FOR AGENDA

SM/87/170

CONTAINS CONFIDENTIAL INFORMATION

July 15, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Liberia - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Liberia which, together with the paper on Liberia's overdue financial obligations (EBS/87/158, 7/13/87), is proposed to be brought to the agenda for discussion on Tuesday, August 4, 1987.

Mr. Bélanger (ext. 8671) or Mrs. Damon (ext. 8654) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

LIBERIA

Staff Report for the 1987 Article IV Consultation

Prepared by the Staff Representatives for
the 1987 Consultation with Liberia

Approved by A.D. Ouattara and W.A. Beveridge

July 14, 1987

I. Introduction

The 1987 Article IV consultation discussions with Liberia were initiated in Monrovia during the period May 4-19, 1987, and continued in Washington, D.C. on June 15-16, 1987, and concluded in Monrovia on July 1-4, 1987. The Liberian representatives included Mr. Bestman, Minister of Finance; Mr. Johnson, Minister of Planning and Economic Affairs; Mr. Shaw, Minister of Commerce and Industry; Mr. Jeffy, Governor of the National Bank of Liberia (NBL); Mr. Gardiner, Director General of the Budget; and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Bélanger (Head-ETR), Mrs. Damon (AFR), Mr. Stella (FAD), Mr. Tiwari (EP-ETR), Mr. Tersman (EP-AFR), Mrs. Campbell (Secretary-ETR), and Mrs. Noel (Secretary-ADM). Mr. Osunsade, the Fund's resident representative, participated in the discussions. A World Bank staff team consisting of Messrs. Ramirez, Ibrahimi, and Hamidian-Rad and Mr. Kendall, the World Bank's resident representative, joined in the discussions. Mr. Jones, Assistant in the Office of the Executive Director for Liberia, attended some of the meetings.

Liberia continues to avail itself of the transitional arrangements under Article XIV. The last stand-by arrangement for Liberia, which was the fifth consecutive Fund arrangement since September 1980, was approved on December 7, 1984 in an amount equivalent to SDR 42.78 million or 60 percent of Liberia's quota. The arrangement was to cover the 18-month period through June 6, 1986, but became inoperative after the initial purchase of SDR 8.5 million, as program implementation ran into considerable problems and could not be put back on track. At the request of the Liberian authorities, the arrangement was canceled on December 6, 1985.

Since December 1984, Liberia has encountered growing difficulties in meeting its financial obligations to the Fund. Following several reviews by the Executive Board, effective January 24, 1986 Liberia was declared ineligible to use the general resources of the Fund, and the right of Liberia to use SDRs it acquired after that date was suspended. Since the declaration of ineligibility, the Liberian authorities have made only one payment of SDR 208,165 on December 23, 1986. Following the declaration of ineligibility, two Executive Board reviews were held in July 1986 and January 1987. 1/ As of July 10, 1987, Liberia's arrears to the Fund totaled SDR 156.7 million; Liberia also had arrears to the World Bank amounting to US$15.4 million as of July 6, 1987. As of June 30, 1987, the Fund's holdings of Liberian dollars subject to repurchase were equivalent to SDR 205.4 million, or 288 percent of quota; excluding purchases under the compensatory financing facility, such holdings amounted to SDR 170.7 million, or 239.5 percent of quota.

Liberia is on the standard 12-month consultation cycle. The last Article IV consultation with Liberia was completed by the Executive Board on September 15, 1986. 2/ At that meeting, Executive Directors noted with regret the continued downward slide of the economy, the persistence of large financial imbalances, and the rapid accumulation of both domestic and external arrears--including arrears to the Fund--to unprecedentedly high levels. Against this background, Executive Directors considered that the authorities' approach to the country's problems had been much too gradualist and piecemeal and that the authorities had yet to demonstrate a firm resolve to come to grips with Liberia's very serious economic and financial difficulties. Directors therefore urged the authorities to adopt without delay a strong and comprehensive adjustment program, noting in particular the need for a realistic and flexible exchange rate policy and for further progress in reducing the budget deficit, which remained unsustainably large. Similar views were again reiterated by Executive Directors on January 21, 1987 on the occasion of the most recent review of Liberia's overdue financial obligations to the Fund. 3/

II. Background

Liberia's overall economic and financial situation has deteriorated markedly over the last decade, and available economic data suggest a sharp further downturn in recent years. Real GDP in the monetized sector is estimated to have declined at an average annual rate of

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1/ A third review is scheduled to take place concurrently with the 1987 Article IV consultation. See "Liberia - Overdue Financial Obligations to the Fund--Further Review Following Declaration of Ineligibility" (EBS/87/158, 7/13/87).

2/ The Chairman's Summing Up of the discussion was circulated as SUR/86/96, 9/18/86.

3/ The Managing Director's communication to the Minister of Finance of Liberia following the Board discussion was circulated as EBS/87/9, Supplement 2 (2/11/87).

2.5 percent since 1980, 1/ while inflation (as measured by the official consumer price index), which is believed to underestimate inflation) accelerated to over 9 percent in the 12-month period through December 1986. Available estimates point to the emergence of a significant surplus in respect of external current account transactions to finance a rapidly expanding outflow of private capital. With export receipts weakening, the widening external current account surplus reflects large estimated declines in the volumes of imports and private consumption of 46 percent and 20 percent, respectively, from 1980 to 1985. 2/

While the economy has no doubt deteriorated over this period, the dismal picture presented by officially available statistics probably overstates to some extent the size of the deterioration. In particular, given the estimated level of investment, the large estimated reductions in imports and in private consumption imply a substantial increase in private savings (of nearly 20 percentage points of GDP over the last few years), which seems unlikely in the light of the prolonged weakness of economic activity. To the extent that the large increase in errors and omissions in the balance of payments reflects, in part at least, a diversion of imports outside official channels or underinvoicing of imports for tax evasion purposes, offsetting the concurrent sharp reduction of imports recorded through customs, official statistics understate both imports and private consumption. 3/ The much larger reduction in the volume of imports than in estimated GDP and the apparent availability of imported consumer goods in Liberia suggest that imports may have been increasingly underrecorded. It is also believed

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1/ All references to GDP are to the formal monetized economy only. GDP in the monetized sector is believed to be underestimated, owing to incomplete coverage of data. No firm estimates of GDP in the subsistence sector are available since 1979. Results of a survey currently under way designed to provide a basis to estimate production in the subsistence sector will be available later in 1987. Efforts are also being made to carry out a general revision of the national accounts data for the monetized economy.

2/ In addition to an estimated decline in the volume of private consumption of 19 percent in 1980, resulting in an estimated cumulative decline in the volume of consumption of 35 percent from the late 1970s through 1985.

3/ Alternative national accounts estimates prepared by the staff, which reclassify the large increase in errors and omissions in recent years as imports, suggest that consumption has remained relatively stable in constant dollars since 1980 and that there has been only a relatively moderate increase in private savings relative to GDP, reflecting in part forced savings through the accumulation of wage arrears and difficulties in the financial system (see below).

In addition to this problem, estimates of private consumption (which are derived residually) include some public expenditures not related to Central Government. Estimates of private consumption should thus be considered approximate only.

Table 1. Liberia: Selected Economic and Financial Indicators, 1981/82-1986/87 1/

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87 Projections
	(Annual percentage change, unless otherwise specified)					
National income and prices 2/						
GDP at constant prices	-1.5	-4.1	-3.1	-1.5	-0.7	-1.6
Consumer prices (end year)	6.9	2.0	0.7	-2.2	9.1	10.0
External sector						
Exports, f.o.b.	-8.3	-11.0	-4.3	0.7	-4.0	-5.5
Imports, c.i.f.	-9.4	-11.0	-1.9	-22.7	-14.3	-5.6
Non-oil imports, c.i.f.	-13.1	1.6	5.7	-23.2	...	...
Export volume	1.2	-10.1	-5.1	4.3	3.7	-6.5
Import volume	-8.3	-7.7	1.2	-20.4	-14.7	-9.7
Terms of trade (deterioration -)	-8.2	2.7	4.2	-0.8	-7.9	-3.3
Nominal effective exchange rate (depreciation -)	14.8	13.2	12.7	17.4	-3.2	-7.4 3/
Real effective exchange rate (depreciation -)	9.0	7.5	2.6	6.1	-13.1	-5.7 3/
Government finance						
Revenue and grants	15.3	-7.8	1.0	-16.6	-5.3	2.3
Total expenditure	-1.3	5.3	-12.8	12.4	-18.9	16.6
Money and credit						
Domestic credit	34.7	19.8	12.8	6.9	6.6	10.7
Government (net)	(40.0)	(46.0)	(15.9)	(10.8)	(10.1)	(10.5)
Public corporations	(...)	(15.8)	(1.4)	(4.6)	(-15.2)	(13.2)
Private sector	(3.0)	(-12.8)	(9.2)	(-7.3)	(5.8)	(10.9)
Money and quasi-money	10.3	17.6	2.2	1.1	24.7	13.9
Interest rate (annual rate on one-year deposits)	10.8	9.9	11.3	10.4	7.3	7.1 4/
	(In percent of GDP)					
Government overall deficit (commitment basis)	8.1	12.5	10.1	20.1	13.2	18.5
Foreign financing	3.8	4.1	5.5	6.9	4.6	3.0
Domestic bank financing	4.5	7.6	4.9	3.9	4.2	4.3
Gross domestic investment 2/	21.4	21.5	18.3	14.7	14.9	16.0
Gross national savings 2/	12.3	14.3	11.1	13.3	14.3	13.2
External current account (deficit -)						
Excluding official grants	-13.2	-14.9	-14.6	-4.3	-1.2	-1.2
Including official grants	-1.4	-3.4	-3.2	5.1	8.1	5.9
External debt (including use of Fund credit)	82.0	100.9	114.6	130.5	159.7	169.3
	(In percent of exports of goods and services)					
Debt service ratio						
Before rescheduling	13.4	19.0	23.6	31.3	40.9	50.9
After rescheduling	8.6	13.4	20.0	27.3	40.9	50.9
Interest payments	7.4	11.1	11.4	14.1	17.2	19.3
	(In millions of U.S. dollars)					
Overall balance of payments deficit	-77.0	-99.0	-73.6	-97.1	-82.5	-131.7
Gross official reserves	9.5	7.8	4.5	4.4	...	—
External payments arrears (end of period) 5/	28.5	40.5	48.6	140.4	301.0	517.0
Domestic arrears 6/ (end of period)	...	...	77.3	129.4	179.6	297.0

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

1/ Fiscal year July to June.
2/ Calendar year.
3/ April 1987.
4/ End-March 1987.
5/ Includes arrears on oil facility.
6/ Includes arrears to the NBL for debt service payments to the Fund.

that a growing share of exports and associated imports or capital flight is effected outside official channels.

The official economy, however, is clearly deteriorating. A liquidity crisis has developed, starting in 1984, as U.S. dollar notes disappeared from circulation and confidence in the banking system eroded as the issuing of government checks against inadequate balances resulted in a buildup of excess bank reserves at the NBL and a refusal by banks to accept checks drawn on other banks for the accounts of their depositors. Continued excessive budget deficits, which were made possible for a while through the accumulation of arrears and credit from the banking system (including holdings of excess reserves) have also resulted in an increasing inability of the Government to meet certain basic payments obligations, including civil servant wages, which were two months in arrears by mid-1987. With sharply reduced capital inflows, including foreign aid, and with recurrent expenditure absorbing virtually all of government revenues, development spending has been severely curtailed.

To some extent, the deterioration has been due to adverse external developments, in particular the decline in world demand and prices for Liberia's principal exports, notably iron ore and rubber; in the six-year period ending in 1986/87, 1/ the terms of trade are estimated to have deteriorated by 13 percent. However, by far the most important factor behind the emergence of the large economic and financial imbalances has been a highly inadequate policy stance, particularly on the fiscal side.

A marked deterioration in the fiscal situation appeared in 1980/81 when the overall deficit on a commitment basis increased sharply to nearly 15 percent of GDP. Through 1983/84, fluctuations in the fiscal deficit reflected primarily alternating periods of relaxation and tightening on the spending side of the budget. Since then, however, there has also been a sharp reduction in fiscal receipts, equivalent to 4 percentage points of GDP, which is attributable not only to the contraction of the official economy, but also to undercollection and the increasing practice of offsetting tax receipts against certain government outlays. Accordingly, and despite a reduction in spending, little sustained progress was achieved in reducing the deficit, which has averaged 14 percent of GDP since 1980/81.

Over the six-year period since 1980/81, as the availability of foreign financing was gradually reduced, the budget deficit resulted in a sharp increase in credit to the Government from the domestic banking system and the accumulation of substantial domestic and external arrears. Net credit to the Government has increased nearly sevenfold since 1980 to $405 million in June 1987. Since most of the credit to the Government from the domestic banking system was extended by the NBL,

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1/ Fiscal year starting July 1.

monetary growth has been supported primarily by the issuance of Liberian coins, the stock of which (in circulation and held by banks) increased from about $12 million in the early 1980s to $92.5 million in June 1987. In contrast, credit to the private sector has remained virtually unchanged (at about $70-80 million) since 1981, reflecting both the weakness of domestic investment and production incentives in a contracting economy and the absorption of available credit to finance the budget deficit.

Liberia's external payments position also worsened, with the overall balance of payments deficit widening from US$60-70 million in the early 1980s to an estimated US$132 million in 1986/87. Through 1983/84, a substantial portion of the payments deficit was financed through use of Fund resources. Since then, arrears have accumulated at a rapid pace to an estimated US$517 million at end-June 1987, including US$193.5 million to the Fund. Other nonreschedulable arrears (including to the World Bank and ADB) are estimated to amount to US$51 million at end-June 1987. Payments falling due in 1987/88 in respect of non-reschedulable debt service obligations (principal, interest, and charges) amount to US$138 million, including US$80 million to the Fund, and will be reflected in a continued rapid increase in the stock of nonreschedulable arrears. Liberia's outstanding external public debt, including overdue interest and charges, amounted to US$1.4 billion at end-June 1987, equivalent to 169 percent of GDP.

Liberia maintains a generally liberal trade and payments system. The currency is pegged to the U.S. dollar, and the U.S. currency is legal tender along with Liberian coinage. However, as a result of the foreign exchange crisis, there is no longer convertibility between foreign and domestic currency. Commercial banks operate an informal allocation system for foreign exchange, including the foreign exchange repatriated under the surrender requirement. An unofficial parallel market for foreign exchange transactions emerged during the second half of 1985, in which the discount for the Liberian coin reached a high of about 65 percent in August 1986, but subsequently narrowed to about 30 percent in April/May 1987. 1/

1/ A main factor underlying fluctuations in the discount for the Liberian dollar on the parallel market has been the supply of Liberian coins relative to the demand for coins for transaction purposes or held as bank reserves. For example, the discount in the parallel market widened rapidly from 10-20 percent in early 1986 to 65 percent in August 1986, which occurred concurrently with a 40 percent increase in the total stock of coins issued. Staff estimates suggest that, in the absence of changes in other related factors, a 10 percent increase in coin issue is reflected almost instantly in a 10-15 percent depreciation of the coin on the parallel market.

III. Policy Discussions

Against this background, the consultation discussions focused on the formulation and implementation of an economic and financial program which would arrest the process of deterioration and establish the basis for a return to economic and financial viability. Particular attention was devoted in this context to the very serious fiscal situation, the crisis in the banking system, and the rapidly increasing external payments arrears, including arrears to the Fund.

1. Fiscal policy

The intended fiscal policy for 1986/87, as reflected in the budget adopted at the outset of the 1986/87 fiscal year, had envisaged that the progress achieved in the previous year of reducing the budget deficit would be continued. However, once again, this budget proved highly unrealistic, especially as revenues continued to lag far behind the estimates included in the budget (Table 2). In contrast with a projected increase of 34 percent, revenues (excluding grants) are estimated to have increased by only 7 percent, slightly higher than the estimated growth of nominal GDP. Expenditures, however, expanded by 18 percent, resulting in a sharp rebound of the budget deficit on a commitment basis to nearly its record level of 1984/85. The increase in expenditures on a commitment basis reflected three main elements: higher accrued interest payments on domestic and foreign debt; larger local spending for development, which had been sharply curtailed in the preceding year; and a reversal of the preceding year's reduction in "other" spending (i.e., not identified as recurrent or development). The increase in extrabudgetary and "other" expenditure reflected yet one more breakdown of financial discipline following a short-lived period of tightening of spending policy. The large increase in the deficit and limited availability of financing resulted in a record accumulation of expenditure-related arrears of $95 million, equivalent to 11 percent of GDP and 45 percent of fiscal revenues and grants.

The Liberian authorities agreed with the staff team that re-establishing discipline on a sustained basis in public sector finances was central to addressing successfully the current large economic and financial imbalances. Essential elements of this adjustment effort must include a strengthening of revenue performance, a reduction of recurrent expenditures, and sufficient improvements in the operations of key public enterprises to ensure the generation of operating surpluses and transfers to the budget.

Table 2. Liberia: Central Government Operations, 1983/84-1987/88 1/

	1983/84	1984/85	1985/86 Prel.	1986/87 Pro Forma Budget	1986/87 Est.	1987/88 Pro Forma Budget
	(In millions of dollars)					
Total revenue and grants	260.1	217.0	205.6	268.8	210.4	200.0
Revenue 2/	224.1	194.5	180.1	240.6	192.4	200.0
Grants	36.0	22.5	25.5	28.2	18.0	--
Total expenditure 3/	344.1	382.6	310.4	363.2	367.1	300.3
Recurrent	238.5	231.2	224.4	283.0	255.2	256.7
Wages and salaries	(123.3)	(115.9)	(108.9)	(105.4)	(113.4)	(100.5)
Interest	(60.1)	(70.0)	(80.3)	(91.1)	(96.4)	(105.2)
Other	(55.1)	(45.3)	(35.2)	(86.5)	(45.4)	(51.0)
Development	73.1	72.0	41.6	80.2	53.3	43.6
Local	(35.0)	(29.7)	(6.9)	(20.0)	(23.3)	(20.0)
Foreign	(38.1)	(42.3)	(34.7)	(60.2)	(30.0)	(23.6)
Nonbudgetary	11.0	21.4	7.6	--	11.1	--
Unallocable (net) 4/	21.5	58.0	36.8	--	47.5	--
Overall deficit (commitment basis)	84.0	165.6	104.8	94.4	156.7	100.3
Change in identified expenditure-related arrears	-3.3	68.7	41.1	--	94.6	52.3
Of which: external interest arrears	(-7.0)	(35.3)	(43.9)	(--)	(53.4)	(71.8)
Overall deficit (cash basis)	87.3	96.9	63.7	94.4	62.1	48.0
Financing	87.3	96.9	63.7	-44.9	62.1	48.0
Foreign	46.3	56.8	36.5	0.5	25.3	18.6
Drawings	(53.1)	(57.3)	(42.1)	(71.2)	(41.0)	(33.6)
Repayment	(-23.3)	(-18.5)	(-5.6)	(-70.7)	(-15.7)	(-15.0)
Debt relief	(16.5)	(18.0)	(--)	(--)	(--)	(--)
Domestic	41.0	40.1	27.2	-45.4	36.8	29.4
National Bank of Liberia	(53.0)	(39.0)	(22.7)	(...)	(...)	(30.5)
Commercial banks	(-12.0)	(-6.6)	(11.0)	(...)	(...)	(-1.1)
Nonbank 5/	(--)	(7.7)	(-6.5)	(...)	(-1.8)	(--)
Financing gap	--	--	--	139.3	--	--
	(In percent of GDP)					
Memorandum items:						
Revenues (excluding grants)	26.8	23.6	22.5	28.3	22.7	24.6
Expenditures	41.2	46.5	38.7	42.8	43.2	37.0
Deficit (commitment basis)	10.1	20.1	13.1	11.1	18.5	12.4

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

1/ Financial year starting July 1.
2/ Includes duty drawbacks and in 1983/84 excise taxes withheld by the LPRC against government consumption of petroleum products.
3/ Prior to 1984/85, expenditure estimates are based both on commitments and checks entered into the cash book. Since then, expenditures are on a commitment basis. Includes government purchases of petroleum products offset through excise taxes withheld by the LPRC and nonbudgeted expenditures financed by customs duty drawback certificates.
4/ Calculated as a residual, includes unrecorded expenditure, change in nonwage, noninterest expenditure arrears, and check float along with statistical discrepancies.
5/ Includes net borrowing from the concessions of $5 million in 1984/85 and net repayments of $4.5 million in 1985/86 and $1.8 million in 1986/87. Also includes duty drawbacks which had been issued, but which at the end of the fiscal year had not yet been submitted to customs in respect of tax payments.

The authorities consider that this adjustment can no longer be delayed and the 1987/88 proposed budget already reflects substantive initial steps toward achievement of such goals. 1/ The central objective of the 1987/88 budget is to achieve a sufficient reduction of the deficit to make it possible for the Government to become and remain current in respect of new domestic obligations to the private sector, while at the same time eliminating public sector wage arrears and making payments to domestic banks and to the Fund consistent with the Government's undertakings in connection with the resumption of bank clearing. 2/

In contrast with earlier years, the programmed improvement in fiscal performance is not predicated on a projected increase in revenues which appears unrealistic from the outset. The projected increase in revenues reflects for the most part tighter controls on government consumption of gasoline, previously financed through offsetting withholding by the Liberian Petroleum Refining Corporation (LPRC) of excise taxes on sales of petroleum products. While there seems to be substantial additional scope for increased tax receipts under current tax laws through strengthened tax administration, the authorities did not consider that programmed budget improvements should rely on uncertain increases in revenues.

Nevertheless, several steps have been taken to initiate the process of strengthening tax administration. A first step was taken in January 1987 when the bulk of domestic taxes was made payable through commercial banks to streamline the revenue collection process and reduce tax evasion. This requirement was extended to log exporters in early July 1987. Second, from July 1, 1987, all revenues, including dividends from public corporations and receipts from other agencies of Government must be transferred to the Ministry of Finance forthwith. Third, revenue collection is expected to benefit from a U.S. AID-sponsored technical assistance project, under which three experts will assist directly in the revenue collection departments of the Ministry of Finance

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1/ Shortly after the conclusion of discussions with the staff, the Government announced that, starting in January 1988, the budget would be shifted to a calendar year basis. The budget for 1987/88 discussed with the staff is to be implemented through the remainder of 1987 and will be incorporated in the budget for 1988. The authorities also announced at the same time the abolition of the progress and development tax (estimated yield $1.4 million) and, from January 1988, of the health tax (estimated yield $3.8 million). The revenue loss is to be offset through introduction of a new tax on traders in the unincorporated sector (estimated yield $7 million).

2/ These undertakings are specified in a Memorandum of Understanding agreed between the Ministry of Finance, the NBL, and the commercial banks which was signed March 30, 1987. The main features of the Memorandum are discussed below (page 15).

(collection/audit, customs, and excise). 1/ Fourth, a campaign has been initiated to remove from office officials found guilty of fraudulently diverting public funds; already, all customs officers at the airport have been dismissed while those at the Freeport have been suspended pending review. The authorities indicated that this campaign to root out corruption would be intensified. Fifth, a cabinet-level committee was appointed to review the structure of customs tariffs with a view to simplifying tariffs/surcharges and thereby reduce the ease of tax evasion.

Except for foreign-financed development expenditures, which it is hoped can be expanded if increased foreign support can be obtained, the budget for 1987/88 envisages sharp reductions in all items of expenditures. The wage bill is budgeted to be reduced by US$10 million or 9 percent of total wages and salaries in 1986/87. In contrast with earlier years when reductions in wages in the public sector were achieved through across-the-board cuts in salary levels, the reduction envisaged as part of the 1987/88 budget is programmed to take place through redeployment of personnel to the private sector. This program will be promoted by offering incentives for early retirement, to be financed, in part at least, through the earmarking of foreign aid under a U.S. AID grant. Specific wage limits for individual agencies and ministries have already been established consistent with the lower budgeted total wage bill, which will also provide the required basis to draw up lists of those declared redundant or eligible for early retirement. No intra-agency budgetary transfers will be allowed for the purpose of increasing expenses for personnel. A study of personnel needs in selected agencies carried out by personnel/management experts (under a U.K.-financed project) indicates that there is substantial scope for reductions in public sector employment.

The Liberian authorities noted that the morale and productivity of government employees has been seriously undermined by the accumulation of substantial wage arrears, amounting to two months' pay as of the end of 1986/87. A key objective of the Government, despite the need for fiscal stringency, is to eliminate such wage arrears. To this end, the authorities intend to reduce wage arrears by one month in July 1987 and to make wages current during the last quarter of 1987.

Recurrent spending other than for wages and interest on public debt is budgeted to be reduced from an estimated $76.5 million in 1986/87 to $51 million in 1987/88. The latter figure, however, includes $6 million for government gasoline consumption, previously paid through the withholding of taxes by the LPRC and thus not shown heretofore as an item of expenditure. Adjusted for this item, other recurrent spending is

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1/ The project entitled "Economic Stabilization Support" provides for the placement of 17 expatriate experts in operational positions in the Ministries of Finance and Commerce, the NBL, and certain public enterprises.

budgeted to be reduced by 41 percent in nominal terms. To this end, all spending for renovation and construction other than limited amounts specifically provided for in the budget will be frozen until the government financial situation improves. Other cutbacks include, inter alia, a 50 percent reduction in foreign travel and a 25 percent reduction in the cost of foreign missions and embassies. Including accrued interest on public debt, the overall budget deficit on a commitment basis is programmed to be reduced from US$157 million in 1986/87 to US$100 million in 1987/88, equivalent to a reduction of 6.0 percentage points of GDP.

A list has been drawn, reflecting the priorities of agencies and ministries, which includes spending amounting to $26 million on various projects, mostly for renovation and construction. The authorities have indicated that agencies and ministries were notified that spending on these projects would be approved under the budget only if other savings could be achieved under each agency's/ministry's specified spending limit. No spending will be allowed which would result in the limits being exceeded.

The authorities agreed that achievement of these budget targets will require a substantial strengthening of expenditure controls and monitoring of budgetary developments during the course of the year. To this end, steps have already been taken in recent months to control strictly certain elements of spending which had resulted previously in significant extrabudgetary spending. In particular, monthly cash limits were introduced on spending by individual agencies and ministries for gasoline, which are expected to reduce government purchases of gasoline from US$14.5 million in 1986/87 to US$6 million in 1987/88. From July 1, 1987 a new system for cash payment of gasoline replaced the coupon system, which had resulted in significant abuse. 1/

Also, with a view to eliminating extrabudgetary spending, from July 1, 1987, no payment obligation will be honored by the Ministry of Finance for which authorization is not specifically provided in the budget. A monthly budgetary allotment process is also being implemented, which will provide the basis for close monitoring of budget developments and the reduction of spending authorizations in case revenues fall short of projections. If actual revenue collections in any given month fall short of initial estimates included in the budget, spending allotments for the next month for individual ministries and agencies will be reduced for the entire amount of the revenue shortfall.

1/ Previously, coupons were issued to qualifying civil servants for purchases of gasoline. The LPRC withheld from excise taxes collected on sales of petroleum products a value equivalent to sales of gasoline against coupons. The diversion of coupons to unauthorized users or the availability of counterfeit coupons clearly resulted in a widespread use of coupons for private purchases of gasoline and a corresponding loss of budget revenue from excise taxes on petroleum products.

Also, several of the expatriate experts under the U.S. AID-sponsored program will be assigned to expenditure control.

Implementation of the budget for 1987/88 would ensure that the Government is current in respect of newly incurred payments obligations and thus prevent a further accumulation of domestic arrears. The regularization of domestic budgetary operations, however, also requires the adoption of a scheme to reschedule the outstanding stock of domestic vouchers for domestic supplies which were estimated to amount to $70-80 million in June 1987. A scheme is being established for the settlement of these arrears over a six-year period. No further payment is being made against such claims until the claims have been reviewed. Subsequently, the claims will be settled, up to amounts budgeted annually, at a declining discount from face value. The discount for the first year has been set at 50 percent and will decline by 10 percent per year through the sixth year. The initial discount reflects an estimate of the amount of overcharging (including built-in financing charges for expected delays in payment) by suppliers for goods and services provided.

For a variety of reasons, the financial performance of most public enterprises in Liberia has been unsatisfactory, and these enterprises have required sizable transfers from the Government (explicit and implicit, including the withholding by enterprises of taxes owed to the Government) to finance operating expenditure and capital projects. Plans had been formulated earlier to privatize wholly or partially certain state enterprises and to improve the operational efficiency of others. Discussions have been initiated with various foreign investors to sell the Liberia Petroleum Refining Company (LPRC), although, in the absence of a prior audit, questions have been raised concerning the offer price and arrangements under some proposals being considered. Negotiations are also at an advanced stage with a foreign hotel chain for sale of the Ducor Hotel. No progress has been made concerning the possible privatization of other public enterprises. However, a cabinet-level committee was appointed in June 1987 to resume the process of privatization. The process for the sale of the LPRC through competitive bidding has also been reopened under the supervision of the committee.

2. Monetary and credit policy

Developments in monetary and credit aggregates in 1986/87, for the most part, reflected a continuation and culmination of trends apparent in recent years. Total domestic credit expanded by a further 10.7 percent, with more than three fourths of the increase reflecting a corresponding increase in net credit to the Government to finance the budget deficit (Table 3). Declining interest rates on international capital markets were reflected in domestic interest rates, as average lending and deposit rates declined by, respectively, 60 and 110 basis points to 13.2 percent (average lending rate) and 6.9 percent (average deposit rate).

Table 3. Liberia: Monetary Survey, 1984-1987

(In millions of dollars)

	1984	1985	1986			1987	
	June	June	June	Sept.	Dec.	March	June Prel.
Net foreign assets	-231.0	-232.3	-261.9	-268.7	-264.5	-280.1	-284.5
NBL	-218.9	-206.9	-241.1	-248.9	-248.4	-265.0	-262.2
Of which: use of Fund credit 1/	(-219.9)	(-210.7)	(-241.9)	(-248.7)	(-250.0)	(-264.1)	(-262.5)
Commercial banks	-12.1	-25.4	-20.8	-19.8	-16.1	-15.1	-22.3
Domestic credit	424.5	453.7	483.5	513.2	514.1	533.0	535.3
Claims on public sector	349.6	384.3	410.1	438.3	439.0	451.3	454.5
Claims on Government (net) 2/	(300.0)	(332.4)	(366.1)	(391.3)	(386.1)	(400.6)	(404.7)
Claims on public corporations	(49.6)	(51.9)	(44.0)	(47.0)	(52.9)	(50.7)	(49.8)
Claims on private sector	74.9	69.4	73.4	74.9	75.1	81.7	80.8
Recorded money supply 3/	149.7	151.3	188.6	210.7	209.5	211.5	214.8
Coins in circulation	19.4	29.0	49.1	51.0	66.1	63.4	62.5
Deposits	130.3	122.3	139.5	159.7	143.4	148.1	152.3
Demand deposits	(64.0)	(60.4)	(85.2)	(99.4)	(84.5)	(94.5)	(92.7)
Time deposits	(29.0)	(24.3)	(14.8)	(18.1)	(17.3)	(12.6)	(17.3)
Savings deposits	(37.3)	(37.6)	(39.5)	(42.2)	(41.6)	(41.0)	(42.3)
Other items (net) 4/	-43.8	-70.1	-33.0	-33.8	-40.1	-41.4	-36.0

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

1/ Excludes Trust Fund.
2/ The claims of the National Bank of Liberia on the Government were raised by $33.5 million in April 1985, owing to a reclassification of accounts.
3/ Excludes U.S. notes in circulation on which no data are available.
4/ Sharp fluctuations in other items (net) reflect primarily counterpart entries (i) starting in 1985, for accrued interest on NBL loans to the Government, which is shown as increased credit to the Government; and (ii) for valuation changes on foreign liabilities reflecting changes in the U.S. dollar/SDR rate.

With net credit to the Government from commercial banks declining, as withdrawals against government deposits were limited by the willingness of banks to encash government checks, the total increase in credit to the Government was provided by the NBL and was reflected in a further large issue of Liberian coins. The total stock of Liberian coins issued increased by nearly half to an estimated $92.5 million at the end of June 1987, including $30.0 million held by banks as reserves. Increasing strain on the liquidity position of domestic banks and confidence in the banking system, which had built up starting in 1984 as government checks were issued against inadequate balances, resulted in increasing difficulties with the process of clearing interbank checks, and clearing was eventually interrupted.

In discussing these developments, the staff team pointed out that developments in the Liberian financial system reflected the effects of continued budget and external deficits inconsistent with the built-in discipline of the dollar standard system. Balance of payments deficits over the last several years should have forced a contraction of liquidity and economic activity. This did not, however, happen, as excessive budget deficits continued to flood the domestic economy with claims which became increasingly illiquid as U.S. dollar notes disappeared from circulation and other reserve money (i.e., Liberian coins) was not increased commensurately. As a result, checks could not be cleared at the NBL and the additional liquidity injected through the budget deficit resulted in the accumulation by banks of excess reserves and holdings by the public of unencashable deposits in commercial banks. Bank deposits lost, in part at least, their "money" characteristics, and this effected, at one stage removed, the contraction of liquidity implied by balance of payments deficits in a dollar standard or currency board system.

The staff team noted that these developments have sharply increased the demand for coins as the only truly liquid form of money in the hands of the public and the only truly liquid form of reserves available to banks to honor requests for withdrawals. The resulting shortage of cash was alleviated, at least in part, through the issuance of coins by the NBL. This satisfied in part the need for currency, as U.S. dollar notes virtually disappeared from circulation, and it also helped in meeting the increased demand for coins by the public and banks as the only liquid form of money and bank reserves. 1/

With the breakdown of interbank check clearing and the weak demand for credit by the private sector, the large issue of coins in recent years was not reflected in a commensurate increase in the supply of money. However, the authorities agreed that as interbank check clearing

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1/ A shortage of smaller denomination (or change) coins persists, despite the large increase in the stock of coins, as new issues of coins have been mostly in $5 denomination. These coins account for 85 percent of the cumulative coin issue.

is re-established, the current stock of coins could support a substantial increase in credit and money. Currency held in banks' vaults had increased to 15.3 percent of deposits in December 1986 from 2.4 percent on average in 1982-84; while currency held by the public was equivalent in December 1986 to 59.5 percent of private sector deposits in banks compared with 44.6 percent, on average, in 1982-84. 1/ A return to the currency holdings ratios which prevailed in 1982-84 on the part of the public and banks would allow the current coin issue, through the credit multiplier process, to support an expansion in money of nearly 50 percent.

As mentioned above, a program has now been adopted aimed at re-establishing the interbank clearing system. A Memorandum of Understanding was signed on March 30, 1987 by the Ministry of Finance, the NBL, and commercial banks; it specified the conditions under which clearing is to be re-established. These conditions, which envisage various repayments from the budget to banks, the NBL, and the Fund starting in 1987/88, 2/ imply that interbank clearing will be re-established concurrently with a withdrawal through the budget of the earlier excessive coin issue and thus lay the basis for the re-establishment of an orderly financial and domestic payments system. During the first months of operation, however, continued budget deficits have required small weekly issues of coins in support of the clearing system. The staff team stressed the importance of keeping such new issues of coins to a minimum and noted, in particular, that care should be taken not to use the clearing system to alleviate the liquidity problems of certain banks arising from their nonperforming assets.

The weak demand for credit by the private sector presently limits the risk of a large increase in money based on the current stock of coins in the initial stages of re-establishment of the interbank clearing system. The authorities, however, recognize the dangers of the large increase in money which could be supported by the current stock of coins, in case the demand for credit increased and banks were willing to lend. They intend, accordingly, to monitor closely developments in credit in order to ensure that the initial efforts being made through fiscal adjustment to address the prevailing economic and financial imbalances are not undermined by an unexpected excessive expansion of credit. To this end, credit expansion in 1987/88 is programmed to be

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1/ Includes, for the period 1982-84, staff estimates of private sector holdings of U.S. dollar notes and coins.

2/ Under the Memorandum of Understanding, the NBL initially advanced $8 million to the Government to meet payroll arrears. This loan is to be repaid in 1987/88 along with $6 million against outstanding loans from domestic banks. The Memorandum of Understanding also specifies that $6 million should be paid by the Government for the purpose of making repayments to the Fund by means of monthly deductions by the banks of government deposits held with them and fed through the bank-operated collection of tax revenues.

limited to 4.5 percent. Excluding imputed interest charges on outstanding medium-term NBL loans to the Government, total credit is programmed to be about the same in June 1988 as in June 1987. 1/

3. External sector developments and policies

Liberia's external payments position continued to worsen in 1986/87. On the basis of provisional estimates, the overall balance of payments deficit increased to US$132 million, equivalent to 15.5 percent of GDP (Table 4). Since only US$35.5 million of external debt servicing obligations were discharged, further arrears (including arrears to the Fund) of $191 million were accrued, bringing total outstanding arrears to an estimated US$517 million at end-June 1987, 2/ equivalent to 60.9 percent of GDP. Gross official foreign reserves at the end of June 1987 were negligible.

The analysis of balance of payments developments is complicated by the weakness of available statistics, relating both to trade and services transactions. Available data suggest that there was a sharp turnaround in the trade and current account balances in 1984/85 with the current account balance moving from a deficit of US$26.5 million in 1983/84 to surpluses of US$42 million and US$65 million, respectively, in the two subsequent years. With receipts from exports relatively stable during the same period and the deficit in respect of services widening in response to growing interest obligations on public debt, the apparent improvement in the current account balance reflected entirely a large reduction in the volume of imports. As mentioned earlier, however, there was a concurrent, nearly identical, increase in errors and omissions which the staff believes reflects, in part at least, underinvoicing of imports or a diversion of imports outside official channels for tax evasion.

The further weakening of the balance of payments in 1986/87 reflected deteriorations both of the trade and capital account balances. Continued weak demand conditions in world markets resulted in a further contraction in the volume of iron ore exports while difficulties with the procurement of coffee and cocoa led to sharply lower exports of coffee and cocoa. 3/ As a result, and even though exports of logs and timber continued to expand at a rapid pace, nearly doubling

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1/ Imputed interest charges on outstanding medium-term loans to the Government are recorded by the NBL as an increase in outstanding loans to the Government.

2/ Includes arrears on oil facility.

3/ Independent agents hired to procure coffee and cocoa on behalf of the Liberia Produce Marketing Corporation (LPMC) paid lower prices than they had been instructed to, which led to a diversion of exports through neighboring countries. The LPMC has opened its own procurement outstations for the coming year.

Table 4. Liberia: Balance of Payments Estimates, 1983/84-1987/88

	1983/84	1984/85	1985/86	1986/87 Prel. Est.	1987/88 Proj.
			(In millions of U.S. dollars)		
Current account	-26.5	42.1	64.7	50.2	44.0
Trade balance	20.8	117.5	145.4	137.6	130.1
Exports, f.o.b.	(433.4)	(436.5)	(419.0)	(395.8)	(351.8)
Imports, c.i.f.	(-412.6)	(-319.1)	(-273.6)	(-258.2)	(-221.7)
Services (net)	-105.7	-115.0	-123.2	-120.9	-122.3
Of which: interest due on public debt	(-54.0)	(-67.2)	(-78.7)	(-86.3)	(-89.8)
Transfers (net)	58.4	39.7	42.5	33.5	36.1
Private	(-36.6)	(-37.8)	(-32.0)	(-26.6)	(-32.0)
Public	(95.0)	(77.5)	(74.5)	(60.1)	(68.1)
Capital account	-47.1	-139.2	-147.2	-181.9	-187.7
Official long-term	19.0	2.3	-24.0	-37.7	-43.3
Drawings	(59.0)	(60.3)	(42.0)	(42.5)	(35.6)
Amortization due	(-40.0)	(-58.0)	(-66.0)	(-80.2)	(-78.9)
Private	-66.1	-141.5	-123.2	-144.2	-144.4
Commercial banks	(3.7)	(13.4)	(--)	(--)	(--)
Other (including errors and omissions)	(-69.8)	(-154.9)	(-123.2)	(-144.2)	(-144.4)
Overall deficit (-)	-73.6	-97.1	-82.5	-131.7	-143.7
Financing	73.6	97.1	82.5	131.7	143.7
National Bank of Liberia	41.7	-18.7	-39.7	-59.7	-54.1
Assets (increase -)	(3.3)	(0.1)	(3.3)	(1.1)	(--)
Liabilities	(38.4)	(-18.8)	(-43.0)	(-60.8)	(-54.1)
Use of Fund credit (net)	(37.0)	(-16.0)	(-42.7)	(-60.5)	(-54.1)
Other	(1.4)	(-2.8)	(-0.3)	(-0.3)	(--)
Arrears (accrual +)	14.8	96.8	122.2	191.4	197.8
Debt relief	17.1	19.0	--	--	--
Memorandum items:					
External arrears (end of period)	48.6	140.4	301.0	517.0	714.8
IMF	(--)	(27.9)	(93.3)	(193.5)	(266.8)
Other multilateral organizations	(--)	(13.3)	(29.5)	(51.0)	(...)
Official bilateral creditors	(5.0)	(12.9)	(42.2)	(74.8)	(...)
Commercial banks 1/	(43.6)	(86.3)	(136.0)	(195.9)	(...)
Suppliers' credits	(--)	(--)	(--)	(1.8)	(...)
			(In percent of GDP)		
Current account deficit (-)	-3.2	5.1	8.1	5.9	5.4
Overall deficit (-)	-8.8	-11.8	-10.3	-15.5	-17.7

Sources: Data provided by the Liberian authorities; and staff estimates.
1/ Includes US$26.6 million of debt to banks in respect of the oil facility.

over the last three years, total recorded exports declined by over 5 percent, to less than US$400 million compared with US$550 million in the early 1980s. Of particular concern for the coming years is the recent decision of a major Liberian iron ore exporter (LAMCO) to reduce sharply its scale of operations because of the weakness of world iron ore markets. Reflecting this reduction in production and exports, exports of iron ore would drop by about US$45 million in 1987/88, equivalent to 11 percent of total exports, and continue at this lower level until 1989/90, after which LAMCO's exports from its current concession will be discontinued.

With the Liberian dollar pegged at par to the U.S. dollar, and despite relatively low recorded rates of inflation in Liberia, the appreciation of the U.S. dollar from 1980 through early 1985 was reflected in a 34 percent appreciation of the Liberian dollar in real effective terms. The weakening of the U.S. dollar since early 1985 has now reversed most of this earlier appreciation of the Liberian dollar in real effective terms relative to the currencies of Liberia's trade partners and competitors. However, as the currencies of Liberia's major competitors in export markets also depreciated along with the U.S. dollar during the same period, the real effective exchange rate of the Liberian dollar relative to major competitors in export markets remained, by early 1987, 25 percent above its level in 1980 (Chart 1). Staff studies of the competitiveness/profitability of several of Liberia's exports (iron ore, rubber, cocoa, palm oil, and logs and timber) also indicate that Liberia's exporters suffer a substantial competitive disadvantage in world markets.

At the request of the authorities, the staff prepared in late 1986 a study of the Liberian currency system. The study focused on the needed adjustment of policies consistent with the re-establishment of a viable balance of payments position under two main alternatives: (i) the re-establishment of the dollar standard, and (ii) a currency reform involving the adoption of a national currency at a substantially depreciated rate. The study examined, in particular, the adjustment of domestic financial policies required under each option to restore the economy's external competitiveness, and the implications for growth and the balance of payments. The study was presented to the authorities in early 1987 and is still under consideration.

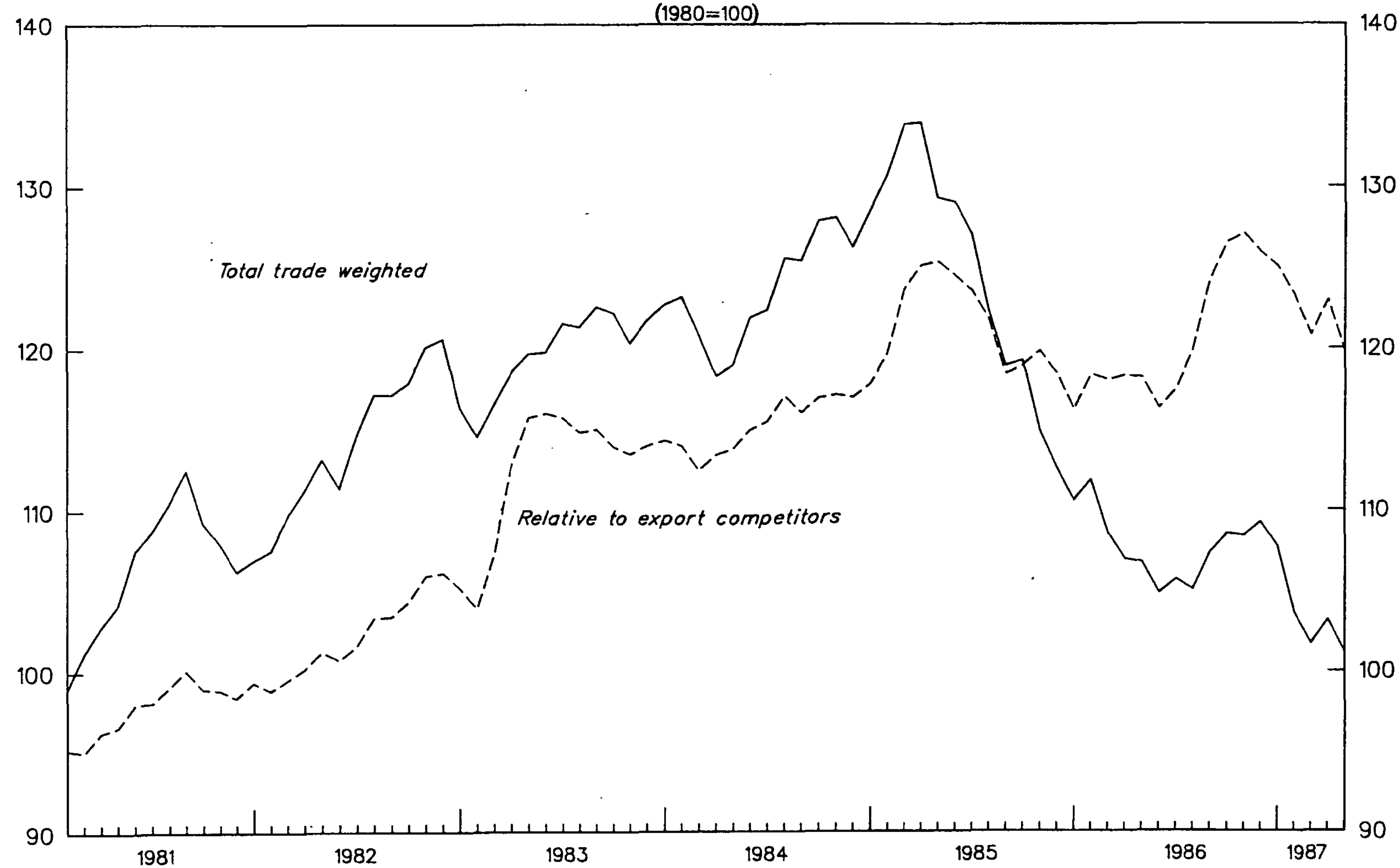
Faced with a major accumulation of external debt service arrears, the resulting sharp drop in foreign aid disbursements, and an increasing diversion of foreign exchange to the parallel market, the authorities introduced in April 1986 a partial foreign exchange surrender requirement, under which 25 percent of the foreign exchange earned from all exports was required to be surrendered to the NBL against local currency, over and above any other arrangements already existing between exporters and the Government for the offshore payment of some of their obligations to the Government. The surrender obligation for certain larger exporters has since been adjusted by agreement between the Government and individual exporters with these exporters surrendering

CHART

LIBERIA

REAL EFFECTIVE EXCHANGE RATE

(1980=100)



Sources: Information Notice System; and staff estimates.

foreign exchange equivalent to an agreed portion of export proceeds, commensurate with their (tax and other) payments obligations to the Government and their need for Liberian dollars for local operations. For other exporters, the 25 percent surrender requirement continues to apply. It is estimated that in 1986/87, a total of US$35.7 million was surrendered, equivalent to 9 percent of estimated export receipts. The foreign exchange surrendered in excess of government or NBL direct purchases for their own use is reallocated to commercial banks.

Liberia has accumulated payments arrears in the nature of government defaults. External payments arrears also arise from delays in effecting payments for current international transactions by the public enterprises. The partial surrender requirement, through which the authorities acquire foreign exchange to make certain foreign payments (including governmental payments) as a priority over other international payments for current international transactions, does constitute a direct governmental limitation on the availability of exchange. The external payments arrears, other than governmental payments arrears, thus involve exchange restrictions subject to Fund approval under Article VIII.

The authorities stressed that the continued extremely difficult external resource situation required that payments in respect of external debt service obligations be, once again, substantially less than payments falling due. Payments in 1987/88, included in the budget, amount to $25 million, equivalent to about 10 percent of total payments falling due. The authorities indicated that, of this amount, as specified in the Memorandum of Understanding of March 30, 1987, for the resumption of bank clearing, payments to the Fund would amount to at least US$6 million, of which US$1.5 million would be paid before end-July 1987. Such a payment falls far short of Liberia's overdue obligations to the Fund and payments falling due during 1987/88. As a result, arrears to the Fund would increase to more than US$260 million by June 1988. The authorities recognize that the accumulation of very large arrears to multilateral institutions, which cannot be rescheduled and which while they remain outstanding prevent the resumption of very much needed aid flows, must be kept to a minimum. Accordingly, they indicated that further payments to the multilateral institutions would be given priority if increases in revenues or further reductions in expenditures could be achieved during the course of the year.

4. Short-term economic outlook and monitoring targets and limits for 1987/88

The outlook for economic activity in 1987/88 is rather bleak. The withdrawal of demand through the retrenchment of budgetary spending will be compounded by the recent LAMCO decision to curtail production and exports. Withdrawal from these two sources amounts to an estimated 11 percent of GDP. It seems unlikely that this can be offset by a recovery of private investment and production in the short run. Accordingly, and despite an assumed sharp reduction in the private savings ratio to cushion the effect on private consumption, GDP in constant prices is projected to decline by 9.5 percent. Inflation, as measured by the domestic CPI, is assumed to remain at about 10 percent.

Despite this unfavorable outlook, the Liberian authorities consider that the process of fiscal adjustment cannot be delayed any longer. Achievement of the authorities' objectives in 1987/88 will require strict implementation and close monitoring during the course of the year. To this end, it is the intention of the authorities to adhere to the targets and limits relating to net domestic credit, net credit to the public sector, coin issue, outstanding vouchers, and government and government-guaranteed external debt shown in Table 5. The authorities hope that implementation of their announced policies, as reflected by observance of the quantified monitoring criteria, will help establish their seriousness and credibility with the international community. The authorities have undertaken to report on a monthly basis to the Fund staff the data necessary to verify the observance of the monitoring targets and ceilings.

A central assumption underlying the ceiling for net domestic credit is that holdings of money will remain unchanged despite the projected reduction of GDP, implying a further slight decline in velocity. This reflects, in part, an assumed continued relatively strong performance of the unofficial economy, as well as the fact that severance payments to workers laid off by LAMCO and the Government will keep incomes substantially higher than is implied by the projected decline in nominal GDP. The ceilings on net credit to the public sector were set consistently with the target for the budget deficit and also imply that there will be no net financing from the banking system to public enterprises.

A ceiling is also specified for coin issue limiting the increase in the outstanding stock of coins to the programmed net financing of the budget from the NBL, as the reduction of the budget deficit will eliminate the need for additional coin issue to settle government checks as part of the interbank clearing system. Limiting the issue of coins to the financing of the programmed budget deficit will also require that outlays for NBL operations be kept within current earnings.

Implementation of the budget for 1987/88 would ensure that the Government is current with respect to newly incurred payments obligations and thus prevent a further accumulation of domestic arrears. Under current Liberian practice, payment is due within 45 days of the invoice date. A ceiling was set accordingly on vouchers outstanding, equivalent to 45 days of programmed spending for goods and services.

The limited availability of grants and loans from official sources and continued large outflows of private capital, which are likely to continue until sufficient credibility has been established in the process of implementation of adjustment policies, imply that there can be little change in the short term in the current account of the balance of payments. Imports are accordingly projected to decline commensurately

Table 5. Liberia: Monitoring Targets and Ceilings, 1987-88 1/

(In millions of dollars)

	June 1987 Est.	Sept. 1987	Dec. 1987	March 1988	June 1988
Domestic credit	535.3	544.0	557.0	562.0	560.0
Net credit to the public sector 2/	420.7	431.5	445.0	453.0	451.0
Of which: Government	(404.7)	(415.0)	(429.0)	(436.0)	(434.1)
Coin issue	92.5	98.5	103.5	101.5	99.5
Outstanding vouchers 3/	--	4.0	4.0	4.0	4.0
Government and government-guaranteed external debt 4/		--	--	--	--

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

1/ Underlying quarterly fiscal and monetary projections are shown in Appendix V.
2/ The ceiling on net domestic credit and on net credit to the public sector from the banking system will be reduced for any advance to the Government against future revenues and for any reclassification of assets or liabilities during the course of the year which would affect the credit estimates for June 1987.
3/ Vouchers in respect of spending obligated after June 30, 1987.
4/ Loans with a maturity up to 12 years, including those with a maturity of less than one year. Excludes concessional loans (i.e., those with a grant element of at least 25 percent); rescheduling or refinancing loans; and short-term trade credits.

with exports. The projected decline in domestic demand should, however, facilitate such a contraction in imports, which otherwise would have been reflected in substantially increased pressures on the discount for the Liberian dollar on the parallel market and thus on inflation. The limited amounts budgeted for debt service payments will be reflected in a further accumulation of external arrears of nearly US$200 million.

IV. Medium-Term Economic Prospects

The initial adjustment effort is directed at re-establishing discipline in the budget. It is urgent that fiscal deficits be brought under control. However, the authorities recognize that, in contrast with earlier short-lived episodes of fiscal adjustment, the effort programmed in 1987/88 must not only be sustained but also strengthened. In a first stage, the central contributor to the emergence of prevailing economic and financial imbalances, the excessive budget deficit, is being addressed. Looking ahead, the authorities are fully aware that basic institutional reforms will be needed, in particular, in improving tax administration, in improving the profitability and competitiveness of domestic production, and in ensuring that available resources will be devoted to uses which add to rather than further strain the country's debt-servicing capacity. The recent LAMCO decision to curtail production and exports, and uncertainty about the Mifergui project in light of depressed world demand for iron ore, 1/ further increase the urgency of adopting such a comprehensive program of policies supportive both of adjustment and growth.

Baseline projections prepared by the staff for the period through 1991/92, which assume a further gradual tightening of fiscal policy beyond 1987/88 but no other policy adjustments, show a gradual improvement in the balance of payments (Tables 6 and 7). The overall balance of payments deficit would decline from an estimated US$144 million in 1987/88 to about US$30 million in 1991/92.

Exports are projected to remain sluggish during the entire period, reflecting primarily the assumed evolution of iron ore production and exports. Given the uncertainties relating to world demand for iron ore and the eventual scale of the Mifergui project, the medium-term scenarios assume that only a smaller scale version of the project will come on stream during the projection period. Modest increases are assumed for all exports other than iron ore, following, in the case of cocoa and coffee, a strong recovery in 1987/88 as procurement difficulties encountered in the preceding year are corrected. Even for these,

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1/ The project, on the scale initially envisaged, would involve production and exports of 13 million tons of crude ore annually from deposits in Guinea and Liberia. The ore would be treated in Liberia before shipment overseas. Plans for the project initially envisaged net earnings for Liberia of US$30 million annually.

Table 6. Liberia: Medium-Term Projections of Balance of Payments, Budget, and National Income, 1986/87-1991/92

	1986/87	1987/88	1988/89-1991/92 1/ Baseline Scenario	1988/89-1991/92 1/ Normative Scenario
	(In millions of U.S. dollars)			
Balance of payments				
Current account	50.2	44.0	70.1	112.8
Trade balance	137.6	130.1	127.7	166.1
Exports, f.o.b.	(395.8)	(351.8)	(353.3)	(404.0)
Imports, c.i.f.	(-258.2)	(-221.7)	(-225.6)	(-237.9)
Services (net)	-120.9	-122.3	-118.5	-114.2
Transfers (net)	33.5	36.1	60.9	60.9
Capital account	-181.9	-187.7	-140.9	-118.5
Official	(-37.7)	(-43.3)	(-20.0)	(-20.0)
Private	(-144.2)	(-144.4)	(-120.9)	(-98.5)
Overall balance	-131.7	-143.7	-70.8	-5.7
	(In percent of GDP)			
Budget				
Revenues and grants	24.8	24.6	27.6	31.1
Recurrent expenditure	35.8	31.6	30.6	29.5
Development expenditure	7.4	5.4	6.3	8.0
Overall balance (commitment basis)	-18.5	-12.4	-9.3	-6.5
National income				
Gross domestic investment	16.4	15.4	16.9	20.1
Public	(6.3)	(5.4)	(6.3)	(8.0)
Private	(10.1)	(10.0)	(10.6)	(12.1)
Gross national savings	13.2	11.7	17.4	24.5
Public	(-11.6)	(-7.0)	(-3.0)	(1.6)
Private	(24.8)	(18.7)	(20.4)	(22.9)
External current account 2/	-2.8	-3.7	0.5	4.4
	(Percentage change)			
Memorandum item:				
GDP at constant prices	-1.8	-9.6	-0.7	3.6

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

1/ Annual average.
2/ Includes portion of errors and omissions of the balance of payments assumed to represent imports or other current payments (see discussion in text).

Table 7. Liberia: Medium-Term Balance of Payments Projections, 1987/88-1991/92

(In millions of U.S. dollars)

	1987/88	1988/89	1989/90	1990/91	1991/92
			Baseline		
Current account	44.0	56.2	70.9	70.0	83.4
Trade balance	130.1	132.3	140.4	118.1	120.0
Exports, f.o.b.	(351.8)	(360.8)	(371.6)	(333.6)	(347.3)
Imports, c.i.f.	(-221.7)	(-228.5)	(-231.1)	(-215.5)	(-227.3)
Services (net)	-122.3	-121.2	-125.0	-113.1	-114.7
Of which: interest due on public debt	(-89.8)	(-94.7)	(-99.9)	(-104.4)	(-108.6)
Transfers (net)	36.1	45.1	55.5	65.0	78.1
Capital account	-187.7	-173.2	-148.9	-128.6	-112.8
Official long-term	(-43.3)	(-37.7)	(-23.5)	(-13.6)	(-5.2)
Private 1/	(-144.4)	(-135.5)	(-125.4)	(-115.0)	(-107.6)
Overall deficit (-)	-143.7	-117.0	-78.0	-58.6	-29.4
Financing	143.7	117.0	78.0	58.6	29.4
National Bank of Liberia	-54.1	-41.0	-28.0	-17.0	-0.7
Assets (increase -)	--	--	--	--	--
Liabilities	-54.1	-41.0	-28.0	-17.0	-0.7
Use of Fund credit (net)	(-54.1)	(-41.0)	(-28.0)	(-17.0)	(-0.7)
Other	(--)	(--)	(--)	(--)	(--)
Arrears (accrual +)	197.8	158.0	106.1	75.6	30.1
Memorandum items:					
External arrears (end of period)	714.8	872.8	978.9	1,054.5	1,084.5
Of which: nonreschedulable 2/	(356.1)	(432.7)	(483.6)	(508.5)	(500.4)
Debt service ratio (percent of goods and services)	55.8	51.8	45.1	44.7	39.4
			Normative		
Current account	44.0	78.5	104.7	122.4	145.7
Trade balance	130.1	154.5	172.5	165.5	172.0
Exports, f.o.b.	(351.8)	(385.5)	(415.8)	(394.2)	(420.7)
Imports, c.i.f.	(-221.7)	(-231.0)	(-243.3)	(-228.7)	(-248.8)
Services (net)	-122.3	-121.0	-123.2	-108.2	-104.4
Of which: interest due on public debt	(-89.8)	(-94.0)	(-96.4)	(-96.4)	(-94.4)
Transfers (net)	36.1	45.1	55.5	65.0	78.1
Capital account	-187.7	-158.9	-128.2	-102.0	-84.9
Official long-term	(-43.3)	(-37.7)	(-23.5)	(-13.6)	(-5.2)
Private	(-144.4)	(-121.2)	(-104.7)	(-88.4)	(-79.7)
Overall deficit (-)	-143.7	-80.4	-23.5	20.4	60.8
Financing	143.7	80.4	23.5	-20.4	-60.8
National Bank of Liberia	-54.1	-41.0	-28.0	-17.0	-0.7
Assets (increase -)	--	--	--	--	--
Liabilities	54.1	-41.0	-28.0	-17.0	-0.7
Use of Fund credit (net)	(-54.1)	(-41.0)	(-28.0)	(-17.0)	(-0.7)
Other	(--)	(--)	(--)	(--)	(--)
Arrears (accrual +)	197.8	121.3	51.5	-3.4	-60.1
Memorandum items:					
External arrears (end of period)	714.8	836.1	887.6	884.2	824.1
Of which: nonreschedulable 2/	(356.1)	(414.5)	(442.1)	(445.6)	(399.7)
Debt service ratio (percent of goods and services)	55.8	48.7	40.0	37.0	30.5

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

1/ About half of "errors and omissions" in the base year is assumed to represent imports or other current payments (see discussion in text). Remaining errors and omissions, assumed to represent capital flight, are projected to be reduced sharply over the medium term.

2/ In the event of rescheduling, the normalization of external payments relations would require financial assistance sufficient to clear these arrears and meet current debt service obligations estimated at about $90 million, net of debt relief, (i.e., payments on moratorium interest, and on nonreschedulable principal and interest) each year over the period shown.

however, volumes are projected to remain somewhat lower than in preceding years, reflecting incentives to export outside of official channels.

The weakness of exports, which are projected to contract by 12 percent in volume terms from 1987/88 through 1991/92, will be reflected in a further reduction of real GDP, which is projected to decline at an average annual rate of 0.7 percent over the same period. The gradual reduction of government claims on the economy would provide scope for maintaining private sector consumption and investment, although, in the absence of measures strengthening the profitability of domestic production and reflecting continued external financing constraints, no substantial recovery of either investment or employment in the private sector is assumed.

The central assumption underlying the baseline scenario is that initial steps taken in 1987/88 to tighten fiscal policy will be further strengthened in subsequent years. Specifically, it was assumed that nominal outlays for noninterest recurrent spending would be kept constant, which would allow for a gradual increase in spending on goods and services as further progress was achieved in reducing the wage bill. Tax revenues were assumed to increase gradually relative to GDP, reversing in part the apparent weakening of tax administration in recent years.

In light of these prospects, it is apparent that the re-establishment of conditions conducive to the narrowing of financing gaps and the resumption of sustainable growth would require a substantial strengthening of policies. To be successful, such a program would need to come to grips with certain fundamentals, including an early restoration of Liberia's external competitiveness in support of economic recovery and growth, major improvements in the mobilization and management of public resources, including those of public enterprises, and the strengthening of the NBL so that it can operate as a full-fledged central bank. The normative scenario assumes that a broad range of policies would be introduced to secure a strengthening of growth and of the trade balance, and the resumption of private capital inflows. The sustained implementation of such policies would be reflected in a substantially stronger growth of exports and real GDP, the latter averaging 3.6 percent per year over the period 1988/89-1991/92 compared with minus 0.7 percent per year under the baseline scenario. The stronger growth performance would be supported by stronger investment financed through improvements in both public and private saving performance. The projected improvement in the trade balance and lower private capital outflows would be reflected in a balanced overall external payments position compared with average annual deficits of US$70 million under the baseline scenario.

Continued large debt service obligations over the projection period are reflected under both scenarios in large financing gaps and accumulation of arrears. Under either scenario, the normalization of the external arrears situation would require, in the initial stages, substantial and coordinated assistance from creditors and donors beyond the provision of debt relief. Such initial financial assistance from multilateral, bilateral, and commercial sources is tentatively estimated by the staff at US$450 million. Whether such large financing can be raised is not clear at present and will depend, in part, on the assessment by creditors and donors both of the authorities' commitment to strong and sustained adjustment and of the likely size of financial support required in subsequent years.

V. Staff Appraisal

Liberia's economic and financial situation has deteriorated sharply over the last decade as real economic activity has declined, financial imbalances have grown markedly, and there has been a very large accumulation of domestic and external payments arrears, including arrears to the Fund. The precarious state of the economy has been reflected in and intensified by the breakdown of the functioning of the country's monetary and banking system as the interbank clearing of checks was discontinued. This latter development and the emergence of a parallel market for foreign exchange in which the Liberian dollar is quoted at a substantial discount have further increased incentives for a diversion of economic activity and transactions outside of the official economy.

Although unfavorable external conditions have played a role, the central factor responsible for current difficulties has been the breakdown of financial discipline as reflected in the emergence of large budget deficits, the financing of which has entailed not only sizable bank borrowing and increasing issuance of Liberian coins, but also a continuing accumulation of arrears, especially arrears on external debt service payments. The accumulation of such arrears has now resulted in the drying up of most foreign aid and lending. Domestic sources of financing have now also been largely exhausted as promissory notes or vouchers for supplies and services from domestic vendors were either no longer accepted or were accepted only at an excessive markup. Financing of the deficit through the issuance of Liberian coins has accordingly increased sharply in recent years. The increase in the stock of coins outstanding, however, has now reached the stage at which a substantial increase in money and prices could occur.

The authorities recognize the urgency of bringing fiscal deficits under control. Accordingly, the budget for 1987/88 envisages a sharp reduction in the budget deficit on a commitment basis to about $100 million from $157 million in 1986/87, a decline equivalent to 6 percentage points of GDP in the monetized sector. This intended tightening of fiscal policy is a welcome step. Strict implementation of the budget is essential. To this end, the authorities must not only apply firmly the newly introduced spending controls but also monitor closely revenue performance with a view, in case of shortfall, to introduce without delay new measures to increase revenues or further curtail spending. It will be essential in this context that no spending be allowed with respect to the list of agencies' and ministries' priorities not provided for in the 1987/88 budget unless offsetting savings can be found in other items of expenditures.

Implementation of the 1987/88 budget still would be only a first step which, in contrast with earlier short-lived episodes of fiscal adjustment, needs to be not only sustained but also strengthened. The budget for 1987/88 envisages further, albeit much lower than in recent years, domestic financing through the issue of coins and provides for only relatively small payments in respect of external debt service obligations. Substantial further progress is thus needed toward achievement of a sufficiently strong fiscal performance, which will require both further progress in controlling expenditures and substantial efforts to improve revenue collections, including larger transfers from key public enterprises. The process of correcting the large prevailing imbalances, built up over an extended period, will require strong and sustained commitment.

The appropriate stance of fiscal policy over the medium term is closely linked to the question of the reform of the exchange arrangement. A study prepared by a Fund technical assistance mission was presented in early 1987 and is being considered by the authorities. The re-establishment of fiscal discipline is essential to the success of adjustment under any currency system. However, the restoration of the dollar standard would require a sharply more restrictive fiscal policy over an extended period, yielding budget surpluses sufficient to withdraw from circulation the earlier excessive expansion of coins and to lower domestic costs and prices consistent with the required improvement in the profitability and competitiveness of domestic tradeables. Exclusive reliance on adjustment through restrictive financial policies would involve a prolonged period of weakness of the domestic economy, which raises questions as to whether the necessary commitment to adjustment could be sustained. A decision on the reform of the exchange arrangement should not be delayed any longer so that comprehensive supporting policies can be designed, consistent with the required improvement of the balance of payments under the currency system selected.

The staff is also of the view that public enterprise reform should be pursued without further delay. In light of personnel and budgetary constraints not only for the Central Government but also for the entire public sector, a substantial rationalization of public sector enterprises, including privatization, is essential to institutional and structural reform. As a first step and in accordance with initial government intentions, audits of the operations of key public agencies and enterprises would provide the basis to assess the scope for possible improvements in their profitability and, as appropriate, the potential for sale to private investors.

Particular care will also be needed in monitoring monetary and credit developments as the interbank clearing system is re-established. Successful re-establishment of the bank clearing system is a key element of the confidence rebuilding process. However, care will be needed to ensure that the re-establishment of clearing does not result in an accelerated expansion of credit and money. As bank deposits reacquire their liquidity characteristics, the current issue of coins will support an increase in money and credit substantially larger than has occurred so far unless and until budget surpluses have made it possible to withdraw a sufficient portion of the earlier excessive issue of coins. Any evidence of an increase in credit beyond the increase allowed for under the financial program drawn up consistently with the budget and the projected evolution of nominal GDP should be countered through measures to reduce the availability of loanable funds in banks.

Despite repeated urgings from Liberia's creditors, the Government has made little effort to discharge its external debt service obligations, including obligations to the Fund. Since early 1985, Liberia has made only a minimal payment on its overdue obligations to the Fund. For 1987/88, the Government has set a target of US$6 million in repayments to the Fund, including a repayment of US$1.5 million before end-July 1987. The staff regrets that the Government is not giving higher priority to the settlement of Liberia's overdue obligations to the Fund. The resumption of external aid and support will depend on convincing evidence both of sustained efforts by the Government in correcting prevailing domestic imbalances and of Liberia's seriousness in discharging its external obligations. The staff therefore urges the authorities to discharge, as a minimum, the budgeted amount of external debt service payments. The staff also welcomes the statement of the authorities that payments to the multilateral institutions will be given priority in case increases in revenues or further reductions in expenditures can be achieved during the course of the year.

Liberia maintains a generally liberal trade and payments system. However, Liberia has accumulated external payments arrears in the nature of government defaults. The partial surrender requirement, through which the authorities acquire foreign exchange to make certain foreign payments as a priority over other international payments for current international transactions, constitutes a direct government limitation on the availability of exchange. External payments arrears, other than governmental payments arrears, involve restrictions subject to Fund approval under Article VIII. The staff urges the authorities to take decisive action to eliminate the external payments arrears as soon as possible. In the absence of a firm time schedule for the removal of these restrictions, the staff does not recommend that they be approved.

It is recommended that the next Article IV consultation with Liberia continue to be held on the standard 12-month cycle.

Liberia - Relations with the Fund
(As of June 30, 1987)

I. Membership status

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

A. Financial Relations

II. General Department (General Resources Account)

a. Quota: SDR 71.3 million

	SDR million	Percent of quota
b. Fund holdings of Liberian dollars:	276.71	388.09
c. Fund holdings subject to repurchase and charges:	205.43	288.12
credit tranches	47.93	67.22
supplementary financing facility	38.52	54.03
enlarged access resources	84.28	118.20
compensatory financing facility	34.70	48.67

d. Reserve tranche position: SDR 28,142

III. Stand-by arrangements and special facilities

a. Stand-by arrangements during the last ten years:

Arrangements	Duration	Amount	Utilization	Undrawn Balance
		(In millions of SDRs)		
Stand-by	8/14/74-8/13/75	4.0	--	4.0
Stand-by	1/14/76-1/13/77	5.0	--	5.0
Stand-by	3/21/79-3/20/80	9.25	9.25	--
Stand-by	9/15/80-8/25/81	65.0	32.0	33.0
Stand-by	8/26/81-9/15/82	55.0	55.0	--
Stand-by	9/29/82-9/13/83	55.0	35.0	20.0
Stand-by	9/14/83-9/13/84	55.0	55.0	--
Stand-by	12/7/84-12/6/85	42.78	8.50	34.28

Liberia - Relations with the Fund (continued)

b. Special facilities:

Compensatory financing facility	12/20/79	SDR 20.5 million
Compensatory financing facility	6/27/82	SDR 7.0 million
Compensatory financing facility	10/4/82	SDR 27.7 million

IV. SDR Department

a. Net cumulative allocation:	SDR 21.01 million
b. Holdings:	--

V. Administrative accounts

a. Trust Fund loans:

i. Disbursed	SDR 28.34 million
ii. Outstanding	SDR 24.97 million

b. SFF Subsidy Account:

i. Donations to Fund	--
ii. Loans to Fund	--
iii. Payments by Fund	SDR 4.91 million

VI. Financial obligations due to the Fund — SDR 143.8 million

	Overdue Financial Obligations 6/30/87	Principal and Interest Due July-Dec. 1987	1988	1989	1990
Principal					
- Repurchases	101.1	25.0	31.2	24.5	19.2
- Trust Fund repayments	13.2	2.7	4.8	3.2	0.9
	114.3	27.7	36.0	27.7	20.1
Charges and interest including SDR and Trust Fund (provisional)	37.1	5.6	6.9	4.7	3.0
Total	151.4	33.3	42.9	32.4	23.1

B. Nonfinancial Relations

VII. Exchange rate arrangement

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

Liberia - Relations with the Fund (concluded)

VIII. Article IV consultation

The 1986 Article IV consultation discussions with Liberia were held in Monrovia during the period May 13-29, 1986, and concluded in Washington June 13, 1986. The staff report (SM/86/205, 8/18/86) was discussed by the Executive Board on September 15, 1986, and the decision was as follows:

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with Liberia, in the light of the 1986 Article IV consultation with Liberia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the authorities of Liberia appear not to have imposed restrictions on payments and transfers for current international transactions, but that external payments arrears have emerged, as described in SM/86/205, which may give rise to such restrictions. The Fund urges the authorities to eliminate these payments arrears as soon as possible.

IX. Technical assistance

The CBD is providing two experts to the National Bank of Liberia who are serving as Advisor to the Governor and Advisor in the research/statistical field, respectively. In addition, CBD is providing a consultant on external debt to the Ministry of Finance.

X. Resident representative

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

Liberia - Relations with the World Bank Group

As of December 31, 1986, the World Bank had made 22 loans (including one Third Window loan) totaling US$151.2 million, and 17 IDA credits totaling US$114.2 million to Liberia. In addition, a technical assistance grant of US$200,000 was given in support of development planning. IFC has made three equity investments totaling US$703,000 in the share of the capital of the Liberian Bank for Development and Investment. Although credits for structural adjustment and associated technical assistance were negotiated in fiscal year 1985, further processing was suspended in the absence of an appropriate stabilization program and recovery measures to stem the sharp deterioration of the Liberian economy and because of overdue payments to the Bank.

Owing to Liberia's arrears to the Bank, disbursements which were suspended during the first three quarters of 1986 were resumed during the months of September-November 1986, but were suspended again as of December 17, 1986. In view of nonpayment of outstanding debt service obligations, Liberia's loans were placed in nonaccrual status as of June 1, 1987. Arrears totaled US$15.4 million by July 6, 1987.

The World Bank's involvement in Liberia is expected to be minimal unless the Government shows significant improvement on economic performance. Bank Group lending over the next four years could amount to US$50 million, primarily to support structural adjustment and agriculture, provided the Government's economic management improves and shows unambiguous commitment toward undertaking economic reforms.

Liberia - Relations with the World Bank Group (concluded)

(As of July 14, 1987; in millions of U.S. dollars)

	Total	Disbursed	Undisbursed
IBRD	150.60	141.16	9.44
Agriculture	14.50	7.01	7.49
Rubber	(2.50)	(2.50)	(0.00)
Oil palm	(12.00)	(4.51)	(7.49)
Transportation	62.16	60.31	1.85
Highways	(48.03)	(48.03)	(--)
Feeder roads	(10.70)	(8.85)	(1.85)
Port of Monrovia	(3.43)	(3.43)	(--)
Energy	31.80	31.70	0.10
Liberia Electricity Corporation	(26.80)	(26.80)	(--)
Petroleum exploration	(5.00)	(4.90)	(0.10))
Mining: Iron ore	19.99	19.99	0.00
Education	10.30	10.30	--
Development finance	11.85	11.85	—
IDA	118.17	89.45	28.72
Agriculture	48.51	39.45	9.06
Rubber	(6.00)	(6.00)	(--)
Forestry	(6.00)	(5.55)	(0.45)
Agricultural development	(36.51)	(27.90)	(8.61)
Transportation: Highways	17.21	9.81	7.40
Education	21.24	18.09	3.15
Urban development	9.75	7.46	2.29
Water supply	14.48	11.02	3.46
Small- and medium-scale enterprises	3.63	2.84	0.79
Technical assistance	3.35	0.78	2.57
Total	268.77	230.61	38.16
Of which: agriculture	(63.01)	(46.46)	(16.55)
transportation	(79.37)	(70.12)	(9.25)
education	(31.54)	(28.39)	(3.15)
Repayments	43.40		
IBRD	42.87		
IDA	0.53		
Total outstanding (including undisbursed)	220.95		

IFC Investment: Equity held: 0.55

Source: Data provided by the World Bank.

Liberia--Statistical Issues

1. Outstanding statistical issues

a. Prices

The methodology underlying the computation of the consumer price index (CPI) is deficient, particularly with respect to its coverage, weighting structure, and the underlying price data. Consequently, the official CPI does not provide a satisfactory measure of inflationary trends in Liberia. A follow-up technical assistance mission by a staff member of the Bureau of Statistics (April 1987) has addressed these issues in its report, which will be sent to the Liberian authorities in the near future.

b. Government finance

Data in IFS are the same as those published in the 1986 GFS Yearbook and cover operations of consolidated Central Government through 1986. Data on foreign debt are current only through 1984. There are no data on expenditure and debt arrears.

c. External sector

(i) A technical assistance mission to Liberia took place in February 1987. The report with recommendations for improvements in the compilation of balance of payments statistics was sent to the Liberian authorities in June 1987. The mission noted that a serious attempt had been made by the authorities to implement many of the recommendations made during an earlier technical assistance mission, but that the practical application of the survey methodology had not been completely successful. The attention of the mission was focused on reviewing survey forms and revising them where necessary.

(ii) Specific problems in the recording, verification, and processing of external trade data have been identified in a report prepared by the technical assistance mission that visited Liberia in April 1987. The mission has determined that until there are improvements in the quality of basic trade data, the compilation of meaningful unit value indexes will be hampered. However, the mission's recommendations, if implemented by the authorities, should contribute to some improvement in the quality of basic trade statistics.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Liberia in the July 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the National Bank of Liberia, which during the past year have been provided on a timely basis.

Status of IFS Data

		Latest Data in July 1987 IFS
Real sector	- National accounts	1985
	- Prices	October 1986
	- Production: Industrial	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/Surplus	1986 1/
	- Financing	1986 1/
	- Debt	1984
Monetary accounts	- Monetary authorities	April 1987
	- Deposit money banks	March 1987
	- Other financial institutions	n.a.
Interest rates	- Discount rate	n.a.
	- Bank lending/deposit rate	March 1987
	- Bond yields	n.a.
External sector	- Merchandise trade:	
	Values: Exports	December 1986
	Imports	December 1986
	Prices: Unit values	1985
	- Balance of payments	1985
	- International reserves	May 1987
	- Exchange rates	May 1987

1/ Provisional data.

LIBERIA: Basic Data

Social and demographic indicators

Area	111 thousand sq. km.
Population: Total (1985)	2.2 million (1985)
Growth rate	3.4 percent per annum
GDP per capita (1985)	US$461

Population characteristics (1984) and health (1981)

Life expectancy at birth	
Male	48
Female	52
Infant mortality (aged under 1, percent)	13
Child death rate (aged 1-4, percent)	2
Population per physician	9,400

Nutrition (1982)

Calorie intake as % of requirement	102.5
Per capita protein intake (grams per day)	40.4

Education (1983)

Primary school enrollment %	76.0

	1982	1983	1984	1985	1986 Estimate
GDP at constant 1971 market prices	(In millions of U.S. dollars)				
Agriculture	56.0	56.6	61.4	63.4	68.9
Of which: rubber	(22.6)	(25.2)	(30.1)	(30.3)	(31.8)
Mining and quarrying	99.0	85.8	79.7	79.0	79.0
Of which: iron ore	(91.8)	(80.3)	(75.7)	(76.6)	(75.9)
Other monetary economy	187.6	188.9	180.2	176.1	168.3
Manufacturing	21.2	21.6	20.5	20.0	20.4
Construction	17.8	18.3	13.3	14.7	13.7
Government services	47.8	47.8	47.0	46.1	44.0
Other services	100.8	101.2	99.4	95.3	90.2
Indirect taxes	46.5	42.0	40.6	37.8	37.6
Total GDP in the monetary economy at market prices	389.1	373.3	361.9	356.3	353.8
GDP at current market prices	889.5	834.6	835.3	811.2	791.9
Annual rates of growth of GDP and prices	(In percent)				
GDP at constant market prices	-1.5	-4.1	-3.1	-1.5	-0.7
GDP at current market prices	1.0	-6.2	0.1	-2.9	-2.4
GDP deflator	2.5	-2.2	3.2	-1.4	-1.7
Consumer price index	6.0	2.7	1.3	-1.1	4.1

LIBERIA: Basic Data (continued)

	1982/83	1983/84	1984/85	1985/86	1986/87
Central government finances	(In millions of U.S. dollars)				
Revenue and grants	257.4	260.1	217.0	205.6	210.4
Revenue	224.4	224.1	194.5	180.1	192.4
Grants	33.0	36.0	22.5	25.5	18.0
Expenditure	390.4	344.1	382.6	310.4	367.2
Recurrent	261.0	238.5	231.2	224.4	255.2
Development	95.8	73.1	72.0	41.6	53.3
Nonbudgetary 1/	33.6	32.5	79.4	44.4	58.6
Overall deficit (commitment basis) 2/	-133.0	-84.0	-165.6	-104.8	-156.7
Expenditure arrears	8.0	-3.3	68.7	41.1	94.6
Overall deficit (cash basis)	-125.0	-87.3	-96.9	-63.7	-62.1
Financing	125.0	87.3	96.9	63.7	62.1
Foreign	43.4	46.3	56.8	36.5	25.3
Drawings	44.1	53.1	57.3	42.1	41.0
Repayment	-29.0	-23.3	-18.5	-5.6	-15.7
Debt relief	28.3	16.5	18.0	--	--
Domestic	81.6	41.0	40.1	27.2	36.8
Banking system	81.6	41.0	32.4	33.7	38.6
Other	--	--	7.7	-6.5	-1.8
Money and credit					
Foreign assets (net)	-190.8	-231.0	-232.3	-261.9	-284.5
Domestic credit	376.4	424.5	453.7	483.5	535.3
Claims on Government (net) 3/	258.9	300.0	332.4	366.1	404.7
Claims on public corporations	48.9	49.6	51.9	44.0	49.8
Claims on private sector	68.6	74.9	69.4	73.4	80.8
Recorded money supply	146.5	149.7	151.3	188.6	214.8
	(Percentage change from preceding year)				
Domestic credit	19.8	12.8	6.9	6.6	10.7
Claims on Government (net)	46.0	15.9	10.8	10.1	10.5
Claims on public corporations	-15.8	1.4	4.6	-15.2	13.2
Claims on private sector	-12.8	9.2	-7.3	5.8	10.1
Recorded money supply 3/	17.6	2.2	1.1	24.6	13.9

1/ Includes unallocated expenditure.
2/ Prior to 1984/85 this is a mixture of a checks-issued and a commitment basis. Since 1984/85 it is on a commitment basis.
3/ NBL credit to Government was adjusted upward by $33.5 million in April 1985 owing to reclassification of accounts.
4/ Excludes U.S. notes in circulation.

LIBERIA: Basic Data (concluded)

	1982/83	1983/84	1984/85	1985/86	1986/87 Estimate
	(In millions of U.S. dollars)				
Balance of payments					
Trade balance	31.4	20.8	117.5	145.4	137.6
Exports, f.o.b.	(452.5)	(433.4)	(436.5)	(419.0)	(395.8)
Imports, c.i.f.	(-421.1)	(-412.6)	(-319.1)	(-273.6)	(-258.2)
Services (net)	-123.3	-105.7	-115.0	-123.2	-120.9
Transfers (net)	63.0	58.4	39.7	42.5	33.5
Current account balance	-29.3	-26.5	42.1	64.7	50.2
Capital account (net)	-69.7	-47.1	-139.2	-147.2	-181.9
Overall balance	-99.0	-73.6	-97.1	-82.5	-131.7
	(In millions of U.S. dollars; end of period)				
Gross official reserves	7.8	24.5	4.4	1.1	
External public debt					
Disbursed and outstanding 1/	870.0	957.0	1,074.0	1,280.0	1,437.0
Debt service 2/ 3/	62.0	95.0	130.0	187.0	227.0
Interest 4/	(47)	(47)	(61)	(79)	(86)
Amortization	(15)	(48)	(69)	(108)	(141)
Debt service 2/ (in percent of exports of goods and nonfactor services)	13.4	20.0	27.3	40.9	50.9

1/ Includes use of Fund credit and overdue interest charges.
2/ Including use of Fund credit.
3/ After debt relief.
4/ Includes estimated charges on overdue obligations.

Liberia: Quarterly Budget, 1987/88

	1987/88 First quarter (1)	1987/88 Second quarter (2)	1987/88 Third quarter (3)	1987/88 Fourth quarter (4)	FY 87/88 (5)
Total revenue	51.2	45.2	47.3	56.4	200.0
Excluding PL-480	48.7	42.7	44.8	53.9	190.0
PL-480 rice profits	2.5	2.5	2.5	2.5	10.0
Total recurrent expenditure	67.4	63.4	63.5	62.4	256.7
Wages, salaries, pensions	27.4	25.1	24.1	23.9	100.5
Interest	27.2	25.5	26.6	25.8	105.2
Domestic	(5.7)	(5.8)	(5.9)	(6.1)	(23.5)
Foreign	(21.5)	(19.7)	(20.7)	(19.7)	(81.7)
Other	12.8	12.8	12.8	12.8	51.0
Development expenditure 1/	10.9	10.9	10.9	10.9	43.6
Foreign-financed	5.9	5.9	5.9	5.9	23.6
Locally financed	5.0	5.0	5.0	5.0	20.0
Overall deficit (commitment basis)	27.1	29.1	27.1	17.0	100.3
Adjustment to cash basis	12.2	10.5	15.5	14.2	52.3
Of which:					
External interest arrears	(19.0)	(17.2)	(18.2)	(17.2)	(71.7)
Wage arrears	(-8.3)	(-6.2)	(--)	(--)	(-14.5)
Overall deficit (cash basis)	14.9	18.7	11.7	2.8	48.0
Financing	14.9	18.7	11.7	2.8	48.0
Foreign	4.6	4.7	4.7	4.7	18.6
Drawings 2/	(8.4)	(8.4)	(8.4)	(8.4)	(33.6)
Repayments	(-3.8)	(-3.8)	(-3.8)	(-3.8)	(-15.0)
Domestic	10.3	14.0	7.0	-1.9	29.4
Imputed interest charges 3/	(5.7)	(5.8)	(5.9)	(6.1)	(23.5)
Other	(4.6)	(8.2)	(1.1)	(-8.0)	(5.9)

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

1/ Excludes expenditure financed by grants-in-kind.
2/ Includes $2.5 million per quarter from PL-480.
3/ Counterpart to interest accrued on medium-term loan from NBL.

Liberia: Monetary Survey, June 1986-June 1988

	1986			1987		FY 1987/88			
	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June
Net foreign assets	-261.9	-268.7	-264.5	-280.1	-284.5	-281.1	-284.0	-282.2	-284.5
NBL	-241.1	-248.9	-248.4	-265.0	-262.2	-262.2	-262.2	-262.2	-262.2
Of which:									
Use of Fund credit	(-241.9)	(-248.7)	(-250.0)	(-264.1)	(-262.5)	(-262.5)	(-262.5)	(-262.5)	(-262.5)
Commercial banks	-20.8	-19.8	-16.1	-15.1	-22.3	-18.9	-21.8	-20.0	-22.3
Domestic credit	483.5	513.2	514.1	528.1	535.3	544.0	557.0	562.0	560.0
Claims on public sector	410.1	438.3	439.0	446.4	454.5	463.2	477.2	485.3	483.1
Claims on Government (net)	366.1	391.3	386.1	395.7	404.7	415.0	429.0	436.0	434.1
Claims on public corps.	44.0	47.0	52.9	50.7	49.8	48.2	48.2	49.3	49.0
Claims on private sector	73.4	74.9	75.1	81.7	80.8	80.8	79.8	76.7	76.9
Recorded money supply	188.6	210.7	209.5	211.5	214.8	219.8	224.0	224.8	213.7
Coins in circulation outside bank	49.1	51.0	66.1	63.4	62.5	63.5	72.0	68.6	61.3
Deposits	139.5	159.7	143.4	148.1	152.3	156.3	152.0	156.2	152.4
Other items (net)	-33.0	-33.8	-40.1	-36.5	-36.0	-43.1	-49.0	-55.0	-61.8
<u>Memorandum item:</u>									
Velocity of circulation	4.3				4.0				3.8

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