	872.9	943.7	1,067.6	1,116.8	1,119.0
Annual rates of growth of GDP and prices	(In per cent)				
GDP at constant 1971 market prices	1.6	4.8	3.3	-4.1	-1.0
GDP at current market prices	14.6	8.1	13.1	4.6	2.0
GDP deflator	12.7	3.2	9.6	9.1	1.2
Consumer price index	6.0	7.1	11.5	14.7	7.6

	1977/78	1978/79	1979/80	1980/81	1981/82
Central government finance	(In millions of dollars)				
Revenue and grants	201.5	224.9	225.8	242.4	279.3
Revenue	185.5	201.9	202.8	217.9	237.9
Grants	16.0	23.0	23.0	24.5	41.4
Expenditure	273.9	365.7	313.7	357.0	397.0
Recurrent	122.3	152.9	179.7	232.8	300.6
Development	151.6	212.8	134.0	124.2	96.4
Overall deficit: commitments basis	-72.4	-140.8	-87.9	-114.6	-117.7
Increase in check float and other arrears	--	--	--	1.9	26.8

Liberia - Basic Data (continued)

	1977/78	1978/79	1979/80	1980/81	1981/82
			(In millions of dollars)		
Financing	72.4	140.8	87.9	112.7	-90.9
Foreign borrowing (net)	33.5	134.4	65.5	60.2	39.9
Drawings and Trust Fund	47.3	179.1	87.0	67.2	46.4
Amortization	-13.8	-44.7	-21.5	-7.0	-6.5
Domestic borrowing (net)	38.9	6.4	22.4	52.5	51.0
Banking system	25.4	25.8	42.1	30.2	46.8
Other	13.5	-19.4	-19.7	22.3	4.2
	1977	1978	1979	1980	1981
Money and credit			(In millions of dollars)		
Foreign assets (net)	27.6	-7.2	-66.9	-138.2	-160.8
Domestic credit	125.1	202.8	273.4	279.3	298.3
Claims on Government (net)	12.4	59.3	89.1	149.7	190.5
Claims on public corporations	1.6	11.3	38.0	40.9	33.1
Claims on private sector	111.1	132.2	146.3	88.7	74.7
Recorded money supply	126.1	153.9	162.3	115.8	102.6
			(Annual rate of change)		
Domestic credit	27.0	62.1	34.8	2.2	6.8
Claims on Government (net)	-1.6	378.2	50.3	68.0	27.3
Claims on private sector	31.3	19.0	10.7	-39.4	-15.8
Recorded money supply	12.6	22.0	5.5	-28.7	-11.4
Balance of payments			(In millions of dollars)		
Current account deficit (-)	-134.3	-155.6	-132.5	-101.4	-79.3
Trade balance	-26.8	-9.6	10.3	49.7	40.1
Exports, f.o.b.	(447.4)	(486.4)	(536.6)	(600.4)	(529.2)
Imports, c.i.f.	(-474.2)	(-496.0)	(-526.3)	(-550.7)	(-489.1)
Services (net)	-110.8	-145.7	-145.5	-157.8	-157.5
Unrequited transfers (net)	3.3	-0.3	2.7	6.7	38.1
Capital movements (net)	143.1	139.9	100.3	35.8	36.4
Official	42.7	64.6	114.3	80.1	44.0
Private (net), including errors and omissions	100.4	75.3	-14.0	-44.3	-7.6
Allocation of SDRs	--	--	5.2	5.0	4.8
Overall balance:	8.8	-15.7	-27.0	-60.6	-38.1

Liberia - Basic Data (concluded)

	1977	1978	1979	1980	1981
Balance of payments (cont'd)			(In millions of dollars)		
Gross official reserves (end of period)	27.4	18.0	55.0	4.1	7.4
External public debt outstanding 1/ (disbursed; end of period)	263.6	343.5	506.0	592.6	684.7

1/ Includes use of Fund credit.