INTERNATIONAL MONETARY FUND

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Liberia: 2005 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Liberia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with Liberia, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 26, 2005, 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 April 4, 2005. 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.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its April 20, 2005 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Liberia.

The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

LIBERIA

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with Liberia

Approved by Menachem Katz and Matthew Fisher

April 4, 2005

- A staff team held the discussions for the Article IV consultation with the Liberian authorities in Accra during February 16-26, 2005. The Liberian delegation included Finance Minister Kamara, Central Bank Governor Greene, and other senior officials.
- The staff team comprised Mr. Schwidrowski (head), Mr. Honda, Ms. Schumacher (all AFR), Mr. Mitchell (PDR), and Mr. Tharkur (FIN). The team worked closely with the World Bank and parallel technical assistance missions from MFD and FAD.
- The last Article IV consultation was concluded in March 2003. In the event, a protracted lack of cooperation on policies and arrears clearance led to the suspension of Liberia's voting and related rights in the Fund.[1]
- In the context of reviews of Liberia's overdue obligations, two reports were submitted to the Executive Board in March and October 2004 on postconflict economic conditions and the economic program for 2004/05.[2]
- Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The authorities have not indicated any immediate plans to accept the obligations of Article VIII.
- The quality of data hampers effective surveillance. Efforts are under way to rebuild a core statistical database.
- It is proposed to hold the next Article IV consultation on the standard 12-month cycle.

[1] "http://www.imf.org/external/pubs/ft/scr/2003/cr03274.pdf"

[2] "http://www.imf.org/external/pubs/ft/scr/2004/cr0484.pdf" and "http://www.imf.org/external/pubs/ft/scr/2004/cr04408.pdf"

Contents

EXECUTIVE SUMMARY

- **Following a sharp conflict-related economic contraction in 2003, activity is rebounding, largely as a result of donor-related activities.** The recovery is expected to be maintained in 2005 as reconstruction continues and rural activities resume (following an improved security situation).
- **Liberia faces daunting reconstruction challenges.** The authorities agree that deep reforms are needed to achieve sustainable growth. Particular attention is required to strengthen economic governance and reestablish a transparent budget process.
- **New governance problems have emerged that need to be addressed promptly**. The authorities are working toward their resolution.
- **After initial success in implementing a balanced budget, financial management has weakened**. A domestically funded cash deficit was rolled back quickly, but large arrears have emerged more recently.
- **The Central Bank of Liberia (CBL) has strengthened its financial position and developed a framework for monetary operations and bank restructuring.** The CBL has also resumed efforts to rebuild some key economic statistics. The licensing of new banks is a concern in the current fragile financial environment.
- **The authorities recognize the need for corrective action to strengthen governance and fiscal management**. They are encouraged to develop expeditiously specific measures in these areas.
- **A concrete action plan is also required to support the authorities' wish for enhanced support from the Fund (in terms of policy advice and technical assistance) during the period leading up to elections and a new government (end-2005)**. Such a plan would also help establish a track record for a staff-monitored program (and possible beginning of deescalating the Fund's remedial measures against Liberia).

I. Introduction

1. **The Article IV consultation discussions focused on Liberia's medium-term economic outlook and policies that would enable the country to move from the current precarious postconflict situation to sustained and high-quality growth;** recent economic developments and the outlook for 2005; and a review of economic policies being implemented and planned for the remainder of the National Transitional Government of Liberia's (NTGL) term (end-2005).

2. **Liberia's relations with the Fund had been deteriorating until the NTGL took office (October 2003).**[1] During the 2002 Article IV consultations and review of Liberia's overdue financial obligations to the Fund (March 2003), the Executive Board stressed a number of factors that highlighted the deterioration of policies and the lack of response to Fund advice, which, in the event, led to the suspension of Liberia's voting and related rights in the Fund. Specifically, Directors expressed concern about weak revenue performance, the lack of fiscal transparency and accountability, and poor expenditure controls, which had resulted in large arrears and a lack of social services. Substantial governance issues needed to be addressed, and Directors called for full financial audits of maritime, timber and petroleum operations. Critical structural reforms, particularly in the petroleum and rice sectors, were also required.

3. **Since the NTGL took office, cooperation with the Fund on policies and payments has strengthened, but the momentum of reforms has recently slackened.**[2] During the October 2004 review of Liberia's overdue obligations, Directors commended the authorities for the successful implementation of the basic economic program for the first half of 2004 and steps taken to strengthen the budget process, governance, and the operating framework for the CBL. However, they stressed that the recent slippages in the budget and the financial management of the CBL represented a setback to the authorities' reform agenda.[3] Directors urged the authorities to undertake corrective measures and to ensure the full and timely implementation of understandings reached with the staff. Directors expressed willingness to consider the initiation of de-escalating the Fund's remedial measures against Liberia once

[1] Liberia has been in continuous arrears to the Fund since 1984. A declaration of non-cooperation was issued in 1986, and the country's voting and related rights were suspended in March 2003 because of a protracted lack of cooperation. At end-February 2005, Liberia's arrears to the Fund amounted to SDR 511 million, or 716 percent of quota. Liberia's forthcoming annual obligations are estimated at about SDR 8 million.

[2] The authorities have made monthly token payments of US$50,000 since January 2004.

[3] Fiscal deficits emerged around mid-2004, equivalent to about 1 percent of GDP, and the planned increases of the CBL's operating expenses for 2005 would have led to a deficit of US$2 million, compared with official reserves of US$4 million (December 2004).

steps to reverse recent policy slippages were implemented, and understandings on an SMP for 2005 were reached.

II. Background and Recent Economic Developments

A. Background

4. **Political and economic developments in 2003-04 were marked by an intensification of internal hostilities, followed by the introduction of a power-sharing transitional government and the resumption of external assistance.** Fighting that extended to Monrovia in mid-2003 led to widespread destruction and looting, including of government facilities. About one-third of the population is still estimated to be internally displaced.

5. **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 deployed 15,000 peacekeepers, with a view to reestablishing security throughout the country. About 105,000 combatants were demobilized by end-October 2004, but only about 25,000 weapons were collected.

6. **UN economic sanctions, also covering timber exports since mid-2003, were extended for one year at end-2004.** Proceeds from timber exports had been found to finance the internal conflict. Despite the end of hostilities, the UN Security Council decided to keep the sanctions in place, owing to little progress in conducting an independent concessions review; establishing transparency in revenue collection; and exercising effective oversight over the sector.

7. **Donor disbursements have been slow, partly reflecting low confidence in Liberian institutions**. Although a large part of the US$520 million pledged in early 2004 has been set aside (including into escrow accounts), actual disbursements are believed to be significantly lower.[4]

8. **Poverty, already pervasive prior to the last round of hostilities, remains extensive, 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 a day.[5] In 2002, about one-third of the population suffered from tuberculosis, and about one-fourth of infants died before reaching the age of 5. External partners have begun to analyze the causes of Liberia's deep-seated poverty and associated internal conflicts (Box 1).

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[4] Data on disbursements, informally collected by UNDP, are incomplete and often misclassified.

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

Box 1. Liberia—A Postconflict Social Assessment[1]

A deep-rooted crisis of rural communities and institutions lies at the heart of Liberia's intermittent civil wars and hampers effective reintegration of ex-combatants and the attainment of sustainable peace. For decades, rural communities have been dominated by powerful patrons who offer protection and grant rights (including access to land) on a personal basis. Large numbers of young men have been forced to work for these patrons to gain access to land and gather the financial resources traditionally required to marry (dowries). In response, increasing numbers joined warring factions, and, since demobilization, are reluctant to return to their communities.

The government needs to work with external partners to address the causes of this crisis. A reform of marriage law (2003) has already prohibited practices such as dowries and compulsory labor by wives. Further fundamental steps are needed to provide access to land to demobilized combatants and to extend the rule of law. Immediate steps include the provision of land grants, promotion of small-scale farming, and vocational training.

Community-driven development is designed to help transform Liberia's rural communities. However, such activities need to avoid reestablishing vested interests. Therefore, the effective involvement of marginalized groups, and extension of justice and rights, will be essential. The community-based approach will need to be closely coordinated with reforms at the national level.

[1] "Community Cohesion in Liberia—A Post-War Rapid Social Assessment", World Bank, January 2005

B. Recent Economic Developments

9. **Economic developments in 2003-04 closely mirrored political events.** Real GDP in 2003 is estimated to have dropped by 31 percent, reflecting a steep decline in the second half of the year on account of the hostilities and the imposition of the UN ban on timber exports (Table 1). Activity rebounded in 2004, driven by external support, reconstruction, and a strong recovery in rubber production.[6] Overall, economic activity in 2004 is estimated to have returned to about 70 percent of the prewar level.

[6] GDP is estimated to have declined by 50 percent in the second half of 2003, compared to the first half of the year. The economy recovered by about 35 percent in the first half of 2004, compared to the second half of 2003 and a further 25 percent in the second half of 2004, vis-à-vis the first half. These estimates are based on available indicators of economic activity, such as revenue collections and donor imports.

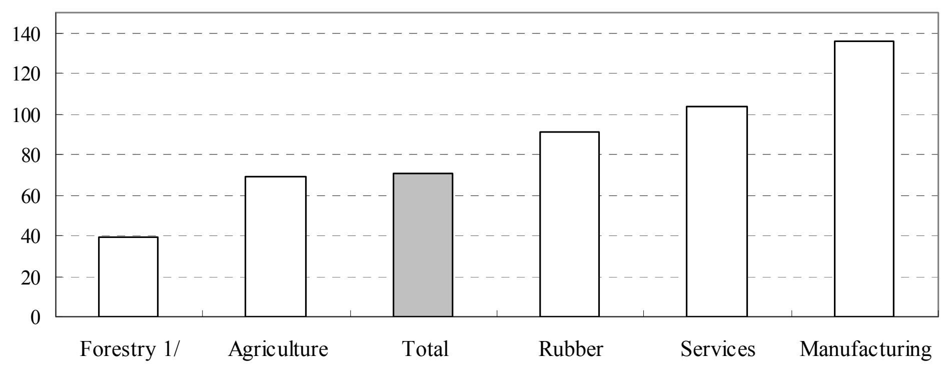
Liberia: Recent Economic Developments, 2001-05

	2001	2002 Est.	2003 Est.	2004 Est.	2005 Proj.
Real GDP (percentage change)	2.9	3.7	-31.3	2.4	8.5
Inflation (percentage change; period average)	12.1	14.2	10.3	7.8	5.0
Overall fiscal balance (incl. grants, percent of GDP)	-0.7	-1.3	0.7	-0.1	0.0
Government revenue (percent of GDP)	12.8	13.0	11.0	14.1	17.7
Official exchange rate (Liberian dollars per U.S. dollar; end of period)	49.5	65.0	50.5	54.5	...
Current account balance (incl. grants, percent of GDP)	-24.5	-3.4	-18.2	-13.3	-19.9

Sources: Liberian authorities and IMF staff estimates.

Postconflict Recovery of Real GDP in 2004 by Sector

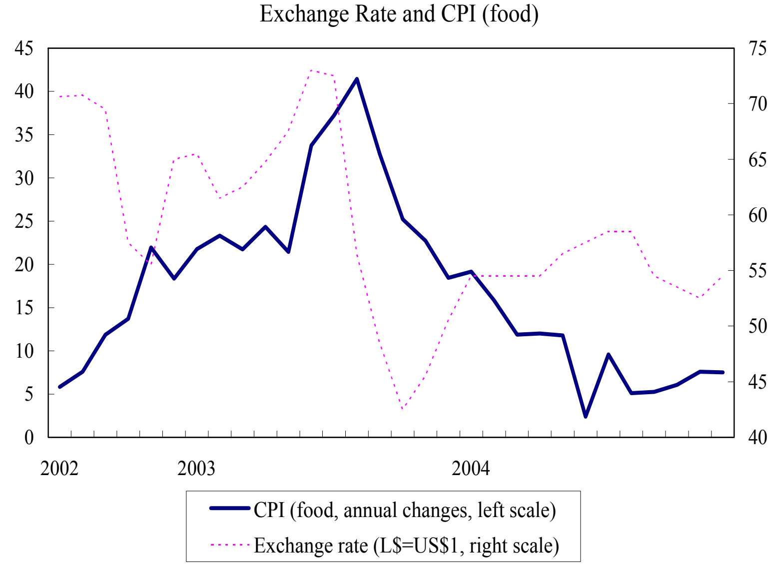
(2002=100)



Sources: Liberian authorities; and IMF staff estimates.
1/ Including production of charcoal and wood for domestic use.

10. **Price and exchange rate volatility subsided with the end of hostilities.** Prices, particularly of food items, have stabilized as supply constraints have eased; the exchange rate has returned to preconflict levels, reflecting a return of private capital, donor inflows, and an increase in the demand for local currency. Official reserves have increased modestly from low levels.

Exchange Rate and CPI (food)



Source: Liberian authorities.

11. **External developments were characterized by a widening of the trade deficit that was largely financed by external assistance (Table 2).** Exports collapsed in 2003 but stabilized in 2004, largely on account of rubber. Imports driven by externally funded humanitarian aid and strong remittances increased significantly.

12. **Fiscal revenue collapsed during the internal conflict but has recovered markedly since the NTGL took office, reflecting steps to boost revenue but also the early centralization of revenue collections at the Ministry of Finance and of government accounts at the CBL (Table 3).** Following implementation of a balanced cash-based budget through about mid-2004, a domestically funded fiscal deficit, equivalent to about 1 percent of GDP, emerged in the latter part of the year. While that deficit was quickly rolled back, there was a large buildup of arrears through end-2004 (see below). Until the NTGL took office, spending was mainly geared toward military outlays, resulting in the accumulation of sizable wage arrears. Expenditure has since shifted to rehabilitating government offices, and to paying regular public sector wages, and, more recently, to restarting some education and health services.

13. **For 2005, the economic recovery is expected to strengthen, underpinned by continued donor activities and the UN peacekeeping mission.** Real GDP is projected to expand by 8.5 percent led by agriculture (mainly rubber), domestic manufacturing, and services. With higher imports and increased production, domestic prices are expected to moderate further. The trade deficit is projected to narrow on a further moderate increase of exports and decline of donor-funded imports for humanitarian assistance.

III. Discussion of Economic Policies

14. **The discussions took place against the background of an improving, albeit fragile, security situation and economic recovery.** The main challenge to sustained peace is the large number of demobilized fighters who have not yet been integrated.

15. **The NTGL's reform course has slowed, reflecting uneven support by the former warring factions**. Civil society has become increasingly disgruntled by the slow progress in reestablishing basic infrastructure and services, and by perceptions of inadequate responses to fiscal transparency and governance issues.

A. Medium-Term Outlook and Policies

16. **Aware of Liberia's daunting reconstruction challenges, the authorities stressed the need for deep reforms to achieve sustainable growth**. They noted that Liberia's abundant natural resources and vibrant (though at present largely informal) private sector were key sources of growth that need to be used to create job opportunities and overcome pervasive poverty.

17. **The staff suggested that, as in other postconflict countries, the recovery could take place in two phases**: the first driven by international support for humanitarian assistance and reestablishment of the most basic services and infrastructure, and the second

where external support shifts to broader-based recovery efforts (possibly also in the form of direct budgetary assistance) and measures to reactivate the private sector as the engine of growth.

18. **The authorities concurred that early reestablishment of confidence in Liberia's key economic institutions would be crucial to securing sustained external support and attracting private investment**. Therefore, these institutions—including the budget, revenue-generating agencies, the CBL, and the financial system–need to be rebuilt as a matter of priority. Such action should be complemented by the strengthening of the judicial system and the introduction of modern legislation regulating commercial transactions to establish a framework for private sector activity.

19. **The staff indicated that the main fiscal challenges are to strengthen revenue collections and improve expenditure controls so as to channel growing resources to poverty-reducing activities.** In light of significant external and domestic financing constraints, the authorities agreed that the budget would have to remain balanced for some time.

20. **Regarding the financial sector, the authorities concurred that the main tasks ahead were to strengthen the CBL and the banking system.** Moreover, additional instruments will be needed to make monetary policy more effective.

21. **The authorities pointed at Liberia's large external debt overhang as a key obstacle to medium-term sustainability.** The staff replied that the establishment of a strong track record of reforms and prudent policies would be key to resolving the debt burden.

22. **To illustrate the positive effects of early and decisive reforms, the staff presented two medium-term scenarios.** [7] The optimistic scenario assumes prudent macroeconomic and strong reform policies, which would help lay an early basis for significant private investment and sustainable growth and could lead to an average growth rate of about 10 percent, resulting in an increase of GDP per capita from US$116 in 2004 to US$170 in 2009. A slower-growth scenario is premised on a slower pace of reform and lower donor support. Annual real GDP would grow by about 4 percent, insufficient to create significant new employment opportunities and raise living standards. The staff noted that this scenario would likely materialize if the current uneven pace of reforms persisted.

[7] See "Liberia – Selected Issues and Statistical Appendix" for further details.

Liberia: Medium-Term Scenario, 2004-09
(In percent of GDP, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009
Optimistic scenario			1			
Real GDP growth (in percent)	2.4	8.5	17.2	9.7	9.1	9.0
Fiscal balance	-0.1	0.0	0.0	0.0	0.0	0.0
Fiscal revenues (including grants)	14.1	17.7	23.7	25.0	27.3	29.1
Of which: grants	0.2	0.0	5.9	7.0	8.1	9.0
Current account balance (excl. grants)	-51.8	-46.5	-42.0	-39.6	-37.2	-37.3
Grants (donor transfers, net)	38.4	26.6	21.8	21.6	21.2	20.9
Net official reserves (in millions of U.S. dollars)	4.2	11.7	19.3	26.8	34.1	41.3
Real GDP per capita (in U.S. dollars)	116	123	141	150	160	170
Slower growth scenario				2		
Real GDP growth (in percent)	2.4	8.5	4.9	7.7	4.1	3.2
Fiscal balance	-0.1	0.0	0.0	0.0	0.0	0.0
Fiscal revenues (including grants)	14.1	17.7	19.6	20.2	22.6	24.8
Of which: grants	0.2	0.0	2.6	4.0	5.3	6.6
Current account balance (excl. grants)	-51.8	-46.5	-35.3	-31.2	-27.9	-27.7
Grant (donor transfers, net)	38.4	26.6	14.5	13.6	12.9	10.2
Net official reserves (in millions of U.S. dollars)	4.2	8.7	13.4	17.4	21.0	24.5
Real GDP per capita (in U.S. dollars)	116	123	126	132	134	135

Sources: Liberian authorities; and IMF staff estimates and projections.
1/ In this scenario, UN sanctions on timber are expected to be lifted at end-2005.
2/ In this scenario, UN sanctions on timber are expected to be lifted at end-2006.

B. Governance Issues

23. **The authorities stressed that strengthening economic governance was indispensable for medium-term recovery, in light of pervasive mismanagement under previous governments which had also undermined the conduct of fiscal and central bank operations.** Agreeing with this position, the staff stressed the need for short-term actions to strengthen financial management (see below) and address concrete governance issues that have become subject to public debate.

24. **A committee has recently been established to follow up on corruption allegations against members of the transitional government and civil servants.** Members include legal experts and representatives of political parties and civil society. The staff welcomed this initiative and encouraged the authorities to make the committee fully operational as soon as feasible.

25. **The authorities indicated that two cases of serious concern regarding transparency and accountability were being investigated.** These are the modalities of large sales of iron ore and the alleged disappearance during 2004 of a large number of blank import and export permits.[8] In addition, an audit of travel expenses was at a final stage. The authorities envisaged that reports on all three cases could become available soon. The staff advised them to publish their results, including decisions on any corrective actions.

[8] 700,000 tons of iron ore were sold at US$10 a ton, compared with reported international prices of about US$40 a ton, resulting in a potential revenue loss of about US$20 million.

26. **The authorities reiterated their desire to design a detailed agenda for strengthening governance based on audits of the CBL and the main revenue-generating agencies.** However, they regretted partly security-related delays in finalizing these audits, which were conducted with support from the European Union (EU). The staff expressed its willingness to assist in preparing an action plan of corrective measures, in conjunction with other external partners, once the audits become available.

27. **The authorities are working with external partners toward fulfilling the conditions for a lifting of UN sanctions on timber exports.** The independent review of concessions has started and is expected to be finalized in time for the next sanctions review (June 2005); studies on how to improve the sector's financial systems were conducted; and human resource needs are being assessed to reestablish effective oversight of the sector.

28. **There was consensus that a simplification of the structure of forestry taxation could help to enhance transparency.** The staff presented a proposal for a streamlined system based on ease of administration in the short term by focusing collections on two instruments, an area rental fee and taxes on timber exports (Box 2).[9] Over the medium term, the export tax should be replaced with a tax on production. The authorities accepted this proposal and are working with the staff and the World Bank to implement it.

29. **Reforms in the petroleum sector continue, with external assistance.** The World Bank is providing technical support to complete all steps to move to competitive bidding for petroleum product imports.

C. Fiscal Issues

30. **In light of the crucial importance of reestablishing a functioning and transparent budget process, the discussions focused on the recent weakening of financial management and recommendations to strengthen fiscal policies in the short term.** Additional steps are needed to achieve the budgeted revenue targets. Although the cash deficit that emerged around mid-2004 was eliminated, sizable arrears accumulated through end-2004, requiring a substantial strengthening of expenditure controls to ensure that a balanced cash-based budget can be implemented during 2004/05, as intended.

31. **On the revenue side, the authorities reported that they were addressing the problems that had led to shortfalls in some areas.** They were dealing with delays in implementing the amended contract with an external agent for preshipment inspections (BIVAC), which caused shortfalls in customs collections. A petroleum importer's practice to offset petroleum taxes due against the repayment of a loan granted to the previous government has been discontinued. Income tax collections have been stronger than expected as a result of enforced withholding.

[9] See "Liberia - Selected Issues and Statistical Appendix" for further details.

Box 2. Simplifying Liberia's Timber Tax Structure

Enhanced accountability and transparency of timber revenue is one key condition for the lifting of UN sanctions. While the establishment of a modern financial system to channel these resources will partly satisfy this demand, a simplification of the tax structure could also enhance transparency.

Liberia's timber tax structure has become excessively complex and lends itself to misappropriations of public funds. Initially, Liberia relied almost exclusively on stumpage fees. Subsequently, the system grew to include an area tax, a variety of production-based fees, export taxes, and other fees and charges. Some were earmarked for certain purposes, such as reforestation, but the related activities were not funded by the respective taxes. As the basis for these taxes varies widely (per log, volume, tree species, at the export stage, based on the concession area), only a sophisticated system with well-developed controls (that currently does not exist) would be able to ensure their accurate assessment and collection.

Given the lack of effective controls, and in line with the experience of other Sub-Saharan countries, the authorities have accepted a proposal to radically simplify the current tax structure. In the short term, the taxes will be reduced to two, an area tax and an export tax on the f.o.b. value of timber. Both taxes have the advantage of easy administration—the area tax would be collected based on the area of each concession, which is a known factor. Preshipment inspections of timber exports are already included in the government's contract with the external agent BIVAC, thereby minimizing the short-term needs to rely on local tax agents.

Looking forward, the authorities should replace export taxes by production taxes once they have the capacity to collect them. Also, they should introduce, as soon as feasible, a system to ensure competitive allocation of new concessions.

32. **The staff urged the authorities to take all remaining steps to make the arrangement with BIVAC fully operational.** It noted that preshipment inspections on a large part of imports, including rice and petroleum products, had not yet started. Overall, the staff pointed to favorable economic developments, including the surge in demand for petroleum products, which should boost the revenue base and allow the budgetary revenue target to be met or exceeded. The authorities concurred with this view.

33. **The staff expressed concern about certain measures taken or under consideration that threaten to undermine the revenue base.** These include generous import duty exemptions for a large international investment project (the concession of which is under review); temporary exemptions of duties on cement imports; and proposed changes to the investment code that contemplate wide-ranging exemptions for new international investment projects.

34. **The authorities argued that such exemptions were needed to signal the return of stability to prospective investors.** They cited supply difficulties as the reason for the temporary suspension of taxes on cement imports.

35. **The staff explained that international experience had shown that foreign investment was influenced more by long-term considerations of a country's stability and social peace, as well as availability and reliability of infrastructure and a skilled and healthy labor force**. For these conditions to take hold again, the authorities must

mobilize higher budgetary revenue and channel it efficiently to basic infrastructure, health and education expenses. Therefore, the staff urged the authorities to eliminate existing tax concessions and not to introduce new ones.

36. **On the expenditure side, the staff found that the cash-management committee, set up to avoid the recurrence of a cash deficit, was not operating as intended**. Significant expenditures were still made without the committee's prior authorization, and transactions in local currency were not monitored. The authorities agreed to redouble efforts in this area.

37. **In view of the emergence of about US$12 million in arrears by end-2004, the staff expressed serious concerns about the effectiveness of commitment controls.** It asked the authorities to ascertain how the regularization of arrears would affect the implementation of the approved budget in the remainder of the fiscal year. Furthermore, the staff urged the authorities to put simple commitment control mechanisms in place and to make full use of earlier technical assistance recommendations. The authorities agreed with the need to strengthen controls in this area.

D. Monetary and Exchange Rate Issues

38. **The Liberian economy remains highly dollarized, limiting the scope for monetary and exchange rate policies.** Also, there are only a few instruments for monetary operations; reserve requirements were only recently complemented by foreign exchange auctions, also to ensure a transparent allocation of foreign exchange. The CBL succeeded in accommodating the increased demand for local currency while avoiding pressures on the exchange rate and accumulating modest foreign reserves. The staff agreed with the CBL that it should continue to accommodate the expected rebound in demand for local currency, in line with the economy's recovery, while paying attention to exchange rate movements as an indicator of supply and demand conditions for local currency.

39. **The CBL has developed a monetary policy framework, anticipating that sustained strong demand for local currency would gradually broaden the scope for monetary policies.** Such policies would be geared toward price and exchange rate stability. In the short term, the CBL plans to set up a liquidity-monitoring system and introduce a credit facility for banks to cushion short term liquidity shortfalls. In line with market developments, in the medium term, the CBL plans to establish a liquidity forecasting system, introduce repurchase agreements, and develop an interbank foreign exchange market. In the long term, it will attempt to develop money and securities markets.

40. **The staff welcomed the CBL's efforts to clarify its policy goals and set the agenda for future work**. It advised the CBL to closely link the implementation of its framework to economic conditions and to improvements in the health of the banking sector. Specifically, the staff cautioned against a premature use of central bank lines of credit and stressed that the issuance of securities should not be used to finance new fiscal deficits.

41. **The potential costs and benefits of full dollarization were also discussed.** Some members of the Liberian delegation noted that full dollarization could help reestablish fiscal discipline and attract foreign investors. Others favored dollarization as an effective way to ensure stable prices and wages. The CBL was concerned that dollarization would preclude more active monetary policies. The staff advised against moving to full dollarization in view of Liberia's vulnerability to external shocks and the high cost of dollarization for the financial system (Box 3).[10] Investors are unlikely to consider an internationally accepted currency as an important argument for investing in Liberia, compared with, for example political and social stability, a healthy and productive workforce, and a functioning infrastructure.

42. **The CBL was generally satisfied with the foreign exchange auctions that had been introduced in mid-2004**. However, the CBL noted that a need to allocate sizable amounts of foreign currency to the auctions made it difficult to raise international reserves. The authorities accepted the staff's suggestions to reduce the amounts being offered in such auctions to facilitate a buildup of reserves. More generally, the staff advised that the purchase amounts for the CBL (equivalent to an injection of liquidity in local currency) should be determined by the increase in demand for Liberian dollars. It also noted that the auction does not give rise to an exchange restriction or multiple currency practice, given that banks and exchange houses buy and sell foreign exchange among themselves, and that the auction establishes a single rate, which is also used by the government for its transactions.

43. **The banking system remains fragile and undercapitalized.** However, banks' liquidity position has remained strong. The CBL has recently adopted a restructuring and resolution policy, and an examination team has already begun assessing the financial conditions of one of the three operating banks. In addition, the CBL ordered all banks to suspend new lending to delinquent borrowers. In welcoming these steps, the staff encouraged the authorities to make full use of the flexibility granted by the new regulations to finalize the restructuring exercise swiftly.

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[10] See "Liberia - Selected Issues and Statistical Appendix" for further details.

Box 3. Liberia—A Case For Dollarization?

Dollarization represents a trade-off between potential gains and losses. Supporters argue that the imposition of such a rigid framework on policy decisions would ensure fiscal discipline and reduce policy and exchange rate risks. Interest rates, as a result, would decline, and investment, exports, and GDP would all rise. This does not come, however, without a price. Dollarization makes the provision of liquidity costly (because of the loss of seigniorage); exposes the system to high output volatility in response to real shocks (because of the loss of monetary and exchange rate policy); and limits credit expansion by banks (because of the loss of the lender of last resort). In the case of Liberia, while the costs of dollarization are tangible, the potential gains are not to be taken for granted.

The loss of seigniorage is costly for the Liberian economy. The initial cost of replacing the stock of domestic currency is estimated at about US$36 million (equivalent to 8 percent of GDP). In addition, Liberia would have to give up real goods and services to accommodate future increases in money demand. For example, to support a modest annual rate of growth of 3-4 percent, an annual current account surplus of about US$7 million would be required to provide liquidity to the system.

The Liberian economy depends on a few commodity exports, making it highly vulnerable to external shocks. From about 1950 to the mid-1970s, the country benefited from favorable world demand and prices for iron ore and rubber, resulting in fiscal and current account surpluses that made it easy to maintain full dollarization (as introduced after World War II). However, the oil crises and global recession of the 1970s and 1980s quickly eroded these surpluses and, following a period of increasing recourse to foreign financing, led to the introduction of a local currency alongside the U.S. dollar.

Banks in a dollarized economy need stronger liquidity and equity positions. First, higher output volatility creates higher client default risk. Second, the lack of a lender of last resort forces banks to hold sizable liquid assets and equity. If Liberia were to adopt full dollarization, banks should first be strengthened significantly, well above the 8 percent risk-adjusted capital ratio proposed by the Basel Committee. In any case, the lack of a lender of last resort would limit credit expansion and increase lending rates, which would reduce the contribution of financial intermediation to Liberia's recovery.

Empirical evidence suggests that the choice of an exchange rate regime is not important for fiscal discipline. Fiscal deficits are largely associated with macroeconomic fundamentals and governments' implementation capacity. As noted, Liberia's full dollarization in the past did not prevent the government from funding fiscal deficits through external loans and sizable arrears.

44. **The CBL recently licensed two new banks**. In its view, more stringent capital requirements and due diligence regarding the owners and managers of the new institutions provided sufficient assurances as to their soundness. They also stressed that some new institutions may be needed because of the fragility of the current banking system. The staff cautioned against licensing additional new banks in the current difficult economic environment and urged the CBL to continuously carry out due diligence on the recently licensed banks.

45. **Regarding the CBL's financial situation, the staff welcomed the recently concluded retrenchment program that led to a significant reduction of staff, with associated long-term cost savings.** Staff was reduced from about 200 to 130. In light of the envisaged reduction in spending and an expected pickup in revenue, the CBL expected to eliminate its cash deficit later in 2005 or in early 2006.

Liberia. CBL Budget (Cash Basis)
(In thousands of U.S. dollars)

	2003 Total Estimate	2004 Total Actual	2005 Total Budget
Income	1,931	3,285	3,148
Interest income	1,159	1,178	855
Non Interest income	772	2,107	2,293
Expenditure	3,514	4,815	4,823
Current	3,209	4,410	3,893
Capital	305	405	929
Balance	(1,583)	(1,530)	(1,675)
Balance (excluding extraordinary items) 1/	(1,583)	(983)	(637)

Sources: CBL; and IMF staff estimates.

1/ Extraordinary items include the cost for banknote importation, retirement benefits as a result of staff reduction, and replacement of damaged motor vehicles.

E. Donor Issues and Technical Assistance

46. **The staff shared the authorities' concerns about the slow pace of disbursements, but noted that donors cited a low level of trust in Liberian financial management practices as a main cause for delays** (Box 4). As a remedial step, the staff encouraged the authorities to address governance issues immediately and to improve transparency in overall financial management.

47. **On technical assistance, the authorities had defined priorities for the core areas of economic management and stated that technical assistance provided by the Fund and other external partners was, overall, well coordinated**. The United States provides assistance in budget preparation, banking supervision, and forestry management. The EU intends to focus technical assistance on economic governance, based on its above-mentioned audits. The Fund and the World Bank are closely coordinated in their work on expenditure management. The Fund has taken the lead in tax and customs administration and financial sector issues, while the World Bank focuses on procurement, forestry and public enterprise reform, and community-driven development.

F. Public Debt

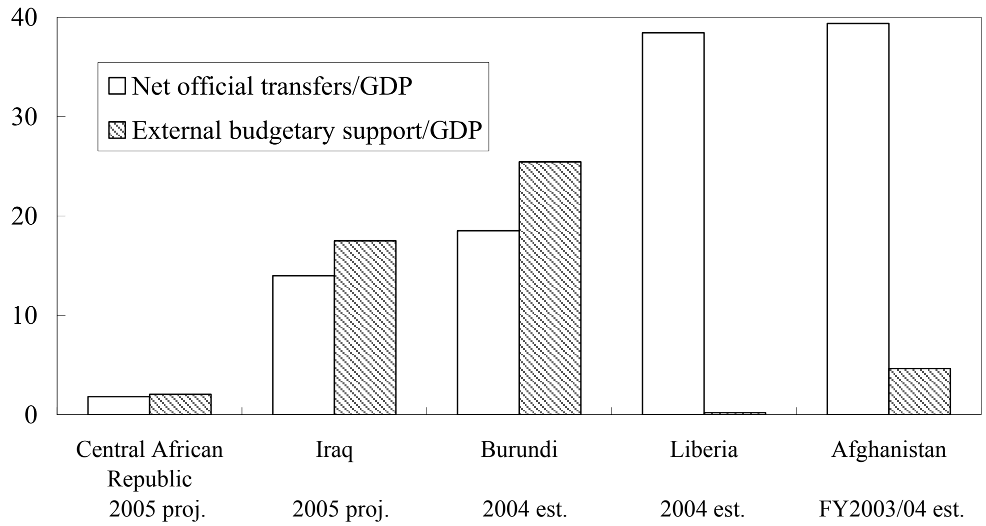
48. **The authorities have made substantial progress in taking stock of domestic and external public debt**. They have contacted creditors to obtain loan agreements and statements on their external debt obligations as such information was largely lost during the conflict. Based on preliminary data at end-2004, the stock of public debt amounted to US$4.1 billion (841 percent of GDP), with US$3.8 billion owed to external creditors, and the remaining US$0.4 billion to domestic creditors (including suppliers, commercial banks, the CBL, and civil servants). Some of the debt included in the inventory has not yet been verified and cross-claims have not been cleared.

Box 4. Donor Assistance to Liberia

The postconflict donor assistance for Liberia is characterized by the following features:

- Actual disbursements (US$189 million in 2004) are low, in comparison to the pledged amount of US$520 million.
- Relative to GDP, external assistance is one of the largest of recent postconflict countries.
- There is, however, less assistance for budgetary operations than in other postconflict countries.

Donor Assistance to GDP in Recent Postconflict countries
(In percent)



Sources: WEO; data provided by the Liberian authorities; IMF staff estimates.

49. **Liberia's external debt (as a ratio of exports of goods and services) is estimated at an unsustainable 2,722 percent at end-2004, well above the threshold of 150 percent under the HIPC Initiative**. The staff indicated that the HIPC Initiative had been extended to end-2006 and that an assessment of indebtedness using end-December 2004 data would be one criterion of eligibility. It urged the authorities to expedite their stock-taking of external debt.

50. **The authorities have been working on a domestic arrears settlement strategy**, with external technical advice. Under the strategy, payments for small claims would be prioritized and a substantial reduction of the face value of the remaining claims would be sought. The staff agreed on the need to prioritize payments for small claims, but advised that the strategy should contribute to achieving overall sustainability. The authorities concurred with the staff that no payment would be made until the strategy is finalized.

G. Trade Regime and Competitiveness

51. **The lack of reliable economic data precludes an analysis of Liberia's external competitiveness.** This said, the largely destroyed infrastructure and lack of basic services are widely believed to hamper commercial and export activities.

52. **Liberia has a relatively open trade regime, and rates for import and export taxes currently in effect are modest.**[11] Tax and custom revenues from trade transactions are expected to be phased out in line with a broadening of the domestic revenue base. The authorities indicated their willingness to harmonize Liberia's trade regime with ECOWAS's once basic economic conditions have improved.

H. Relations with the Fund

53. **Since the NTGL took office in October 2003, overall cooperation with the Fund on policies and payments has strengthened.** However, the emergence of financial management and governance issues requires the authorities to redouble their efforts to return to a solid reform path.

54. **Against this background, the authorities agreed that the conditions for entering into a staff-monitored program (SMP) were not yet in place.** However, the staff expressed its willingness to assist the authorities in strengthening weak areas, with a view to establishing the track record that could lead to an SMP.

55. **The adequacy of token payments to the Fund was also reviewed.** The staff noted the recovery of official reserves and the potential to further strengthen budgetary revenue collections, and encouraged the authorities to increase their monthly token payments. The authorities indicated that they would consider an increase in the context of the 2005/06 budget.

I. Data Issues

56. **Despite some progress, serious data deficiencies continue to hamper the assessment of the economic impact of policies and donor activities, as well as surveillance.** The authorities acknowledged the need to prepare national income statistics and to improve on the outdated basket used to measure the consumer price index. They have approached donors to conduct surveys of household income and expenditure, as well as living standards. The staff welcomed improvements in the quality of monetary statistics (also reflecting Fund technical assistance), but regretted that the reliability of fiscal information had deteriorated, attributable in part to the existence of different sources of expenditure data

[11] Import tariffs range from 2.5 to 25 percent; export taxes are 2.5 percent on unprocessed goods and 4 percent on precious metals.

and lack of reconciliation of revenue and expenditure information with associated financing flows. The authorities recognized the need to strengthen the reliability of key fiscal data.

IV. Staff Appraisal

57. **Improved security has created the basis for some economic recovery.** The local economy is benefiting from donor-related and reconstruction activities; prices and the exchange rate have stabilized.

58. **There are, however, significant risks that could disrupt the consolidation of peace and economic revival**. A large number of demobilized ex-combatants needs to be reintegrated into economic life. Moreover, the lack of cohesion within the power-sharing government continues to hinder the implementation of sound policies and reforms. In this regard, slow progress in rehabilitating basic infrastructure and services is disappointing.

59. **Liberia faces daunting medium-term challenges to rebuild its economy and reduce pervasive poverty**. Decisive reforms need to begin as soon as possible to put the country firmly on the road to recovery. Such reforms should focus on the rebuilding of the budget process and other key economic institution, and a gradual broadening of the scope for monetary policy. Throughout, priority should be given to strengthening governance, also with a view to maintaining external financial and technical support.

60. **Against this background, the recent slackening of the NTGL's pace of reform implementation is of concern, and serious governance issues have emerged.** These include the circumstances surrounding sales of iron ore and the alleged disappearance of a large number of import and export permits. The staff urges the authorities to act swiftly to clarify these issues and to publish their findings and intended actions so as to provide assurances of their commitment to full accountability. The NTGL should also act decisively in fulfilling the requirements for a lifting of UN sanctions. External partners have stepped up their efforts to devise a coordinated action plan to this end.

61. **The recent weakening of financial management is regrettable, following initial success in implementing a prudent balanced budget**. While the swift rollback of a domestically financed deficit is welcome, the emergence of large arrears is a considerable concern. The authorities need to redouble efforts to strengthen expenditure controls, including through the full use of technical assistance recommendations. Similarly, they have scope to bolster revenue collections through full implementation of long-standing recommendations, particularly in the areas of customs.

62. **The staff welcomes the steps undertaken to strengthen the CBL's financial position and to develop a framework for monetary operations and bank restructuring.** The authorities should use caution in granting new licenses for banks, taking into account the current economic uncertainties and the fragility of the banking system.

63. **There is a need to build on first encouraging steps to reconstruct a core statistical database, also to allow effective surveillance.** The authorities are advised to seek further technical assistance from external partners in this area.

64. **The authorities' intentions to strengthen the identified areas require concrete action plans**. Such plans are also needed before they can obtain enhanced support from the Fund in terms of policy advice and technical assistance in the period leading to a new government (end-2005), and to build a track record that could lead to a staff-monitored program and start of de-escalating the Fund's remedial measures against Liberia.

65. **It is proposed to hold the next Article IV consultation on the standard 12-month cycle.**

Table 1. Liberia: Selected Economic and Financial Indicators, 2001-09 1/

	2001	2002 Est.	2003 Est.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP 1/	2.9	3.7	-31.3	2.4	8.5	4.9	7.7	4.1	3.2
Consumer prices (annual average)	12.1	14.2	10.3	7.8	5.0	6.0	5.5	5.0	4.0
Consumer prices (end of period)	19.3	11.1	5.0	16.1	5.0	6.0	5.5	5.0	4.0
Nominal GDP (in millions of U.S. dollars)	543	559	435	492	538	568	614	646	675
GDP deflator (in U.S. dollars)	-5.9	-0.7	13.3	10.4	0.8	0.6	0.4	1.1	1.2
External sector (in U.S. dollar terms) 1/									
Exports of goods, f.o.b.	6.4	30.1	-34.5	-4.7	0.3	8.9	44.7	6.8	3.2
Imports of goods, f.o.b.	6.4	-6.3	-3.6	91.4	-1.2	-14.2	5.6	3.5	2.6
Terms of trade	-21.3	20.3	21.1	4.9	-9.1	-8.7	-2.7	-1.0	-3.4
Official exchange rate (Liberian dollars per U.S.dollar; end of period)	49.5	65.0	50.5	54.5	...	...	...	...	...
Central government operations 1/									
Total revenue and grants	-18.5	4.7	-34.1	44.3	37.4	16.9	11.5	17.9	14.9
Of which : tax revenue	-18.3	15.8	-40.2	48.6	13.6	12.8	8.7	5.5	4.8
Total expenditure and net lending	-12.2	9.2	-43.8	55.0	36.4	16.9	11.5	17.9	14.9
Of which : current expenditure	-14.9	-36.2	-5.6	144.1	40.8	5.3	6.5	7.1	9.0
capital expenditure	-8.6	65.7	-62.2	-51.9	9.3	107.8	31.3	52.6	28.5
Money and banking (stocks, in billions of Liberian dollars)									
Net foreign assets	...	-36.8	-30.3	-44.6	-45.9	-47.7	-49.6	-51.6	-53.6
Net domestic assets	...	39.7	33.7	49.4	51.5	53.9	56.6	59.2	61.9
Net domestic credit	...	53.6	44.9	62.3	65.5	68.3	71.7	75.3	79.0
Net claims on government	...	52.3	43.6	60.3	62.7	65.2	67.9	70.6	73.4
Net claims on nongovernment	...	1.4	1.3	2.0	2.7	3.1	3.8	4.7	5.6
Other items, net	...	-13.9	-11.2	-12.9	-14.0	-14.4	-15.1	-16.1	-17.1
Reserve money (rate of growth)	...	...	15.1	29.9	15.0	13.2	11.2	9.6	8.4
Broad money (rate of growth) 2/	...	...	14.7	43.1	18.3	10.5	12.4	9.6	7.5
Velocity (GDP relative to broad money)	...	12.5	6.6	5.7	5.4	5.3	5.3	5.3	5.2
	(In percent of GDP)								
Central government operations (January-December)									
Total revenue and grants	12.8	13.0	11.0	14.1	17.7	19.6	20.2	22.6	24.8
Of which : total revenue	11.9	13.0	10.3	13.9	17.7	16.9	16.1	17.3	18.3
Total expenditure and net lending	13.5	14.3	10.3	14.2	17.7	19.6	20.2	22.6	24.8
Of which : current expenditure	7.5	4.6	5.6	12.2	15.7	15.6	15.4	15.6	16.3
capital expenditure	6.0	9.7	4.7	2.0	2.0	3.9	4.8	6.9	8.5
Overall fiscal balance (cash basis)	-0.7	-1.3	0.7	-0.1	0.0	0.0	0.0	0.0	0.0
External sector									
Current account balance, including grants (deficit, -)	-24.5	-3.4	-18.2	-13.3	-19.9	-20.8	-17.5	-14.9	-17.5
Of which : public interest payments due	-17.6	-11.2	-12.1	-13.0	-15.5	-16.8	-17.4	-18.3	-19.1
Current account balance, excluding grants (deficit, -)	-30.4	-11.0	-22.7	-51.8	-46.5	-35.3	-31.2	-27.9	-27.7
Trade balance (deficit, -)	-5.0	3.8	-7.1	-33.4	-29.9	-20.0	-12.3	-11.3	-11.0
Exports, f.o.b.	23.6	29.8	25.0	21.1	19.4	20.0	26.8	27.2	26.8
Imports, c.i.f.	-28.6	-26.0	-32.2	-54.5	-49.2	-40.0	-39.1	-38.5	-37.8
Public sector external debt outstanding (total)	596.6	601.5	831.8	766.4	713.2	692.6	657.6	643.1	634.5
	(In millions of U.S. dollars, unless otherwise indicated)								
Current account balance including grants (deficit, -)	-133.2	-19.2	-79.2	-65.5	-107.0	-118.2	-107.6	-96.5	-118.5
Trade balance (deficit, -)	-27.1	21.1	-31.1	-164.2	-160.7	-113.8	-75.8	-73.0	-73.9
Net official reserves	...	0.4	-2.1	4.2	8.7	13.4	17.4	21.0	24.5
(in months of imports of goods and services)	...	0.0	-0.2	0.2	0.4	0.7	0.9	1.0	1.2

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

1/ The projections for years 2005-09 are based on the slower-growth scenario.

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

Table 2. Liberia: Balance of Payments, 2000-09
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002 Est.	2003 Est.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.
Trade balance	-25.5	-27.1	21.1	-31.1	-164.2	-160.7	-113.8	-75.8	-73.0	-73.9
Exports, f.o.b.	120.3	127.9	166.5	108.9	103.8	104.2	113.5	164.2	175.5	181.1
Of which : rubber	57.1	54.0	59.2	43.9	93.4	92.1	82.1	80.8	81.3	79.7
timber	61.0	69.2	100.4	54.6	0.0	0.0	16.4	58.8	67.0	71.2
Imports, f.o.b	-145.8	-155.0	-145.3	-140.0	-268.1	-264.9	-227.3	-240.0	-248.5	-255.0
Petroleum	-28.6	-30.1	-48.4	-29.7	-66.2	-71.0	-69.9	-71.3	-72.2	-73.5
Rice	-22.0	-22.0	-30.5	-39.2	-27.5	-33.7	-31.8	-32.2	-32.7	-33.3
Donor + foreign direct investment (FDI) related	-40.3	-15.2	-19.5	-19.0	-106.1	-83.7	-52.6	-56.7	-58.7	-58.6
Other	-54.9	-87.6	-46.9	-51.9	-68.2	-76.4	-73.0	-79.8	-84.9	-89.6
Services (net)	0.1	-8.2	2.8	-17.1	-45.6	-44.4	-32.9	-34.8	-31.4	-34.8
Income (net)	-172.4	-140.2	-106.5	-77.6	-98.3	-101.4	-109.6	-136.7	-143.8	-152.9
Of which: public interest payments due	-141.4	-95.7	-62.9	-52.7	-63.7	-83.3	-95.3	-106.6	-118.3	-128.6
Current transfers (net)	67.2	42.3	63.4	46.6	242.6	199.6	138.1	139.7	151.6	143.2
Donor transfers (net)	54.4	32.1	42.6	19.5	189.2	143.0	82.1	83.7	83.5	68.6
Private transfers (net)	12.8	10.2	20.8	27.1	53.5	56.6	56.0	56.0	68.1	74.6
Current account balance	-130.6	-133.2	-19.2	-79.2	-65.5	-107.0	-118.2	-107.6	-96.5	-118.5
Current account balance, excluding grants	-185.1	-165.3	-61.8	-98.7	-254.7	-250.0	-200.3	-191.3	-180.0	-187.0
Capital and financial account	0.3	-10.1	-14.2	-26.1	-29.4	8.0	9.0	-13.2	-36.7	-21.8
Official financing	-24.5	-22.4	-21.6	-20.2	-20.4	-19.2	-19.3	-19.4	-19.4	-16.0
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-24.5	-22.4	-21.6	-20.2	-20.4	-19.2	-19.3	-19.4	-19.4	-16.0
Private financing	24.8	12.3	7.4	-5.9	-9.0	27.2	28.3	6.2	-17.3	-5.8
FDI	20.8	8.3	2.8	0.0	0.0	0.0	0.0	5.3	9.5	29.4
Other investment (incl. trade credit)	3.9	4.0	4.6	-5.9	-9.0	27.2	28.3	0.9	-26.8	-35.2
Errors and omissions	-35.1	26.0	-47.4	36.4	22.2	0.0	0.0	0.0	0.0	0.0
Overall balance	-165.4	-117.2	-80.8	-68.9	-72.8	-99.0	-109.2	-120.8	-133.2	-140.2
Financing	165.4	117.2	80.8	68.9	72.8	99.0	109.2	120.8	133.2	140.2
Change in official reserves (increases, -)	0.2	-0.2	-3.1	-4.0	-11.4	-3.5	-5.5	-5.2	-4.5	-4.3
Arrears (accrual, +)	165.3	117.5	83.8	72.9	84.1	102.5	114.6	126.0	137.8	144.6
Use of Fund credit (net change in arrears)	13.7	15.4	8.7	7.9	10.1	10.1	10.8	10.8	10.8	10.8
Increase in non-Fund arrears	151.5	102.0	75.2	65.0	74.1	92.4	103.9	115.2	127.0	133.8
Memorandum items:										
Current account balance (in percent of GDP)										
Including grants	-23.3	-24.5	-3.4	-18.2	-13.3	-19.9	-20.8	-17.5	-14.9	-17.5
Excluding grants	-33.0	-30.4	-11.0	-22.7	-51.8	-46.5	-35.3	-31.2	-27.9	-27.7
Excluding grants and public interest payments due	-7.8	-12.8	0.2	-10.6	-38.8	-31.0	-18.5	-13.8	-9.5	-8.7
Trade balance (in percent of GDP)	-4.5	-5.0	3.8	-7.1	-33.4	-29.9	-20.0	-12.3	-11.3	-11.0
Public sector external debt (medium and long term)										
Debt outstanding, including arrears	3,165.9	3,239.2	3,363.8	3,620.9	3,771.0	3,835.9	3,931.0	4,037.4	4,155.4	4,283.6
(in percent of GDP)	551.8	582.0	586.8	806.5	743.9	693.6	673.9	640.3	626.5	618.6
Debt service charges	165.9	118.1	84.4	72.9	84.1	102.5	114.6	126.0	137.8	144.6
(in percent of GDP)	29.6	21.7	15.1	16.7	17.1	19.1	20.2	20.5	11.7	11.7
Terms of trade (1997=100)	113.6	89.4	107.5	130.2	136.7	124.3	113.5	110.4	109.3	105.6
Net official reserves	...	...	0.4	-2.1	4.2	8.7	13.4	17.4	21.0	24.5
Net official reserves (in months of imports)	...	...	0.0	-0.2	0.2	0.4	0.7	0.9	1.0	1.2
Net official reserves (in months of nondonor imports)	...	...	0.0	-0.2	0.3	0.6	0.9	1.1	1.3	1.5
GDP at current prices	560.9	543.0	559.3	435.3	492.1	537.9	567.6	613.9	646.2	675.1

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

Table 3. Liberia: Summary of Central Government Operations, 2001-09 1/

	2001	2002	2003	2004	2004 Jan.-Jun.	2004 Jul.-Dec. Proj.	2004 Jul.-Dec. Actual	2005 Jan-Jun. Proj.	2005 Jan-Jun. Rev.	FY 2004/05 Jul.-Jun. Budget	FY 2004/05 Jul.-Jun. Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.
								(In millions of U.S. dollars)								
Total revenue and grants	69.5	72.7	47.9	69.2	35.6	36.4	33.6	43.6	56.4	80.0	90.0	95.0	111.1	123.8	146.0	167.7
Tax revenue	60.7	70.3	42.1	62.5	30.4	29.1	32.1	35.8	38.6	64.8	70.7	71.0	80.1	87.1	91.9	96.3
Maritime revenues	11.0	13.4	11.2	13.5	7.9	9.0	5.6	9.0	6.4	18.0	12.0	12.0	12.0	12.0	12.0	12.0
Stumpage fees and land rental	8.4	13.0	2.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	5.0	7.0
Taxes on international trade	18.6	17.0	18.0	23.1	14.6	10.6	8.5	14.6	14.5	25.1	23.0	26.5	28.5	30.2	31.0	31.3
Goods and services tax	2.0	3.5	4.3	6.9	1.5	3.8	5.4	5.3	6.5	9.0	11.9	7.5	7.9	8.6	9.0	9.3
Petroleum sales tax	6.1	6.0	3.0	0.9	0.1	2.4	0.7	3.0	1.1	5.4	1.8	3.0	3.3	3.7	4.1	4.4
Others	14.7	17.5	2.9	18.2	6.3	3.3	11.9	4.0	10.1	7.3	22.0	22.0	28.3	29.5	30.8	32.2
Nontax revenue	4.1	2.4	2.8	5.6	4.2	7.4	1.4	7.8	17.8	15.2	19.2	24.0	16.0	12.0	19.6	27.2
Of which concessions for telecommunication	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	0.0	10.0	19.0	9.0	0.0	0.0	0.0
Grants	4.6	0.0	3.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	24.7	34.5	44.2
Budget support	...	...	3.0	1.0	1.0	...	...	...	...	...	...	0.0	0.0	8.5	12.4	19.1
Project	...	...	...	...	...	...	...	...	...	...	...	0.0	15.0	16.2	22.1	25.1
Total expenditure and net lending (cash basis)	73.3	80.1	45.0	69.7	37.0	35.3	32.6	44.7	52.2	80.0	84.9	95.0	111.0	123.8	146.0	167.7
Current expenditure	40.7	26.0	24.5	59.8	34.5	30.2	25.3	38.9	48.2	69.1	73.6	84.3	88.7	94.4	101.1	110.2
Wages and salaries 2/	17.6	13.4	11.1	24.4	12.2	14.1	12.2	9.1	12.2	23.2	24.5	25.0	28.8	33.1	38.0	43.7
Goods and services	18.2	5.9	6.8	25.7	17.1	14.7	8.7	4.2	26.0	18.9	34.7	36.2	39.8	45.3	50.6	52.4
Interest on debt	4.0	6.3	6.0	2.6	1.6	0.8	1.0	0.8	1.0	1.0	1.9	4.6	4.6	4.6	4.6	4.6
External	0.6	0.6	0.2	0.1	0.1	...	0.3	...	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Domestic	3.4	5.7	5.8	2.2	1.5	0.8	0.7	0.8	0.7	0.4	1.3	4.0	4.0	4.0	4.0	4.0
Domestic arrears clearance	...	...	...	1.5	0.0	0.0	1.5	10.5	7.0	10.5	8.5	13.5	10.0	5.0	0.0	0.0
Subsidies, transfers, and net lending	0.9	0.4	0.5	5.7	3.7	0.6	2.0	14.3	2.0	15.5	4.0	5.0	5.5	6.5	7.9	9.5
Capital expenditure 2/	32.6	54.1	20.4	9.8	2.6	5.1	7.3	5.8	4.0	10.9	11.3	10.8	22.4	29.4	44.8	57.6
Internally financed	28.0	54.1	20.4	9.8	2.6	5.1	7.3	5.8	4.0	10.9	11.3	10.8	7.4	13.2	22.7	32.4
Externally financed	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	16.2	22.1	25.1
Overall surplus or deficit	-3.9	-7.3	3.0	-0.5	-1.4	1.2	0.9	-1.2	4.2	0.0	5.1	0.0	0.0	0.0	0.0	0.0
Statistical discrepancies	...	...	...	-3.1	-2.9	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Financing 3/	3.9	7.3	-3.0	3.6	4.3	-1.2	-0.8	1.2	-4.2	0.0	-5.0	0.0	0.0	0.0	0.0	0.0
								(In percent of GDP, unless otherwise indicated)								
Total revenue and grants	12.8	13.0	11.0	14.1	14.5	15.3	13.6	17.3	21.0	16.4	17.5	17.7	19.6	20.2	22.6	24.8
Total revenue	11.9	13.0	10.3	13.9	14.1	15.3	13.6	17.3	21.0	16.4	17.5	17.7	16.9	16.1	17.3	18.3
Grants	0.9	0.0	0.7	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.6	4.0	5.3	6.6
Total expenditure and net lending	13.5	14.3	10.3	14.2	15.1	14.9	13.3	17.8	19.4	16.4	16.5	17.7	19.6	20.2	22.6	24.8
Current expenditure	7.5	4.6	5.6	12.2	14.0	12.7	10.3	15.5	17.9	14.1	14.3	15.7	15.6	15.4	15.6	16.3
Of which: wages and salaries	3.2	2.4	2.6	5.0	5.0	5.9	5.0	3.6	4.5	4.7	4.7	4.6	5.1	5.4	5.9	6.5
Capital expenditure 2/	6.0	9.7	4.7	2.0	1.0	2.1	3.0	2.3	1.5	2.2	2.2	2.0	3.9	4.8	6.9	8.5
Overall surplus or deficit	-0.7	-1.3	0.7	-0.1	-0.6	0.5	0.4	-0.5	1.6	0.0	1.0	0.0	0.0	0.0	0.0	0.0

Sources: Liberian authorities; and IMF 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$4.7million..

Table 4. Liberia: Monetary Survey, 2002-09

(In millions of Liberian dollars, unless otherwise indicated)

	2002 Dec.	2003 Jun.	2003 Dec.	2004 Jun.	2004 Dec.	2005 Jun. Proj.	2005 Dec. Proj.	2006 Dec. Proj.	2007 Dec. Proj.	2008 Dec. Proj.	2009 Dec. Proj.
Net foreign assets	-36,812	-50,692	-30,335	-44,834	-44,606	-45,243	-45,887	-47,722	-49,596	-51,570	-53,640
Of which : Fund credit and overdue charges	-36,607	-50,105	-30,579	-45,224	-45,957	-46,646	-47,346	-49,240	-51,210	-53,258	-55,388
Of which : CBL's gross foreign reserves	214	42	370	670	1,019	1,078	1,252	1,604	1,983	2,330	2,652
Assets corresponding to government U.S. dollars–denominated deposits at CBL	9	16	242	27	67	0	0	0	0	0	0
Assets corresponding to commercial banks' U.S. dollar deposits at CBL	178	247	235	575	739	695	759	827	936	1,024	1,097
CBL's net foreign reserves	28	-221	-106	67	213	383	493	776	1,048	1,307	1,556
Net domestic assets	39,711	53,395	33,661	48,513	49,364	50,474	51,516	53,943	56,590	59,237	61,883
Net domestic credit	53,622	70,216	44,878	62,047	62,311	63,782	65,467	68,308	71,662	75,309	78,995
Net claims on government	52,261	68,407	43,597	60,240	60,303	61,509	62,739	65,248	67,858	70,573	73,395
Of which : Fund credit and overdue charges	36,607	50,105	30,579	45,224	45,957	46,646	47,346	49,240	51,210	53,258	55,388
Claims on private sector	1,171	1,591	1,136	1,567	1,651	1,916	2,371	2,702	3,446	4,378	5,242
Claims on public enterprises	86	103	59	77	106	106	106	106	106	106	106
Claims on nonbank financial institutions	105	115	86	163	251	251	251	251	251	251	251
Other items, net	-13,911	-16,821	-11,218	-13,533	-12,947	-13,309	-13,952	-14,366	-15,072	-16,072	-17,112
Monetary aggregates											
Currency outside banks (Liberian banknotes and coins only)	1,045	1,138	1,304	1,390	1,755	1,960	2,061	2,333	2,585	2,823	3,057
Commercial banks' reserves at CBL 1/	203	151	132	183	111	76	85	96	116	137	152
Of which: required reserves	136	105	118	145	69	76	85	96	116	137	152
Money and banking (stocks, in billions of Liberian dollars) 2/	1,248	1,289	1,436	1,573	1,866	2,035	2,146	2,429	2,700	2,960	3,208
Commercial bank deposits 3/	1,854	1,564	2,022	2,289	3,004	3,271	3,568	3,887	4,410	4,844	5,187
Total demand deposits	1,319	945	1,513	1,466	1,973	2,152	2,345	2,563	2,918	3,203	3,436
Liberian dollar–denominated deposits	168	120	137	161	184	206	230	269	337	396	447
U.S. dollar–denominated deposits	1,150	825	1,376	1,305	1,790	1,946	2,115	2,293	2,581	2,807	2,989
Time, savings, and other deposits	535	620	510	824	1,030	1,119	1,223	1,325	1,492	1,642	1,750
Liberian dollar–denominated deposits	104	89	99	130	128	138	156	168	190	226	243
U.S. dollar–denominated deposits	431	530	411	694	903	981	1,067	1,157	1,302	1,416	1,508
Broad money (M2)	2,899	2,703	3,326	3,680	4,759	5,230	5,629	6,221	6,994	7,667	8,243
Liberian dollar component	1,318	1,348	1,539	1,681	2,066	2,303	2,447	2,770	3,111	3,444	3,746
U.S. dollar component 4/	1,581	1,355	1,787	1,999	2,692	2,927	3,182	3,450	3,883	4,223	4,497
Memorandum items:											
U.S. dollar component broad money (excluding banknotes, in millions of U.S. dollars)	24.3	18.6	35.2	34.8	52.8	51.9	56.4	59.5	64.4	67.8	70.8
U.S. dollar–denominated demand deposits	17.7	11.3	27.1	22.7	35.1	34.5	37.5	39.6	42.8	45.1	47.1
U.S. dollar–denominated time, saving, and other deposits	6.6	7.3	8.1	12.1	17.7	17.4	18.9	20.0	21.6	22.7	23.7
Broad money (annual changes in percent; in Liberian dollars)	...	3.9	14.7	36.2	43.1	42.1	18.3	10.5	12.4	9.6	7.5
Liberian dollar component broad money (in Liberian dollars)	...	11.8	16.8	24.7	34.2	37.0	18.4	13.2	12.3	10.7	8.8
U.S. dollar component broad money (excluding banknotes, in U.S. dollars)	...	-6.8	13.0	47.5	50.7	46.4	18.2	8.4	12.5	8.7	6.5
CBL's net foreign reserves (in millions of U.S. dollars)	0.4	-3.0	-2.1	1.2	4.2	6.8	8.7	13.4	17.4	21.0	24.5
Velocity (GDP relative to broad money)	12.5	8.2	6.6	7.4	5.7	5.8	5.4	5.3	5.3	5.3	5.2
Currency/deposits (in percent; Liberian dollars only)	383	543	554	478	564	570	534	534	491	454	443
Nominal GDP (millions of Liberian dollars; annualized basis)	36,353	22,070	22,070	27,068	27,068	30,331	30,331	32,893	37,019	40,256	42,870
Money multiplier	1.1	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2

Sources: Liberian authorities; and IMF staff estimates.

1/ Derived from commercial banks' balance sheets denominated in Liberian dollars.

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

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

4/ Excluding U.S. dollars in circulation.

Table 5. Liberia: External Public Debt, 2000-04 [1/]
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004
Total stock outstanding	3,166	3,239	3,364	3,621	3,771
Multilateral institutions	1,309	1,305	1,378	1,567	1,669
IMF	623	621	668	739	784
World Bank	406	402	414	499	539
ADB	207	206	220	250	264
IFAD	19	20	20	20	21
OPEC Fund	21	21	22	22	23
BADEA	18	18	18	18	18
EIB	9	9	11	13	14
ECOWAS Fund	5	4	4	4	4
European Union	1	2	2	2	2
Bilateral	727	740	775	780	783
Paris Club	672	683	712	717	720
Of which:					
United States	309	314	324	325	327
Germany	183	184	184	185	185
United Kingdom	56	61	75	77	80
Japan	61	62	62	62	62
Denmark	18	18	18	18	18
France	16	16	16	16	16
Italy	5	6	8	9	9
Norway	9	9	9	9	9
Sweden	9	9	9	9	9
Non-Paris Club	55	57	63	63	63
China	10	10	10	10	10
Kuwait	9	9	10	10	10
Saudi Arabia	19	21	26	26	26
Taiwan Province of China	17	17	17	17	17
Commercial	1,076	1,139	1,154	1,217	1,260
Suppliers' Credit	54	56	57	57	58

Sources: Liberian authorities and IMF staff estimates.

1/ Data has been revised to reflect recent information on multilateral debt and to include estimates of interest arrears and late interest charges due to commercial creditors.

Assessing Debt Sustainability

A debt sustainability analysis based on the low-income external debt template illustrates that Liberia's external debt is significantly higher than the indicative thresholds established under the HIPC Initiative. Based on preliminary data at end-2004, Liberia's net present value of external debt as a ratio of GDP and exports of goods and services is estimated at 754 percent and 2722 percent, respectively.[7] The slower-growth (baseline) scenario assumes modest improvements in the current account together with real output growth and a marginal depreciation of the real exchange rate following the recovery in the economy and the lifting of the UN sanctions on timber.[8] Under these circumstances, the ratios are projected to decline to 582 percent and 1640 percent, respectively, in 2013. The debt-service ratio of 62 percent at end 2004, primarily reflecting interest arrears and penalties on the outstanding debt, is also expected to decline over the long-term.

The simulation of long-term sustainability under historical trends (scenario A1) shows an improvement over time on account of more favorable export performance and higher economic growth. This suggests that the debt path under the slower-growth scenario is relatively pessimistic when the key macroeconomic parameters utilized in the sensitivity analysis are based on historical averages.[9] The debt situation is still untenable in the scenario based on higher economic and export growth (A2), despite the larger decline in the stock and flow indicators relative to the baseline projections.

A one time shock to economic growth (B1), a 30 percent depreciation of the Liberian dollar (B6), and export growth (B2) provide the worst scenarios among the bound tests that represent instability in the macroeconomic environment and downturns in the global economy. These tests would set off debt dynamics that would persist over the medium term so that by 2013 the NPV of debt-to-GDP ratios are 197 and 347 percentage points higher under B1 and B6, while the debt-to-export ratio is 223 percentage points higher than the baseline under B2.

The assessment illustrates the unsustainability of Liberia's external public debt situation. To address its external debt problem, Liberia will need to make a strong commitment to pursue sound macroeconomic and structural policies but will also require substantial support, including extensive debt relief, from the international community.

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[7] Most of the records on external debt were lost during the years of conflict. The data used for end-December 2004 reflect statements provided by multilateral creditors that are yet to be reconciled. Data on bilateral and commercial external debt have not been updated in many years and reflect estimates by the authorities and staff.

[8] The baseline scenario assumes continued accumulation of arrears and no access to new borrowing because of the protracted arrears situation.

[9] Complete historical data for the DSA exercise are available for the period 1999 to 2002. Production of timber, the main export, peaked during the period at levels that were considered by some in the industry as unsustainable. Data for 2003, the year of the latest conflict, were omitted because they distorted the averages and standard deviations calibrated for the stress tests.

Table 1a. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2000-23 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2001	2002	2003			2004	2005	2006	2007	2008	2009	2004-09 Average	2013	2023	2009-23 Average
External debt (nominal) 1/	599.7	609.2	834.4			755.7	707.0	687.0	652.8	638.8	630.6		581.8	482.8	
Of which : public and publicly guaranteed (PPG)	599.7	609.2	834.4			755.7	707.0	687.0	652.8	638.8	630.6		581.8	482.8	
Change in external debt	32.5	9.5	225.2			-78.7	-48.7	-20.0	-34.2	-14.0	-8.1		-10.2	-8.1	
Identified net debt-creating flows	19.1	-15.5	169.1			-116.1	-250.3	-53.5	-79.5	-48.0	-28.7		-29.9	-21.3	
Non-interest current account deficit	-16.1	-8.9	-6.2	-14.3	8.8	-7.1	-18.5	-17.0	-15.5	-15.2	-15.5		-15.8	-15.6	-16.0
Deficit in balance of goods and services	6.0	-4.8	8.3			40.4	36.3	35.2	25.4	23.6	23.2		21.8	17.6	
Exports	29.7	37.3	31.9			27.7	25.2	26.4	33.6	35.0	34.5		35.5	37.6	
Imports	35.7	32.5	40.2			68.1	61.6	61.6	59.0	58.6	57.7		57.4	55.3	
Net current transfers (negative = inflow)	-7.8	-11.3	-16.0	-13.8	5.3	-64.4	-33.5	-33.1	-31.1	-30.7	-30.8		-26.8	-15.9	-23.3
Other current account flows (negative = net inflow)	-14.3	7.3	1.5			16.8	-21.4	-19.1	-9.8	-8.1	-7.9		-10.8	-17.4	
Net FDI (negative = inflow)	-1.5	-0.5	-10.3	-4.6	4.5	-10.0	0.9	-1.4	-4.9	-4.6	-0.8		-1.8	-1.4	-1.6
Endogenous debt dynamics 2/	36.7	-6.1	185.7			-99.0	-232.7	-35.1	-59.0	-28.2	-12.4		-12.3	-4.3	
Contribution from nominal interest rate	17.9	11.4	12.2			13.1	15.7	17.1	17.7	18.6	19.4		17.1	17.0	
Contribution from real GDP growth	-9.8	-203.6	391.6			-112.1	-248.4	-52.2	-76.7	-46.8	-31.8		-29.5	-21.3	
Contribution from price and exchange rate changes	28.5	186.1	-218.1			…	…	…	…	…	…		…	…	
Residual 3/	13.4	24.9	56.1			37.4	201.6	33.5	45.2	33.9	20.6		19.7	13.1	
Of which : exceptional financing	-21.6	-15.0	-16.7			-17.1	-19.1	-20.2	-20.5	-21.3	-21.4		0.0	0.0	
NPV of external debt 4/	...	...	0.0			753.6	706.3	685.9	651.3	636.9	629.1		582.5	482.8	
In percent of exports	...	...	0.0			2,722.3	2,800.8	2,593.4	1,935.9	1,820.5	1,822.5		1,640.2	1,283.4	
NPV of public and publickly guaranteed external debt	...	...	0.0			753.6	706.3	685.9	651.3	636.9	629.1		582.5	482.8	
In percent of exports	...	...	0.0			2,722.3	2,800.8	2,593.4	1,935.9	1,820.5	1,822.5		1,640.2	1,283.4	
Debt service-to-exports ratio (in percent)	74.3	40.9	52.8			62.3	76.6	77.5	61.9	62.3	63.0		51.3	47.8	
PPG debt service-to-exports ratio (in percent)	74.3	40.9	52.8			62.3	76.6	77.5	61.9	62.3	63.0		51.3	47.8	
Total gross financing need (billions of U.S. dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Noninterest current account deficit that stabilizes debt ratio	-48.6	-18.3	-231.5			71.6	30.1	3.0	18.7	-1.1	-7.4		-5.6	-7.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.7	35.0	-50.0	-4.5	42.8	15.2	35.9	7.8	12.1	7.5	5.2	14.0	5.2	4.6	4.8
GDP deflator in U.S. dollar terms (change in percent)	-4.8	-23.7	55.8	9.1	41.5	-1.9	-19.6	-2.1	-3.5	-2.1	-0.7	-5.0	-0.3	0.8	0.5
Effective interest rate (in percent) 5/	3.1	2.0	1.6	2.2	0.8	1.8	2.3	2.6	2.8	3.0	3.2	2.6	3.0	3.6	3.3
Growth of exports of G&S (U.S. dollar terms, in percent)	1.2	29.3	-33.3	-0.9	31.4	-2.0	-0.4	10.7	37.6	9.4	3.1	9.7	6.0	6.0	5.8
Growth of imports of G&S (U.S. dollar terms, in percent)	6.4	-6.3	-3.6	-1.2	6.7	91.4	-1.2	5.6	3.6	4.5	2.9	17.8	5.0	5.0	4.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	18.4	18.4	18.4	18.4	18.4	18.4	18.4	18.4	18.4	18.4
Memorandym item:															
Nominal GDP (billions of U.S. dollars)	0.5	0.6	0.4			0.5	0.5	0.6	0.6	0.6	0.7		0.8	1.4	

Source: IMF staff estimates.

1/ Includes both public and private sector external debt.
2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, where r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (that is, changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections, also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 1b. Liberia: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2003-23
(In percent)

	Estimate	Projections						
	2004	2005	2006	2007	2008	2009	2013	2023
				NPV of debt-to-GDP ratio				
Baseline	754	706	686	651	637	629	582	483
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005-23 1/	754	702	655	612	574	538	416	217
A2. Higher growth in 2005-23 2/	754	706	617	573	532	496	374	193
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005-06	754	917	917	871	852	841	779	646
B2. Export value growth at historical average minus one standard deviation in 2005-06 3/	754	706	686	651	637	629	583	483
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005-06	754	729	890	845	827	817	756	627
B4. Net non-debt creating flows at historical average minus one standard deviation in 2005-06 4/	754	716	705	670	655	647	600	493
B5. Combination of B1-B4 using one-half standard deviation shocks	754	821	897	852	833	823	763	628
B6. Onetime 30 percent nominal depreciation relative to the baseline in 2005 5/	754	1,127	1,094	1,039	1,016	1,003	929	770
				NPV of debt-to-exports ratio				
Baseline	2,722	2,801	2,593	1,936	1,820	1,823	1,640	1,283
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005-23 1/	2,722	2,785	2,476	1,820	1,640	1,558	1,170	578
A2. Higher growth in 2005-23 2/	2,722	2,522	1,790	1,669	1,553	1,492	1,057	533
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005-06	2,722	2,801	2,593	1,936	1,820	1,823	1,640	1,283
B2. Export value growth at historical average minus one standard deviation in 2005-06 3/	2,722	2,832	2,946	2,199	2,068	2,071	1,863	1,458
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005-06	2,722	2,801	2,593	1,936	1,820	1,823	1,640	1,283
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2005-06 4/	2,722	2,838	2,667	1,991	1,873	1,875	1,689	1,311
B5. Combination of B1-B4 using one-half standard deviation shocks	2,722	2,424	2,166	1,617	1,521	1,523	1,372	1,065
B6. Onetime 30 percent nominal depreciation relative to the baseline in 2005 5/	2,722	2,801	2,593	1,936	1,820	1,823	1,640	1,283
				Debt-service ratio				
Baseline	62	77	77	62	62	63	51	48
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005-23 1/	62	76	74	58	56	54	37	22
A2. Higher growth in 2005-23 2/	62	69	53	53	53	52	33	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005-06	62	77	77	62	62	63	51	48
B2. Export value growth at historical average minus one standard deviation in 2005-06 3/	62	77	88	70	71	72	58	54
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005-06	62	77	77	62	62	63	51	48
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2005-06 4/	62	77	78	63	63	64	52	50
B5. Combination of B1-B4 using one-half standard deviation shocks	62	66	64	51	51	52	42	40
B6. Onetime 30 percent nominal depreciation relative to the baseline in 2005 5/	62	77	77	62	62	63	51	48
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	60	59	58	56	55	54	54	54

Source: IMF staff estimates

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), noninterest current account in percent of GDP, and non-debt-creating flows.

2/ Assumes that the authorities maker a stronger commitment to reform efforts, the UN sanctions are lifted earlier, the international community providesd more support in the form of infrastructural development, and there is higher private sector investment, including FDI, for growth

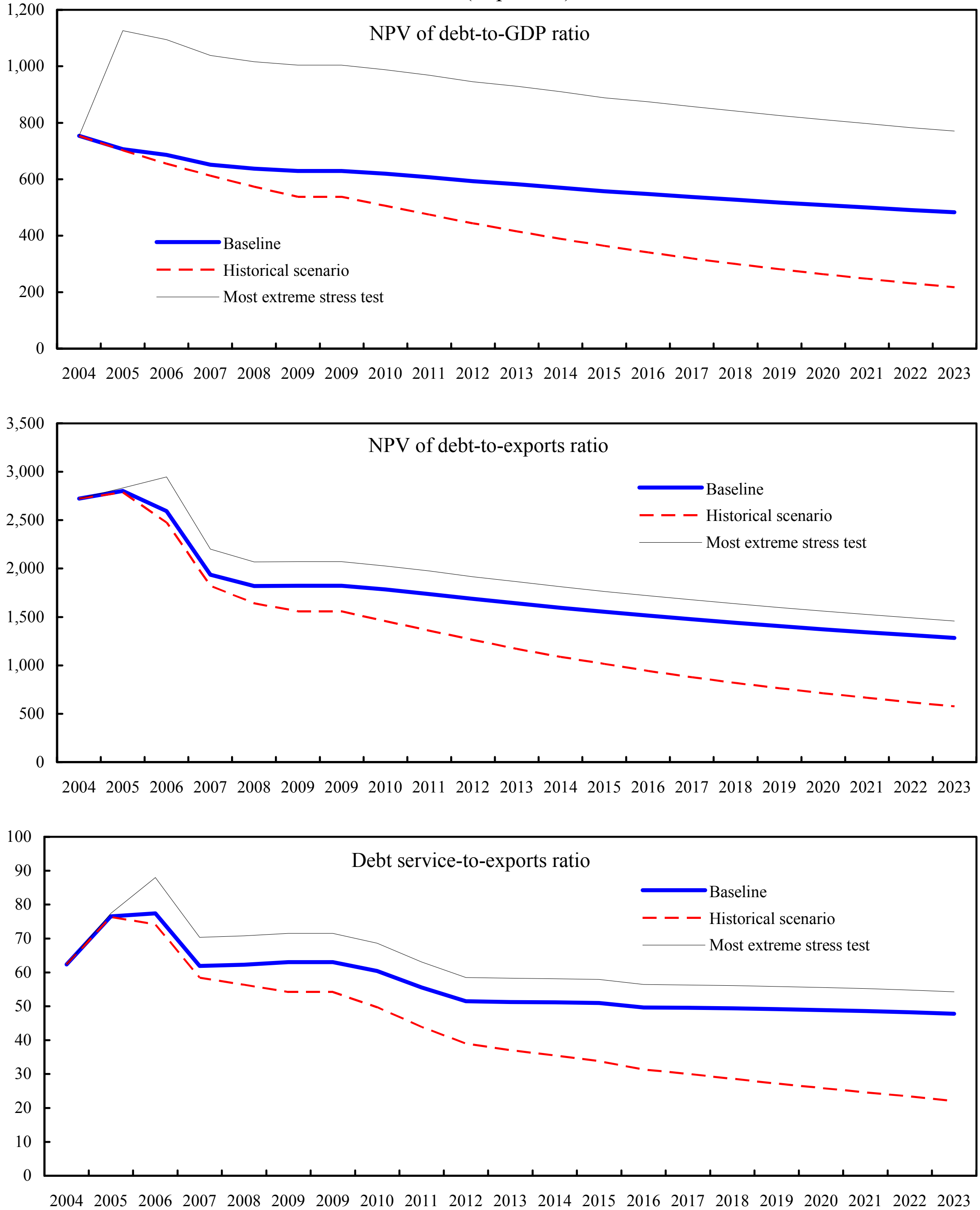
3/ Export values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1. Liberia : Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2003-23
(In percent)



Source: IMF staff estimates.

Liberia: Relations with the Fund
(As of February 28, 2005)

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

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 [10] (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming			
	2/28/2005	2005	2006	2007	2008
Principal	223.7				
Charges/interest	287.1	6.0	8.0	8.0	8.0
Total	510.8	6.0	8.0	8.0	8.0

[10] 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-December 2004 was L$54.5=US$1.

VIII. Article IV consultation

The 2002 Article IV consultation discussions were held in Monrovia during December 2002. The staff report (Country Report No. 03/274) was discussed by the Executive Board on March 5, 2003.

IX. Technical assistance

Subject	Department	Date
Mission: currency 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: banking 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: monetary operations, foreign exchange auctions, payments system	MFD	Feb. 2005
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: tax reform	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 : public expenditure management	FAD	Dec. 2004
Mission : public expenditure management	FAD	Feb. 2005
Mission : forestry tax policy	FAD	Feb. 2005
Mission: preassessment for multisector statistics	STA	1997
Mission: multisector statistics	STA	1998
Mission: money and banking statistics	STA	1999
Mission: money and banking statistics	STA	1999
Mission: money and banking statistics	STA	2000
Advisor: balance of payments compilation	STA short term	2000
Mission: balance of payments statistics	STA	2000
Mission: assessment for technical assistance needs	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 March 1, 2005)

The World Bank suspended disbursements to Liberia in December 1986, as a result of mounting arrears and Liberia's loans were placed in non-accrual status in June 1987. To that date, disbursements had totaled US$141.3 million from 22 loans and US$91.5 million from 17 IDA credits; only US$ 43.6 million owing on these disbursements has been repaid. By March 1, 2005, Liberia's arrears to the World Bank had mounted to US$449.5 million, reflecting further interest charges. Liberia has an outstanding obligation of US$2.2 million to the World Bank, since June 30, 2003, to fulfill the Maintenance of Value (MOV) clause in the Bank's Articles of Agreement.

Following Comprehensive Peace Agreement in August 2003 and the installation of the National Transitional Government of Liberia (NTGL) in October 2003, the Bank co-hosted with the UN and US the International Reconstruction Conference for Liberia in February 2004. In March 2004, the Executive Directors of the Bank discussed the Liberia Country Re-engagement Note and approved the additional activities therein described. Use of the Bank's newly created LICUS Implementation Trust Fund was approved for Liberia in April 2004 to fund four activities, totaling US$4.0 million, in the areas of community empowerment, including a rapid social assessment; public procurement and financial management; forestry sector management; and coordination and implementation of the Results-Focused Transition Framework (RFTF). Close coordination and consultation among the NTGL, Bank, IMF, UN group, bilateral donors, local and international NGOs, and civil society characterizes the working environment in Liberia. Mechanisms have been developed to foster this approach through the high-level RFTF Implementation and Monitoring Committee (RIMCO) and its nine working-level sector cluster working groups. The Bank is a vice-chair of RIMCO and co-chairs the Working Committee on Economic Policy and Development Strategy

A second, US$25.0 million grant from Bank IBRD surplus, was endorsed by the Executive Directors of the Bank in August 2004 and approved by the Bank's Board of Governors in October 2004. This grant, the TFLIB, will extend funding of the above activities and fund additional activities in the area of infrastructure, including transportation, sanitation, power, water, and telecommunications. The first subgrant from this source of funding, the Technical Assistance Component for Infrastructure Rehabilitation (US$5.0 million), was approved in December 2004, and the second subgrant, Community Empowerment (US$6.0 million), was approved in February 2005. Other subgrants are being prepared.

Since July 1, 2004 the Bank has a Senior Country Officer in Monrovia 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 March 1, 2005

	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	109,690,501	207,668,133
Exchange adjustment	59,812,555	0	59,812,555
Borrowers' obligation	157,790,188	109,690,501	267,480,689
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: Statistical Issues

1. There are substantial weaknesses in Liberia's economic and financial statistics, largely because the civil war caused widespread destruction of databases and the loss of administrative and institutional capacity for the systematic compilation of statistics. STA missions visited Monrovia in 2003 and 2004 and assisted the authorities in rebuilding some capacity to compile statistics in the areas of national accounts, monetary and fiscal statistics and balance of payments. The government has passed new legislation in July 2004 creating the Liberia Institute of Statistics and Geo-Information Services as a semiautonomous agency. This agency, expected to be operational in FY 2005/06, will have the lead role for national coordination and reestablishment of economic and social statistics.

2. The CBL is now regularly reporting monetary, banking, and exchange rate statistics for publication to *International Financial Statistics (IFS)*, but their quality and timeliness needs to be improved.

3. The CBL publishes data on money and banking, prices and output, fiscal operations and debt, interest and exchange rates, and foreign trade in its statistical bulletin, *Liberia Financial Statistics*, on a bimonthly basis with a lag of about six months. It also publishes the quarterly *Financial and Economic Bulletin*, covering the previous four quarters, with a lag of about six months. A survey conducted in June 2004 updated the two subgroups of rent and personal care and health services in the Monrovia consumer price index.

Real sector

4. Annual estimates of production by sector are prepared by the National Accounts Unit of the Ministry of Planning and Economic Affairs (MPEA). The Fund staff has estimated total GDP by sectoral origin for the period from 1997-2004 with the assistance of the MPEA. There is currently no estimate for GDP by expenditure. A household survey is required as a base for more reliable data.

Prices

5. The Price Unit of the MPEA began producing a consumer price index in late 1998, with May 1998 as the starting date and reference period. However, the weights are based on an expenditure survey of 100 Monrovia households conducted in 1963-64. The database of a price survey conducted in 1988-89 with the assistance of the German governmental organization GTZ was lost during the civil war. Targeted sampling frequencies vary from bimonthly for food items to biannual for rents and personal care and services, with actual collections often delayed. Monthly data have not been reported to the Fund in advance of publication, which generally involves a lag of about six months.

Government finance statistics

6. The authorities have begun to provide information on fiscal accounts to the staff on an regular basis but they have not reported data for publication in the *Government Financial Statistics Yearbook* (*GFSY*) since 1988, nor have they provided data for the *IFS* for several

years. The authorities are encouraged to resume regular reporting of government finance statistics to STA. The Ministry of Finance provides monthly disaggregated data on government revenue, and current and capital expenditure. There is, however, considerable scope for improvement in the quality and consistency of government finance statistics. Data on domestic arrears and on financing items are unreliable.

Monetary statistics

7. The August 2004 money and banking statistics mission reviewed in detail the methodology for the collection of monetary data, established procedures for their regular compilation, and suggested changes in CBL's accounting records and commercial banks' reports to improve overall data quality. In cooperation with the authorities, and based on available information, the mission compiled monetary data for the period June 2002–June 2004. The CBL has made progress in compiling monetary aggregates according to international standards, and reporting of data by commercial banks has improved.

8. While progress has been made in moving toward international standards, substantial weaknesses persist. Important steps to strengthen the CBL's accounting system remain to be taken, including proper accounting for foreign reserves and the appropriate segregation of required reserves by currency denomination and classification of other assets and liabilities. In addition, while the reporting of preliminary statistics by commercial banks has improved, the response by banks to requests for explanations and follow-up to noted inconsistencies continues to be weak.

9. The money and banking data reported monthly to IFS are usually submitted by e-mail or fax with a two-month lag; the latest return includes data up to December 2004.

Balance of payments and external debt

10. Official balance of payments statistics have not been reported since the 1988 Article IV consultation; however, the Fund staff has prepared provisional balance of payments statistics in cooperation with the CBL, the Ministry of Commerce (MoC), MPEA, and the Ministry of Finance (MoF). The CBL is responsible for compiling the balance of payments in coordination with other agencies. Some progress has been made in compiling certain current and financial account components—mainly to trade and related services, government expenditures, and remittances on the current account and to nonresident deposits on the financial account—but primary source data areas lacking and errors in distinguishing between components in services, income and transfers underscore the need for technical assistance for capacity building. A stronger effort must be made to resolve and reconcile the significant discrepancies that exist in the trade data reported by the various agencies. The CBL has completed a census of foreign direct investment enterprises in preparation for an investment survey following the recommendations made by the STA mission in July 2004.

11. Significant gaps exist in the records of external public debt, particularly that related to bilateral and commercial creditors. A task force comprising technicians and professionals seconded from the CBL, MoF, MPEA, General Auditing Office (GAO) and the Bureau of the Budget (BOB) is currently making progress in obtaining loan agreements and financial statements from external creditors to update the external debt database maintained by the MoF.

Liberia: Table of Common Indicators Required for Surveillance

AS OF MARCH 18, 2005

	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of publication[4]
Exchange Rates	Dec. 2004	Jan. 2005	D	M	B
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2004	Jan. 2005	M	M	B
Reserve/Base Money	Dec. 2004	Jan. 2005	M	M	B
Broad Money	Dec. 2004	Jan. 2005	M	M	B
Central Bank Balance Sheet	Dec. 2004	Jan. 2005	M	M	B
Consolidated Balance Sheet of the Banking System	Dec. 2004	Jan. 2005	M	M	B
Interest Rates	Dec. 2004	Jan. 2005	M	M	B
Consumer Price Index	Dec. 2005	Jan. 2005	M	M	B
Revenue, Expenditure, Balance and Composition of Financing[2] – General Government[3]	...	...	...	...	...
Revenue, Expenditure, Balance and Composition of Financing[2]– Central Government	Dec. 2004	Jan. 2005	M	M	B
Stocks of Central Government and Central Government-Guaranteed Debt	Dec. 2004	Feb. 2005	Q	B	B
External Current Account Balance	...	...	...	...	...
Exports and Imports of Goods and Services	Dec. 2004	Jan. 2005	M	Q	B
GDP/GNP	...	...	...	...	...
Gross External Debt	Dec. 2004	Feb. 2005	Q	B	B

[1] Includes reserve assets pledged or otherwise encumbered.
[2] Foreign, domestic bank, and domestic nonbank financing.
[3] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
[4] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Liberia: Progress Toward Milenium Development Goals

	1990	1995	2001	2002
1 Eradicate extreme poverty and hunger	*2015 target = halve 1990 $1 a day poverty and malnutrition rates*			
Population below $1 a day (%)	..	..	..	..
Poverty gap at $1 a day (%)	..	..	..	..
Percentage share of income or consumption held by poorest 20%	..	..	..	..
Prevalence of child malnutrition (% of children under 5)	..	..	26.5	..
Population below minimum level of dietary energy consumption (%)	33.0	38.0	42.0	..
2 Achieve universal primary education	*2015 target = net enrollment to 100*			
Net primary enrollment ratio (% of relevant age group)	..	..	69.9	..
Percentage of cohort reaching grade 5 (%)	..	..	..	..
Youth literacy rate (% ages 15-24)	57.2	64.2	69.8	70.8
3 Promote gender equality	*2005 target = education ratio to 100*			
Ratio of girls to boys in primary and secondary education (%)	..	..	..	..
Ratio of young literate females to males (% ages 15-24)	51.2	56.9	63.1	64.2
Share of women employed in the nonagricultural sector (%)	28.3	..	..	..
Proportion of seats held by women in national parliament (%)	..	6.0	..	..
4 Reduce child mortality	*2015 target = reduce 1990 under 5 mortality by two-thirds*			
Under 5 mortality rate (per 1,000)	235	235	235	235
Infant mortality rate (per 1,000 live births)	157	157	157	157
Immunization, measles (% of children under 12 months)	..	..	78	57
5 Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	760.0	..
Births attended by skilled health staff (% of total)	..	..	50.9	..
6 Combat HIV/AIDS, malaria, and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*			
Prevalence of HIV, female (% ages 15-24)	..	..	..	..
Contraceptive prevalence rate (% of women ages 15-49)	..	..	..	..
Number of children orphaned by HIV/AIDS	..	..	31,000	..
Incidence of tuberculosis (per 100,000 people)	..	..	251.0	246.7
Tuberculosis cases detected under DOTS (%)	..	29.0	..	..
7 Ensure environmental sustainability	*2015 target = various (see notes)*			
Forest area (% of total land area)	44.0	..	36.1	..
Nationally protected areas (% of total land area)	..	1.3	1.3	2.6
GDP per unit of energy use (PPP $ per kg oil equivalent)	..	..	..	..
CO2 emissions (metric tons per capita)	0.2	0.1	0.1	..
Access to an improved water source (% of population)	..	..	..	..
Access to improved sanitation (% of population)	..	..	..	..
Access to secure tenure (% of population)	..	..	..	..
8 Develop a Global Partnership for Development	*2015 target = various (see notes)*			
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	3.6	1.6	2.8	..
Personal computers (per 1,000 people)	..	..	..	..

Source: World Bank, World Development Indicators database, April 2004

Note: In some cases, the data are for years earlier or later than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No.05/64
FOR IMMEDIATE RELEASE
May 18, 2005

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

IMF Executive Board Concludes Article IV Consultation with Liberia

On April 20, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Liberia.[1]

Background

Political and economic developments in 2003-04 were marked by an intensification of internal hostilities, followed by the introduction of the National Transitional Government of Liberia (NTGL) and the resumption of external assistance. Real GDP rebounded in 2004, following a steep decline in the second half of 2003 on account of the hostilities and the imposition of the UN ban on timber exports. Prices, particularly of food items, have stabilized as supply constraints eased, and the exchange rate has returned to preconflict levels, reflecting a return of private capital, donor inflows, and an increase in the demand for local currency. Official reserves increased modestly from low levels.

Following initial success in implementing a balanced cash-based budget, fiscal management has weakened. Although a domestically funded fiscal deficit during mid-2004 was quickly rolled back, there was a large buildup of arrears through end-2004. Despite the introduction of a cash-management committee to avoid the recurrence of a cash deficit, significant expenditures were still made without its authorization. Following effective early steps to boost revenues, collections slowed in the second half of 2004, largely reflecting delays in extending preshipment inspections to all imports and exports.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The money supply expanded significantly in 2004. Following a massive decline in commercial bank deposits through mid-2003, deposits increased by about 50 percent during 2004, reflecting donor activities and the inflow of remittances for reconstruction. The Central Bank of Liberia gradually moved toward financial soundness, reflecting its efforts to reduce its operational outlays, with a view to eliminating its cash deficit by early 2006. The banking sector, however, weakened further as a consequence of the last internal conflict.

External developments in 2004 were driven by increased donor activities and stagnating exports. Imports, primarily humanitarian assistance and petroleum, increased considerably, while exports stabilized at a low level, largely due to the UN sanction on timber exports, despite the doubling of rubber exports in 2004. The overall balance of payments deficit continued to be financed by an accumulation of external arrears. Based on preliminary data at end-2004, Liberia's external debt amounted to US$3.8 billion and reached an unsustainable 2,722 percent as a ratio of exports of goods and services on a net present value (NPV) basis.

A number of governance issues emerged in late 2004, challenging the authorities' commitment to establish transparency and accountability. A committee is being put in place to address these issues, including the circumstances surrounding sales of iron ore and the alleged disappearance of a large number of import and export permits.

For 2005, the economic recovery is expected to strengthen, underpinned by continued consolidation of the security situation and reconstruction activities. Real GDP is projected to grow by 8.5 percent, led by agriculture, domestic manufacturing, and services. With higher imports and increased production, domestic prices are expected to moderate further. The trade deficit is projected to narrow on a further moderate increase of exports and decline of donor-funded imports for humanitarian assistance.

Executive Board Assessment

Executive Directors welcomed the improvements in Liberia's security situation and the initial progress made in implementing important reforms. The resulting pick-up in donor-related and reconstruction activities has led to a rebound of economic activity, stabilization of prices and the exchange rate, and a modest increase in official reserves. However, Directors noted that the macroeconomic position is still fragile, activity is still below the pre-war level, poverty is widespread, and the public debt is large and unsustainable.

Directors emphasized that Liberia faces daunting challenges in its quest to rebuild the economy and reduce poverty. A prerequisite will be the achievement of lasting peace and political stability. In this regard, Directors observed that a large number of ex-combatants still needs to be integrated into economic life, and that the lack of cohesion within the power-sharing government continues to hinder the implementation of sound policies and reforms. Directors stressed that Liberia urgently requires external assistance and private investment, and that the flow of such assistance will depend on decisive actions to strengthen institutions, reduce corruption, and improve governance.

Against this background, Directors regretted the recent weakening of government fiscal management. While they commended the swift roll-back of the domestically financed budget deficit, they expressed concern at the emergence of large arrears to finance unplanned spending. They stressed that expenditure controls need to be strengthened, and underscored the importance of a well-functioning cash management system. Directors also called for a redoubling of efforts to

bolster revenue collection, and, in this regard, encouraged the authorities to strengthen tax and customs administration and reduce tax concessions. They urged the authorities to make full use of Fund staff advice in these areas.

Directors urged the authorities to improve the transparency and accountability of government operations. They welcomed the establishment of an anti-corruption commission, and encouraged the authorities to make the commission fully operational as quickly as possible. Investigations into the circumstances surrounding sales of iron ore and the alleged disappearance of a large number of import and export permits should be conducted swiftly, and the outcomes of the investigations made publicly available. Decisive actions are also required to fulfill the requirements for a lifting of UN sanctions.

Directors welcomed the steps being taken by the Central Bank of Liberia (CBL) to strengthen its financial position and the framework for monetary operations, and to develop the inter-bank foreign exchange market. They commended the CBL's decisive actions to reduce its operational outlays, with a view to eliminating its deficit by early 2006. Most Directors had doubts whether a move to full dollarization would be advisable, in part because it would preclude more active monetary policies, while a few others felt that dollarization should not be ruled out given its potential for achieving price stability. Directors encouraged the authorities to push ahead with plans for restructuring banks and strengthening bank supervision. They advised to use caution in granting new licenses for commercial banks in the current economic environment.

Directors welcomed the progress in stock-taking of domestic and external debt. They urged the authorities to expedite the process, with a view to developing a strategy for achieving debt sustainability.

Directors noted that, despite some progress made in rebuilding basic statistics, the limited availability and quality of key economic data continues to hamper effective surveillance. In particular, they stressed the need to strengthen fiscal data in order to allow for a more accurate assessment of budgetary developments.

Directors called on the authorities to formulate a concrete action plan to address the identified weaknesses in economic management and governance. Such a plan would facilitate further support by the staff in terms of policy advice and technical assistance in the period leading to the establishment of a new government at end-2005. This plan could also help Liberia establish a track record for a staff-monitored program, which could lead to a de-escalation of the Fund's remedial measures against Liberia. Directors welcomed the authorities' intention to consider increasing payments to the Fund in the context of the 2005/06 budget, if possible.

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, 2001-05

	2001	2002 Est.	2003 Est.	2004 Est.	2005 Proj.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
Real GDP	2.9	3.7	-31.3	2.4	8.5
Consumer prices (annual average)	12.1	14.2	10.3	7.8	5.0
Nominal GDP (in millions of U.S. dollars)	543	559	435	492	538
GDP deflator (in U.S. dollars)	-5.9	-0.7	13.3	10.4	0.8
External sector (in U.S. dollar terms)					
Exports of goods, f.o.b.	6.4	30.1	-34.5	-4.7	0.3
Imports of goods, f.o.b.	6.4	-6.3	-3.6	91.4	-1.2
Terms of trade	-21.3	20.3	21.1	4.9	-9.1
Exchange rate (Liberian dollars per U.S. dollar; end of period)	49.5	65.0	50.5	54.5	...
Money and banking (stocks, in Liberian dollar terms)					
Reserve money 1/	...	...	15.1	29.9	15.0
Broad money 2/	...	...	14.7	43.1	18.3
	(In percent of GDP, unless otherwise indicated)				
Central government operations (January-December)					
Total revenue and grants	12.8	13.0	11.0	14.1	17.7
Of which: total revenue	11.9	13.0	10.3	13.9	17.7
Total expenditure and net lending	13.5	14.3	10.3	14.2	17.7
Of which: current expenditure	7.5	4.6	5.6	12.2	15.7
capital expenditure	6.0	9.7	4.7	2.0	2.0
Overall fiscal balance (cash basis)	-0.7	-1.3	0.7	-0.1	0.0
External sector					
Current account balance, including grants (deficit, -)	-24.5	-3.4	-18.2	-13.3	-19.9
Of which: public interest payments due	-17.6	-11.2	-12.1	-13.0	-15.5
Current account balance, excluding grants (deficit, -)	-30.4	-11.0	-22.7	-51.8	-46.5
Trade balance (deficit, -)	-5.0	3.8	-7.1	-33.4	-29.9
Exports, f.o.b.	23.6	29.8	25.0	21.1	19.4
Imports, f.o.b.	-28.6	-26.0	-32.2	-54.5	-49.2
Public sector external debt outstanding (total)	596.6	601.5	831.8	766.4	713.2
	(In millions of U.S. dollars, unless otherwise indicated)				
Current account balance including grants (deficit, -)	-133.2	-19.2	-79.2	-65.5	-107.0
Trade balance (deficit, -)	-27.1	21.1	-31.1	-164.2	-160.7
Net official reserves	...	0.4	-2.1	4.2	8.7
(in months of imports of goods and services)	...	0.0	-0.2	0.2	0.4

Sources: Liberian authorities; and IMF Staff estimates and projections.

1/ Liberian dollar currency outside banks and commercial banks reserves denominated in Liberian dollars held at central bank.

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

**Statement by Peter J. Ngumbullu, Executive Director for Liberia
and Yasmin Patel, Senior Advisor to Executive Director
April 20, 2005**

1. The Liberian authorities are in broad agreement with the analysis in the staff report on Article IV consultation, which highlights the major macroeconomic challenges facing Liberia, and provides a clear insight as to the remedial actions required in the period ahead in order to put the country on a strong and sustainable growth path. It is however important that Liberia's recent economic and financial performance be assessed against the backdrop of the political and social environment of a country emerging from a protracted conflict situation, scarcity of human capital, the need to rebuild institutional framework, and the fact that Liberia is among the poorest and highly indebted countries in the world. Therefore, the country has a multiplicity of daunting tasks to address simultaneously. First and foremost, it has to maintain the stable political environment created by the cessation of internal hostilities, which is a fundamental ingredient for sustained improvement in the country's economic landscape; it has to lay the foundations to foster economic growth; and it has to deal with the conditions of widespread poverty afflicting the large majority of its population. Moreover, there is the need to attend to the pressing social and humanitarian needs of the one-third of the population displaced during the conflicts. The demobilization of a large contingent of ex-combatants and the planned elections in October 2005 will hopefully mark important turning points in Liberia, after several years of intermittent wars that inflicted high human and material costs, and establish a much firmer basis for economic development and reconstruction in an environment of political stability. Critical in this regard is to deal with the deep-rooted causes of these conflicts, through a community-driven development aimed at transforming the rural communities.

Recent economic developments

2. The National Transitional Government of Liberia (NTGL), within a short period of assumption of office, has been implementing economic measures in order to address the basic macroeconomic imbalances and a good measure of success has been achieved. Hence, in 2004, economic activity recovered strongly compared to the steep decline of 31 percent in the previous year due to the conflict and the UN ban on timber exports. Aided by a strong revival of rubber production and reconstruction activities supported by external financial assistance, real GDP growth is estimated to have reached 2.4 percent. Inflation has decelerated to 7.8 percent as food prices stabilized, and increased demand for local currency and donor inflows helped to reduce the exchange rate volatility. Progress has been made in the implementation of a cash-based budget, reflecting strong recovery in fiscal revenue, while the end of hostilities has allowed expenditures to be redirected towards rehabilitation activities, ensuring regular wage payments to civil servants, and priority social sectors such as health and education.

3. To improve the short-term prospects for economic recovery, the authorities are fully aware of the importance of establishing financial stability, strengthening institutions, including financial, legal and regulatory, which are essential for attracting private sector

resources towards domestic productive investment. In this context, the authorities intend to continue to implement strong macroeconomic and reform policies, as allowed by the available human and financial resources. They are hopeful that these policies will provide the basis for continued external financial and technical support from donors and help to regularize Liberia's relations with the international financial community and bilateral creditors.

Economic Policies for 2005

4. The main objectives of the economic policy for 2005 are to increase output growth by 8.5 percent mainly because of projected improved performance in agriculture and service sectors, lower inflation to 5 percent, and stronger fiscal policies.

Fiscal Policy

5. The Government fully recognizes that a strengthened fiscal position is critical to financial stability. To that effect, the main objective of fiscal policy is to ensure a balanced cash-based budget for 2005 and beyond, to foster fiscal discipline while addressing social and humanitarian needs. The projected improvement in government finances will be underpinned by a combination of revenue and expenditure measures.

6. On the revenue side, the measures are oriented towards boosting revenue collections through improved tax administration and control and actions to gradually reduce tax exemptions. The authorities are also keen to streamline the structure of forestry taxation to enhance transparency and collection efficiency from this important revenue source. As a result of these steps, revenue is expected to increase to 17.7 percent of GDP in 2005, from 13.9 percent in 2004.

7. The government is equally committed to improve control over expenditures. In this regard, it intends to take the necessary measures to reinforce commitment controls and prevent spending decisions taken outside the control of the Cash-Management Committee (CMC) and avoid re-emergence of domestic arrears.

Monetary Policy

8. The high degree of dollarization, which has precluded more active monetary policies, remains a matter of major concern to the monetary authorities. They are, however, confident that as sustained strong demand for local currency would gradually allow a broader scope for monetary policy, it will be geared towards ensuring price and exchange rate stability and progressively restore the Liberian dollar as a medium of transactions. In the meantime, the CBL has made successful use of indirect instrument of monetary policy to improve its responsiveness to growing demands for local currency and pressures on exchange rate. In addition, the planned establishment of liquidity forecasting system will enable the CBL to better monitor market developments. Moreover, to facilitate build up of international reserves position, the CBL intends to reduce the amounts of foreign currency being offered for sale in auctions. The authorities also attach great importance to further strengthen the

banking sector, which remains fragile and undercapitalized. As an initial step to improve the soundness of the system, a bank restructuring and resolution policy has already been adopted and is already being implemented.

Governance Issues

9. The authorities are fully aware of the need to strengthen economic governance, which they regard as an important ingredient for medium-term recovery. Decisive measures are already being taken to address the existing cases that have become subject of public debate, reflecting the authorities' commitment to zero tolerance for corruption. In this regard, priority attention has been given to accountability and transparency in the public sector. An Anti-Corruption Task Force has been established to investigate corruption allegations against public officials and civil servants. Moreover, a team of auditors from ECOWAS has been invited to conduct forensic audits of ministries and agencies, including the legislature. The team is presently in Monrovia. The government also expects to receive the findings of audits of revenue-generating agencies sponsored by the EU. It is worth noting that the issue of corruption has also taken center stage in the national legislature affecting the Speaker and other members of the Assembly. More recently, the Chairman of the NTGL has also suspended senior officials of the National Social Security and Welfare Corporation for charges of mismanagement.

External Debt

10. Liberia's medium and long term external sustainability depends not only on its own prudent policy efforts towards recovery but also on the collaborative efforts of the international financial community to provide adequate debt relief in order to help reduce the excessive heavy external debt overhang. As it has often been proved for countries such as Liberia, sustained implementation of strong reform agenda without adequate level of timely external financial assistance runs the risk of jeopardizing the country's capacity to service, even at a minimum level, its external debt obligations.

Overdue Financial Obligations

11. Liberia's monthly payments to the Fund, reflects the authorities' strong commitment to improve cooperation with the BWIs, despite the country's extremely difficult political, social, and economic situation. In light of this and the progress being made, albeit slow, on the reform front, we encourage the Board to support staff's recommendation that no remedial measures be taken against the country at this time, as the authorities continue to work with the Fund and the international community for a timely solution to the problem.

Concluding Remarks

12. In the context of a war torn economy struggling to achieve recovery, the authorities are particularly concerned about high levels of poverty prevailing in the country. They acknowledge that a long period of conflict has contributed considerably to the deterioration of social infrastructure, thus making the country one of the most vulnerable in terms of

human development indicators. In view of this situation, the authorities believe that the most effective policy to reduce poverty is to provide more and better social services to the poor and invest in human capital and social infrastructure.

13. The authorities have made serious efforts to achieve modest economic recovery. However, as already mentioned above, the process of reforming a post-conflict economy takes long and the tasks confronting the authorities are daunting, while capacity is limited. The authorities are taking several measures to consolidate peace and stabilize the economy and need continuous strong and broad-based support from the international community to restructure the economy and promote economic growth and poverty reduction.

14. The authorities are, however, aware that much remains to be done. One of the major challenges is to solidify the reform process as a means of strengthening the foundation on which the successor government can launch a long-term development agenda for sustained growth on poverty reduction. In the view of the authorities, enhanced partnership with the Fund is indispensable to a more propitious economic future for Liberia. This underlies the sense of urgency they attach to reaching agreement on a staff monitored program. The authorities also highly value continued technical assistance from the Fund as an integral part of the efforts to build capacity for improved economic management. Going forward, the authorities are asking for the continuous support of the Fund.

15. The Liberian authorities wish to express their gratitude to the Board and Fund Management for the constructive dialogue and policy advice extended to the NTGL, during these difficult times.