DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/86/205

CONTAINS CONFIDENTIAL INFORMATION

August 18, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Liberia - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Liberia. A draft decision appears on page 22.

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

Mr. Calamitsis (ext. 6966) or Mr. Martey (ext. 6514) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

LIBERIA

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the 1986 Consultation with Liberia

Approved by A.D. Ouattara and Eduard Brau

August 14, 1986

I. Introduction

The 1986 Article IV consultation discussions with Liberia were initiated in Monrovia during the period May 13-29, 1986 and concluded in Washington on June 13, 1986. The Liberian representatives included Mr. Tubman, Minister of Finance, Mr. Jeffy, Minister of Planning and Economic Affairs, Mr. Bestman, Governor of the National Bank of Liberia (NBL), and other senior officials concerned with economic and financial matters. Members of the staff mission were also received by Mr. Moniba, Vice-President of the Republic. The staff representatives were Mr. Calamitsis (head-AFR), Mr. Martey (AFR), Mr. Dublin (AFR), Mr. Frenkel (EP-FAD), Mr. Streefkerk (EP-ETR), and Ms. Bullough (secretary-RES). Mr. Hemphill, the Fund's resident representative, participated in the discussions; and Mr. Jones, Assistant in the office of the Executive Director for Liberia, attended some of the meetings. Mr. Ramirez, the World Bank's desk economist for Liberia joined the Fund mission in most of the policy discussions in May; and the mission also collaborated closely with Mr. Kendall, the Bank's resident representative in Monrovia.

Liberia continues to avail itself of the transitional arrangements of Article XIV. The last stand-by arrangement for Liberia, in an amount equivalent to SDR 42.78 million, or 60 percent of the quota of SDR 71.3 million, was to cover the 18-month period from December 7, 1984 through June 6, 1986. However, the arrangement became inoperative after the initial purchase of SDR 8.5 million, as Liberia's adjustment program 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. Thus, in respect of its obligations to the Fund of SDR 55.8 million which fell due in 1985, Liberia discharged only SDR 18.8 million; in the first seven months of 1986, Liberia made no payments to the Fund. Following several reviews of the case 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. The first Board review of the case following the declaration of ineligibility was held on July 21, 1986. As of July 31, 1986, Liberia's arrears to the Fund totaled SDR 89.8 million; Liberia also had arrears to the World Bank amounting to US$14.5 million. As of the same date, the Fund's holdings of Liberian dollars subject to repurchase were equivalent to SDR 205.4 million, or 288.1 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 July 24, 1985. At that meeting, Executive Directors expressed disappointment that the initial progress toward adjustment achieved in fiscal year 1983/84 (July-June) had been eroded during 1984/85 as the Liberian authorities had not implemented the policy measures which had been agreed in the context of the adjustment program supported by Fund resources. Directors were greatly concerned about the sharp deterioration in the Government's budgetary operations, which has resulted in a rapid accumulation of domestic and external arrears, including arrears to the Fund. Directors called on the authorities to adopt as a matter of urgency a comprehensive adjustment program. In this regard, some Directors questioned the desirability of maintaining the peg arrangement between the Liberian dollar and the U.S dollar and thought that consideration should be given to complementing the needed fiscal adjustment with supporting monetary and exchange rate policies.

Summaries of Liberia's relations with the Fund and the World Bank Group are provided in Appendices I and II, respectively; statistical issues are discussed in Appendix III; and projections and basic data are presented in Appendices IV-VI and VII, respectively.

II. Background

In recent years Liberia's economic and financial situation has deteriorated sharply. The economy has been on the decline, with real gross domestic product (GDP) falling at an annual rate of 1-2 percent, financial imbalances have grown markedly, and there has been a very large accumulation of domestic and external payments arrears (Table 1). Although inflation has subsided, according to the available price indices, this seems to have been due largely to the depressed economic conditions and an appreciation of the exchange rate. 1/ Moreover, a liquidity crisis has developed, and the functioning of the country's monetary and banking system has been greatly impaired. Thus, confidence in the economy has been eroded, as evidenced by substantial

1/ As is the case with other macroeconomic data, the available price indices have major technical deficiencies; therefore conclusions to be drawn from them need to be interpreted with caution.

Table 1. Liberia: Selected Economic and Financial Indicators, 1981/82-1985/86 1/

	1981/82	1982/83	1983/84	1984/85	1985/86 Prov. est.
	(Annual percentage change, unless otherwise specified)				
National income					
GDP at constant prices	-2.4	-1.9	-2.1	-0.8	-1.7
GDP at current market prices	2.5	-4.9	2.6	0.1	-0.9
Consumer prices	7.0	4.7	1.6	0.6	-0.1
External sector					
Exports, f.o.b.	-8.3	-11.1	-4.2	0.3	-3.4
Imports, c.i.f.	-9.2	-10.9	-2.0	-22.7	-10.7
Non-oil imports, c.i.f.	-13.1	-1.6	5.7	-23.2	...
Export volume	-0.5	-10.3	-3.9	1.6	-5.3
Import volume	-8.3	-7.6	1.3	-20.5	-11.0
Terms of trade (deterioration -)	-6.6	2.8	3.0	1.6	1.6
Nominal effective exchange rate (depreciation -)	14.8	8.4	8.4	11.2	-9.6 2/
Real effective exchange rate (depreciation -)	12.0	6.4	3.9	6.3	-15.2 2/
Government finance					
Revenue and grants	15.3	-7.8	1.0	-16.6	-3.6
Expenditure	-1.3	5.3	-12.8	12.4	-21.7
Money and credit					
Domestic credit	34.7	16.4	16.5	6.9	3.2 3/
Government (net)	(40.0)	(46.0)	(15.9)	(10.8)	(4.2) 3/
Public corporations (net)	(146.2)	(-60.4)	(59.2)	(3.3)	(-23.2) 3/
Private sector	(3.0)	(-12.8)	(9.2)	(-7.3)	(7.8) 3/
Money and quasi-money	10.3	8.5	8.9	0.2	18.3 3/
Interest rate (annual rate on time deposits at end of period)	10.8	9.9	11.3	10.4	8.1 3/
	(In percent of GDP)				
Government overall deficit	8.1	12.5	7.3	15.1	8.3
Foreign financing	3.8	4.1	4.2	5.2	2.8
Domestic bank financing	4.5	7.6	3.7	3.0	3.0
Gross domestic investment	14.3	11.8	10.3	8.6	9.6
Gross domestic savings	17.2	14.3	14.4	14.3	18.4
External current account surplus or deficit (-)					
Excluding official grants	-16.0	-17.0	-13.9	-5.4	-3.8
Including official grants	-6.6	-7.8	-7.2	-0.3	1.3
External debt (including use of Fund credit)	64.2	80.8	86.7	97.5	110.6
	(In percent of exports of goods and services)				
Debt service ratio					
Before rescheduling	13.4	19.0	23.7	31.7	39.8
After rescheduling	8.6	13.4	20.1	27.0	39.8
Interest payments 4/	7.4	11.1	11.4	13.6	15.9
	(In millions of U.S. dollars)				
Balance of payments deficit (-)	-43.0	-68.0	-50.5	-72.4	-109.4
Gross official reserves	9.5	7.8	4.5	4.4	1.1
External payments arrears (end of period) 5/	2.0	14.0	22.0	111.8	263.7
Domestic payments arrears (end of period)	...	...	93.1	124.5	112.6

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

1/ Fiscal year July-June.
2/ As of end-April 1986.
3/ As of end-March 1986
4/ Before rescheduling and including estimated charges on overdue obligations.
5/ Including arrears to the Fund.

capital flight and the virtual disappearance of U.S. dollar notes from circulation. 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. However, by far the most important factor behind the current situation has been the breakdown of financial discipline in the conduct of government operations, as well as in the operations of most public agencies and enterprises.

The financial discipline that should have resulted from strict adherence to a monetary system under which the Liberian dollar is pegged at par with the U.S. dollar (and U.S. dollar notes circulate freely in Liberia as legal tender) has been compromised by excessive, and often unproductive, government spending in the face of declining revenue. As a result, the Government's overall fiscal deficit, on a commitment basis and including grants, has become unsustainably large, averaging almost 11 percent of GDP in the four years ended June 1985 (Table 2). In 1984/85, notwithstanding a 17 percent drop in revenue and grants to $217 million, total expenditure was allowed to expand by 12 percent to $383 million, mainly for increased purchases of goods and services, both within and outside the budget. The shortfall in revenue was attributable not only to the decline in economic activity and imports but also to undercollection and the practice of offsetting tax receipts against certain government outlays; 1/ the increase in expenditure reflected a weakening of budgetary controls. Although the Government had considerable recourse to bank borrowing and issued more Liberian coins, a large part of the deficit could not be financed, and there was an accumulation of domestic and external payments arrears estimated at $117 million, equivalent to about 31 percent of total expenditure for the year.

Monetary and credit developments have been strongly influenced by the expansionary fiscal policies and the depressed overall economic situation. Progressively, the Government's borrowing requirements have crowded out those of the private sector, and monetary growth has tended to reflect primarily the increasing issuance of Liberian coins. In the four years through June 1985 net bank claims on the Government practically tripled, accounting for more than three fourths of the total domestic credit at the end of the period; net bank claims on public corporations also increased markedly, though from a low base. By contrast, credit to the private sector actually declined somewhat, with the growing scarcity of U.S. dollar notes also constraining the banks' capacity to expand such credit, a major portion of which has traditionally been in respect of foreign transactions. In 1984/85 total domestic credit rose by 7 percent, compared with a programmed reduction of 3 percent for that year, as net bank credit to the Government and

---

1/ In view of this practice, which has been on the increase in recent years, both recorded revenue and expenditure are evidently underestimated.

Table 2. Liberia: Central Government Fiscal Operations, 1981/82-1986/87 1/

	1981/82	1982/83	1983/84	1984/85	1985/86 Pro forma budget	1985/86 Estimated outturn	1986/87 Pro forma budget
	(In millions of Liberian dollars)						
Revenue and grants	279.3	257.4	260.1	217.0	307.5	209.1	268.8
Revenue 2/	237.9	224.4	224.1	194.5	249.0	183.6	240.6
Grants 3/	41.4	33.0	36.0	22.5	58.5	25.5	28.2
Expenditure 4/	370.6	390.4	340.4	382.6	319.3	299.6	364.3
Recurrent	287.6	261.0	238.5	231.2	254.6	218.8	284.1
Wages and salaries	(157.7)	(135.8)	(126.3)	(121.9)	(115.0)	(113.8)	(111.4)
Interest	(37.8)	(57.1)	(60.1)	(70.0)	(58.1)	(81.0)	(92.2)
Other	(92.1)	(68.1)	(52.1)	(39.3)	(81.5)	(24.0)	(80.5)
Development	96.4	95.8	73.1	72.0	64.7	37.1	80.2
Locally-financed	(62.8)	(61.4)	(35.0)	(29.7)	(20.7)	(7.1)	(20.0)
Foreign-financed 5/	(33.6)	(34.4)	(38.1)	(42.3)	(44.0)	(30.0)	(60.2)
Nonbudgetary 6/	11.6	17.2	11.0	21.4	--	8.0	--
Unallocated expenditure (net) 7/	-25.0	16.4	17.8	58.0	--	35.7	--
Overall deficit (commitment basis) 8/	-91.3	-133.0	-80.3	-165.6	-11.8	-90.5	-95.5
Identified expenditure-related arrears (reduction -)	-6.0	8.0	-7.0	68.7	-21.3	32.0	--
Overall deficit (cash basis)	-97.3	-125.0	-87.3	-96.9	-33.1	-58.5	-95.5
Financing	97.3	125.0	87.3	96.9	-10.9	58.5	-49.2
Foreign (net)	42.4	43.4	46.3	56.8	36.1	30.4	-3.7
Drawings	(46.4)	(44.1)	(53.1)	(57.3)	(59.0)	(36.0)	(71.2)
Repayments (-)	(-28.7)	(-29.0)	(-23.3)	(-18.5)	(-22.9)	(-5.6)	(-74.9)
Debt relief	(24.7)	(28.3)	(16.5)	(18.0)	(--)	(--)	(--)
Domestic (net)	54.9	81.6	41.0	40.1	-47.0	28.1	-45.5
Bank	(50.7)	(81.6)	(41.0)	(32.4)	(...)	(32.2)	(-42.8)
Central bank	/48.5/	/80.0/	/53.0/	/39.0/	/.../	/26.8/	/.../
Commercial banks	/2.2/	/1.6/	/-12.0/	/-6.6/	/.../	/5.4/	/.../
Nonbank 10/	(4.2)	(--)	(--)	(7.7)	(...)	(-4.1)	(-2.7)
Financing gap	--	--	--	--	44.0	--	144.7
Memorandum items:							
Nominal GDP	1,122.0	1,067.0	1,094.0	1,095.0	1,085.0	1,085.0	1,134.5
Total identified arrears (end of period)	...	...	114.8	231.4	...	365.9	...
Expenditure-related arrears	(...)	(...)	(95.1)	(161.8)	(...)	(193.8)	(...)
Arrears on debt amortization	(1.0)	(5.0)	(19.7)	(69.6)	(...)	(172.1)	(...)
	(In percent of GDP)						
Revenue and grants	24.9	24.1	23.8	19.8	28.3	19.3	23.7
Expenditure	33.0	36.6	31.1	34.9	29.4	27.6	32.1
Overall deficit (commitment basis)	8.1	12.5	7.3	15.1	1.1	8.3	8.4
Overall deficit (cash basis)	8.7	11.7	8.0	8.8	3.1	5.4	8.4
Domestic bank financing	4.5	7.6	3.7	3.0	...	3.0	-3.8

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

1/ Fiscal year July-June.
2/ Including excise taxes on petroleum products collected by the LPRC and not transferred to the Government, but for which there was an agreement to offset these amounts by cancelling corresponding obligations of the Government to the LPRC; no such agreement was reached for 1984/85 and 1985/86.
3/ Excluding grants-in-kind.
4/ Prior to 1984/85, data are partly on a commitment and partly on a checks issued basis.
5/ Excludes expenditures financed by grants-in-kind.
6/ Includes encumbrances and expenditures financed by customs duty drawback certificates.
7/ Calculated as residual; includes unrecorded expenditures, change in nonwage, noninterest expenditure arrears, and check float along with statistical discrepancies.
8/ Prior to 1984/85, this is a mixture of checks-issued and commitment bases.
9/ Up to 1984/85, includes only interest arrears.
10/ Includes net borrowing from the concessions of \$5 million in 1984/85 and net repayments of \$4.5 million in 1985/86. Also includes unredeemed duty drawback certificates.

public corporations together increased by 10 percent, while credit to the private sector fell by 7 percent (Table 3). With an almost 50 percent increase in the amount of Liberian coins in circulation to $29 million in the year ended June 1985, and the progressive disappearance of most U.S. dollar notes, the Liberian coins assumed a growing role in the monetary system; by end-June 1985 they accounted for 23 percent of the broad money stock (which excludes U.S. dollar notes, on which no data are available), as against 12 percent at end-June 1981. However, in 1984/85 the sharp increase of Liberian coins in circulation was offset by a decline in demand and time deposits, and hence there was virtually no change in broad money.

Liberia's external payments position also worsened, with the overall balance of payments deficit widening from $43 million in 1981/82 to $72 million in 1984/85 (Table 4). The current account (including official grants) improved substantially over the period, from a deficit of $74 million, equivalent to 7 percent of GDP, to virtual equilibrium, as imports fell much more rapidly than exports. However, scheduled public debt amortization payments more than doubled to $58 million and net private capital outflows increased to $97 million, contributing to a marked weakening of the capital account. As the resulting deficits could be financed only partly, there was an accumulation of arrears on external debt service payments; such arrears, which amounted to $2 million at end-June 1982, rose to $112 million (10 percent of GDP) by end-June 1985.

Liberia's outstanding external public debt, including overdue interest, increased by more than two thirds between end-June 1981 and end-June 1985 to a total of $1.1 billion, equivalent to 98 percent of GDP. Of this total, about one half was accounted for by multilateral institutions, with 43 percent of the latter in turn being owed to the Fund. In 1984/85 external debt service obligations, after rescheduling, were equivalent to 27 percent of exports of goods and nonfactor services. A fourth agreement with official creditors of the Paris Club, signed in December 1984, consolidated maturities falling due from July 1, 1984 through June 30, 1985 and rescheduled 90 percent of principal and interest. Soon thereafter, however, the Government of Liberia fell into arrears with its Paris Club creditors, as well as with other creditors. A second agreement with commercial banks of the London Club, which was reached in December 1984, never became operative, as the initial conditions of that agreement were not met.

Liberia maintains a generally liberal trade and payments system. However, as a result of the foreign exchange crisis, there is no longer full convertibility between foreign and domestic currency; and commercial banks operate an informal allocation system for foreign exchange.

The exchange rate of the Liberian dollar appreciated substantially in nominal and real effective terms from end-June 1981 to end-March

Table 3. Liberia: Monetary Survey, June 1981-March 1986

(In millions of Liberian dollars; end of period)

	1981	1982	1983	1984		1985				1986
	June	June	June	June	Dec.	March	June	Sept.	Dec.	March
Foreign assets (net)	-89.9	-162.3	-190.7	-231.0	-228.7	-235.2	-232.3	-247.4	-255.2	-254.1
National Bank of Liberia	-70.1	-124.6	-182.3	-218.9	-204.7	-204.5	-206.9	-217.3	-224.3	-229.1
Of which: use of Fund credit 1/	(-62.1)	(-126.6)	(-188.1)	(-219.9)	(-208.0)	(-209.2)	(-210.7)	(-218.9)	(-225.1)	(-233.8)
Commercial banks	-19.8	-37.7	-8.4	-12.1	-24.0	-30.7	-25.4	-30.1	-30.9	-25.0
Domestic credit 2/	218.6	294.4	342.7	399.1	412.1	412.4	426.8	445.6	459.6	440.5
Claims on public sector (net)	142.2	215.7	274.1	324.2	338.2	342.0	357.4	371.3	382.3	365.7
Claims on Government 3/	(126.6)	(177.3)	(258.9)	(300.0)	(309.6)	(313.2)	(332.4)	(351.6)	(360.4)	(346.5)
Claims on public corporations	(15.6)	(38.4)	(15.2)	(24.2)	(28.6)	(28.8)	(25.0)	(19.7)	(21.9)	(19.2)
Claims on private sector	76.4	78.7	68.6	74.9	73.9	70.4	69.4	74.3	77.3	74.8
Recorded money supply 4/	95.4	105.2	114.1	124.3	128.9	126.5	124.4	131.0	147.9	147.2
Coins in circulation	11.3	11.9	16.0	19.4	28.6	27.8	29.0	31.2	46.2	45.7
Deposits 2/	84.1	93.3	98.1	104.9	100.3	98.7	95.4	99.8	101.7	101.5
Demand	(40.7)	(41.3)	(41.3)	(52.1)	(52.3)	(52.7)	(48.4)	(56.4)	(58.0)	(56.9)
Time	(11.2)	(14.6)	(17.0)	(16.0)	(11.5)	(10.1)	(10.1)	(8.5)	(8.2)	(7.4)
Savings	(32.2)	(37.4)	(39.8)	(36.8)	(36.5)	(35.9)	(36.9)	(34.9)	(35.5)	(37.2)
Other items (net)	33.3	26.9	37.9	43.8	54.5	50.7	70.1	67.2	56.5	39.2

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

1/ Excludes Trust Fund.
2/ Data for June 1981 and June 1982 are not strictly comparable with quarterly data commencing September 1982 because of the reclassification of claims on and deposits of Government, public corporations, and the private sector with the National Housing and Savings Bank.
3/ The claims of the National Bank of Liberia on the Government were raised by $33.5 million in April 1985 due to a reclassification of accounts.
4/ Recorded money supply excludes U.S. notes in circulation on which no data are available.

Table 4. Liberia: Balance of Payments Estimates, 1981/82-1985/86

	1981/82	1982/83	1983/84	1984/85	1985/86 Prov. est.
			(In millions of U.S. dollars)		
Current account	-73.7	-83.6	-79.1	-3.6	14.6
Trade balance	36.3	31.4	20.8	115.5	134.8
Exports, f.o.b.	(508.9)	(452.5)	(433.4)	(434.6)	(419.8)
Imports, c.i.f.	(-472.6)	(-421.1)	(-412.6)	(-319.1)	(-285.0)
Services (net)	-172.0	-171.0	-151.6	-146.7	-147.3
Of which: interest due on public debt	(-41.0)	(-51.0)	(-54.0)	(-64.2)	(-72.5)
Transfers (net)	62.0	56.0	51.7	27.6	27.1
Private	(-36.0)	(-36.0)	(-36.6)	(-42.8)	(-41.0)
Public	(98.0)	(92.0)	(88.3)	(70.4)	(68.1)
Capital account	21.7	10.6	21.8	-75.8	-89.0
Official long-term	25.0	16.0	19.0	2.3	-24.0
Drawings	(52.0)	(51.0)	(59.0)	(60.3)	(42.0)
Amortization due	(-27.0)	(-35.0)	(-40.0)	(-58.0)	(-66.0)
Private	-28.3	-31.4	-14.3	-97.1	-65.0
Commercial banks	(18.0)	(-29.0)	(3.7)	(13.4)	(--)
Other (including errors and omissions)	(-46.3)	(-2.4)	(-18.0)	(-110.5)	(-65.0)
Debt relief	25.0	26.0	17.1	19.0	--
Interest	(5.0)	(4.0)	(6.9)	(6.0)	(--)
Principal	(20.0)	(22.0)	(10.2)	(13.0)	(--)
Valuation adjustments	9.0	5.0	6.8	7.0	-35.0
Overall deficit (-)	-43.0	-68.0	-50.5	-72.4	-109.4
Financing	43.0	68.0	50.5	72.4	109.4
National Bank of Liberia	51.0	56.0	42.5	-17.4	-42.5
Assets (increase -)	(-1.0)	(2.0)	(3.3)	(1.4)	(0.7)
Liabilities	(52.0)	(54.0)	(39.2)	(-18.8)	(-43.2)
Use of Fund credit (net)	(62.0)	(60.0)	(37.0)	(-16.0)	(-42.7)
Other	(-10.0)	(-6.0)	(2.2)	(-2.8)	(-0.5)
Arrears (reduction -)	-8.0	12.0	8.0	89.8	151.9
Memorandum items:					
External arrears (end of period) 1/	2.0	14.0	22.0	111.8	263.7
IMF	--	--	--	27.9	93.3
Other multilateral organizations	--	--	--	13.3	24.5
Official bilateral creditors	2.0	14.0	5.0	12.9	42.2
Commercial banks 1/	--	--	17.0	57.7	103.7
			(In percent of GDP)		
Current account deficit (-)	-6.6	-7.8	-7.2	-0.3	1.3
Overall deficit (-)	-3.8	-6.4	-4.6	-6.6	-10.1

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

1/ Excludes $26 million of debt to banks in respect of the oil facility.

1985, before depreciating somewhat in the last quarter of the 1984/85 fiscal year, in line with the movement in the exchange value of the U.S. dollar (see Chart). Liberia's nominal effective exchange rate appreciated by 45 percent from July 1981 through March 1985, while in real effective terms it appreciated by 26 percent over the same period. From April 1985 through June 1985, the nominal effective exchange rate depreciated by 5 percent, and the real effective exchange rate depreciated by 7 percent. The real effective appreciation through March 1985 greatly weakened the profitability of the tradable goods sector. In addition, as mentioned earlier, the export sector came under pressure because of the decline in world demand and prices for Liberia's major export commodities. Inasmuch as an independent exchange rate policy is precluded by Liberia's present monetary arrangement, the external competitiveness of the tradable goods sector can only be improved through increased productivity and compression of domestic costs, particularly wages. However, in the period under review cost savings of the magnitude required to offset the impact of the currency appreciation did not prove possible, adversely affecting production in the tradable goods sector.

III. Report on the Discussions

Against this background, the consultation discussions focused on recent economic and financial developments and prospects, particularly the very serious fiscal situation, the crisis in the banking system, and the rapidly increasing external payments arrears, including arrears to the Fund. As the Government's "new economic team" had not yet had the time to assess fully the situation, the policy discussions in certain areas were necessarily tentative; but it was agreed to pursue the dialogue in the period ahead in an effort to develop a comprehensive adjustment program to come to grips with Liberia's economic and financial problems.

1. The real economy

In 1985/86 real GDP is estimated to have declined by some 2 percent, even more than in the previous year. Although output in the subsistence agricultural sector, involving mainly rice production, remained buoyant, value added in the monetized sectors fell considerably. With the low level of economic activity and the growing liquidity problems affecting the financial sector, prices apparently stabilized during the year.

In discussing the overall economic performance, the Liberian representatives stated that the continued slide of the economy reflected the depressed state of world demand for Liberia's major exports, notably iron ore and rubber, as well as the impact of the considerable appreciation of the Liberian dollar from mid-1980 through early 1985 on the country's external competitiveness. They expressed concern about the consequences of the poor economic performance on employment and the standard of living, and recognized that a concerted strategy was needed to revive the economy.

In this regard, the Ministry of Planning and Economic Affairs had prepared a draft economic recovery program for the two fiscal years 1986/87-1987/88 which seeks to return the economy to a positive growth path through public investments totaling $313 million. However, the draft needed to be reviewed further, before consideration by creditors and donors. The staff mission suggested that, as the draft is reviewed and elaborated, it would be important to strengthen the policy content of the program by indicating the specific measures that would be implemented to achieve the proposed sectoral objectives and strategies. It would also be important to relate more closely and realistically the proposed sectoral investment programs and projects with the availability of financial resources. In this endeavor, close consultation between the planning authorities and the World Bank would be extremely useful. Furthermore, in the staff's view, the authorities needed to articulate more clearly the policies they intended to pursue so as to encourage private sector investment.

2. Fiscal developments and policies

In light of the record overall fiscal deficit registered in 1984/85, the Liberian authorities prepared a pro forma budget for 1985/86, which envisaged a significant fiscal adjustment. The pro forma budget was subsequently tightened further on the basis of the 1985 consultation discussions, and it was approved on August 16, 1985, but not published. As shown in Table 2, the approved pro forma budget called for a major reduction of the overall fiscal deficit, on a commitment basis and including grants from $166 million (15 percent of GDP) in 1984/85 to $12 million (1 percent of GDP) in 1985/86. However, this budget soon proved to be highly unrealistic, especially as revenue continued to lag far behind estimates. Moreover, the fiscal situation was complicated by the events associated with the presidential and legislative elections of October 1985 and the abortive military coup of November 1985. In the circumstances, and taking into account recommendations made by a Fund staff team that visited Monrovia in early January 1986, the authorities adopted a mini-budget for the second half of the fiscal year, with a view to arresting the deterioration in budgetary performance.

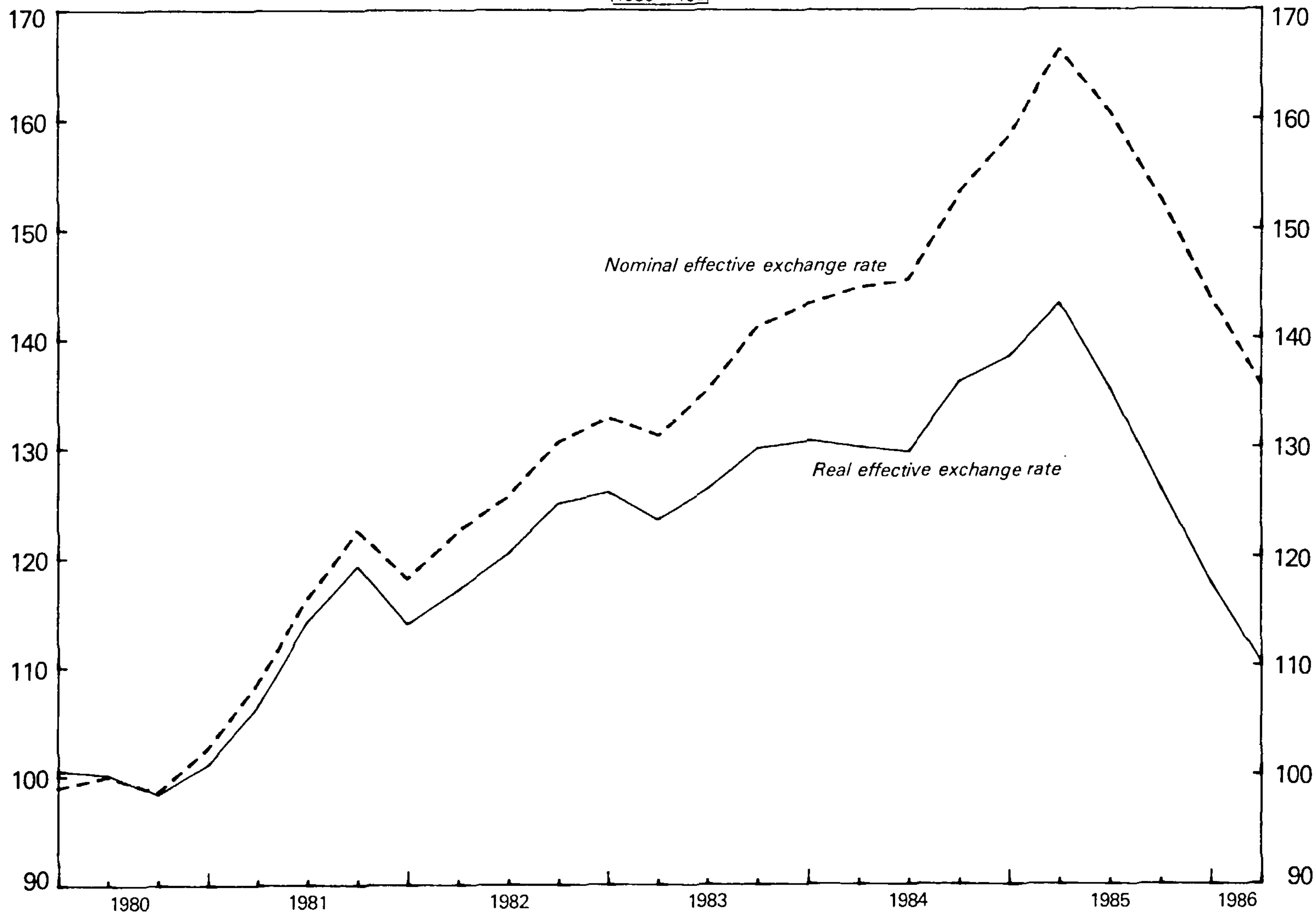
In the first half of the fiscal year (July-December 1985), the overall fiscal deficit, on a commitment basis and including grants, amounted to $44 million, or 8 percent of GDP on an annual basis, well above the level envisaged in the pro forma budget for 1985/86 as a whole. Total revenue and grants, at $114 million, were only 37 percent of the estimate for the year. By contrast, total expenditure amounted to $158 million, about one half of the pro forma budget appropriations for the year. At the same time, according to data provided by the authorities, there was a net reduction of $8 million in identified expenditure-related arrears (as an accumulation in external interest

CHART

LIBERIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, Q1 1980-Q1 1986[1]

(1980 = 100)



Source: Information Notice System.

[1] Trade-weighted.

arrears was more than compensated by a reduction in domestic arrears), compared with a projected decrease in arrears of $21 million for the year as a whole.

Commenting on the above developments, the Liberian representatives stated that the shortfall in revenue stemmed mainly from lower customs duty receipts due to a decline in imports, as well as from weaknesses in tax administration and enforcement, including the practice of offsetting tax receipts against certain government outlays. Performance on the expenditure side could have been more restrained, if it were not for the substantial outlays incurred in connection with the political events of late 1985. The authorities undertook a major effort to discharge domestic arrears, largely in respect of vouchers and unpaid checks, in order to induce local vendors to continue to provide goods and services to the Government. The staff mission noted that the assessment regarding a net reduction in arrears was predicated on the uncertain assumption that all domestic arrears incurred during the period had been included in the estimates. Moreover, the reduction in domestic arrears, while commendable, stood in sharp contrast with the accumulation of substantial external arrears, including arrears to the Fund.

At the time of the consultation discussions, indications were that during the period January-April 1986 the overall fiscal deficit, on a commitment basis and including grants, was in line with the provisions of the mini-budget. Despite a cessation of disbursements of external cash grants, total receipts amounted to $63 million, while total expenditure was limited to $86 million. Thus, the deficit for the four-month period amounted to $23 million, compared with the mini-budget estimate of $35 million for six months. On the basis of these developments and a prospective acceleration of expenditure toward year-end, it was estimated that for 1985/86 as a whole, the overall fiscal deficit, on a commitment basis and including grants, would be of the order of $91 million, or about 8 percent of GDP. Although substantially lower than that of the previous year, the prospects were that this deficit could hardly be financed, especially when account was also taken of scheduled debt amortization payments. Therefore, total identified arrears of the Government were expected to continue to rise rapidly, from an estimated $231 million at end-June 1985 to $366 million at end-June 1986. The Government had hoped to eliminate all wage arrears by the end of the fiscal year; but preliminary indications are that by end-June 1986 wages and salaries continued to be paid with a delay of about two months.

In discussing the likely outturn for 1985/86 as a whole, the Liberian representatives pointed out that the decline in the deficit relative to the previous year was due largely to a reduction in the government wage bill, the compression of most categories of other recurrent expenditure, and the sharp cutback in development expenditure. The reduction in the monthly wage bill, effective December 1985, from more than $10 million to less than $9 million, was the result of the Government's decision to cut salaries of certain government employees by 25 percent and to reduce the total number of personnel (excluding the military and security forces) by 9 percent, with 1,800 positions being declared redundant and 600 employees retired. Pensioners receiving less than $200 per month, nurses, and doctors, as well as lower-rank military and security personnel, were all exempted from the wage cut. Other recurrent expenditure had also been restrained to the most essential requirements. Effective February 1986, the Government had announced a freeze on all public construction projects for the rest of the fiscal year. Moreover, in a major address to the nation on May 2, 1986, the Head of State had outlined further measures to limit expenditure, including the elimination of extrabudgetary outlays. As a number of bilateral and multilateral creditors had suspended their aid disbursements to Liberia, in light of the Government's failure to discharge its debt service obligations, foreign-financed development expenditure had declined markedly. At the same time, the locally financed component of development outlays had been adversely affected by operational difficulties in mobilizing the local currency proceeds of U.S. PL-480 rice aid.

Regarding revenue performance, the Liberian representatives said that they were taking steps to improve tax administration and enforcement. In particular, as had been announced by the Head of State, the practice of revenue offsets would be discontinued, most duty-free import privileges abolished, the system of duty drawback certificates canceled, and a comprehensive import inspection scheme implemented, with assistance from the Swiss Société Générale de Surveillance, to help improve import duty valuation and collection.

While noting the progress made toward reducing the overall fiscal deficit in 1985/86, the staff mission emphasized that the deficit was still unsustainably large. Moreover, in the absence of strong corrective measures, there was reason to believe that the deficit would widen again in the year ahead, which would exacerbate the fiscal crisis. In the circumstances, the mission recommended a series of revenue and expenditure measures, with a view to limiting the overall fiscal deficit, on a commitment basis and including grants, to 4-5 percent of GDP in 1986/87. At the same time, it was emphasized that determined efforts should be made to limit onshore expenditure to available onshore receipts, which would permit the allocation of the bulk of the prospective offshore resources to the servicing of the Government's external debt service obligations. Even so, only part of the external debt service payments falling due in 1986/87 could realistically be discharged. Nevertheless, as sizable foreign exchange resources would still be available, the special accounts established for debt servicing should be replenished correspondingly and urgent payments, including the settlement of Fund repurchases and charges, should be made without delay. The staff mission stressed that there should be no mortgaging of future offshore revenue to finance onshore expenditure.

To help reduce the overall fiscal deficit in 1986/87, the staff mission recommended the following revenue measures: (a) improved enforcement of excise taxes on nonpetroleum products; (b) better enforcement of individual and stumpage taxes; (c) reduction in costs involved in the collection of maritime revenue; (d) increased collection of import duties through an efficient implementation of the scheme for preshipment inspection of imports and the avoidance of ad hoc exemptions; (e) mobilization of the prospective profits of the Liberia Petroleum Refining Company (LPRC) (resulting from the sharp drop in world oil prices) in support of the budget, in addition to the full transfer to the Government of the excise tax collected on its behalf by the LPRC; and (f) mobilization of the prospective profits of the Liberia Produce Marketing Corporation on PL-480 rice operations also in support of the budget. On the basis of tentative staff estimates, the above measures could yield some $29 million in 1986/87. In addition, the staff mission recommended expenditure cuts of the order of $33 million, comprising: (a) further reduction of the government wage bill through retrenchment and retirements; (b) reduction of fuel consumption; (c) containment of the prospective increase in other recurrent expenditure; and (d) avoidance of extrabudgetary outlays. To limit recurrent expenditure and avoid extrabudgetary outlays, monthly allotments and commitments should be strictly monitored and controlled; they should also be closely coordinated with revenue developments to ensure that there is no accumulation of domestic arrears.

In preparing the pro forma budget for 1986/87, the authorities took account of some of the measures outlined above. However, the pro forma budget for 1986/87, as approved by the Government, envisages an overall fiscal deficit, on a commitment basis and including grants, of $96 million, or more than 8 percent of the projected GDP, representing practically no change in comparison with the estimated outturn in 1985/86. As shown in Table 2, total revenue and grants are estimated to rise by as much as 29 percent to $269 million, while total expenditure (which is adjusted by the staff to cover all interest obligations) is budgeted to increase by 22 percent. Taking into account staff estimates of scheduled amortization payments, drawings on foreign loans, and government transfers to the central bank to service prospective obligations to the Fund, there would be a gap of $145 million. Although the authorities have indicated that they would be implementing virtually all of the revenue measures recommended by the staff, the revenue estimate seems overly optimistic. Moreover, the budgeted rise in expenditure is clearly out of line with available resources and the need for Liberia to begin to discharge a substantial part of its external debt service obligations. The authorities explained that the higher appropriations were required mainly to provide for an upward adjustment of teachers' salaries to certification levels (at a cost of about $7 million a year), as well as for substantial increases in other recurrent expenditure and development outlays. Under these conditions, resources available for external debt servicing would amount to only $58 million, compared with external debt service obligations of the Government of $203 million falling due in 1986/87.

3. Public enterprises

For a variety of reasons, including inefficient organization and management, the financial performance of most public enterprises in Liberia has been unsatisfactory. As a result, these enterprises have required sizable subsidies and transfers from the Government to finance operating expenditure and capital projects. The situation has been complicated by the existence of substantial cross-arrears between the Government and public enterprises, as well as among such enterprises.

In order to reduce the dependence of public enterprises on government subsidies and transfers, the authorities have recently decided to wholly or partially privatize certain state enterprises and to improve the operational efficiency of others. Accordingly, it is intended to fully privatize Air Liberia and the Liberia Petroleum Refining Company. The Liberia Electricity Corporation, the Liberia Water and Sewer Corporation, and the National Port Authority are among those enterprises identified for partial privatization. The Government is seeking technical assistance from the World Bank and other sources for the privatization program. However, at the time of the consultation discussions, the modalities for the proposed privatization schemes had not yet been worked out. The staff mission emphasized that the decision to privatize certain public enterprises needed to be quickly translated into action. As a first step, and in accordance with government plans, it would be essential to have audits made by internationally recognized accounting firms of the operations of the key entities.

4. Monetary and credit developments and policies

In 1985/86 the liquidity position of banks in Liberia came under increased strain, and confidence in the monetary system was further eroded. The issuing of government checks against inadequate balances resulted in a continued buildup of excess reserves of commercial banks with the National Bank of Liberia (NBL), exacerbating the liquidity crisis in the banking system and the process of financial disintermediation. In an attempt to protect their dwindling cash balances, commercial banks generally refused to accept checks drawn on other banks for the accounts of their depositors, and the clearing of interbank checks declined markedly. Furthermore, the unsettled environment aggravated the situation by contributing to the disappearance of U.S. dollar notes and the hoarding of Liberian coins. As a result of the growing scarcity of foreign exchange and the increasing issuance of Liberian coins, a substantial premium developed on U.S. dollar notes.

In the nine months ended March 1986, total domestic credit rose by 3 percent, or at the same rate as in the nine months ended March 1985 (Table 3). Net bank claims on the Government grew at a faster pace than total domestic credit, and thus their share in the total reached almost 80 percent. Net bank claims on public corporations fell appreciably, while credit to the private sector registered a mild recovery. At the same time, the net external position of the banking system continued to deteriorate. However, with the substantial increase of Liberian coins in circulation, from $29 million at end-June 1985 to about $46 million at end-March 1986, broad money rose by 18 percent over the period, compared with only a fractional increase in the corresponding nine months ended March 1985.

In discussing monetary and credit developments, the Liberian representatives indicated that the relative stagnation in bank credit to the private sector over the past few years was attributable, on the supply side, to the crowding-out effects of the large borrowing requirements of the Government, the liquidity constraints of the commercial banks, and the unwillingness of the banks to bring in additional offshore funds. On the demand side, the depressed economic situation had tended to limit the credit requirements of the private sector. However, indications were that private traders were also meeting their financing requirements through the parallel market.

Given the limited policy instruments available under the current monetary arrangement, the NBL has relied on reserve requirements and interest rate policy to stimulate economic activity. However, in the uncertain environment of the period under review, the monetary authorities' attempt to encourage lending to the private sector by lowering, in February 1985, both the reserve ratio and the maximum lending rate of commercial banks met with little success. With the decline in the prime rate in New York, the spread between the lending rate (equivalent to the New York prime plus 4 percentage points) and the officially fixed savings deposit rate has narrowed. Thus, the income position of commercial banks has come under strain; it is also likely to suffer from the prospective shift of certain foreign exchange operations from commercial banks to the NBL. To encourage commercial bank lending, the staff mission suggested that it seemed appropriate to adjust the interest rate structure, while maintaining interest rates positive in real terms. The authorities indicated that they were in the process of reviewing interest rates and related bank charges.

The Liberian representatives contended that the NBL had recently issued additional coins against the excess reserves of the commercial banks to ease the very tight liquidity position of the banking system, as well as to monetize government revenue deposited with the banks to enable the Government to meet its payroll. While appreciating some of the reasons behind the issuance of Liberian coins, the staff mission pointed out that the money creation had contributed to the erosion of confidence in the monetary system. In fact, indications were that a dual currency system had developed, with the value of the Liberian coins being progressively reduced vis-à-vis the U.S. dollar and other major currencies on the parallel market. The monetary authorities shared the staff's concerns in this area, and recognized that there was need for a comprehensive review of the situation. For this reason, the Government requested Fund technical assistance to study the Liberian currency system, diagnose the existing problems, and identify policy options for the future. In response to this request, a Fund technical assistance mission will be visiting Monrovia in the second half of August 1986. The staff mission noted that, irrespective of a possible reform of the currency system, there was an urgent need for a restoration of financial discipline throughout the public sector. Thus, it was particularly important for the Government to implement a very tight fiscal policy in 1986/87 and the medium term.

5. External sector issues

Liberia's external payments position continued to worsen in 1985/86. On the basis of provisional estimates, the overall balance of payments deficit increased by more than one half to $109 million (Table 4). The current account registered a turnaround, from a deficit of $4 million in 1984/85 to a surplus of $15 million (about 1 percent of GDP), owing mainly to an 11 percent decline in imports, which more than compensated for a 3 percent drop in export earnings. However, the capital account deteriorated further, as loan disbursements fell, scheduled amortization payments increased, and capital flight continued. In the event, Liberia discharged only $31 million of its external debt obligations in 1985/86. Thus, arrears on external debt service payments rose from $112 million at end-June 1985 to $264 million at end-June 1986, equivalent to 24 percent of GDP. Of the latter amount, some 39 percent was owed to private financial institutions, mostly commercial banks of the London Club, 35 percent to the Fund, 9 percent to other multilateral organizations, and the balance to official bilateral creditors.

Commenting on these developments, the Liberian representatives explained that the decline in export earnings reflected the stagnation in the volume and prices of the country's principal exports, notably iron ore and rubber; other agricultural exports had also fallen. Although the real effective exchange rate of the Liberian dollar had depreciated by 19 percent in the ten-month period through end-April 1986, the competitiveness of the export sector still suffered from the overall appreciation of the exchange rate since mid-1980. The drop in imports was due to the depressed level of economic activity and the increasing scarcity of foreign exchange. The inability of the Government to service its external debt obligations had adversely affected the inflow of financial resources to Liberia, contributing to the stagnation of the economy.

Faced with the major accumulation of external debt service arrears, the resulting sharp drop in foreign aid disbursements, and large debt service payments falling due over the medium term, the authorities introduced a foreign exchange surrender requirement. According to the relevant legislation, which became effective in May 1986, 25 percent of the foreign exchange earned from all exports should be surrendered to the NBL against local currency, over and above any other arrangements which may already exist between exporters and the Government for the offshore payment of some of their obligations to the Government.

However, the authorities have indicated that they intend to administer the law flexibly so as to avoid any adverse consequences on export activity. Under the new system, the Government may purchase the foreign exchange surrendered to the NBL, and thereby discharge its external debt service obligations, provided that it can mobilize the necessary local resources.

The Liberian representatives expressed the hope that the foreign exchange surrender requirement would help channel into the banking system some of the foreign exchange currently going through the parallel market, and thus enhance the level of officially available foreign exchange. They expected to utilize some of the proceeds derived from the application of the new system, as well as offshore receipts from taxes and other sources, for making payments on arrears to the Fund and to multilateral organizations which would resume disbursements of loans in support of ongoing development projects. The staff mission noted that, under certain circumstances, the foreign exchange surrender requirement could help augment the Government's capacity to effect external debt service payments. However, to address the legitimate concerns expressed by some exporters, particularly the mining and rubber concessions, the mission emphasized that the Government and the NBL should ensure immediate payment in acceptable form of the domestic counterpart of any foreign exchange surrendered. The Government should also be mindful that certain exporters might need to surrender less foreign exchange because of their existing external obligations.

IV. Medium-Term Economic Prospects

At this juncture, Liberia's economic and financial prospects for the medium term are disquieting. In the absence of a strong and comprehensive adjustment effort, it appears that the economy will continue to stagnate, financial imbalances will remain unsustainably large, and domestic and external payments arrears will reach unprecedentedly high levels. The economic outlook is clouded by the gradual depletion of the ore base of one of the two major iron ore companies operating in Liberia. Iron ore production and exports will begin to recover only around 1990, after the coming on stream of a new mine straddling the border with neighboring Guinea, which will require a substantial investment. Although production and exports of other commodities could increase significantly, on average real GDP is likely to show little if any increase over the next five years. Thus, with a population growth rate of over 3 percent a year, real per capita income would continue to decline.

On present policies, the fiscal situation is likely to deteriorate. According to a baseline scenario developed by the staff (Appendix IV), government revenue is projected to recover somewhat in 1986/87, but to virtually stagnate in the years through 1990/91. By contrast, expenditure is projected to grow on average by about 4 percent a year, reflecting mainly a substantial budgeted increase in other recurrent expenditure in 1986/87 and steadily rising interest obligations during the five-year period. As a result, the overall fiscal deficit, on a commitment basis and including grants, would widen from the estimated $91 million (8 percent of GDP) in 1985/86 to $133 million (11 percent of GDP) in 1990/91. Taking into account scheduled debt amortization payments, and drawings on foreign loans equivalent to the estimated levels of development outlays, there would be large financing gaps during the period, totaling some $880 million. The financing gaps would decline only gradually, from $197 million in 1986/87 to $151 million in 1990/91, paralleling the decrease in scheduled debt amortization payments.

Similarly, assuming present policies, Liberia's external payments position will be under great strain. On the basis of staff projections (Appendix V), the overall balance of payments deficit is likely to decrease only slightly over the medium term, from the estimated $109 million in 1985/86 to $90 million in 1990/91. The projected financing gaps in the balance of payments would decline from $160 million in 1986/87 to $106 million in 1990/91, in line with the decrease in scheduled repurchases to the Fund. However, this would still leave a cumulative financing gap for the five-year period of the order of $680 million. Depending on the amount of foreign exchange the Government may obtain from the recently introduced 25 percent foreign exchange surrender requirement, its cumulative financing gap would be corespondingly lower than the above maximum.

Exports are likely to fall during 1986/87-1988/89, before partially recovering at the end of the projection period. This pattern largely reflects the expected evolution in iron ore production and exports. A modest increase is anticipated in exports of rubber and a more significant gain in those of logs and timber. By contrast, imports are estimated to increase through 1988/89, owing to the anticipated investment in the new iron ore mine, then drop below their 1985/86 level because of foreign exchange constraints. The terms of trade are expected to deteriorate at an average annual rate of about 1 percent. In view of the projected pattern of exports and imports, the current account is likely to worsen from the estimated surplus of $15 million (about 1 percent of GDP) in 1985/86 to a deficit of $113 million (10 percent of GDP) in 1988/89, followed by a deficit of $61 million (5 percent of GDP) in 1990/91. The capital account, however, is anticipated to shift from a deficit of $89 million in 1985/86 to a surplus of $6 million in 1988/89, then register a deficit again of $30 million in 1990/91. The shift reflects mainly the inflow of foreign capital to finance the development of the new iron ore mine.

Liberia's outstanding external public debt, including overdue interest, is projected to increase in the five years ending 1990/91 by 34 percent to $1.6 billion (128 percent of GDP). Scheduled external debt service payments will remain high, rising to 51 percent of exports of goods and nonfactor services in 1987/88 then declining to 39 percent in 1990/91 (Appendix VI).

In light of these prospects, the question arises as to the set of conditions which would enable Liberia to close the prospective balance of payments gaps. In this regard, the alternative projections shown in Appendix V represent a normative scenario based on the assumption that a broad range of policies would be adopted to secure a strengthening of the trade balance, the resumption of private capital inflows, and the provision of debt relief on generous terms. However, as shown in the table, even if actual developments were to be in line with this assumption, Liberia would still face a cumulative financing gap of about $285 million for the entire projection period. Thus, notwithstanding the adjustment measures that would be required to achieve these results, particularly the strengthening of the export sector and the compression of imports, the normative scenario suggests that Liberia would require further substantial external support from creditors and donors if it were to normalize its external position.

In view of the gravity of Liberia's current situation and prospects, the mission urged the authorities to undertake a strong and comprehensive adjustment program designed not only to address the immediate and most pressing problems but also to ensure progress toward economic and financial viability over the medium and long term. To be successful, such a program would need to come to grips with the fundamentals of the current situation, including restoring Liberia's external competitiveness and promoting economic recovery and growth. Furthermore, it would require major improvements in the mobilization and management of public resources. Finally, such a program would need to be supported by substantial and coordinated external assistance, both technical and financial, but such assistance is likely to be forthcoming only if creditors and donors are convinced of the authorities' commitment to adjustment and growth.

V. Staff Appraisal

In recent years Liberia's economic and financial situation has deteriorated sharply. The economy has been on the decline, financial imbalances have grown markedly, and there has been a very large accumulation of domestic and external payments arrears, including arrears to the Fund. Moreover, a liquidity crisis has developed, and the functioning of the country's monetary and banking system has been greatly impaired. Thus, confidence in the economy has been eroded, as evidenced by substantial capital flight and the virtual disappearance of U.S. dollar notes from circulation. To some extent, the deterioration has been due to the decline in world demand and prices for Liberia's principal exports, notably iron ore, as well as to the loss of competitiveness resulting from the considerable real appreciation of the exchange rate from mid-1980 through early 1985. However, by far the most important factor behind the current crisis has been the breakdown of financial discipline throughout the public sector.

The financial discipline that should have resulted from strict adherence to a monetary system under which the Liberian dollar is pegged at par to the U.S. dollar (and U.S. dollar notes circulate freely in Liberia as legal tender) has been compromised by excessive, and often unproductive, government spending. In the event, there have been large overall fiscal 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 Government's practice of issuing checks against inadequate balances has led to a buildup of excess reserves of commercial banks with the National Bank of Liberia, exacerbating the liquidity crisis in the banking system and the process of financial disintermediation. In an attempt to protect their dwindling cash balances, the commercial banks have generally refused to accept checks drawn on other banks for the accounts of their depositors, and the clearing of interbank checks has declined markedly. Furthermore, the unsettled environment has aggravated the situation by contributing to the disappearance of U.S. dollar notes and the hoarding of Liberian coins. As a result of the growing scarcity of foreign exchange and the issuance of more Liberian coins, the spread between the official and parallel market exchange rates of the Liberian dollar has widened appreciably.

Faced with this serious situation, the authorities took some corrective measures in late 1985 and early 1986, involving notably a significant reduction in the government wage bill and the compression of most categories of other non-interest recurrent expenditure. Although these measures helped to reduce the Government's overall fiscal deficit, from a record level equivalent to 15 percent of GDP in 1984/85 to an estimated 8 percent of GDP in 1985/86, the deficit remained unsustainably large. A number of inappropriate fiscal practices have also been followed, including the issuing of duty drawback certificates; the offsetting of excise tax receipts from petroleum products against expenditures related mostly to the sale of such products by the oil refinery to the Government and government agencies; the mortgaging of future offshore revenue from taxes and royalties through loans and advances from the mining concessions; and the recurrence of sizable extrabudgetary outlays. In addition, despite repeated assurances to Liberia's creditors, the Government has made little effort to discharge its external debt service obligations, including obligations to the Fund. For nine months Liberia has made no payments on its overdue obligations to the Fund. The staff regrets this situation and urges the authorities to give priority to honoring Liberia's obligations to the Fund, as the continued accumulation of overdue obligations can only make the problem more intractable. The staff notes that the authorities have recently introduced an exchange surrender requirement with a view to acquiring foreign exchange for debt servicing purposes. The staff urges the authorities to apply such receipts, as well as other offshore revenues, to the settlement of Liberia's overdue obligations to the Fund.

In view of the gravity of Liberia's current economic situation and prospects, a strong and comprehensive adjustment program is urgently needed not only to address the immediate and most pressing problems, but also to ensure progress toward economic and financial viability over the medium and long term. To be successful, such a program would require major improvements in the mobilization and management of public resources. It would also require restoring Liberia's external competitiveness and promoting economic recovery and growth. Finally, such a program would need to be supported by substantial and coordinated external assistance, including cash grants and generous debt relief. Clearly, however, external assistance on this scale is unlikely to be forthcoming if Liberia's creditors and donors are not convinced of the authorities' commitment to adjustment and economic growth.

A comprehensive adjustment program along the lines outlined above will require intensive preparatory work. In this regard, a particularly important element will be the study of the Liberian currency system and possible options for reform, which, at the request of the authorities, will be carried out by a Fund technical assistance mission starting in August 1986. In light of the outcome of the currency study, consideration would have to be given to a broad range of supply-side and demand-management measures to be integrated in the policy package. In the meantime, every effort should be made to arrest the deterioration, particularly through the implementation of a very tight fiscal policy in 1986/87. Regrettably, the pro forma budget for 1986/87, as approved by the Government, envisages a much larger deficit than can be sustained. The staff believes that, in implementing the budget, the authorities should keep expenditure in line with available resources and give adequate priority to discharging a substantial part of Liberia's external debt service obligations. In particular, onshore expenditure should be limited to the level of available onshore revenue; there should be no mortgaging of future offshore revenue to finance onshore expenditure. It is also essential that appropriate inventory be taken of the government and public enterprise domestic arrears, including cross arrears. Moreover, the staff is also of the view that public enterprise reform needs to be started without further delay. As a first step, and in accordance with government plans, it would be essential to have audits made by internationally recognized accounting firms of the operations of the key public agencies and enterprises.

Liberia maintains a generally liberal trade and payments system. However, Liberia has accumulated external payments arrears in the nature of government defaults. Concerning the possible restrictions on payments and transfers for current international transactions arising from the operations of public enterprises, the situation as described in SM/85/188 (pages 24-25) remains unchanged. The staff urges the authorities to take decisive action to eliminate the external payments arrears as soon as possible.

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

VI. Proposed Decision

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

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.

Liberia - Relations with the Fund
(As of July 31, 1986)

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:	276.72	388.10
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 19,638

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 5.17 million

VI. Overdue obligations to the Fund — SDR 89.8 million

B. Nonfinancial Relations

VII. Exchange rate arrangement

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

VIII. Article IV Consultation

The 1985 Article IV consultation discussions with Liberia were held in Monrovia during the period February 6-20, 1985; in Washington March 25-26, 1985; and again in Monrovia April 30-May 10, 1985. The staff report (SM/85/188, 6/28/85) was discussed by the Executive Board on July 24, 1985, and the decision was as follows:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Liberia, in the light of the 1985 Article IV consultation with Liberia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

Liberia - Relations with the Fund (concluded)

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 arrears have emerged, as described in SM/86/ , which may give rise to such restrictions. The Fund urges the authorities to eliminate these payments arrears as soon as possible.

Consultation discussions with Liberia are on an annual basis.

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 June 30, 1986 the World Bank had made 22 loans (including one Third Window loan) totaling US$151.6 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 FY85, 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.

Due to Liberia's arrears to the Bank, disbursements remained suspended during most of 1985 and were suspended again as of February 19, 1986. These arrears totaled about US$12.7 million at end June 30, 1986. On June 1, about US$1.5 million became 180 days overdue, and Liberia's loan portfolio was classified as nonaccruing in the Bank's financial statements.

The World Bank's involvement in Liberia is expected to be minimal unless the Government shows significant improvement in economic performance. The Bank's participation will be limited to a credit of some US$5.0 million in FY87 in support of a population and health project. Bank Group lending over the next four years could amount to US$50-55 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 June 30, 1986; in millions of U.S. dollars)

	Total 1/	Disbursed	Undisbursed 2/
IBRD	151.61	138.36	13.34
Agriculture	15.50	6.48	9.12
Rubber	(3.50)	(2.43)	(1.07)
Oil palm	(12.00)	(3.95)	(8.05)
Transportation	62.16	58.04	4.12
Highways	(43.78)	(43.78)	(--)
Feeder roads	(14.95)	(10.83)	(4.12)
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	20.00	19.99	--
Education	10.30	10.30	--
Development finance	11.85	11.85	--
IDA	114.17	79.89	35.50
Agriculture	48.31	37.55	10.24
Rubber	(6.00)	(5.33)	(0.67)
Forestry	(6.00)	(5.15)	(0.85)
Agricultural development	(36.31)	(26.22)	(9.57)
Transportation: Highways	15.56	7.88	8.58
Education	20.70	16.23	4.65
Urban development	10.00	7.38	2.18
Water supply	13.00	8.00	6.00
Small- and medium-scale enterprises	4.00	2.11	1.44
Technical assistance	2.60	0.74	2.41
Total	265.78	218.25	48.84
Of which: agriculture	(63.81)	(44.03)	(19.36)
transportation	(77.72)	(65.92)	(12.70)
education	(31.00)	(26.53)	(4.65)
Repayments	36.42		
IBRD	36.01		
IDA	0.41		
Total outstanding (including undisbursed)	230.67		

IFC Investment: Equity held: 0.55

Source: Data provided by the World Bank.

1/ Represents actual amount of commitments less cancellations.
2/ Represents the June 30, 1986 value of undisbursed balances using an exchange rate of SDR 1 = US$1.17757.

Liberia - Statistical Issues

1. Outstanding statistical issues

a. Prices, production, and merchandise trade

The consumer price index has a narrow geographical coverage (relating to Monrovia), and the weighting pattern, derived from a household expenditure survey of 1963, is outdated. Trade data are reported with a lag of more than one year, and there are problems in the methodology of compilation of the import unit value index.

A technical assistance mission from the Bureau of Statistics in March 1984 recommended that the authorities obtain technical assistance in processing the results of the 1976-78 National Household Expenditure Survey. The mission also made recommendations for resolving certain problems in the recording, verification, and processing of trade data and for improving the quality and currentness of production data.

b. Government finance

The 1985 Government Financial Statistics Yearbook contains data through 1984 on the consolidated Central Government. A GFS technical mission was recently in the country to resolve problems relating to the functional classification of expenditures, financing, and debt.

c. Monetary accounts

Monetary data for the National Bank of Liberia have been published in International Financial Statistics (IFS) to May 1986. Data being provided by the Liberian authorities accord with the classifications recommended in a Bureau of Statistics' report on Liberia's monetary aggregates that was sent to the country in June 1985.

Liberia - Statistical Issues (concluded)

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 August 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the National Bank of Liberia.

Status of IFS Data

		Latest Data in August 1986 IFS
Real Sector	- National Accounts	1982
	- Prices: CPI	December 1986
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	June 1984
	- Financing	June 1984
	- Debt: Domestic	June 1984
	Foreign	June 1983
Monetary Accounts	- Monetary Authorities	May 1986
	- Deposit Money Banks	April 1986
	- Other Financial Institutions	n.a.
External Sector	- Merchandise Trade: Values	QI 1985
	Unit values of exports	QII 1985
	- Balance of Payments	1984
	- International Reserves	May 1986
	- Exchange Rates	June 1986

Liberia: Medium-Term Projections of Central Government Fiscal Operations, Baseline Scenario, 1986/87-1990/91

(In millions of Liberian dollars)

	1986/87	1987/88	1988/89	1989/90	1990/91
Revenue and grants	228.2	227.0	229.0	231.1	233.1
Revenue	200.0	202.0	204.0	206.1	208.1
Grants	28.2	25.0	25.0	25.0	25.0
Expenditure	336.3	345.3	354.4	360.1	365.7
Recurrent	284.1	292.9	301.8	307.3	312.7
Wages and salaries	(111.4)	(112.5)	(113.6)	(114.8)	(115.9)
Interest	(92.2)	(98.3)	(104.4)	(107.1)	(109.6)
Other	(80.5)	(82.1)	(83.8)	(85.4)	(87.1)
Development	44.0	44.0	44.0	44.0	44.0
Locally financed 1/	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)
Foreign-financed	(33.0)	(33.0)	(33.0)	(33.0)	(33.0)
Nonbudgetary	8.2	8.4	8.6	8.8	9.0
Overall deficit (commitment basis)	-108.1	-118.3	-125.4	-129.0	-132.5
Identified expenditure-related arrears (reduction -)	--	--	--	--	--
Overall deficit (cash basis)	-108.1	-118.3	-125.4	-129.0	-132.5
Financing	-88.7	-74.4	-55.2	-34.1	-18.6
Foreign (net)	-30.9	-25.4	-22.7	-8.7	-3.2
Drawings	(44.0)	(44.0)	(44.0)	(44.0)	(44.0)
Repayments (-)	(-74.9)	(-69.4)	(-66.7)	(-52.7)	(-47.2)
Domestic (net)	-57.8	-49.0	-32.5	-25.4	-15.4
Financing gap	196.8	192.7	180.6	163.1	151.2
Memorandum items:					
GDP	1,134.5	1,115.9	1,152.2	1,195.5	1,253.5
			(In percent of GDP)		
Revenue and grants	20.1	20.3	19.9	19.3	18.6
Expenditure	29.6	30.9	30.8	30.1	29.2
Overall deficit (commitment basis)	9.5	10.6	10.9	10.8	10.6

Source: Staff projections.

1/ Consists of the proceeds from the sale of rice under the PL-480 program.

Liberia: Medium-Term Balance of Payments Scenarios, 1986/87-1990/91

(In millions of U.S. dollars)

	1986/87	1987/88	1988/89	1989/90	1990/91
			I. Baseline Scenario		
Current account	-14.9	-73.7	-112.7	-84.6	-60.8
Trade balance	113.3	63.2	34.1	70.1	94.4
Exports, f.o.b.	(401.3)	(373.2)	(347.1)	(350.1)	(371.4)
Imports, c.i.f.	(-288.0)	(-310.0)	(-313.0)	(-280.0)	(-277.0)
Services (net)	-159.5	-169.6	-178.7	-186.6	-187.1
Unrequited transfers (net)	31.4	32.7	31.9	31.9	31.9
Capital account	-87.0	-32.0	6.0	-10.0	-29.5
Official long-term capital (net)	(-32.0)	(-27.0)	(-24.0)	(-10.0)	(-4.5)
Private capital (including errors and omissions) (net)	(-55.0)	(-5.0)	(30.0)	(--)	(-25.0)
Debt relief	(--)	(--)	(--)	(--)	(--)
Overall deficit (-)	-101.9	-105.7	-106.6	-94.6	-90.3
Financing gap	159.6	154.7	139.1	120.0	105.7
			II. Normative Scenario		
Current account	2.9	-47.4	-73.0	-49.7	-41.3
Trade balance	125.0	90.0	75.0	110.0	125.0
Exports, f.o.b.	(405.0)	(390.0)	(375.0)	(380.0)	(395.0)
Imports, c.i.f.	(-280.0)	(-300.0)	(-300.0)	(-270.0)	(-270.0)
Services (net)	-150.3	-164.9	-173.8	-185.4	-192.0
Unrequited transfers (net)	28.2	27.5	25.8	25.8	25.8
Capital account	165.8	25.1	70.9	47.5	57.7
Official long-term capital (net)	(-35.0)	(-28.0)	(-23.0)	(-7.0)	(0.5)
Private capital (including errors and omissions) (net)	(--)	(--)	(40.0)	(15.0)	(20.0)
Debt relief	(200.8)	(53.1)	(53.9)	(39.4)	(37.2)
Overall deficit (-)	168.7	-22.3	-2.1	-2.3	16.4
Financing gap	152.7	71.3	34.6	27.7	-1.0

Source: Staff projections.

Liberia: External Public Debt, 1981/82-1985/86, and External Debt Service, 1981/82-1990/91

(In millions of U.S. dollars)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
	Actual				Prel. est.	Scheduled				
Disbursed and outstanding	720	853	948	1,026	1,108					
Medium- and long-term debt	593	665	728	815	866					
Suppliers' credits	(12)	(8)	(8)	(7)	(4)					
Financial institutions	(135)	(129)	(151)	(156)	(156)					
Multilateral organizations	(193)	(215)	(245)	(280)	(321)					
Of which: IBRD	(85)	(90)	(95)	(100)	(102)					
IDA	(31)	(38)	(49)	(64)	(80)					
ADB	(23)	(25)	(32)	(42)	(64)					
IMF Trust Fund	(31)	(30)	(27)	(25)	(29)					
OPEC Special Fund	(3)	(4)	(14)	(14)	(14)					
EIB	(8)	(9)	(9)	(8)	(9)					
Official bilateral creditors	(253)	(313)	(324)	(372)	(385)					
Of which: United States	(144)	(164)	(169)	(207)	(216)					
Germany, Federal Republic of	(47)	(52)	(63)	(70)	(71)					
Japan	(24)	(25)	(25)	(25)	(25)					
Saudi Arabia	(19)	(20)	(21)	(20)	(20)					
United Kingdom	(7)	(10)	(13)	(14)	(14)					
Fund credit	127	188	220	211	242					
Overdue interest	1	9	2	42	92					
Total obligations outstanding (including overdue interest)	721	862	950	1,068	1,200					
Debt service 1/	45	62	95	127	181	220	209	193	172	157
Amortization	9	15	48	69	109	137	123	104	82	67
Medium- and long-term debt	(5)	(12)	(30)	(45)	(66)	(79)	(74)	(71)	(57)	(52)
IMF repurchases	(4)	(3)	(18)	(24)	(43)	(58)	(49)	(33)	(25)	(15)
Interest 2/	36	47	47	58	73	84	86	89	90	90
Memorandum items:										
Total outstanding obligations/GDP (in percent)	64	81	87	98	111					
Debt service/exports of goods and nonfactor services (in percent)	8.6	13.4	20.1	27.0	39.7	50.4	51.2	50.4	44.6	38.6
External payments arrears (in millions of U.S. dollars)	2	14	22	112	264					
Interest	(1)	(9)	(2)	(42)	(92)					
Principal	(1)	(5)	(20)	(70)	(172)					

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

1/ After debt relief through 1984/85.
2/ Including estimated charges on overdue obligations and, from 1986/87 onward, interest payments with respect to the financing gap.

LIBERIA - Basic Data

Area, population, and GDP per capita

Area	111,370 square kilometers
Population: Total (1985)	2.19 million
Growth rate	3.4 percent per annum
GDP per capita (1985)	$495 (SDR 425)

	1981/82	1982/83	1983/84	1984/85	1985/86 Estimate
GDP at constant 1971 market prices			(In millions of U.S. dollars)		
Agriculture	52.7	56.3	59.0	61.2	60.3
Of which: rubber	(22.0)	(23.9)	(27.6)	(29.0)	(29.3)
Mining and quarrying	97.7	92.1	82.8	80.4	79.0
Of which: iron ore	(91.5)	(85.7)	(78.0)	(77.2)	(76.0)
Other monetary economy	189.0	183.1	181.4	177.8	170.8
Manufacturing	(22.4)	(21.4)	(21.1)	(20.0)	(19.0)
Construction	(13.5)	(12.9)	(12.6)	(12.4)	(12.8)
Government services	(49.0)	(47.8)	(47.4)	(46.5)	(45.0)
Other services	(104.1)	(101.0)	(100.3)	(98.9)	(94.0)
Total monetary economy	385.5	375.8	364.5	359.4	350.6
Subsistence economy	83.7	84.5	86.1	87.4	88.7
Total GDP	469.2	460.3	450.6	446.8	439.3
GDP at current market prices	1,121.9	1,066.7	1,094.0	1,095.0	1,085.0
Annual rates of growth of GDP and prices			(In percent)		
GDP at constant market prices	-0.7	-1.9	-2.1	-0.8	-1.7
GDP at current market prices	2.5	-4.9	2.6	0.1	-0.9
GDP deflator	3.2	3.0	5.7	1.5	0.7
Consumer price index	7.0	4.7	1.6	0.6	-0.1 1/
Central government finances			(In millions of U.S.dollars)		
Revenue and grants	279.3	257.4	260.1	217.0	209.1
Revenue	237.9	224.4	224.1	194.5	183.6
Grants	41.4	33.0	36.0	22.5	25.5
Expenditure	370.6	390.4	340.4	382.6	299.6
Recurrent	287.6	261.0	238.5	231.2	218.8
Development	96.4	95.8	73.1	72.0	37.1
Nonbudgetary 2/	-13.4	33.6	28.8	79.4	43.7

1/ As at end-March 1986.
2/ Includes unallocated expenditure.

LIBERIA - Basic Data (continued)

	1981/82	1982/83	1983/84	1984/85	1985/86 Estimated outturn
Central government finances (concluded)	(In millions of U.S. dollars)				
Overall deficit (commitment basis) 1/	-91.3	-133.0	-80.3	-165.6	-90.5
Expenditure arrears	-6.0	8.0	-7.0	68.7	32.0
Overall deficit (cash basis)	-97.3	-125.0	-87.3	-96.9	-58.5
Financing	97.3	125.0	87.3	96.9	58.5
Foreign (net)	42.4	43.4	46.3	56.8	30.4
Drawings	(46.4)	(44.1)	(53.1)	(57.3)	(36.0)
Repayments	(-28.7)	(-29.0)	(-23.3)	(-18.5)	(-5.6)
Debt relief	(24.7)	(28.3)	(16.5)	(18.0)	(--)
Domestic	54.9	81.6	41.0	40.1	28.1
Banking system	(50.7)	(81.6)	(41.0)	(32.4)	(32.2)
Other	(4.2)	(--)	(--)	(7.7)	(-4.1)
Money and credit					
Foreign assets (net)	-162.3	-190.7	-231.0	-232.3	-254.1 2/
Domestic credit	294.4	342.7	399.1	426.8	440.5 2/
Claims on Government (net)	177.3	258.9	300.0	332.4 3/	346.5 2/
Claims on public corporations (net)	38.4	15.2	24.2	25.0	19.2 2/
Claims on private sector	78.7	68.6	74.9	69.4	74.8 2/
Recorded money supply	105.2	114.1	124.2	124.4	147.2 2/
	(Percentage change from preceding year)				
Domestic credit	34.7	16.4	16.5	6.9 3/	3.2
Claims on Government (net)	40.0	46.0	15.9	10.8 3/	4.2
Claims on public corporations (net)	146.2	-60.4	59.2	3.3	-23.2
Claims on private sector	3.0	-12.8	9.2	-7.3	7.8
Recorded money supply 4/	10.3	8.5	8.9	0.2	18.3
Balance of payments	(In millions of U.S. dollars)				
Trade balance	36.3	31.4	20.8	115.5	134.8
Exports, f.o.b.	(508.9)	(452.5)	(433.4)	(434.6)	(419.8)
Imports, c.i.f.	(-472.6)	(-421.1)	(-412.6)	(-319.1)	(-285.0)
Services (net)	-172.0	-171.0	-151.6	-146.7	-147.3
Transfers (net)	62.0	56.0	51.7	27.6	27.1
Current account balance	-73.7	-83.6	-79.1	-3.6	14.6
Capital account (net)	21.7	10.6	21.8	-75.8	-89.0
Valuation adjustments	9.0	5.0	6.8	7.0	-35.0
Overall balance	-43.0	-68.0	-50.5	-72.4	-109.4

1/ 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.
2/ As at end-March 1986.
3/ NBL credit to Government was adjusted upward by $33.5 million in April 1985 due to reclassification of accounts.
4/ Excludes U.S. notes in circulation.

LIBERIA - Basic Data (concluded)

	1981/82	1982/83	1983/84	1984/85	1985/86 Estimate
	(In millions of U.S. dollars; end of period)				
Gross official reserves	9.5	7.8	4.5	4.4	1.1
External public debt					
Disbursed and outstanding 1/	721	862	949	1,068	1,200
Debt service 2/3/	45	62	95	127	181
Interest 4/	(36)	(47)	(47)	(58)	(73)
Amortization	(9)	(15)	(48)	(69)	(109)
Debt service 2/ (in percent of exports of goods and nonfactor services)	8.6	13.4	20.1	27.0	39.7

1/ Including 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.