CENTRAL BANK OF LIBERIA

POLICY STATEMENT 2017

I. OVERVIEW

The Central Bank of Liberia (CBL) will continue with its efforts in sustaining a stable macroeconomic environment that is characterized by broad exchange rate stability and low inflation. Despite the current macroeconomic conditions, that is, the country's slow recovery from the EBOLA crisis coupled with the prolonged delay in the recovery of prices of our main commodities (rubber and iron ore) to pre-crises levels which serve as disincentives for increased production, the Bank will strive to contain inflation at sustainable levels. Also, the CBL will continue to work closely with the fiscal authorities and key stakeholders to ensure that the financial sector remains supportive of economic growth.

The foreign exchange auction will remain a key instrument, among others, that the Bank will use to preserve the purchasing power of the Liberian dollar. Additionally, the Bank will continue the issuance of financial market instruments such as CBL bills, etc., to help manage liquidity. The Central Bank will continue with ongoing efforts to develop a more comprehensive macro-prudential framework to ensure the effective supervision of the financial sector. The CBL will continue with its reform of the insurance sector to ensure that the sector is regulated and supervised in order to make it vibrant and contribute meaningfully to the general economy.

In an effort to continue its financial inclusion objectives, the Bank will encourage the wider use of Digital Financial Services (DFS) encouraging financial institutions to leverage on the National Switch of the CBL and allow interoperability and settlement. The Bank will strive to implement its Agency Banking Framework that would facilitate access to financial services from a traditional banking system to reach the unbanked population particularly in the rural areas of Liberia.

In order to deepen financial services and promote financial inclusion, especially in the rural parts of Liberia, the CBL will continue to establish more Rural Community Finance Institutions (RCFIs) across the country.

The CBL will continue to work with the Liberia Bankers Association, the Executive, Legislature and the Judiciary to strengthen the fraud and burglary laws and/or enforcement mechanism to address systemic risk which threatens the stability of the financial system. The Bank will continue to interact with all stakeholders and the public through is various publications.

II. RECENT ECONOMIC DEVELOPMENTS

Global economic growth was estimated at 3.1 percent for 2016, primarily due to the United Kingdom exit from the European Union (Brexit) and the weaker-than-expected growth outturn in the United States. However, 2017 seems promising as global growth is projected to increase to 3.4 percent on account of projected fiscal stimulus in the United States, stronger recovery from the euro area, and policy actions by China to rebalance its economy. Sub-Saharan Africa (SSA) growth rate is also projected to slightly increase due to the decision by the Organization of Petroleum Exporting Countries (OPEC) to cut oil production which in effect, will slightly increase oil prices and subsequently boost output in oil exporting countries in the SSA.

Real GDP growth of the Liberian economy in 2016 was estimated at negative 0.5 percent, from the 0.0 percent growth recorded for 2015. The decline in the country's growth rate was underpinned by declines in all of the sectors except the agriculture sector. The agriculture sector grew by 6.4 percent in 2016, from 0.7 percent in 2015, mainly as a result of gradual improvements in domestic rice and cassava production; while all other sectors declined as a result of slow recovery of commodity prices. However, in 2017, growth is expected to rebound to 3.2 percent. This level of growth is expected to be driven by all major sectors of the economy. The key risks, however, to the 2017 growth projection will be slowdown or reversal of increases in the global market prices of the country's key export commodities, delays in planned investments, infrastructural challenges, and the uncertainty surrounding the 2017 elections.

Inflation which averaged 8.8 percent in 2016 is expected, based on current macroeconomic conditions, to take an upward trend in 2017 to around 11.0 percent. The rise in inflation in 2017 is expected to be mainly driven by the depreciation of the Liberian dollar. However, reverting to a single-digit rate of inflation will largely depend on the behavior of the exchange rate, international oil and food prices and infrastructural developments such as roads and the level of energy supply.

The average Liberian dollar exchange rate vis-à-vis the US dollar at end-2016 depreciated by 13.9 percent to L$100.8/US$1.00, from L$88.5/US$1.00 at end-2015, while the end-of-period exchange rate depreciated by 15.8 percent to L$102.5/US$1.00; largely on account of high demand for foreign exchange to service import payments mirrored by the persistent over subscription at the CBL's foreign exchange auction, low foreign exchange (FX) mobilization due to weak export performance, and UNMIL drawdown, all of which translated into lower FX expenditure in the economy. Another contributing factor to the increased pressure on the exchange rate was the decline in personal inward remittances by US$32.1 million (or 5.2 percent) to US$583.3 million during the review period, from US$615.4 million recorded in 2015.

At end-2016, total Liquidity as measure by (M2), expanded by 10.0 percent to L$66,711.9 million, from the L$60,627.3 million recorded in 2015 which was mainly triggered by a 12.2 percent rise in credit to the private sector.

Macroeconomic Challenges

Economic growth has been constrained mainly due to slumps in the prices of the country's key commodity exports (rubber and iron ore), although there has been encouraging price uptake particularly in the last quarter of 2016. Other factors constraining economic growth have been the delays in planned investments by major business entities, low access to credit for the agricultural sector, due in part to risk aversion on the part of banking institutions coupled with the high level of delinquent borrowers. This brings to fore the susceptibility of the enclave sector to fluctuations in international commodity prices. Reliance on primary commodity exports has over the years exposed the structural weaknesses of the economy and highlights the importance of developing the agriculture and manufacturing sectors which have the potential to propel the country from the traditional mode of production to a more institutionalized and diversified agro-processing and export-focused manufacturing sector.

Weak implementation of public investment projects is another critical challenge. There is a need to sustain the efforts being made to accelerate the implementation of critical Government's infrastructure programs. It is also important for key stakeholders, including the Government to lend support to the efforts of the CBL aimed at building a more inclusive financial sector to meet the growing needs of the economy as a way of maintaining a stable macroeconomic environment through Liberia's Financial Sector Development Implementation Plan (FSDIP).

III. Key Policy Decisions: 2016

The Central Bank of Liberia, through its Board of Governors, took several decisions to ensure the stability of the financial system and further strengthen the CBL's policy framework to meet the emerging needs in the sector. Several key Policies to address the depreciating pressure on the

Liberian dollar vis-à-vis the US dollars were also taken. Some of the decisions taken by the Board in 2016 were:

1. *Closure of FIBLL and Opening of GN Bank*

In view of the illiquidity and undercapitalization of the First International Bank Liberia Limited (FIBLL), the CBL seized FIBLL in early 2016. A Purchase & Assumption (P&A) agreement was entered into with the Ghana Growth Fund Company (GGFC) for most of the assets and liabilities of FIBLL. The P&A took effect in June, 2016. The CBL also cancelled all issued and outstanding shares of the FIBLL's capital stock, dismissed the Board and Management of the bank, and appointed a Provisional Administrator to facilitate the transition.

2. *Cancellation of Nonperforming Facilities*

The CBL resolved to cancel its contract with the Liberian Business Association (LIBA) for the operation of a public access point for the CBL's collateral registry on account that the facility was underutilized. LIBA had been considered a viable partner to host the facility given its effectiveness in organizing the target market for the registry–small businesses. Disbursements against the Loan Extension and Availability Facility (LEAF) Program were discontinued due to significant level of nonperformance. To this end, the Bank has redoubled its efforts to collect outstanding loan repayments and has revised the LEAF program framework to strengthen controls in its operations and enhance its impact.

3. *Printing of New Liberian Dollar Bills*

The CBL sought and obtained Legislative approval to print and release new bank notes in the denominations of L$5.00, L$10.00, L$20.00, L$50, L$100.00 and L$500.00. The main purpose of the initiative was to replace the mutilated notes currently in the market.

4. *Efforts toward exchange rate stabilization*

Adjustments in Reserve Requirements for Commercial Banks

The CBL reduced commercial banks' US dollar reserve requirement from 15.0 percent to 10.0 percent and increased the Liberian dollar reserve requirement from 22.0 percent to 25.0 percent as additional monetary policy actions to address inflation and exchange rate pressures.

5. Personal Remittance Surrender Scheme

The CBL issued a regulation mandating all money transfer operators (MTOs) to pay inward remittance recipients 25.0 percent of the amount remitted in Liberian dollar, at the CBL's published selling rate, and 75.0 percent in US dollar. Banks are then required to surrender the US dollars equivalent of the 25.0 percent per transaction to the CBL, also at the selling rate. This regulation took effect on December 1, 2016, and represents the CBL's continued efforts to build its US dollar reserves and intervene in the foreign exchange market to help smooth out volatility in the exchange rate.

6. New governance arrangements to strengthen controls in the financial system

The CBL established the following guidelines to enhance its regulation and supervision of banks and non-bank financial institutions to meet international standards:

- a. *International Financial Reporting Standards;*
- b. *Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Examination Manual;*
- c. *Revised Framework for the Loan Extension and Availability Facility (LEAF);and*
- d. *Guidelines for Rural Community Financing Institutions (RCFIs).*

The CBL also established a unit within the Regulation and Supervision Department, to ensure AML/CFT compliance in the financial system.

7. Investment in AFREXIMBANK Central Bank Deposit Program

During the year, the CBL invested in the Central Bank Deposit Program (CENDEP) Time Deposit Account at the African Export Import Bank (AFREXIMBANK). AFREXIMBANK is a Pan-African supranational trade finance institution created in 1993 under the auspices of the African Development Bank to stimulate consistent expansion and diversification of Africa trade, to rapidly increase Africa's share of global trade.

8. Strategic Plan and Human Resources Reform

The CBL developed a 3-year Strategic Plan for the period 2017-2019, focused on three (3) pillars: Financial Sector Reform, Financial Inclusion and CBL Reform. The key aim of the strategy is to enhance the governance framework, technology and capacity within the financial system to meet international standards, take advantage of emerging opportunities and avert risks. A key component of the CBL's internal reform is its revised organizational structure and an improved Performance Management System, aimed at further enhancing the CBL's leadership of the financial system.

9. Settlement of depositors' claims from failed banks

The CBL approved the settlement of all verified claims by depositors of the following failed banks: First International Merchant Bank (FIMB), First United American Bank (FUAB), EUROBANK Liberia Limited, Ducor Trade & Commerce (DUTCH) Bank, First Commercial & Investment Bank (FCIB), Meridian Biao Bank Liberia Limited (MBBLL), National Housing and Savings Bank (NHSB), and Agricultural and Cooperative Development Bank (ACDB). This decision follows the report of an audit firm, Baker Tilly Liberia, which confirmed and verified claims of depositors of those institutions.

IV. POLICY DIRECTION FOR 2017

A. MONETARY

Efforts in sustaining a stable macroeconomic environment that is characterized by broad exchange rate stability and low inflation will remain the thrust of monetary policy of the Central Bank of Liberia.

The CBL will continue its intervention in the foreign exchange market to smooth out volatility and prevent the rapid fall of the Liberian dollar. The Bank will initiate a more robust reserves management program to improve investment returns while maintaining its conservative posture on investments of reserves in line with its existing reserves management policy.

The CBL will continue review of the policy on remittance split to determine the optimal percentages that will continue to instill confidence in the system while also allowing for most effective interventions in the foreign exchange market to reduce volatility in the exchange rate.

The Central Bank of Liberia will continue its engagements with relevant stakeholders to replace the remaining legacy notes in the economy.

The Bank will continue to conduct economic and statistical research and analysis on monetary, financial and other macroeconomic issues and collaborate with the Ministry of Finance & Development Planning in managing liquidity through the Liquidity Working Group (LWG).
The CBL will also encourage an active interbank market and intends to widen the participation of the T-Bill auction to include private firms and individuals and will also pursue development of a longer term securities market. Additionally, the Bank will encourage the Fiscal Authority to offer more attractive yields on its treasury instruments as a means to create a secondary market and develop additional policy instruments for effective management of excess liquidity.

B. FINANCIAL SYSTEM

The safety and soundness of the financial system is critical to growth as they enhance effective deposits mobilization, ensure sustainable access to finance and efficient payments system which, together, help to improve the standard of living of the citizenry. In this regard, the CBL will continue its efforts to ensure that the sector remains safe and sound both at institutional and sectoral levels. The CBL will strengthen its supervisory oversight with respect to improving risk management and corporate governance, while at the same time take concrete steps and measures to establish a framework for macro-prudential supervision to ensure stability in the sector.

Previous work on the existing liquidity management, capital adequacy regulations and stress testing framework will be reviewed with the aim of aligning the standards and methodologies with current realities of the market and standards of Basel Committee for Banking Supervision. Steps will be taken to ensure that commercial banks step up their internal control systems, risk management practices and corporate governance systems.

Greater emphasis will be placed on the board of directors and shareholders of financial institutions with respect to their fiduciary responsibilities on corporate governance. Banks failing to demonstrate strong corporate governance systems will be held accountable for not performing their responsibilities. The CBL will support a strong audit and accounting infrastructure and implementation of international standards.

The Central Bank will continue with ongoing efforts to develop a more comprehensive macro-prudential framework to ensure the effective supervision of the financial system in general. This will require a collaboration between the Central Bank of Liberia and the Ministry of Finance and Development Planning.

The Bank will establish a National Financial Stability Committee for macro-prudential surveillance and reporting; prepare and publish an annual financial stability report that will require an effective collaboration between the Ministry of Finance and Development Planning (MFDP) and the CBL. The Bank intends to institute a review and propose amendments to the CBL Act of 1999 to clearly spell out financial stability as one of the key objectives of the CBL. The proposed additional amendments to the CBL Act will focus on the CBL governance structure, improved autonomy of the CBL and legislation of Lender of Last Resort status and Bank Resolution powers. With the passage of the Security Markets Act (SMA) and the Central Securities Depository Act (CSDA) in 2016, the CBL in 2017, will focus on deepening the domestic money (interbank) market and creating an enabling environment conducive for the development of securities market. To this end, the CBL will conduct market awareness/sensitization and investor's education, create additional market instruments, develop operating guidelines and rules for the domestic markets, and ensure that listed and/or licensed market participants operate in conformity with these Acts.

The CBL licensing policy will remain guided by present realities in the sector in order to avoid overconcentration of business focus and strategy which has the tendency of exposing the sector to potential systemic vulnerabilities from one sector or region or ownership background. The following principles will guide the licensing policy of the Bank:

1. Applications will focus on special niche in the economy and proven track record of banking business;
2. Diversification in ownership in terms of region; and
3. Significant Liberian participation of at least 30 percent in the ownership. This policy will also apply to existing commercial banks.

The work to improve bank crisis management and resolution frameworks is still ongoing. These frameworks will enhance mechanisms with which the CBL will manage problems in bank, crisis management, including early intervention, and reduce the impact of potential failure.

Accordingly, the following steps will be taken with respect to the following specific issues:

1. The current level of Non-Performing Loans (NPLs) poses a serious threat to the financial system, if not managed properly. In order to address this problem, the CBL will work on establishing an appropriate institutional framework to respond to the high NPLs in the financial system including consideration for the establishment of an Asset Management Company to absorb the existing NPLS. The CBL will seek technical assistance in this effort and leverage on the experiences of other countries.

2. Improve the Lender of Last Resort (LoLR) function of the CBL to be able to respond to potential liquidity problems at the individual banks and systemic liquidity problems. A comprehensive framework will be developed in this regard to ensure transparency in the provision of liquidity support to banks with clear rules;

3. Ongoing work on the drafting of a legal framework for a deposit insurance scheme will be expedited. The Bank will work on addressing primary preconditions to an effective deposit insurance scheme such as (i) macroeconomic stability and conditions; (ii) banking sector stability; and, (iii) an effective legal framework that allows for prompt bank resolution. This will strengthen confidence in the banking sector and ensure transparency in the resolution regime of the CBL. Notwithstanding the foregoing, the CBL will also consider other options in providing protection for depositors of commercial banks.

4. Both the Financial Institutions Act of 1999 and the CBL Act of 1999 give broad powers to the Bank to resolve commercial banks' crisis. However, considering dramatic changes in the banking environment and banking business, steps will be taken to review both Acts with respect to the resolution regime with the view of identifying gaps and addressing such gaps.
5. The CBL will support ongoing work on the development and enactment of the Insolvency Law, which is being developed by the Law Reform Commission to ensure that issues relating to the resolution of financial institutions are fully and adequately addressed in a timely manner.
6. The CBL will pursue the development and implementation of a robust Credit Reference System that incorporates unique identifier processes and will explore collaboration with

private sector participants and other stakeholders on the most cost effective manner for its implementation.

The reform of the insurance sector remains an important part of the CBL reform of the financial system. As an essential part of the system, the insurance sector can play a more meaningful role in risk management and capital mobilization. In support of the ongoing reform, the CBL will:

- Continue the enforcement of the new capital requirements which began effective September 30, 2016;
- In collaboration with relevant stakeholders, sign and implement the MoU for the enforcement of the Compulsory Motor Vehicle Third Party Liability Insurance Schemes and develop strategies for the enforcement of the Compulsory Marine Insurance;
- Conclude discussions on the restructuring of the National Insurance Corporation of Liberia (NICOL);
- Develop an action plan for the adoption of the International Financial Reporting Standards (IFRS) by operating insurance companies beginning December, 2017;
- Continue the licensing of qualified insurance brokers and agents as part of the ongoing reform of the insurance sector.
- In collaboration with Liberia National Bureau (LNB) of the ECOWAS Brown Card Scheme and other stakeholders, ensure the enforcement of the compulsory use of the Brown Card to strengthen the financial capacity of the LNB to honor its obligations under the Scheme; and
- In collaboration with the West Africa Insurance Company Association (WAICA) and the Ministry of Education, promote insurance as a course of study in the Liberian National Curriculum in order to bridge the gap of insurance literacy in Liberia and increase insurance penetration.

In an effort to continue its financial inclusion objectives and foster Digital Financial Services through its regulatory framework, the CBL will implement the following:

- Mandate Financial Institutions using Electronic Payment schemes to leverage on the National Switch of the CBL and allow interoperability and settlement to be made through the CBL.
- Collaborate with external partners to implement its Agency Banking framework that would facilitate access to financial services from a traditional banking system to reach the unbanked population and will continue to sensitize the public and other stakeholders to guide the process.

The Central Bank of Liberia will continue to provide an enabling financial environment by ensuring transparency, safe guarding personal data and consumer funds. As such, the CBL intends to implement the following:

- Create consumer awareness and sensitization programs of all financial products and services;
- Ensure the establishment of Consumer Protection Desk at all licensed Financial Institutions;

  Create a Hotline at the CBL for redress of consumer complaints.

One of the key issues seriously affecting the viability of the banking sector is the high and increasing frauds and burglaries in the sector. The CBL will work with the Liberian Bankers Association, the Executive, Legislature and the Judiciary to strengthen the fraud and burglary laws and/or enforcement mechanism to address this systemic risk which threatens the stability of the financial system.

In furtherance of the goal of fostering capacity building and development in the financial services sector, the CBL will work with the Liberia Bankers Association on the formal establishment of the Banking Institute of Liberia and will collaborate with external parties and stakeholders to ensure relevant and targeted training and capacity development is provided to staff of all financial institutions.

In continuation of efforts to make access to financial services available and promote financial inclusion, especially in the rural parts of Liberia, the CBL, working with other stakeholders, has established 11 rural community finance institutions (RCFIs) across the country that are already transacting in the payment of civil servant salaries, granting of salary overdrafts and accepting customer’s deposits in the leeward counties, as well as offering money transfer services through money transfer operators. These RCFIs could also help in building an ecosystem among the different financial services providers in the rural areas and contribute to rejuvenating the rural economy, especially the agriculture sector. In this regard, the CBL will work with potential development partners to support the RCFIs development and growth through:

- Provision of continuous support for RCFIs, particularly in targeted areas of the country with productive economic activities;
- The collaboration with the International Fund for Agriculture Development (IFAD) to support the creation of additional 10 RCFIs in 2017.
- Develop a proportionate regulatory and supervisory framework for effective regulation and supervision of the RCFIs;
- Strengthen the RCFI Supervision Unit; and
- Work with the Government for budgetary support and tax incentives for RCFIs to support their development and growth.

In 2017, the Central Bank of Liberia will take measures to strengthen microfinance institutions (MFIs) in the country to fulfill their mandates in line with regulations and international standards thereby improving their operations and expansion in the rural parts of the country. The CBL will incorporate MFIs in the credit reference system and ensure all MFIs observe full compliance with the regulatory framework to avoid low performance of the MFIs loan portfolio.

The CBL will commence implementation of the credit union regulations starting with the enforcement of the licensing requirement and provide support to the credit union association, the Liberia Credit Union National Association (LICUNA), to monitor and report on the credit unions;

The CBL will also work on the formalization of the Village Savings and Loan Association (VLSA) in the country by registering all of the VSLAs and provide support to the apex body, the National Apex of Village Savings and Loan Association to monitor and report on their membership.

The Bank will review the existing AML/CFT Regulation for Financial Institutions to reflect current realities in the country and ensure compliance with international standards set by the Financial Action Task Force (FAFT). The Bank will continue to play an active role on the Board of the Financial Intelligence Unit and incorporate AML/CFT oversight in the corporate governance framework for financial institutions.

The Bank has set up a unit dedicated to AML/CFT, developed an AML/CFT Inspection/Examination procedures for on-site inspection and off-site surveillance and conducted AML/CFT examination for five of the nine banks. The examination for the remaining four banks will take place within the first half of 2017. Additionally, the Bank will also conduct preliminary AML/CFT risk assessment of the financial sector as a prelude to the national risk assessment. The objective is to have an appreciation of AML/CFT issues and areas of vulnerabilities in the financial sector, considering the critical role of the financial sector in the fight against money laundering and terrorist financing.

V. CONCLUSION

In conclusion, it is important to highlight that the CBL remains committed to scrupulously executing its statutory mandates of maintaining a stable exchange rate and low inflationary environment conducive for a balanced, sustained and broad-based economic growth and development. To this end, the CBL intends to strengthen its macro-prudential supervisory oversight with respect to improving risk management and corporate governance that ensure stability in the sector. It is important to note that the ongoing financial market development process remains a key focus toward ensuring the provision of more reliable sources of financing to critical sectors of the economy in order to attract foreign investment and promote job creation.