CENTRAL BANK OF LIBERIA

POLICY STATEMENT 2015

I. OVERVIEW

The Monetary Policy stance of the Central Bank of Liberia (CBL) will continue to be aimed at ensuring a stable macro-economic environment characterized by broad exchange rate stability and low inflation. The CBL will remain strongly supportive of the national economic development agenda, particularly the post-EVD economic recovery strategy, considering the need for access to financing for critical sectors of the economy, including agriculture and manufacturing. The Mortgage Stimulus Initiative put in place by the CBL, in collaboration with the Liberian Bank for Development and Investment (LBDI) in 2012, has been largely successful with over 180 beneficiaries whose loan portfolios are largely performing. Looking at the prevailing circumstances, such support to the housing sector will be important. The CBL will continue to engage investors with a view to encouraging the establishment of a mortgage finance institution.

Because of the rapid depreciation of the Liberian dollar during the first half of 2014, the CBL increased its interventions in the foreign exchange market. This action helped to stabilize the exchange rate and contain inflation towards the end of the year. Further intervention in the foreign exchange market will be guided by market conditions, balanced against the need to maintain an acceptable level of foreign reserves.

The banking system has an important role to play in the post-Ebola recovery of the economy, and every effort will be made to ensure that it remains sound and stable. In this connection, the CBL will continue its financial inclusion program, including working with various communities to establish additional Rural Community Finance Institutions (RCFIs), which will help to expand access to credit and financial services for low income groups and individuals. Encouraging private operators to expand mobile money services will also be part of the enhanced financial inclusion program.

II. RECENT ECONOMIC DEVELOPMENTS

Global growth remains moderate and estimated at 3.5 percent for 2015 according to the IMF April 2015 World Economic Outlook (WEO). Compared with 2014, the outlook for advanced economies is improving, while growth in emerging market and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.

Real GDP growth of the Liberian economy was estimated at 0.7 percent at end-2014, down from 8.7 percent in the previous year. The slowdown was mainly due to a sharp decline in agricultural production, particularly domestic food production, mining activities as well as activities in the services sector, as a result of the Ebola outbreak. For 2015, real GDP is estimated at 0.9 percent.

Annual inflation averaged 9.9 percent in 2014, 2.3 percentage points higher than the figure recorded in 2013, largely on account of low domestic food production arising from the Ebola outbreak and the exchange rate pressure experienced during the first half of the year. Consumer price outlook for 2015 is expected to remain in single digit, contingent upon the containment of the Ebola virus disease, broad exchange rate stability, increased domestic food production and favorable international oil and food prices.

The Liberian dollar came under pressure vis-à-vis the US dollar during the first half of 2014, but broadly stabilized towards the end of the year mainly on account of CBL's increased intervention and higher US dollar inflows during the second half of 2014.

The banking sector remained steady, well capitalized and liquid, due to the supervisory measures implemented by the CBL and the growing confidence of the public in the system. As a result of the impact of the Ebola virus disease (EVD) on the economy, credit to the private sector grew marginally by 0.8 percent at end-December, 2014, compared with a growth of 42.2 percent at end-2013. Non-performing loans (NPLs) also rose to 18.7 percent at end-December 2014, from 14.8 percent in 2013, also because of the Ebola crisis.

Money supply (M1) at end-December 2014 decreased by 5.3 percent to L$36,634.5 million, from L$38,666.5 million recorded the same period a year ago. Similarly, broad money (M2) at end-2014 declined by 2.3 percent to L$53,696.9 million, from L$54,956.4 million recorded at end- 2013. These developments reflect the economic slowdown in the country.

Money market operations continued during the year with a significant increase in sales of both Government of Liberia's Treasury bills (T-bills) and CBL's notes. T-bills issued in 2014 amounted to L$1,977.2 million compared with L$1,077.0 million issued in 2013; the CBL notes issued amounted to L$3,972.8 million in 2014, compared with L$2,327.5 million issued in 2013.

Macroeconomic Challenges

The Ebola outbreak exposed the structural weaknesses of the Liberian economy, highlighting the compelling need for a more concerted effort to restructure the economy, with greater emphasis on value-addition mode of domestic production, especially in the agriculture and manufacturing sectors. It is important to note that the economy is estimated to grow under 1 percent for 2014 and 2015, and although projected to rebound and average around 5.0 percent growth in the medium term (2014-20), it is by far lower than the pre-Ebola (2006-13) growth of about 8.0 percent. Such growth trend is inadequate to create significant employment and make a dent in poverty. Accordingly, there is a need for appropriate macroeconomic management tools to promote diversification for more inclusive growth and development. The Government has to redouble its efforts aimed at building a vibrant private sector through, among others, the provision of strong credit support, especially to the agriculture, services and manufacturing sectors in order to ensure a better growth performance and stronger support for Liberian entrepreneurship that would accelerate job creation and the realization of Liberia becoming a middle income country in line with the Government's Agenda for Transformation.

For its part, the CBL has been making efforts in support of the economic growth and development of the economy, including working to develop the payments system; intervening in the real sector through credit easing and credit guarantee, especially for the rubber and housing sectors; and rolling over microfinance payments under the credit unions and village savings and loan associations operating in rural Liberia affected by the Ebola crisis. Also, the CBL is working to develop an appropriate framework that involves private investors to finance agriculture and housing. The CBL is also part of the regional effort relating to the external trade liberalization scheme for member countries within ECOWAS. These actions by the CBL should be seen as complementing the efforts of the Government aimed at rapid job creation and poverty reduction.

III. Key Policy Decisions: 2014

The Board of Governors took several decisions to strengthen the financial system, restructure the insurance sector, and strengthen liquidity management in 2014. Below are some of the key decisions taken in 2014:

- approved a Mobile Money Regulation to create the enabling environment for the growth and expansion of mobile money services, including allowing for non-bank financial institutions (NBFIs) to provide such services, especially in the rural parts of the country;
- reduced the US dollar Reserve Requirement from 22.0 percent to 15.0 percent in order to enhance liquidity in the banking system, to support credit to critical sectors of the economy and to help in smoothening the short-term foreign exchange needs of the economy;
- amended the Prudential Regulation for Asset Classification to allow for flexibility in the restructuring of delinquent loans by commercial banks and the implementation of a write-off policy by banks;
- approved the Fit and Proper Guidelines which define the general standards and requirements for the evaluation and assessment of staff, shareholders and members of the Board of Directors of financial institutions. The guidelines also complement the standards and due

diligence requirements of the licensing regulations and the corporate governance regulation for financial institutions;

- amended the Regulation on Dormant Accounts and Abandoned Property in order to strengthen administration and internal controls regarding inactive, dormant accounts and abandoned properties held by banks;
- approved the Consumer Protection and Market Conduct Regulation to promote transparency in the activities of financial institutions, as a means of empowering consumers to make informed decisions; to foster confidence in the financial services sector by ensuring that financial institutions provide quality services to their customers and other stakeholders; and to require financial institutions to establish and implement efficient and effective mechanisms for handling consumer complaints. The regulation also requires the Liberian Bankers Association (LBA) to develop a code of professional conduct for commercial banks to promote ethical and professional standards in the banking industry;
- approved the new capital requirements for insurance businesses as follows: general insurance business, US$1.50 million; life business, US$0.75 million; and reinsurance business, US$5.00 million to be paid over a 3-year period, beginning 2015 through 2017;
- approved a policy for putting into place a mechanism to provide liquidity support to the banking system should the need arise, given the potential impact of the Ebola crisis on the banking sector;
- approved a policy for the exercise of dispensation with regard to specific regulations in order to reduce the regulatory burdens on the commercial banks to enable banks refinance the private sector;
- approved a policy requiring banks to exercise flexibility in the restructuring of delinquent facilities, including suspension of penal charges and coming up with better repayment terms, for facilities that fall in the dispensation category;
- approved a policy to extend the repayment period of the various CBL's stimulus packages by 2 years and reducing the interest rates to 2.0 percent, as a means of reducing the financial burden of the crisis on the banks and improving their balance sheet;
- approved a policy requiring banks benefiting from the stimulus packages to restructure delinquent facilities under the stimulus packages with a 6-month grace period for resumption of repayment intended to provide sufficient time for businesses to restart their activities; and,
- approved a policy to set the new banking hours: from 9:00 am to 2:00 pm, Mondays to Fridays; and 9:00 am to 12 noon, Saturdays in order to help reduce the high operating costs of the banks in the wake of reduced banking transactions as the result of the Ebola epidemic.

IV POLICY DIRECTION FOR 2015

A. MONETARY

The CBL will continue to take steps, within its capacity, to maintain price and broad exchange rate stability. There is also a commitment to ensure increased access to financial services in all parts of the country and also to support the expansion of credit towards the productive sectors of the economy, especially agriculture and manufacturing. The CBL will also accelerate work towards deepening the money market, by encouraging an active interbank market, which was unable to take-off due to the Ebola crisis, and widening participation at the CBL’s bills auction to include private firms and, subsequently individuals. Moreover, the CBL, working with the Government, intends to make available more short-term, convertible financial instruments as additional tool for liquidity management by allowing for the conversion of a portion of GoL’s long-term non-convertible debt with the CBL. In the context of developing the framework for the establishment of a capital market, the draft Securities Market Act is being finalized for submission to the Legislature for enactment.

The CBL encourages the Government to consider engaging stakeholders for a consensus on how the economy could benefit more from its export earnings.

In support of small volume transactions and to provide more options to consumers in paying for goods and services in the economy, the CBL is ready to commence the reissuance of L$1 and L$0.50 coins to the market.

B.THE FINANCIAL SYSTEM

The soundness and safety of the financial system will always remain critical to the growth of the economy. In this regard, the CBL will continue its efforts to improve risk management, strengthen corporate governance, and implement policies to enhance profitability in the industry.

The Bank will undertake the development of a macro-prudential framework and other policy measures to ensure the stability of the financial system, even under conditions of stress. This will require reviewing the existing liquidity management and capital adequacy regulations. Furthermore, the existing Standing Facility Framework will be improved to enhance the Lender of Last Resort (LoLR) function of the CBL, given lessons from the EVD crisis. The CBL, in consultation with other stakeholders and partners, will develop a crisis management and prevention framework for the financial system.

In order to further strengthen confidence in the banking system, steps will be taken, in collaboration with relevant parties, towards the establishment of a deposit insurance scheme. Additional steps will be taken to strengthen the legal environment to address some of the existing constraints that threaten the safety, soundness and integrity of the financial system. In this regard, the Bank will work with relevant government agencies and institutions to expedite the development and enactment of the Insolvency Law, strengthen laws concerning fraud and theft, and strengthen measures to assist financial institutions in the fight against money laundering and financing of terrorism.

As a further step in strengthening the supervisory oversight of the CBL, the Bank will procure a robust banking supervision software similar to what is being utilized in the other WAMZ countries. The use of this technology will modernize the supervisory processes of the CBL, and provide the means to effectively respond to systemic issues in the banking system in a timely manner.

The CBL remains committed to reforming the insurance sector as part of its responsibility in ensuring the safety and soundness of the financial system. To this end, the CBL has issued a new Capital Requirement Regulation for the sector, to be followed by several regulations intended to strengthen corporate governance, risk management, internal control, financial audits, licensing and other prudential standards. The ongoing assessment of insurance brokers and agents will be concluded and followed by the issuance of the appropriate authorization to those that meet the requirements of the CBL. As a further step towards strengthening the insurance sector, it is important that the mandatory insurances as required by law, which include Marine and the Compulsory Motor Vehicle Third Party Liability Schemes, are enforced.This will not only support the growth and development of the sector, but also strengthen the revenue-generating capacity of the Government. The CBL will commence work on the restructuring of the National Insurance Corporation of Liberia (NICOL), which has the potential for playing a meaningful role in the economy with a modified mandate.

Presently, insurance services are for the most part limited to large corporations, individuals and businesses mainly in Monrovia. Consistent with its policy on financial inclusion, the CBL will work with the insurance sector to extend insurance services to a broader clientele, including micro-insurance services which are on the rise in many developing countries.

Financial inclusion is regarded globally as an important development priority, which is being articulated by G-20, Alliance for Financial Inclusion (AFI) and several multilateral institutions. The Liberia National Financial Inclusion Baseline Survey shows that Liberia has an unbanked population of almost 80 percent, falling in the lowest quintile of exclusion. This lends credence to the importance of the work being done by the CBL to help rural communities gain access to affordable financial services through the establishment of Rural Community Finance Institutions (RCFIs). With the establishment of the RCFIs, there is now at least one financial institution in each of the 15 counties of Liberia, a marked improvement over the situation just a few years ago. The Board of Governors has approved CBL support for the establishment of additional RCFIs in Bong, Lofa and Nimba counties, and for additional capacity building for RCFIs, especially in the area of training and information technology. Counties that already have RCFIs are Gbarpolu, Grand Kru, Rivercess, Nimba, River Gee and Sinoe. Most of the RCFIs, in collaboration with Afriland Bank, are already participating in the payment of civil servant salaries in the leeward counties. In order to ensure the sustainability of the RCFIs, the appropriate regulatory and supervisory framework will be implemented.

The CBL will strengthen the capacity of the National Apex of Village Savings and Loan Association (NAPEX), which is now at the forefront of enhancing livelihood opportunities and women economic empowerment. The CBL will also assist the Liberia Credit Union National Association (LCUNA) in its push towards sustainability and standardizing credit union operations in Liberia. The new credit union regulations, which are intended to strengthen the institutional and operational structures of these organizations, will be finalized and published. The Bank will continue to work with the United Nations Capital Development Fund Microlead Program, now in its third year, which is providing US$2.7 million over a 4-year period for the revitalization of the credit union sector. The program is being implemented by the World Council of Credit Unions (WOCCU) and includes capacity building, financial and institutional support to LCUNA. The CBL will release the National Strategy for Financial Inclusion (2014-2018) and the Liberia Financial Inclusion Baseline Survey Report before mid-2015.

In partnership with the Liberia Business Association (LIBA), the Chamber of Commerce and other stakeholders, the CBL will continue to strengthen the credit environment, particularly in areas with high or potential credit activities, such as agriculture and manufacturing. Measures will be taken to expand the services of the Collateral Registry through establishment of additional public access sites across the country. The credit reference system will be upgraded in terms of the quality of data and the response time, and expanding the services of the system to include the microfinance institutions, credit unions and RCFIs, consistent with the objective of improving access to credit services by the low-income population.

The modernization of the payments infrastructure is ongoing, although the pace of the progress was affected by the Ebola crisis. The upgrading will include the Real-time Gross Settlement System (RTGS) for large value and time critical payments, an Automated Check Processing (ACP) and Clearing House (ACH) systems for the electronic exchange and settlement of checks and other instruments, and a National Electronic Payments Switch for the interconnectivity of the banks' payment network, including ATMs.

The CBL has put before the Legislature a draft Payments System Act and urges passage, which will be good for the economy.