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Liberia: Selected Issues and Statistical Appendix

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INTERNATIONAL MONETARY FUND

LIBERIA

Selected Issues and Statistical Appendix

Prepared by a staff team consisting of Arnim Schwidrowski, Jiro Honda, Liliana Schumacher, Saji Thomas (all AFR), Wayne Mitchell (PDR), and Michael Tharkur (FIN)

Approved by the African Department

April 7, 2005

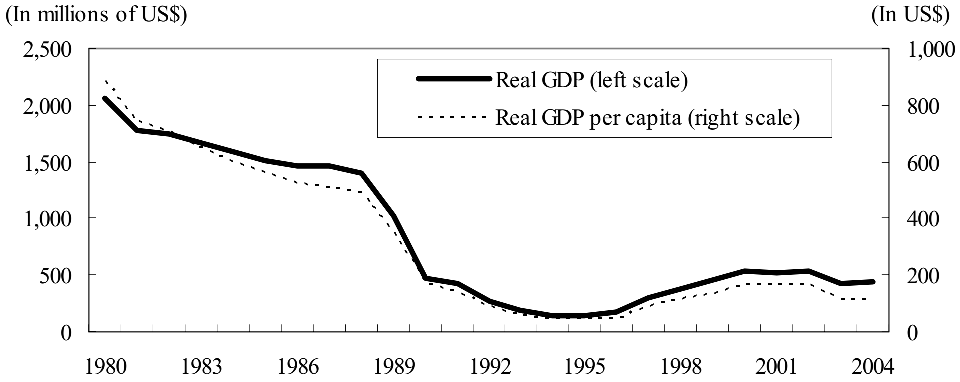
Contents Page

I. Recent Economic Developments and Medium-Term Outlook

A. Background

1. **Liberia's economic progress in the 1960s and early 1970s was followed by deep and long-lasting stagnation through the mid-1990s**. The Liberian economy was severely hit by the oil price hike in the mid-1970s, and deteriorated further following the military coup in 1980. The civil war of 1989–96 resulted in a substantial destruction of infrastructure and the flight of human and financial capital. Real GDP declined to one-tenth of its prewar level by 1995. A peace agreement, signed in August 1996, paved the way for disarmament and democratic elections in July 1997. Economic activity rebounded strongly, causing GDP to double in 1997 and to grow by 20–30 percent annually during 1998–2000. Timber and smallholder agricultural production grew rapidly, and rubber production recovered. However, the infrastructure remained in a badly damaged state, with a depleted road network, destroyed rail connections, very little electricity generation, and no water facilities. Growth slowed during 2001-02, when a reemergence of some civil strife disrupted farming activity.

Real GDP and GDP Per Capita 1980-2004



Sources: Liberian authorities; and IMF staff estimates.

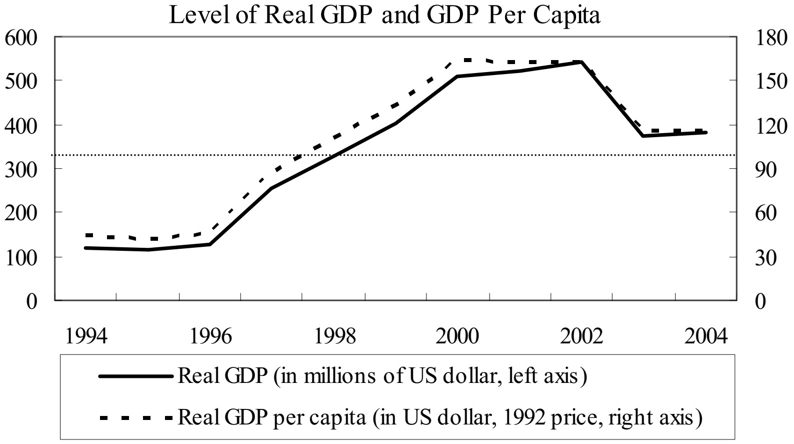
2. **Internal hostilities accelerated in 2002-03**. As a result, about one-third of the population is estimated to have been internally displaced. Fighting that extended to Monrovia in mid-2003 led to widespread destruction and looting of government offices, as well as loss of key economic information. Infrastructure was damaged further. The UN security council imposed a ban on timber exports in May 2003, as revenue from that sector was reportedly funding the internal conflict.

3. **Following the signature of a peace agreement (August 2003), the National Transitional Government of Liberia (NTGL) took office in October 2003**, based on a power-sharing arrangement between the former warring factions. In parallel, the UN established its mission in Liberia (UNMIL), gradually deploying about 14,000 peacekeepers to reestablish security throughout the country, and externally funded humanitarian assistance and reconstruction activities resumed.

4. **This chapter will focus on economic developments during 2003 and 2004 and the medium-term challenges of reconstruction.** In producing the text, tables, and graphs, the staff team has made use of all available information. However, owing to the events described above, data are largely estimated, and subject to revisions.

B. Production, Prices, and Exchange Rate

5. **Economic developments in 2003-04 closely mirrored political events.** Real GDP in 2003 is estimated to have declined by 31 percent due to the hostilities and the UN ban on timber exports. Activity recovered modestly in 2004, driven by donor-related activities and postconflict reconstruction (Box 1). With higher donor-driven imports, domestic prices moderated, and the exchange rate returned to preconflict levels. The external current account deficit increased due to the expansion of donor-related imports.



Sources: Liberian authorities; and IMF staff estimates.

6. **The recovery was driven by sectors that benefited from increased donor activities, including the large UN mission, and reconstruction (manufacturing and services)**. Rubber production also rebounded strongly as large plantations in the vicinity of Monrovia had largely remained undamaged. Other agricultural activities remained subdued, as security throughout the country was only gradually reestablished, preventing an early return of the large number of internally displaced persons and refugees from neighboring countries to their communities. Forestry declined further as timber exports were nil in 2004.

Box 1: Strength of Postconflict Recovery

The postconflict recovery in Liberia in 2004 is relatively modest, compared with other postconflict countries. Sierra Leone experienced steady recovery after its conflict. Liberia in the mid-1990s grew by 122 percent within two years after its conflict. This strong recovery was largely attributable to the quick improvement in the security situation, which allowed the return of internally displaced persons and refugees, as well as startup of forestry and rubber production.

By contrast, Liberia showed an annual growth of only 2 percent in 2004, despite relatively large external assistance (humanitarian aid). The factors contributing to this modest growth are:

(1) Stagnating export activities, in part due to the UN sanction on timber exports.

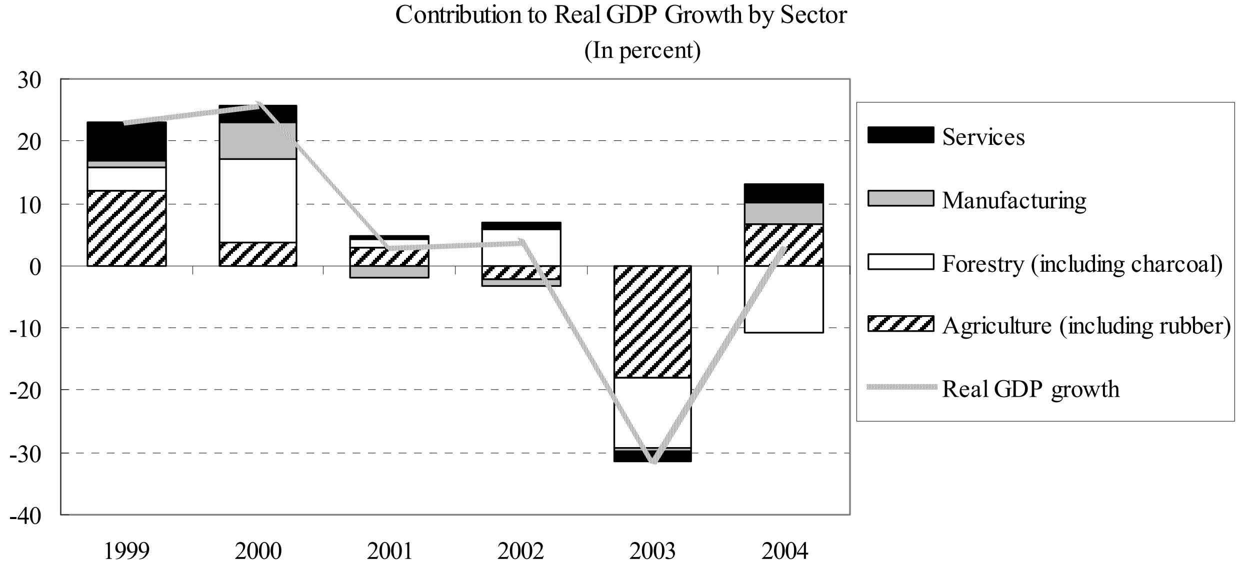
(2) Slow recovery of agricultural activities due to delayed return of refugees to rural areas in light of modest progress in security conditions (the slow progress of security conditions also affected the recovery in Burundi).

Strength of Post-Conflict Economic Recovery

(Real GDP of the year most severely affected by the conflict=100)

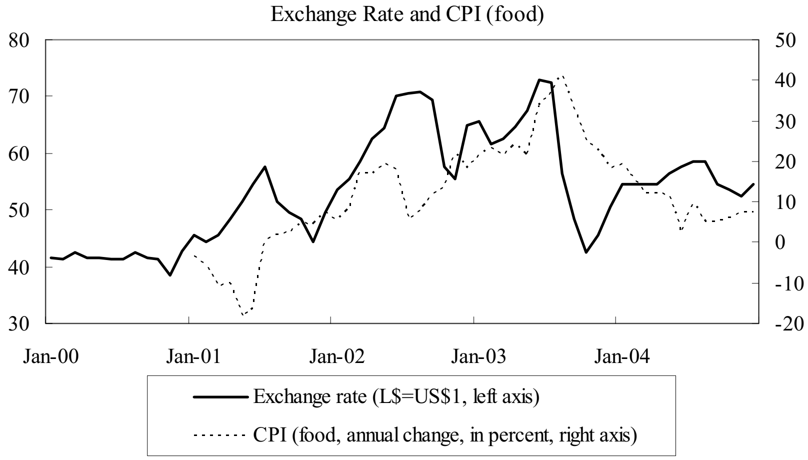
		Burundi	Congo, Republic of	Guinea-Bissau	Sierra Leone	Rwanda	Liberia	Liberia
(Bottom year)		(2000)	(1999)	(1998)	(1999)	(1994)	(1995)	(2003)
Three years before	(T-3)	97.3	100.0	123.2	133.2	205.2	199.5	136.5
Two years before	(T-2)	101.9	99.4	128.9	109.8	218.7	134.0	140.4
One year before	(T-1)	100.9	103.1	137.3	108.8	201.0	104.8	145.6
Bottom	(T)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
One year after	(T+1)	102.1	108.2	107.6	103.8	135.2	111.0	102.4
Two years after	(T+2)	106.6	112.1	115.7	122.6	152.5	222.0	111.1
Three years after	(T+3)	105.3	118.2	116.0	156.4	173.6	287.8	...

Sources: WEO and IMF staff estimates.



Sources: Liberian authorities; and IMF staff estimates.

7. **Price and exchange rate developments reflected the hostilities and subsequent gradual normalization of economic conditions**. Prices, especially for food items, surged around mid-2003 as supply shortages intensified but abated subsequently with the inflow of humanitarian assistance. The exchange rate depreciated sharply around mid-2003, reflecting a shift into U.S. dollars, but subsequently returned to its preconflict levels, as some rural activity and payment of civil service wages resumed.[1]



Source: Central Bank of Liberia

[1] Both the U.S. dollar and the Liberian dollar are legal tender. The Liberian dollar is largely used for civil service wages and small-scale and rural transactions.

C. External Developments

8. **External developments in 2004 reflected increased donor activities (compared to the conflict period) and continued stagnation of exports**. Imports, primarily humanitarian assistance and petroleum, increased to 55 percent of GDP (or $268 million) in 2004, compared to 26 percent of GDP in 2002. Exports stabilized at a low level, largely due to the UN sanction on timber exports, despite the doubling of rubber export receipts in 2004.[2] Accordingly, the trade balance deteriorated sharply, despite improvement in the terms of trade over the same period.

9. **The external current account deficit (excluding grants) widened from 11 percent to GDP in 2002 to 52 percent of GDP in 2004**. The deficit was financed by substantial donor assistance in the form of project grants and strong remittances. As of end-December 2004, the coverage of net official reserves stood at about one week of imports of goods and services.

D. Fiscal Developments

10. **Fiscal performance during 2003 was extremely poor, reflecting weak fiscal management and the effects of the internal conflict.[3]** Total reported revenues in 2003 declined by 40 percent, compared to 2002. A large part of revenue, particularly from the maritime registry and timber activities, was reportedly used outside the budget process. On the expenditure side, outlays appear to have been largely geared to the internal conflict, resulting in a buildup of sizable wage arrears and a standstill of social services. Except for a small loan forcibly given by the CBL, no other sources of financing were available. The last donor (Taiwan Province of China) stopped disbursements in 2002 because of the failure of the Liberian government to account for the use of funds. Foreign donors maintained minimum social services through nongovernmental organizations.

11. **The NTGL took decisive initial action to restore some financial discipline and implemented a balanced cash-based budget through mid-2004.** Immediately after taking office, the NTGL centralized all government accounts at the Central Bank of Liberia (CBL) and gave the sole power to collect taxes to the Ministry of Finance. Two interim budgets designed for the periods October 2003-January 2004 and February-June 2004 were based on conservative revenue projections that were consistently exceeded, reflecting early steps to broaden the revenue base. Outlays during this period were mainly geared toward the resumption of current civil service wages and basic rehabilitation of government offices (Box 2).

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[2] The world price of rubber, Liberia's principal export, increased by 67 percent over the two-year period.

[3] Information on budgetary developments prior to the inauguration of the NTGL is incomplete and unreliable.

Box 2: Revenue and Expenditure Trends, 2001-04

There were notable changes in the level and composition of revenue and expenditure, following the inauguration of the NTGL in late 2003. On the revenue side, the drop in stumpage fees, land rental, and petroleum sales tax was offset by an increase in goods and service taxes, as well as corporate and income taxes. On the expenditure side, there was a significant shift toward current expenditures from capital expenditures, most of which had reportedly been geared toward military outlays under the former government.

Share of Each Revenue and Expenditure Item

(In percent of GDP)

	2001	2002	2003	2004
Total revenues	12.8	13.0	11.0	14.1
Tax revenues	11.2	12.6	9.7	13.0
Of which: stumpage fees and land rental	1.5	2.3	0.6	0.0
taxes on international trade	3.4	3.0	4.1	4.7
goods and services tax	0.4	0.6	1.0	1.4
corporate and income taxes	2.1	2.6	1.0	3.8
petroleum sales tax	1.1	1.1	0.7	0.2
maritime revenues	2.0	2.4	2.6	2.7
Non tax revenues	0.8	0.4	0.7	0.8
Grants	0.9	-	0.7	0.2
Total expenditures	13.5	14.3	10.3	14.2
Current expenditures	7.5	4.6	5.6	12.2
Capital expenditures	6.0	9.7	4.7	2.0

Note: There is no reliable information as to the composition of financing.
Sources: Liberian authorities; and IMF staff estimates.

12. **The budget for 2004/05 (July-June) is based on a continued increase of revenue and a shift of spending to basic services.** Revenue is projected at US$80 million (equivalent to 16 percent of GDP), largely based on collections from imports and Liberia's maritime register. Expenditure secures continued payment of current public sector wages but also envisages some outlays for the health, education, and the justice system. The budget also allows for some payments on domestic arrears, once a stocktaking exercise and formulation of a settlement strategy are finalized.

13. **Fiscal discipline, however, weakened in the early part of the budget year 2004/05 (July-June).** Spending pressures from certain parts of the power-sharing government led to the emergence of cash deficits that reached about 1 percent of GDP around mid-2004. The deficit was funded by credit from the CBL. The CBL loans were fully repaid by November 2004, but the lack of effective commitment controls led to the emergence of large arrears by end-2004.

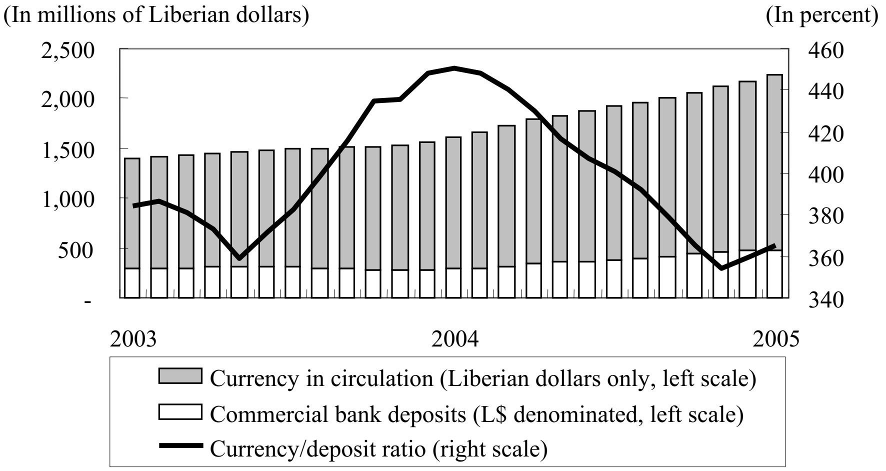
E. Monetary Developments

14. **Monetary developments in 2003-04 were characterized by large swings in deposits, due to the effects of the conflict and subsequent intensified donor activities.** Deposits declined by 20 percent from December 2002 to September 2003, partly reflecting a move toward cash holdings (Box 3).[4] Subsequently, deposits (particularly in U.S. dollars) increased significantly, reflecting donor activities and the inflow of private capital (remittances) for reconstruction.

Box 3: Flight to Cash During The Conflict

The currency-to-deposit ratio in Liberia had been high even before the conflict. In view of the deterioration in the security conditions in early 2003, the ratio escalated up to above 400 percent, reflecting a shift into cash holdings. The situation has calmed down following the end of the conflict.

Currency-to-Deposit
(In five months backward moving average)



Source: CBL.

15. **In 2004, the CBL aimed at maintaining a broadly stable exchange rate within a highly dollarized environment.** It decided to expand cautiously the Liberian dollar currency in circulation to accommodate the expected rebound in demand for the currency, using the

[4] There is no reliable estimate of the amount of U.S. dollar notes and coins circulating in Liberia.

exchange rate as an indicator for demand and supply. Foreign exchange auctions were introduced in July 2004 to establish a transparent allocation mechanism.[5,6]

16. **International reserves recovered slowly from low levels in 2004, largely as a result of frequent purchases of U.S. dollars from the government**.[7] Net international reserves rose from negative US$2.1 million at December 2003 to US$4.2 million at end-2004. Measures to reduce the CBL's operational outlays also contributed to this improvement.

17. **The CBL has long suffered from cash shortages, largely related to substantial unserviced claims on the government, but has gradually moved toward financial soundness.**[8] The CBL's cash deficit (excluding extraordinary expenditure items) was reduced from US$1.5 million in 2003 to less than US$1 million in 2004, reflecting an increase in cash income mainly associated with higher fees and commissions. A significant reduction of staff in early 2005 has contributed to a further strengthening of the CBL's financial position.

18. **The banking sector has further weakened as a consequence of the internal conflict.** One bank failed to resume its operations after the end of the war, and its foreign owners subsequently agreed to liquidate the bank. The remaining three commercial banks maintain high liquidity, reflecting an increase in donor-related deposits and the low demand for loans from the private sector in the as-yet fragile environment. The consequences of the 2003 conflict and the ban on timber exports have contributed to an increase of nonperforming loans, which has put pressure on the banks' capital positions.

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[5] The CBL has only a few effective policy instruments: reserve requirements and foreign exchange auctions (as opposed to direct purchase of U.S. dollar cash from the government). However, active use of the former was not envisaged, which had been originally set at 18 percent for U.S. dollar denominated deposits and 50 percent for Liberian dollar deposits. These requirements were unified in August 2004 at 22 percent for all deposits.

[6] Foreign exchange auctions have been conducted by the CBL on behalf of the government in order to convert its U.S. dollar resources into Liberian dollars for civil servant payments in a transparent manner. The CBL's counterparts are the commercial banks, which can bid on their behalf or on behalf of their clients. Since December 2004, foreign exchange bureaus have also been allowed to participate in the auctions, which have been typically held once a week.

[7] Government revenue is collected to about 80 percent in U.S. dollars. Outlays payable in Liberian dollars (notably wages) require constant sales of foreign currency. Total purchases of U.S. dollars by the CBL during 2004 totaled US$8.6 million.

[8] The claims on government accounted for about 90 percent of the CBL's total assets.

CBL's Income Statement, on Cash Basis
(In thousands of U.S. dollars)

	2003 [1/] Total Actual	2004 Total Actual	2005 Total Budget
Cash income	1,931	3,285	3,148
Interest income	1,159	1,178	855
Non-interest income	772	2,107	2,293
Cash Expenditure (excluding extraordinary items [2/])	3,514	4,268	3,785
Current cash expenditure	3,209	3,863	3,205
Capital expenditure	305	405	580
Total	(1,583)	(983)	(637)
Total (In percenty % of GDP)	0.36	0.20	0.18

Sources: CBL; and IMF staff estimates.
1/ For 2003, cash recurrent and capital expenditures are estimates based on the execution of the 2003 budget.
2/ Extraordinary items are retirement costs, notes importation cost, and costs to replace damaged vehicles budgeted in the 2005 budget.

F. Debt

19. **The stock of Liberian public sector debt amounted to US$4.1 billion (841 percent of GDP) at end-2004**. US$3.8 billion was external debt, about half of which was owed to multilateral financial institutions (including the IMF, the World Bank and African Development Bank), and one-third to commercial creditors. Domestic debt was estimated at US$0.4 billion, most of which was outstanding debt to the CBL. Further work needs to be done to reconcile these figures.

20. **Liberia's external public debt situation is unsustainable** (Box 4). Liberia has been in continuous arrears to its external creditors since 1984 and most of its debt is in arrears. Based on preliminary end-2004 data, the net present value of external debt as a ratio to exports was 2,722 percent, significantly above the 150 percent debt sustainability threshold ratio of the HIPC Initiative.[9] Consequently, even if higher economic growth were achieved over the coming years, these ratios would not reach sustainable levels without considerable external assistance.

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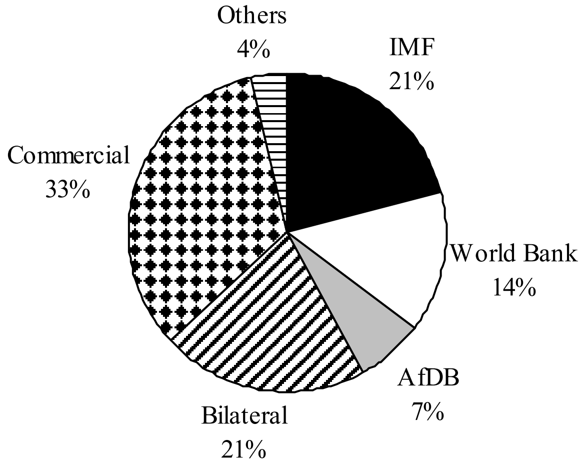
[9] This figure includes interest arrears and penalties. The authorities are undertaking, through their National Debt Management Task Force, a stocktaking exercise and have contacted creditors to obtain loan agreements and statements on their external debt obligations since such data, including loan agreements, were lost during the conflict. Information from multilateral creditors as at end-December 2004 is almost complete and is estimated at $1.5 billion. Data on bilateral and commercial debt is estimated, in some cases based on statements from the mid 1990s. In March 2005, the Paris Club Secretariat agreed to assist in the data collection exercise.

Share of External Debt Outstanding by Creditor
(End-2004)

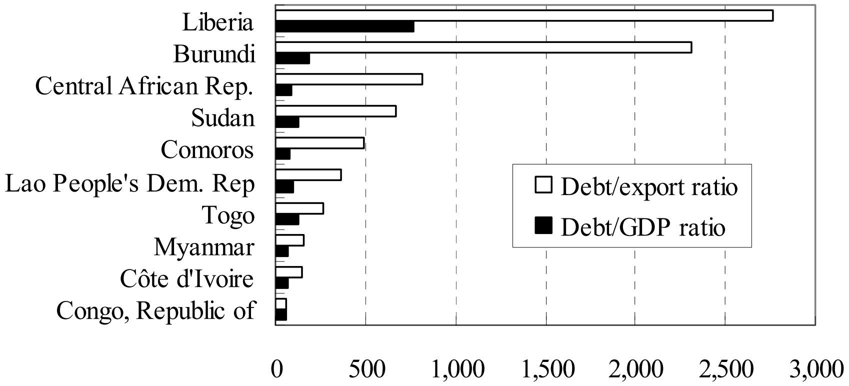


Sources: Liberian authorities; and IMF staff estimates.

Box 4: Level of External Debt—Comparison with Other Highly Indebted Countries

Among the countries that have not reached the decision point under the enhanced HIPC Initiative assistance, Liberia's external debt, both in terms of exports and GDP, is prominent: the debt-to-export ratio reaches over 2,700 percent, while Burundi comes second with little over 2,200 percent; the debt-to-GDP ratio exceeded 760 percent, more than four times higher than the second highest country, Burundi.

External Debt-to-Export Ratio of HIPCs (at end-2004)1/
(In percent)



1/ Predecision point HIPCs, excluding Somalia due to lack of data.

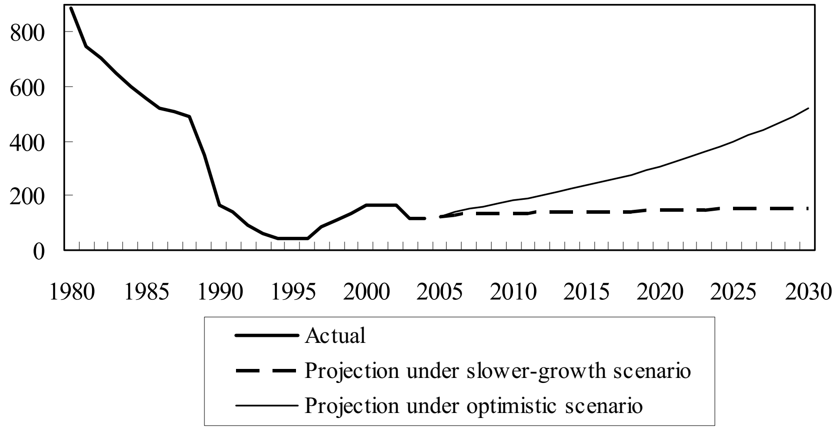
Sources: WEO; and IMF staff estimates.

G. Medium-Term Outlook

21. **Liberia faces daunting reconstruction challenges following two decades of intermittent civil wars**. Physical infrastructure is largely destroyed, government institutions lack capacity for economic management, and the country's once considerable human capital is significantly degraded. Reflecting these developments, real GDP per capita (in 1992 prices) has declined from US$890 in 1980 to US$116 in 2004. On the positive side, Liberia is endowed with rich natural resources, a favorable geographical position, and a vibrant, though at present largely informal, private sector.

22. **Similar to other postconflict countries, the recovery could take place in two phases**—the first driven by humanitarian assistance and rebuilding of the most basic services and infrastructure (with substantial international support), the second shifting external support to broader-based recovery efforts (possibly also in the form of direct budgetary assistance) and to measures to reestablish the private sector as the engine of growth. In order to secure external support and private investment, it will be crucial to reestablish early on confidence in Liberia's key economic institutions, including the budget, revenue-generating agencies, the CBL, and the financial system.

Real GDP Per Capita—Past and Projections
(In 1992 prices, 1980-2030)



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

23. **Two alternative medium-term scenarios illustrate the benefits of early and decisive reforms**. The "slower growth scenario" is premised on a slower pace of reform and lower donor support. A balanced budget is maintained and inflation and the exchange rate are projected to remain stable. In this scenario, private investment is low, the lifting of UN sanctions on timber is delayed, and donor assistance remains focused on humanitarian needs for some time. The recovery of exports will continue to be impeded by damaged infrastructure. The current account is expected to remain high, reflecting the high trade deficit and accrual of arrears. Agriculture and forestry lead the initial recovery, but growth eventually decelerates and averages 4 percent over the medium term. This is insufficient to create significant employment opportunities, raise

living standards, or achieve the MDG's (GDP per capita would reach only about US$140 by 2015).

24. **The "optimistic scenario" assumes prudent macroeconomic and reform policies to help lay an early basis for strong and sustainable growth**. These policies would trigger significant financial and technical support from donors. The early establishment of an environment conducive for private investment would attract potentially large FDI flows (including in the mineral and forestry sectors), boosting the average growth rate to around 10 percent, which would result in a per capita GDP of about US$230 by 2015 (from the current level of about US$115).[10] Throughout, strengthening economic governance is key, following pervasive mismanagement under previous governments, which had also severely affected the conduct of fiscal and central bank operations. To this end, early reestablishment of confidence in Liberia's key economic institutions is crucial to securing sustained external support and attracting private investment.

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

	2004	2005	2006	2007	2008	2009
Optimistic scenario						
Real GDP growth (in percent)	2.4	8.5	17.2 [1]	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						
Real GDP growth (in percent)	2.4	8.5	4.9	7.7 [2]	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.

25. **In the fiscal area, the main tasks ahead are the rebuilding of institutions to boost revenue and reestablish a transparent budget process**. On the revenue side, there is need to

[10] Despite the end of the conflict, there are a number of factors that preclude a further acceleration in the immediate postconflict phase. These are: (i) delays in full establishment of security throughout the country, (ii) the existing ban on the major export commodity (timber), (iii) emergence of land disputes, and (iv) collapse of infrastructure.

make the main revenue-generating agencies fully transparent and accountable, and channel their collections to the budget. The revenue structure, currently based heavily on taxing trade, needs to shift to domestic activities, including through finalizing the tax reform that had been initiated in the late 1990s. The budget process requires strengthening in all stages, including planning, execution, as well as internal and external controls. Procurement reform will need to be pursued, and a civil service census completed, ahead of possible further reforms in this area.

26. **The budget will have to remain balanced for some time, reflecting domestic and external financing constraints**. However, a vigorous reform effort may attract grants, also in the form of budgetary support, once the budget process is sufficiently strengthened. Grants and higher revenue should be channeled toward basic infrastructure and social services. A poverty reduction plan should be prepared soon to underpin these efforts.

27. **On the monetary side, the main tasks ahead are the strengthening of the CBL and the banking system, as well as the introduction of further monetary policy instruments to enable more active policies over the medium term**. Following recent first steps to reduce the CBL's expenses, its financial health needs to be consolidated; restructuring plans for the currently operating three commercial banks need to be developed; and supervising capacity should be strengthened further. The scope for active monetary policies is expected to broaden in line with the envisaged increase in the demand for local currency. Additional instruments of monetary policy, such as credit facilities for the banking system and a securities market, should be introduced.[11] Interbank markets also need to be developed. Once such steps are taken, exchange rate policies could also begin to play a more active role, including to safeguard external competitiveness in the event of adverse shocks.

28. **Throughout, particular attention needs to be paid to governance**, so as to regain the trust of donors and the private sector. This would include reforms aimed at reactivating the private sector as the engine of growth, including an appropriate legal framework for business activity and investment (contract, corporate, and bankruptcy laws) and a reliable judicial system.

29. **Restoration of economic management would also require rehabilitation of the country's statistical capacity**. Historical records were largely destroyed during the 2003 hostilities, and key statistics had been outdated already prior to these events.

[11] At present, the only instruments are reserve requirements and foreign exchange auctions.

II. Adopting Full (de jure) Dollarization in Liberia[12]

A. Introduction

30. **This chapter explores the pros and cons of adopting full (de jure) dollarization in Liberia.** The first and second sections review the theoretical arguments for and against adopting dollarization and the associated empirical evidence. The third section presents the choices of monetary and exchange rate regimes made by other postconflict countries. The final section assesses whether Liberia, in its current postconflict situation, could benefit from dollarization.

B. Arguments For and Against Full Dollarization

31. **Supporters of dollarization state that its adoption reduces policy and exchange rate risks, which, in turn, would create better conditions for sustainable growth.**[13] They argue that in an environment of high inflation, dollarization could represent a precommitment mechanism to anchor inflation expectations. It would impose fiscal discipline, thereby providing enhanced policy credibility. Exchange rate risk would be eliminated. The reduction of policy and exchange rate risks would, in turn, increase confidence among international lenders and investors, leading to lower interest rates, fiscal expenditures (due to lower interest payments), more foreign direct investment, domestic investment, exports, and higher GDP.

32. **There is a price for sustainable growth under dollarization.** A dollarized economy would give up its seigniorage revenues. As indicated in Berg and Borensztein (2000), dollarization involves two kinds of seigniorage loss: the immediate cost to buy back the local currency in circulation, and the future seigniorage from the issuance of new currency to accommodate money demand. Therefore, a dollarized economy would need to run a balance of payments surplus, either through capital inflows from external borrowing or FDI, or through a current account surplus.

33. **The loss of exchange rate and monetary policies would require adjustments through output and prices.** Under a floating exchange rate regime, the exchange rate acts as a shock absorber, allowing the domestic currency to depreciate until external balances are reestablished. By contrast, dollarization would impose a more painful adjustment mechanism, as the reduction of the current account deficit would require either a fall in prices (including wages), a reduction of output, or a combination of both.

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[12] This chapter was prepared by Jiro Honda and Liliana Schumacher.

[13] For a review of the literature on exchange rate regimes and dollarization, see Bordo (2003), and Levy Yeyati et al (2003).

34. **Full dollarization would also expose banks to new risks.** On one hand, banks' direct exposure to currency risk and to the credit risk of unhedged corporate clients is reduced, if banks operate only in U.S. dollars. On the other hand, new risks emerge because higher output volatility would imply higher potential losses from client default, and the lack of a lender of last resort would require banks to build higher liquidity and equity position. This, in turn, would negatively affect credit expansion and result in higher lending rates.

35. **Regarding the argument that dollarization establishes fiscal discipline, some observers argue that forms of funding deficits beyond money creation still exist.** Fiscal deficits could still be funded with external or domestic loans, supplier credit, or arrears. In the event that the resulting fiscal stance places excessive pressure on aggregate demand, the eventual pressure on the current account would have to be dealt with as described above.

36. **Dollarization may also not remove all exchange rate risks.** This risk reduction would depend on the exposure of the economy to currencies other than the U.S. dollar. If trade with main external partners is conducted in other currencies, some exchange rate risks would remain.

C. Empirical Evidence

37. **Rogoff et al (2004) finds that fixed exchange rate regimes may create some degree of credibility, if countries implement consistent policies**. His overall conclusion was that there are gains from adopting floating exchange rates, as a country develops economically and institutionally, because floating rates permit a more rapid adjustment following shocks. At the same time, a fixed exchange rate regime becomes less relevant to achieve credibility. For developing countries with low exposure to capital movements, however, fixed exchange rate regimes appear to offer some measure of credibility, provided that developing countries implement consistent policies.

38. **An additional test found no correlation between exchange rate regimes and fiscal discipline.** The test is based on a cross-country regression analysis and a data set of 123 emerging market and developing countries, during 1997-99 and 2001-03.[14] Using a binary choice variable, which takes the value one if a country has a primary fiscal surplus or zero otherwise, the model is specified as follows:

$$\Pr(C=1) \quad = \quad \alpha \quad + \quad \beta_1 X_1 \quad + \quad \beta_2 X_2 \quad + \quad \beta_3 X_3$$

where X1 is a vector of dummy variables representing exchange rate regimes, X2 is a vector of macroeconomic variables (GDP growth, government effectiveness indicator, a dummy variable for Fund program); and X3 is a vector of control variables including past current account

[14] For details, see Honda and Schumacher (2005).

deficit.[15] The results show that the likeliness of avoiding fiscal deficit is largely associated with the macroeconomic environment and government's implementation capacity.

Summary of Probit Model Result

Variable	Full dollarization	Government effectiveness	GDP growth	Fund program	R^2
Coefficient	0.33	0.27	1.26	0.67	0.08
Z value	0.68	2.07	2.35	2.38	

39. **Rogoff et al (2004) also find no significant relationship between growth and the exchange rate regime but observe that fixed exchange rate regimes have larger output volatility.** Another study comparing Panama's and Belize's economic performance vis-à-vis six other Central American countries finds that the standard deviation of output has been higher in Panama and Belize than in the mentioned country group.[16]

40. **Financial sector data confirm that banks in dollarized economies tend to have high equity and high liquid assets**. Banks in Panama, Ecuador and El Salvador exceed the 8 percent capital and 4 percent equity ratios, as recommended by the Basel Committee.

Bank Capitalization and Liquidity in Three Dollarized Economies:
Ecuador, El Salvador, and Panama
(in percent)

	Ecuador		El Salvador		Panama	
	2002	2003	2002	2003	2002	2003 1/
Basel total capital ratio	11.8	12.2	12.1	12.8	14.5	19.0
Tier 1 equity ratio	9.2	10.1	9.7	9.7	...	...
Liquid assets to total assets ratio	35.1	38.9	30.0	31.7	...	...
Liquid assets to deposits ratio	27.2 2/	28.5 2/	...	...	29.0	24.4

Sources: Ecuador, Superintendencia Nacional de Bancos y Seguros; El Salvador, Superintendencia del Sistema Financiero; Panama, Superintendencia de Bancos; and IMF staff estimates.
1/ September, except capital ratio as of February 2004.
2/ Liquid assets are net of public bonds.

[15] A dummy for a Fund program takes the value one if the country received financial resources from the Fund at least for two years during the period, or zero otherwise.

[16] See Panizza et al (2003).

D. Choices of Currency Regimes by Postconflict Countries

41. **With the exception of East Timor and Kosovo, all postconflict countries have favored an own currency.** The main reason against dollarization appears to be high costs associated with the adoption of a foreign currency. For example, Afghanistan once considered full dollarization until a new currency was introduced in 2003, but this option was not explored further, given the considerable cost of replacing the existing local currency.[17] In general, such a drastic regime change seemed to have been avoided unless considerable inefficiencies were associated with the regime (Timor Leste), or where the use of local currency was inviable due to an existing loss of confidence (Kosovo).

Foreign Exchange Regime Before and After Conflict

	End of conflict	Before conflict	After conflict
Sierra Leone	1999	Local currency (floating)	Local currency (floating)
Guinea-Bissau	1999	Local currency (floating)	Local currency (floating)
Burundi	2000	Local currency (pegged)	Local currency (pegged)
Eritrea	2000	Local currency (floating)	Local currency (floating)
Ethiopia	2000	Local currency (floating)	Local currency (floating)
Kosovo	1999	Local currency (floating) Deutsche mark used widely	Local currency (floating) De facto dollarization with DM
Comoros	2003	Local currency (pegged)	Local currency (pegged)
Timor Leste	1999	Local currency (floating)	Full dollarization
Afghanistan	2002	Local currencies (floating)	Local currency (floating) Introduced a new currency
Iraq	2003	Local currencies (floating)	Local currency (pegged) Introduced a new currency

42. **Timor Leste adopted full dollarization**. During Indonesian rule, the rupee was the sole legal tender and virtually the only currency in circulation in East Timor. Following the collapse of the financial system in 1999, however, several currencies began to be used, including the Australian, New Zealand, and U.S. dollars. To eliminate the distortions and inefficiencies associated with the simultaneous circulation of multiple currencies, the U.S. dollar was declared the legal tender of East Timor in January 2000. This choice was attributable to the desirable characteristics held by the currency (stable value, wide international use, and convertibility). It was reinforced by the argument that most of Timor Leste's international trade is denominated in U.S. dollars. The introduction of a national currency was deemed difficult in the absence of a

[17] See "Islamic State of Afghanistan: Report on Recent Economic Developments and Prospects, and the Role of the Fund in the Reconstruction Process," Country Report No. 02/219 (10/7/02).

well-developed institutional framework and financial resources to support the value of a new currency.

43. **Kosovo is an example of de facto adoption of another country's currency—the Deutsche Mark (and euro later on).** However, the new Yugoslav dinar continues formally as legal tender. Since the Deutsche mark (DM) was already widely used in Kosovo before the conflict, it soon became the dominant currency, and the use of DM was further encouraged by the measurers taken by the UN Interim Administration Mission in Kosovo (UNMIK). The confiscation/freezing of foreign exchange deposits in the early 1990s, the episode of hyperinflation in 1993-94 (2 percent per hour at its peak), and the intensification of ethnic strife eroded confidence in the banking system, leading to a virtual cessation of all noncash transactions. In response to the massive flight to foreign exchange cash holdings and the disappearance of the Yugoslav dinar as a means of transactions, UNMIK legitimized the use of the DM.

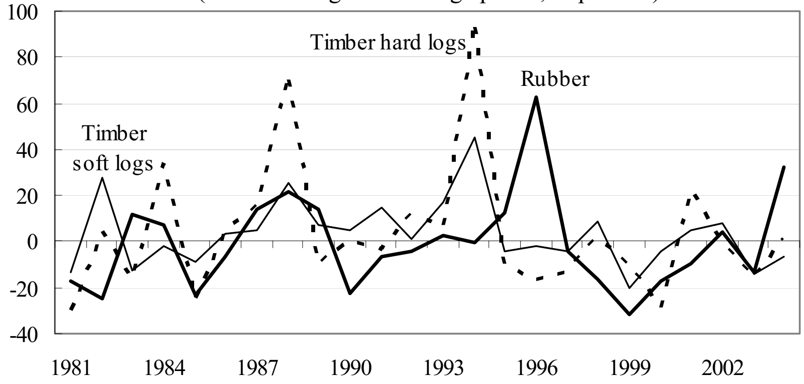
E. Liberia's Experience with Dollarization

44. **Between World War II and the early 1970s, overall favorable world market conditions for Liberia's exports and foreign direct investment helped sustain dollarization, as adopted in 1946.** Iron ore, rubber, and timber activities were flourishing, based on high export prices and large inflows of foreign capital.

45. **During the 1970s, the oil crises and global economic downturn led to a significant deterioration of economic performance.** The trade surplus started to decline and became negative in 1976, and fiscal deficits emerged, owing to a decline in revenue and excessive spending, including to cover public enterprise deficits. The deficits were externally financed.

46. **After 1980, Liberia's internal and external balances rapidly worsened further, and dollarization was eventually abandoned** (Box 5). Political instability, together with depressed world demand and declining reserves of iron ore, stagnating rubber production, and a significant decline in the terms of trade contributed to the collapse of internal and external confidence. Private capital left the country, and investment plummeted. Foreign funding of the rising fiscal and external deficits eventually dried up, and a local currency was introduced in 1988.

International Prices of Liberia's Exporting Commodities
(Annual changes of average prices, in percent)



Source: IMF Research Department

Box 5. Liberia. Financing of Fiscal Deficits During the 1980s

The overall fiscal deficit rose sharply to more than 10 percent of GDP during the 1980s. The poor fiscal performance was marked by both a steady decline in revenues and a rise in expenditure. The deficits during the period were mostly financed by (i) an accumulation of arrears on external debt service payments and domestic payments arrears (including on wages), (ii) the emergence of various forms of government liabilities (including unpaid vouchers owed to suppliers), as well as (iii) borrowing from the domestic banking system (mainly from the central bank).

Fiscal Balance in 1980s

(In millions of Liberian dollars)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Total revenues (including grants)	279.3	257.4	260.1	217.0	205.6	234.6
Total expenditures	370.6	390.4	344.1	382.6	310.5	366.3
Overall balance	-91.3	-133.0	-84.0	-165.6	-104.9	-131.7
Financing	91.3	133.0	84.0	165.6	104.9	131.7
Changes in arrears	-6.0	8.0	3.3	68.7	41.1	78.0
Borrowing from NBL 1/	50.7	81.6	53.0	57.3	42.1	29.7
Other	46.6	43.4	27.7	39.6	21.7	24.0

Sources: Liberian authorities; and IMF staff estimates.

1/ National Bank of Liberia

Liberia. Main Economic Indicators (1966-2002)

	Fiscal Deficit to GDP (In percent)	Public Debt to GDP (In percent)	Annual inflation (In percent)	Real GDP growth (In percent)	Current account balance (In millions of US$)	Gross official reserves (In millions of US$)
1966	n.a	n.a	6.0	3.0	n.a	n.a
1967	n.a	68.3	6.0	3.0	n.a	n.a
1968	-14.1	n.a	6.0	3.0	n.a	n.a
1969	-2.1	n.a	9.0	6.0	n.a	n.a
1970	2.5	44.5	0.8	5.2	n.a	n.a
1971	1.9	40.8	0.1	6.5	n.a.	n.a.
1972	3.5	35.8	3.9	7.9	n.a	n.a
1973	3.0	31.9	19.5	4.0	n.a	12.1
1974	2.6	21.8	19.5	4.8	n.a.	16.6
1975	-1.1	24.1	13.5	-3.5	n.a	15.7
1976	-3.5	27.5	6.0	4.7	-45.7	25.1
1977	-8.6	31.7	5.8	1.6	-104.5	27.4
1978	-7.7	35.3	7.1	4.8	-134.7	18.0
1979	-13.2	47.4	11.5	3.3	-155.6	55.0
1980	-7.9	53.0	14.7	-4.1	-132.5	4.1
1981	-10.2	61.2	7.6	-1.0	-101.4	7.4
1982	-13.2	82.0	6.0	-1.5	-75.0	9.0
1983	-15.0	100.9	2.7	-4.1	-29.3	9.5
1984	-10.5	114.6	1.3	-3.1	-26.5	7.8
1985	-11.9	130.5	-1.2	-1.5	42.1	4.5
1986	-8.0	159.7	4.1	-0.7	64.7	4.4
1987	-74.1	151.7	5.0	1.8	-5.8	0.4
1988	-94.5	157.5	9.6	-2.0	15.6	0.4
1989	n.a	n.a	n.a	-26.7	n.a	n.a
1990	n.a	n.a	n.a	-51.0	n.a	n.a
1991	n.a	n.a	n.a	-14.2	n.a	n.a
1992	n.a	n.a	n.a	-35.1	n.a	n.a
1993	n.a	n.a	n.a	-33.0	n.a	n.a
1994	n.a	n.a	n.a	-21.8	n.a	n.a
1995	n.a	n.a	n.a	-4.3	n.a	n.a
1996	n.a	n.a	n.a	12.1	n.a	n.a
1997	0.0	827.0	n.a	106.3	80.8	n.a
1998	0.3	692.4	n.a	28.5	-42.0	n.a
1999	1.5	564.8	2.0	22.9	-125.0	n.a
2000	-0.6	459.4	5.3	22.4	-86.1	n.a
2001	-0.7	455.3	12.1	4.9	-108.5	n.a
2002	-1.3	476.8	15.0	3.3	-6.1	3.3

Sources: Liberian authorities; and IMF staff estimates.

F. Will Dollarization Help Liberia?

47. **The August 2003 peace agreement put an end to civil strife, and reconstruction has begun.** Overcoming poverty, reversing the dramatic deterioration of living standards, fighting corruption, and restoring good governance practices are the main challenges of the reconstruction work that lies ahead. Against this background, some observers ask whether the reintroduction of full, de jure dollarization would help Liberia grow, and build accountable and transparent economic institutions.

48. **The following arguments suggest that dollarization "per se" would not contribute to solving the challenges during Liberia's reconstruction phase:**

- **Liberia's exports will continue to be commodity-based for some time, exposing the country to potentially serious external shocks.** All export commodities show large swings in world market prices, and another commodity with highly volatile prices—petroleum products—represents a high proportion of imports. Under full dollarization, Liberia would have to respond to such shocks through changes in prices, wages, and output, which could put additional strain on the as-yet fragile economic and social situation.

- **The cost of introducing and maintaining dollarization is high.** The initial cost of replacing the Liberian dollars in circulation would be, at present, around US$36 million, equivalent to 8 percent of GDP. Over the medium term, to accommodate the increase of money demand arising, for example, from a modest annual rate of growth of 3-4 percent, an annual current account surplus of around US$7 million would be required.

Liberia. Estimates of Seigniorage
(In millions of Liberian dollars, unless otherwise indicated)

	Annual Reserve Money Creation (a)	CPI Index 2001=100 (b)	Seigniorage		
			(Amount) (a/b)	(In percent of GDP)	(In percent of fiscal revenues)
2002	228.0	114.2	199.6	0.5	4.2
2003	224.0	131.3	170.6	0.8	7.1
2004 (Est.)	482.0	137.9	349.5	1.3	9.2

Sources: CBL; and IMF staff estimates.

- **Dollarization would also have an impact on growth through the commercial banks.** After the losses suffered during the war, Liberian banks are now being restructured and recapitalized. Dollarization would impose an additional burden on banks in terms of more stringent solvency conditions and possibly result in higher lending rates.

- **Dollarization does not necessarily have a positive impact on fiscal discipline.** As proved by Liberia's own history, dollarization can coexist for some time with fiscal deficits, while building imbalances. Furthermore, the objectives of fiscal transparency and accountability are not per se supported by the choice of a currency.

- **Even if dollarization is adopted, Liberia would still be subject to the volatility of the nominal exchange rate between the U.S. dollar and the euro.** Liberian exports have traditionally gone to Europe, while most Liberian imports, in particular petroleum products, are paid in U.S. dollars.

Liberia. Exports by Destination
(Annual average during 1980-2000)

	In millions of USD	Share (in percent)
United States	47.7	8.7
Europe	401.8	73.7
Asia	76.9	14.1
Africa	8.4	1.5
Middle East	2.9	0.5
Western Hemisphere	7.6	1.4
Total	545.3	100.0

Source: Liberian authorities; and IMF staff estimates

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III. Simplifying Liberia's Timber Tax Structure— A Contribution to Enhance Revenue Transparency[18]

A. Introduction

49. **Liberia is well-endowed with valuable forest resources, and the sector has made an important contribution to GDP over the past few decades**. However, the diversion of revenue from the sector to fund Liberia's civil war through 2003 led the UN Security Council to impose a ban of timber exports since mid-2003. Taking into account the sector's revenue potential, but also concerns of sustainable logging, the Security Council has imposed a number of pre-conditions for the lifting of its sanctions. One important condition is the establishment of a transparent system of revenue collection.

50. **To establish transparency of the sector's financial flows, a number of actions are under way, with external assistance**. As a contribution to this end, this paper discusses a radical simplification of Liberia's current timber tax structure. The paper proceeds as follows: After a description of the evolution of Liberia's timber sector and of its tax structure, it provides an overview of the theory of timber taxation. The concluding section presents a proposal to simplify the sector's current tax system to two instruments, an area tax and an export tax.

B. Evolution of Liberia's Timber Sector

51. **Liberia's forest resources are significant**. About half of the country's area are covered by high forests, compared to less than 10 percent of arable land. Liberia's forests are equivalent to about 45 percent of the remaining Upper Guinea Forest, which spans ten West African countries from Guinea to Cameroon. They contain a number of valuable species—such as African mahogany—that are in high demand on world markets.

52. **Timber activity began in the late 1960s, driven by low stumpage fees and the establishment of basic road infrastructure that opened access to forest areas**. Through the mid-1970s, it was the fastest-growing sector of the economy, increasing its contribution to GDP from less than 5 percent to about 20 percent. Logging activity was largely carried out by foreign concessionaries. During the second half of 1970s, world demand for timber products dropped in response to global recessions, and the number of concessions declined from 49 in 1974 to less than 30 by 1980, also owing to the depletion of easily accessible logging areas.

53. **During the first half of the 1980s, the timber sector remained stagnant due to weak global demand in key markets but also related to Liberia's political instability**. The sector recovered somewhat until the late 1980s, but the outbreak of civil strife led to a cessation of the sector's formal activities until peace was restored in 1997. Thereafter, logging activity recovered

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[18] This chapter was prepared by Arnim Schwidrowski and Saji Thomas.

very rapidly, also driven by the demand for charcoal and firewood, reflecting the breakdown of the country's regular electricity supply.

54. **The surge in logging activity soon raised concerns about its sustainability**. In addition, international non-governmental organizations began to point at possible links between Liberia's timber sector and support to the civil war in Sierra Leone. A comparison between export data reported by the Liberian authorities and from importing countries indicates that an important share of exports may have taken place at the margin of official channels.

Liberia: Timber Exports, 1997-2002
(In thousands of U.S. Dollars, f.o.b. basis)

	1997	1998	1999	2000	2001	2002
Official exports [1/]	7,526	12,288	23,419	67,505	79,884	146,473
Exports registered by importing countries	8,541	25,194	31,573	93,987	88,389	183,163
Difference	1,015	12,906	8,154	26,482	8,505	36,690
Memorandum item:						
Main importing countries						
France	6,535	16,013	15,754	29,189	23,728	25,635
Italy	134	3,558	7,308	13,295	15,008	42,057
Turkey	851	1,825	3,507	3,847	4,975	45,409
Portugal	861	402	1,856	2,826	1,239	323
Spain	...	1,222	1,227	2,548	3,375	3,623
Germany	58	1,209	1,162	1,850	4,541	3,002
Greece	...	966	556	4,086	4,648	6,478
Netherlands	...	...	192	1,307	1,594	807
Tunisia	...	...	...	528	454	149
United States	...	...	11	...	...	...
China	...	...	...	31,401	25,614	49,462
Indonesia	...	...	...	1,841	1,404	4,021
India	102	...	...	209	...	698
Senegal	...	...	...	1,061	1,809	1,499

Source: United Nations COMTRADE database (commodity 4403, rough/squared wood).
1/ U.N. Secretary General's report to the Security Council (S/2003/793, August 5, 2003).

55. **Reflecting these developments, the UN Security Council began to pay increasing attention to the possible link between Liberia's timber activities and the civil war in Sierra Leone and the re-emergence of internal hostilities in Liberia**. Following the imposition of sanctions related to the connection between trading in diamonds and the civil war in Sierra Leone in 2001, the Security Council's panel of experts highlighted in its reports the existence of

extra budgetary transactions associated with timber activities and the involvement of timber companies in violating UN sanctions.[19]

56. **To address these issues, the UN Security Council requested in 2002 that the government should take steps**, including the establishment of a transparent audit regime, to ensure that revenue from timber and other activities be used for legitimate social, humanitarian, and development purposes. It was expected that independent audits sponsored by the European Union (EU) would provide the necessary assurances, but the external auditor hired by the EU withdrew from the audit in late 2002. Subsequently, the government of Liberia hired a local auditor to undertake a systems audit. However, the UN Security Council determined in May 2003 that such an audit did not provide the required assurances and, in light of the intensifying internal conflict, decided to impose a ban on exports of all timber products, which went into effect in July 2003.

57. **Despite the National Transitional Government of Liberia taking office in October 2003, the Security Council decided against lifting the sanctions**, citing the lack of the NTGL's control over the logging areas, the continued lack of transparency of the revenue flow, and the need to establish effective oversight over the sector's activities.[20] Sanctions were again extended for 12 month at end-2004.

C. Liberia's Timber Revenue System

58. **Over time, there has been a proliferation of taxes, charges and fees on forestry activity**, particularly driven by the introduction of new taxes for specific purposes during the 1980s (see Attachment I for all current taxes, fees, and changes in timber activity). There are four different charges levied on the volume of trees (not specified by species) at the felling stage, two schedules of export taxes, differentiated by 28 species and, in the case of processed wood, additionally by three stages of processing. In addition, 8 administrative fees are levied on forestry activity and 6 on port services. Finally, there is an area tax. In sum, a tree can easily be subject to about 20 taxes, fees, and charges, based to varying degrees on volume, the species and the degree of processing, and administrative actions required.

59. **In addition, concessions envisage further financial commitments by the timber companies** such as the construction of schools, clinics, or roads. Furthermore, it became practice that timber companies undertook certain tasks that were originally the responsibility of government, such as road construction, and were granted tax credits for those activities.

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[19] See UN Security Council resolutions and reports S/RES/1343 (2001), S/2001/1015, S/2002/470, S/RES/1408 (2002), S/2002/1183, S/2002/1115, S/2003/466, S/2003/498, S/RES/1478 (2003).

[20] S/RES/1521 (2003).

60. **It is doubtful whether the existing revenue system is effective in achieving any clear objective**. Also, the presumed earmarking of certain revenue for specific purposes has been ineffective, given the revenue-sharing agreement between the Forestry Development Authority (FDA) and Ministry of Finance that does not refer to such earmarking at all, and the lack of any signs that the FDA had directed collected revenue to the intended purposes. However, the multiplicity of processes to assess these different charges has created a lack of transparency and significant opportunities for misappropriation of revenue.

61. **These concerns are compounded by the weakening of the FDA over time**. Founded in 1976 to establish effective oversight over the sector and collect revenue, its functions were severely curtailed when a law was passed in 2000 to transfer the administration of contracts concerning so-called "strategic commodities" (including timber) to Liberia's president, and when the FDA's Board of Directors was suspended for administrative reasons. Furthermore, the hostilities in 2003 completely destroyed the FDA's facilities, car park, and files. Therefore, the FDA will require substantial technical and financial support to rebuild its structure before it will be able to resume any role in the oversight of the forestry sector. A decision on the institutional arrangements for collecting revenue and granting concessions will also need to be made—the FDA's supervisory role over the sector stands in conflict with its function as tax collector and administrator of concessions.

D. Principles of Forestry Taxation

62. **In general terms, taxes on the forestry sector are geared toward the twin objectives of revenue maximization and sustainability of logging levels**. Two features distinguish the taxation of forestry from regular taxes: First, government plays a dual role as sovereign tax authority but also as the owner of the natural resource (forests); second, tax instruments in the forestry sector aim at determining a price for the right to extract, compared to the goal of traditional taxes to raise a given amount of revenue while minimizing economic distortions, achieve equity, and keep administrative costs low.

63. **The literature recognizes that in the ideal world of perfect markets and information, auctions would be the best instrument to determine the price for extraction rights**.[21] However, a number of factors—including lack of information on the forest resources under consideration, uncertainties as to the stability of property rights over time, and lack of access to credit—have limited the use of auctions so far, particularly in low-income countries. Therefore, a number of tax instruments are customarily in use at the pre-harvest, harvest, and post-harvest stage (Box 6). Each of these instruments has its own advantages and disadvantages vis-à-vis the

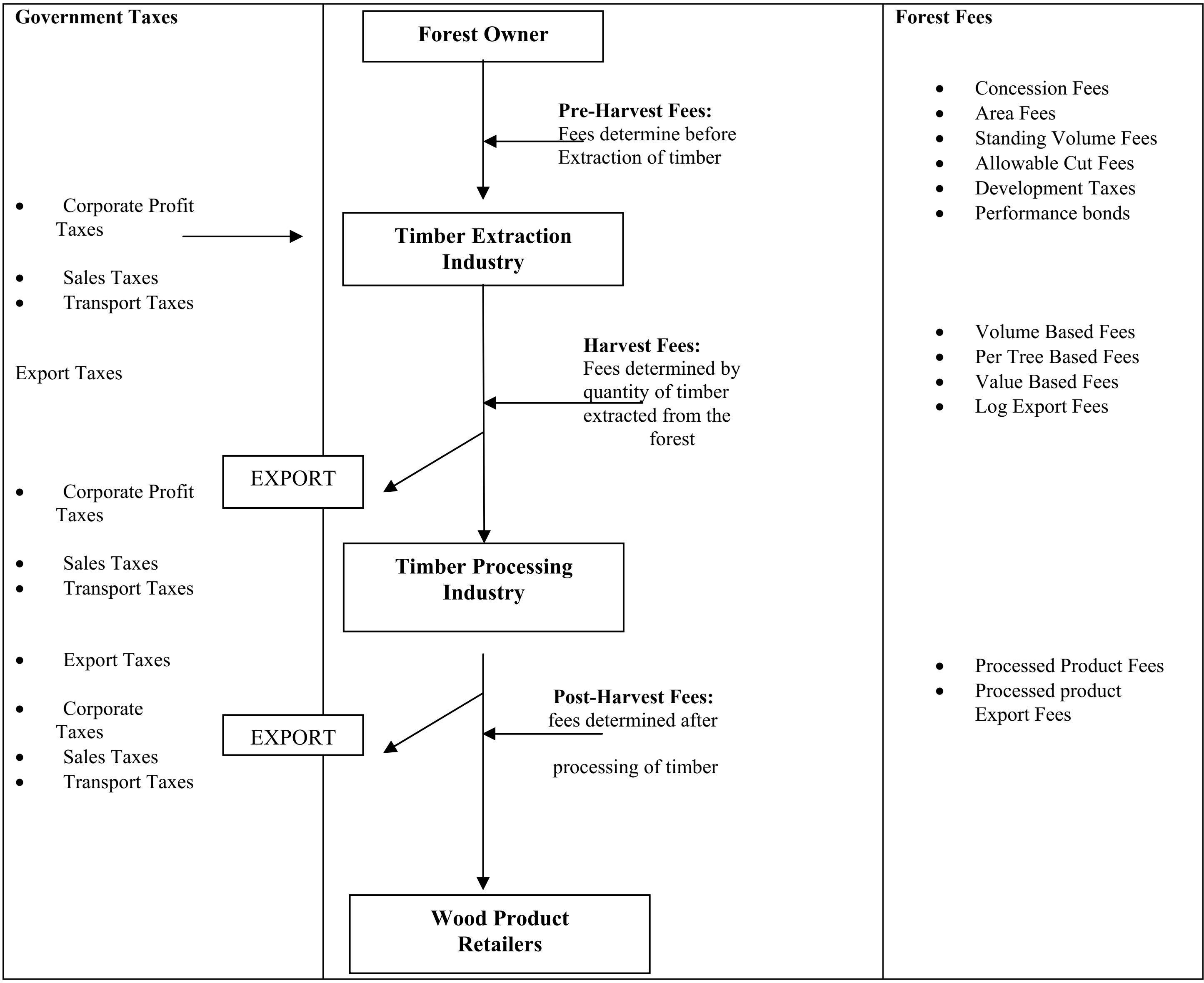
[21] See for example Gillis (1990).

mentioned objectives of revenue maximization, administrative ease, and sustainability. For example:[22]

- The widely used **stumpage fees** are based on the amount of timber harvested. However, using only the quantity of timber may lead to selective extraction of the most valuable tree species, leading to sustainability concerns. Therefore, more sophisticated stumpage fees, differentiating between species and reflecting current market prices, would be preferable—at the disadvantage of requiring a complex and costly oversight mechanism.
- Similarly, **area fees** have advantages and disadvantages: On the positive side, they are easy to administer as the area of a concession is known. They also encourage the intensive use of the forest, with high recovery rates from all valuable species—which may be positive from an efficiency viewpoint but at times questionable regarding sustainability considerations. On the negative side, flat fees per area are unable to differentiate between the value of forest resources across regions.
- **Profit taxes** on timber companies could provide a solution as they would tax net returns and leave decisions on the volume and intensity of logging to the profit-maximizing entrepreneur. In practice, however, such taxes are difficult to enforce, taking into account the global characteristics of many timber firms and the potential for transfer pricing practices. Such concerns are compounded if tax administration in a given timber-producing country is weak.
- **Export taxes** are generally not favored as an instrument as logging for domestic uses would not be captured, and because they create an anti-export bias. However, the export stage is a moment where taxes can be levied easily.

[22] For a more comprehensive analysis of the incidence of various taxes, see Schwidrowski and Thomas (2005).

Box 6: Flow of Timber Through the Forest Sector and Application of Taxes



Source: Schwidrowski and Thomas (2005)

E. Simplifying Liberia's Timber Tax Structure

64. **The above discussion has shown the trade-off between the simplicity of certain timber tax instruments and their ability to achieve the goals of revenue collection and sustainability**. This said, simple instruments are still capable of generating revenue and take into account longer-term considerations, while more complex tools may not achieve their desired outcomes of transparent administration of taxes, particularly when the timber sector is weak.

65. **Given the current lack of effective controls over Liberia's forestry sector, the use of a few simple tax instruments is required**. Ease of administration is a paramount consideration, taking into account the degradation of the FDA and general tax administration. The number of taxes and fees also needs to be reduced from its current high level.

66. **The authorities have therefore decided to accept a proposal to radically simplify the current tax structure**. In the short term, 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, but offer additional benefits in Liberia's current situation:

- The area tax is also capable of reducing the practice of underusage of concession areas; an increase of the current rate would help achieve more efficient logging levels.

- The export tax will be levied by the international pre-shipment agent BIVAC, thereby minimizing the short-term need to rely on local tax agents. BIVAC has up-to-date access to world market prices per timber species, which will permit taxation of the accurate value of exported timber.

67. **Looking forward, the authorities intend to replace export taxes by production taxes**. This will require rebuilding the local capacity to collect taxes, and the establishment of effective controls to ensure that accurate valuations are being carried out at the harvest stage. In addition, considerations are under way to introduce a system to ensure competitive allocation of new concessions, possibly through the use of auctions, as soon as possible.

Liberia – Volume-Based and Area-Based Charges on Forestry Activities

Fees/Charges	Amount	Purpose
Volume-Based Charges		
1. Severance charge	US$1.50/m3	
2. Reforestation charge	US$5.00/m3	Revenue generated to be used solely for funding reforestation (artificial plantation) projects and programs.
3. Conservation charge		
Class A	US$4.00/m3	Revenue collected is for implementation of conservation activities.
Class B	US$2.50/m3	
4. Forest research charge	US$1.00/m3	Revenue generated is for research and development activities.
Area-Based Charges		
Land rental fee	US$0.50/acre/ per year	

Source: Doe (2004).

Liberia - Fees and Charges by Tree Species
(In US$ per m3)

Species	Industrialization Incentive Fee	Forest Product Fee		
		STT 1/	SEU 2/	SED 3/
Sipo/Utile	58.56	30.6	9.0	1.2
Makore	24.96	13.8	6.0	1.2
Sapele	21.84	12.2	6.0	1.2
Kosipo	15.72	7.5	4.0	0.8
Tiama/Edinam	15.72	7.5	4.0	0.8
Acajou/Khaja	15.72	7.5	4.0	0.8
Dibetou/Lovoa	15.72	7.5	4.0	0.8
Niangon	15.72	7.5	4.0	0.8
Bosse/Guarea	7.68	3.4	2.0	0.4
Iroko	7.68	3.4	2.0	0.4
Bete/Mansonia	7.68	3.4	2.0	0.4
Amazakoue	6.72	3.1	2.0	0.4
Wawa/Obeche	6.72	3.1	2.0	0.4
Framire	6.72	3.1	2.0	0.4
Amingre	6.72	3.1	2.0	0.4
Frake	2.76			
Tali	2.76			
Danta/Kotibe	2.76			
Naga	2.16			
Illomba	2.16			
Doussie	2.16			
Sikon	2.16			
Movingue	2.16			
Koto	2.16			
Kusta/Builinga	2.16			
Aiele	1.44			
Azobe/Ekki	1.44			
All other species	1.44			

Source: Doe (2004).

1/ STT = sawn through and through.

2/ SEU = squared edged four sides (undressed in the rough).

3/ SED = squared edged dressed four sides.

Liberia – Administrative Fees and Port Charges on Forestry Activities

Type of fee	Amount	Units
Administrative Fees		
Annual registration fee	500.00	US$ per year
Survey Permit fee	2,000.00	US$ per permit
Hammer fee	600.00	US$ as and when required
Forest map fee	300.00	US$ as and when required
Waybill (local and export) fee	150.00	US$ as when required
Annual coupe/block cutting fee	25/coupe	US$ as and when required
Performance Bond 1/	150,000.00	US$ per agreement
Forest Resource Utilization Contract fee	5,000.00	US$ per contract
Port charges		
1) Using port equipment (delivered products at port yard)	10.00	US$ per m3
2) Delivery to ship hook	10.00	US$ per m3
3) Using shippers' equipment	5.00	US$ per m3
4) Custom inspection fee	7.50	Percent of FOB value
5) Storage fee	6.00	US$ per m3
6) Marking and grading fees 2/	1.25	Percent of FOB value

Source: Doe (2004).
1/ The performance bond is paid prior to operation by the concessionaire is and refundable upon satisfactory performance. The amount of the Performance Bond was set in the Act creating the FDA on December 20, 1976.
2/ The marking and grading fees are charged for the inspection and grading of exports and are collected by BIVAC, a subsidiary of a foreign inspection company.

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Table 1. Liberia: Sectoral Gross Domestic Product, 2000-04

	2000	2001	2002	2003	2004
		Estimations			
	(Annual percentage change, unless otherwise indicated)				
GDP at 1992 constant prices	25.7	2.9	3.7	-31.3	2.4
Agriculture and fisheries	6.2	6.4	-4.3	-38.2	15.6
Forestry	70.6	5.0	22.4	-36.8	-38.2
Mining and panning	49.8	-74.9	-12.8	56.7	49.5
Manufacturing	127.5	-22.0	-17.4	-11.8	54.0
Services	15.0	3.2	7.0	-8.3	13.5
	(Millions of U.S. dollars)				
GDP at current prices	560.9	543.0	559.3	435.3	492.1
Agriculture and fisheries	286.8	277.1	288.5	199.0	255.4
Forestry	117.1	120.9	133.9	94.9	58.2
Mining and panning	1.0	0.2	0.2	0.3	0.4
Manufacturing	53.2	38.5	31.8	29.9	46.3
Services	102.7	106.2	104.9	111.2	131.8
	(Percentage shares)				
GDP at current prices	100.0	100.0	100.0	100.0	100.0
Agriculture and fisheries	51.1	51.0	51.6	45.7	51.9
Forestry	20.9	22.3	23.9	21.8	11.8
Mining and panning	0.2	0.0	0.0	0.1	0.1
Manufacturing	9.5	7.1	5.7	6.9	9.4
Services	18.3	19.6	18.8	25.5	26.8
Memorandum items:					
Real GDP per capita (1992 constant U.S. dollars)	163.8	163.2	163.1	116.2	116.1
Nominal GDP per capita (U.S. dollars)	180.9	169.7	168.4	136.0	150.0
Population (millions)	3.1	3.2	3.3	3.2	3.3
GDP deflator in U.S. dollars	1.0	-5.9	-0.7	13.3	10.4

Sources: Liberian authorities; and IMF staff estimates.

Table 2. Liberia: Sectoral Origin of GDP
At 1992 Constant Prices, 2000-04

	2000	2001	2002	2003	2004
	(In millions of US dollars)				
Real GDP	507.7	522.3	541.5	372.0	380.9
Agriculture and fisheries	250.7	266.8	255.3	157.8	182.4
Rubber	36.7	37.5	31.1	18.2	28.2
Coffee	0.5	0.3	0.2	0.1	0.1
Cocoa	0.7	0.5	0.8	0.6	1.3
Rice	68.3	73.2	62.5	31.3	34.4
Cassava	49.2	52.8	54.6	36.6	40.3
Other	95.5	102.5	106.0	71.0	78.2
Forestry	129.8	136.3	166.8	105.5	65.2
Logs and timber	66.3	69.5	96.7	38.9	1.9
Charcoal and wood	63.6	66.7	70.1	66.6	63.2
Mining and panning	1.6	0.4	0.4	0.6	0.8
Iron ore	0.0	0.0	0.0	0.0	0.0
Other	1.6	0.4	0.4	0.6	0.8
Manufacturing	42.5	33.2	27.4	24.2	37.2
Cement	5.0	5.8	4.9	3.8	7.9
Beverages and beer	34.9	24.4	19.4	17.2	26.1
Other	2.6	3.0	3.1	3.1	3.2
Services	83.0	85.6	91.6	84.0	95.3
Electricity and water	2.4	2.5	2.6	2.6	2.8
Construction	6.5	7.5	7.6	7.2	8.3
Trade, hotels, etc	17.1	18.1	18.7	17.7	22.2
Transportation and communication	19.8	20.8	26.0	25.7	29.6
Financial institutions	12.2	12.5	12.8	9.6	9.6
Government services	13.7	12.1	11.3	8.5	9.8
Other services	11.3	12.2	12.6	12.6	13.1
Population (millions)	3.100	3.200	3.321	3.200	3.280
Real GDP per capita	163.8	163.2	163.1	116.2	116.1
Real GDP Growth		2.9	3.7	-31.3	2.4

Sources: Liberian authorities; and IMF staff estimates.

Table 3. Liberia: Sectoral Origin of GDP
At Current Prices, 2000-04

	2000	2001	2002	2003	2004
		Estimates			
	(In Millions of U.S. Dollars)				
GDP	560.9	543.0	559.3	435.3	492.1
Agriculture and fisheries	286.8	277.1	288.5	199.0	255.4
Rubber	57.0	50.3	55.4	46.0	84.0
Coffee	0.5	0.1	0.1	0.0	0.0
Cocoa	0.7	0.4	0.6	0.7	1.3
Rice	61.7	56.1	53.2	27.7	29.5
Cassava	56.7	57.9	60.9	42.4	45.2
Other	110.1	112.3	118.3	82.2	95.3
Forestry	117.1	120.9	133.9	94.9	58.2
Logs and timber	61.8	70.3	86.7	40.2	2.1
Charcoal and wood	55.3	50.6	47.2	54.8	56.1
Mining and panning	1.0	0.2	0.2	0.3	0.4
Iron ore	0.0	0.0	0.0	0.0	0.0
Other	1.0	0.2	0.2	0.3	0.4
Manufacturing	53.2	38.5	31.8	29.9	46.3
Cement	6.2	7.7	6.5	5.2	10.3
Beverages and beer	43.8	27.1	21.9	20.5	31.3
Other	3.2	3.8	3.4	4.2	4.7
Services	102.7	106.2	104.9	111.2	131.8
Electricity & water	3.0	3.2	2.9	3.5	4.0
Construction	8.0	10.0	10.1	9.9	10.9
Trade, hotels, etc	21.1	22.8	20.8	24.1	32.5
Transportation and communication	24.8	24.2	30.2	31.9	36.8
Financial institutions	15.1	15.7	14.3	13.1	14.1
Government services	16.9	15.1	12.6	11.6	14.3
Other services	13.9	15.3	14.0	17.1	19.2

Sources: Liberian authorities; and IMF staff estimates.

Table 4. Liberia: Consumer Price Index, 1999–2004

	Overall Index		Food	Drinks and Tobacco	Fuel and Light	Clothing	Household Goods and Furniture	Personal Care and Services	Rent	Miscellaneous
	Index	Annual percentage change								
(Weight)	(100.0)		(34.4)	(5.7)	(5.0)	(13.8)	(6.1)	(11.4)	(14.9)	(8.7)
	(May 1998=100, unless otherwise indicated)									
1999 1/	**105.6**	**...**	**103.1**	**106.7**	**109.9**	**104.8**	**114.3**	**107.7**	**109.0**	**98.4**
2000 1/	**111.1**	**5.3**	**101.7**	**102.6**	**122.7**	**104.8**	**119.1**	**129.0**	**126.2**	**102.9**
2001 1/	**124.6**	**12.1**	**97.7**	**121.9**	**135.3**	**112.2**	**136.6**	**209.5**	**130.2**	**117.7**
2002 1/	**142.3**	**14.2**	**111.0**	**140.1**	**155.5**	**119.1**	**158.8**	**258.5**	**131.2**	**152.2**
January	133.5	19.5	101.6	127.1	148.8	114.0	158.7	243.1	130.3	129.9
February	136.1	22.3	102.5	127.8	152.3	115.1	158.2	255.2	130.3	137.0
March	138.5	23.8	107.3	132.5	155.9	117.1	157.4	254.0	130.3	139.6
April	139.3	17.9	105.2	133.9	155.5	118.1	157.3	255.7	131.5	150.5
May	140.4	18.7	107.8	134.6	153.2	118.4	157.8	256.2	131.5	151.8
June	141.3	14.1	110.0	135.2	154.2	118.6	158.0	256.5	131.5	152.1
July	143.3	9.3	107.2	148.1	159.4	120.5	158.0	259.1	131.5	168.3
August	145.2	8.7	110.8	154.0	159.4	121.7	159.5	261.5	131.5	165.8
September	146.3	8.8	116.1	145.2	161.6	121.2	160.1	265.0	131.5	157.1
October	146.8	8.5	118.7	142.4	159.4	121.8	161.0	264.3	131.5	155.8
November	148.0	11.9	120.6	150.5	153.0	121.6	161.0	265.2	131.5	158.9
December	148.9	11.1	123.8	149.4	153.0	121.6	158.5	266.0	131.5	159.0
2003 1/	**157.0**	**10.3**	**140.9**	**160.0**	**154.4**	**121.2**	**161.9**	**266.8**	**131.8**	**173.3**
January	150.6	12.8	123.7	149.4	154.1	121.5	158.5	266.0	131.5	177.9
February	151.1	11.0	126.4	154.2	155.7	121.5	158.5	266.0	131.5	168.5
March	152.6	10.2	130.6	154.2	155.7	121.4	159.6	266.0	131.5	168.6
April	152.8	9.7	130.8	154.2	154.4	121.2	161.6	266.8	131.5	168.6
May	152.9	8.9	130.9	154.2	154.4	121.2	164.1	267.4	131.5	168.6
June	161.6	14.4	147.1	176.3	160.0	121.2	162.8	267.1	131.5	186.7
July	161.6	12.8	147.1	176.3	160.0	121.2	162.8	267.1	131.5	186.7
August	165.9	14.3	156.7	188.0	170.5	121.2	162.8	267.1	135.1	184.2
September	160.9	10.0	154.1	154.2	154.4	121.2	162.8	267.1	131.5	168.6
October	159.0	8.3	148.6	154.2	154.4	121.2	162.8	267.1	131.5	168.6
November	158.6	7.2	148.0	151.8	154.4	120.8	163.3	267.1	131.5	168.8
December	156.4	5.0	146.6	153.3	125.2	120.8	163.3	266.9	131.5	164.1
2004 1/	**169.3**	**7.8**	**153.8**	**180.3**	**217.6**	**128.7**	**174.1**	**247.7**	**156.1**	**176.4**
January	157.0	4.2	147.4	155.1	128.3	121.5	163.3	267.0	131.5	164.1
February	157.0	3.9	146.4	158.5	128.3	121.8	165.5	267.0	131.5	164.1
March	157.3	3.1	146.1	158.2	132.1	122.0	167.9	267.1	131.5	164.1
April	157.4	3.0	146.5	159.3	132.1	121.3	167.9	267.2	131.5	163.6
May	157.5	3.0	146.3	161.4	132.1	122.1	168.9	267.0	131.5	163.5
June	159.9	-1.1	150.6	168.0	142.3	122.2	168.7	266.9	131.5	163.7
July	179.3	11.0	161.2	201.5	272.7	132.8	181.4	228.0	180.6	188.9
August	181.0	9.1	164.7	202.7	278.7	133.8	182.2	227.7	180.6	188.9
September	181.6	12.9	162.2	202.7	295.6	137.2	181.7	229.1	180.6	188.9
October	179.6	13.0	157.6	200.0	290.0	137.4	182.0	229.1	180.6	188.9
November	182.5	15.1	159.2	198.9	339.7	136.1	180.5	228.3	180.6	188.9
December	181.6	16.1	157.6	197.3	339.7	136.1	179.7	228.1	180.6	188.9

Source: Department of Statistics, Ministry of Planning and Economic Affairs.
1/ Annual average

Table 5. Liberia: Central Government Revenue, 2000-04

	2000	2001	2002	2003	2004
	(In millions of U.S. dollars)				
Tax revenue	74.3	60.7	70.3	42.1	62.5
Taxes on income and profits	15.9	11.5	14.4	6.4	18.0
Of which: corporate and partnership	4.8	4.2	7.2	2.0	7.4
Of which: individual income tax	9.3	6.1	6.7	4.1	9.9
Taxes on goods and services	17.3	19.7	25.5	10.5	8.0
Goods and service tax	0.0	2.0	3.5	4.3	6.9
Stumpage fees and land rental 1/	6.7	8.4	13.0	2.6	0.1
Petroleum sales tax	7.2	6.1	6.0	3.0	0.9
Other taxes	3.4	3.3	3.0	0.6	0.2
Maritime revenue	17.9	11.0	13.4	11.2	13.5
Taxes on international trade	23.2	18.6	17.0	18.0	23.1
Taxes on imports	22.9	18.4	16.8	18.0	23.0
Of which: petroleum	3.3	4.2	4.1	1.0	0.4
Taxes on exports	0.3	0.1	0.2	0.0	0.1
Other taxes	0.0	0.0	0.0	0.0	0.0
Nontax revenue	4.6	4.1	2.4	2.8	5.6
Grants	6.3	4.6	0.0	3.0	1.0
Total revenue and grants	85.2	69.5	72.7	47.9	69.2

Sources: Liberian authorities; and IMF staff estimates.
1/ Fund staff estimates.

Table 6. Liberia: Central Government Expenditure, 2000-04

	2000	2001	2002	2003	2004
	(In millions of U.S. dollars)				
Current expenditure	47.8	40.7	26.0	24.5	59.8
Wages and salaries	18.4	17.6	13.4	11.1	24.4
Goods and services	21.3	18.2	5.9	6.8	25.7
Of which: education	...	...	...	1.2	4.8
travel expenses	...	3.8	1.5	1.5	3.7
Subsidies and grants	3.0	0.9	0.4	0.5	5.7
Interest	5.1	4.0	6.3	6.0	2.6
External	0.4	0.6	0.6	0.2	0.4
Domestic	4.7	3.4	5.7	5.8	2.2
Domestic arrears clearance	...	...	...	...	1.5
Capital expenditure 1/	35.7	32.6	54.1	20.4	9.8
Internally financed	29.4	28.0	54.1	20.4	9.8
Externally financed	6.3	4.6	0.0	0.0	0.0
Total	83.6	73.3	80.1	45.0	69.7

Sources: Liberian authorities; and IMF staff estimates.
1/ Includes expenditure related to national security.

Table 7. Liberia: Monetary Survey, 2002-04

	2002	2003		2004	
	Dec.	Jun.	Dec.	Jun.	Dec.
	(In millions of Liberian dollars, unless otherwise indicated)				
Net foreign assets	-36,812	-50,692	-30,335	-44,834	-44,606
Of which : Fund credit and overdue charges	-36,607	-50,105	-30,579	-45,224	-45,957
Of which: CBL's gross foreign reserves	214	42	370	670	1,019
Assets corresponding to government U.S. dollars–denominated deposits at CBL	9	16	242	27	67
Assets corresponding to commercial banks' U.S. dollar deposits at CBL	178	247	235	575	739
CBL's net foreign reserves	28	-221	-106	67	213
Net domestic assets	39,711	53,395	33,661	48,513	49,364
Net domestic credit	53,622	70,216	44,878	62,047	62,311
Net claims on government	52,261	68,407	43,597	60,240	60,303
Of which : Fund credit and overdue charges	36,607	50,105	30,579	45,224	45,957
Claims on private sector	1,171	1,591	1,136	1,567	1,651
Claims on public enterprises	86	103	59	77	106
Claims on nonbank financial institutions	105	115	86	163	251
Other items, net	-13,911	-16,821	-11,218	-13,533	-12,947
Monetary aggregates					
Currency outside banks (Liberian banknotes and coins only)	1,045	1,138	1,304	1,390	1,755
Commercial banks' reserves at CBL 1/	203	151	132	183	111
Of which: required reserves	136	105	118	145	69
Money and banking (stocks, in billions of Liberian dollars) 2/	1,248	1,289	1,436	1,573	1,866
Commercial bank deposits 3/ 4/	1,854	1,564	2,022	2,289	3,004
Total demand deposits	1,319	945	1,513	1,466	1,973
Liberian dollar–denominated deposits	168	120	137	161	184
U.S. dollar–denominated deposits	1,150	825	1,376	1,305	1,790
Time, savings, and other deposits	535	620	510	824	1,030
Liberian dollar–denominated deposits	104	89	99	130	128
U.S. dollar–denominated deposits	431	530	411	694	903
Broad money (M2)	2,899	2,703	3,326	3,680	4,759
Liberian dollar component	1,318	1,348	1,539	1,681	2,066
U.S. dollar component 5/	1,581	1,355	1,787	1,999	2,692
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
U.S. dollar–denominated demand deposits	17.7	11.3	27.1	22.7	35.1
U.S. dollar–denominated time, savings, and other deposits	6.6	7.3	8.1	12.1	17.7
Broad money (annual changes in percent; in Liberian dollars)	...	3.9	14.7	36.2	43.1
Liberian dollar component broad money (in Liberian dollars)	...	11.8	16.8	24.7	34.2
U.S. dollar component broad money (excluding banknotes, in U.S. dollars)	...	-6.8	13.0	47.5	50.7
CBL's net foreign reserves (in millions of U.S. dollars)	0.4	-3.0	-2.1	1.2	4.2
Velocity (GDP relative to broad money)	12.5	8.2	6.6	7.4	5.7
Currency/deposits (in percent; Liberian dollars only)	383	543	554	478	564
Nominal GDP (millions of Liberian dollars; annualized basis)	36,353	22,070	22,070	27,068	27,068
Money multiplier	1.1	1.0	1.1	1.1	1.1

Sources: CBL; 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/ Including the deposits of publie entities (other than the central government) at the CBL.

5/ Excluding U.S. dollars in circulation.

Table 8. Liberia: Analytical Balance Sheet of the Central Bank of Liberia, 2002-04

	2002	2003		2004	
	Dec.	Jun.	Dec.	Jun.	Dec.
	(In millions of Liberian Dollars)				
Net foreign assets	-36,858	-50,585	-30,570	-44,967	-45,325
Of which : Fund credit and overdue charges	-36,607	-50,105	-30,579	-45,224	-45,957
CBL's gross foreign reserves	214	42	370	670	1,019
assets corresponding to the government	9	16	242	27	67
assets corresponding to commercial banks	178	247	235	575	739
CBL's net foreign reserves	28	-221	-106	67	213
Net domestic assets	38,107	51,875	32,006	46,540	47,191
Net domestic credit	51,307	67,584	42,757	59,223	59,025
Net claims on central government	51,542	67,747	43,035	59,666	59,726
Of which Fund credit and overdue charges	36,607	50,105	30,579	45,224	45,957
Net claims on deposit money banks	-279	-329	-343	-512	-800
Net claims on others	45	166	65	70	100
Other net domestic assets	-13,200	-15,709	-10,750	-12,683	-11,835
Reserve money	1,248	1,289	1,436	1,573	1,866
Currency outside banks	1,045	1,138	1,304	1,390	1,755
Bankers' reserves	203	151	132	183	111

Source: CBL

Table 9. Liberia. Analytical Balance Sheet of Commercial Banks, 2002-04

	2002	2003		2004	
	Dec.	Jun.	Dec.	Jun.	Dec.
	(In millions of Liberian dollars)				
Net foreign assets	46	-107	236	133	719
Net domestic assets	1,808	1,577	1,661	2,081	2,215
Net claims on central government	719	661	501	574	577
Net claims on other public entities (excluding central government)	85	102	58	76	106
Net claims on the CBL	1,611	1,486	1,374	1,806	2,217
Net claims on the private sector (including NBFI)	1,231	1,540	1,158	1,660	1,802
Other items, net	-1,837	-2,212	-1,430	-2,036	-2,487
Deposits	1,854	1,470	1,897	2,214	2,934
Demand deposits	1,319	942	1,510	1,463	1,971
Of which U.S. dollar denominated deposits	1,150	825	1,376	1,305	1,790
Other deposits	535	528	387	751	963
Of which U.S. dollar denominated deposits	431	438	288	621	835

Source: CBL.

Table 10. Liberia: Balance of Payments, 2000-04

	2000	2001	2002	2003	2004
				Estimates	
	(In millions of U.S. dollars, unless otherwise indicated)				
Trade balance	-25.5	-27.1	21.1	-31.1	-164.2
Exports, f.o.b.	120.3	127.9	166.5	108.9	103.8
Of which : rubber	57.1	54.0	59.2	43.9	93.4
timber	61.0	69.2	100.4	54.6	0.0
Imports, f.o.b	-145.8	-155.0	-145.3	-140.0	-268.1
Petroleum	-28.6	-30.1	-48.4	-29.7	-66.2
Rice	-22.0	-22.0	-30.5	-39.2	-27.5
Donor + foreign direct investment (FDI) related	-40.3	-15.2	-19.5	-19.0	-106.1
Other	-54.9	-87.6	-46.9	-51.9	-68.2
Services (net)	0.1	-8.2	2.8	-17.1	-45.6
Income (net)	-172.4	-140.2	-106.5	-77.6	-98.3
Of which: public interest payments due	-141.4	-95.7	-62.9	-52.7	-63.7
Current transfers (net)	67.2	42.3	63.4	46.6	242.6
Donor transfers (net)	54.4	32.1	42.6	19.5	189.2
Private transfers (net)	12.8	10.2	20.8	27.1	53.5
Current account balance	-130.6	-133.2	-19.2	-79.2	-65.5
Current account balance, excluding grants	-185.1	-165.3	-61.8	-98.7	-254.7
Capital and financial account	0.3	-10.1	-14.2	-26.1	-29.4
Official financing	-24.5	-22.4	-21.6	-20.2	-20.4
Disbursements	0.0	0.0	0.0	0.0	0.0
Amortization	-24.5	-22.4	-21.6	-20.2	-20.4
Private financing	24.8	12.3	7.4	-5.9	-9.0
FDI	20.8	8.3	2.8	0.0	0.0
Other investment (incl. trade credit)	3.9	4.0	4.6	-5.9	-9.0
Errors and omissions	-35.1	26.0	-47.4	36.4	22.2
Overall balance	-165.4	-117.2	-80.8	-68.9	-72.8
Financing	165.4	117.2	80.8	68.9	72.8
Change in official reserves (increases, -)	0.2	-0.2	-3.1	-4.0	-11.4
Arrears (accrual, +)	165.3	117.5	83.8	72.9	84.1
Use of Fund credit (net change in arrears)	13.7	15.4	8.7	7.9	10.1
Increase in non-Fund arrears	151.5	102.0	75.2	65.0	74.1
Memorandum items:					
Current account balance (in percent of GDP)					
Including grants	-23.3	-24.5	-3.4	-18.2	-13.3
Excluding grants	-33.0	-30.4	-11.0	-22.7	-51.8
Excluding grants and public interest payments due	-7.8	-12.8	0.2	-10.6	-38.8
Trade balance (in percent of GDP)	-4.5	-5.0	3.8	-7.1	-33.4
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
(in percent of GDP)	551.8	582.0	586.8	806.5	743.9
Debt service charges	165.9	118.1	84.4	72.9	84.1
(in percent of GDP)	29.6	21.7	15.1	16.7	17.1
Terms of trade (1997=100)	113.6	89.4	107.5	130.2	136.7
Net official reserves	...	...	0.4	-2.1	4.2
Net official reserves (in months of imports)	...	...	0.0	-0.2	0.2
Net official reserves (in months of nondonor imports)	...	...	0.0	-0.2	0.3
GDP at current prices	560.9	543.0	559.3	435.3	492.1

Sources: Liberian authorities; and IMF staff estimates.

Table 11. Liberia: Major Exports, 2000-04

	2000	2001	2002	2003	2004
			Estimates		
	(In millions of U.S. dollars)				
Total exports	120.3	127.9	166.5	108.9	103.8
Rubber	57.1	54.0	59.2	43.9	93.4
Timber	61.0	69.2	100.4	54.6	0.0
Cocoa	0.6	0.5	0.4	0.9	3.5
Coffee	0.5	0.0	0.2	0.1	0.0
Other	1.1	4.3	6.3	9.5	7.0
	(Annual percentage changes)				
Total exports	104.3	6.4	30.1	-34.5	-4.7
Rubber	72.6	-5.4	9.6	-25.7	112.6
Timber	160.3	13.5	45.2	-45.6	-100.0
Cocoa	-51.8	-26.2	-9.3	122.7	279.3
Coffee	-28.1	-94.8	676.9	-75.0	-48.8
Other	180.7	285.5	46.8	50.4	-26.2
	(In percent of total)				
Total exports	100.0	100.0	100.0	100.0	100.0
Rubber	47.4	42.2	35.5	40.3	89.9
Timber	50.7	54.1	60.3	50.1	0.0
Cocoa	0.5	0.4	0.2	0.8	3.3
Coffee	0.4	0.0	0.1	0.0	0.0
Other	0.9	3.4	3.8	8.7	6.7

Sources: Liberian authorities; and IMF staff estimates.

Table 12. Liberia: Merchandise Trade - Imports, 2000-04

	2000	2001	2002	2003	2004
			Estimates		
			(In millions of U.S. dollars)		
Total	145.8	155.0	145.3	140.0	268.1
Food and live animals	43.1	49.0	40.9	40.6	61.9
Of which: rice	22.0	22.0	30.5	39.2	27.5
Beverages and tobacco	5.0	4.9	4.5	4.4	9.2
Crude materials inedible excluding. fuel	5.2	3.1	1.6	2.9	2.3
Mineral fuels, lubricants	30.2	31.9	49.7	30.7	70.6
Of which: petroleum	28.6	30.1	48.4	29.7	66.2
Animal, vegetable oil	2.7	2.0	2.3	2.0	2.7
Chemicals and related products	11.5	7.0	6.0	5.5	7.1
Manufactured goods	16.6	14.7	9.7	11.9	25.4
Machinery and transport equipment	24.0	28.3	11.5	11.9	50.6
Miscellaneous manufactured	7.5	14.1	19.2	30.3	38.3
			(Annual percentage change)		
Total	-1.0	6.4	-6.3	-7.1	84.5
Food and live animals	-0.2	13.7	-16.6	25.4	51.3
Of which: rice	22.5	0.3	38.1	34.6	-9.7
Beverages and tobacco	-18.8	-2.2	-9.5	7.2	107.1
Crude materials inedible excluding fuel	-41.8	-41.5	-48.9	7.2	46.3
Mineral fuels, lubricants	49.4	5.4	56.0	-31.7	42.0
Of which: petroleum	63.6	5.4	60.7	-33.8	36.7
Animal, vegetable oil	-7.8	-23.6	12.3	-22.0	19.3
Chemicals and related products	-3.4	-38.9	-13.7	-28.9	17.8
Manufactured goods	22.0	-11.4	-34.5	-12.8	162.8
Machinery and transport equipment	-23.0	18.1	-59.2	-17.7	338.9
Miscellaneous manufactured	-19.0	89.1	36.1	-30.0	99.4
			(In percent of total)		
Total	100.0	100.0	100.0	100.0	100.0
Food and live animals	29.6	31.6	28.2	29.0	23.1
Of which: rice	15.1	14.2	21.0	28.0	10.3
Beverages and tobacco	3.4	3.2	3.1	3.1	3.4
Crude materials inedible excl. fuel	3.6	2.0	1.1	2.1	0.9
Mineral fuels, lubricants	20.7	20.5	34.2	21.9	26.3
Of which: petroleum	19.6	19.4	33.3	21.2	24.7
Animal, vegetable oil	1.8	1.3	1.6	1.4	1.0
Chemicals and related products	7.9	4.5	4.2	3.9	2.7
Manufactured goods	11.4	9.5	6.6	8.5	9.5
Machinery and transport equipment	16.4	18.3	7.9	8.5	18.9
Miscellaneous manufactured	5.1	9.1	13.2	21.6	14.3

Sources: Liberian authorities; and IMF staff estimates.

Table 13. Liberia: External Public Debt, 2000-04 [1/]

	2000	2001	2002	2003	2004
	(In millions of U.S. dollars)				
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
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
Belgium	1	1	1	1	1
Canada	4	4	6	6	4
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	1,075	1,139	1,154	1,217	1,260
Suppliers' credit	54	56	57	57	58

Sources: Liberian authorities; and IMF staff estimates.

1/ Data include estimates of interest arrears and late interest charges due to commercial creditors.

Table 14. Liberia: Medium-Term Slower-Growth Scenario, 2002-09

	2002	2003	2004	2005	2006	2007	2008	2009
	Estimates			Projections				
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	3.7	-31.3	2.4	8.5	4.9	7.7	4.1	3.2
Consumer prices (annual average)	14.2	10.3	7.8	5.0	6.0	5.5	5.0	4.0
External sector (in U.S. dollar terms)								
Exports of goods, f.o.b.	30.1	-34.5	-4.7	0.3	8.9	44.7	6.8	3.2
Imports of goods, f.o.b.	-6.3	-3.6	91.4	-1.2	-14.2	5.6	3.5	2.6
Central government operations								
Total revenue and grants	4.7	-34.1	44.3	37.4	16.9	11.5	17.9	14.7
Of which : tax revenue	15.8	-40.2	48.6	13.6	12.8	8.7	5.5	4.4
Total expenditure and net lending	9.2	-43.8	55.0	36.4	16.9	11.5	17.9	14.7
Of which : current expenditure	-36.2	-5.6	144.1	40.8	6.4	6.4	6.0	6.8
capital expenditure	65.7	-62.2	-51.9	9.3	98.5	32.8	58.0	32.5
Money and banking								
Broad money 1/	...	14.7	43.1	20.1	10.5	12.6	9.8	7.6
Velocity (GDP relative to broad money)	12.5	6.6	5.7	5.3	5.2	5.2	5.2	5.1
	(In percent of GDP)							
Central government operations (January-December)								
Total revenue and grants	13.0	11.0	14.1	17.7	19.6	20.2	22.6	24.8
Tax revenue	12.6	9.7	12.7	13.2	14.1	14.2	14.2	14.2
Non-tax revenue	0.4	0.7	1.1	4.5	2.8	2.0	3.0	4.0
Grant	0.0	0.7	0.2	0.0	2.6	4.0	5.3	6.6
Total expenditure and net lending	14.3	10.3	14.2	17.7	19.6	20.2	22.6	24.8
Of which : current expenditure	4.6	5.6	12.2	15.7	15.8	15.5	15.6	16.0
capital expenditure	9.7	4.7	2.0	2.0	3.8	4.6	6.9	8.8
Overall fiscal balance (cash basis)	-1.3	0.7	-0.1	0.0	0.0	0.0	0.0	0.0
External sector								
Current account balance, including grants (deficit, -)	-3.4	-18.2	-13.3	-19.9	-20.8	-17.5	-14.9	-17.5
Of which : grants	7.6	4.5	38.4	26.6	14.5	13.6	12.9	10.2
public interest payments due	-11.2	-12.1	-13.0	-15.5	-16.8	-17.4	-18.3	-19.1
Current account balance, excluding grants (deficit, -)	-11.0	-22.7	-51.8	-46.5	-35.3	-31.2	-27.9	-27.7
Trade balance (deficit, -)	3.8	-7.1	-33.4	-29.9	-20.0	-12.3	-11.3	-11.0
Exports, f.o.b.	29.8	25.0	21.1	19.4	20.0	26.8	27.2	26.8
Imports, f.o.b.	-26.0	-32.2	-54.5	-49.2	-40.0	-39.1	-38.5	-37.8
Public sector external debt outstanding (total)								
In millions of U.S. dollars	3,364	3,621	3,771	3,836	3,931	4,037	4,155	4,284
In percent of GDP	602	832	766	713	693	658	643	634
	(In millions of U.S. dollars, unless otherwise indicated)							
Nominal GDP	559	435	492	538	568	614	646	675
Current account balance including grants (deficit, -)	-19.2	-79.2	-65.5	-107.0	-118.2	-107.6	-96.5	-118.5
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/ Defined as Liberian currrency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

Table 15. Liberia: Medium-Term Optimistic Scenario, 2002-09

	2002	2003	2004	2005	2006	2007	2008	2009
	Estimates			Projections				
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	3.7	-31.3	2.4	8.5	17.2	9.7	9.1	9.0
Consumer prices (annual average)	14.2	10.3	7.8	5.0	6.0	5.5	5.0	4.0
External sector (in U.S. dollar terms)								
Exports of goods, f.o.b.	30.1	-34.5	-4.7	0.3	70.6	10.4	8.6	7.9
Imports of goods, f.o.b.	-6.3	-3.6	91.4	-1.2	23.3	4.7	5.1	5.4
Central government operations								
Total revenue and grants	4.7	-34.1	44.3	38.2	56.6	16.6	21.0	18.0
Of which : tax revenue	15.8	-40.2	48.6	14.2	34.3	16.7	11.6	10.6
Total expenditure and net lending	9.2	-43.8	55.0	37.2	56.6	16.5	21.0	18.0
Of which : current expenditure	-36.2	-5.6	144.1	40.9	18.7	14.9	10.0	18.8
capital expenditure	65.7	-62.2	-51.9	14.8	339.1	19.8	42.2	16.8
Money and banking								
Broad money 1/	...	14.7	43.1	20.5	14.7	16.7	15.2	9.6
Velocity (GDP relative to broad money)	12.5	6.6	5.7	5.3	5.0	5.0	4.9	4.8
	(In percent of GDP)							
Central government operations (January-December)								
Total revenue and grants	13.0	11.0	14.1	17.7	23.7	25.0	27.3	29.1
Tax revenue	12.6	9.7	12.7	13.3	15.2	16.0	16.2	16.1
Non-tax revenue	0.4	0.7	1.1	4.5	2.6	1.9	3.0	4.0
Grant	0.0	0.7	0.2	0.0	5.9	7.0	8.1	9.0
Total expenditure and net lending	14.3	10.3	14.2	17.8	23.7	25.0	27.3	29.1
Of which : current expenditure	4.6	5.6	12.2	15.7	15.9	16.5	16.3	17.6
capital expenditure	9.7	4.7	2.0	2.1	7.9	8.5	10.9	11.5
Overall fiscal balance (cash basis)	-1.3	0.7	-0.1	0.0	0.0	0.0	0.0	0.0
External sector								
Current account balance, including grants (deficit, -)	-3.4	-18.2	-13.3	-19.9	-20.3	-18.0	-16.0	-16.3
Of which : grants	7.6	4.5	38.4	26.6	21.8	21.6	21.2	20.9
public interest payments due	-11.2	-12.1	-13.0	-15.5	-15.1	-15.3	-15.3	-15.0
Current account balance, excluding grants (deficit, -)	-11.0	-22.7	-51.8	-46.5	-42.0	-39.6	-37.2	-37.3
Trade balance (deficit, -)	3.8	-7.1	-33.4	-29.9	-19.2	-17.0	-18.9	-17.4
Exports, f.o.b.	29.8	25.0	21.1	19.4	18.0	23.5	22.7	21.2
Imports, f.o.b.	-26.0	-32.2	-54.5	-49.2	-37.2	-40.5	-41.6	-38.6
Public sector external debt outstanding (total)								
In millions of U.S. dollars	3,364	3,621	3,771	3,836	3,931	4,037	4,155	4,284
In percent of GDP	602	832	766	713	623	579	537	501
	(In millions of U.S. dollars, unless otherwise indicated)							
Nominal GDP	559	435	492	538	631	698	773	856
Current account balance including grants (deficit, -)	-19.2	-79.2	-65.5	-106.9	-128.0	-125.9	-123.7	-139.7
Net official reserves	0.4	-2.1	4.2	11.7	19.3	26.8	34.1	41.3
(in months of imports of goods and services)	0.0	-0.2	0.2	0.5	0.7	0.9	1.1	1.3

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

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

Table 16. Liberia: Summary of Tax System
(As of February 28, 2005)

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

1.2 Taxes on individuals

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

1.5 Other withholding on payments to nonresidents	Levied on the gross amount of interest, dividends, royalties, rents, compensations, and other fixed or determinable incomes earned in Liberia by nonresident foreigners. Under certain conditions, taxpayers may be granted appropriate relief at the discretion of the minister in cases of inequity in tax burden, for example, double taxation.	Exemption from taxation are: (a) interest: earned on deposits with banks in Liberia; (b) interests, commissions, and other charges levied on short-term commercial transactions; and (c) items of income specifically listed in concession agreements	
1.6 Insurance premium tax—insurance companies	Annual tax on all gross premium received from policy by insurer on direct risks written in Liberia and also if a domestic insurer on direct risks is situated in any other country or countries.		4 percent.
2. Payroll taxes	None.		
3. Taxes on property			
3.1 Real estate tax			
3.11 Real estate tax	Levied on land located in a city, township or commonwealth district and the assessed value of any improvement thereon. Valuation of the property is determined by the tax administration.	Exemption from taxation are: (a) government properties; (b) properties of churches or other religious societies held for educational, charitable, or fraternal purposes; (c) buildings and other properties owned by the University of Liberia; and (d) properties held by foreign governments not owned by private individuals.	5 percent on unimproved and in owns and cities, and 5 cents per acre on rural land, including farmland, with a minimum of L$5,000. 2 percent on improved land in commercial use. 1 percent on improved land for industrial use. 2 of 1 percent on residential property.
3.12 Withholding tax on rental income	Annual tax on rent or lease payments of realty. The tax is withheld by the leasor at the time of rent payment.		10 percent of the rent or lease. Creditable against income tax.
3.2 Net wealth taxes	None.		
3.3 Death and gift taxes	None.		
3.4 Property transfer taxes	None.		

4. Taxes on domestic goods and services

4.1 Goods and Services tax

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

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

5. Taxes on international trade			
5.1 Taxes on imports			
5.1.1 Customs duties	Most import duties are levied as ad valorem duties on the c.i.f. value of import.	Exempt from duties are (a) imports by Liberian government, diplomats, and missionary organizations; (b) intermediate goods used in agriculture and some medical and fire-fighting supplies; (c) imports granted by special contracts to the large concessionaires operating in Liberia; and (d) imports granted under the Investment Incentive Code to stimulate industrial activities in Liberia. NGOs and others NGOs and others who benefit from the exemption from the payment of customs duty are liable for a clearing and documentation fee of 3% of the CIF value of imports. For manufacturers in essential industries, a customs duty on raw materials capital equipment, and machinery of 5 percent applies. For non-essential industries, the respective rate may not exceed 15 percent.	A. Ad valorem Ad valorem tariff rates range from 2.5 to 25 percent, a higher tariff rate (50 percent) applies to firearms and military equipment. The list below gives a few examples only. (In percent) (1) Wheat and other grains 5.0 (2) Plantains 7.5 (3) Coffee and tea 15.0 (4) Petroleum products 10.0 (5) Rubber and latex 25.0 (6) Wood products 20.0 (7) Motor cars 5.0-20.0 (according to engine size) B. Specific (In units indicated) (1) Rice (bulk) US$0.50 per 100 pound bag (2) Beer US$2.00 per liter (3) Paint US$1.50 per liter (4) Spirits US$6.50 – 7.10 per liter Unmanufactured tobacco US$1.45 per kg Manufactured tobacco US$3.00 per kg
5.1.2 Rice stabilization fee			US$1.00 per 100 pound bag
5.2 Taxes on exports- Export duties	Export duties are levied on a variety of exports, including rubber and other agricultural products.	Logs and some timber are exempt when cut on privately owned land. Export duties are creditable against income tax.	2.5 percent on unprocessed exportables 0 percent on processed exportables 4 percent on diamonds and precious metals

6. Other taxes				
6.1 Poll taxes				
6.11 Local tax (suspended)	An annual tax payable by citizens and alien residents not paying income tax (and collected by the central government).	Children under the age of 16 and students not gainfully employed; and persons considered elderly, indigent, or infirm by the Head of State.	L$10.00.	
6.12 National Identification Card fee (suspended)	An annual fee payable by citizens and alien residents.	Children under the age of 5.	Children age 5 to 18 Students Adults, 19B65 Adults, 66 and above	L$3.00 L$3.00 L$7.00 L$5.00
6.2 Other				
6.21 Airport tax	Levied on passengers leaving Liberia.		US$25.00 per passenger	
6.22 Airline ticket tax (replaced by Goods and Services Tax as of July 1, 2001)	Levied on passengers leaving Liberia. The charges are collected by carriers.			
6.23 Hotel tax (replaced by Goods and Services Tax as of July 1, 2001)	Levied on room charges.		10 percent.	

Source: Liberian authorities.