FOR AGENDA

EBS/83/175

CONFIDENTIAL

August 17, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Liberia - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Liberia for a stand-by arrangement equivalent to SDR 55 million. A draft decision appears on page 30.

This subject has been tentatively scheduled for discussion on Wednesday, September 14, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Syvrud, ext. (73162) or Mr. Duran, ext. (76138).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

LIBERIA

Request for Stand-By Arrangement

Prepared by the African Department

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

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

August 16, 1983

I. Introduction

In the attached letter of intent dated July 14, 1983, the Government of Liberia requests a one-year stand-by arrangement in an amount equivalent to SDR 55 million, or 99 per cent of quota, and cancellation of the existing one-year stand-by arrangement. The present one-year stand-by arrangement, also in the amount of SDR 55 million, was approved on September 29, 1982 (EBS/82/169, September 3, 1982). A review of the stand-by arrangement was concluded on February 25, 1983 (EBS/83/22, January 28, 1983). Liberia made three purchases under the arrangement amounting to SDR 35 million, bringing the Fund's holdings of Liberian dollars at the end of July 1983 to SDR 229.0 million, or 412.6 percent of quota. Excluding holdings arising from purchases under the compensatory financing facility, the Fund's holdings of Liberian dollars totaled SDR 178.9 million, or 322.4 percent of quota. Liberia's use of Fund resources under the proposed stand-by arrangement, which would be entirely from borrowed resources, is summarized in Table 1.

If the full amount of the proposed stand-by arrangement is purchased, and repurchases falling due through June 30, 1984 are made on time, the Fund's holdings of Liberian dollars would amount to SDR 268.8 million, or 484 percent of the present quota (see Table 1). Accordingly, 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 Attachments III and IV.

Negotiations for the stand-by arrangement occurred in two stages. A full negotiating mission, which visited Liberia during June 9-21, 1983,

Table 1. Liberia: Schedule of Purchases and Repurchases, July 1983-June 1984

(In millions of SDRs)

	1983		1984	
	Sept.	Dec.	March	June
Purchases, stand-by arrangement	14.0	14.0	14.0	13.0
Scheduled repurchases during quarter ending in	5.09	2.56	3.73	6.40
Net purchases	8.91	11.44	10.27	6.60
Total Fund holdings (cumulative) 1/	240.45	251.89	262.16	268.76
Total holdings as percent of quota 1/	433.2	453.9	472.4	484.3

Sources: IMF, Treasurer's Department; and Attachment I.

1/ End of period.

obtained agreement in principle on the major elements of the program to be supported by the stand-by arrangement. This mission was composed of Messrs. D. Syvrud (head-AFR), P. Duran (AFR), J. Karlik (TRE), C. Schiller (FAD), and Mrs. B. Nairn (secretary-AFR). Mr. O. Makalou (AFR) participated in the final two days of the mission. The negotiations were concluded by a follow-up mission on July 10-14 consisting of Messrs. D. Syvrud, P. Duran, and C. Schiller. Mr. J. Hauvonen, Fund representative in Liberia, participated in all the discussions.

Participants in the negotiations on the Liberian side included the members of the Economic and Financial Management Committee (EFMC), established in 1982, and invited representatives of other major ministries and public corporations. Major General Allison, Minister of Defense, participated in all key negotiating sessions. The mission met with Dr. Samuel K. Doe, Head of State, on July 14, 1983. The EFMC is 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. Thomas D.V. Hanson, Governor of the National Bank of Liberia; and Mr. N. Podier, Vice Chairman of the People's Redemption Council.

II. Background

The Liberian economy has been in a severely depressed condition over the past three years. After a 2.5 percent decline in 1980/81, real gross domestic product (GDP) fell by 2.1 percent in 1981/82 and by an estimated 3.5 percent in 1982/83 (Table 2). Weak world markets for iron ore, rubber, and timber, Liberia's main exports, account for the major part of the fall in GDP. A doubling of the minimum wage for public sector employees following the April 1980 coup weakened the competitive position of the Liberian economy and contributed to the declines in income, increases in unemployment, and unsustainable public sector and balance of payments deficits. The only positive trend in the picture has been the continued decline in the rate of inflation during these years. The average annual rate of increase of consumer prices has been reduced from 10 percent in 1980/81 to 7 percent in 1981/82 and is estimated to have fallen to less than 5 percent in 1982/83.

Over this period the Government of Liberia has pursued programs supported by three consecutive stand-by arrangements from the Fund, each of which focused on alleviating the chronic budgetary deficits. The 1980/81 stand-by program called for adjustments on the revenue side, comprising increases in taxation on foreign trade, air travel, beer, and individual income taxes. In addition, a compulsory national savings bond scheme yielded about $20 million in revenue during the fiscal year. With

Table 2. Liberia: Selected Economic and Financial Indicators, 1980/81-1983/84 1/

	1980/81	1981/82	1982/83		1983/84
	Actual		Pro-gram	Prel. est.	Program
	(Annual percentage change, unless otherwise specified)				
National income					
GDP at constant prices	-2.5	-2.1	2.0	-3.5	1.1
GDP at current market prices	0.5	1.5	10.0	1.7	3.4
Consumer prices	10.0	7.0	8.0	4.6	3.7
External sector					
Exports, f.o.b.	-7.0	-8.3	5.6	-7.9	12.4
Imports, c.i.f.	-3.3	-6.9	3.3	-11.5	6.2
Non-oil imports, c.i.f.	-7.1	-12.8	1.0	-7.0	6.2
Export volume	-7.5	-1.1	2.0	-11.0	7.3
Import volume	-13.4	-8.3	1.1	-9.7	3.1
Terms of trade (deterioration -)	-9.9	-9.4	4.3	5.6	1.6
Nominal effective exchange rate (appreciation)	7.5	14.7	...	8.4	...
Real effective exchange rate (appreciation)	5.7	8.4	...	6.7	...
Government budget					
Revenue and grants	7.4	15.2	4.0	-8.2	10.0
Total expenditure	13.8	11.2	-6.0	-10.5	-8.7
Money and credit					
Domestic bank credit	-9.7	34.7	24.6	17.1	13.7
Government (net)	(44.2)	(40.0)	(17.5)	(43.7)	(11.9)
Public corporations (net)	(280.5)	(146.2)	(12.8)	(-47.4)	(28.7)
Private sector	(-49.1)	(2.6)	(42.2)	(-11.4)	(17.6)
Money and quasi-money	-17.9	2.2	19.2	6.9	6.6
Interest rate (annual rate on one-year deposits)	10.3	10.9	12.0	10.0	11.0
	(In per cent of GDP)				
Government current account 2/ surplus or deficit (-)	-1.4	-5.6	0.6	-3.6	0.6
Government overall deficit 2/	10.4	10.6	6.9	8.7	3.6
Domestic bank financing	2.8	4.2	2.5	6.8	2.6
Foreign financing	5.5	3.6	4.4	3.3	1.1
Gross domestic investment	20.9	17.9	22.0	18.1	18.8
Gross domestic savings	20.0	14.5	18.0	16.9	20.7
External current account deficit	-9.6	-8.3	-4.5	-6.5	-4.3
External debt (including use of Fund credit)	56.7	64.6	66.8	73.3	75.9
	(In per cent of exports of goods and services)				
Debt service ratio	6.8	8.2	17.0	12.7	18.3
Interest payments	4.4	6.5	9.0	9.5	8.7
	(In millions of SDRs)				
Current account deficit	-84.0	-77.0	-56.0	-68.5	-46.7
Overall balance of payments deficit	-32.0	-40.0	-58.4	-64.8	-14.8
Gross official reserves	7.8	8.7	18.0	7.4	16.7
External payments arrears (end of period)	8.7	1.8	--	13.1	--

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

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

these measures the overall deficit was contained at $114.6 million, or 10.4 percent of GDP in 1980/81.

Budgetary policy in 1981/82 again aimed at reducing the overall deficit through a combination of discretionary revenue measures and efforts to contain the growth of expenditure. The revenue measures included the imposition of a national reconstruction tax (2-10 percent) on all wage and salary income to replace the compulsory savings bond scheme, an increase in excises on gasoline and beer, and an improved collection procedure. However, the resulting overall revenue performance was considerably less buoyant than had been hoped. In addition, the outturn for expenditure was higher than planned, reflecting slippage in other recurrent expenditure, encumbrances, and nonbudgeted expenditure. As a consequence, the overall deficit was not reduced and remained slightly higher than in 1980/81 at $117.7 million, or 10.6 percent of GDP.

III. Implementation of 1982/83 Program

The 1982/83 program aimed at a reduction in recurrent expenditure, 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 Liberian authorities implemented most of the measures programmed in support of these objectives albeit with some delay, as indicated in Table 3. There were two significant departures from the program targets, however, with the result that Liberia was unable to make the final two purchases under the program, and the National Bank did not achieve the objective of improving its external reserve position. The first departure was a shortfall in revenues, which caused an overrun in government borrowing from the National Bank. The second departure was the failure to achieve a refinancing of the external arrears under the oil financing facility. These departures are described in more detail below.

The original budget of the Central Government for fiscal year 1982/83 aimed at reducing the overall deficit to 7 percent of GDP from 10.6 percent of GDP in 1981/82 and at containing the increase in net public bank credit to $30 million (revised to $32 million). No tax measure had been contemplated, and the principal focus of fiscal policy was a 19 percent reduction in recurrent expenditure (other than scheduled interest payments) from the actual outturn for 1981/82. This decrease included a cut in the wage bill by 15 percent and a reduction in other recurrent expenditure by 26 percent. Development expenditure was to rise by 28 percent over the 1981/82 outturn. However, by the end of the first half of 1982/83, the

Table 3. Liberia: Policy Measures Under Stand-By Program for 1982/83 and Status of Implementation

Program	Status of Implementation
1. Fiscal measures	
a. Recurrent expenditures, except interest payments, to be reduced by 18 percent from FY 1981/82	Recurrent expenditures, except interest, were reduced by 17 percent. Wage and salary rates were cut 16-2/3 to 25 percent effective January 1, 1983. Wage bill was reduced by 13 percent; other noninterest recurrent expenditures were cut by 22 percent from 1981/82 level.
b. Establish economic management team	Established Economic and Financial Management Committee July 5, 1982.
c. Freeze on all salaries and new hirings	Both salaries and personnel reduced.
d. Improve tax administration and collection procedures	Implemented in part and belatedly. Technical advisors requested from U.S. Customs and U.K. Finance Ministry arrived late in fiscal year.
e. Domestic nonwage, noninterest arrears will not exceed level outstanding at end-June 1982 by end-June 1983	Domestic arrears declined during year.
f. Other measures as necessary	Introduced hut tax, modified import surcharge.
2. Monetary measures	
a. Increase interest rates on CDs 1 percent above U.S. rates	Increased rates by five percentage points to 20 percent.
b. Review reserve requirements	Reviewed in October 1982 with assistance of IMF technical mission; reserve requirements were doubled on February 1, 1983.
c. Review financial institutions with CBD	Report of CBD completed in March 1983.
3. Public corporations	
a. Agree with IBRD on project to rationalize public corporations	Agreed November 22, 1982. Project under way.
b. Return of reacquired properties to their previous owners	Partly completed.
c. Reduce arrears. Economic and financial audit of Liberia Petroleum Refining Company	Audits of Liberia Petroleum Refining Company completed. Refinery closed down.
4. External sector	
a. Understanding on the elimination of external arrears	London Club rescheduling signed December 1, 1982. Negotiations to renew oil facility broke down but negotiations to consolidate into medium-term loan were initiated; new arrears occurred during June 1983.
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	New external arrears occurred in June 1983.

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

fiscal targets were increasingly recognized as unattainable without further measures, mainly due to a serious revenue shortfall, nonbudgeted expenditures, less-than-expected savings in personnel costs, and a reduction in the outstanding check float and domestic arrears that, while desirable per se, intensified fiscal strains. In an effort to redress the situation, the following measures were implemented in January 1983 and were taken into account in completing the first review of the program by the Fund in February 1983: (1) a cut in wage rates for all public sector employees ranging from 16-2/3 percent to 25 percent; (2) cutbacks of $9.2 million from the budgeted locally financed development expenditures; (3) a cut in other recurrent expenditures by $7.5 million (including a reallocation of these budgetary appropriations); (4) reinstatement of the hut tax; (5) curtailment of foreign travel by government employees; (6) the placing of government purchases of gasoline on a duty-paid basis; and (7) a smaller than planned reduction in the import surcharge on nonluxury goods. The January measures were followed by some emergency measures in late April, including (a) an enforced collection of personal income tax withheld by public corporations but not remitted to the Government; and (b) collection of some overdue stumpage fees from private corporations.

With these measures the Government of Liberia met all the quantitative performance criteria through January 1983 and in a formal sense met the quantitative performance criteria for April 29, 1983, as shown in Table 4. The April targets were achieved, however, at the cost of the end-June targets, as the Government borrowed $11.3 million from private commercial banks against the May and June tax revenues. 1/

Fiscal performance during 1982/83 as a whole fell short of the program target. The overall deficit, including grants, was programmed at $84.9 million, but, due to a serious revenue shortfall, the estimated outturn is for an overall deficit of $99.0 million, or 8.7 percent of GDP, which is nevertheless an improvement in comparison to the 1981/82 overall deficit of $117.7 million, or 10.6 per cent of GDP (see Table 5). Further, with net foreign financing falling well short of program targets, the preliminary figure for domestic bank financing shows an excess borrowing of $45.5 million over the program ceiling of $32.0 million. While total expenditure is estimated to have been slightly below the programmed level of $367.9 million at $355.4 million, total revenue and grants fell short of the budgeted level by $26.6 million, or 9 percent. Cash grants

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1/ Government borrowing from private banks has traditionally been very limited in Liberia and was therefore not included in the credit ceilings under the 1982/83 program. The credit ceilings under the proposed program have been expended to include them.

Table 4. Liberia: Quantitative Performance Criteria, June 1982-June 1983

(In millions of dollars; end of period)

	1982		1983		
	June	Oct.	Jan.	April	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	146.3	177.3	188.8
Net claims of public banks on public sector					
Ceiling	...	185.0	194.0	199.0	205.0
Actual	169.9	179.4	189.0	195.8	243.3
Net claims of public banks on Government					
Ceiling	...	180.0	188.0	194.0	200.0
Actual	168.0	178.4	185.4	194.0	244.3

Source: Data provided by the Liberian authorities.

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

Table 5. Liberia: Summary of Government Fiscal Operations, 1981/82-1983/84 1/

(In millions of dollars)

	1981/82	1982/83		1983/84		
	Actual	Program budget	Actual 2/	Pro forma budget	Program budget	
Revenue and grants	279.3	283.0	256.4	265.0	282.0	
Revenue	237.9	245.0	223.4	230.0	247.0	
Grants 3/	41.4	38.0	33.0	35.0	35.0	
Expenditure 4/	397.0	367.9	355.4	326.5	324.4	
Recurrent	289.0	253.9	252.6	234.5	240.4	
Wages	(157.7)	(141.9)	(136.5)	(122.5)	(122.5)	
Interest 5/	(39.2)	(48.7)	(44.2)	(48.7)	(54.9)	6/
Others	(92.1)	(63.3)	(71.9)	(63.3)	(63.0)	
Development	96.4	114.0	90.9	92.0	84.0	
Local	(62.8)	(53.4)	(56.9)	(56.0)	(48.0)	
Foreign 7/	(33.6)	(60.6)	(34.0)	(36.0)	(36.0)	
Nonbudgetary	5.0	--	8.2	--	--	
Encumbrances	6.6	--	3.7	--	--	
Overall deficit: check issued basis 4/	-117.7	-84.9	-99.0	-61.5	-42.4	
Adjustment to cash 8/	26.8	--	-16.2	--	--	
Overall deficit: cash basis	-90.9	-84.9	-115.2	-61.5	-42.4	
Financing	90.9	84.9	115.2	61.5	42.4	
Foreign 9/	39.9	52.9	37.7	28.3	12.4	
Drawings	(46.4)	(75.6)	(43.1)	(51.0)	(51.0)	
Repayments 5/	(6.5)	(22.7)	(5.4)	(22.7)	(38.6)	10/
Domestic	51.0	32.0	77.5	33.2	30.0	
Banking	(46.8)	(32.0)	77.5	(33.2)	(30.0)	
Nonbank	(4.2)	(--)	(--)	(--)	(--)	

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

1/ Financial year commences July 1.
2/ Preliminary.
3/ Excludes grants-in-kind.
4/ On the basis of checks entered into the cash book, except for wages, which are on a commitment basis, and interest payments, which are on a cash basis.
5/ After debt relief.
6/ Includes payments for external arrears in interest of $7.8 million.
7/ Excludes expenditures financed by grants-in-kind.
8/ Comprises adjustments from check issued to check cashed expenditure, domestic arrears, and unrecorded items.
9/ Includes PL-480 funds.
10/ Includes payments for external arrears in principal of $6.2 million.

were $6 million below the budgeted level. On the revenue side, a sharper-than-anticipated decline in imports led to a shortfall in customs duties and other import-related levies by $7 million--or 10 percent. Excise taxes fell short by $2.5 million--or 11 percent, maritime revenue by $3.5 million--or 14 percent, and nontax revenue by $7.5 million--or 44 per cent. On the other hand, individual income tax collections exceeded the projected levels despite a reduction in taxable incomes.

Even more than in the previous year, monetary developments in 1982/83 were dominated by the sharp increase in bank credit to the Government (Table 6). The increase, which amounted to $77.5 million, led to a further increase in net foreign liabilities of the banking system. A reduction in credit to enterprises and households, as well as a modest increase in the recorded money supply, also helped to finance the increase in net credit to Government. The increase in net foreign liabilities of the banking system in 1982/83 was concentrated in the National Bank of Liberia (NBL). Its gross foreign assets registered a further modest decline, and part of the increase of its liabilities to the Fund was used to reduce its liabilities to private foreign banks. In contrast, net foreign liabilities of commercial banks, which had increased from $19.6 million in June 1981 to $37.7 million in June 1982, were sharply reduced to $8 million in June 1983, mainly as a result of a reduction in commercial banks' indebtedness to head offices and other banks abroad, including a decline in the exposure of the oil financing facility from $35 million to $26 million. Net credit to public corporations from the banking system was reduced, mainly because the Liberian Petroleum Refining Corporation (LPRC) was able to increase its deposits at a time when it was reducing its outstanding borrowing from the banking system related to the oil facility. This result reflects largely improvement by the LPRC in its bill collection.

An objective of the 1982/83 program was to strengthen the liquidity position of the National Bank of Liberia (NBL) and to increase its gross reserves to about one month's import requirements. To this effect, and also to regularize the situation of high excess reserves of commercial banks, effective February 1, 1983, the required reserve ratio of the commercial banks was raised from 15 percent to 30 percent. However, as a result of the increase in net NBL credit to the Government in excess of the program targets, and also because of a shortfall in foreign resources, no improvement in the external position of the National Bank of Liberia was achieved.

As a result, the National Bank continued to experience difficulties in settling external payments obligations when due. Apart from the $26 million of arrears that had arisen in late 1982 pending agreement with the concerned commercial banks on the reactivation of the oil financing

Table 6. Liberia: Monetary Survey, 1980-84

(In millions of dollars; end of period)

	1980 June	1981 June	1982 June	1983 June	1984 June 1/
Net foreign assets	-82.0	-89.8	-162.3	-190.6	-230.0
National Bank of Liberia	-41.4	-70.2	-124.6	-182.2	-212.0
Of which: use of Fund credit	(-38.4)	(-62.1)	(-126.6)	(-188.1)	(-228.0)
Commercial banks	-40.6	-19.6	-37.7	-8.4	-18.0
Domestic credit	242.0	218.6	294.4	344.7	392.0
Claims on Government (net)	87.8	126.6	177.3	254.8	285.0
Claims on public enterprises (net)	4.1	15.6	38.4	20.2	26.0
Of which: commercial banks	(8.0)	(13.8)	(32.5)	(19.4)	(...)
Claims on private sector	150.1	76.4	78.7	69.7	82.0
Recorded money supply	112.4	95.4	105.3	112.6	120.0
Coins in circulation	10.3	11.3	11.9	15.9	18.0
Demand deposits	48.3	40.7	41.3	41.4)	102.0
Time and savings deposits	53.8	43.4	52.1	55.3)	
Other items (net)	47.6	33.4	26.8	41.5	42.0

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

1/ Projections.

facility, new external arrears on debt service were incurred in the amount of $14 million in the last two months of the program year. Gross foreign reserves of the National Bank at end-June 1983 were $8 million, or less than one month of imports.

Preliminary balance of payments estimates indicate that the current account deficit was further narrowed during 1982/83 from $92 million, or 8.3 percent of GDP in 1981/82, to $74 million, or 6.5 percent of GDP in 1982/83 (Table 7). This improvement was mainly on account of a larger surplus in the trade balance, which occurred despite an 8 percent decline in the value of exports. While exports of rubber and timber remained at the low level of 1981/82, exports of iron ore fell by 12 per cent, reflecting depressed conditions in the world steel industry. Imports fell by an estimated 12 percent as a result of the deepening recession in economic activity and temporary problems with unloading facilities in the port of Monrovia. Another factor was the reduction in petroleum imports following the interruption of the oil credit facility. With a modest improvement in export prices and a small decline in import prices, the terms of trade are estimated to have improved by some 5 percent in 1982/83. Net capital inflow fell sharply in 1982/83, mainly on account of a turnaround in capital flow of commercial banks. Following net borrowing from abroad in 1981/82 of $18 million, commercial banks reduced their foreign indebtedness by $29 million in 1982/83. As a result, the overall balance of payments deficit widened from $46 million to $70 million. As Liberia was unable to make a purchase under the stand-by arrangement in May-June 1983, net use of Fund credit amounted to $62 million, compared with original projections of $73 million. External arrears on public debt service payments, which had been virtually eliminated by June 1982, increased by $12 million in 1982/83.

An issue affecting Liberia's purchases under the stand-by arrangement was the existence of external arrears under the oil financing facility to the group of 24 banks which had been financing Liberia's oil imports. The Fund approved the arrangement on September 29, 1982, on condition that understandings would be reached on the elimination of these arrears, which then amounted to $10 million. By end-November 1982 they had grown to $26 million, the full amount of the oustanding credit under the oil financing facility. On February 25, 1983, on the occasion of the review of the stand-by arrangement, the Fund decided that "Liberia will not make purchases under the stand-by arrangement.....during any period after May 14, 1983, while Liberia has any outstanding external arrears."

Despite continuing efforts on the part of the Government of Liberia and the lead bank in the facility, a Liberian proposal to renew the oil financing facility was, in the end, not accepted by all of the 24 banks concerned. Thus, Liberia continued to be in arrears under the oil

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

(In millions of dollars)

	1980/81 Actual	1981/82 Actual	1982/83 Program	1982/83 Actual 1/	1983/84 Projections
Current account	-105	-92	-81	-74	-50
Trade balance	33	23	26	39	70
Exports, f.o.b.	(555)	(509)	(477)	(469)	(527)
Imports, c.i.f.	(-522)	(-486)	(-451)	(-430)	(-457)
Services (net)	-158	-170	-161	-161	-167
Of which: interest on external public debt 2/	(-25)	(-34)	(-46)	(-46)	(-47)
Transfers (net)	20	55	54	48	47
Capital account	61	46	32	4	34
Official long-term	59	41	60	31	19
Drawings	(69)	(46)	(76)	(43)	(51)
Amortization 2/	(-10)	(-5)	(-16)	(-12)	(-32)
Private (net)	2	5	-26	-27	15
Commercial banks	(-21)	(18)	(...)	(-29) 3/	(10)
Other (including errors and omissions)	(23)	(-13)	(...)	(2)	(5)
SDR allocation	5	--	--	--	--
Overall balance	-39	-46	-49	-70	-16
Financing	39	46	49	70	16
National Bank of Liberia	29	54	51	58	30
Assets (increase -)	(11)	(-1)	(-22)	(2)	(-10)
Liabilities	(18)	(55)	(73)	(56)	(40)
Use of Fund credit	(24)	(65)	(73)	(62)	(40)
Other	(-6)	(-10)	(--)	(-6)	(--)
Arrears	10	-8	-2	12 3/	-14

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

1/ Preliminary estimates.
2/ Takes into account debt relief.
3/ Excludes $26 million debt incurred to the oil facility.

financing facility and consequently was unable to make the final two purchases under the stand-by arrangement.

IV. The 1983/84 Program

In the attached letter of intent, the Liberian authorities have described their objectives and policies to be implemented during the 1983/84 program period. The proposed stand-by program aims at a sustainable balance of payments position by the end of the program period. In the absence of an exchange rate option, strict fiscal discipline is essential to achieve this objective; thus, the proposed program continues to focus on the Liberian public sector and, particularly, on the budget of the Central Government. The program is described under four headings: fiscal policies, public corporations, money and credit policies, and external policies.

A summary of the 1983/84 program is contained in Table 8.

1. Fiscal policies

The 1983/84 adjustment program again focuses on public sector finances and, in particular, on containment of public sector expenditures. The program seeks to limit the overall budget deficit to $42.4 million (check issued basis), implying a reduction of 5.1 percentage points in the deficit/GDP ratio to 3.6 percent in 1983/84 (Table 5). Domestic bank financing, including credit from private commercial banks, is set at $30.0 million, or 2.6 percent of GDP, compared with $77.5 million, or 6.8 percent of GDP, in the previous fiscal year.

In 1982/83 total expenditure was reduced by 10.5 percent with the principal adjustment occurring in the recurrent component, including a reduction in the wage bill by $21.0 million, or by 13 percent, and a cutback in other recurrent expenditure by $20 million, or 22 percent. In order to continue the adjustment effort, the Government has taken measures to further cut personnel costs by $14.0 million from the actual level (preliminary) in 1982/83 to $122.5 million in 1983/84, and has decided to maintain the salary and employment freeze. In addition, vacant posts will not be filled except in the case of transfers within each agency or from other agencies. Finally, the Government will continue to review carefully all departmental employment rolls, eliminating vacant posts and making some positions redundant. The Government is being assisted in its efforts by a consulting team, which is undertaking a physical count of persons on the payroll.

In regard to other recurrent expenditure, a reduction in check-issued outlays of $9 million is programmed. However, the implied

Table 8. Liberia: Summary of Program Under Stand-By Arrangement for 1983/84

1. Principal targets

	1982/83 Actual	1983/84 Projected
	(In percent)	
Real GDP growth	-3.5	1.1
Change in consumer prices	4.6	3.7
	(In percent of GDP)	
Balance of payments		
Current account deficit	6.5	4.3
Overall deficit	6.2	1.4
Government financial operations		
Overall deficit	8.7	3.6
Bank financing	6.8	2.6

2. Principal policy measures

Program	Status of implementation
a. Fiscal measures	
(1) New measures to provide additional $17 million in revenues	Measures implemented.
(2) Recurrent expenditures other than interest payments to be reduced by 11 percent	Full year implementation of cut in wages and salaries will reduce wage bill by 10 percent. 1983/84 budget approved by Head of State on July 25, 1983.
(3) Freeze on salaries and new hirings	Announced in budget message.
(4) Physical count of payroll with assistance from consultants	Consultants hired.
(5) Improve budget control	EFMC strengthened to monitor and control.
(6) Avoid new domestic arrears	--
b. Public corporations	
(1) Joint project with IBRD	Project under way.
(2) Monopoly of LPRC on imports of petroleum products abolished	Announced.
(3) Eliminate implied subsidies by ensuring timely payments	To be implemented by EFMC.
c. Monetary and credit policies	
(1) Review interest charges on lending to banks	To be implemented by National Bank of Liberia.
(2) Review reserve requirements on savings deposits	To be implemented by National Bank of Liberia.
d. External measures	
(1) Elimination of external arrears	Schedule for elimination adopted.
(2) Rescheduling of debt service due in 1983/84 to Paris and London Clubs	Contacts initiated with both.
(3) Improve debt management	Fund consultant due September 1983.
(4) No restrictions on payments and transfers for current transactions	--
(5) Contract no external debt of 1-12 years in excess of $5 million	--

adjustment in other recurrent outlays is substantially greater than this as $10 million of expenditure committed in 1982/83 was paid in early 1983/84. As the authorities have stated that an equivalent carryover into 1984/85 will not be permitted, new commitments of other recurrent expenditures will need to be correspondingly reduced. To this effect, the Government implemented several new measures on July 25, 1983. First, the Government has sold government cars to their users. This will generate annual savings in expenditure for gasoline and repairs of approximately $0.7 million. Second, the Government has introduced a travel claim system. This measure will generate annual savings in foreign travel expenditures of $2.0 million. Third, savings in the amount of $6 million will be realized by across-the-board cuts in outlays for other services, materials and supplies, and subsidies. To ensure enforcement of the reduction in other recurrent expenditures, procedures for expenditure control have been tightened, and the authority of the EFMC has been strengthened. However, in view of the substantial reduction of recurrent expenditure from its 1981/82 level, amounting to 32 percent, the target set for 1983/84 may prove to be too restrictive to ensure the effective operation of the Government. In this connection, the authorities have agreed to delay committing domestically financed development expenditure with a view to reallocating resources to other recurrent expenditures at the time of the mid-term review, if needed.

As part of the process of budgetary control, a limit of $185.5 million has been established on the total of all recurrent expenditures, including nonbudgetary expenditures, exclusive of interest and amortization. Budgetary allotments for such expenditure are limited to the sum of $46.4 million per quarter. If payments against such quarterly allotments should exceed the quarterly limits, immediate consultations with the Fund staff will be initiated. The budgetary appropriation for recurrent expenditure on personnel costs (wages and salaries) is limited to a level of $122.5 million for the fiscal year, in large part reflecting the full year impact of the January 1983 wage cut. Quarterly allotments from this appropriation are not to exceed $30.6 million. Again, if payments against such an allotment should be exceeded, consultations with the Fund staff will immediately be held. In addition, a Major Object Code has been established for all foreign travel. For 1983/84 the total appropriations for travel are limited to $1.6 million. Finally, transfers between the major codes are allowed to be made only upon the written approval of the EFMC.

Other budgetary measures include:

First, the locally funded development budget (inclusive of contributions to international organizations and subsidies to public corporations) is reduced to $48.0 million from $56.9 million in 1982/83. The staff has encouraged the Liberian authorities to focus on projects with a high rate of return and projects with maximum foreign financing. In this connection, the Government of Liberia has decided to reduce the outlays for the new police headquarters and for the university, both entirely domestically financed.

Second, domestic arrears are not to increase compared to their level at the end of June 1983.

Revenues are projected to increase in 1983/84 by about 10 per cent, due to new tax measures, an increase in the economic activity in the second half of the fiscal year, and intensified efforts to improve enforcement to collect existing taxes. Cash grants, primarily from the United States, are likely to be slightly higher compared to 1982/83, due to the disbursement timetable of the United States. Regarding the tax administration, 1983 was proclaimed as "the year of rigid enforcement of tax collection." The interest penalty on overdue taxes was raised from 6 percent to 18 percent. Tax experts have been provided by major aid donors, particularly in the area of customs and income tax. Due to these efforts, the individual income tax collections in 1983/84 are expected to exceed their programmed levels, as they did in 1982/83.

The new tax measures include the following: (1) the excise tax on retail gasoline has been increased from 32 cents to 92 cents per gallon; (2) the stamp tax on bills of entry for duty-free goods processed by concessions has been increased from 25 to 75 cents for each $100 or fraction thereof; (3) the consular fee on transshipment goods has been increased from 2.5 percent to 7.5 percent; (4) an excise tax has been imposed on goods sold by military PXs at 50 percent of the normal rate for beer, stout, soft drinks, and domestic spirits and tobacco, and customs duties at 25 percent of the normal rate for imported spirits and tobacco.

The data in Table 9 offer several measures of the degree of fiscal adjustment in the proposed program. The downward trend in the overall fiscal deficit, both including and excluding cash grants, would continue. For example, the overall deficit including grants would be reduced from 10.6 percent of GDP in 1981/82 to 8.7 percent of GDP in 1982/83 and further to 3.6 percent in 1983/84. A similar degree of fiscal adjustment shows up in the overall deficit excluding grants, which would be reduced from 14.3 percent of GDP in 1981/82 to 6.6 percent of GDP in 1983/84, following 11.7 percent of GDP in 1982/83. Finally, domestic bank financing as a percentage of GDP, which has experienced an increase in 1982/83, is projected to fall to 2.6 percent of GDP in 1983/84 from 6.8 percent in 1982/83.

Table 9. Liberia: Measures of Fiscal Adjustment, 1981/82 and 1982/83

(In millions of dollars)

	1981/82	1982/83		1983/84
	Actual	Program budget	Actual 1/	Budget
Expenditures	397.0	367.9	355.4	324.4
Revenues and grants	279.3	283.0	256.4	282.0
Overall fiscal deficit	117.7	84.9	99.0	42.4
As percent of GDP	10.6	7.5	8.7	3.6
Grants, cash	41.4	38.0	33.0	35.0
Overall fiscal deficit, excluding grants	153.1	122.9	132.0	77.4
As percent of GDP	14.3	10.8	11.7	6.6
Domestic bank financing of deficit	46.8	32.0	77.5	30.0
As percent of GDP	4.2	2.8	6.8	2.6

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

1/ Preliminary.

2. Public corporations

Rationalization of the public corporations continues to be an important objective of the Liberian Government. Because of its importance to the Liberian economy, the Liberia Petroleum Refining Company (LPRC) has received priority attention. Following a feasibility study by a private consulting firm, the Liberian authorities decided to terminate the operations of the refinery and to use its facilities only for the unloading, storage, and distribution of petroleum products imported by the LPRC itself or by leasees. Moreover, the LPRC monopoly on the importation of petroleum products has been eliminated, and private companies, including the concessions operating in Liberia, are permitted to import petroleum products in competition with each other and the LPRC. With the improved efficiency of the importation and distribution system, the Liberian authorities have estimated that the 60 cent increase in the gasoline tax can be absorbed within the present price at the pump, which is $3.00 per gallon. Staff calculations tend to confirm the Liberian estimates.

Efforts to improve the efficiency of the other public corporations are taking several forms. First, the public corporations were subjected to the same wage and salary cuts that apply to the Central Government, such as the 16-2/3 percent to 25 percent cut in wages and salaries decreed by the Head of State, effective January 1, 1983. Second, pressure has been put on the corporations to keep their tax payments current. In April 1983 the Head of State called in the managers of all major public corporations and instructed them to pay back taxes. At least one who was not able to do so was suspended from his position. Third, credit to the public corporations has been limited; net credit to the public corporations from the banking system declined by $18 million during 1982/83. Finally, the Government of Liberia has embarked on a medium-term effort, in cooperation with the IBRD, to rationalize the public corporations. Following formal approval of this project by the Head of State on November 22, 1982, the Government and the IBRD have been pursuing the necessary steps to implement the project, which includes: (a) identifying those corporations that should be sold to the private sector, either in a joint venture or outright (the Government of Liberia has identified a few public corporations for sale, including the Timber and Plywood Corporation and the Mesurado Group, and the IFC is currently assisting the Government in seeking private investors to buy into these corporations); (b) providing technical assistance to improve the efficiency of those remaining in the public sector; and (c) establishing a public agency, with adequate authority, to ensure that these objectives are achieved. The IBRD has contracted with a consulting firm to assist in establishing a Bureau of State Enterprises to monitor all the public corporations. A consulting team has been in Liberia since July 1983.

3. Money and credit policies

Credit ceilings have been established in the program consistent with the objective of improving the external position of the National Bank of Liberia and ensuring that part of the credit expansion is made available to public enterprises and the private sector. Limits on net domestic assets of the National Bank, net credit to the Government, and net credit to the public sector from the banking system have been established as performance criteria for November 30, 1983, February 29, 1984, May 31, 1984, and June 30, 1984 (see Letter of Intent, paragraph 27, and attached Schedule A).

The ceilings for net domestic assets of the National Bank of Liberia are consistent with the balance of payments for 1983/84 and, with the projected net purchases from the Fund of $40 million, will allow for a maximum increase in credit to Government and public corporations by $36 million in 1983/84, compared with an increase of $59 million in 1981/82 (Table 6). A subceiling has been established for net bank credit to the Government, limiting the increase in such credit to $30 million, compared with $78 million in the previous year.

In order to remain within the limits on net domestic assets, the National Bank of Liberia will closely monitor its net position with commercial banks. In this context, the National Bank will review the interest charges on its lending to commercial banks. Similarly, commercial bank loans to the Government or other public entities will not be eligible to meet reserve requirements. The monetary authorities will review the reserve requirements for savings deposits and will consider a reduction to encourage domestic savings by enabling commercial banks to pay higher yields. Such possible reduction will fully take into account the limits set for increase in net domestic assets of the National Bank.

4. External policies

In 1983/84 the external position of Liberia is expected to improve moderately (Table 7). On the basis of an expected continuation of the recent strengthening of Liberia's main export markets, exports are projected to increase by 12 percent during the program period, consisting of a 5 percent increase in prices and a 7 percent increase in volume. Iron ore exports, which are projected to increase by 9 percent, would account for some 40 percent of the increase in total exports. Iron ore shipments are projected to increase by 10 percent to 17.4 million tons, while unit values are projected to decline by 1 percent. Rubber exports, which are expected to increase by 34 percent on account of a 30 percent increase in unit values and a 3 percent increase in volume, would account for 38 percent of the increase in total exports. Log exports are projected to increase by 18 percent, of which 10 percent is on account of volume and 8 percent on account of prices. With restrictive budgetary policies, growth in imports is expected to be limited to some 6 percent in value terms and 3 percent in volume. As a result, and taking into account a rescheduling of interest payments due to Paris Club members, the current account deficit is projected to be reduced further to $50 million, or 4.3 percent of GDP, in 1983/84.

The overall balance of payments deficit in 1983/84 is projected to decline to $16 million, compared with $70 million in 1982/83. Based on indications that foreign commercial banks in Liberia are beginning to bring in external resources, in part to finance oil imports, private capital flows are expected to be reversed, from a net outflow of $29 million in 1982/83 to a net inflow of $15 million in 1983/84, more than offsetting the projected reduction in official capital flows. Assuming an overall deficit of $16 million and taking into account the elimination of external arrears of $14 million, the National Bank of Liberia's total financing needs would amount to $30 million. On the basis of the schedule of net purchases from the Fund ($40 million), Liberia would be able to increase its gross international reserves by $10 million.

The Liberian dollar, which is at par with the U.S. dollar, appreciated significantly during the past two years, measured on a trade-weighted basis. Chart 1 shows that in nominal terms the Liberian dollar appreciated by 14.7 percent in 1981/82 and by 8.4 percent in 1982/83. Deflated by the consumer price indices of Liberia and its principal trading partners, the Liberian dollar appreciated by 8.4 percent and an estimated 7.0 percent, respectively, in the same two years. In the absence of an independent exchange rate policy, cost-cutting measures implemented in the iron ore and rubber sectors, and in the public sector as a whole, as well as the continued implementation of restrictive demand policies, are essential to improving the competitiveness of the Liberian economy.

The disbursed external debt of the public sector (including debt to the Fund) at end-June 1983 totaled about $830 million, or approximately 73 percent of GDP. Official debt service payments for 1983/84 are projected at $99 million, or the equivalent of about 18 percent of exports (Table 10). The program assumes that the Government will be able to reschedule or refinance part of its external debt service falling due in 1983/84, in respect of both commercial and official creditors, which would result in debt relief of some $34 million. In this connection, Liberia has already approached the Paris Club and initiated discussions with the commercial banks. In view of the high and rising debt service obligations, the program specifies as a performance criterion that government or government-guaranteed commercial loans with maturities of

Table 10. Liberia: External Public Debt, 1982/83-1987/88

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
	Estimates	Projections				
	(In millions of dollars)					
Outstanding disbursed (end of period)	830	889	909	901	855	798
Medium- and long-term debt	642	661	681	692	701	691
Use of Fund credit	188	228	228	209	154	108
Debt service	61	99	153	173	181	161
Amortization	15	52	96	115	126	110
Medium- and long-term debt	(12) 1/	(33) 1/	(69)	(69)	(71)	(64)
Repurchases from Fund	(3)	(19)	(27)	(46)	(55)	(46)
Interest payments	46	47	57	58	55	51
Medium- and long-term debt	(33) 1/	(29) 1/	(36)	(36)	(37)	(37)
Fund charges	(13)	(18)	(21)	(22)	(18)	(14)
Exports of goods and services	482	542	590	643	700	762
Gross domestic product	1,133	1,171	1,253	1,341	1,435	1,535
	(In per cent)					
Ratios						
Debt service/Exports of goods and services	12.7	18.3	25.9	26.9	25.9	21.1
Interest payments/Exports of goods and services	9.5	8.7	9.7	9.0	7.9	6.7
Disbursed debt/GDP	73.3	75.9	72.5	67.2	59.6	52.0

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

1/ After debt relief.

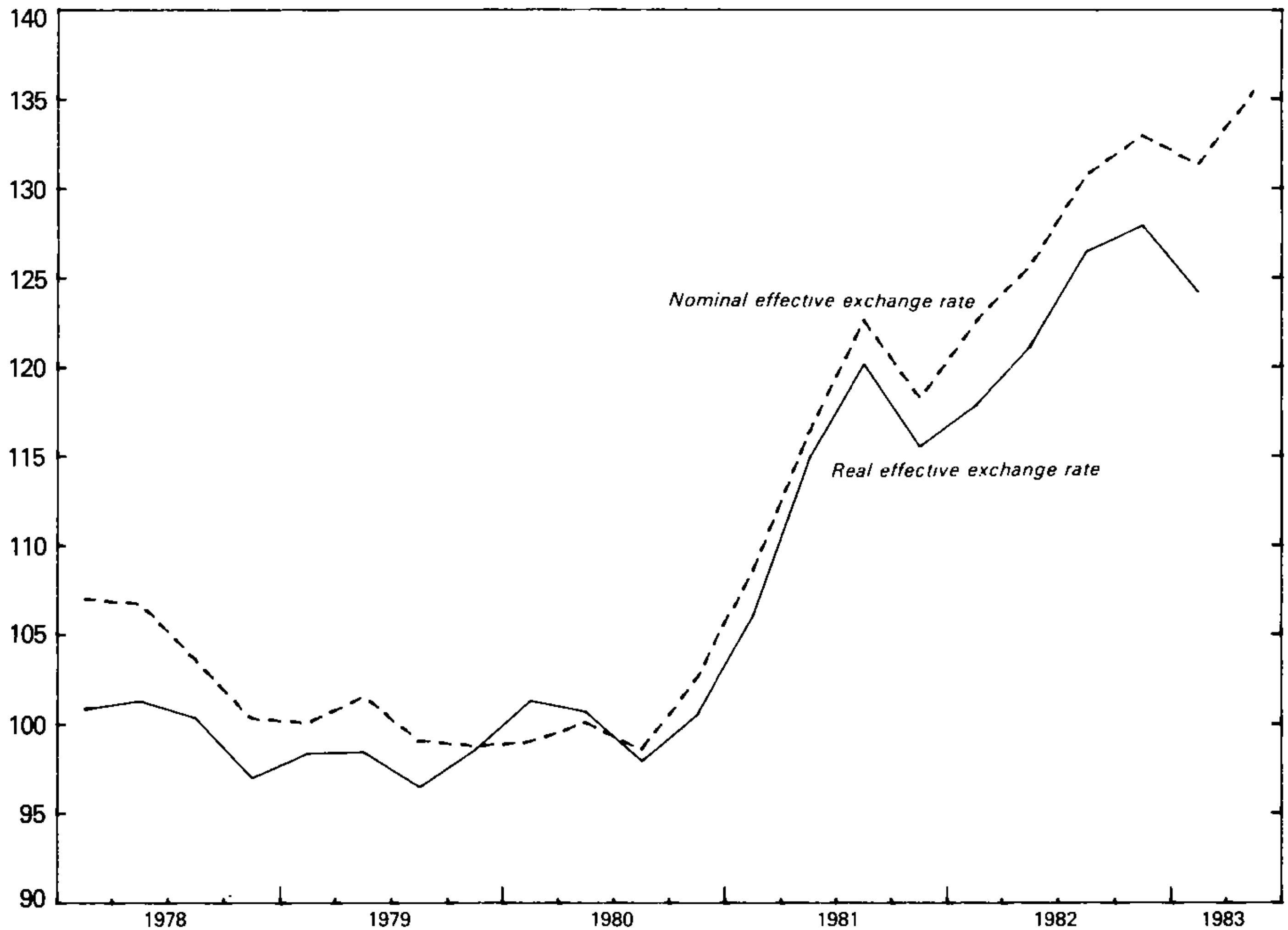
CHART 1

LIBERIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES TRADE WEIGHTED

FIRST QUARTER 1978 - SECOND QUARTER 1983

(1980 = 100)



Source: IMF, Data Fund

1-12 years contracted during the stand-by period will not exceed $5 million. This limitation does not apply to credit at concessionary terms, Paris Club rescheduling, or London Club refinancing.

With a view to improving management of external payments, especially those related to the external public debt, the Liberian authorities have requested technical assistance from the Fund. A consultant under the CBD technical assistance program is expected to arrive in Monrovia in September.

As indicated earlier, aside from the oil financing facility, arrears on external debt service arose toward the end of 1982/83, and amounted to $14 million at end-June 1983. In their letter of intent, the authorities have made commitments to eliminate these arrears by May 31, 1984 and not to permit the emergence of any new arrears. These commitments will constitute performance criteria under the program. Regarding the oil financing facility, since their protracted efforts at reaching agreement on renewing the short-term facility were not successful, the Liberian authorities have now initiated discussions with the concerned banks with a view to obtaining a consolidation of the outstanding amount of $26 million into a medium-term loan on the same terms as those contained in the agreement signed with the London Club banks in 1982.

5. Medium-term outlook

Over the medium-term Liberia's balance of payments is expected to improve (Table 11). On the assumption of a moderate recovery of world markets for Liberia's products and continued Liberian efforts to contain costs, exports are projected to increase by an average of 9 percent per year between 1984/85 and 1987/88 to $743 million. With continued prudent financial policies, import growth would be contained to an annual rate of some 7 percent or the projected growth rate of nominal GDP. The share of imports in GDP in 1987/88 would be 39 percent, which would still be considerably lower than the 48 percent in 1980/81. Reflecting a recovery in investment in the years ahead required to sustain the renewed growth in the economy, imports of capital goods and intermediate goods are projected to increase more rapidly than overall imports. The decline in the share in imports of consumer goods is consistent with the expected increase in food production, resulting from the reorientation of development efforts to the agricultural sector and increased incentives for producers. As a result, the trade surplus would nearly double between 1983/84 and 1987/88 to $138 million. Net service payments are projected to increase moderately, reflecting higher interest payments and a limited increase in other payments. Under these assumptions and with net transfers projected to remain unchanged, the current account would turn from a deficit of $50 million in 1983/84 (4.3 percent of GDP) to a slight surplus of $6 million in 1987/88.

Table 11. Liberia: Balance of Payments Projections, 1983/84-1987/88

(In millions of dollars)

	1983/84	1984/85	1985/86	1986/87	1987/88
Trade balance	70	87	103	120	138
Exports, f.o.b.	527	574	626	682	743
Imports, c.i.f.	-457	-487	-523	-562	-605
Services (net)	-167	-179	-182	-181	-179
Of which: interest on external public debt	(-47) 1/	(-57)	(-58)	(-55)	(-51)
Unrequited transfers (net)	47	47	47	47	47
Current account	-50	-45	-32	-14	6
Capital account	34	45	51	69	60
Official long-term	19	20	11	9	-10
Drawings	(51)	(89)	(80)	(80)	(54)
Amortization	(-32) 1/	(-69)	(-69)	(-71)	(-64)
Private (net)	15	25	40	60	70
Overall balance	-16	--	19	55	66
Financing	16	--	-19	-55	-66
National Bank of Liberia	30	--	-19	-55	-66
Assets (increase -)	(-10)	(--)	(--)	(--)	(-20)
Liabilities	(40)	(--)	(-19)	(-55)	(-46)
Use of Fund credit	(40)	(--)	(-19)	(-55)	(-46)
Other	(--)	(--)	(--)	(--)	(--)
Arrears	-14	--	--	--	--

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

1/ After debt relief; no debt rescheduling after 1983/84.

The overall balance of payments is projected to move into surplus starting in 1985/86. It seems likely that the increase in capital inflows required to realize this projection can be achieved. With projected increases in economic activity and exports, and improved confidence, private sector capital inflows are projected to increase gradually from $15 million in 1983/84 to $70 million in 1987/88, which would still be below the normal level prior to 1979. In particular, stepped-up investment in the iron ore sector, which is necessary if production is to continue after 1987 will be largely financed from abroad. There are indications that the commercial banks are beginning in 1983/84 to expand credit to Liberia. Regarding official capital, drawings are projected to increase from $51 million in 1983/84 to an average of $76 million per year in the period 1984/85-1987/88. Assuming domestic costs of foreign-financed projects are covered and Liberia remains current on debt repayments, the projected official capital flows seem realistic and would still leave drawings well below their level obtained in the period 1978-80. More than 40 percent of the projected drawings have already been committed.

On the basis of these overall balance of payments projections, Liberia would be in a position to begin making net repurchases from the Fund in 1985/86. For 1984/85 purchases would equal repurchases (SDR 25 million). Assuming no further debt relief after 1983/84, the debt service ratio is projected to rise to a peak of 27 percent in 1985/86 before declining to 26 percent in 1986/87 and to 21 percent in 1987/88 (Table 10). 1/ The substantial increase in debt service mainly reflects higher amortization payments and repurchases from the Fund on account of previously contracted debt. With substantial repurchases from the Fund after 1984/85, total outstanding disbursed external debt is projected to decline from $909 million at the end of 1984/85 to $798 million at the end of 1987/88, with the ratio to GDP falling from 76 percent in 1983/84 to 52 percent in 1987/88.

6. Performance criteria

The proposed stand-by arrangement includes the following quantitative performance criteria (Table 12):

a. ceilings on net domestic assets of the National Bank of Liberia;

1/ It has been assumed that the rate of Fund charges on borrowed resources will remain at their current level; for debt to commercial banks, projections are based on the LIBOR rate prevailing at the end of December 1982. It has also been assumed that because of the large share anticipated for concessionary loans, new commitments are assumed to bear a 7 percent interest rate, and to have a maturity of 15 years with a grace period of four years.

Table 12. Liberia: Quantitative Performance Criteria for 1983/84 Stand-By Arrangement 1/

(In millions of dollars)

	1983	1984		
	Nov.	Feb.	May	June 2/
Net domestic assets of National Bank of Liberia 3/	194	203	210	212
Net claims of banking sytem on public sector	290	300	309	311
Net claims of banking system on Government	267	276	283	285
Outstanding external payments arrears 4/	9	4	--	--
New external borrowing contracted or guaranteed by Government of 1-12 years maturity	------------5------------			

Source: Letter of intent (Attachment II).

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.
4/ Other than amount due to the oil facility banks. Negotiations for consolidation of the amount into a medium-term loan are currently in progress.

b. ceilings on net claims of the banking system on the public sector;

c. ceilings on net claims of the banking system on Government;

d. ceilings on outstanding external payment arrears; and

e. ceilings on new external borrowing contracted or guaranteed by the Government with maturities of 1 to 12 years.

In addition, the arrangement contains the standard performance criterion relating to the exchange and trade system. Review of progress made in implementing the program will be carried out with the Fund not later than the end of January 1984. Particular attention will be given to budget performance, the operation of the petroleum sector, and the rescheduling of official debt. Moreover, Liberia is committed to reaching agreement with the Paris Club on rescheduling of debt service falling due in 1983/84 before the end of November 1983. Progress on reaching such an agreement will be reviewed by the Fund before the second purchase can be made under the stand-by arrangement.

V. Staff Appraisal and Proposed Decision

The Liberian authorities continue to be committed to economic and financial adjustment. The 1982/83 program, the third consecutive stand-by program, achieved some significant measure of adjustment, but it also experienced some setbacks. The first setback was the re-emergence of external arrears, initially to the oil financing facility banks in late 1982, when these banks called for full payment of the $26 million outstanding and thereafter when additional external arrears of $14 million were incurred during the second quarter of 1983. A second setback was a shortfall in revenues of about $27 million, attributable almost entirely to the deterioration in the external markets for Liberia's exports and an ensuing decline in corporate taxes and import duties. At the same time there were overruns in expenditures. Finally, as a consequence of the revenue shortfall, expenditure overruns, and lower-than-anticipated foreign financing, the domestic bank financing of the budget exceeded the quantitative performance targets by $44.3 million.

Despite these setbacks, the adjustment process continued in 1982/83, albeit at a lesser pace than had been sought in the program. Total expenditures were reduced by 8 percent and recurrent expenditures fell by 13 percent, primarily due to the cut in the wage bill of 13 percent. Since the cut in public sector salaries was effective for only six months in 1982/83, the reduction in the wage bill will be significantly greater when applied to a full year. Thus, the wage bill for 1983/84 is budgeted 10 percent below the 1982/83 level and 22 percent below the 1981/82 level.

Because of the setbacks in 1982/83, outlined above, the proposed program for 1983/84 will necessarily be more difficult. A major concern of the staff is the ability of the authorities to avoid extrabudgetary expenditures and to contain other recurrent expenditures to the budgeted level. The full-year benefit of the wage and salary cut and the continued freeze on personnel hiring will provide a significant ($14 million) additional reduction in the wage bill, but the strong effort made here will be in vain if other budgetary items are not similarly contained.

Achievement of the program objectives for 1983/84 will depend heavily on effective control over government expenditures. Loss of control over government expenditures during the latter months of 1982/83 prevented the Government from achieving its budget and credit targets. In April 1983, as the budget overrun became evident, the authorities consulted with the Fund staff and established an Expenditure Control Commission, under the jurisdiction of the Economic and Financial Management Committee (EFMC). This commission did not have the necessary authority to accomplish the task, however. The commission was abolished later, and the EFMC has decided that the EFMC itself would monitor all expenditures to ensure that they remain within budget ceilings. The staff has emphasized the importance of budgetary control and will be monitoring expenditures on a monthly basis.

Development expenditures in 1982/83 fell far short of their budgeted level. Total expenditure within the development budget remained at the same level as in the previous fiscal year but fell $23 million short of the budgeted level. The entire shortfall is attributable to less foreign financing than had been forecast in the budget. The 1983/84 development budget is being reduced slightly from the actual levels of 1981/82 and 1982/83. The staff has encouraged the Liberian authorities to ensure that, within this level, the domestic costs of foreign-financed projects are covered and that debt repayments are kept current so as to maximize the foreign financing of their development projects. If this is done, total development expenditures in 1983/84 could be significantly greater than is budgeted without affecting the overall domestic financing requirements.

The prospects are improving for some increase in external assistance to the Liberian development programs. The UNDP, World Bank, African Development Bank, and major bilateral donors are planning to hold a round table discussion in Geneva in October, with a view to encouraging these institutions to augment their financial assistance to Liberia. A shift in the nature of existing financial flows toward greater domestic financing would be most helpful to the 1983/84 budget.

A major initiative in the 1983/84 program is the rationalization of the petroleum sector, closing the highly inefficient state-owned oil refinery, ending its monopoly on the importation of petroleum products, and thus permitting private companies to operate in this sector. At the same time, the excise tax on gasoline has been raised from 32 cents to 92 cents per gallon, providing additional revenues of an estimated $13 million. These measures and other revenue measures were announced and put into effect on July 25, 1983.

The Liberian authorities have continued their efforts to improve the efficiency of the public corporations, but results to date have been limited. In addition to the measures outlined above affecting the Liberia Petroleum Refining Company, the Government of Liberia is implementing a project jointly with the IBRD to rationalize the other public corporations. The sale of some of these corporations to the private sector, either in full or in part, would contribute to this objective and provide additional revenues to the central government. Stronger and more expeditious actions to implement these measures are essential to the recovery of the Liberian economy.

Monetary and credit developments in Liberia essentially reflect the trends in the public sector. With the large overrun in government borrowing from the National Bank, the latter was not able to improve its liquidity position in 1982/83. The 1983/84 program envisages an increase in the gross external reserve position of the National Bank and the elimination of all debt-related external payments arrears, but this can only be achieved if the government will remain within its budget targets. The outcome depends, therefore, on the effectiveness of the EFMC in containing expenditures to available resources. It is regrettable that Liberia has not been successful in its protracted efforts to reach agreement with commercial banks on the reactivation of the oil financing facility. The staff hopes that Liberia will be able to reach agreement soon with the concerned banks on the consolidation of the $26 million outstanding into a medium-term loan.

Liberia's medium-term prospects appear to be improving. Recovery of the housing and automobile industries in the United States and, particularly, Western Europe is essential for the growth of the Liberian economy in the medium term. The trends of prices and demand in these markets for Liberia's main exports--iron ore, rubber and timber--are turning upward. Thus, the outlook for 1983/84 is for a resumption of positive growth. With an expected increase in export-oriented production by 2 percent, reflecting a gradual recovery in the world markets of Liberia's main export products, GDP is projected to increase by 1.1 percent in 1983/84.

While the outlook for the export industries is improving, the benefits to the Liberian economy, the public sector revenues, and the debt service capacity will come only later in 1984. Meanwhile, the authorities should exercise strict budgetary restraint, provide adequate incentives for agricultural output, improve the marketing mechanisms and create an attractive environment for private sector investment. The staff continues to believe that, with a moderate recovery in exports and the continued pursuit of these policies, Liberia should be able to reach a sustainable balance of payments position over the medium term. However, to achieve this outcome in the absence of an exchange rate option, the authorities wil have to persist in budgetary restraint and restrictive demand management policies.

During the past year both the public and private sectors have implemented cost cutting measures, which has greatly improved the export competitiveness of the Liberian economy. The major export industries have reduced their domestic costs and appear ready to benefit from a recovery of world markets. The domestic price stucture is relatively free of restriction and appears to offer adequate incentives to domestic producers and exporters in most sectors.

The staff considers that adequate measures are in place to achieve the program objectives, that the authorities are committed to implementing these measures forcefully, 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 one year from September , 1983 for an amount equivalent to SDR 55 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/175, August 17, 1983.

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

4. In accordance with the request of the Government of Liberia, the stand-by arrangement approved by the Fund for Liberia on September 29, 1982 is canceled as of September , 1983.

Liberia - Stand-By Arrangement

Attached hereto is a letter dated July 14, 1983 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 September , 1983 to September , 1984 Liberia will have the right to make purchases from the Fund in an amount equivalent to SDR 55.0 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 14.0 million until December 15, 1983, the equivalent of SDR 28.0 million until March 15, 1984, and the equivalent of SDR 42.0 million until June 15, 1984.

(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 supplementary financing or borrowed resources beyond 12.5 percent of quota.

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

4. Liberia will not make purchases under this stand-by 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 supplementary financing or 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 27 and further specified in Schedule A of the attached letter, or

(ii) the limit on net credit of the banking system to the public sector described in paragraph 27 and further specified in Schedule A of the attached letter, or

(iii) the limit on net credit of the banking system to the Government described in paragraph 27 and further specified in Schedule A of the attached letter, or

(iv) the limit on external arrears described in paragraph 21 and further specified in Schedule B 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 22 of the attached letter; or

(c) during any period after December 14, 1983 until Liberia and the Fund review the progress of rescheduling of payments due on public debt to official creditors, and if any understandings are reached pursuant to this review, while any such understandings are not being observed; or

(d) during any period after March 14, 1984, until the Fund review mentioned in the last sentence of paragraph 29 of the attached letter is completed and any appropriate understandings are reached on budget performance (referred to in paragraph 13), the reschedulings of public debt (referred to in paragraph 19), and the operation of the petroleum sector (referred to in paragraph 25); or

(e) during the entire period of this stand-by arrangement, 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 purchse.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Liberia will consult the Fund on the timing of purchases involving borrowed resources.

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 purchase 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 paragraph 29 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, July 14, 1983

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington D.C.

Dear Mr. de Larosière:

1. This urgent appeal for assistance is sent to you on behalf of the Liberian People at a moment of unprecedented hardship which is largely due to external conditions beyond our control and which our utmost efforts and sacrifices alone cannot overcome. Since 1980 our aggregate production has fallen sharply. Unemployment, especially in urban areas has, reached exceptionally high levels. The revenue base of the public sector has rapidly weakened, and we have been unable to bring the budget deficit down to levels which could be soundly financed. As a result, the heavy borrowing of the public sector in a financial market constrained by the sizable deficit in current external payments and by capital flight has contributed to the curtailment of productive activity and investment. The external debt burden of the public sector, in spite of important rescheduling, has in recent months exceeded our modest means. After two and a half years of serious adjustment effort supported by Fund stand-by programs, we are determined to continue along the way we have charted toward stability and revival, but, more acutely than ever, we need the support of the Fund, other international organizations, and friendly governments.

2. The Government of Liberia's 1982/83 economic program, which was supported by a Fund stand-by arrangement, was prepared at a time when the outlook in the world markets for iron ore and rubber, Liberia's major exports, was promising. Unfortunately, the demand for and prices of these commodities continued to decline with pronounced adverse consequences for Liberian output, employment and government revenues. In 1982/83 real GDP is estimated to have declined by 4 per cent, mainly reflecting a fall in export volume estimated at 11 per cent.

3. In the face of the unfavorable trends in world markets, the Government of Liberia found it necessary to implement measures additional to those outlined in our July 21, 1982 letter to you, with the aim of keeping the adjustment program on track. These measures were outlined in the supplemental Letter of Intent dated December 9, 1982. The most important measure was a 16-2/3 to 25 per cent progressive reduction in wages and salaries effective January 1, 1983. The proposals for these measures were prepared and their implementation followed up by the Economic and Financial Management Committee, which was established early in the fiscal year. We believe that, despite adverse circumstances, the 1982/83 program has yielded important results.

4. Specifically, government expenditures were cut by 10 per cent from the previous year. Recurrent expenditures, which had increased rapidly in the preceding fiscal years, were reduced by $26 million, or by 12 per cent.

The central government wage bill was reduced by 13 per cent, reflecting cuts in wage rates and employment. The cut in public sector salaries effected on January 1, 1983, represents a cut of 22 per cent in a full fiscal year.

Due to improved enforcement, revenues from the personal income tax have achieved their projected levels despite the decline in taxable incomes.

5. The overall deficit on a check issued basis was reduced by $19 million, or from $118 million (10.6 per cent of GDP) in FY 1981/82 to $99 million (8.7 per cent of GDP) (preliminary) in FY 1982/83. This reduction would have been significantly greater but for a $23 million decline in revenues, due to external factors and lower foreign grant aid.

In the external area, despite a reduction in export receipts by 8 percent in 1982/83, the current account deficit of the balance of payments is estimated to have been reduced from $92 million (8.2 per cent of GDP) in 1981/82 to $74 million (6.5 per cent of GDP) in 1982/83.

6. Cost reduction measures in both public and private sectors have improved significantly the potential competitiveness of Liberian exports in world markets. While the public sector cut salaries, major private corporations curbed costs by laying off personnel--in one major case one-third of the work force--and contractual wage awards in the private sector contained little or no increase in nominal wages.

7. In the area of foreign payments, the limited reserves of the National Bank of Liberia and its resulting chronic inability to make timely payments on external financial obligations were felt as a severe problem throughout the year. Nevertheless, the Government managed, not without difficulty, to keep its external payments current until the last quarter of the fiscal year, when a carefully prepared effort to settle all due offshore payments had to be postponed because of unforeseen problems with the oil import credit facility. The debt rescheduling under the London Club was concluded in December 1982.

8. Despite the positive measures and accomplishments of the past year, the Liberian economy and the country's financial system remain in a most difficult situation. We have had serious problems in containing domestic bank financing of the government deficit in the 1982/83 program. Such

bank financing reached $78 million, which includes a $16 million reduction in check float and domestic arrears. This compares with an increase in the check float and domestic arrears of $26.8 million in fiscal year 1981/82.

The Government of Liberia recognizes the importance of continuing its efforts to reduce external and internal imbalances and to promote confidence at home and amongst the international financial community. The Government has therefore adopted a new economic and financial program covering 1983/84, which will focus on a reduction in domestic bank credit to the Government and on a strengthening of the external position of the National Bank of Liberia. Assuming a partial recovery in world markets for Liberia's main export products and continued restraint on aggregate domestic demand, the program aims at a further reduction in the current account deficit of the balance of payments in 1983/84. The specific measures and policies to be pursued during FY 1983/84 are summarized below and deal with the following areas: fiscal policy, public corporations, external policies and financial policies. In support of this program the Government of Liberia requests a further one-year stand-by arrangement from the International Monetary Fund in an amount of SDR 55 million, and it requests the cancellation of the existing stand-by arrangement for 1982/83.

Fiscal Policy

9. Given a large public sector imbalance at the outset and the institutional characteristics of the Liberian economy, the main thrust of the adjustment process necessarily consists of measures to curb the Government's total deficit and to reduce the level of domestic credit to Government. Adjustment in FY 1983/84 includes both expenditure reductions and revenue increases.

10. Initial estimates for the fiscal year 1983/84 (beginning July 1, 1983) indicate that without additional measures revenue would increase only moderately. Due to an expected upturn in the export sector in the second half of fiscal 1983/84 and because of our efforts to improve enforcement and collect existing taxes (1983 was proclaimed as "the year of rigid enforcement of tax collection"), we should be able to increase revenue, especially in the second half of the fiscal year. In FY 1983/84 a concerted effort will also be made to increase collections of customs duties.

11. The Government has implemented several measures to generate additional revenues amounting to $16.9 million (estimated yield shown in millions of dollars).

a.	An increase in the excise tax on gasoline from 32 to 92 cents per gallon	12.1
b.	An increase in the tax on bills of entry for duty-free goods processed by concessions (stamp tax for each $100 or fraction thereof) from 25 to 75 cents	1.0
c.	An increase in the consular fee on transshipment goods from 2.5 to 7.5 per cent	3.4
d.	Imposition of excise tax on goods sold by military PXs at 50 per cent of the normal rate for beer, stout, soft drinks, and domestic spirits and tobacco, and custom duties at 25 per cent of the normal rate for imported spirits and tobacco	0.4
	Total	16.9

As a result of these measures the level of revenue in FY 1983/84 is expected to exceed the previous year's level by 11 per cent.

12. To curtail expenditures, the Government has cut sharply some budgeted items and reallocated other items within their expenditure categories to minimize outlays.

a. Any effort to reduce significantly the level of recurrent expenditures necessarily involves a reduction in the cost of personnel services. We have therefore taken additional steps to fully maintain the salary and employment freeze in the central government and in the public corporations.

b. Vacant posts will not be filled except in the case of transfers within each agency or from other agencies. We will continue to review carefully all departmental employment rolls, eliminating vacant posts and making some positions redundant. We are being assisted in our efforts by a consulting team, which is doing a physical payroll audit. These efforts will result in a further cut in personnel costs. The wage bill for FY 1983/84 represents a reduction from 1981/82 outlays of 22 per cent.

c. The sale of government cars will generate annual savings in expenditure for gasoline and repairs of approximately

$750 thousand. Savings of $2 million will be made on foreign travel expenditures by the introduction of a voucher system. A reclassification results in an apparent increase in subsidies, but actual subsidies to public corporations will be kept within previous overall limits.

d. Concerning the development outlays, priority will be given to projects nearing completion, projects with a high rate of return, and projects with maximum foreign financing. Locally financed development expenditures will be held slightly below the level budgeted in FY 1982/83.

We have requested the support of the UNDP, IBRD, other international institutions, and bilateral donors in organizing an aid donors' conference which is scheduled to take place before the end of 1983.

13. As regards non-budgetary expenditure, including encumbrances, we have taken the measures required to bring these items under budgetary control. Encumbrances have been abolished in FY 1983/84. The Economic and Financial Management Committee (EFMC) will authorize non-budgetary expenditure only to the extent that equivalent cuts are made elsewhere, and that revenues are at or above target levels.

The budgetary costs of support to the National Iron Ore Company will be examined in the context of the mid-term review with the Fund.

14. The Government estimates that the overall budgetary deficit, defined in accordance with the usual IMF presentation, will not exceed $42.4 million in FY 1983/84 compared with $99.0 million in FY 1982/83. Bank financing of the deficit will be reduced from the $78 million noted above in FY 1982/83 to $30 million in FY 1983/84.

15. With the aim of maintaining all payments on a current basis, the Government has made some progress in FY 1982/83 in reducing domestic arrears. The Government will ensure that on June 30, 1984, its domestic arrears shall not exceed the level of June 30, 1983. In addition, arrears in payments to be made by public corporations will be progressively reduced.

Public Corporations

16. The Government intends to implement the project recently agreed upon with the World Bank to rationalize the public corporations. This project includes the possible sale of some of these corporations to the private sector either in full or in joint venture.

External Policies

17. The Government is acutely aware of the need to further improve competitiveness of Liberia's export products. Given the linkage of the domestic currency to the U.S. dollar, the persistent strength of the latter over the past year has made any net improvement in international price competitiveness extremely difficult to achieve. Nevertheless, actions have been taken by both private and public sectors to enhance competitiveness. Layoffs by firms holding concessions in the iron ore, rubber and timber industries have reduced their wage bills and, together with the wage developments in the public sector, have minimized pressures for wage increases. In the event of world market price increases for these products as the result of the anticipated general economic recovery, these firms are positioned to realize significant productivity gains and to compete vigorously for enlarged market shares. Continued strong cost-cutting measures are necessary throughout the Liberian economy to enable our country to attain a sustainable external position.

18. With further actions it has introduced to contain and to reduce the domestic financing gap of the public sector, the Government of Liberia continues to emphasize the importance of strengthening the country's external payments position. Despite the decline in exports from $509 million in 1981/82 to an estimated $469 million in 1982/83, the current account deficit is projected to be reduced from $92 million in 1981/82 to $74 million in 1982/83, due to an even larger fall in imports. Prices for rubber and timber have increased modestly, but prices for iron ore are not likely to rise until the recovery has achieved broad momentum throughout the industrialized world and until steel production has increased. With a projected increase in exports of 12 per cent in 1983/84 to $527 million, the program aims at a further reduction of the current account deficit to $50 million. This further improvement assumes a modest increase in imports contained by restrictive budgetary policies and the effect on interest payments of additional debt relief which is being negotiated. Wage cuts, layoffs, and pervasive consequences of the fourth successive year of decline in economic activity, including stagnant investment, are currently limiting imports.

19. The timely settlement of external financial obligations and especially meeting current payments continued to prove difficult in 1982/83. Essential ingredients of managing Liberia's external debt service obligations during 1983/84 are a further Paris Club rescheduling of principal and interest payments due on public debt to bilateral creditors and another London Club refinancing of principal repayments due on public sector obligations to private banks. Contacts for these reschedulings have been initiated. We will use our best efforts to reach agreement before end-November 1983.

20. To help regularize the payment of public debt service and to help budget the limited foreign exchange resources of the Government, we have requested an expert advisor in debt management under the technical assistance of the Fund. He will undertake a complete census of the external debt of the Government and public corporations and will initiate a regular scheduling of debt service payments. By being able to anticipate service payments more precisely in advance, the Government will be able to budget its external accounts and foreign exchange resources more effectively.

21. At the end of June 1982, the public sector arrears with respect to current foreign exchange payment obligations were virtually eliminated. However, towards the end of the 1982/83 financial year new arrears of $14 million were incurred. We intend to ensure that, not later than May 31, 1984, in accordance with Schedule B attached hereto, external arrears--excluding the oil facility--shall be fully paid off. As for the oil facility, we have requested a refinancing on London Club terms.

22. Throughout 1983/84 strong efforts will be maintained to prevent the emergence of new arrears; no purchase will be made from the Fund if new arrears on public debt service occur. The Government intends to accumulate gross foreign exchange reserves held by the National Bank of Liberia of at least $10 million by end-June 1984. Our foreign borrowing policies will continue to be extremely cautious, and the balance of payment consequences of any additional public sector foreign debt will be carefully evaluated in a written analysis. A copy of any and all such analyses will be supplied to the Fund. During the period of the stand-by arrangement, the Government will not contract more than $5 million of new public sector or Government-guaranteed external debt on commercial terms with maturities of one to twelve years (excluding use of Fund resources and rescheduling of existing liabilities).

23. During the period of the stand-by arrangement the Government of Liberia will not introduce new or modify existing multiple currency practices, impose new or intensify existing restrictions on payments and transfers for current international transactions, conclude any bilateral payments arrangements with Fund members, or impose new or intensify existing 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.

24. The Government of Liberia notes with satisfaction that all producer prices of public corporations have been brought into alignment with world market prices and intends to continue this policy. Likewise, consistent with present policy, the Government will not subsidize prices of any imported goods. The Government will eliminate and henceforth avoid

implicit subsidies to other public corporations via the failure of these corporations to pay the Liberia Petroleum Refining Company (LPRC) and the Liberia Electricity Corporation (LEC) currently and in full for any products and services received after the date of this letter. The elimination of these subsidies will make a major contribution toward better payment discipline generally and toward managing the scarce foreign exchange resources of the public sector.

25. To minimize the foreign exchange cost of purchasing, shipping, and financing petroleum products, the refining operations of the LPRC have been terminated and shall remain so during the stand-by period; the LPRC facility shall be used solely for the unloading, storage, and distribution of petroleum products imported by the LPRC itself or by leasees. All existing contracts with expatriate consultants to the LPRC have been terminated. The Government will publicly affirm that the LPRC has no monopoly on the importation and distribution of petroleum products and that private companies including concessions are permitted to import all such products in competition with each other and the LPRC.

Financial Policies

26. In order to strengthen the financial position of the National Bank of Liberia, to diminish the high level of excess reserves, and to limit potential pressure on foreign exchange resources, effective February 1, 1983, the monetary authorities raised the required reserve ratio of the commercial banks from 15 per cent to 30 per cent.

27. Consistent with the balance of payments targets, the Government intends in the course of FY 1983/84 to limit the increase in net domestic assets of the National Bank of Liberia to $30 million, which, with the projected net purchases from the Fund of $40 million, would allow gross reserves to increase by $10 million. In addition, the Government intends to limit the increase in net claims on public sector from the banking system to $36 million and, within this ceiling, to limit the increase in net credit of the banking system to the Government to $30 million in the 12 months ending June 30, 1984. The schedule of credit ceilings is contained in Schedule A.

28. In order to remain within the limits on net domestic assets, the National Bank of Liberia will closely monitor its net position with the commercial banks. In this context, the National Bank of Liberia will review the interest charges on its credits to the commercial banks. Similarly, the National Bank will not accept as eligible to meet reserve requirements commercial bank loans to the Government or to other public entities. The monetary authorities will review the reserve requirements for savings deposits, with a view to determining whether a reduction will

encourage domestic savings by enabling commercial banks to pay higher yields.

29. 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 further measures that become necessary to achieve these goals. Liberia will consult with the Fund on the adoption of such measures in accordance with the policies of the Fund, and will provide the Fund staff with all relevant information in connection with the progress being made in achieving the program's objectives. In particular, the Liberian authorities will initiate immediate consultations 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 that net credit to the Government from the banking system, at the end of two consecutive months, exceeds the next limit to be observed. The Liberian authorities will review with the Fund the progress in the implementation of the program, not later than January 31, 1984.

Very truly yours,

Thomas D.V. Hanson
GOVERNOR, NATIONAL
BANK OF LIBERIA

G. Alvin Jones
MINISTER OF FINANCE

Schedule A: Credit Ceilings

(In millions of dollars)

	Net domestic assets of the National Bank of Liberia	Net credit to Government from banking system	Net credit to public sector from banking system 1/
June 30, 1983 2/	182	255	275
November 30, 1983	194	267	290
February 29, 1984	203	276	300
May 31, 1984	210	283	309
June 30, 1984	212	285	311
Total change	30	30	36

1/ Includes deposits of public corporations with banking system.
2/ Actual.

Schedule B: Limits on External Arrears

(In millions of dollars)

June 30, 1983	14
November 30, 1983	9
February 29, 1984	4
May 31, 1984	0
June 30, 1984	0

Liberia - Relations with the Fund
(As of July 31, 1983)

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
Proposed quota:	SDR 71.3 million
Intervention currency and the rate:	U.S. dollar; US$1 = LIB$1
SDR/Local currency equivalent:	SDR 1 = LIB$1.05563
Fund holdings of currency:	
Total	SDR 229.0 million, or 412.6 per cent of quota
CFF	SDR 50.1 million, or 90.3 per cent of quota
Credit tranches	SDR 55.5 million, or 100.0 per cent of quota
SFF	SDR 42.9 million, or 77.3 per cent of quota
EAR	SDR 25.0 million, or 45.1 per cent of quota
Holdings of SDRs:	No holdings. 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 November 24-December 8, 1982, and the staff report (EBS/83/22) was discussed by the Executive Board on February 25, 1983.
Technical assistance:	CBD has provided both advisory and technical assistance to the National Bank of Liberia: advisory assistance 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.
Fund representatives:	A Fund representative has been assigned to Monrovia since January 1981.

World Bank Loans/IDA Credits

(In millions of U.S. dollars)

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

Source: IBRD.