INTERNATIONAL MONETARY FUND

# Staff Country Reports

December 2004
IMF Country Report No. 04/408

**Liberia: Report on Post-Conflict Economic Conditions and Economic Program for 2004/05—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Liberia**

This Report on Post-Conflict Economic Conditions and Economic Program for 2004/05 for Liberia was prepared by a staff team of the IMF, following discussions that ended on May 19, 2004, with the officials of Liberia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 4, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

The following documents have been released and are included in this package, together with the staff report on post-conflict economic conditions and economic program for 2004/05:

- a staff statement of October 20, 2004 updating information on recent developments.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 20, 2004 discussion of the staff report.
- a statement by the Executive Director for Liberia.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

LIBERIA

# Report on Post-Conflict Economic Conditions and Economic Program for 2004/05

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs, Legal, Monetary and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by Menachem Katz and Michael T. Hadjimichael

October 4, 2004

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## Executive Summary


- **The economy is recovering, following a sharp contraction in the second half of 2003,** as a result of increasing donor support and the revival of associated manufacturing and services activities. The recovery is expected to continue as rural activities resume (following establishment of security) and donor-funded reconstruction accelerates.

- **Despite political and capacity constraints, the economic program through June 2004 was implemented successfully.** A cash-based budget was executed as planned, and official reserves recovered modestly. Measures boosted revenue, and other steps to strengthen the budget process and address governance issues were put in place.

- **The authorities have decided on a cautious budget framework for fiscal-year 2004/05 (July-June).** Revenue is to be bolstered by additional measures, and no recourse to domestic financing is envisaged.

- **The monetary program for 2004/05 aims at a broadly stable exchange rate, while accommodating a further rebound in the demand for local currency.** The Central Bank of Liberia (CBL) has introduced a foreign exchange rate auction and removed ceilings on lending rates. Actions to gradually lift restrictions on interbank activity and to strengthen the ailing banking system are envisaged.

- **The authorities have agreed on a focused agenda through end-2005 to put Liberia firmly on the road to recovery.** They aim at a transparent budget process; accountable revenue-generating agencies; and a framework for market-based and transparent operations of the CBL and the financial system.

- **On governance, the authorities are taking remaining steps to liberalize imports of petroleum products, with assistance from the World Bank.** External audits of the main revenue-generating agencies and the CBL have started and will provide a detailed roadmap for reforms.

- **Prompt measures were taken to restore confidence in the CBL's information system, following the discovery of irregularities in the accounting of official reserves and in the data provided to the Fund.** An external peer review expressed confidence in the CBL's current financial information, and its new management took immediate steps to strengthen internal governance.

- **Against the backdrop of these commitments, recent slippages are a source of concern and an indication of the fragility of the situation.** The staff is working with the authorities to reverse the spending excesses that were domestically financed and to roll back cost increases at the CBL that have further weakened its financial position. The staff will report to the Board on progress in this area ahead of the consideration of this report.

- **De-escalation of the Fund's remedial measures could be requested when the recent slippages are fully reversed**, and when understandings on a strong staff-monitored program are reached.

## I. Introduction

1. **A mission held discussions with the Liberian authorities in Monrovia and Accra during May 5-19, 2004.**[1] The main areas covered were (i) the current economic situation; (ii) the implementation of the basic economic program through June 2004 (as agreed with the staff in December 2003); and (iii) the macroeconomic and budget framework for the fiscal year 2004/05 (July-June) and structural measures through end-2004. The mission also discussed a focused agenda of key outcomes aimed at putting the country firmly on a sustainable road to recovery by end-2005 (the end of the National Transitional Government of Liberia's (NTGL) mandate).

2. **Liberia has been in continuous arrears to the Fund since 1984.**[2] A declaration of noncooperation was issued in 1986, and the country's voting and related rights were suspended in March 2003 due to a protracted lack of cooperation. At end-August 2004, Liberia's arrears to the Fund amounted to SDR 507 million, or 711 percent of quota. Liberia's forthcoming obligations are estimated to amount to about SDR 7 million annually.

3. **Since the transitional government took office in October 2003, cooperation with the Fund on policy implementation and payments has significantly strengthened.**[3] In response, the Executive Board decided to allow a resumption of the Fund's technical assistance (March 2004). Directors commended the NTGL for the swift implementation of initial measures to strengthen revenue collection, improve budgetary management, and tackle key governance issues. They observed that broad-based technical assistance from the Fund and other external partners would be needed to rebuild capacity in economic management, and urged the authorities to work with the staff and other interested parties toward a coherent and fully coordinated strategy in this area.

4. **Directors stressed that a continued track record of cooperation and policy implementation would be required to pave the way for a gradual removal of the Fund's remedial measures.** To this end, they urged the authorities to maintain a close policy dialogue with the staff. Directors expressed their willingness to apply the Fund's policy on de-escalating remedial measures flexibly if further progress was made. Some Directors

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[1] The mission comprised Mr. Schwidrowski (head), Mr. Thomas, Mr. Akatu, Mr. Tyaba (all AFR) and Mr. Honda (FIN). The mission worked closely with a parallel MFD mission and visiting experts from FAD and STA. It met with Chairman Bryant, Minister of Finance Kamara, former CBL Governor Saleeby (who resigned on May 11, 2004), Acting CBL Governor Greene (who was appointed on May 11), and other senior government officials.

[2] See the companion paper for a full description of Liberia's arrears situation and the Fund's de-escalation policies.

[3] The authorities resumed monthly token payments of US$50,000 in January 2004.

favored an early staff-monitored program (SMP), while others cautioned against moving too quickly into an SMP as long as key economic data remain unavailable.

## II. Recent Political and Economic Developments

5. **Following the August 2003 peace agreement, Mr. Gyude Bryant took power in October as head of a two-year transitional government**. The NTGL's mandate is to prepare the country for elections in October 2005 and to rebuild some capacity for economic management. Government positions were assigned to the warring factions based on a power-sharing formula. The United Nations Mission in Liberia (UNMIL) has now fully deployed its 15,000 peacekeepers, with a view to reestablishing security throughout the country.[4] Around 65,000 combatants were demobilized by mid-2004, but only 19,000 weapons had been collected.

6. **Poverty, already pervasive prior to the last round of hostilities, must have deepened further,** particularly as rural activities have not yet fully resumed. The most recent household survey, conducted by the United Nations Development Program (UNDP) in August 2000, indicated that 76 percent of the population was living on less than US$1 per day.[5] In 1999, Liberia ranked 174 out of 175 countries on the UNDP's aggregate human development index.[6] About 300,000 internally displaced persons (equivalent to about 10 percent of Liberia's estimated population) are still living in camps, and an unknown number of refugees have yet to return from neighboring countries.

7. **Real GDP may have rebounded by as much as 23 percent in the first half of 2004, compared to the second half of 2003 (Table 1)**, owing mainly to a recovery of construction, services, and commerce, largely associated with donor activities and the cessation of hostilities.[7] Prices, particularly those of food items, have decelerated markedly—the 12-month rate of Monrovia's consumer price index declined from 14 percent in August 2003 to 3 percent in March 2004, and the 12-month change of food prices decelerated from 41 percent to 12 percent during the same period, as supply constraints eased.

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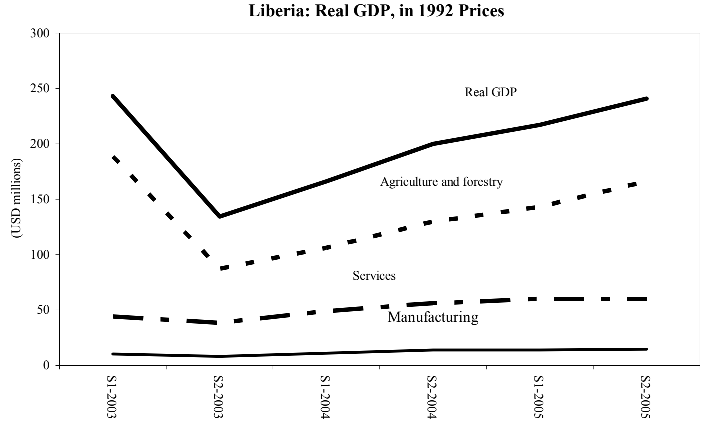
[4] UNMIL's mandate also includes assisting humanitarian aid activities, restoring the judicial system, and establishing a new army and police force.

[5] UNDP, "Poverty Profile of Liberia" (Monrovia: January 2001).

[6] UNDP, "Human Development Report," 2001.

[7] This assessment is based on some indirect indicators of economic activity, such as revenue collections and international trade data. Reliable statistical information on production remains unavailable.

**Liberia: Real GDP, in 1992 Prices**




**Liberia: Selected Macroeconomic Indicators**

| | 2002 Est. | 2003 Est. | 2004 Proj. |
|---|---|---|---|
| Consumer prices (annual percentage changes) | 14.2 | 15.0 | .. |
| External current account balance, including grants (in percent of GDP) | -1.1 | -7.6 | -9.0 |
| Net official reserves (in millions of U.S. Dollars) | -2.0 | -2.1 | 5.9 |
| Exchange rate (end of period; Liberian dollar per U.S. Dollar) | 65.0 | 50.0 | .. |

8. **A cash-based budget through mid-2004 was implemented without recourse to domestic financing, and monetary trends were characterized by a strong increase of local currency and a rebound of deposits (Tables 2 and 3).** The rebound in the demand for Liberian dollars reflected the incipient reactivation of small-scale commercial and some rural activities.[8] The exchange rate has been stable since end-December 2003, and international reserves have increased modestly. The banking sector's health, although still fragile, has improved somewhat, with strong income from remittances and a slight decrease of nonperforming loans.[9]

**Liberia: Recent Fiscal Developments**
**(In millions of U.S. Dollars)**

| | 2003 | 2004 Budget Jan.-Jun. | 2004 Actual Jan.-Jun. | 2004/05 Budget July-June |
|---|---|---|---|---|
| Total revenue and grants | 47.9 | 28.0 | 34.6 | 80.0 |
| Tax revenue | 42.1 | 24.6 | 30.4 | 70.7 |
| *Of which:* | | | | |
| Maritime revenues | 11.2 | 6.0 | 7.9 | 18.0 |
| Taxes on international trade | 18.0 | 9.5 | 14.6 | 24.6 |
| Nontax revenue | 2.8 | 3.4 | 4.2 | 9.3 |
| | | | | |
| Total expenditure and net lending (cash basis) | 45.0 | 32.5 | 37.0 | 80.0 |
| Current expenditure | 24.5 | 27.4 | 34.5 | 69.1 |
| *Of which:* | | | | |
| Wages and salaries | 11.1 | 12.0 | 12.2 | 23.2 |
| Goods and services | 6.8 | 14.0 | 17.1 | 18.9 |
| Capital expenditure (incl. military) | 20.4 | 5.1 | 2.6 | 10.9 |
| | | | | |
| Overall surplus/deficit (cash basis) | 3.0 | -4.5 | -2.4 | 0.0 |

Sources: Liberian authorities; and Fund staff estimates and projections.

[8] Both the U.S. dollar and the Liberian dollar are legal tender in Liberia. The Liberian dollar is largely used for small-scale transactions associated with rural activities.

[9] All three operating commercial banks are undercapitalized. The CBL is monitoring the situation.

9. **External developments since December 2003 have reflected the upsurge in donor activities and the continued stagnation of exports.** Imports through June 2004 increased to an estimated US$170 million, compared with US$125 million in 2003, with about two thirds representing donor-financed imports (mainly humanitarian assistance). By contrast, exports stagnated at a low level, owing mainly to the continued ban on timber activity. Nondonor imports were largely financed by strong remittances.

## III. Report on Discussions

10. **The discussions took place against the backdrop of an improving security situation and a revival in economic activity; however, capacity constraints and less than full support by the former warring factions for Chairman Bryant's reform course were a concern.** While the demobilization process was proceeding well, it was unclear how quickly ex-combatants would be effectively reintegrated into civilian life. The low number of collected arms also raised questions about the stability of peace.

11. **The authorities underscored their resolve to implement reforms and sound policies, notwithstanding the uncertain outlook and continued capacity constraints.** They emphasized the limited time span available to the NTGL to make irreversible progress, and urged external partners to support their efforts as quickly as needed.

12. **Against this background, recent slippages in financial management, as described below, are a source of concern.** The staff has been engaged in discussions with the authorities to agree on measures to bring the envisaged reform back on course.

### A. Implementation of the Basic Economic Program January-June 2004

13. **The basic economic program through June 2004 was successfully implemented.**[10] The program's key elements were a cash-based budget and further measures to boost revenue, advance toward an orderly budget process, and progress on governance issues, including at the CBL.

14. **As agreed, the authorities executed a cash-based budget without recourse to domestic financing**. Revenue collections were significantly higher than envisaged, reflecting the recovering economy and steps taken to bolster revenue, including the rollback of the suspension of the General Sales Tax (GST) on restaurant services, and the broadening of the large Taxpayers Units' mandate to include collections from customs, excise, and GST (Box 1).

15. **Outlays focused on current salaries and rehabilitation of government offices**. Some unexpected priority spending related to preparatory work for the 2005 elections and larger-than-envisaged travel expenses led to delays in executing budgeted outlays, but the

[10] The basic economic program was discussed with the staff in December 2003.

resulting backlog of spending commitments was quickly resolved. The small cash surplus at end-2003 financed the deficit incurred during this period.

16. **The authorities took further steps to strengthen expenditure controls and improve the budget process.** A cash management committee was set up to prioritize spending on a weekly basis, but still needs to become fully operational (see also below). Following the closure of accounts in commercial banks, government accounts at the CBL have been consolidated into three accounts to facilitate cash management; and regular monthly revenue and expenditure reports have been prepared for internal purposes (and shared with the staff).[11]

17. **On the monetary side, the authorities succeeded in accommodating the increased demand for local currency while avoiding pressures on prices and the exchange rate**. Reserves increased modestly from end-2003 to mid-2004.

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[11] Due to the dual currency system, one account is held in U.S. dollars, and one in Liberian dollars. In addition, the authorities prefer to maintain a separate payroll account while cash planning is being strengthened, to ensure timely civil service wage payments.

**Box 1: Measures to Strengthen Economic Management**

The NTGL has taken further measures to strengthen economic management and address pressing governance issues in the first half of 2004, and has committed to additional steps through end-2004.

| Basic economic program through June 2004 | Status |
|---|---|
| • Set up a macro-fiscal unit | Done |
| • Revoke the suspension of GST on restaurant services | Done |
| • Revoke by administrative order the current practice of exempting companies from preshipment inspection or voluntary participation | Done |
| • Make Tax Identification Numbers (TINs) mandatory on all import permits, customs, GST, and tax documents | Done |
| • Broaden the mandate of the Large Taxpayer Unit (LTU) to include customs, excise and GST | Done |
| • Consolidate all government accounts at the CBL | Done |
| **Additional measures through end-2004** | |
| • Specify contingent spending plans in case of higher revenue collections or grants | Done |
| • Conduct weekly analysis of commitments | Done |
| • Introduce more effective cash planning; operationalize the cash management committee | Partly done |
| • Stop CBL's practice of direct debits on government accounts | Done |
| • Agree on the tasks of the CBL as the government's fiscal agent | Done for foreign exchange auctions. Pending for other tasks. |
| • Complete liberalization of petroleum products | In preparation, with World Bank help |
| • Identification of civil service employees and removal of ghost workers in progress. Audit of payroll initiated. | Payroll audit initiated |
| • Take stock of domestic arrears and design settlement strategy | In progress, with external technical assistance |
| • Publish monthly fiscal reports | In preparation |
| • Conduct reconciliation between book and bank balances | Being implemented |
| • Include all extrabudgetary funds into the budget to make it more comprehensive | Being implemented |
| • Establish a system to obtain donor data on a regular basis | Being discussed with donors |
| • Establish transparency of timber-related revenue flows | Technical assistance requested |
| • Conduct external audits of main revenue-generating agencies and CBL | Initiated |

### B. Macroeconomic and Budget Framework for Fiscal-Year 2004/05

18. **The economic and budget framework for the fiscal-year 2004/05 is based on a continued recovery of the economy reflecting the expected pick-up in donor activities and a revival of agriculture.** Real GDP growth is projected to increase strongly by about 21 percent in the second half of 2004 over the first half of 2004, and to expand further, albeit at a slower pace, in the first half of 2005 (Table 1).

19. **The macroeconomic framework for 2004/05 is geared toward creating a stable environment and a further modest buildup of international reserves.** A balanced budget will continue to avoid pressures on the domestic financial system. The expected increase in demand for local currency will gradually widen the scope for monetary policy in the as-yet highly dollarized economy.

20. **The budget for 2004/05 will continue to be cash-based, with no recourse to domestic financing.** The authorities are targeting an increase of revenue collections of 50 percent (compared to FY 2003/04), on continuing economic recovery and revenue-boosting measures (see below).[12] They have developed contingent spending plans that will be activated in the event that foreign grants or financing to the budget is forthcoming, or that revenue collections exceed projections.

21. **Monetary aggregates are expected to continue to be driven by the flow of external assistance and issuance of currency to accommodate further strong demand for Liberian dollars**. Broad money is projected to grow by about 40 percent in the 12 months to June 2005, and official reserves are expected to increase by about US$11 million during the same period. U.S. dollar denominated deposits are also projected to rise during that period, reflecting the envisaged increase in donor assistance and continued strong remittances.

### C. Fiscal Policy Issues

22. **The authorities have made efforts to return to an orderly budget preparation process, but further action is required without delay in light of recent slippages.** They resumed the communication of spending ceilings to line ministries and agencies and requested detailed spending plans. However, as capacity is still limited, such plans were finalized only with delays, and the budget was submitted to the legislature only in mid-August 2004. Detailed cash plans were developed, with Fund technical assistance, so as to facilitate a smooth budget execution. However, the recurrent approval of spending authorizations on an emergency basis during July and August has led to sizable cash deficits that were financed through credit from the CBL and possibly local commercial banks. Part of this emergency spending was included in a supplementary budget that was not discussed with

[12] No revenue from timber activities was included in the budget. Contingent spending plans are prepared in the event that UN sanctions on timber exports are lifted.

the staff.[13] In addition, the emergency outlays have complicated the execution of the budget as per agreed cash plans. The staff urges the authorities to return to a balanced budget, in line with agreed plans, and work quickly toward the closure of credit lines.

23. **On revenue, concrete steps are envisaged to boost collections from customs, in line with the Fund's earlier recommendations.** Preshipment inspections have already been extended to all dutiable imports, and an external agent will soon begin to check imported goods at Liberian ports, to ensure that all taxes have been paid. The authorities also intend to begin taxing foreign vessels that fish in Liberian waters. They are ready to undertake further actions to enhance revenue once further recommendations by additional technical assistance missions are agreed.[14]

24. **On the expenditure side, the 2004/05 budget envisages stepped-up social spending and outlays to begin rebuilding internal security and the justice system.** Transfers to entities outside the central government will be significantly stepped-up for disease control and prevention. Capital outlays focus on the purchase of generators and office and communications equipment so as to make key government institutions functional. The budget also earmarks funds for clearance of domestic arrears, which is expected to begin following the formulation of an appropriate strategy (see below).

25. **The authorities recognized the difficulties in assessing the size of the wage bill.** While the exercise to purge "ghost workers" from the wage bill continued, they noted that many civil servants are now returning to their posts as security is being established throughout the country. With regard to new hirings, they intend to return to earlier practices of applying proficiency tests to applicants. The staff observed that the demobilization of the previous Liberian armed forces should enable the government to keep the size of the overall wage bill at or below budgeted levels, and strongly recommended to reconcile information from the ongoing demobilization exercise with the payroll managed by the Ministry of Defense. The authorities agreed to these recommendations and are considering the implementation of tight controls so as to ensure that payments for wages and possibly severance pay are made for these purposes only.

26. **With regard to donor activities, the mission encouraged the authorities and local donor representatives to include projects that are financed and implemented by external partners in the budget on an information basis.** This would provide the legislative body and the general public with a more complete and comprehensive view on the

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[13] The supplementary budget included US$2.5 million, destined for the purchase of cars for members of parliament and buses for public transportation. Preliminary information indicates that domestic financing equivalent to 1.1 percent of GDP was incurred through end-August.

[14] A technical assistance mission on tax administration, focusing on customs and the Large Taxpayer Unit, has recently visited Monrovia.

support planned by external partners. Such information is also useful for macroeconomic assessments and projections. Progress reports on donor activities should also become part of the envisaged regular budget execution reports (see below). In the event, this was not possible as donors did not provide the requested information on time.

### D. Governance Issues

27. **The authorities expressed their desire to develop a comprehensive agenda for strengthening governance, in close cooperation with external partners.** They expect that the results from ongoing EU-sponsored audits of the main revenue-generating agencies and the CBL will provide a solid basis for reforms. In light of delays in initiating this work, the staff supported the authorities' call to conclude these audits as soon as possible.

28. **The World Bank is providing technical assistance to fully liberalize petroleum product imports.** A transparent bidding process is envisaged to commence in the last quarter of 2004, following the establishment of minimum requirements for importers in terms of financial soundness and product quality.

29. **The authorities have made some progress, with the assistance of external partners, to create conditions that could lead to a lifting of UN sanctions on timber exports by end-2004.** The U.S. administration and the World Bank have put together a time-bound plan of actions to this end, focusing on priority measures through the end of the year. These include: (i) conclusion of an external review of timber concessions; (ii) establishment of transparency in associated revenue flows; and (iii) restoration of effective oversight over the sector's activities.[15] The authorities recognize that further work will be needed beyond end-2004 to develop a comprehensive strategy for sustainable logging activities.

30. **On domestic arrears, the authorities have embarked on a stock-taking exercise, with external assistance**. They concurred with the staff's advice to make no payments until all amounts are verified, and a strategy for their settlement is defined. In particular, they agreed to make no further payments on wage arrears until an audit of the payroll is concluded.[16] They also took note of the recommendation that the treatment of domestic and external obligations should be appropriately balanced.

[15] Timber activity is expected to resume only gradually in the event of a lifting of the ban, owing to seasonal factors and the need to rebuild production capacity as equipment had largely been evacuated in 2003.

[16] So far, payments equivalent to one month of wage arrears were made. It is estimated that about two years of wage arrears were accumulated under the previous administration.

## E. Monetary and Banking Issues

31. **The high degree of dollarization continues to limit the scope of monetary policy**. However, the authorities concurred with the staff's views that the expected strong increase in demand for local currency would allow monetary policy to become more active over time. To prepare for this, the authorities will need to develop instruments of monetary policy, with assistance from the Fund and other external partners.

32. **In the short run, the authorities will need to monitor carefully monetary developments and to accommodate the expected rebound in demand for local currency, in line with the economy's recovery**. In light of the uncertain economic outlook, and envisaged neutral fiscal policy stance, the staff recommended that the CBL pay attention to exchange rate movements as an indicator for imbalances between the supply and demand for local currency. Thus, money supply should be cautiously expanded to maintain the exchange rate—which has already returned to preconflict levels—broadly stable. In the event of a deteriorating political or security situation, the authorities concurred with staff's advice to abstain from any foreign exchange interventions, so as to protect the limited foreign reserves.

33. **Foreign exchange auctions have started in July 2004 as a first step toward developing a set of monetary policy instruments (Box 2)**. The staff encouraged the authorities to broaden participation as soon as feasible from the three operating commercial banks and some large companies to the 22 licensed exchange houses as soon as feasible. It also advised that the auctions should only be conducted on behalf of government so as to protect the CBL's own scarce foreign currency balances.[17] However, the CBL has also conducted auctions using its own foreign assets. The staff urges the authorities to return to the agreed practice to sell U.S. dollars only on behalf of the Ministry of Finance.

34. **Ceilings on interest rates, which had discouraged lending by commercial banks and hampered competition in the sector, have been lifted.** The liberalization allows commercial banks to determine lending rates in accordance with the perceived credit risk of individual clients and the conditions in the market.[18]

35. **The new management of the CBL has not yet adopted comprehensive cost-cutting measures.** While expenses have been curtailed in some areas, these savings have been more than offset by increases in other areas, mainly through the introduction and extension of benefits to CBL staff.[19] The staff urges the authorities to consider a suspension

[17] Most revenue is being collected in U.S. dollars. The government has a regular and significant demand for Liberian dollars for wage payments.

[18] There were no ceilings on deposit rates.

[19] The CBL is estimated to incur a deficit of US$1.4 million in 2004 without cost-cutting measures. Net reserves stood at US$0.7 million at end-June 2004.

of such benefits—the auctioning of foreign assets and the opening of credit lines for government has further weakened the CBL's already fragile financial position.

**Box 2: Foreign Exchange Auction**

In the past, the CBL allocated foreign currency to commercial banks using modalities that were neither transparent nor market based. Based on Fund technical assistance, the CBL has introduced regular foreign exchange auctions to allocate foreign currency on behalf of government in the market (July 2004).

**Participants**: At present, commercial banks and large companies participate in the auction. It is envisaged that the 22 licensed foreign exchange bureaus will be invited to join the auctions, at a later stage. Each participant presents sealed bids showing the customer, requested amount of foreign exchange and offered exchange rate. Banks can also bid for their own account.

**Pricing and allocation**: Currency is allocated at the price of the marginal or lowest successful bidder. Allocation of currency is from the highest bid downward to a point where the offered sum is exhausted or the lowest bid filled (which could leave an unallocated residual). The amount of foreign currency to be sold will be preannounced.

**Frequency**: The auctions normally take place on a weekly basis.

**Oversight**: A committee, including representatives from civil society and the business community, oversees the auction process.

36. **The mission found that a large part of official reserves had been removed from the CBL's balance sheet, and a corresponding downward adjustment made to currency in circulation.** The mission observed that such accounting practices were inconsistent with international standards, as mandated by the Central Bank of Liberia Act, distorted key monetary aggregates, and significantly reduced the transparency of the CBL's transactions and data.[20] The staff was also informed that other deliberate steps had been taken under the former governor's mandate, which led to an underrepresentation of monetary growth in the data provided to the Fund.

37. **The CBL's new management began immediately adopting measures aimed at restoring confidence in its information system**. While noting that the EU-sponsored comprehensive audit would be required to reestablish full trust in all relevant information, the staff agreed that such interim measures would be sufficient to reaffirm the revised data on the CBL's current balance sheet, as needed for a continued dialogue on monetary policies. To this end, the following actions were taken:

[20] Following the departure of the former governor of the CBL, the staff was also informed that the Fund had been provided with incorrect monetary data for some time.

- The CBL took immediate steps to secure and verify its liquid assets, including a detailed cash count, and verified its transaction over the past 12 months.

- Statistical information, including on net reserves and currency in circulation, was also immediately corrected to reflect monetary trends accurately.[21]

- An external audit team (fielded by the U.S. authorities) conducted a peer review of the CBL's internal audit procedures and of its local external auditor's recent work. While the audit team noted that both internal and external audit practices had considerable weaknesses, its own observations, together with the high level of controls at the CBL and its limited scope of operations, led it to the conclusion that the CBL's current financial statements are not materially misstated.

- The Fund provided technical assistance to strengthen internal governance further and the compilation of monetary statistics.

38. **In light of the financial sector's fragility, the CBL acknowledged the need to monitor closely developments in the banking sector, and to develop restructuring plans.** It has started to produce monthly financial soundness indicators, and will prepare a general strategy for restructuring the troubled banks, with technical assistance from the Fund. Reserve requirements have also been unified, and interbank activities have been liberalized, but banks are still largely unable to conduct such operations as certain prudential regulations are not met.

### F. Agenda to Ensure Sustainability of Reforms

39. **The authorities agreed on a well-defined list of priority outcomes to put the country on a firm road to recovery by the end of the NTGL's mandate (end-2005)**. Specifically, they aim at establishing a functioning budgetary process; fully accountable revenue-generating agencies; and a transparent and market-based framework for the operations of the CBL and the banking system.

40. **The staff will work with the authorities and external partners to develop detailed reform plans for the budget process and the revenue-generating agencies through end-2005**, building on the measures already defined for the remainder of 2004. To this end,

[21] Net reserves at end-2003, previously reported at US$0.3 million, were corrected to US$2.6 million. At the same time, the definition of net reserves was corrected to exclude U.S. dollar deposits by government and commercial banks at the CBL that are unavailable for policy purposes. This correction led to a net reserve level of negative US$2.1 million, indicating that the CBL had partly used these deposits for its own purposes (including funding its operations).

further technical assistance and the conclusion of the EU-sponsored external audits will be required.

41. **Regarding the framework for the CBL and banking operations, the monetary authorities have endorsed an 18-month plan of technical assistance by the Fund.** The plan focuses on monetary and foreign exchange operations; the payments system; banking supervision; and bank restructuring (Box 3).

## G. External Debt Issues

42. **Liberia's stock of external debt amounted to US$2.7 billion (610 percent of GDP) at the end of 2003**, about half of which is owed to multilateral institutions. External debt increased by US$33 million during the year, owing to a further accumulation of arrears and the depreciation of the U.S. dollar (Table 5).[22]

43. **The authorities have already begun to compile data on outstanding external obligations**, and to reconcile them with creditor records. They have also requested external assistance so as to build capacity for debt sustainability analysis.

## H. Next Steps

44. **Recent slippages in the fiscal and monetary areas need to be reversed, and cooperation on policies further strengthened, before the staff could support the authorities' wish to begin the de-escalation of the Fund's remedial measures against Liberia**. While the NTGL has made progress within its limited capacity to strengthen cooperation with the Fund, the emergence of fiscal cash deficits, and related recourse to domestic financing, is incompatible with the agreed economic framework for 2004/05. In addition, the passage of a supplementary budget without consulting the staff is not in line with the required strengthening of cooperation. Finally, the delay in the introduction of cost-cutting measures at the CBL compounds concerns about its financial health arising from the use of its own foreign assets for auctions and the opening of credit lines to finance the cash deficit.

45. **The staff is working with the authorities on measures to roll back the recent slippages.** In collaboration with major donors, the goal is to design a time-bound action plan to return to a balanced budget; restore an orderly and transparent budget execution process; and strengthen the CBL's financial position. Concrete actions to enhance monitoring of understandings that have already been reached with the staff are also being considered. The staff expects to report on progress toward reaching such agreements in a supplement, ahead of the scheduled discussion at the Executive Board.

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[22] Nearly all of Liberia's external debt is in arrears.

**Box 3: Technical Assistance Program for Establishing a Transparent and Market-Based Framework for the Operations of the CBL and Banking System**

The establishment of a transparent and market-based framework for the operations of the CBL and financial system is one of the focal points of the NTGL's agenda to achieve irreversible change by the end of its mandate. The monetary authorities have agreed with MFD on a comprehensive technical assistance program to this end. The following summary provides an overview of the program's main objectives and envisaged key actions.

| Area | Main Objectives and Actions |
|---|---|
| Monetary operations | **Introduce monetary policy instruments and develop money markets**<br>• Introduce a standing credit facility for banks at the CBL<br>• Implement foreign exchange auctions<br>• Establish the legal and operational framework for the introduction of short-term securities<br><br>**Remove restrictions on commercial bank activities**<br><br>• Gradually unify reserve requirements at a reasonable level as soon as liquidity conditions permit<br>• Phase in Interbank activities once supervisory capacity is sufficiently strengthened<br>• Gradually remove controls on interest rates and bank interest rate spreads |
| Payments system | **Develop an efficient national payments system**.<br>• Establish CBL branches or special offices outside Monrovia for the collection of tax revenues and cashing of civil servants' salary checks.<br>• Review legislation, rules and regulations for the payments system |
| Bank restructuring and bank supervision | **Strengthen the monitoring of financial institutions**<br>• Establish a monthly information system using financial soundness indicators<br>• Prepare weekly bank liquidity reports<br><br>**Develop a bank restructuring strategy**<br>• Adopt and implement a general strategy for restructuring problem banks |
| CBL operations | **Establish a transparent and cost-effective framework for CBL operations**<br>• Conduct external audit of CBL and implement its recommendations<br>• Implement cost-cutting measures<br>• Review and satisfy capitalization needs |

46. **This said, the staff recognizes that reforms adopted so far have already locked in changes in some areas, and notes the authorities' commitments to work with external partners on an agenda aiming at putting the country firmly on the road to recovery by the end of the NTGL's mandate.** Monthly token payments of US$50,000 have been made since January 2004.[23]

47. **Regarding the governance issues discovered at the CBL, the authorities showed full cooperation with the Fund in taking swift corrective measures to restore confidence.** In addition, they reiterated their desire to conclude the comprehensive external audit of the CBL as soon as possible, so as to identify and address any remaining governance issues, and to further strengthen internal controls as needed.

48. **The authorities also reiterated their interest in moving to an SMP as quickly as possible in order to further consolidate the reform course and cooperation with the Fund.** The staff explained that an SMP would require the formulation of detailed reforms in key areas, to be implemented through end-2005. This, in turn, would require further technical assistance and the conclusion of the EU-sponsored audits over the next few months. Thus, it is possible that understandings on an SMP could be reached in late 2004 or early 2005. The authorities agreed that the level of token payments to the Fund should also be reviewed at that time, taking into account the projected further modest growth of reserves and the possible implications of a lifting of timber sanctions.

49. **The staff indicated that reaching understandings on a strong SMP for 2005 could strengthen the authorities' request to start the de-escalation of the Fund's remedial measures, provided that the recent slippages are swiftly and effectively addressed. Such an SMP could be presented to the Board as soon as early 2005.** Staff indicated that satisfactory implementation of a critical mass of key actions under the SMP could then create conditions for the Board to consider the removal of the declaration of noncooperation and subsequently to the reinstatement of Liberia's voting rights at the Fund.

## IV. The Role of Development Partners

50. **Financial support by donors has so far focused on the provision of humanitarian assistance while key reconstruction needs (such as infrastructure) have received less attention**. According to information collected informally by UNDP, donors have so far firmly committed US$406 million to fund identified humanitarian and reconstruction needs of US$ 660 million through end-2005. The staff shared the authorities' concerns about the slow pace of disbursements so far.[24]

[23] These payments account for only 6 percent of obligations falling due to the Fund. Liberia's capacity to service its debt is very limited, with official reserves estimated at US$700,000 in June 2004.

[24] Comprehensive data on disbursements are unavailable.

51. **Technical assistance for strengthening economic management is being closely coordinated between the Fund and other external partners**. The U.S. is providing support in budget preparation, timber sector management, and anti-money laundering measures. As noted, the EU will focus on the audits of the CBL and the revenue-generating agencies and follow-up work. The World Bank plans to implement a robust computerized financial management system, reform procurement, and prepare for a civil service reform.[25] The Fund's technical assistance will focus on tax administration, expenditure management, support to the CBL, and strengthening statistical capacity.

## V. Statistical Issues and Technical Assistance

52. **Macroeconomic assessment and management continue to be hampered by the scarcity of reliable data on economic activity.** The availability of data on external sector developments has recently improved, as a robust system of collecting such information on a monthly basis was put in place with Fund assistance. Fiscal and monetary data are being provided to the Fund on a more timely basis. However, further technical assistance will need to be mobilized to strengthen the coverage and reliability of data in all areas.

## VI. Staff Assessment

53. **Despite a difficult political environment and severe capacity constraints, the authorities have made overall progress in strengthening cooperation with the Fund and in implementing reforms**. Security has improved, and the economy has begun to recover. Token monthly payments, in line with payment capacity, have been made without interruption.

54. **However, there are important risks that could derail the reform course.** In light of the limited time available to the NTGL to create conditions for sustained progress, support for the reform agenda is required from all parts of the power-sharing government. Conditions will need to be created quickly to reintegrate ex-combatants and refugees into economic life and to consolidate the fragile peace.

55. **To address these risks, external partners will need to step up their support, in close cooperation with the authorities' agenda.** The pace of already planned activities should accelerate, and support for areas that have so far received little attention should be increased. In the area of economic management, continued close coordination will be required to effectively support the government's ambitious agenda.

56. **The basic economic program for the first half of 2004 was successfully implemented**, **and further steps have recently been taken to improve the budget**

[25] The Bank's activities are funded by a US$4 million grant from the Low-Income Countries Under Stress (LICUS) facility. A further grant of US$25 million has been requested from the Bank's surplus.

**process, governance, and the operating framework for the CBL.** Foreign exchange reserves have begun to recover, and prices and the exchange rate have stabilized, supporting a continued economic recovery.

57. **Building on these achievements, the authorities have identified a well-targeted agenda to put the country firmly on the road to recovery by end-2005**. The focus on rebuilding key economic institutions will facilitate sustaining reforms under a successor administration. Well-coordinated external support will be needed to develop a detailed roadmap to achieve the desired outcomes, including through accelerated financial and technical assistance. Based on such efforts, an SMP could become feasible later in 2004.

58. **The 2004/05 budget is prudent**. The revenue forecast is appropriately cautious. In light of large domestic and external arrears, no domestic borrowing should take place. On the expenditure side, the shift to spending on social sectors and the rebuilding of the security and the judicial system is welcome. Further efforts should be made to strengthen expenditure controls.

59. **Against this background, however, the recent emergence of a cash deficit and recourse to domestic financing is of concern**. The staff urges the authorities to redouble efforts to implement the budget according to agreed plans, without recourse to the fragile banking system. It is also imperative to strengthen the effectiveness of the newly established cash management committee so as to ensure that approved outlays are kept within available resources at all times.

60. **The expected rebound in the demand for local currency will need to be accompanied by the development of a broader set of instruments for market-based monetary policies**. The introduction of foreign exchange auctions and the removal of ceilings on interest rates are important first steps, and technical assistance will support further efforts in this area. However, the staff strongly recommends conducting auctions only with foreign currency that is being made available by government, so as to protect the CBL's scarce foreign assets. The CBL should move gradually to allow interbank transactions, in tandem with strengthening supervisory capacity.

61. **The staff welcomes the swift manner in which the authorities have dealt with the issue of misinformation at the CBL**. Quick steps were taken to restore confidence, including through full cooperation with third parties. However, full resolution will still require the completion of the ongoing comprehensive external audit.

62. **The CBL will need to redouble efforts to strengthen its financial position**. Effective cost-cutting measures are urgently required, also to offset unexpected pressures from the use of foreign assets in auctions and the opening of credit lines to government.

63. **On governance, it will be crucial to conclude quickly the verification of domestic arrears and develop an equitable strategy for their settlement.** The staff urges the authorities to abstain from any payments until these steps are concluded. The strategy also

needs to pay attention to the appropriated balance between the treatment of domestic and external arrears.

64. **The staff strongly encourages the authorities to pay attention to the timely and full implementation of understandings reached, particularly with regard to the conduct of fiscal policies and operations of the CBL.** Efforts need to be reinforced to monitor and coordinate actions effectively so as to put into place agreed policies and measures to strengthen economic management. The staff stands ready to work closely with the authorities in these areas. In the short term, a time-bound action plan to reverse recent slippages needs to be agreed upon and swiftly implemented.

Table 1. Liberia: Selected Economic and Financial Indicators, 2001-June 2005

| | 2001 | 2002 Est. | 2003 Est. | 2004 Jan-Jun. Est. | 2004 July-Dec. Proj. | 2005 Jan.-Jun. Proj. |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| National income and prices | | | | | | |
| Real GDP 1/ | 4.9 | 3.3 | -29.5 | 23.1 | 20.5 | 8.5 |
| Consumer prices (annual average) | 12.1 | 14.2 | 15.0 | ... | 5.0 | ... |
| Consumer prices (end of period) | 19.3 | 11.1 | 5.0 | 5.0 | 4.0 | ... |
| Nominal GDP (in millions of U.S. dollars) | 534.4 | 561.8 | 442.2 | 214.8 | 259.8 | 284.5 |
| GDP deflator in U.S. dollars | -5.9 | 1.8 | 8.2 | 8.5 | 0.9 | 0.7 |
| External sector (in U.S. dollar terms) 1/ | | | | | | |
| Exports of goods, f.o.b. | 6.4 | 30.1 | -43.0 | -57.3 | 6.7 | 5.0 |
| Imports of goods, c.i.f. | 6.4 | -6.2 | -20.1 | 134.8 | 8.2 | 20.6 |
| Terms of trade | -21.4 | 14.1 | 21.2 | ... | ... | ... |
| Official exchange rate (Liberian dollars per per U.S.dollar; end of period) | 49.5 | 65.0 | 50.0 | ... | ... | ... |
| Central government operations 1/ | | | | | | |
| Total revenue and grants | -18.5 | 4.7 | -34.2 | 80.6 | 3.2 | 23.9 |
| *Of which* : tax revenue | -18.3 | 15.8 | -40.1 | 71.6 | 3.2 | 25.1 |
| Total expenditure and net lending | -12.3 | 9.2 | -43.8 | 174.4 | -3.7 | 24.1 |
| *Of which* : current expenditure | -14.9 | -36.2 | -5.7 | 179.5 | -11.4 | 21.9 |
| capital expenditure | -8.6 | 65.7 | -62.3 | 119.3 | 99.6 | 37.3 |
| Money and banking (stocks, in billions of Liberian dollars) | | | | | | |
| Net foreign assets | -31.6 | -36.8 | -30.1 | -31.6 | -31.3 | -31.1 |
| Net domestic assets | 33.6 | 39.7 | 33.1 | 35.8 | 36.3 | 36.9 |
| Net domestic credit | 44.9 | 53.6 | 44.3 | 48.2 | 49.1 | 49.5 |
| Net claim on government | 43.8 | 52.4 | 43.0 | 46.6 | 47.1 | 47.3 |
| Claims on nongovernment | 1.1 | 1.2 | 1.3 | 1.6 | 2.0 | 2.2 |
| Other items, net | -11.4 | -13.9 | -11.2 | -12.4 | -12.8 | -12.6 |
| Reserve money (rate of growth) 1/ | ... | 10.3 | 15.8 | 7.1 | 21.8 | 17.8 |
| Broad money (rate of growth) 1/ 2/ | ... | 11.5 | 12.2 | 41.8 | 20.8 | 15.5 |
| Velocity (GDP relative to broad money) | 13.2 | 10.6 | 5.5 | 5.7 | 5.7 | 5.4 |
| | (In percent of GDP) | | | | | |
| Central government operations (January-December) | | | | | | |
| Total revenue and grants | 13.0 | 12.9 | 10.8 | 16.1 | 13.7 | 15.6 |
| *Of which* : tax revenue | 11.4 | 12.5 | 9.5 | 14.2 | 12.1 | 13.8 |
| Total expenditure and net lending | 13.7 | 14.2 | 10.2 | 17.2 | 13.7 | 15.6 |
| *Of which* : current expenditure | 7.6 | 4.6 | 5.5 | ... | ... | ... |
| capital expenditure | 6.1 | 9.6 | 4.6 | ... | ... | ... |
| Overall fiscal balance (cash basis) 3/ | -0.7 | -1.3 | 0.7 | -1.1 | 0.0 | 0.0 |
| External sector | | | | | | |
| Current account balance, including grants (deficit, -) | -20.3 | -1.1 | -7.6 | -12.3 | -9.0 | -8.0 |
| *Of which* : public interest payments due | -12.7 | -8.0 | -10.1 | -13.5 | -11.2 | -10.5 |
| Current account balance, excluding grants (deficit, -) | -26.3 | -8.7 | -12.0 | -24.7 | -18.7 | -17.1 |
| Trade balance (deficit, -) | -12.3 | -2.7 | -11.4 | -70.1 | -62.9 | -70.4 |
| Exports, f.o.b. | 23.9 | 29.6 | 21.4 | 9.4 | 8.3 | 8.0 |
| Imports, c.i.f. | -36.3 | -32.3 | -32.8 | -79.6 | -71.2 | -78.4 |
| Public sector external debt outstanding (total) | 455.3 | 476.8 | 613.3 | 640.9 | 588.8 | 498.4 |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | | |
| Current account balance including grants (deficit, -) | -108.5 | -6.1 | -33.4 | -26.5 | -23.3 | -22.8 |
| Trade balance (deficit, -) | -65.9 | -15.3 | -50.4 | -150.6 | -163.3 | -200.4 |
| Net foreign reserves | ... | -2.0 | -2.1 | 0.7 | 5.9 | 11.3 |
| (in months of imports of goods and services) | ... | 0.0 | 0.0 | 0.0 | 0.2 | 0.3 |

Sources: Liberian authorities; and Fund staff estimates and projections.
1/ For 2004 and 2005, figures are six-monthly growth rates over the previous six months.
2/ Defined as Liberian currrency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.
3/ The fiscal deficit during Jan.-June 2004 was financed through a cash surplus from end-2003.

Table 2. Liberia: Summary of Central Government Operations, 2000-June 2005 1/

| | 2001 | 2002 | 2003 | 2004 Q1 | 2004 Q2 | 2004 Budget Jan.- June | 2004 Actual Jan.-Jun. | FY 2004/05 Budget July-June | 2004 Actual July-Aug. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (In millions of U.S. dollars) | | | | | |
| Total revenue and grants | 69.5 | 72.7 | 47.9 | 17.0 | 17.6 | 28.0 | 34.6 | 80.0 | 12.1 |
| Tax revenue | 60.7 | 70.3 | 42.1 | 14.7 | 15.7 | 24.6 | 30.4 | 70.7 | 10.0 |
| *Of which* : maritime revenues | 11.0 | 13.4 | 11.2 | 5.3 | 2.6 | 6.0 | 7.9 | 18.0 | 2.1 |
| stumpage fees and land rental | 8.4 | 13.0 | 2.6 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 |
| taxes on international trade | 18.6 | 17.0 | 18.0 | 6.6 | 7.9 | 9.5 | 14.6 | 24.6 | 5.0 |
| goods and services tax | 2.0 | 3.5 | 4.3 | 0.6 | 0.8 | 3.0 | 1.5 | 8.8 | 0.0 |
| Nontax revenue | 4.1 | 2.4 | 2.8 | 2.3 | 1.9 | 3.4 | 4.2 | 9.3 | 1.1 |
| Grants | 4.6 | 0.0 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Total expenditure and net lending (cash basis) | 73.3 | 80.1 | 45.0 | 19.7 | 17.4 | 32.5 | 37.0 | 80.0 | 18.0 |
| Current expenditure | 40.7 | 26.0 | 24.5 | 18.2 | 16.3 | 27.4 | 34.5 | 69.1 | 9.8 |
| Wages and salaries 2/ | 17.6 | 13.4 | 11.1 | 5.7 | 6.5 | 12.0 | 12.2 | 23.2 | 4.3 |
| Goods and services | 18.2 | 5.9 | 6.8 | 10.8 | 6.2 | 14.0 | 17.1 | 18.9 | 3.0 |
| Interest on debt | 4.0 | 6.3 | 6.0 | 0.8 | 0.8 | 1.1 | 1.6 | 1.0 | 0.9 |
| External | 0.6 | 0.6 | 0.2 | 0.0 | 0.1 | ... | 0.1 | 0.6 | 0.1 |
| Domestic | 3.4 | 5.7 | 5.8 | 0.8 | 0.7 | 1.1 | 1.5 | 0.4 | 0.9 |
| Domestic arrears clearance | | | | | | | | 10.5 | |
| Subsidies, transfers and net lending | 0.9 | 0.4 | 0.5 | 0.8 | 2.9 | 0.3 | 3.7 | 15.5 | 1.6 |
| Capital expenditure 2/ | 32.6 | 54.1 | 20.4 | 1.5 | 1.0 | 5.1 | 2.6 | 10.9 | 8.2 |
| Internally financed | 28.0 | 54.1 | 20.4 | 1.5 | 1.0 | 5.1 | 2.6 | 10.9 | 8.2 |
| Externally financed | 4.6 | 0.0 | 0.0 | 0.0 | 0.0 | ... | 0.0 | 0.0 | 0.0 |
| Errors and Omissions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall surplus/deficit | -3.9 | -7.3 | 3.0 | -2.7 | 0.2 | -4.5 | -2.4 | 0.0 | -5.9 |
| Financing 3/ | 3.9 | 7.3 | -3.0 | 2.7 | -0.2 | 4.5 | 2.4 | 0.0 | 5.9 |
| | | | | (In percent of GDP, unless otherwise indicated) | | | | | |
| Total revenue and grants | 13.0 | 12.9 | 10.8 | 15.8 | 16.4 | 13.0 | 16.1 | 14.7 | 2.2 |
| Tax revenue | 11.4 | 12.5 | 9.5 | 13.7 | 14.6 | 11.5 | 14.2 | 13.0 | 1.8 |
| Nontax revenue | 0.8 | 0.4 | 0.6 | 5.0 | 2.4 | 1.6 | 1.9 | 1.7 | 0.2 |
| Grants | 0.9 | 0.0 | 0.7 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.2 |
| Total expenditure and net lending | 13.7 | 14.2 | 10.2 | 18.3 | 16.2 | 15.1 | 17.2 | 14.7 | 3.3 |
| Current expenditure | 7.6 | 4.6 | 5.5 | 16.9 | 15.2 | ... | ... | 12.7 | 1.8 |
| *Of which:* wages and salaries | 3.3 | 2.4 | 2.5 | 5.3 | 6.0 | 5.6 | 5.7 | ... | 0.8 |
| Capital expenditure 2/ | 6.1 | 9.6 | 4.6 | 1.4 | 1.0 | ... | ... | 2.0 | 1.5 |
| Overall surplus/deficit | -0.7 | -1.3 | 0.7 | -2.5 | 0.2 | -2.1 | -1.1 | 0.0 | -1.1 |
| Memorandum item: | | | | | | | | | |
| GDP at current prices (millions of U.S. dollars) | 534.4 | 561.8 | 442.3 | | | 214.8 | 214.8 | 544.3 | 544.3 |

Sources: Liberian authorities; and Fund staff estimates and projections.
1/ Calendar year; the fiscal year covers the period July-June.
2/ Includes military outlays.
3/ At end 2003, government had a net cash deposit of US$4.5million. There was a deficit of US$1.5 million during Jan-Sept 2003, financed through a loan from the CBL.

Table 3. Liberia: Monetary Survey, 2002-June 2005

(In millions of Liberian dollars, end of period; unless otherwise indicated)

| | 2002 Dec. | 2003 Jun. | 2003 Dec. | 2004 Mar. | 2004 Jun. Est. | 2004 Dec. Proj. | 2005 Jun. Proj. |
|---|---|---|---|---|---|---|---|
| Net foreign assets | -36,816 | -50,767 | -30,142 | -31,344 | -31,604 | -31,309 | -31,101 |
| *of which* : Fund credit and overdue charges | -36,607 | 50,105 | -30,579 | -32,604 | -32,995 | -33,179 | -33,363 |
| *of which* : CBL's gross foreign reserves | 212 | 39 | 396 | 678 | 455 | 821 | 1,190 |
| assets corresponding to Government U.S. dollar denominated deposits at CBL | 47 | 11 | 265 | 52 | 0 | 0 | 0 |
| assets corresponding to commercial banks' U.S. dollar deposits at CBL | 294 | 249 | 235 | 638 | 415 | 499 | 567 |
| CBL's net foreign reserves | -128 | -221 | -105 | -12 | 40 | 322 | 623 |
| Net domestic assets | 39,714 | 53,387 | 33,083 | 35,119 | 35,774 | 36,348 | 36,920 |
| Net domestic credit | 53,571 | 69,606 | 44,294 | 47,521 | 48,159 | 49,123 | 49,501 |
| Net claims on government | 52,383 | 67,712 | 43,027 | 46,140 | 46,559 | 47,075 | 47,268 |
| *Of which* : Fund credit and overdue charges | 36,607 | -50,105 | 30,579 | 32,604 | 32,995 | 33,179 | 33,363 |
| Claims on private sector | 1,109 | 1,801 | 1,060 | 1,324 | 1,541 | 1,990 | 2,175 |
| Claims on public enterprises | 65 | 79 | 43 | 39 | 39 | 39 | 39 |
| Claims on nonbank financial institutions | 14 | 14 | 164 | 19 | 19 | 19 | 19 |
| Other items, net | -13,857 | -16,219 | -11,211 | -12,403 | -12,385 | -12,775 | -12,580 |
| Monetary aggregates | | | | | | | |
| Currency outside banks (Liberian banknotes and coins only) | 1,045 | 1,137 | 1,304 | 1,317 | 1,399 | 1,700 | 2,003 |
| Commercial banks' reserves at Central Bank of Liberia 1/ | 196 | 151 | 132 | 154 | 176 | 216 | 255 |
| Money and banking (stocks, in billions of Liberian dollars) 2/ | 1,241 | 1,288 | 1,436 | 1,472 | 1,576 | 1,917 | 2,258 |
| Commercial bank deposits 3/ | 1,853 | 1,483 | 1,637 | 2,457 | 2,771 | 3,339 | 3,816 |
| Total demand deposits | 1,318 | 942 | 1,203 | 1,850 | 2,091 | 2,513 | 2,845 |
| Liberian dollar denominated deposits | 168 | 120 | 137 | 174 | 188 | 226 | 263 |
| U.S. dollar denominated deposits | 1,150 | 822 | 1,066 | 1,676 | 1,903 | 2,287 | 2,583 |
| Time, savings, and other deposits | 535 | 541 | 434 | 607 | 679 | 826 | 971 |
| Liberian dollar denominated deposits | 94 | 159 | 160 | 192 | 208 | 260 | 308 |
| U.S. dollar denominated deposits | 441 | 382 | 273 | 415 | 471 | 566 | 662 |
| Broad money (M2) 4/ | 2,898 | 2,620 | 2,941 | 3,774 | 4,170 | 5,039 | 5,820 |
| Liberian dollar component | 1,307 | 1,416 | 1,601 | 1,683 | 1,796 | 2,186 | 2,575 |
| U.S. dollar component | 1,591 | 1,204 | 1,340 | 2,091 | 2,374 | 2,853 | 3,245 |
| Memorandum items: | | | | | | | |
| U.S. dollar component broad money (excluding banknotes, in millions of U.S. dollars) | 24.5 | 16.5 | 26.5 | 38.4 | 43.2 | 51.9 | 59.0 |
| U.S. dollar denominated demand deposits | 17.7 | 11.3 | 21.1 | 30.8 | 34.6 | 41.6 | 47.0 |
| U.S. dollar denominated time, saving, and other deposits | 6.8 | 5.2 | 5.4 | 7.6 | 8.6 | 10.3 | 12.0 |
| Broad money (semi-annual changes in percent; in Liberian dollars) | 11.5 | -9.6 | 12.2 | 74.2 | 41.8 | 20.8 | 15.5 |
| Liberian dollar component broad money (in Liberian dollars) | 8.4 | 8.3 | 13.1 | 19.1 | 12.2 | 21.8 | 17.8 |
| U.S. dollar component broad money (excluding banknotes, in U.S. dollars) | 22.9 | -32.6 | 60.8 | 147.0 | 62.7 | 20.2 | 13.7 |
| CBL's net foreign reserves (in millions of U.S. dollars) | -2.0 | -3.0 | -2.1 | -0.2 | 0.7 | 5.9 | 11.3 |
| Velocity (GDP relative to broad money) | 10.6 | 15.7 | 5.5 | 6.2 | 5.7 | 5.7 | 5.4 |
| Currency/deposits (in percent; Liberian dollars only) | 398 | 407 | 438 | 360 | 353 | 350 | 351 |
| Nominal GDP (millions of Liberian dollars; annualized basis) | 30,615 | 41,070 | 16,251 | 23,413 | 23,628 | 28,578 | 31,295 |

Sources: Liberian authorities; and Fund staff estimates.

1/ Derived from commercial banks' balance sheets (Liberian dollar denominated).

2/ Liberian dollar currency outside banks and commercial banks reserves (Liberian dollar denominated) held at central bank.

3/ One bank has been excluded from the deposit since May 2003.

4/ Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

Table 4. Liberia: Balance of Payments, 2001-June 2005

(In millions of U.S. dollars, unless otherwise indicated)

| | 2001 | 2002 Est. | 2003 Est. | 2004 Jan.-June. Est. | 2004 July-Dec. Proj. | 2005 Jan-June. Proj. |
|---|---|---|---|---|---|---|
| Trade balance | -65.9 | -15.3 | -50.4 | -150.6 | -163.3 | -200.4 |
| Exports, f.o.b. | 127.9 | 166.5 | 94.8 | 20.3 | 21.6 | 22.7 |
| *Of which* : rubber | 54.0 | 59.2 | 39.3 | 19.7 | 18.7 | 20.4 |
| timber | 69.2 | 100.4 | 54.3 | 0.0 | 0.0 | 0.0 |
| Imports, c.i.f. | -193.8 | -181.7 | -145.2 | -170.9 | -185.0 | -223.1 |
| Petroleum | -37.7 | -60.5 | -25.3 | -12.7 | -15.3 | -16.8 |
| Rice (incl. food aid) | -27.6 | -38.1 | -49.0 | -22.1 | -22.1 | -22.1 |
| Donor | -15.2 | -19.5 | -19.0 | -114.3 | -117.0 | -136.8 |
| Other | -113.3 | -63.6 | -51.9 | -12.3 | -37.6 | -22.5 |
| Services (net) | 14.7 | 19.3 | 1.5 | -2.8 | -3.6 | -3.9 |
| Income (net) | -110.7 | -87.0 | -64.2 | -32.1 | -32.1 | -32.1 |
| *Of which:* public interest payments due | -67.8 | -44.8 | -44.5 | -29.1 | -29.1 | -29.9 |
| Current transfers (net) | 53.4 | 76.8 | 79.7 | 159.0 | 175.7 | 213.6 |
| Donor/nongovernmental organization transfers (net) | 32.1 | 42.6 | 19.6 | 130.2 | 132.5 | 173.1 |
| Private transfers (net) | 21.3 | 34.2 | 60.1 | 28.8 | 43.2 | 40.5 |
| Remittances | 10.2 | 20.8 | 50.3 | 20.9 | 31.2 | 28.5 |
| Other transfers | 11.0 | 13.4 | 9.8 | 7.9 | 12.0 | 12.0 |
| Current account balance | -108.5 | -6.1 | -33.4 | -26.5 | -23.3 | -22.8 |
| Current account balance, excluding grants | -140.6 | -48.7 | -52.9 | -53.1 | -48.5 | -48.7 |
| Money and banking (stocks, in billions of Liberian dollars) | -10.2 | -15.0 | -34.7 | -12.0 | -12.8 | -13.2 |
| Official financing | -22.5 | -22.4 | -23.5 | -9.1 | -9.1 | -9.1 |
| Disbursements | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -22.5 | -22.4 | -23.5 | -9.1 | -9.1 | -9.1 |
| Private financing | 12.3 | 7.4 | -11.2 | -2.9 | -3.7 | -4.0 |
| Direct foreign investment | 8.3 | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investment (incl. trade credit) | 4.0 | 4.7 | -11.2 | -2.9 | -3.7 | -4.0 |
| Errors and omissions | 29.2 | -47.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -89.5 | -68.6 | -68.1 | -38.5 | -36.1 | -35.9 |
| Financing | 89.5 | 68.6 | 68.1 | 38.5 | 36.1 | 35.9 |
| Change in official reserves (increase -) | -0.2 | 2.0 | 0.1 | -2.8 | -5.2 | -5.4 |
| Arrears (accrual +) | 89.7 | 66.6 | 68.0 | 41.3 | 41.3 | 41.3 |
| Use of Fund credit (net change in arrears) | 15.4 | 8.7 | 7.5 | 3.3 | 3.3 | 3.3 |
| Increase in non-Fund arrears | 74.3 | 58.0 | 60.5 | 38.0 | 38.0 | 38.0 |
| Memorandum items: | | | | | | |
| Current account balance (in percent of GDP): | | | | | | |
| Including grants | -20.3 | -1.1 | -7.6 | -12.3 | -9.0 | -8.0 |
| Excluding grants | -26.3 | -8.7 | -12.0 | -24.7 | -18.7 | -17.1 |
| Excluding grants and public interest payments due | -7.6 | 6.9 | 2.5 | 1.2 | 2.2 | 2.5 |
| Trade balance (in percent of GDP) | -12.3 | -2.7 | -11.4 | -70.1 | -62.9 | -70.4 |
| Public sector external debt (medium and long term) | | | | | | |
| Debt outstanding, including arrears | 2,433.0 | 2,679.0 | 2,712.0 | 2,753.3 | 2,794.6 | 2,835.9 |
| (In percent of GDP) | 455.3 | 476.8 | 613.3 | 640.9 | 588.8 | 498.4 |
| Debt service charges | 89.7 | 66.6 | 68.0 | 41.6 | 41.6 | 41.9 |
| (In percent of GDP) | 16.8 | 11.9 | 15.4 | 19.4 | 16.0 | 14.7 |
| Terms of trade (1997=100) | 88.6 | 107.0 | 122.3 | 119.5 | 117.8 | 119.5 |
| Net foreign reserves | ... | -2.0 | -2.1 | 0.7 | 5.9 | 11.3 |
| Net foreign reserves (in months of imports) | ... | 0.0 | 0.0 | 0.0 | 0.2 | 0.3 |
| GDP at current prices | 534.4 | 561.8 | 442.2 | 214.8 | 259.8 | 284.5 |

Sources: Liberian authorities; and Fund staff estimates and projections.

Table 5. Liberia: External Public Debt, 2000-03 1/
(In millions of U.S. dollars)

| | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| Total stock outstanding | 2353 | 2433 | 2679 | 2712 |
| Multilateral institutions | 1283 | 1285 | 1421 | 1435 |
| AfDB | 219 | 220 | 241 | 245 |
| ADB | 143 | 142 | 161 | 164 |
| ADF | 25 | 25 | 25 | 25 |
| NTF | 47 | 49 | 51 | 52 |
| SAFA | 4 | 4 | 4 | 4 |
| BADEA | 17 | 13 | 13 | 13 |
| ECOWAS Fund | 5 | 4 | 4 | 4 |
| European Investment Bank | 17 | 17 | 16 | 16 |
| European Union | 1 | 2 | 2 | 2 |
| IBRD | 259 | 248 | 276 | 276 |
| IDA | 110 | 112 | 116 | 116 |
| IFAD | 20 | 20 | 23 | 23 |
| IMF | 614 | 628 | 708 | 718 |
| OPEC Fund | 21 | 21 | 22 | 22 |
| Bilateral | 668 | 747 | 809 | 823 |
| Paris Club | 613 | 690 | 746 | 760 |
| Belgium | 1 | 1 | 1 | 1 |
| Canada | 5 | 6 | 6 | 6 |
| Denmark | 24 | 24 | 24 | 24 |
| France | 16 | 11 | 11 | 12 |
| Finland | 0 | 0 | 0 | 0 |
| Germany | 166 | 174 | 201 | 205 |
| Italy | 4 | 6 | 8 | 9 |
| Japan | 74 | 76 | 75 | 80 |
| Norway | 9 | 8 | 12 | 12 |
| Sweden | 9 | 9 | 9 | 9 |
| United Kingdom | 53 | 61 | 75 | 77 |
| United States | 252 | 314 | 324 | 325 |
| Non-Paris Club | 55 | 57 | 63 | 63 |
| China | 10 | 10 | 10 | 10 |
| Kuwait | 9 | 9 | 10 | 10 |
| Saudi Arabia | 19 | 21 | 26 | 26 |
| Taiwan | 17 | 17 | 17 | 17 |
| Commercial | 356 | 355 | 403 | 408 |
| Suppliers' Credit | 46 | 46 | 46 | 46 |

Source: Liberian authorities.

1/ Provisional.

**Liberia: Relations with the Fund**
(As of August 31, 2004)

**I. Membership Status**: Joined 03/28/1962; Article XIV.

| | SDR Million | % Quota |
|---|---|---|
| **II. General Resources Account**: | **SDR Million** | **% Quota** |
| Quota | 71.3 | 100.0 |
| Fund holdings of currency | 272.1 | 381.6 |
| Reserve position in Fund | 0.0 | 0.0 |

| | | |
|---|---|---|
| **III. SDR Department:** | **SDR Million** | **% Allocation** |
| Net cumulative allocation | 21.0 | 100.0 |
| Holdings | 0.0 | 0.0 |

| | | |
|---|---|---|
| **IV. Outstanding Purchases and Loans:** | **SDR Million** | **% Quota** |
| Stand-By Arrangements | 166.1 | 232.9 |
| Contingency and Compensatory | 34.7 | 48.7 |
| Trust Fund | 22.9 | 32.1 |

**V. Latest Financial Arrangements:**

| Type | Approval Date | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-By | 12/07/1984 | 12/06/1985 | 42.8 | 8.5 |
| Stand-By | 09/14/1983 | 09/13/1984 | 55.0 | 55.0 |
| Stand-By | 09/29/1982 | 09/13/1983 | 55.0 | 35.0 |

**VI. Projected Obligations to the Fund** [1] (SDR million; based on existing use of resources and present holdings of SDRs):

| | Overdue | Forthcoming | | | |
|---|---|---|---|---|---|
| | 8/31/2004 | 2004 | 2005 | 2006 | 2007 |
| Principal | 223.7 | | | | |
| Charges/interest | 283.6 | 1.8 | 7.2 | 7.2 | 7.2 |
| Total | 507.2 | 1.8 | 7.2 | 7.2 | 7.2 |

[1] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time. The estimates of amounts of charges and their due dates are estimates and subject to change.

## VII. Exchange rate arrangement

The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The current exchange rate arrangement is an independent float. The exchange rate of the Liberian dollar is market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies, including the U.S. dollar. Liberia's exchange rate at end-August 2004 was L$55.3=US$1.

## VIII. Article IV Consultation

The 2002 Article IV consultation discussions were held in Monrovia during December 2002. The staff report was discussed by the Executive Board on March 5, 2003.

## IX. Technical Assistance

| Subject | Department | Date |
|---|---|---|
| Mission: currency and exchange arrangement reform | MAE | 1995 |
| Mission: currency arrangement and financial system reform | MAE | 1998 |
| Advisor: banking commission | MAE short term | 1998 |
| Advisor: general operations | MAE long term | 1998–2000 |
| Advisor: audit and accounting | MAE long term | 1998–2000 |
| Advisor: research | MAE long term | 1998–2000 |
| Advisor: bank supervision | MAE long term | 1999–2001 |
| Mission: assessment of technical assistance needs | MFD | 2003 |
| Mission: monetary operations, foreign exchange, auctions, banking supervision, payments system | MFD | May 2004 |
| Mission: monetary operations, foreign exchange auctions, banking supervision, payments system | MFD | Aug. 2004 |
| Mission: budget preparation and expenditure execution | FAD | 1997 |
| Mission: strategy for fiscal reform | FAD | 1998 |
| Advisor: budget preparation and classification | FAD short and long term | 1998–2000 |
| Advisor: budget execution | FAD short and long term | 1998–2000 |
| Mission: reform of tax system | FAD | 1999 |
| Mission: preparation of tax code | FAD | 1999 |
| Mission: tax administration | FAD | 1999 |

| | | |
|---|---|---|
| Advisor: tax administration | FAD short term | 2000 |
| Mission: assessment of technical assistance needs | FAD | Dec. 2003 |
| Mission: public expenditure management | FAD | May 2004 |
| Mission : public expenditure management | FAD | July 2004 |
| Mission : tax administration | FAD | Sept 2004 |
| Mission : forestry tax policy | FAD | Oct/Nov 2004 |
| | | |
| Mission: preassessment for multisector statistics | STA | 1997 |
| Mission: multisector statistics | STA | 1998 |
| Mission: money and banking statistics | STA | Feb. 1999 |
| Mission: money and banking statistics | STA | Nov. 1999 |
| Mission: money and banking statistics | STA | May 2000 |
| Advisor: balance of payments compilation | STA short term | Sep. 2000 |
| Mission: balance of payments statistics | STA | Nov. 2000 |
| Mission: assessment for multisector statistics | STA | Dec. 2003 |
| Mission: balance of payments statistics | STA | May 2004 |
| Mission: balance of payments statistics | STA | July 2004 |
| Mission: government finance statistics | STA | July 2004 |
| Mission: national accounts | STA | July 2004 |
| Mission: monetary and financial statistics | STA | August 2004 |

**X. Resident Representative**

There is currently no resident representative in Liberia.

**Liberia: Relations with the World Bank Group**
(As of August 31, 2004)

The World Bank suspended disbursements to Liberia in December 1986 as a result of mounting arrears. Liberia's loans were placed in nonaccrual status as of June 1, 1987. To that date, disbursements had totaled million US$141.3 million from 22 loans and US$91.5 million from 17 IDA credits; only US$42.9 million owing on these disbursements has been repaid.

By July 31, 2004, Liberia's arrears to the World Bank had mounted to US$415.9 million, reflecting further interest charges. Liberia had an unmet obligation of US$2.2 million to the World Bank, as of June 30, 2004, to fulfill the Maintenance of Value (MOV) clause in the Bank's Articles of Agreement.

Since the Liberian Peace Agreement was signed in June 2003, the World Bank has participated in multi-donor assessment missions, co-hosted the International Conference for Reconstruction in Liberia in February 2004, prepared a reengagement strategy, and began implementation of US$4.0 million in grant-funded LICUS activities in the areas of social assessment, public procurement, public financial management, reactivation of the forestry sector, and donor coordination, monitoring, and evaluation. Since July 1, 2004 the Bank has a Country Officer in the field to better coordinate the Bank's activities in Liberia.

World Bank Group
Statement of Loans/Credits/Grants for Liberia
Summary in U.S. Dollars at July 31, 2004

| | IBRD | IDA | Total |
|---|---|---|---|
| Original principal | 155,950,000 | 114,500,000 | 270,450,000 |
| Cancellations | 14,693,266 | 22,765,013 | 37,458,279 |
| Disbursed | 141,256,734 | 91,541,500 | 232,798,234 |
| Undisbursed | 0 | 0 | 0 |
| Repaid | 42,874,103 | 723,744 | 43,597,847 |
| Due | 97,977,632 | 106,822,503 | 204,800,135 |
| Exchange adjustment | 50,585,472 | 0 | 50,585,472 |
| Borrowers' obligation | 148,563,105 | 106,822,503 | 255,385,608 |
| Sold third party | 405,000 | 0 | 405,000 |
| Repaid third party | 405,000 | 0 | 405,000 |
| Due third party | 0 | 0 | 0 |

Source: World Bank, Integrated Controller's System.
Contact person at World Bank: Michael Diliberti 202-473-8766.

**Liberia: Tentative Work Plan**

| Date | Activity |
| --- | --- |
| September 2004 | FAD: Technical assistance on tax administration (customs, Large Taxpayer Unit). |
| November/December 2004 | AFR: Article IV consultation mission/possible SMP (to start at end-2004). |
| | MFD: Continuation of implementation of 18-month technical assistance program (monetary operations, banking supervision, bank restructuring, payments system). |
| | FAD: Technical assistance on forestry taxation |
| | STA: Continued technical assistance to strengthen data availability. |
| January/February 2005 | Board discussion of staff report for Article IV consultation/SMP. |

**Statement by the IMF Staff Representative**
**October 20, 2004**

1. This statement reports on developments since the issuance of the staff report. This information does not alter the thrust of the staff appraisal.

2. The authorities have made progress toward designing a time-bound package of measures to roll back recent slippages in the fiscal and monetary areas. The staff considers that the proposed package is a major step toward putting Liberia's reform program back on track. However, the authorities have indicated their wish to discuss the measures further within the National Transitional Government of Liberia (NTGL) so as to ensure broad-based support for the proposed actions, including for the specific timing of the measures under consideration.

3. The key areas under discussion are:

- Establishing a fully effective cash management committee so as to avoid further expenditure in excess of available revenue.

- Gradual repayment of the domestic financing incurred since the beginning of the fiscal year 2004/05 (July) without jeopardizing core functions of government.

- Preparation of a plan to reduce staffing cost at the CBL, and preparation of a revised budget for the remainder of 2004.

- Establishing a monitoring committee attached to the office of the Chairman to systematically monitor the implementation of understandings reached with the Fund.

4. The staff is continuing to work with the authorities to fully elaborate their action plan; a staff visit is scheduled for shortly after the Executive Board meeting to follow up with the authorities.

INTERNATIONAL MONETARY FUND
*Public Information Notice*
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 04/135
FOR IMMEDIATE RELEASE
December 3, 2004

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

# IMF Discusses Liberia's Post-Conflict Conditions and Economic Program for 2004/05

On October 20, the Executive Board of the International Monetary Fund (IMF) concluded the discussion of a report on Liberia's post conflict conditions and economic program for 2004/05.

**Background**

The signing of a peace agreement in August 2003 ended fifteen years of intermittent civil wars. A two-year transitional government, with participation of all previously warring factions, was subsequently established, with a mandate to rebuild some institutional capacity and to prepare the country for elections in October 2005. The security situation has improved with the deployment of 15,000 UN peace-keepers and the demobilization of 65,000 combatants.

Following the severe contraction of the GDP in the second half of 2003, the economy has started to recover owing to donor support and related manufacturing and services activities.
Real GDP is projected to increase by about 21 percent in the second half of 2004, compared to the second half of 2003. It is expected to expand further, although at a slower pace, in the first half of 2005, driven by increasing donor support and a partial recovery of agriculture activities.

A basic economic program for the first half of 2004 was successfully implemented. A cash-based budget was executed, without recourse to domestic financing. Revenue-enhancing measures boosted revenue, and some steps were taken to strengthen the budget process, including expenditure controls. On the monetary side, the Central Bank of Liberia (CBL) succeeded in accommodating the increase in demand for local currency without affecting the exchange rate; reserves recovered modestly. More recently, first steps were taken toward a more transparent and market-based framework for the operations of the banking system, including the introduction of foreign exchange auctions and the removal of ceilings on lending rates. Misinformation issues at the CBL were swiftly resolved in cooperation with external partners.

For 2004/05, the authorities have agreed on a macroeconomic framework geared toward creating a stable environment and a further build up of international reserves. The budget for 2004/05 continues to be cash-based, without recourse to domestic financing. Spending plans are geared toward some social projects, reestablishment of security and the justice system, and some

repayments of domestic arrears. While the scope for monetary policy continued to be constrained by the high degree of dollarization, the authorities intend to further develop instruments of monetary policy that are expected to be utilized when the scope of monetary policies broadens with the expected continued increase of demand for local currency.

In the area of governance, the authorities intend to implement the final steps to liberalize petroleum product imports, with technical support from the World Bank. In cooperation with external partners, they are also working on measures that could lead to the lifting of sanctions on timber exports.

The authorities have adopted a focused agenda aimed at putting the country firmly on the road to recovery. The agenda aims at reestablishing a transparent budget process; accountable revenue-generating agencies; and a market-based and transparent framework for the operations of the CBL and banking system.

Recent slippages in the fiscal and monetary areas are a concern. The emergence of domestically financed budgetary deficits and measures that led to higher expenses at the CBL have put undue pressures on the financial position of the banking system and underscore the need to make expenditure controls fully effective. The IMF is working with the authorities on a package of corrective measures.

Liberia has been in continuous arrears to the Fund since 1984. A declaration of noncooperation was issued in 1986, and the country's voting and related rights were suspended in March 2003. At end-July 2004, Liberia's arrears to the Fund amounted to SDR 506 million or 709 percent of quota.

**Executive Board Assessment**

Directors welcomed the improvements in the security situation in Liberia and the incipient recovery of the economy. They noted that, despite a difficult political environment and capacity constraints, the authorities have made overall progress in implementing some key reforms and in strengthening cooperation with the Fund.

Directors commended the authorities for the successful implementation of the basic economic program for the first half of 2004, based on a cash-based budget without recourse to domestic financing. They welcomed further steps to improve the budget process and the operating framework of the Central Bank of Liberia (CBL), including the recent introduction of foreign exchange auctions and the removal of ceilings on lending interest rates. However, Directors regretted the slippages since June 2004 caused by additional spending and the reemergence of a cash deficit financed domestically, which could undermine the reform process and complicate the mobilization of additional donor support. Directors therefore welcomed the authorities' determination to put the fiscal program back on track.

Directors endorsed the macroeconomic framework for 2004/05. They underscored the importance of maintaining a cash-based budget to foster fiscal discipline, and welcomed the increased outlays on social programs, security and the justice system, and some clearance of domestic arrears. They called on the Cash Management Committee to fulfill its responsibilities to implement policies in a consistent way so as to prevent the circumvention of agreed procedures.

Directors encouraged the authorities to develop an equitable strategy for the settlement of domestic arrears, including an appropriate balance in the treatment of domestic and external arrears. They strongly cautioned against resorting to domestic borrowing in light of the arrears, and the financial fragility of the CBL and the domestic banking system.

Directors noted that the high degree of dollarization continues to limit the scope of monetary policy, but encouraged the authorities to develop monetary policy instruments with external assistance. They expected that the strong increase in demand for local currency would allow monetary policy to become more active over time. They called on the CBL to redouble its efforts to strengthen its financial position, and to lay the ground for effective banking supervision in anticipation of a recovery of the financial sector.

Directors stressed that the recent slippages in the financial management of the CBL and irregularities in the accounting of official reserves and data provided to the Fund represent a setback to the authorities' reform agenda and to the strengthening of cooperation with the Fund. At the same time, they were encouraged that the authorities had taken immediate steps to restore confidence in the CBL's information systems, in full cooperation with external partners. They urged the authorities to continue to work closely with the Fund on corrective measures, and encouraged efforts to ensure the full and timely implementation of understandings reached with the staff.

Directors concurred that the authorities' focused and ambitious reform agenda through end-2005 would help put the country firmly on the road to recovery. The re-establishment of a transparent budget process, accountable revenue-generating agencies, and a transparent and market-based framework for the operations of the CBL and the financial system would help achieve irreversible positive changes in key economic institutions. Directors emphasized the importance of close cooperation between the authorities and external partners, and the development of concrete and time-bound action plans, to support effectively the government's proposed reform agenda. They noted that technical assistance to Liberia would continue to be needed to strengthen institutions and macroeconomic management, and they supported the authorities' request for technical assistance from the Fund, in particular to improve statistical reporting.

Directors expressed their willingness to consider the initiation of the process of de-escalation of remedial measures related to Liberia's overdue financial obligations to the Fund once steps to reverse recent policy slippages are fully implemented, and understandings on a staff-monitored program for 2005 are reached. In this context, a number of Directors expected the authorities to consider increasing the monthly payments to the Fund as the international reserves position improves.

***Public Information Notices (PINs)*** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Liberia: Selected Economic and Financial Indicators, 1999–2004

| | 2001 | 2002 | 2003 | 2004 Jan–Jun | 2004 Jul–Dec |
|---|---|---|---|---|---|
| | | Est. | Est. | Est. | Proj. |
| | (Annual percentage change, unless otherwise indicated) | | | | |
| Output and prices | | | | | |
| Real GDP 1/ | 4.9 | 3.3 | -29.5 | 23.1 | 20.5 |
| Consumer prices (annual average) | 12.1 | 14.2 | 15.0 | ... | 5.0 |
| | (In percent of GDP) | | | | |
| Central government operations (calendar year) | | | | | |
| Total revenue and grants | 13.0 | 12.9 | 10.8 | 16.1 | 13.7 |
| *Of which:* tax revenue | 11.4 | 12.5 | 9.5 | 14.2 | 12.1 |
| Total expenditure and net lending | 13.7 | 14.2 | 10.2 | 17.2 | 13.7 |
| *Of which*: current expenditure | 7.6 | 4.6 | 5.5 | ... | ... |
| Capital expenditure | 6.1 | 9.6 | 4.6 | ... | ... |
| Overall fiscal balance (cash basis) | -0.7 | -1.3 | 0.7 | -1.1 | 0 |
| External sector | | | | | |
| Current account balance, including grants (deficit, -) | -20.3 | -1.1 | -7.6 | -12.3 | -9.0 |
| *Of which*: public interest payments due | -12.7 | -8.0 | -10.1 | -13.5 | -11.2 |
| Current account balance, including grants (deficit, -) | -26.3 | -8.7 | -12.0 | -24.7 | -18.7 |
| Trade balance (deficit, -) | -12.3 | -2.7 | -11.4 | -70.1 | -62.9 |
| Exports, f.o.b. | 23.9 | 29.6 | 21.4 | 9.4 | 8.3 |
| Imports, c.i.f. | -36.3 | -32.3 | -79.6 | -79.6 | -71.2 |
| Public sector external debt outstanding (total) | 455.3 | 476.8 | 613.3 | 640.9 | 588.8 |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | |
| Current account balance including grants (deficit, -) | -198.5 | -6.1 | -33.4 | -26.5 | -23.3 |
| Trade balance (deficit, -) | -65.9 | -15.3 | -50.4 | -150.6 | -163.3 |
| Nominal GDP | 534.4 | 561.8 | 442.2 | 214.8 | 259.8 |
| Official exchange rate (Liberian dollar per U.S. dollar; end of period) | 49.5 | 65.0 | 50.0 | ... | ... |

Sources: Liberian authorities; and IMF Staff estimates and projections.
1/ For 2004, growth rates compared to previous semester.

**Statement by Ismaila Usman, Executive Director for Liberia**
**October 20, 2004**

**Key Points**

- *Since the last Board review, appreciable progress has been made by the Liberian authorities in reform implementation to further improve cooperation with the Fund, and move closer to the process of de-escalation of measures.*
- *Reforms have included improvement in the formulation and implementation of fiscal and monetary policies, and enhanced transparency in governance, setting the stage for a medium-term economic development programme, while a cash-based budget for the second half of the fiscal year 2005 (Jan.- June 2005) has been prepared*
- *The authorities are confronted with daunting challenges which include, among others, financing important social infrastructure and creating jobs and skills for the vast population of displaced and demobilised persons to make the rehabilitation efforts meaningful.*
- *To this end, the authorities are requesting for increased and faster flow of external assistance, and an early lifting of the UN sanctions to enhance revenue and to accelerate the recovery process.*
- *The authorities would also appreciate an early move from the current staff review to a Staff Monitored Programme (SMP), supported by continued technical assistance in all relevant areas of need.*

## Introduction

Relative political stability in Liberia in the last one year has enhanced recovery chances, and has helped to speed up the demobilisation and reconstruction process, as well as the implementation of other social and economic reforms. There have been reforms in fiscal and monetary areas, including on some important governance issues. A transparent cash-based budget framework is now in place, and there is an on-going external audit of some revenue-generating agencies of government, including the Central Bank of Liberia (CBL). The authorities are also making timely monthly payments of US$50,000 to the Fund, as agreed, since January 2004.

The authorities are committed to further strengthening cooperation with the Fund by sustaining these initial successes, and implementing further reforms. A comprehensive economic programme is being planned to serve as a successor to the current Results Focused Transition Framework, RFTF, which is the basis for the on-going economic transition and reforms programme. The Interim government is also committed to establishing a legacy of socio-political recovery and cohesion, as well as a stable macroeconomic environment for sustainable growth and poverty reduction before it leaves office after the elections planned for October 2005.

For more positive progress in the post-conflict efforts to revive the Liberian economy, the authorities hope to continue to count on the understanding and support of the IMF and the valuable inputs of its staffs, especially in the provision of ample technical assistance to help rebuild capacity and improve economic management. They are appreciative of the current Fund assistance and support and those of the World Bank, the United Nations and the rest of the international community.

**2. An Update on Progress made towards Economic Recovery**

***i. Cooperation with the Fund has strengthened –*** Since the last Board discussion, the Liberian authorities have strengthened cooperation with the Fund by maintaining close policy dialogues with staff. Prudent policy implementation has been sustained, and relevant economic data are submitted regularly to staff. The authorities have also continued to meet their obligations by making the minimum monthly payments as agreed.

***ii. The Economy is recovering steadily –*** The basic economic programme through June 2004, under the Resource-Focused Transition Framework has been satisfactorily implemented. Consistent implementation of reforms, supported by increasing donor assistance, has enhanced recovery chances for the economy, inspite of political and social sensitivities and capacity constraints. Small-scale commercial and rural activities have been reactivated, including some productive activities in manufacturing and services, especially construction. These have resulted in the growth of real GDP to an estimated 23 per cent in the first half of the year over the second half of 2003, while growth for the second half of 2004 is projected at 21 percent. Prices of food items have fallen markedly, with the easing of supply constraints, while the year-on-year general consumer price inflation decelerated from 41 per cent to 12 per cent.

***iii. There have been substantial and far-reaching institutional reforms in the last one year***

- *For budget and expenditure management,* the authorities have been making concerted efforts to return to an orderly budget preparation process. In this wise, all government revenues are now centralised in the CBL, and a cash-based budget is being operated, with contingent spending plans specified. A weekly analysis of commitments is now in place, and a Cash Management Committee, comprising the Chairman of the Interim government is in operation.

- *In the Central Bank of Liberia (CBL),* a weekly foreign exchange auction was introduced in July 2004 as a first step towards developing a set of monetary policy instruments. The auction is functioning well. Ceilings on lending rates, which have been discouraging lending by commercial banks and hampering competition, have been removed; measures have been taken to correct faulty monetary statistical data with the assistance of Fund staff and thereby restore confidence in the institution's information system. All government accounts operated with the bank are consolidated.

- *Measures to strengthen economic management in general* have included, setting up a macro fiscal unit and revoking both the suspension of sales tax on restaurant services and the administrative order on exempting companies from pre-shipment inspection. The mandate of Large Taxpayer Unit has been broadened to include customs, excise and General Sales Tax (GST), while identification number is now mandatory on all import permits, customs, GST, and tax documents.
- In a bid to boost revenue collections, the authorities have extended preshipment inspections to all dutiable imports, and intend to begin taxing foreign vessels that fish in Liberian waters. Further actions are being proposed to strengthen policy in the future, with technical assistance support from the international community.
- The authorities have embarked on an exercise of taking stock of domestic and wage arrears, with the support of external partners, and have agreed that no payments will be made until all amounts are verified, audit of the payroll is completed, and a strategy for their settlement is defined.

***iv. On Governance, major steps that have been undertaken include the following:***

- The external audits of the main revenue generating agencies, including the CBL, have started and will provide a detailed roadmap for reforms, while steps are being taken to remove ghost workers and to audit the payroll.
- The external peer review has expressed confidence in the CBL's current financial information, following substantial measures taken to improve the bank's statistical information. The new management of the Bank has taken steps to strengthen internal governance, and adjust the misalignment in its budget programme.
- The disarmament, demobilisation, rehabilitation and reconstruction programme is on track and moving fast, while a RFTF Implementation and Monitoring Committee headed by the Chairman of the Interim Government has been formed.
- An independent National Electoral Commission has been established, and has been provided with some resources for conducting democratic elections next year to usher in a new elected government.

**3. The Budget for the Second Half of FY 2004/05 (January – June 2005)**

The authorities are proposing a cautious cash budget, in light of economic uncertainties for the first half of 2005, but are nonetheless, adopting a macroeconomic framework that will put the economy on the path of enhanced recovery and growth, including a modest buildup of international reserves to about $11 million. The second half of FY2005 budget will have no recourse to financing, but will accommodate contingent spending plans in the event of the lifting of UN sanctions on timber exports, or increase in revenue, consequent upon increased inflows of foreign grants or revenue collections, which is envisaged to rise by 50 per cent. Public expenditures will focus on stepped-up spending on social infrastructure, internal security and the justice system. The monetary programme aims at a broadly stable exchange rate, while accommodating a further rebound in the demand for local currency. Broad money is projected to rise by about 40 per cent in the twelve month period, ending June 2005.

**4. Proposed Reforms and the Medium-Term Economic Outlook**

The Liberian authorities appreciate the need, on their part, to step up efforts on transparency and the implementation of reforms. In this wise, they are proposing, with staff support, to reverse the slippages observed in the following areas, and with acceptable timelines:

***i. Budget and Expenditure Management –*** The authorities have agreed to make weekly payments to reduce the cumulative deficit to $1.5 million to coincide with the agreed overdraft, and formally cancel the bridge facility by the end of November, 2004.

- In addition, they intend to avoid future direct debits on the government accounts with the CBL, and will suspend payments on all domestic debts incurred through June, until cumulative deficit is reduced to the agreed limit, while no further recourse will be made to borrowing from commercial banks.
- The authorities agreed with staff to strengthen the Cash Management Committee and complete preparation of revenue forecasts and cash plans for all line ministries and other expenditure categories for the remainder of the FY 2005, i.e. November, 2004 – June 2005. The Cabinet and all heads of agencies would be provided with copies of the revised budget approved by the National Transitional Legislative Assembly (NTLA).
- Monthly fiscal reports that will compare actual revenue and expenditure with the budgeted figures will be generated and published on the website of the Ministry of Finance.
- There will be investigations, as well as necessary actions to ensure that no commercial bank is receiving deposits and taxes from any government ministry or agency in violation of the agreed budget procedure.
- In a similar vein, CBL has been instructed to dishonour any letter payments except remittances to foreign missions and emergency payments for security operations.
- Staff of the CBL are working with the Fund staff to reverse current spending excesses.
- Steps are being taken to liberalise imports of petroleum products, with technical assistance from the World Bank.

***ii. Monetary Policies and reforms in the CBL –*** It is proposed that interest on non-performing government debts will be stopped, and all accruals for the second half of the year will be reversed.

- Furthermore, the monetary authorities intend to adopt policies that will strengthen ailing banks, and will also introduce standing credit facility for short-term liquidity support for commercial banks; and lift restrictions on inter-bank activity.
- Reforms are also being proposed in the CBL to include, a revision of the bank's budget for the second half of the year, after adjustments for reversal of the accrued interest; phased reduction in the personnel cost of the bank; and incorporating spot checking of commercial banks deposits in bank supervision procedures.

***iii. To strengthen the monitoring of implementation of reforms,*** it is being proposed that membership of the Monitoring Committee will include top ranking government officials like,

the Chief of Staff in the National Transitional Government of Liberia (NTGL) Chairman's Office as chairman, the Minister of Finance, and the Governor of the CBL, among others. The Committee will meet bi-weekly and issue formal report on progress of implementation, as well as monitor time-bound technical assistance action plans.

**5. Daunting Challenges Remain and Enhanced International Community Support is Essential**

An assessment of the recent donors' meeting held at the World Bank Headquarters on 24th September, 2004, indicated that, in light of Liberia's pre-war low level of economic development, coupled with the devastations of the civil war, Liberia's current economic situation is more of construction than reconstruction. For instance, basic infrastructure like telephones, fax machines, electricity, and stationery items are barely available in most government institutions, while out of the 80,000 disarmed combatants awaiting settlement only 10,000 could be offered jobs or some form of formal education.

Consequently, a major challenge currently facing the Liberian authorities, is how to finance a sustainable long-term economic development, to create jobs and improve skills development for the teeming population of refugees numbering about 300,000 and reintegrating 80,000 disarmed combatants into civilian life. This figure excludes yet unknown number of refugees that still remain in neighbouring countries. Without jobs, efforts at re-integration will be futile. Closely tied to this, is the daunting challenge of resettling the internally displaced vast population, most of whom are still in camps, as well as providing basic infrastructure in sub-urban areas to encourage sub-urban settlement and ensure that urban towns are not overcrowded.

The authorities are, therefore, appealing to the international community to continue to facilitate the strong implementation of the RFTF programme by their timely and consistent disbursement of resources in order to achieve the objectives of the programme. In addition, it is also essential to augment current financial resources and technical assistance support to enable the authorities accelerate the rehabilitation programme, especially in developing social infrastructure and resuscitating agriculture, to create jobs and to sustain the current successes.

**6. Conclusion**

The authorities are committed to maintaining close dialogue with the staff and management of the Fund at all times, and to continue to implement necessary reforms and adopt sound policies, inspite of their capacity constraints. In order to enhance and consolidate the reforms, as well as strengthen their cooperation with the Fund towards the process of de-escalation of remedial measures, they are requesting that the current staff review be allowed to advance to a Staff-Monitored Programme (SMP), soonest. They also request further technical assistance from the Fund and the World Bank, and other external partners.

The authorities have limited time before the democratic elections in October 2005. In essence, slow pace or limited donor support will not only slow down progress on recovery, but may also delay achieving these objectives. Furthermore, delayed timber activity as a result of failure to lift the UN sanctions would adversely affect the prospects of enhancing government revenue from the sector, and by implication, the financing of Liberia's economic development. The authorities believe that some progress has been made on the timber industry reforms, with the assistance of external partners, and therefore, call for an early lifting of the sanctions in order to advance the development process, going forward.

The authorities hope that they can continue to count on the understanding and support of the IMF Executive Board and, indeed, the rest of the international community to help them to achieve their goals.