CENTRAL BANK OF LIBERIA

POLICY STATEMENT 2011

I. INTRODUCTION

The policies and activities of the Central Bank of Liberia (CBL) over the past few years have been transformative: the banking system has seen significant expansion, with much higher level of capitalization; the regulatory environment has taken an irreversible turn for the better; improved corporate governance has become an acceptable part of the lexicon of banking practices; and confidence in the banking system is on the rebound. The Central Bank itself has undergone restructuring, with capacity building within the ranks of its staff being a centerpiece of this exercise. The CBL is also now playing an enhanced role in the management of the Liberian macroeconomy.

These have all been the outgrowth of the CBL's reform agenda. But much remains to be done. This policy statement for 2011, therefore, continues along the path of further strengthening the Bank's reform effort, rooted in the following strategic objectives: (1) improving the capacity of the CBL for more effective macroeconomic management; (2) creating a more supportive environment to enhance the profitability of the banking sector, including scaling up efforts to prevent the abuse of the financial system by delinquent borrowers; (3) empowering Liberian entrepreneurship through steps aimed at making credit more available and affordable; (4) laying the basis for the deepening of the financial sector; (5) continuing with the development of the payments system; (6) strengthening consumer protection; and (7) enhancing financial inclusion. Progress along these lines is essential for a more stable and vibrant financial system that would strongly support broad-based economic growth and development.

Regular communication with the public on developments in the financial sector and the macroeconomy will continue during the course of the year, basically using its various publications, including the Monthly Fact Sheet, the bi-monthly Statistical Bulletin, the Quarterly Financial and Economic Bulletin, the Quarterly Newsletter, as well as the Bank's website. Meanwhile, our efforts to pursue consultations with the fiscal authorities will continue. Reciprocal dialogue is critical to a successful campaign by the government to maintain macroeconomic stability, accelerate economic growth and development and intensify the fight against poverty.

The CBL's efforts to build capacity have benefitted immensely from technical assistance from the International Monetary Fund (IMF). However, there are areas in which other partners can contribute to this endeavor, such as helping to finance the relatively expensive but much-needed infrastructure to improve reporting and analysis of returns from commercial banks, thereby improving the CBL's surveillance over the financial system. Donor assistance to enable the CBL to acquire the Electronic Financial Analysis and Surveillance System (e-FASS) will be invaluable in this regard.

II. MACROECONOMIC DEVELOPMENTS

The Liberian economy grew at an estimated 6.3 percent in 2010, compared with 4.6 percent in 2009. The rise in economic activity was largely driven by resurgence in the agriculture and services sectors. Foreign direct investment (FDI) in forestry and mining was lower than projected on account of the slow pace of operation in the forestry sector and the sluggish recovery of the global economy. Economic prospects for 2011 and over the medium term remain favorable provided that the external risks related to rising international food and fuel prices are contained and activities remain on course to rebuild the country's infrastructure. The consensus around the need to give added impetus to the Liberian business sector should also help to spur economic growth and boost employment. For 2011, real GDP growth is expected to be about 5.9 percent.

Inflation largely remained in single digit. The average rate of inflation at end-December 2010 was 7.5 percent, compared with 7.4 percent at end-December, 2009. Inflation was mainly driven by increases in prices of domestic food and imported fuel. Inflation at end-March, 2011 averaged 6.2 percent, higher than the 5.7 percent rate at end-December, 2010. Inflation in 2011 will largely depend on both domestic food prices and prices of oil and food on the global market.

The exchange rate of the Liberian dollar vis-à-vis the United States dollar remained broadly stable at L$71.00/US$1.00 for buying and L$72.00/US$1.00 for selling in 2010. This broad stability can be attributed, in part, to the regular intervention in the foreign exchange market by the CBL. Continued prudent management of the supply of Liberian dollars will contribute to the maintenance of a stable macroeconomic environment.

There was a significant rise in export proceeds in 2010, up from US$148.8 million in 2009 to US$223.4 million in 2010. The increase in receipts was on account of increased demand for primary commodities, mainly rubber, gold and diamond. However, the persistent trade deficit remains a challenge because of Liberia's heavy dependence on imports, which rose by 57.0 percent to US$740.5 million at end-December, 2010, from US$551.6 million in December, 2009. It is important to expand the manufacturing sector as well as strengthen efforts aimed at increasing production of the nation's staple food, rice, with a view to improving the country's balance of payments. Exports are expected to perform well in 2011, given the scheduled resumption of iron ore exports and increased exports from the forestry sector. In the quarter ending March, 2011, exports rose to US$70.3 million, indicating an increase of 7.8 percent over the fourth quarter in 2010.

Aggregate commercial bank credit to various sectors of the economy stood at L$12,623.5 million at end-December 2010, reflecting a 31.9 percent increase over the L$9,568.7 million recorded at end-December 2009. The US dollar component accounted for L$11,911.9 million (US$166.6 million) or 93.1 percent, reflecting the highly dollarized nature of the economy. Increased credit expansion to the productive sector of the economy is still a challenge for the CBL and other stakeholders. Such expansion requires concerted efforts by all relevant stakeholders in addressing this matter through policies intended to improve the operating environment.

III. KEY POLICY DECISIONS: 2010

The CBL weekly foreign exchange auction remained the principal policy instrument for affecting domestic monetary condition.

In its quest to ensure broad exchange rate stability, the CBL increased its intervention in the market by offering US$44.6 million in 2010, US$12.8 million more than the US$31.8 million offered through the auction in 2009. At the same time, the CBL continued to build up its reserves.

The Board of Governors of the CBL took a number of decisions, including the following:

- Adopting a framework for Microfinance Regulation and Supervision, which seeks to make financial services accessible to a larger segment of the Liberian population, particularly low-income earners and small- and medium-sized enterprises (SMEs), and to promote Government's Poverty Reduction Program;
- Approving a framework for the introduction of a Treasury-bill (T-bill) market in Liberia;
- Developing a framework for the establishment and operation of credit reference bureaux;
- Issuing Guidelines to licensed financial institutions on Due Diligence concerning Prospective and Existing Employee(s) of Financial Institutions, setting minimum requirements for the engagement or hiring of persons and/or the assessment of existing employees;
- Amending the prudential Regulations for Asset Classification, Provisions for Loan Losses (reducing the General Provision for Loan Losses from 2 percent to 1 percent) and Suspension of Interest Rates on Non- Performing Loans and Advances;

- Issuing prudential Regulations for Deposit-Taking Microfinance Institutions

Also in 2010, the CBL introduced a US$5 million Credit Stimulus Initiative for Liberian-owned Small and Medium-scale Enterprises (SMEs), with a view to improving access to credit by the private sector. The goal is to promote a better maturity structure for loans to Liberian-owned SMEs and to make the cost of credit more affordable. Through moral suasion, commercial banks also reduced general lending rates and capped commission and fees on loans.

In helping to address the capacity constraints of the banking sector, the CBL, in collaboration with the Liberia Bankers Association (LBA), established the Banking Institute of Liberia, located at the Training Center of the CBL. A total of 124 persons benefited from the course offered.

IV. POLICY DIRECTION FOR 2011

MONETARY POLICY

The principal objective of monetary policy will remain to support price stability. This will include, among others, holding an adequate level of reserves to help support the value of the Liberian dollar. However, the CBL needs other tools to manage liquidity in its efforts to contain inflation. This is why the introduction of treasury bills is important. The CBL has already done all of the preparatory work to commence the sale of treasury bills. Should it become necessary, the CBL will issue its own notes to be able to achieve its policy objectives. Meanwhile, steps are being taken to improve our liquidity monitoring framework and its forecasting ability. The CBL is also developing an appropriate roadmap and interim regulations to ensure an orderly development of a capital market. It should also be stressed that the commencement of the Treasury bill market will be an important step in this direction.

THE FINANCIAL SYSTEM

Given that the CBL has progressively increased the minimum capital requirement for commercial banks from US$2.0 million in 2007 to US$10.0 million by end-2010, banks are now in a better position to fund growth in assets, expand and improve services to the public, and provide more banking products to meet the financing needs of the economy.

The policy goals of the CBL for the current year will focus on the following:

Enhancing Profitability of the Banking Sector

Although the banking sector has shown steady growth in recent years, it remains challenged by low profitability. This is due to several factors, including high loan provisions associated with poor asset quality, high operating costs, and limited financial instruments for investing excess liquidity. Against this background, significant strides have been made, with the help of various stakeholders in strengthening the enabling environment for the banking system with the enactment of the new Commercial Code and the establishment of a special Commercial Court. The CBL urges the relevant authorities to operationalize the Court in a timely manner.

Meanwhile, the CBL will focus on the following to further improve the credit environment:

- Continue to support alternative approaches undertaken by the commercial banks aimed at improving collection of non-performing loans. Including the publication of the names of severely delinquent borrowers;
- Undertake public education campaign to inform the public of their responsibility to promote good credit culture as a key factor for the economic growth and sound banking system;
- Work towards upgrading the current credit reference system to address the problem of proper identification and to make the system more efficient by upgrading the existing software, with the near-term goal of promoting the establishment of a privately-owned credit reference bureau; and
- Work towards the establishment of a collateral registry, with the aim of enhancing the sharing of credit information among the commercial banks and protecting their security interest.

Additionally, the CBL will take steps to create opportunities for commercial banks to deploy their excess liquidity. In this regard, the CBL will:

- Review its existing regulatory policies and guidelines on provisioning and the single obligor limit to bring them in line with regional practices;
- Encourage syndication among banks to facilitate the financing of large-volume transactions with high returns, and at the same time promote diversification;

- Engage the fiscal authority to ensure the timely roll out of treasury bills as well as consider the introduction of CBL notes should that be necessary to provide opportunity for banks to invest some of their excess liquidity;
- Work with banks to channel needed financial resources to productive sectors such as agriculture, SMEs, housing, etc., to stimulate the domestic economy;
- Work with banks to develop a mechanism, in collaboration with the fiscal authority, for the financing of key public projects with strong future returns;
- Engage the fiscal authority to consider favorable tax policy for commercial bank lending to pro-growth sectors of the economy; and
- Work with banks to review the cost of services provided to them by the CBL.

For their part, the banks will be expected to more effectively contain administrative and related costs, including the costs associated with branch expansion. Meanwhile, the CBL urges the electricity authorities to consider extending power to the commercial banks. By doing so, it should help reduce their overhead cost of the banks.

The CBL will exercise due caution in the granting of new licenses so as not to saturate the market. Consideration will be given only to institutions dedicated to meeting the needs of critical sectors of the economy, such as agriculture and housing.

Stepping up work toward implementation of Risk-Based Supervision (RBS)

Continuing from the progress made in 2010, the CBL in 2011, will work towards enhancing its risk-based supervisory framework, directing efforts at:

- Completing the pilot examinations under RBS for all of the banks;
- Conducting a series of training programs on various subjects of RBS for the banking sector;
- Adopting the electronic financial reporting system (e-Fass), through a regional initiative, as a means of improving the reporting system, ensuring accuracy and effective monitoring of the banking system, and harmonization of our practices with the sub-region; and
- Reviewing and strengthening the existing corporate governance regulation in line with contemporary international best practice.

Ensuring that the transition to International Financial Reporting System (IFRS) remains on track

The CBL intends to pursue the following measures during the course of 2011:

- Issue a directive to banks for the submission of a roadmap on how each bank intends to meet the December 2012 deadline for full compliance with IFRS;
- Establish a technical working committee, comprising key officers of selected departments of the CBL, the banks and the external auditors, so as to monitor the progress made, and identify challenges faced by banks in the process of transitioning to IFRS by end-2012. The committee will be required to develop a guideline and a road map for the industry on IFRS implementation to ensure a smooth transition; and
- Seek technical assistance for strengthening the capacity of the Regulation & Supervision Department in ensuring commercial banks' compliance with IFRS on an ongoing basis.

Promoting Access to Financial Services and Medium to Long-Term Lending

Increased access to financial services and medium- to long-term financing is essential to the growth and development of the private sector, and is a major challenge which has to be addressed. While there has been a steady growth in overall lending in recent years to the private sector, the share of total credit to critical sectors of the economy, such as agriculture and SMEs, still remains low. The CBL has taken a major first step in trying to change the situation with the launching of a "Credit Stimulus Initiative" towards the end of last year. The commercial banks have been advised to extend the scheme to other parts of the country. The CBL will build on this Initiative as well as explore other avenues with interested partners to ensure improved access to financing for Liberian entrepreneurs on reasonable terms. This will include the microfinance sector, in keeping with the CBL's goal of making the financial system more inclusive. A key issue here will be to design policies aimed at building the capacity of Liberian entrepreneurs to ably manage their businesses as well as creating the enabling environment for the repayment of debt. With particular regard to the rural areas, work is now in progress towards the introduction of mobile banking services.

As regards credit unions, a workshop is planned to take place during the second quarter of this year to revamp the leadership and internal governance policies and procedures of the Liberia Credit Union National Association (LCUNA). The workshop will also inform work leading to the development of a regulatory and supervisory framework for the credit unions.

Developing the Non-Bank Financial Sector

Our focus will be on reforming the operations of foreign exchange bureaux and restructuring the insurance sector. Work will also be done on the framework for non-deposit taking institutions. With regard to the former, further measures will be taken aimed at modernizing the activities of these businesses so that they are more integrated into the financial system. Upon the urging of the CBL, the Association of Foreign Exchange Bureaux of Liberia (AFEBL) has been restructured to make it more representative and broad-based. A reform agenda has been agreed with the AFEBL, which will be put into effect during the course of the year.

With the clarity of the CBL's legal mandate regarding the regulation & supervision of the insurance industry in Liberia, the next step for the CBL during the course of 2011 will be to implement a road map for the sector calling for (1) adequate capitalization, (2) enhanced corporate governance, (3) strong risk management systems, and (4) adequate re-insurance. Where necessary, companies may have to merge as an essential component of the reform measures. The First Initiative/World Bank has approved the CBL's technical assistance proposal to help develop the necessary regulatory and supervisory framework for the insurance industry. Over the medium-term, the CBL expects to turn over the regulation and supervision of the insurance sector to an autonomous agency duly established for that purpose.

Work has begun on developing the legal and regulatory framework that will govern the operations of specialized non-deposit-taking financial institutions, such as finance companies, venture capital companies, and leasing companies. The First Initiative/World Bank has also agreed to provide technical assistance to support this effort.

Taking Further Steps to Protect the Integrity of the Banking System

The high incidence of fraud and robbery being experienced in the banking system has become a serious concern for the CBL. This could undermine the progress made so far in strengthening the system. It is our view, therefore, that serious efforts are needed on the part of all stakeholders, including the Government, to curtail the frequent attacks on the premises of banks and cash movements and to expedite the prosecution of bank fraud and theft cases. In this regard, the CBL welcomed the tripartite discussion in 2010 involving the commercial banks, CBL and the Ministry of Justice (MOJ) to address the situation. Further collaboration with the Ministry of Justice will be pursued.

Reflecting on the need to protect clients of banks operating in the country, a Consumer Protection Unit will be established in the Regulation & Supervision Department to receive and investigate public complaints of unethical banking practices. A workshop has been held on client protection in the microfinance industry. Furthermore, plans are underway for a quarterly publication of the consolidated information on the interest rates and other financial charges of each bank as a means of promoting greater disclosure to the public and engendering competition in the banking system.

Strengthening the Anti-Money Laundering and Combating Financing of Terrorist Regime

In compliance with the recommendations of the recent GIABA's Mutual Evaluation Assessment of Liberia, it is important that all stakeholders work together to ensure the passing into law of the draft Prevention of Money Laundering Law (PMLL), and establish the Financial Intelligence Unit (FIU). The Bank is also reviewing and upgrading its existing Know-Your-Customer (KYC) and Customer-Due-Diligence (CDD) regulation and supervisory oversight, consistent with international AML/CFT standards, and will work with the commercial banks to ensure that AML/CFT issues are fully incorporated into their risk management framework.

Promoting Supervisory cooperation

The CBL will continue with its efforts of promoting supervisory cooperation and exchange of information on the operations and activities of regional and international banking institutions operating in Liberia. As a founding member of the College of Supervisors of the WAMZ (CSWAMZ), the CBL is committed to playing an active role in the activities of the College to promote the harmonization of supervisory practices, information exchange and cross-border supervision among the WAMZ countries.

TOWARDS THE MODERNIZATION OF THE PAYMENTS SYSTEM DEVELOPMENT PROJECT

The CBL has begun the implementation of a payments system modernization project. This project is being largely funded by the African Development Bank (AfDB). Staff have been sent on a study tour to Ghana and The Gambia to acquaint themselves with payments system operations in those countries. A Payments System Unit has been established in the CBL and it is expected that this Unit may likely grow into a new department within the Bank.