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Liberia: Selected Issues and Statistical Appendix

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INTERNATIONAL MONETARY FUND

LIBERIA

Selected Issues and Statistical Appendix

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Approved by the African Department

February 25, 2003

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I. Recent Economic Developments

A. Introduction

1. Liberia experienced strong economic growth in the 1960s and 1970s as a result of active foreign investment and an export boom. Exploitation of local iron ore and rubber plantations, together with smallholder agriculture, formed the core production activities. GDP per capita reached US$500 (in 1992 prices) in 1980. Following the military coup in 1980, a substantial decline in Liberia's external terms of trade, and deepening economic mismanagement, Liberia's economic situation deteriorated significantly. Additional external debt was rapidly accumulated in the 1980s, despite little increase in productive investment and growing exploitation of timber, and public sector debt arrears began to accumulate, as relations broke down with multilateral and bilateral creditors. Civil disturbances and rebel incursions in the late 1980s weakened the economy further.

2. The civil war of 1989–96 resulted in a substantial destruction of infrastructure and the flight of human and financial capital. Real GDP declined to one-tenth of its prewar level. A peace agreement was signed in August 1996, paving the way for the disarmament of combatants and democratic elections in which Charles Taylor was elected President in July 1997. Economic activity rebounded strongly after the peace agreement, causing GDP to double in 1997 and to grow by 20–30 percent annually during 1998–2000. Timber and smallholder agricultural production grew rapidly, and rubber production recovered. However, the infrastructure remained in a badly damaged state, with a depleted road network, destroyed rail connections, very little electricity generation and distribution, and no running water or sanitation facilities.

B. Production

3. **The strong postwar recovery slowed sharply in 2001.** Based on provisional data, the annual rate of GDP growth is estimated to have fallen to about 5 percent in 2001 and around 3 percent in 2002 (Figure 1). Real GDP in 2002 was still only 47 percent of its prewar level, and nominal GDP per capita is estimated at US$169 in 2002 (Appendix Table 1).[1]

4. **The stalling of the recovery in the last two years has been primarily a consequence of domestic factors.** Growth and investment have been constrained by the ongoing conflicts in the north and west of the country, the effects of political and security

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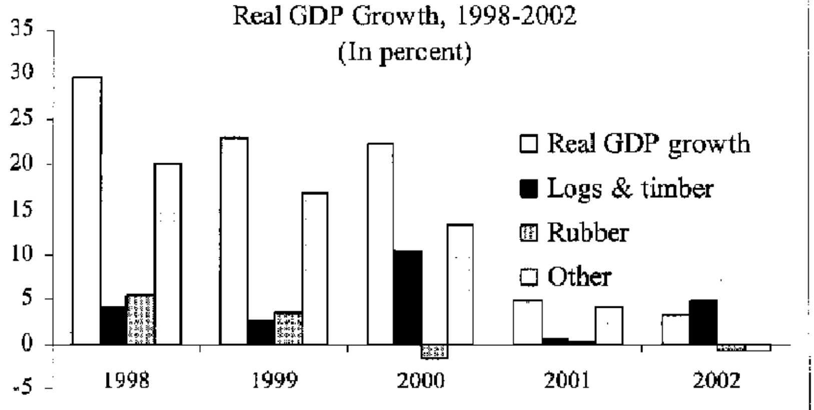
[1] The quality and coverage of statistical information in Liberia are poor. Estimates of overall economic activity have been calculated by Fund staff on the basis of sectoral production figures provided by the Liberian authorities and of methodology established by Fund staff in 2000.

concerns, weak economic policy implementation and market restrictions, dilapidated infrastructure, and the mismanagement of the public sector, reflecting poor governance and limited domestic and external revenue. Of particular importance has been the flight of large parts of the population (and, hence, disruption of production) from the regions affected by rebel activities, largely attributed to the Liberians United for Reconciliation and Democracy (LURD), and responses by the Liberian armed forces. **External factors** were also adverse in 2001, particularly the weak international rubber prices, but there was some reversal in 2002. UN sanctions on diamond exports contributed marginally to the slowdown in growth, and Liberia's growing international political isolation deterred investment.

Figure 1. Liberia: Contributions of Major Sectors to Real GDP Growth, 1998-2002
(In percent)



Sources: Liberian authorities; and Fund staff estimates.

5. **On a sectoral basis, the slowdown in growth occurred in almost all sectors, except forestry and services.** Activity in the agriculture and fisheries sector and manufacturing sectors declined by 4 percent and 24 percent, respectively in 2002, primarily reflecting the intensifying conflicts in Lofa County. Production of rice, cocoa, coffee, and rubber was especially hard hit, with rice output down by 15 percent and rubber down by 12 percent. Output of cassava, however, rose by 3 percent. The mining sector experienced a substantial fall in production, partly because of UN sanctions, and output declined by about 70 percent in two consecutive years.

6. **The forestry and services sectors showed a recovery in growth in 2002.** While the forestry sector was affected in the north and west of the country by the conflict– with several concessions destroyed and others unsafe to operate—increasingly intensive logging activities in the southeast more than offset reduced production in the war-affected areas. As a result, net output in the timber sector is estimated to have grown by 20 percent in 2002. Services also experienced a higher growth, reflecting the recent boom in mobile phone services.

C. Prices and Employment

7. After a period of relative price stability, in which inflation kept to about 3–5 percent per annum, consumer prices rose sharply from the middle of 2001, increasing by 13 percent between May and August of that year and again by about 1 percent per month through 2002. (Appendix Table 5). **The recorded 12-month rate of consumer price inflation reached a peak of 24 percent in March 2002,** before decelerating through most of the remainder of the year. Food and medical and transportation services were particularly volatile. The burst of price increases was mainly associated with the sharp fall in the Liberian dollar in terms of the U.S. dollar of 20 percent between March and July 2001 (with critical prices, such as of rice and petroleum, subject to a regulated price ceiling expressed in U.S. dollars). Further depreciation of the Liberian dollar of about 24 percent in terms of the U.S. dollar between December 2001 and September 2002 contributed to additional price pressure, moderated by the temporary recovery of the Liberian dollar in the last quarter of 2002.

8. In the two years to end-December 2002, consumer prices rose in total by 33 percent, while the Liberian dollar depreciated by 34 percent in terms of the U.S. dollar. The 12-month rate of consumer price inflation was recorded as 11 percent in December 2002.

9. Total **employment,** as measured by the Ministry of Labor, reached 630,000 at end-2001, of which 507,000 people were in the informal sector (see table below). Apart from the estimated rise in informal sector employment, only government and the transport sectors recorded increases between 2000 and 2001.

Liberia: Employment by Industry

	End-2000	End-2001
Total employment	517,290	630,161
Agriculture and fishery	11,700	12,519
Bussiness services	900	819
Manufacturing	1,070	1,059
Mining	1,020	1,005
Transportation	1,300	1,339
Wholesale, retail and trade	49,900	39,020
Social community services	13,000	10,000
Construction	400	400
Government	48,000	57,000
Informal sector	390,000	507,000

Source: Ministry of Labor, *Annual Report 2001* .

D. Fiscal Developments

Revenue

10. **Government revenue increased modestly during FY 2000/01 (July–June),** compared with the corresponding period of the previous year. (Until 2000, the fiscal year corresponded to the calendar year.) Total revenue and grants increased from US$81.3 million to US$82.8 million, aided by an increase in stumpage and related land rental fees (doubling from US$3.7 million to US$7.5), and in revenues from the Liberian International Shipping and Corporate Registry (LISCR), which rose from US$11.7 million to US$18.7 million. However the weakening economic environment resulted in declining or stagnating revenues from other taxes, most notably import taxes (falling from US$24.3 million to US$18.4 million) and corporate income taxes (falling from US$7.9 million to US$4.2 million).

Box 1. Liberia: Revenue Collection

The Revenue Code of Liberia, Phase One, which came into force on July 1, 2001, provides a new framework for the taxation of most formal sector activities, including revised income tax and customs duty schedules, and the introduction of a goods and services tax. However, the taxation of agriculture and natural resources will be covered by Phase Two of the Revenue Code, which is still being drafted. Officials at the Ministry of Finance have indicated that this phase will also integrate the taxation of key commodities, such as imported rice and petroleum, which are currently governed by special administrative regulations.

A substantial part of companies' taxes, largely in the forestry sector, are paid in kind, rather than in cash. This typically results from a private company's conducting a construction project, such as a road or a public building, and the Ministry of Finance's crediting the agreed cost against taxes falling due, once the project has been completed or an agreed target has been reached and verified by the Ministry of Public Works. According to the Ministry of Finance, the total amount of taxes paid in kind was US$29.7 million from 1999 to 2002, of which US$29.6 million came from the forestry sector, broadly equivalent to the total stumpage and related land rental fees accruing to the central government for this period of US$29.8 million. While this practice of payment of taxes in kind appears to be in part motivated by the government's limited access to capital markets, it is unlikely to result in an efficient use of funds, particularly as it bypasses any formal tender process for public works. In addition to the financing of development projects, the government has used similar arrangements to secure loans from companies to finance the acquisition of goods and services, which are then repaid from companies' taxes due.

11. **The new Revenue Code of Liberia, Phase One, came into force on July 1, 2001,** aimed at strengthening the tax base and simplifying the tax system so as to encourage investment. It provided a revised personal income tax schedule, reinstated a business income tax and a property tax, introduced a goods and services tax, revised the schedules for excise taxes and customs duties, and unified the legal framework for fees imposed by various government entities. As import tariffs were reduced and income tax rates were adjusted

downward (the maximum marginal rate declined from 65 percent to 35 percent, and tax brackets were revised in light of recent inflationary drift), their respective shares in total revenue declined. This was, to some extent, offset by revenues from the newly introduced goods and services tax.

12. **Government revenues declined substantially in FY 2001/02**, from US$82.8 million in FY 2000/01 to US$71.9 million. **The decline was largely accounted for by a drop in grant income from US$8.9 million to zero,** as the last remaining donor (Taiwan Province of China) stopped disbursements because of a failure to account for use of the funds, and by a fall in nontax revenue from US$5.1 million to US$3.2 million. While tax revenues remained largely constant through FY 2001/02, there were important changes in the structure of taxes. Reflecting the impact of the tax reform, there was a decline in personal income taxes (from US$8.4 million to US$6.6 million) and import taxes (from US$18.4 million to US$15.6 million), while the newly introduced goods and services tax yielded US$3.6 million. Stumpage and related land rental fees increased further (from US$7.5 million in 2000/01 to US$12.1 million in 2001/02), while maritime revenue was weak, falling from US$18.7 million to US$13.4 million over the same period.

Expenditure

13. Between 1998 and 2000, central government expenditure increased from US$58.2 million to US$83.6 million, in line with government revenues, which rose from US$59.5 million to US$85.3 million (Appendix Tables 6 and 7). With domestic recovery stalling and a deteriorating security situation, **public expenditure subsequently stagnated,** totaling US$80.1 million in 2002. At the same time, there were significant shifts in the composition of public expenditure: the share of current expenditure fell from 64 percent in 1998 to 57 percent in 2000, and then to 32 percent in 2002. Correspondingly, the share of capital expenditure, which includes many undocumented and apparently poorly scrutinized items, including expenditure related to national security, increased from 43 percent of total expenditure in 2000 (including 8 percent financed by external grants) to 68 percent in 2002, none of which was financed by external grants.

14. **Total cash expenditure reached US$82.5 million in FY 2000/01 before declining to US$78.6 million in FY 2001/02** (see table below). This was accompanied by significant shifts in the composition of spending. While current spending declined by about one-half (from US$50.2 million to US$24.8 million), capital expenditure increased by about two-thirds, from US$32.3 million to US$53.8 million. Wages and salaries fell from US$20.9 million in 2000/01 to US$12.6 million in 2001/02, as wages were not fully adjusted for the depreciation of the Liberian dollar and the government had some limited success in eliminating "ghost" workers from the payroll.

15. **This concentration on capital and security spending is set to continue in FY 2002/03**. Reflecting an assumption that annual revenue will be sustained at the level of US$70 million, total spending is projected in the budget for 2002/03 at US$70 million, of

which about one-half (US$34.5 million) is allocated to capital spending (including security), 21 percent (US$14.9 million) to wages and salaries, 19 percent to spending on goods and services, 9 percent to transfers and subsidies, 0.4 percent to interest and repayments on domestic debt, and 1.3 per cent to foreign debt service. However, in the first half of FY 2002/03, capital spending overshot its allocation substantially (reaching US$21.6 million), and spending on domestic debt amounted to US$3.6 million, perhaps reflecting the limited control of the government over its debt-servicing schedule because of the use of offsets against tax liabilities. Spending on wages and salaries was largely consistent with budgeted levels, at US$9.5 million, including some one-off payments in November and December. Overall, it appears likely that higher-than-budgeted capital spending will further crowd out wages and salaries for the current fiscal year.

Liberia: Economic Classification of Central Government Expenditure,
FY 00/01 - FY 02/03 (In millions of US dollars)

	FY 00/01	FY 01/02	FY 02/03 (Budget)
Current expenditure	50.2	24.8	35.5
Wages and salaries	20.9	12.6	14.9
Other goods and services	23.0	7.1	13.4
Subsidies and grants	1.9	0.5	6.0
Interest	4.4	4.6	1.2
External	0.4	0.7	0.9
Domestic	4.0	3.9	0.3
Capital expenditure 1/	32.3	53.8	34.5
Internally financed	23.4	53.8	34.5
Externally financed	8.9	0.0	0.0
Total	82.5	78.6	70.0

Sources: Data provided by the Liberian authorities; and staff estimates.
1/ Includes expenditure related to national security.

16. **The shift in the structure of public expenditure has resulted in a substantial drop in funding for social services.** For 2002, health expenditure is estimated at only US$2.7 million (little more than one U.S. dollar per capita), and education spending amounted to about US$2.0 million. While the Liberian government is not receiving any foreign aid directly, the numerous nongovernmental organizations operating in the country play an important role in the provision of social services.[2] Before the war, the government was managing about two-thirds of elementary education and one-half of secondary education.

[2] According to data from the Ministry of Commerce, NGO imports amounted to US$18.5 million in 2002.

Following widespread destruction of schools in the war, and owing to the slow pace of reconstruction, the share of privately managed schools has increased considerably.[3] The provision of public health services is hampered not only by lack of funding, but also by the lack of human resources. With 3 physicians per 100,000 inhabitants, the availability of qualified personnel is among the lowest in sub-Saharan Africa.

Fiscal balance

17. The fiscal accounts are constructed on the basis of payments made and revenues collected, rather than commitments or accruals. They do not reflect the impact of the sizable interest payments due, but not paid, on external and domestic debt and the accumulation by the government of further arrears in wages and salary payments and to domestic suppliers. They also do not discriminate between payments in kind (for example, through the crediting against tax liabilities of the construction of forest roads) and cash.

18. The central government is constrained to limit its spending largely in line with revenue, as there is no access to new external finance, the central bank is formally limited in the extent to which it can increase its lending to the government, and the domestic banking system is reluctant to absorb further government debt. Nevertheless, the fiscal accounts imply cash deficits of US$3.9 million (0.7 percent of GDP) in 2001 and US$7.3 million (1.3 percent of GDP) in 2002. No consistent estimates have been obtained to identify how this was financed.

Off-budget agencies

19. **In 2002, the central government received maritime revenues (i.e., revenues from the Liberian International Shipping and Corporate Registry (LISCR)) of US$13.4 million and revenues from the timber sector of US$13.0 million, or 18.4 percent and 17.9 percent of total government revenue, respectively.** These revenues were administered by the Bureau of Maritime Affairs (BMA) and the Forestry Development Authority (FDA). The operations of the BMA were financed by deducting 10 percent from maritime revenues before transferring them to government. The FDA retained 2 percent of stumpage fees, 50 percent of land rental fees, and all of the reforestation fee, the conservation fee, and the forest research tax collected from logging companies.

20. **Neither the BMA nor the FDA has recently published financial accounts, and they have not provided financial information to the IMF.** Staff estimates suggest that the revenues retained by the BMA in 2002 (and not included in the government budget) amounted to US$1.5 million (equivalent to 2.0 percent of recorded government revenue). Very preliminary estimates of revenue accruing to the FDA suggest that this amounted to

[3] See United Nations Development Program, *Poverty Profile of Liberia*, Monrovia, 2001.

about US$12.5 million (17.2 percent of recorded government revenue), some of which was provided in kind (construction of forest roads, etc.). These funds, which are supervised by the FDA's board, are partly used for the FDA's statutory tasks, with the remaining balance available for development projects. Total forestry revenue in 2002, including central government revenue and the amounts retained by the FDA, is estimated at about US$25.5 million.

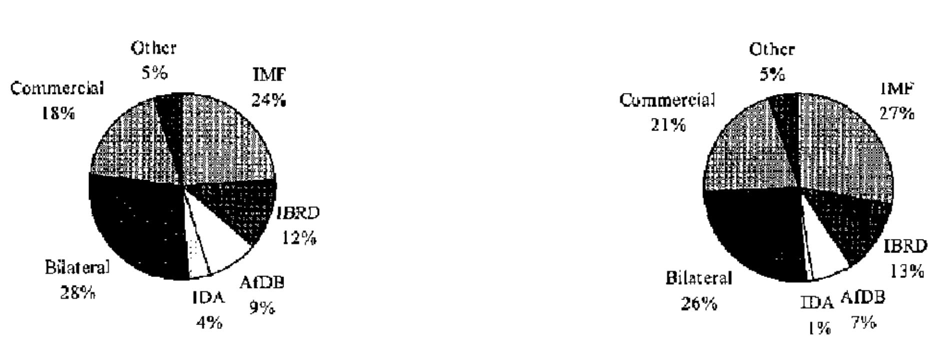
21. **In September 2002, the government commissioned an international auditing company to conduct a "management and systems" audit of the BMA and FDA, in order to assess their current systems for processing and monitoring receipts and disbursements, and to make recommendations for improvement.** However, the auditor withdrew from the project after completion of the initial review of existing procedures. This review highlighted, among other issues, the nontransparent system of monitoring development work and its revenue implications in forestry, and the inefficient and nontransparent administration of maritime revenues. The government intends to commission another firm to complete the work. It has also declared its intention to commission a local auditor, through the General Auditing Office, to conduct financial audits of the BMA and FDA and to complete a financial audit of the Liberian Petroleum Refining Corporation (LPRC), while simultaneously working with a donor to develop the terms of reference and obtain the funding for an international company also to conduct financial audits.

E. Debt

22. **The stock of Liberian public sector debt amounted to approximately US$3.1 billion (550 percent of GDP) at the end of 2002**. Of this, US$2.76 billion was external debt (Figure 2), one-fourth of which was owed to the IMF and one-fourth to other multilateral creditors (World Bank and African Development Bank). Domestic debt was estimated at US$0.32 billion as of September 30, 2002, most of which was outstanding to the central bank.

Figure 2. Liberia: External Debt and Arrears

External Debt Outstanding, End-December 2002 (US$2.8 billion) | External Arrears, End-December 2002 (US$2.5billion)



Sources: Liberian authorities; and Fund staff calculations.

23. **Nearly all of Liberia's external and domestic debt is in arrears**. External arrears amounted to US$2.5 billion at end-2002 (Figure 2), and domestic arrears were estimated at over US$0.3 billion, including arrears to the Central Bank of Liberia (US$239 million), suppliers (US$52 million) and commercial banks (US$8 million). Arrears to public employees amounted to about eight months of wages and salaries at end-2002.

F. Monetary Developments

24. **Deficiencies in the reporting and compilation of monetary data preclude a full assessment of monetary developments.** In particular, inconsistencies between returns from the commercial banks and the CBL concerning accounts held at the CBL, and computational errors relating to currency in circulation, have prevented construction of a coherent monetary survey for 2000. For 2001 and 2002, although these problems persist, some provisional reconciliation has been possible for selected months.

25. **The provisional data for 2001 and 2002 indicate a rise in reserve money of 24 percent in the 12 months to March 2002 and 10 percent in the 12 months to September 2002** (Appendix Table 8). Liberian notes and coins in circulation (which constitute over 80 percent of reserve money) grew in the same periods by 20 percent and 14 percent, respectively.

26. **The Liberian dollar-denominated component of broad money M2 (the sum of cash outside the banking sector and all deposits at the commercial banks) increased by 17 percent in the 12 months to September 2002, largely owing to the rise in currency in circulation**. In the same period, the exchange rate of the Liberian dollar in terms of the U.S. dollar depreciated by 29 percent. Allowing for the effects of this on the Liberian dollar value of bank deposits denominated in U.S. dollars (which account for about 80 percent of total deposits), total M2 rose by 33 percent.[4]

27. **The ability of the CBL to affect monetary conditions has been severely constrained by the central government's fiscal position and the paucity of instruments to absorb private sector liquidity, which have required the CBL to cover most of the cost of its own operations through emissions of cash.** The adverse cash income position of the CBL has stemmed in part from its low underlying profitability, resulting from the lack of potential for seignorage because of widespread dollarization and from the terms on which the CBL took over central government debt from its predecessor, the National Bank of Liberia,

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[4] A serious deficiency of M2 as a measure of domestic liquidity is the exclusion of holdings of U.S. banknotes. These are likely to be substantial and volatile, relative to the stock of Liberian banknotes.

when it was liquidated. In addition, only a small proportion of the government's debt to the CBL is being serviced. Thus, while the CBL's overall income has been positive, its net cash income has been negative and its liquidity has deteriorated, reflected in increased holdings of central government debt and rising currency liabilities.

28. **Liquidity management by the CBL has also been complicated by the extent of dollarization in the economy in the context of the substantial volatility of the Liberian dollar.** Changes in the mix of commercial banks' deposits of Liberian and U.S. dollars could give rise to substantial pressures on U.S. dollar liquidity at the CBL, which is generally low. Currently, deposits in the domestic banking system are predominantly designated in U.S. dollars, which are subject to a minimum reserve requirement of 18 percent. Although shifts in the composition of a single bank's portfolio can probably be accommodated through policy responses by the central bank in Liberian dollars, systemic pressures may be more problematic.

29. **A major constraint on effective liquidity management by the CBL has been the absence of instruments to absorb liquidity from the private sector.** In June-July 2001, CBL raised **reserve requirements** for commercial bank deposits in Liberian dollars in two stages from 22 percent to 50 percent and lowered reserve requirements on U.S. dollar deposits from 22 percent to 18 percent. These changes, while expressly responding to pressures on the currency, also had the effect of improving the cash position and profitability of the CBL. However, further increases in required reserves, which are not remunerated, would bring into question the incentives for the banking sector to promote continued financial intermediation.

30. In the absence of other financial instruments for money market management, the CBL issued **90-day certificates of deposit (CDs)** in December 2002 to offset the effects of a disbursement by CBL to depositors of the Liberia United Bank (LUBI), which had been liquidated in April 2000. These CDs, which raised L$55 million in Liberian dollars from four nonbanking companies, will not accrue interest, but they will be repayable in U.S. dollars at a fixed rate substantially more generous than that ruling at the issue date. The CBL estimates that the implied guaranteed rate of return in U.S. dollars will be 33 percent at an annualized rate. The CBL will be exposed to exchange rate risk on the dollar liabilities. The CBL also introduced a ceiling of 18 percent on the interest rate that can be charged on loans by the commercial banks (in either Liberian dollars or U.S. dollars), with a cap of 10 percent on the margin that can be obtained above the average cost of funds.

Box 2. Liberia: Dollarization

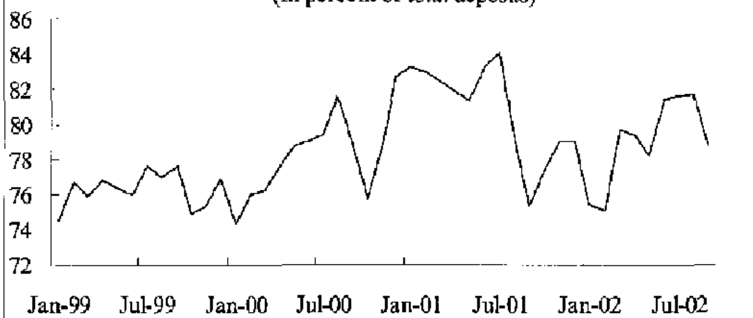
The Liberian economy is highly dollarized.[1] Although the Liberian dollar is now the official currency, both U.S. and Liberian dollars are legal tender, and a substantial proportion of assets and liabilities are denominated in U.S. dollars. There are, however, no reliable estimates of the stock of U.S. banknotes in circulation or its volatility.

Until the mid-1980s, U.S. dollar notes were the principal medium of exchange in Liberia. Liberian coins, up to the value of one dollar, and officially trading at par with the U.S. dollar, comprised the only national currency. However, when political upheavals and chronic budgetary and balance of payments deficits in the 1980s resulted in a sharp decline in U.S. dollar notes in circulation, the government issued large amounts of coins including five-dollar coins, supplemented in 1989 by five-dollar notes. The share of Liberian dollar coins in broad money increased from 10 percent in June 1982 to 39 percent at end-1988.

As of September 2002, U.S. dollar loans and advances accounted for 95 percent of all commercial bank loans to the private sector, and U.S. dollar deposits accounted for 79 percent of all deposits (see figure).

Share of US Dollar Deposits 1/

(In percent of total deposits)



Source: Central Bank of Liberia.

1/ The U.S. dollar-denominated deposits are converted at actual exchange rates.

Monetary policy has to take special account of the wide circulation and joint legal status of these two currencies. For instance, transmission of monetary shocks into the price level may be very quick because of the sensitivity of the exchange rate to monetary developments and the dual pricing of essential commodities. Measurement and control of the broad money supply are complicated by the lack of data on U.S. banknotes in circulation[2] and the direct effects of exchange rate changes on the valuation of the money stock. The central bank itself may be particularly exposed to liquidity and profitability pressures under exchange rate changes or a shift in confidence in the domestic currency.

1/ The U.S. dollar was the principal currency of Liberia until the end of the 1989–96 civil war. The Liberian dollar was officially fixed at par with the U.S. dollar during this period, but the informal market rate declined substantially below this level. The Liberian dollar traded at a rate more depreciated than L$40 to the U.S. dollar when it was officially floated in 1998.

2/ An estimate produced for the CBL puts the possible level of the stock at US$12.36 million around 1990, but this estimate lacks a solid empirical foundation.

G. External Sector Developments

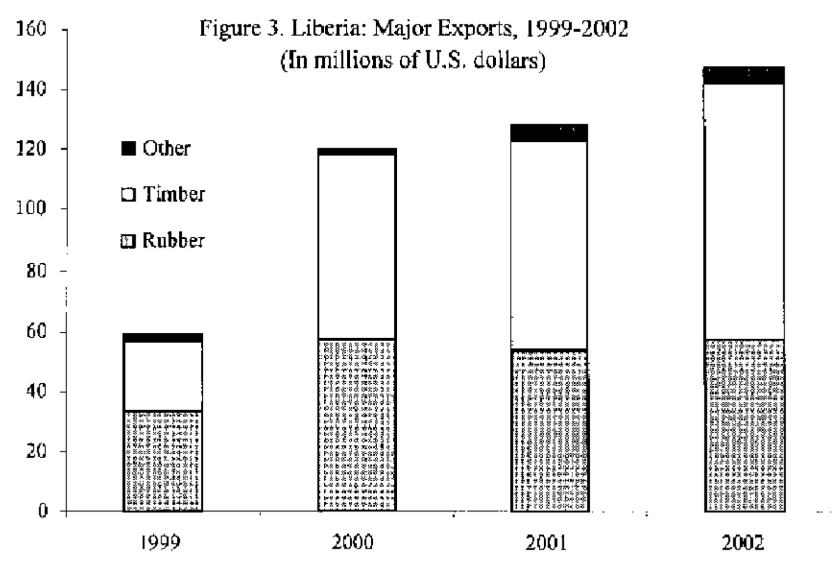
31. **Liberia's exchange and trade regime is relatively liberal, with no general system of import controls.** However, the Liberian Petroleum Refining Corporation (LPRC) has the exclusive right to import petroleum products; and agencies other than the Liberian Cement Corporation require the approval of the President to import cement. Import tariffs average 11.8 percent. Although tariffs range from 0 percent to 100 percent, the maximum rate applies only to a few items such as importation of parts from dismantled nuclear reactors; the next highest rate (50 percent) applies only to firearms and other weapons; and a rate of 45 percent applies only to a redundant category (luxury liners). A customs user fee of 5 percent was suspended in 2001, and an export tax of 5 percent on the f.o.b. value of rubber and other agricultural goods was replaced with export taxes on processed and unprocessed goods of 0 percent and 2.5 percent, respectively. Liberia currently scores 5 on the Fund's trade restrictiveness index on a scale of 1 to 10.

32. **Although recorded exports grew very rapidly in U.S. dollar terms in the years following the end of the 1989–96 civil war (an annual average growth rate in 1997–2000 of some 68 percent), the growth rate moderated considerably in 2001 and 2002 to 6.4 percent and 15.1 percent, respectively.** The value of exports of goods was US$147 million in 2002, consisting predominantly of timber (US$84.9 million) and rubber (US$57.4 million) (Figure 3, and Appendix Table 10). In volume terms, exports of rubber grew quite rapidly in 2001, but export value fell because of a sharp decline in the export price. In 2002, while the volume of rubber exports declined in line with domestic production, export values increased as the price of rubber partially recovered (see table below). The value of timber exported grew in both 2001 and 2002, reflecting larger volumes (with substantial growth in 2002), but was moderated by a fall in unit price in 2002. The share of timber in total export value increased markedly between 2000 and 2002 from 51 percent to 58 percent (Figure 3). The value of other exports (mostly cocoa, coffee, and scrap metal) grew rapidly in 2001 but less so in 2002. The external terms of trade fell quite sharply in 2001 but recovered partially in 2002, owing primarily to the impact of rubber price movements, offset by timber.

Liberian Exports, 2000–02

	2000	2001	2002
Rubber			
Value (millions of U.S. dollars)	57.1	54.0	57.4
Volume (metric tons)	102,412	135,305	119,745
Unit price (U.S. dollars)	557.5	399.1	479.4
Logs			
Value (millions of U.S. dollars)	60.9	69.2	84.9
Volume (cubic meters)	578,721	607,064	809,474
Unit price (U.S. dollars)	105.3	114.0	104.9
Other			
Value (millions of U.S. dollars)	2.23	4.72	4.96
Total value (millions of U.S. dollars)	120.3	127.9	147.2

Source: Liberian authorities.



Source: Liberian authorities; and Fund staff estimates.

33. The U.S. dollar value of recorded **imports** grew to US$196.9 million in 2001, but fell back quite sharply to US$172.7 million in 2002, despite significant growth in the U.S. dollar value of GDP in that year (see table below, and Appendix Table 11). **Import compression in 2002 was partly related to the deterioration of the security situation in the middle months of the year, which caused a postponement of major purchases by consumers and businesses of electrical generators and other manufactured items, as well as delays in petroleum imports.** The closure of some of Liberia's borders may also have hindered the import of some manufactures and of food items other than rice. In contrast, the value of rice imports grew sharply in 2002 and may have substituted for other food items.

Liberian Imports, 2000–02
(In millions of U.S. dollars)

	2000	2001	2002
Food and animals	53.9	61.3	56.6
Of which: rice	27.5	27.6	38.1
Beverages and tobacco	6.3	6.1	6.5
Crude materials	6.6	3.8	3.1
Minerals, fuels, etc.	40.7	42.9	34.5
Of which: petroleum	38.7	40.8	32.8
Animal and vegetable oil	3.3	2.5	3.4
Chemicals and related	14.3	8.7	8.6
Manufactured goods	20.8	18.4	11.4
Machinery and equipment	30.0	35.4	17.5
Miscellaneous manufactures	9.3	17.6	27.7
Total	185.2	196.9	172.7

Source: Liberian authorities.

34. **Export and import developments contributed to a sharp improvement in the recorded trade balance of some US$43 million in 2002, with an even sharper improvement in the external current account deficit on an accrual basis, including grants of some US$82 million**. On a cash basis, however (Liberia has not serviced its external debt in recent years), the current account deficit narrowed by less because of a reduction in external interest on a commitment basis of US$23 million. Current transfers are estimated to have fallen sharply in 2001 given a serious decline in donor support. With the exception of a grant from the government of Taiwan Province of China in 2001 and gifts of rice, donor support in 2001 and 2002 was disbursed only to international and local NGOs. Current transfers rose by some US$12 million in 2002 as NGO inflows recovered somewhat and maritime receipts rose significantly. Net service exports also contributed modestly to the improvement in the external current account deficit.

35. **As Liberia cannot currently borrow from abroad, the current account balance, along with a deficit on the capital and financial account was financed by the accumulation of further external arrears.** Including the effect of the revaluation of nondollar arrears, public external debt rose by US$34 million and US$197 million in 2001 and 2002, respectively. Foreign direct investment continued its decline of recent years as investor interest continued to be low. Errors and omissions of about US$15 million in 2002 reflect the incompleteness of data collection on the balance of payments.

II. Sectoral Issues

A. Commercial Banks

36. **Liberia currently has four active commercial banks** (Box 3). In light of the past record of frequent bank failures, credibility in the banking system is limited, with low levels of bank deposits in relation to currency, and limited bank lending to the private sector.[5] The banks hold sizable unremunerated deposits with the central bank in excess of the statutory reserve requirements on Liberian dollar deposits of 50 percent.

37. **As a part of efforts to strengthen the soundness of the banking system, the government liquidated the former central bank, the National Bank of Liberia, in 1999 and created the Central Bank of Liberia (CBL). It also tightened the governance of commercial banks through the New Financial Institutions Act of 1999**. This Act increased substantially the amount of required paid-in-capital. CBL now supervises all banks and conducts both on-site examinations and off-site monitoring supervision on a regular basis. A full-set examination and a focused examination for each bank are carried out every year. Both the old Act and the new Act also stipulated liquidity requirements ranging from 5 percent to 25 percent on the deposits and other liabilities of the commercial banks. These are now set at a uniform rate of 15 percent for both U.S. dollar and Liberian dollar accounts under the liquidity requirement regulation.

38. The CBL has recently issued the following regulations pertaining to commercial banks:

- In June 2001, the **reserve requirements** for commercial banks were increased to 44 percent for Liberian dollar-denominated deposits from the previous level of 22 percent, and in July 2001 were further increased to 50 percent. The requirements for U.S. dollar-denominated deposits were reduced in June 2001 from 22 percent to 18 percent.

- In April 2002, a statutory **maximum lending rate** of 18 percent and a maximum spread of 10 percent over the average cost of funding were introduced.[6]

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[5] Commercial banks currently only provide credit to a small number of relatively large companies. Perceived credit risks are high in the context of an inadequate legal and judiciary framework. Bank credit is generally limited to short-term loans with a maturity period of less than 90 days. Trade finance normally only covers the transfer of importers' funds overseas as it is not practice for the banks to issue letters of credit.

[6] While there are no statutory provisions relating to rates on saving or time deposits, the uniformity of such rates at 6 percent for both Liberian dollars and U.S. dollars suggests that there is limited recognition or confidence that these rates are no longer prescribed. Before the establishment of CBL, the NBL had imposed a minimum interest rate of 6 percent on Liberian dollar saving deposits.

- Since September 2001, as a part of efforts geared toward **combating money laundering**, CBL issued two regulations: A Regulation Concerning the Physical Movement of Foreign Currency Banknotes,[7] and a Regulation Concerning the Transfer of Foreign Currency.[8]

Liberia: Financial Status of Active Banks, 2001-2002

	Quarter Ended September 2001		Quarter Ended September 2002	
	Amount 1/	Ratio 2/	Amount 1/	Ratio 2/
Net interest income	58	6.3	66	5.4
Noninterest income	203	21.9	265	21.7
Of which : Fees and charges 3/	145	15.6	154	12.6
Operating expenses	241	26.0	328	26.9
Provisions	61	6.6	49	4.0
Net income after tax	-41	-4.4	-46	-3.8
Nonperforming loans outstanding 4/	121	22.2	148	20.6
Capital adequacy ratio 5/		16		15

Sources: Central Bank of Liberia; and Fund staff estimates.
1/ In millions of Liberian dollars.
2/ In percentage of total assets, annually adjusted basis.
3/ Fees and charges include only service charges on deposits, commission and fees, and credit-related fees.
4/ Excluding the government's arrears. The ratio is calculated against the total loan portfolio.
5/ Risk-adjusted basis, based on the CBL's regulation.

[7] The regulation prescribes that all amounts in excess of US$7,500 carried on one person out of Liberia, be in the form of bank drafts, travelers checks, money orders and/or other similar instruments. The regulation also provides that physical cash, in excess of US$10,000, coming to Liberia, should be declared to CBL at ports of entry.

[8] The regulation prescribes that the amount to be transferred must have been in the bank account of the sender for not less than three banking days prior to the transfer.

Box 3. Liberia: Record of Commercial Banks

Commercial banking in Liberia has a fragile record. A total of eighteen deposit banks have been established since 1954, but only four are currently active. The remainder have all been closed, voluntarily or compulsorily, as a consequence of poor bank management or the 1989-96 civil war. The last seizure was the Liberian United Bank (LUBI) in April 2000. Of the four active banks, the International Bank (IBLL), Liberia Trading and Development Bank (TRAD), and Ecobank (ECO) are majority foreign owned. The Liberian Bank for Development and Investment (LBDI) is the only locally owned bank, with a government share of 19.4 percent. The former central bank, the National Bank of Liberia, was closed in 1999 and its functions were taken over by the new Central Bank of Liberia (CBL).

Banks in Liberia

	Year	
	Established	Closed
Active banks		
Liberian Bank for Development and Investment (LBDI)	1962	--
International Bank (IBLL)	1958	--
Liberia Trading & Development Bank (TRAD)	1954	--
Ecobank (ECO)	2000	--
Inactive banks		
Closed banks		
Monrovia Banking Corporation (ROVIA)	1989	1998
National Housing and Savings Bank (NHSB)	1976	1997
Agricultural and Cooperative Development Bank (ACDB)	1978	1996
Finance & Trust International Banking Corporation (FTIBC)	1989	1990
Ducor Trade and Commerce Bank (DUTCH Bank)	1994	1995
First United American Bank (FUAB)	1989	1996
Eurobank	1988	1996
Citibank	1955	1988
Chase Manhattan Bank	1962	1987
Seized banks		
First Commercial and Investment Bank (FCIB)	1989	1990
Meridien BIAO Liberia (Meridien)	1985	1997
Liquidated banks		
The Liberian United Bank Inc. (LUBI)	1992	2000
Bank of Liberia	1954	1981
BCCI	1978	1990

Source: CBL staff.

39. **The overall profitability of the banking system has been low**, reflecting a rising level of overdue obligations and provisions as a consequence of the deterioration in the economic environment, an increase in the government's interest arrears, large and unremunerated reserve requirements, and a poor average rate of return on loans, reflecting the

concessional rates provided on two major loans.[9] As a result, two banks reported net operating losses in the quarter ended September 2002 (see table above). Banks currently generate more than three-fourths of their total operating income from fees and commission-based business, such as charges on current deposit accounts and charges for funds transfer.

40. **The overall quality of the banking sector's assets is also deteriorating.** Total nonperforming loans to the private sector in the categories of substandard, doubtful or "loss" increased from L$84 million, or 15.5 percent of the total loans (to private sector) at September 2001, to L$130 million, or 18.1 percent at September 2002 (see table below) [10]. Loans in the "loss" category increased by almost 70 percent in the year to September 2002. In addition, there were substantial and growing arrears on a large government loan.

Liberia: Quality of Loans of Active Banks to the Private Sector 1/ 2/

(In thousands of Liberian dollars and US dollars, unless otherwise indicated)

	September 2001				September 2002			
	US$	L$	Total 3/	Ratio (In percent)	US$	L$	Total 3/	Ratio (In percent)
Current	8,243	16,567	424,596	77.8	7,934	21,329	572,742	79.4
OLEM 4/	724	879	36,717	6.7	231	1,816	17,871	2.5
Substandard	231	-	11,435	2.1	171	-	11,885	1.6
Doubtful	129	7,872	14,258	2.6	285	523	20,331	2.8
Loss	1,005	8,905	58,653	10.7	1,194	15,279	98,262	13.6
Total	10,332	34,223	545,657	100.0	9,815	38,947	721,090	100.0

1/ Based on data provided by the CBL.

2/ Total loans and advances for private corporation and individuals.

3/ The Liberian dollar value of U.S. dollar-denominated loans is calculated at an exchange rate of L$49.5 (=US$1) at September 2001 and L$69.5 (=US$1) at September 2002.

4/ Other loans especially mentioned.

41. **The average risk-adjusted capital adequacy ratio deteriorated marginally** from 16 percent at September 2001 to 15 percent at September 2002. Among the four active banks, two banks reported a relatively large decline in the ratio during the year ended September 2002, owing to accumulating net loss and the depreciation of the Liberian dollar during the

[9] Two loans, provided to the government and the CBL at low nominal interest rates, account for about 70 percent of the total loans and advances of the active banks. As a consequence, while the average lending rate to the private sector before introduction of the CBL's ceiling was 21-22 percent, annual interest income of the banks has been amounting to around 7 percent of their total loans and advances.

[10] Based on the prudential regulation on asset quality by CBL, loans and advances are classified as current, other loans especially mentioned (OLEM), substandard, doubtful or loss.

period. The other two banks showed an improvement in the ratio, largely because of a decrease in investment in the capital of other financial institutions.[11]

42. All active banks currently comply with the liquidity ratio requirements. However, there appears to be less attention paid to the solvency risk associated with the exchange rate under the current regulatory framework. Although the CBL is able to maintain vigilance over currency mismatches or open foreign exchange positions taken by the banks, there is no formal regulation or supervisory guidance, such as prudential limits, in this area except for the liquidity requirements. There also do not seem to be formal systems in place to deal with a bank in difficulty or systemic bank runs. With scarce foreign reserves and little likelihood of contingent facilities or international support, the role of the CBL as a lender of last resort is quite limited.[12] Only a proportion of the reserves that commercial banks hold at the CBL (50 percent of Liberian dollar-denominated deposits and 18 percent of U.S. dollar-denominated deposits) is currently matched by liquid assets of the CBL.[13] No deposit insurance system is currently in place.[14]

43. **In the absence of such safety nets, and reflecting the recent deterioration in asset quality, profitability, and the capital adequacy ratio of some banks, careful monitoring of the financial condition of the banks will need to be maintained**. The profitability of banks is likely to come under greater pressure as a result of the absolute ceiling that has been set on lending rates and the designation of a maximum spread over the cost of funds. Although the U.S. dollar is legal tender in Liberia, there may also be a case for establishing some sort of regulation or supervisory guidance on prudential limits on currency mismatches or open foreign exchange positions.

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[11] The prudential regulation on calculating the capital adequacy ratio specifies the following items as deductible from both assets and capital: goodwill and other intangible assets; fixed assets; investments in unconsolidated subsidiaries and associates; investments in capital of other banks and financial institutions; and connected lending of a capital nature.

[12] The CBL acts as a lender of last resort on a discretionary basis. In the case of the LUBI, which was seized in April 2000, liquidity support was provided by some commercial banks rather than the CBL. These loans to the LUBI were eventually repaid, using the LUBI's reserves at the CBL.

[13] In the event of liquidation of a commercial bank, the following order of priority is set for claims against the bank's assets: (a) expenses incurred by the liquidation officer; (b) wages of employees of the bank in liquidation; (c) taxes, rates, and deposits owed to the government; (d) fees and assessments due to the central bank; (e) saving deposits; and (f) other deposits.

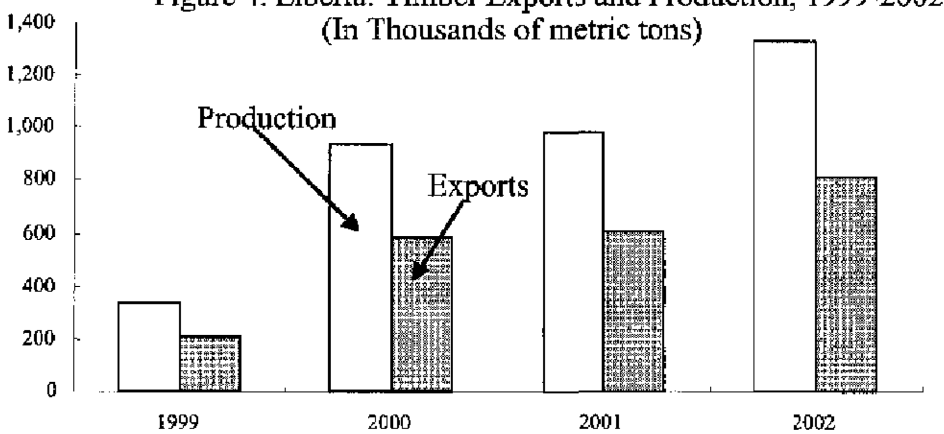
[14] Although a deposit insurance scheme is noted in the Financial Institutions Act of 1999 (Part IV, 34), the CBL has no plans to introduce one.

B. Timber

44. **Timber has played an increasingly important role in the Liberian economy since the 1989–96 civil war.** Before the war, timber ranked as the fourth-largest primary product contributing to GDP (after rice, iron ore, and rubber), and the third-largest export earner (after iron ore and rubber). Timber is now the largest industry, both in terms of contribution to GDP and export earnings. In 2002, timber accounted for about 18 percent of GDP and 58 percent of exports. It was also the source of about US$13.0 million in government revenue from expenditure taxes (18 percent of total tax revenue) and US$12.5 million to the Forestry Development Authority (FDA), as well as boosting receipts from income tax and import tariffs.

45. After the civil war, timber production rose fourfold within four years, and, by 2002, round log production had exceeded prewar production levels. Although intensified conflicts in the northwest of the country curtailed output, there was a sizable expansion of logging activities in the southeast.[15] Timber production is estimated to have grown by about 35 percent in 2002 (Figure 4). Foreign investment has, however, generally been restrained because of the heightened security situation and fear of possible sanctions on timber.

Figure 4. Liberia: Timber Exports and Production, 1999-2002
(In Thousands of metric tons)



Source: Forestry Development Authority; and Fund staff estimates.

46. Most of the timber (about 80 percent) is exported as round logs or plywood. There is little domestic use of timber because of a lack of drying or commercial production facilities. The direction of exports has changed considerably in recent years, with the emphasis shifting

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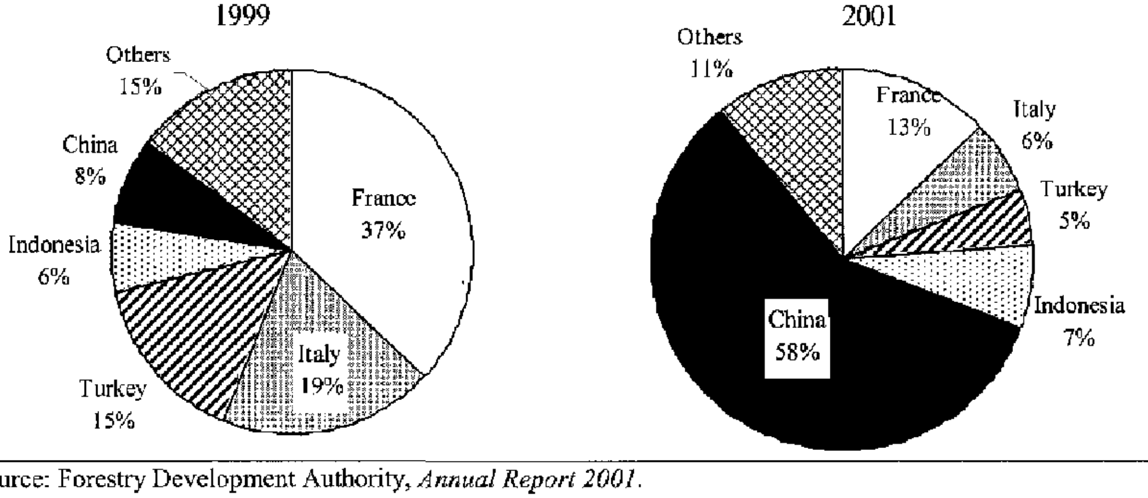
[15] The opening of a new plywood factory by the Oriental Timber Company (OTC) in the port of Buchanan in 2002 has greatly increased the potential profitability and rate of exploitation of forestry resources in the southeast of the country.

from Europe to Asia. China's share of total exports increased from 8 percent in 1999 to 58 percent in 2001, while that of France declined from 37 percent to 13 percent (Figure 5).

47. Logging activities are undertaken by 31 private companies, which have been granted concessions to exploit government owned forested land subject to detailed requirements to ensure protection of forestry resources (see table below). Oriental Timber Company (OTC) currently produces about one half of total timber output.

48. The Forestry Development Authority (FDA) was established in November 1976 as the custodian of the forest resources of Liberia, to oversee logging and other activities. It was specifically charged with: bringing about the profitable harvesting of all forest products; ensuring that the supply of such products is perpetuated; and enforcing laws and regulations for the development and conversation of forest resources. Its Board of Directors was structured to include the Ministers of Agriculture, Finance, Local Government, Planning, and Commerce, with a Managing Director (currently Mr. Demetrious Taylor) appointed by the President. No member of the Board is to hold any financial interest in a forestry concession in Liberia. The FDA had 457 staff members as of end-2001, most of whom are based in the field and in the regional offices.

Figure 5. Liberia: Share of Timber Exports by Destination, 1999 and 2001



Source: Forestry Development Authority, *Annual Report 2001*.

Liberia: Round Log Production by Company, 2001

	Amount (In metric tons)	Share (In percent)
Oriental Timber Company	484,088	49.3
Natura	103,918	10.6
Maryland Wood Processing Industries	76,418	7.8
Inlan Logging Co.	45,029	4.6
Royal Timber Co.	42,120	4.3
Other 26 companies	230,719	23.5
Total	982,292	100.0

Source: Forestry Development Authority, *Annual Report 2001* .

49. The forest area of Liberia is composed predominantly of natural forests, with artificial forests (mostly rubber plantations) making up less than 1 percent of the total forest cover. Within natural forests, the categories of species present in Liberia are classified as heavy weight (52 percent by volume); light/medium weight (21 percent); core veneer (17 percent); and established (10 percent). Until recently, exploitation in Liberia had focused on the selection of only very high value species, including redwood, African walnut, and West African mahogany, which led to a low level of output per hectare. With new plywood production facilities, however, lower-valued species are increasingly being exploited.

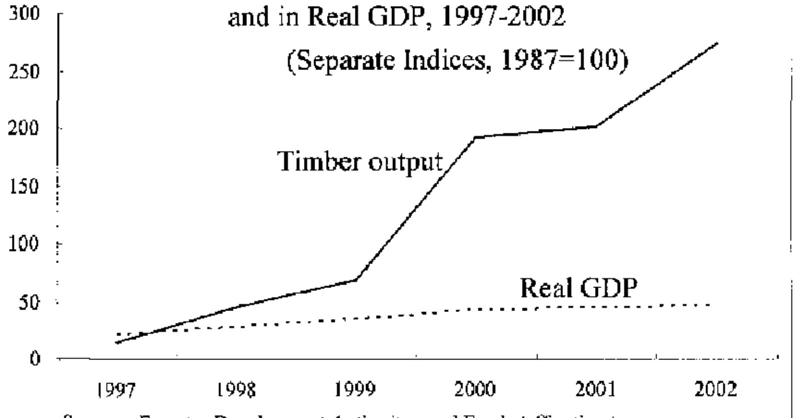
50. Based on a minimum diameter for all tree species exploited, the felling cycle for Liberia's national forests is 25 years. There is, however, conflicting information about the current volume of merchantable timber remaining in Liberia and, hence, the level of annual forest utilization that is sustainable. The only available data on the potential stock of merchantable timber species are based on an estimate conducted in 1979, which indicated a stock of 81.3 million metric tons.[16] The Food and Agriculture Organization of the United Nations (FAO), based on satellite photographs, estimates the forest cover to have been shrinking at a rate of 2 percent per annum. However, the FDA contradicts this, reporting instead constant forest coverage for the last four years in its annual reports.[17]

[16] If the estimate is realistic, the level of the stock would appear adequate under appropriate husbandry to sustain the current annual timber production at its current rate of about 1 million metric tons.

[17] The FDA reports 4.8 million hectares (of which productive forest accounts for only 45 percent) of forest cover in its *Annual Reports* from 1999-2001.

Figure 6. Liberia: Developments in Timber Production and in Real GDP, 1997-2002

(Separate Indices, 1987=100)



Sources: Forestry Development Authority; and Fund staff estimates.

51. The accelerated pace of production in the last few years nevertheless raises concern about both the medium-term sustainability of forestry resources, in the absence of sufficient reforestation activities and enforcement of forestry regulations, and the short-term impact on the environment and local communities of poorly controlled logging activities. Reports imply that some logging companies are clear-felling large areas instead of selecting only approved species of adequate diameter, as they are required to do under their agreements with the FDA. For their part, some logging companies claim that itinerant farmers are moving into forest areas behind the felling operations and burning and clearing large tracts of land for cultivation.

52. **The FDA and the Liberian government share revenues retained from the timber industry.**[18] During 2001, the FDA assessed the scale of taxes and fees due from the timber industry as US$19 million, of which US$8.9 million was to be retained by the government and the rest (US$10.1 million) by the FDA. However, in the absence of adequate financial statements from the FDA, actual taxes and fees paid to the FDA are not known, nor how those revenues are spent (see tables below).[19]

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[18] Based on the Government Executive Order of June 22, 2000, the FDA is empowered to collect and use 50 percent of land rental fees and 2 percent of the stumpage fees paid by logging companies for the support and maintenance of the FDA.

[19] The FDA has not recently produced audited accounts, and the limited financial information provided in its *Annual Reports* contains serious inconsistencies.

Liberia: Assessed Revenue by Component, 2001
(In millions of U.S. dollars)

	Revenue Assessed by FDA	*Of Which*: Payable to the Government	*Of Which*: Payable to the FDA
Reforestation fee	3.6	...	3.6
Conservation fee	2.4	...	2.4
Forest research fee	0.7	...	0.7
Severance fee	1.5	1.4	0.0
Land rental	6.7	3.4	3.4
Industrialization Incentive Fund	4.2	4.1	0.1
Forest product fee	0.1	...	0.1
Total	19.0	8.9	10.1

Source: Forestry Development Authority, *Annual Report 2001*.

Liberia: Revenue from Timber, 1998-2001
(In millions of U.S. dollars)

	1998	1999	2000	2001
Assessed revenue by the FDA	3.0	5.7	20.7	19.0
Payable to the government	...	2.6	8.5	8.9
Payable to the FDA	...	3.1	12.2	10.1
Actual government revenue	0.7	1.7	6.7	8.4
Estimated uncollected government revenue	...	0.9	1.8	0.5

Sources: Forestry Development Authority; and Ministry of Finance.

53. **There was a shortfall** between the assessment of taxes and fees for the government and those actually collected of US$1.8 million in 2000 and US$0.5 million in 2001. This may in part reflect growing arrears to the government by those logging companies that had been affected by a decline in profits owing to low international timber prices or rebel activity. Most of the taxes and fees collected by the government were not paid in cash, but in the form of services in kind, such as road rehabilitation or renovation of schools. In 2001, seven logging companies reconditioned and constructed a total of 778 miles of primary roads,[20] and renovated some civil facilities.

54. It is widely claimed that the FDA's assessments of revenue, and government receipts from the industry are well below what would be due under current tax provisions if proper account were taken of the world market value of the timber produced and if concessions were

[20] The logging companies noted that currently the authorities value 1 mile of road rehabilitation at L$ 12,000-15,000 Liberian dollar, depending upon the kinds of the roads.

not given on unnecessarily favorable terms.[21] Export volumes are claimed to be understated and prices underrecorded, in part because of the transfer pricing practices of the logging companies and connected overseas importers. Some of these claims are based on eye-witness reports, including by officials conducting the valuations. There are also a number of inconsistencies in the data reported on Liberia that would lend support to these claims, including those for production, exports, and forest cover. For example, data reported to COMTRADE on the value of exports by destination are, for the most part, substantially lower than the corresponding data reported by the importing country, adjusted to a comparable basis; meanwhile, different data on exports have been reported by the FDA in its *Annual Report* than those provided to the CBL.

55. This lack of consistent information, as well as the nonaccountability of the FDA for many of its activities, reinforces the serious concerns that the international community has raised about governance in the timber sector, which is now the most important export industry in Liberia and a major source of government revenue. Claims that potential government revenue has been diverted for private use, and that recent logging activities have been detrimental to the environment and the long-term sustainability of the Liberia's forests, have not been effectively answered.

C. Rice

56. Rice is a staple food in Liberia, as in other parts of West Africa.[22] Consumption has been rising as a substitute for traditional coarse grains, roots, and tubers. The availability and price of rice are now important determinants of the welfare of the poorest segments of the country's consumers, and have become issues of major political sensitivity in Liberia since the rice riots in 1979, which contributed to the overthrow of President Tolbert. Market restrictions have been persistent features of public policy toward the rice sector over the past few decades, with ceilings on prices and the licensing of imports, as well as incentives and technical support for domestic production. While supply has been ensured during this period, prices have often been above international levels, and production has continued to lag behind demand, especially in recent years.

57. Imports of milled rice satisfied about one-third of Liberia's rice consumption at the end of the last decade (see table below). Rice production was adversely affected by the civil war and the continuing adverse security situation, which displaced large parts of the rural

[21] See, e.g., UN Security Council (S/2001/1015), "Letter Dated 26 October 2001 from the Chairman of the Security Council Committee established pursuant to resolution 1343 (2001) concerning Liberia addressed to the President of the Security Council."

[22] Rice consumption in sub-Saharan Africa as a whole increased by 5.6 percent per annum between 1961 and 2000 (FAO, *World Agriculture 2000*), more than double the rate of population growth, driven by changing food preferences in both urban and rural areas and compounded by rapid urbanization.

population and caused a substantial loss of acreage. Farmers were also frequently not able to retain seed stocks from one season to the next, depending instead on seed distributed by NGOs, predominantly provided by CRS (Catholic Relief Services). In 2002, no rice production was recorded by the Ministry of Agriculture for Lofa County, traditionally one of the major producers, which was most severely affected by recent fighting.

Liberia: Rice Production and Imports, 1998–2002
(In thousands of metric tons)

	1998	1999	2000	2001	2002
Production 1/	203	196	204	219	187
Import volume 2/	86	79	98	103	153
Consumption	289	275	302	322	340

Sources: Liberian authorities; and Fund staff estimates.
1/FAO and Fund staff estimates.
2/ Ministry of Commerce.

58. Only four types of rice are imported into Liberia: butter rice from Taiwan Province of China (long grain in 50 kilogram bags); golden white rice from Pakistan (long grain 15–20 percent broken in 50 kilogram bags); parboiled rice from United States (long grain in 100 kilogram bags); and special quality Asian (long grain in 50 kilogram bags). Rice importation in Liberia is handled by a limited number of private traders, together with the Firestone Rubber Company (for its plantation workers). At present, three commercial rice importers (Bridgeway Corporation, K & K Trading Company, and Global Africa Import & Export) dominate the market, with Bridgeway and K & K Trading supplying 75 percent of total commercial rice imports in 2002. An additional 14 percent of commercial imports was supplied in 2002 by a number of small traders distributed along the southeastern part of Liberia, who imported their rice mainly overland through Cote d'Ivoire into the Nimba, Grand Gedeh, and Maryland counties.

59. **There is a maximum selling price for rice,** set by a committee including representatives of various ministries based on an assessment by the Ministry of Commerce, reflecting the costs of importation and distribution, as well as various fees and charges. Government fees and taxes account for about 10 percent of the retail price. The current maximum selling price, which has been unchanged for some time at US$21.00 per bag, is based on an imported price that seems some way above current international levels,[23] and also includes a large margin of 17 percent of the selling price. It has nonetheless often been the ruling market price, reflecting the lack of competition.

[23] No breakdown was supplied by the authorities for the composition of imported rice by type or price.

Liberia: Government Revenues from Rice Imports, 1999–2002

	1999	2000	2001	2002
	(In millions of U.S. dollars)			
Total revenues from rice imports	2.5	2.1	1.9	2.7
Rice stabilization fee	1.7	1.4	1.3	1.8
Import duty	0.8	0.7	0.6	0.9

Sources: Liberian authorities; and Fund staff estimates.

60. Several taxes and other charges apply to the importation of rice (see table above). The most important charges are the rice stabilization fee (US$1 per 100-pound bag), import duty (US$0.50 per 100-pound bag), charges levied by the National Port Authority (US$7 per metric ton), and charges related to import permit declarations (1.5 percent of f.o.b. value). While the Revenue Code of Liberia, Phase One, extended the goods and services tax (GST) to rice, this tax has been suspended by the authorities, citing the adverse economic situation. The authorities argue that the revenue losses are partly offset by the rice stabilization fee, and that a planned Phase Two of the Revenue Code will provide a unified framework for the taxation of rice and other agricultural commodities.

61. Licenses were required for all commercial rice imports until 2000/01, with allocations of the agreed quotas based on a bidding system operated by the National Rice Committee. Although the quotas no longer apply, there has been a sustained perception that permission from the authorities is required for imports, depending in part on assessments of the financial resources of the importer. Potential importers have also been discouraged by the collapse of other new entrants to the market, an outcome that has been blamed on collusion among existing importers to prevent the newcomers from establishing distribution networks.

62. One major barrier to entry in the rice importing business is access to financial resources, especially foreign exchange credit. Local banks do not, in general, provide such finance, and letters of credit from overseas banks of over US$1 million are extremely difficult to obtain because of the high assessed country risk, particularly for local firms without established track records of overseas creditworthiness, collateral, or overseas assets. The minimum average shipment size to ensure profitability is understood to be in excess of 5,000 metric tons per delivery.

63. The explanations for the current concentration of activity in the sector, with two importers accounting for 75 percent of sales, are, therefore, complex. Formal restrictions appear to be very limited, particularly now, as the government has advised all potential

importers of the openness of the market.[24] But there is evidence that substantial monopoly rents are being earned by the main importers, leaving little choice of rice on the market, and resulting in lower welfare for the population. There would appear to be substantial potential for reducing prices to consumers or for taxing the monopoly profits without adversely affecting prices.

D. Petroleum

Background

64. Until 1990, Liberia imported crude oil, which was stored and refined at the refineries located at the Port of Monrovia by the Liberia Petroleum Refining Company (LPRC). However, the oil refinery at Monrovia was destroyed during the civil war. Since then, the major responsibilities of the parastatal LPRC have been the regulation of the sector, including the importation and storage of petroleum products. Because facilities to supply or distribute electric power are inadequate, petroleum products are essential both for the transportation sector and for the operation of private electricity generators.

65. **Between 1991 and 1998, the petroleum sector was open and quasi-competitive.** There were several importers, including West Oil, Mobil, Texaco, and Fina, who sold refined products to the LPRC. In 1998, in the context of the negotiation of a $US10 million loan from West Oil to the government, largely for vehicle imports, the LPRC agreed that West Oil would prefinance all oil imports into Liberia for the duration of the loan contract (initially set to run until September 2003) and handle all revenues from the wholesale distribution of petroleum (Box 4). Most of the imported products are now supplied to West Oil by Total Fina ELF and come from Abidjan and Gabon.

Box 4. Liberia: The Loan Contract with West Oil

At the request of the government of Liberia, the LPRC contracted a US$10 million loan in September 1998 for a period of five years from West Oil at an interest rate of 10 percent per annum, with an option for the loan to be extended for an additional two years. The LPRC was expected to use this loan to buy vehicles and other equipment and to help maintain its oil pipelines and storage facilities. West Oil was at the same time given the sole right to arrange and prefinance all imports of petroleum products into Liberia. Servicing of the loan from West Oil is conducted in part by the withholding by West Oil of US$0.35 per gallon from petroleum distributors (equal to the petroleum sales tax), with LPRC reporting the values to the Revenue Accounts Division of the Ministry of Finance. The tax liabilities of West Oil and associated companies are also on occasion credited against the servicing of the loan to government. At end-December 2002, US$2.7 million was outstanding on the loan.

[24] Advertisements appeared in daily newspapers in February 2003 to emphasize the absence of formal restrictions.

Importation and distribution

66. During 1998–2002, Liberia imported between 26 million and 35 million gallons of finished petroleum products annually; gasoline and diesel accounted for more than 90 percent of total petroleum imports, with the share of kerosene (including Jet-A1) rising from 2.4 percent to 5.3 percent over the period (see table below).

Liberia: Petroleum Imports by Product, 1998–2002

	1998	1999	2000	2001	2002 Est.
Thousands of gallons					
Gasoline	12,572	11,255	10,929	12,022	10,503
Diesel	13,094	14,921	16,157	21,773	17,703
Kerosene (incl. Jet A-1)	632	1,377	1,615	1,397	1,570
All Products	26,298	27,553	28,700	35,191	29,776
Share (percent)					
Gasoline	47.8	40.8	38.1	34.2	35.3
Diesel	49.8	54.2	56.3	61.9	59.5
Kerosene (incl. Jet A-1)	2.4	5.0	5.6	4.0	5.3
All products	100	100	100	100	100

Source: LPRC Annual Report; and Fund staff estimates.

67. **The LPRC has authority over the importation, storage, and distribution of petroleum, including the specification of maximum prices at the wholesale and retail levels.**[25] The structure of these prices determines precisely the margins that can be earned by the wholesalers and the retailers (proprietors of gas stations), but the importer's margin varies with the import price, as there does not appear to be a set formula for determining the relationship between import prices (or equivalent world prices) and the prices that are set by LPRC for purchases by wholesalers. Although the agreement between the LPRC and West Oil allows for reviews at 60-day intervals, LPRC has not changed the maximum prices at wholesale and retail levels since September 2000. During this period, international prices have fluctuated considerably, implying substantial volatility in the gross markup available to West Oil from its sales to wholesalers and selected final users, including the public sector. In addition to import costs, West Oil is responsible for paying fees to LPRC for product storage facilities and discharging payments due for taxes and other charges (or crediting them against the government's debt-servicing obligations).

[25] Some storage facilities outside Monrovia are currently not operated by the LPRC

Prices, costs and, margins

68. Petroleum products in Liberia are currently subject to the following tax provisions: import duty of US$0.25 per gallon; sales tax of US$0.35 per gallon; goods and services tax (GST) of 7 percent of the retail price (which is currently set at US$3.00 per gallon for gasoline); and an excise tax of 7 percent. However, both the GST and the excise duty have been derogated temporarily by administrative order, leaving total taxes payable of US$0.60 per gallon. West Oil also pays US$0.26 per gallon to the LPRC to cover storage fees of US$0.16 per gallon and rehabilitation fees (for the oil pipelines and equipment) of US$0.10 per gallon (see table below).

Liberia: Gasoline Price Buildup
(In U.S. dollars per gallon)

Landed price of imports 1/	1.00
Taxes	0.60
Storage and rehabilitation fees	0.26
Wholesale price	2.79
Retail price	3.00
Total margin (retail price minus import price, taxes, and storage fees)	1.14
Wholesalers's margin	0.06
Retailers' margin	0.15
Residual margin	0.93

1/ Approximate figure for November 2002, including cost, insurance and freight.

Source: LPRC, West Oil; and staff estimates.

69. The cost of imported gasoline was reported by West Oil to be in the region of US$1.00 per gallon in November 2002, including the high insurance costs resulting from the current security situation. At a retail price of US$3.00 per gallon, this would imply a total markup between imports and sales at the gas pump of US$2.00 per gallon, of which US$0.86 is accounted for by taxes and storage costs and US$0.21 went to distributors (see table above). The residual margin (approximately US$0.93) would be available to West Oil to cover the cost of wastage (which may be as high as 10 percent of the oil going through the storage facilities because of leaks) and other administrative costs and payments. There may also have been some subsidization of concessionary sales to specified customers. The equivalent residual margin for diesel would be about US$0.83 per gallon.

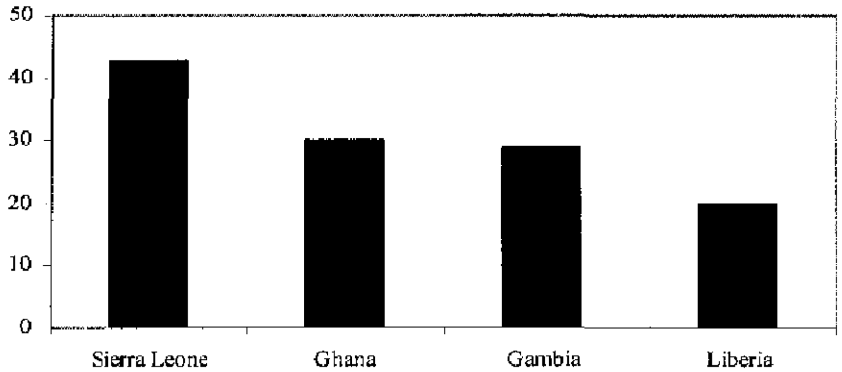
70. Residual margins on sales to other final users were probably smaller than those on retail sales, reflecting the scale of sales to the public sector (which is responsible for more than one-half of the country's consumption of petroleum products) and to a few other large or privileged customers. On the conservative assumption that these margins would be only one-half of the levels on retail sales, and assuming that only 90 percent of the gasoline and diesel

imported reaches final paying consumers, the implied net income for West Oil would be about US$17 million per annum. Out of this, West Oil would need to cover the cost of leakages, which could be as high as US$3 million, and other payments.

International comparisons

71. Petroleum products attract large tax liabilities in many sub-Saharan African countries, reflecting, in part, their relatively low price elasticity and high income elasticity. However, in Liberia, petroleum taxes constitute only 20 percent of the final pump price, which is a much lower ratio than in other West African countries.

Figure 7: Ratio of petroleum taxes to final pump price in selected West African Countries, 2001 (In percent of final pump price)



Sources: Liberian authorities; and Fund staff estimates

Policy options

72. The current arrangements for importing and distributing petroleum products in Liberia appear to have been acting against the interests of the consumer and the government sector. Prices to the final consumer have been considerably higher than those that would have resulted from open competition, even though tax collections have been relatively small by international standards. Although the system under which a single importer is subject to a price ceiling at the wholesale stage could have provided a mechanism for limiting the importer's margin, it appears that there have been substantial monopoly rents because the price ceilings have not, in practice, been linked to world prices. There is little to suggest that the security of supply to Liberia would have been at greater risk under open competition than with a single importer.

73. A return to a more competitive import system would have the potential of reducing the landed cost of petroleum products. Concerns that the limited size of the Liberian market and the current security situation would still permit the exercise of some monopoly power

could be met in part by preserving the right of the regulator to set maximum prices. However, the mechanism for setting prices would need to be transparent, flexible and, if possible, use a formula that ensured automatic adjustment to world conditions and exchange rate changes.

74. There would also appear to be considerable scope for increasing tax revenue from petroleum products. Derogations provided for petroleum products against liability to the GST and excise taxes are estimated to reduce the taxes levied on private consumers by about US$4 million per annum.[26] As the net income currently earned by the monopoly importer on sales to the private sector appears to be significantly higher than this, the derogations could probably be removed without requiring any adjustment in the retail price. A higher rate of excise duty could also be considered

E. Cement

75. **The Liberian Cement Corporation (Cemenco) has a monopoly of cement production, with responsibility for maintaining domestic supply**. The company is a subsidiary of a multinational firm with cement plants in other West African countries, including Ghana, Nigeria, Sierra Leone, and Togo. It produces Portland Grey cement. Although its capacity is about 220,000 metric tons, production in 2002 was about 50,000 metric tons. Cemenco has on occasions faced severe production difficulties and has found it necessary to import significant quantities of cement to satisfy domestic demand. In 2002, Cemenco's normal monopoly of domestic supply (maintained by the requirement for cement imports to have presidential approval) was breached by the duty-free import of about 15,000–20,000 metric tons by other companies (notably in the logging sector).

76. **Cemenco has received concessions on import duties since the mid-1980s.** The current arrangement with the government on tax exemptions and prices was agreed in 2000 when the National Investment Commission approved a planned investment of US$2.55 million in two new generators. Under this arrangement, Cemenco is exempt from all import duties on raw materials (excluding petroleum), capital equipment, and spare parts, although it does pay turnover tax. When the GST was introduced in July 2001, Cemenco—as the sole domestic supplier of cement— was given a specific derogation, temporarily suspending the tax liability. This was revoked by the government on February 15, 2003. Recognizing Cemenco's monopoly position, a government committee representing the Ministries of Commerce and Finance fixes the domestic selling price of cement to distributors.

77. Currently, the price fixed by the government committee is US$5.80 per bag, or US$116 per metric ton. This is high by developed-country standards where, for example, the price of Portland Grey cement in 2001 averaged about US$46 per metric ton. Allowing for

[26] Fund staff estimate.

transport and port charges in Liberia, the equivalent landed (pretariff) price of cement imported into Liberia would probably be in the range of US$80–US$95 per metric ton. This implies a substantial margin between the price that Cemenco is permitted to charge in the protected domestic market and the potential pretariff price at which cement could be profitably imported. In addition, Cemenco receives sizable tax concessions on its inputs.

78. One justification for this high implicit subsidy to Cemenco's production might be to maintain security of supply. However, Cemenco cannot produce cement without imported raw materials. The net effect of the current system appears, therefore, to be to maintain a higher price than would result under free importation and to reduce government tariff revenue, without any substantial benefit to the domestic economy. As cement is currently used extensively in housing repair and construction, there may also be adverse distributional consequences.

Table 1. Liberia: Sectoral Gross Domestic Product, 1998-2002

	1998	1999	2000	2001	2002 Est.
	(Annual percentage change, unless otherwise indicated)				
GDP at 1992 constant prices	29.7	22.9	22.4	4.9	3.3
Agriculture & fisheries	22.3	20.0	5.7	6.4	-3.6
Forestry	70.2	19.1	70.6	5.0	20.7
Mining & panning	49.0	10.6	49.8	-74.9	-69.9
Manufacturing	5.1	21.7	62.8	0.9	-23.7
Services	29.9	39.2	15.0	3.2	7.0
	(Percentage of pre-war level, 1987 = 100)				
GDP at 1992 constant prices	28.2	34.6	42.4	44.4	45.9
Agriculture & fisheries	53.3	64.0	67.7	72.0	69.4
Forestry	112.9	134.4	229.3	240.7	290.5
Mining & panning	0.8	0.9	1.3	0.3	0.1
Manufacturing	17.7	21.5	35.0	35.3	26.9
Services	9.8	13.6	15.7	16.2	17.3
	(Millions of U.S. dollars)				
GDP at current prices	359.6	441.8	541.5	534.4	561.8
Agriculture & fisheries	229.4	277.0	282.9	270.1	286.6
Forestry	53.4	59.6	117.1	120.9	145.6
Mining & panning	1.1	1.2	1.0	0.2	0.1
Manufacturing	17.3	21.4	38.1	43.1	30.3
Services	58.5	82.6	102.4	100.1	99.3
	(Percentage shares)				
GDP at current prices	100.0	100.0	100.0	100.0	100.0
Agriculture & fisheries	63.8	62.7	52.2	50.5	51.0
Forestry	14.8	13.5	21.6	22.6	25.9
Mining & panning	0.3	0.3	0.2	0.0	0.0
Manufacturing	4.8	4.8	7.0	8.1	5.4
Services	16.3	18.7	18.9	18.7	17.7
Memorandum items:					
	(Units indicated)				
Real GDP per capita (1992 constant U.S. dollars)	132.7	158.0	160.8	161.3	161.0
Nominal GDP per capita (U.S. dollars)	121.4	145.1	173.0	165.8	169.2
Population (Millions) 1/	3.0	3.0	3.1	3.2	3.3
	(Annual percentage change)				
GDP deflator	-4.1	0.0	0.2	-5.9	1.8
Consumer prices (Period average)	...	2.0	5.3	12.4	14.2

Sources: Liberian authorities; and Fund staff estimates.

1/ The rise in population in 1998-2000 partly reflects the return of refugees.

Table 2. Liberia: Sectoral Origin of GDP at Current Prices, 1998-2002

	1998	1999	2000	2001	2002 Est.
		(Millions of U.S. Dollars)			
GDP at current prices	359.6	441.8	541.5	534.4	561.8
Agriculture & fisheries	229.4	277.0	282.9	270.1	286.6
Rubber	37.6	61.7	57.0	50.8	51.1
Coffee	0.5	0.7	0.5	0.1	0.1
Cocoa	1.6	2.0	0.7	0.4	0.6
Rice	64.2	72.5	61.7	56.1	55.6
Cassava	44.0	48.4	55.4	55.3	61.0
Other	81.5	91.7	107.5	107.4	118.3
Forestry	53.4	59.6	117.1	120.9	145.6
Logs & timber	13.0	18.2	61.8	70.3	86.7
Charcoal & wood	40.4	41.4	55.3	50.6	58.8
Mining & panning	1.1	1.2	1.0	0.2	0.1
Iron ore	0.0	0.0	0.0	0.0	0.0
Other	1.1	1.2	1.0	0.2	0.1
Manufacturing	17.3	21.4	38.1	43.1	30.3
Cement	4.9	5.3	6.2	7.3	5.4
Beverages & beer	10.9	13.3	28.6	32.3	21.5
Other	1.5	2.8	3.2	3.5	3.3
Services	58.5	82.6	102.4	100.1	99.3
Electricity & water	1.5	2.3	3.0	3.0	2.8
Construction	5.6	6.9	8.0	8.7	8.3
Trade, hotels, etc	11.0	17.0	21.1	21.2	20.3
Transportation & communication	16.8	21.6	24.4	24.3	28.2
Financial institutions	10.9	13.3	15.1	14.6	13.9
Government services	6.2	11.2	16.9	14.1	12.3
Other services	6.4	10.3	13.9	14.2	13.6

Sources: Liberian authorities; and Fund staff estimates.

Table 3. Liberia: Sectoral Origin of GDP at 1992 Constant Prices, 1998-2002

	1998	1999	2000	2001	2002 Est.
			(Millions of 1992 U.S. dollars)		
GDP at 1992 constant prices	328.7	404.1	494.4	518.6	535.5
Agriculture & fisheries	196.6	236.0	249.5	265.5	255.9
Rubber	30.3	41.7	35.4	36.3	32.1
Coffee	0.3	0.4	0.5	0.3	0.2
Cocoa	1.0	1.4	0.7	0.5	0.3
Rice	55.9	65.6	68.3	73.2	62.5
Cassava	38.3	43.8	49.2	52.8	54.6
Other	70.9	83.0	95.5	102.5	106.0
Forestry	63.9	76.1	129.8	136.3	164.5
Logs & timber	15.5	23.8	66.3	69.5	94.4
Charcoal & wood	48.4	52.3	63.6	66.7	70.1
Mining & panning	1.0	1.1	1.6	0.4	0.1
Iron ore	0.0	0.0	0.0	0.0	0.0
Other	1.0	1.1	1.6	0.4	0.1
Manufacturing	15.4	18.7	30.4	30.7	23.4
Cement	4.3	4.6	5.0	5.8	4.6
Beverages & beer	9.7	11.6	22.8	21.9	15.7
Other	1.3	2.4	2.6	3.0	3.1
Services	51.9	72.2	83.0	85.6	91.6
Electricity & water	1.4	2.0	2.4	2.5	2.6
Construction	4.9	6.0	6.5	7.5	7.6
Trade, hotels, etc	9.8	14.9	17.1	18.1	18.7
Transportation & communication	14.9	18.9	19.8	20.8	26.0
Financial institutions	9.7	11.6	12.2	12.5	12.8
Government services	5.5	9.8	13.7	12.1	11.3
Other services	5.7	9.0	11.3	12.2	12.6

Sources: Liberian authorities; and Fund staff estimates.

Table 4. Liberia: Selected Annual Output Indicators by Volume, 1998-2002

	1998	1999	2000	2001	2002 Est.
			(In units indicated)		
Agriculture					
Rubber (Millions of pounds)	55.6	138.0	242.5	248.3	219.8
Coffee (MT)	272.0	872.8	896.0	507.0	438.5
Cocoa (MT)	2,440.5	2,591.0	1,203.0	966.0	625.7
Rice (Thousands of MT)	202.6	196.3	204.2	219.0	187.0
Cassava (Thousands of MT)	313.3	357.0	400.8	430.0	445.1
Forestry					
Logs & timber (Thousands of cubic metres)	157.1	335.5	934.1	982.3	1,331.0

Sources: Liberian authorities; and Fund staff estimates.

Table 5. Liberia: Consumer Price Index, May 1998 - December 2002

	Overall Index		Food	Drinks & Tobacco	Fuel & Light	Clothing	Household Goods & Furniture	Personal Care & Services	Rent	Misc.
	Index	Annual % change								
(Weight)	(100.0)		(34.4)	(5.7)	(5.0)	(13.8)	(6.1)	(11.4)	(14.9)	(8.7)
				(May 1998=100)						
1999 (year avg.)	**105.6**	**...**	**103.1**	**106.7**	**109.9**	**104.8**	**114.3**	**107.7**	**109.0**	**98.4**
2000 (year avg.)	**111.1**	**5.3**	**101.7**	**102.6**	**122.7**	**104.8**	**119.1**	**129.0**	**126.2**	**102.9**
January	108.3	3.8	99.9	102.6	112.4	101.2	117.2	127.0	121.5	100.7
February	108.6	4.7	100.4	102.6	112.4	101.4	117.6	127.0	121.5	101.7
March	109.4	5.8	102.4	102.6	114.5	101.5	117.6	127.0	121.5	101.6
April	109.1	5.2	100.3	102.6	114.5	103.9	116.5	127.0	121.5	103.7
May	114.0	9.4	110.5	102.6	121.0	104.2	116.5	127.0	128.5	103.7
June	113.9	10.4	111.5	102.6	121.0	104.1	113.5	127.0	128.5	100.3
July	111.0	7.3	100.7	102.6	121.0	106.1	118.9	127.0	128.5	102.4
August	111.2	4.4	101.3	102.6	121.0	106.1	118.9	127.0	128.5	102.4
September	112.8	4.4	101.2	102.6	138.1	107.8	122.7	128.4	128.5	104.2
October	111.9	3.2	99.6	102.6	132.1	107.3	122.7	128.4	128.5	104.2
November	111.3	2.2	94.6	102.6	132.1	106.8	123.6	137.8	128.5	105.2
December	112.3	3.2	97.6	102.7	132.1	106.8	123.9	137.8	128.5	105.2
2001 (year avg.)	**124.6**	**12.1**	**97.7**	**121.9**	**135.3**	**112.2**	**136.6**	**209.5**	**130.2**	**117.7**
January	111.7	3.2	96.5	102.6	131.7	106.7	118.6	140.5	128.5	103.1
February	111.2	2.4	94.6	102.6	131.7	103.5	117.7	144.0	130.3	103.1
March	111.9	2.3	91.4	106.7	131.7	109.0	118.6	150.1	130.3	103.1
April	118.2	8.3	90.2	118.8	138.1	106.6	123.5	198.7	130.3	105.2
May	118.2	3.7	90.3	118.8	138.1	106.8	123.5	198.7	130.3	105.4
June	123.9	8.8	93.2	118.8	138.1	114.6	134.1	222.1	130.3	108.3
July	131.1	18.2	101.3	126.6	124.4	115.6	136.2	243.5	130.3	131.3
August	133.5	20.1	103.0	133.4	142.3	117.3	137.7	244.7	130.3	131.9
September	134.5	19.2	103.8	129.7	146.6	119.7	154.4	240.0	130.3	130.2
October	135.3	20.9	104.4	137.7	139.8	115.0	161.8	245.3	130.3	131.0
November	132.2	18.8	98.9	133.4	130.1	116.0	157.9	243.0	130.3	130.2
December	134.0	19.3	104.6	133.4	130.4	116.0	155.7	243.0	130.3	129.9
2002 (year avg.)	**142.3**	**14.2**	...	...	...	...	...	...	...	...
January	133.5	19.5	101.6	127.1	148.8	114.0	158.7	243.1	130.3	129.9
February	136.1	22.4	102.5	127.8	152.3	115.1	158.2	255.2	130.3	137.0
March	138.5	23.8	107.3	132.5	155.9	117.1	157.4	254.0	130.3	139.6
April	139.3	17.9	105.2	133.9	155.5	118.1	157.3	255.7	131.5	150.5
May	140.4	18.7	107.8	134.6	153.2	118.4	157.8	256.2	131.5	151.8
June	141.3	14.1	110.0	135.2	154.2	118.6	158.0	256.5	131.5	152.1
July	143.3	9.3	107.2	148.1	159.4	120.5	158.0	259.1	131.5	168.3
August	145.2	8.8	110.8	154.0	159.4	121.7	159.5	261.5	131.5	165.8
September	146.3	8.8	116.1	145.2	161.6	121.2	160.1	265.0	131.5	157.1
October	146.8	8.5	118.7	142.4	159.4	121.8	161.0	264.3	131.5	155.8
November	148.0	11.9	120.6	150.5	153.0	121.6	161.0	265.2	131.5	158.9
December	148.9	11.1	...	...	...	...	...	...	...	...

Source: Department of Statistics, Ministry of Planning and Economic Affairs.

Table 6. Liberia: Central Government Revenue, 1998-2002
(In millions of U.S. dollars)

	1998	1999	2000	2001	2002
Tax revenue	51.8	61.7	74.3	60.7	70.3
Taxes on income and profits	10.6	15.1	15.9	11.5	14.4
Of which : corporate and partnership	8.0	7.7	4.8	4.2	7.2
Of which : individual income tax	1.9	5.5	9.3	6.1	6.7
Taxes on goods and services	4.9	11.7	17.3	19.7	25.5
Goods and service tax	0.0	0.0	0.0	2.0	3.5
Stumpage fees and land rental	0.7	1.7	6.7	8.4	13.0
Petroleum sales tax	2.9	6.1	7.2	6.1	6.0
Other	1.3	3.9	3.4	3.3	3.0
Maritime revenue	17.3	15.2	17.9	11.0	13.4
Taxes on international trade	18.8	19.7	23.2	18.6	17.0
Taxes on imports	18.4	19.3	22.9	18.4	16.8
Of which : petroleum	...	...	3.3	4.2	4.1
Taxes on exports	0.4	0.4	0.3	0.1	0.2
Other taxes	0.2	0.0	0.0	0.0	0.0
Nontax revenue	2.2	3.8	4.6	4.1	2.4
Total revenue	54.0	65.5	78.9	64.9	72.7
Grants	5.5	8.3	6.3	4.6	0.0
Total revenue and grants	59.5	73.8	85.3	69.5	72.7
Memorandum item:					
Forestry income retained by FDA (not included above) 1/	...	3.1	12.2	10.1	12.5

Sources: Liberian authorities; and Fund staff estimates.

1/ Fund staff estimate. Some forestry revenue is retained by the Forestry Development Authority (FDA); there are no published accounts on these funds.

Table 7. Liberia: Economic Classification of Central Government Expenditure, 1998-2002
(In millions of US dollars)

	1998	1999	2000	2001	2002
Current expenditure	37.1	40.5	47.8	40.7	26.0
Wages and salaries	6.1	10.5	18.4	17.6	13.4
Goods and services	22.9	17.0	21.3	18.2	5.9
Subsidies and grants	4.0	9.2	3.0	0.9	0.4
Interest	4.1	3.8	5.1	4.0	6.3
External	0.6	0.6	0.4	0.6	0.6
Domestic	3.5	3.2	4.7	3.4	5.7
Capital expenditure 1/	12.9	18.9	35.7	32.6	54.1
Internally financed	7.4	12.5	29.4	28.0	54.1
Externally financed	5.5	6.4	6.3	4.6	0.0
Unallocable	8.2	4.0	0.0	0.0	0.0
Total	58.2	63.5	83.6	73.3	80.1

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

1/ Includes expenditure related to national security.

Table 8. Liberia: Summary Accounts of Central Bank of Liberia, March 2001 - September 2002

	2001 Mar.	2001 Sep.	2002 Mar.	2002 Sep.
Net foreign assets	-28,793	-31,484	-34,415	-46,022
Foreign Assets	104	124	99	117
Foreign Liabilities	28,898	31,608	34,514	46,139
Net domestic assets	29,666	32,516	35,494	47,160
Net domestic credit	38,338	43,316	47,705	62,108
Claims on government (net)	38,331	43,305	47,685	62,043
Of which: Fund credit and overdue charges	28,513	31,259	33,911	45,641
Claims on private sector	7	11	17	64
Claims on public enterprises	0	0	2	2
Claims on nonbank financial institutions	0	0	0	0
Other items, net	-8,672	-10,799	-12,211	-14,949
Reserve Money	872	1,032	1,079	1,138
Currency outside banks	746	838	902	956
Reserves of Commercial Banks	126	194	177	182
Memorandum items:				
Nominal GDP (million Liberian Dollars)	24,315	26,453	32,865	39,326
Exchange rate (LD per USD)	45.5	49.5	58.5	70.0

Sources: Liberian authorities and Fund staff estimates.

Table 9. Liberia: Summary Accounts of Deposit Money Banks, March 2001 - September 2002

	2001 Mar.	2001 Sep.	2002 Mar.	2002 Sep.
Net foreign assets	150	-85	-1	-46
Foreign Assets	598	501	729	649
Foreign Liabilities	448	586	730	695
Net domestic assets	1,228	1,253	1,519	1,754
Net domestic credit	1,166	1,614	1,814	2,085
Claims on government (net)	472	543	655	860
Claims on private sector	609	833	948	1,030
Claims on public enterprises	16	94	72	45
Claims on nonbank financial institutions	69	144	138	150
Other items, net	62	-361	-295	-331
Total Deposit Liabilities	1,377	1,168	1,518	1,707
Demand Deposits	1,050	839	1,102	1,163
Time and Savings deposits	327	329	417	545
Memorandum items:				
Nominal GDP (million Liberian Dollars)	24,315	26,453	32,865	39,326
Exchange rate (LD per USD)	45.5	49.5	58.5	70.0

Sources: Liberian authorities and Fund staff estimates.

Table 10. Liberia: Major Exports 1999-2002 1/

	1999	2000	2001	2002 Est.
	(In millions of U.S. dollars)			
Total exports	58.9	120.3	127.9	147.2
Rubber	33.1	57.1	54.0	57.4
Timber	23.4	61.0	69.2	84.9
Cocoa	1.3	0.6	0.5	0.0
Coffee	0.7	0.5	0.0	0.0
Other	0.4	1.1	4.3	5.0
	(Annual percentage changes)			
Total exports	37.6	104.3	6.4	15.1
Rubber	16.0	72.6	-5.4	6.3
Timber	90.6	160.3	13.5	22.7
Cocoa	-20.8	-51.8	-26.2	-100.0
Coffee	196.5	-28.1	-94.8	-100.0
Other	188.7	180.7	285.5	15.6
	(In percent of total)			
Total exports	100.0	100.0	100.0	100.0
Rubber	56.2	47.4	42.2	39.0
Timber	39.8	50.7	54.1	57.7
Cocoa	2.2	0.5	0.4	0.0
Coffee	1.2	0.4	0.0	0.0
Other	0.7	0.9	3.4	3.4

Sources: Liberian authorities; and Fund staff estimates.

1/ In U.S.dollar values.

Table 11. Liberia: Merchandise Trade - Imports, 1999-2002

	1999	2000	2001	2002 Est.
		(In millions of U.S. dollars)		
Total	185.9	185.2	196.9	172.8
Food and live animals	54.0	53.9	61.3	56.6
of which: rice	22.4	27.5	27.6	38.1
Beverages and tobacco	7.7	6.3	6.1	6.5
Crude materials inedible excl. fuel	11.3	6.6	3.8	3.1
Mineral fuels, lubricants	27.1	40.7	42.9	34.5
of which: petroleum	23.7	38.7	40.8	32.8
Animal, vegetable oil	3.6	3.3	2.5	3.4
Chemicals & related products	14.8	14.3	8.7	8.6
Manufactured goods	17.0	20.8	18.4	11.4
Machinery & transport equipment	38.9	30.0	35.4	17.5
Miscellaneous manufactured	11.5	9.3	17.6	27.7
		(Annual percentage change)		
Total	31.4	-0.4	6.3	-12.3
Food and live animals	10.9	-0.2	13.7	-7.8
of which: rice	-25.2	22.5	0.3	38.1
Beverages and tobacco	5.7	-18.8	-2.2	5.3
Crude materials inedible excl. fuel	146.8	-41.8	-41.5	-18.1
Mineral fuels, lubricants	37.9	50.3	5.4	-19.6
of which: petroleum	44.1	63.6	5.4	-19.7
Animal, vegetable oil	210.5	-7.8	-23.6	35.1
Chemicals & related products	63.5	-3.4	-38.9	-1.6
Manufactured goods	13.2	22.0	-11.4	-38.2
Machinery & transport equipment	40.4	-23.0	18.1	-50.6
Miscellaneous manufactured	83.0	-19.0	89.1	56.9
		(In percent of total)		
Total	100.0	100.0	100.0	100.0
Food and live animals	29.0	29.1	31.1	32.7
of which: rice	12.1	14.8	14.0	22.0
Beverages and tobacco	4.2	3.4	3.1	3.7
Crude materials inedible excl. fuel	6.1	3.5	1.9	1.8
Mineral fuels, lubricants	14.6	22.0	21.8	20.0
of which: petroleum	12.7	20.9	20.7	19.0
Animal, vegetable oil	1.9	1.8	1.3	2.0
Chemicals & related products	8.0	7.7	4.4	5.0
Manufactured goods	9.2	11.2	9.4	6.6
Machinery & transport equipment	20.9	16.2	18.0	10.1
Miscellaneous manufactured	6.2	5.0	8.9	16.0

Sources: Liberia authorities; and Fund staff estimates.

Table 12. Liberia: Summary of Tax System
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
A. Central government			
1. Taxes on income and profits		Registered charities are exempted from income and profit taxes	
1.1 Taxes on companies			
1.11 Taxes on company income	Annual tax on net profits received by Liberian and foreign companies. Liberian companies are taxed on income derived from their operations within Liberia. Companies with tax liability of L$500 or more are required to make payments on a current payment basis.	Income derived from sources outside Liberia is exempt, if the majority of the voting power of a domestic company is held by foreigners or nonresidents. Also exempt are earnings from the operation of vessels if not derived exclusively from coastwide operation by resident corporations. Under the Investment Code, companies with qualifying Liberian personnel are exempted from all income taxes for a period of five years or until their accumulated profits exceed 150 percent of their initial investment. This tax holiday may be extended to ten years in certain cases. Donations to approved organizations are deductible, subject to a limit of 15 percent of net income.	35 percent.
1.12 Tax on partnership income	Payable on all net profits received by partnerships. When the tax liability exceeds L$500, payments must be made on a current payment basis.	Partnerships are granted the same deductions on corporations. No deductions may be made for personal or family expenses of any partner.	35 percent. Creditable against income tax of individual partners.
1.12 Turnover tax	Payable in lieu of income tax by partnerships and companies with a gross income not exceeding L$ 5,000,000. For partnerships and companies with gross income higher than L$ 5,000,000, the turnover tax is creditable against income tax.		4 percent of gross income.

Table 12. Liberia: Summary of Tax System (cont.)
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 Taxes on individuals			
1.21 Income tax	The tax is payable annually by all citizens and residents of Liberia on net income received from all sources, including capital gains. Partners must file individual returns of distributive income of all partnership(s) together with income from other sources. Employees= taxes are withheld from salaries or wages (for wages and salaries over L$84 a month) and self-employed individuals with tax liability of L$500 or more are required to make payments on a current payment basis. There are established estimates for taxpayers who do not keep records of their income.	Proceeds of life and health insurance, as well as sickness, disability, and death benefits, gifts, bequests, and interest on certain government obligations are excluded from the income of the recipient. Noncash benefits up to L$ 100,000 are excluded from the taxable income. Donations to approved organizations are deductible within the limit of 15 percent of net income. Medical expenses and insurance premiums up to a specified limit. Partnership taxes and, where applicable, turnover taxes paid by an individual are credited against the income tax due.	Income (in L$) — Rate Up to $ 12,000 — 2 percent 12,001 to 50,000 — 240 plus 5 percent of excess over 12,000 50,001 to 100,000 — 2,140 plus 10 percent of excess over 50,000 100,001 to 200,000 — 7,140 plus 15 percent of excess over 100,000 200,001 to 400,000 — 22,140 plus 20 percent of excess over 200,000 400,001 to 800,000 — 62,140 plus 25 percent of excess over 400,000 800,001 to 1200,000 — 162,140 plus 30 percent of excess over 800,000 1200,001 and over — 282,140 plus 35 percent of excess over 1200,000
1.22 National reconstruction tax (suspended as of July 1, 2001)	The tax is levied on every self-employed, salaried, or wage-earning citizen and foreign resident in Liberia over 16 years of age on gross income for each month of employment or fraction thereof.		Payable on monthly income as follows: (In L$) — (In percent) 1 to 200 — 1.0 201 to 500 — 4.5 501 to 1,000 — 7.5 1,001 and above — 8.0
1.23 Turnover tax	Payable in lieu of income tax by individuals with a gross income not exceeding L$ 5,000,000. For individuals with gross income higher than L$ 5,000,000, the turnover tax is creditable against income tax.		4 percent of turnover.

Table 12. Liberia: Summary of Tax System (cont.)
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.23 Petty trader tax	Payable in lieu of income tax and turnover tax by individuals with gross income of less than L$ 200,000		L$ 400 for traders using a portable business structure, L$ 1,000 for traders using a fixed open structure with roof, L$ 2,000 for traders using a fixed structure, L$ 200 for traders falling under the categories above, who do business exclusively outside Montserrado county.
1.5 Other withholding on payments to nonresidents	Levied on the gross amount of interest, dividends, royalties, rents, compensations, and other fixed or determinable incomes earned in Liberia by nonresident foreigners. Under certain conditions, taxpayers may be granted appropriate relief at the discretion of the minister in cases of inequity in tax burden, for example, double taxation.	Exemption from taxation are: (a) interest: earned on deposits with banks in Liberia; (b) interests, commissions, and other charges levied on short-term commercial transactions; and (c) items of income specifically listed in concession agreements	
1.6 Insurance premium tax—insurance companies	Annual tax on all gross premium received from policy by insurer on direct risks written in Liberia and also if a domestic insurer on direct risks is situated in any other country or countries.		4 percent.
2. Payroll taxes	None.		

Table 12. Liberia: Summary of Tax System (cont.)
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3. Taxes on property			
3.1 Real estate tax			
3.11 Real estate tax	Levied on land located in a city, township or commonwealth district and the assessed value of any improvement thereon. Valuation of the property is determined by the tax administration.	Exemption from taxation are: (a) government properties; (b) properties of churches or other religious societies held for educational, charitable, or fraternal purposes; (c) buildings and other properties owned by the University of Liberia; and (d) properties held by foreign governments not owned by private individuals.	5 percent on unimproved and in owns and cities, and 5 cents per acre on rural land, including farmland, with a minimum of L$5,000. 2 percent on improved land in commercial use. 1 percent on improved land for industrial use. 2 of 1 percent on residential property.
3.12 Withholding tax on rental income	Annual tax on rent or lease payments of realty. The tax is withheld by the leasor at the time of rent payment.		10 percent of the rent or lease. Creditable against income tax.
3.2 Net wealth taxes	None.		
3.3 Death and gift taxes	None.		
3.4 Property transfer taxes	None.		

Table 12. Liberia: Summary of Tax System (cont.)
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. Taxes on domestic goods and services			
4.1 Goods and Services tax			
4.1.1 Goods tax (in force since July 1, 2001)	Ad valorem tax paid by the manufacturer or the importer. For local manufacturers, the taxable amount is the ex-factory price of the respective goods. For importers, the taxable amount includes the CIF value, import-related services, and import duties. Payable monthly.	The goods tax on locally produced cement, imported rice, and petroleum products has been suspended until Dec 31, 2001, and is expected to remain suspended for the near future. Exempt goods include (1) Goods destined for export, (2) capital goods and raw materials or other inputs for use directly in manufacturing, (3) goods incidental to a supply of taxable services (4) food products purchased by educational and philantropic institutions, (5) various medical and educational goods, as specified by regulation by the Minister of Finance, and (6) supply of goods for the relief of distressed persons in the case of natural disasters or other humanitarian emergencies.	7 percent
4.1.2 Services tax (in force since July 1, 2001)	Add valorem tax on taxable services, including electricity services, telecommunications services, the provision of water for a fee, hotel accomodation, meals in restaurants, gambling services, sale of tickets by international transport services (air, sea, and land), services of a travel agency, and sporting services (including ticket sales). Payable monthly.		7 percent

Table 12. Liberia: Summary of Tax System (cont.)
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.2 Excise taxes	Ad valorem tax paid by the importer on the CIF price plus import taxes, or by the manufacturer on the cost price value.	The excise tax on petroleum products has been suspended until Dec 31, 2001, and is expected to remain suspended for the near future.	Rate(In percent) (1) Stones and asbestos 30.0 (2) Metallic ores and coal products 7.0 (3) Petroleum products 7.0 (4) Rubber and latex 20.0 (5) Roofing and building materials 30.0 (6) Diamonds and precious metals 20.0 (7) Alcoholic beverages (imported) 15.0 (8) Alcoholic beverages (local) 5.0 (9) Non-alcoholic beverages 5.0-10.0 (10) Tobacco products 11.0 (11) Gambling equipment 30.0 (12) Cosmetic products 7.0 (13) Luxury goods (preserved fruits, jams, leather products, jewellery, electric household appliances, motor cars exceeding 2,500 cc, cameras, and others) 20.0 (14) Monosodium glutamate 30.0 (15) Revolvers, pistols, ammunition 50.0
4.3 Taxes on timber production	Taxes on the production of logs, lumber, planks, and other partly manufactured timber products, and a land rental fee for concession holders.	Exemption from reforestation fee is permissible under certain circumstances where reforestation is undertaken.	(a) Severance fee U.S.$ 1.50 per cu. meter. (b) Industrial incentive fee on all unprocessed round logs for export varies according to species (from U.S.$ 1.44 to 58.56 per cu. meter). (c) Forest products fee for sawn timber from U.S.$ 0.40 to 30.60 per cu. meter. (d) Reforestation fee: U.S.$ 3.00 per cu. meter (e) Conservation fee: U.S.$ 1.50-2.50 per cu. meter (f) Forest research tax: U.S.$ 1.00 per cu. meter (g) Land rental fee: U.S.$ 0.50 per acre
4.4 Rubber sales tax (suspended as of July 1, 2001)	Levied on the sale of domestically produced rubber.		US$0.01 per pound if the world market price exceeds US$0.25 per pound.

Table 12. Liberia: Summary of Tax System (cont.)
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5. Taxes on international trade			
5.1 Taxes on imports			
5.1.1 Customs duties	Most import duties are levied as ad valorem duties on the c.i.f. value of import.	Exempt from duties are (a) imports by Liberian government, diplomats, and missionary organizations; (b) intermediate goods used in agriculture and some medical and fire-fighting supplies; (c) imports granted by special contracts to the large concessionaires operating in Liberia; and (d) imports granted under the Investment Incentive Code to stimulate industrial activities in Liberia. NGOs and others NGOs and others who benefit from the exemption from the payment of customs duty are liable for a clearing and documentation fee of 3 percent of the CIF value of imports. For manufacturers in essential industries, a customs duty on raw materials capital equipment, and machinery of 5 percent applies. For non-essential industries, the respective rate may not exceed 15 percent.	A. Ad valorem Ad valorem tariff rates range from 2.5 to 25 percent, a higher tariff rate (50 percent) applies to firearms and military equipment. The list below gives a few examples only. (In percent) (1) Wheat and other grains 5.0 (2) Plantains 7.5 (3) Coffee and tea 15.0 (4) Petroleum products 10.0 (5) Rubber and latex 25.0 (6) Wood products 20.0 (7) Motor cars 5.0-20.0 (according to engine size) B. Specific (In units indicated) (1) Rice (bulk) U.S.$ 0.50 per 100 pound bag (2) Beer U.S.$ 2.00 per liter (3) Paint U.S.$ 1.50 per liter (4) Spirits U.S.$ 6.50 – 7.10 per liter Unmanufactured tobacco U.S.$ 1.45 per kg Manufactured tobacco U.S.$ 3.00 per kg
5.1.2 Rice stabilization fee			U.S. dollar 1.00 per 100 pound bag

Table 12. Liberia: Summary of Tax System (cont.)
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.1.3 Customs users' fee (suspended as of July 1, 2001, replaced by Goods and Services Tax))			5 percent of the value of goods.
5.2 Taxes on exports-			
Export duties	Export duties are levied on a variety of exports, including rubber and other agricultural products.	Logs and some timber are exempt when cut on privately owned land. Export duties are creditable against income tax.	2.5 percent on unprocessed exportibles 0 percent on processed exportibles 4 percent on diamonds and precious metals
6. Other taxes			
6.1 Poll taxes			
6.11 Local tax (suspended)	An annual tax payable by citizens and alien residents not paying income tax (and collected by the central government).	Children under the age of 16 and students not gainfully employed; and persons considered elderly, indigent, or infirm by the Head of State.	L$10.00.
6.12 National Identification Card fee (suspended)	An annual fee payable by citizens and alien residents.	Children under the age of 5.	Children age 5 to 18 L$3.00 Students L$3.00 Adults, 19B65 L$7.00 Adults, 66 and above L$5.00
6.2 Other			
6.21 Airport tax	Levied on passengers leaving Liberia.		US$25.00 per passenger

Table 12. Liberia: Summary of Tax System (cont.)
(As of January 31, 2003)

Tax	Nature of Tax	Exemptions and Deductions	Rates
6.22 Airline ticket tax (replaced by Goods and Services Tax as of July 1, 2001)	Levied on passengers leaving Liberia. The charges are collected by carriers.		
6.23 Hotel tax (replaced by Goods and Services Tax as of July 1, 2001)	Levied on room charges.		10 percent.

Source: Liberian authorities.