# CENTRAL BANK OF LIBERIA

# POLICY STATEMENT 2019

# FOREWORD

The year 2018 was a challenging year for the Liberian economy. The growth estimate for 2018 was revised downward from 3.2 percent to 1.2 percent. The challenges faced last year are also expected to continue in 2019 as growth is forecast to register a lower rate of 0.4 percent. The low performance of the Liberian economy in 2018 was attributed to several factors, paramount among which was the weak external sector performance, causing low foreign exchange inflows in the wake of high import payments, translating into unprecedented increase in the exchange rate that led to high inflation. Despite the low foreign exchange inflows, the Central Bank of Liberia (CBL), through strategic interventions in the foreign exchange market, was able to curb further rapid depreciation of the Liberian dollar in 2018, especially for the period July to December 2018. However, inflation rate remains high, thereby affecting the purchasing power of the Liberian dollar, which is the currency of income and expenditure for the low-income population.

As the monetary authority, the CBL remains committed to ensuring price and financial sector stability as well as an effective and efficient payments system, which are consistent with the Pro-poor Agenda for Prosperity and Development (PAPD).

With the commitment of the Government to continue implementing sound macroeconomic policies and structural reforms, the outlook of the economy is bright. In a complex global economic environment which poses significant downside risks to the Liberian economy, the need to diversify the economy with greater emphasis placed on value addition in manufacturing and agricultural production for domestic consumption as envisaged in the PAPD should be given priority. The CBL stands ready to support the government's efforts in this regard consistent with its mandate as required by law. Diversification of the economy is important for strengthening Liberia's Balance of Payments (BoP) and saving the country's scarce foreign exchange resources. The reliance on the enclave sector which focuses mainly on primary commodities exports exposes the country to risks of external price and demand shocks with a significant pass-through effect on the domestic economy.

Referring to the CBL's Monetary Policy and how much can and should Monetary Policy guide against exchange rate volatility, it must be made clear that exchange rate flexibility is an important mechanism that can act as a buffer against external shocks. The adjustment property of flexible exchange rate has now been accepted in Africa and other emerging markets because it is a mechanism that allows markets to adjust. But we must be mindful of the fact that volatility is another issue that is often driven by fear or herd-like behavior. It occurs where markets actors behave in a way that is unsupportive of stability in the market. This is a concern of the CBL – and indeed an economic problem. There is a small portion of our business partners that benefit. Volatility is often driven by factors that do not augur well for stability in the market or represent good market behavior.

We operate with a managed float exchange rate regime in Liberia. The exchange rate is allowed to move whenever it is driven by genuine supply and demand of foreign exchange in the market, but with minimum volatility. The CBL has been working in the direction of reducing volatility in the exchange rate by intervening in the foreign exchange market.

For instance, especially during the first half of 2018 when the Liberian dollar was rapidly depreciating, the Central Bank sold foreign currency to minimize the speed of the fall.

The Management of the Bank has been working in line with the Act establishing the CBL to carry out its statutory responsibilities in the public interest. In so doing, the Bank seeks to maintain efficient and effective financial, payment and information systems and to formulate and implement prudent monetary policy.

During 2019, the CBL will continue its monetary policy strategy and operation aimed at maintaining price stability and curbing the current rising inflation trend. Accordingly, the Bank will continue with its current managed float policy aimed at promoting broad stability in the exchange rate, maintaining the value of the Liberian dollar, and building the foreign exchange reserves of the country to protect the economy against negative external shocks. Additionally, the Bank will adopt a new Monetary Policy Framework in order to enhance and strengthen its monetary policy operations. This will involve the introduction of new monetary policy instruments and promote greater transparency in the monetary decision-making process of the Bank.

The Bank will work closely with the fiscal authorities and other relevant stakeholders through the Technical Economic Management Team (TEMT) and at bilateral levels on policies and interventions to ensure balanced and sustained macroeconomic stability. The Bank will strengthen its collaboration with the Fiscal Authorities to promote policy coordination that will complement our respective objectives of promoting macroeconomic stability. In this regard, the CBL will give greater support to existing institutional arrangements, such as the Liquidity Working Group (LWG), to promote information sharing mechanism among the Ministry of Finance and Development Planning (MFDP), Liberia Revenue Authority (LRA) and CBL for effective liquidity management in the economy, which is important for monetary policy implementation.

To achieve the above objectives and goals, the strengthening of CBL's operational autonomy and financial capacity must be prioritized. In this regard, we will seek an amendment of the CBL Act of 1999 consistent with international best standards. The Bank will further strengthen its monetary policy function by establishing a Monetary Policy Committee (MPC) which will have the sole mandate of formulating and overseeing the monetary policy function of the Bank.

As we go through, yet another challenging year, with a projected growth rate of 0.4 percent for 2019, the need for policy reform, adjustments and harmonization, not least in CBL's own operation, is paramount. On its part, the CBL will take every step necessary to revert the current inflationary pressure and bring the inflation rate in single digit in the medium term. However, other stakeholders, public as well as private sector players will need to play their parts.

Finally, the CBL looks forward to working with all stakeholders in promoting macroeconomic stability and sustained & balanced economic development of the country.

Nathaniel R. Patray, III

**EXECUTIVE GOVERNOR**

## I. INTRODUCTION

The publication of the Central Bank of Liberia (CBL) Policy Statement is in accordance with Article 50 of the CBL Act of 1999, which mandates the Bank to, within four months after the close of each year, submit to the Government through the President an Annual Financial Report and Policy Statement that shall contain the following:

(a) A copy of its financial statements certified by its external auditors;

(b) A review and assessment of the implementation by the Central Bank of monetary policy during the previous year; and

(c) An assessment of the economic and financial conditions of Liberia and a description and explanation of reasons for the monetary policy that the Central Bank intends to follow during the next year and for longer period as the Central Bank may decide.

The Policy Statement articulates the policy direction of the Bank to the public and policymakers for each year and provides the medium for the public and policymakers to engage the CBL in understanding its monetary and financial policies in keeping with its mandate.

## II. ASSESSMENT OF 2018 POLICY STATEMENT

A summary of the policies implemented by the Bank in 2018 is provided in the Appendix. While the Bank achieved a significant number of its policy goals for 2018, these achievements came with serious challenges, especially the "alleged missing" L$16.0 billion which threatened the image of the Bank. With the conclusion of the investigation of the missing money, the Bank is determined to continue with its policy reforms.

### Current Macroeconomic Challenges

The growth estimate for 2018 was revised downward from 3.2 percent to 1.2 percent, while 2019 is expected to register a lower rate projected at 0.4 percent. Although there has been gradual recovery in the global prices of the country's major exports (iron ore and rubber) after a prolonged decline from 2014, economic growth remains constrained by several factors, among which are: poor infrastructure, especially energy and road connectivity; low access to credit for the agricultural sector due to cautious lending policy by banking institutions on account of increasing level of non-performing loans (NPLs); reliance on the enclave sector with little or no value addition; increasing pressure on the exchange rate; and the pressure on the gross official reserves due to intervention in the foreign exchange market in the face of low exports earnings; high inflationary pressure; and constrained fiscal performance and weak external performance.

The Liberian economy remains import-dependent which continues to put pressure on the Liberian dollar vis-à-vis the United States dollar. This highlights the need for robust and implementable programs that focus on developing the agriculture and manufacturing sectors which have the potential to propel the country from the traditional, enclave and import-dependent economy to a an industrialized and diversified agro-processing and export-oriented economy.

Addressing the challenges of the economy requires a holistic approach with effective policy coordination among all stakeholders, especially the monetary and fiscal authorities. Accordingly, the efforts by the CBL to build a vibrant and more inclusive financial sector should be supported by all key stakeholders.

## II. MACROECONOMIC AND FINANCIAL RISKS

The Liberian economy faces potential risks from both the external and domestic perspectives. These include but not limited to: increases in energy and food prices; weaker-than-expected global growth, especially of Liberia's trading partners; rising protectionism and trade tensions affecting the global economy; slowdown in aid flows and foreign investment; slowdown or discontinuation of ongoing structural reforms; fall in the prices of Liberia's major export commodities; higher recurrent expenditure; low social and capital spending also poses important risks to long-term growth; declining gross foreign reserves and greater portion of currency outside the banking system.

## III. POLICY DIRECTION FOR 2019

### OVERVIEW

The policy thrust of the CBL in 2019 is to maintain price stability by contributing to a stable macroeconomic environment which is critical to growth, development and employment, and supportive of the Government's development agenda. In this regard, CBL will continue with its efforts in pursuing broad exchange rate stability, and low and stable inflation. The CBL will continue its intervention in the foreign exchange market to smooth out volatility and curb the rapid fall of the Liberian dollar vis-à-vis the United States dollar. In addition, the Bank will continue to work closely with the Fiscal Authority to promote policy coordination in ensuring price stability.

The absence of Monetary Policy Rate (MPR) and Monetary Policy Committee (MPC) reflect a major constraint to effective implementation of monetary policy at the CBL. In this regard, the CBL will work with the Legislative and Executive Branches of Government to undertake the appropriate reforms in both the Financial Institutions Act of 1999 and the Central Bank of Liberia (CBL) Act of 1999 to align these legal frameworks with international best practices, taking into account the specific circumstances of Liberia. As a transitional arrangement, the Bank will establish a Monetary Policy Advisory Committee (MPAC) with the primary responsibility of monetary policy formulation for the Board of Governor's decisions and approval.

The foreign exchange auction will remain one of the key policy instruments that the Bank will use to maintain a stable foreign exchange environment, and by extension, preserve the purchasing power of the Liberian dollar. Additionally, the Bank will continue to issue financial market instruments on behalf of Government and itself, as and when deem necessary, to help efficiently manage liquidity in the economy. We will also develop indicators to monitor the performance of the economy, consumer and business perceptions of the economy, and provide policy prescriptions.

As part of our efforts to deepen the financial system, the CBL will support the government's agenda to digitize the Liberian economy by formulating and implementing policies aimed at promoting electronic payments platforms and channels. In this direction, mobile banking has been revolutionary in terms of financial inclusion for Liberia. The digitization of the economy will be transformative and important for growth. For instance, the number of mobile money subscribers rose to 2.84 million at end-March 2019, from 265,625 subscribers at end-2014. Similarly, the number of deposit accounts in both US dollar and Liberian dollar at end-March 2019 significantly increased to 1.2 million, reflecting a growth of 33.3 percent, from 0.9 million, reported at end-December 2016. According to the Global FINDEX, 35.7 percent of the adult (15+) of Liberian population has access to formal financial services. This development is transforming the way we make payments and transact our businesses. It is a learning process and people can now do most of their transactions right on their mobile phones. Financial inclusion is changing the landscape.

The use of mobile phone in Liberia is high. It is about leveraging the platform that we have. So, for instance, you can buy treasury bills or bonds, or CBL notes for as low as US¢87 using your mobile phone. So, this caters to people that, probably, can only save US$1.00 per day. Each month, for a period of time, people can invest even if they have no financial planner. It is creating a new investment opportunity for everybody and creating a saving culture.

The CBL will continue with the ongoing enhancement of the credit reference system (CRS) into a full-fledged credit reference bureau with a biometric identification feature to uniquely identify customers of the financial institutions with the aim of improving the credit environment, curtail frauds, and improve access to credit at the micro and small enterprise levels.

Human Capital Development remains an important agenda of the CBL. To this end, the CBL will continue its collaboration with the Liberia Bankers Association (LBA) to strengthen the capacity of the Banking Institute of Liberia (BIL) in addressing the capacity needs of the financial sector to promote efficiency and enhance productivity in the sector. The Bank will continue to implement reforms in the insurance sector which will help promote economic growth and development, and deepen the overall financial system. The Bank will take further steps to fast track the implementation of key projects and reforms of the Financial Sector Development Implementation Plan (FSDIP) and its Strategic Plan (2017-2019).

The CBL will further engage all stakeholders on the question of the currency regime for the country with respect to de-dollarization. The CBL is of the view that a gradual transition is critical and essential to avoid unintended consequences and downside risks.

## IV. MONETARY POLICY AND MONETARY POLICY OPERATIONS

With the establishment of the Monetary Policy Advisory Committee (MPAC) for the first time at the Bank, the Committee will have the primary responsibility for recommending the appropriate monetary policy actions and the instruments to be used. Final decisions on monetary policy actions will be approved by the Board of Governors. This means that monetary policy decisions will be taken by the Board pending the establishment of a Monetary Policy Committee (MPC).

The monetary policy actions and strategy of the Bank will be based on assessment of the macroeconomic fundamentals and projections, looking at inflation developments over the medium-term horizon. The adoption of a new Monetary Policy Operational Framework marks a significant transition from the existing exchange rate targeting framework to an interest rate targeting framework with interest rate as the operating target for monetary policy operations. In this regard, the CBL will use various market-based monetary policy instruments, including the Standing Deposit Facility (SDF), Standing Credit facility (SCF), and CBL Bills, and FX auctions as its primary monetary policy instruments. The Bank will also continue to use non-market-based instruments, such as reserve requirements, as and when necessary.

## V. EXCHANGE RATE POLICY AND REGIME

The exchange rate policy and regime of the CBL will continue to be guided by Part VI (sections 26-30) of the CBL Act of 1999. The main policy goal and objective of the Bank will remain focused on maintaining the value of the Liberian Dollar and make the Liberian Dollar the currency of preference for economic transactions and investment.

The Bank will prioritize building of the gross foreign reserves of the country to protect the economy against unaccepted domestic and external shocks. Accordingly, the Bank will continue with its current managed float foreign exchange regime, intervening in the foreign exchange market to ensure broad stability in the market and reduce speculations and market distortions. The Bank will continue the use of the market-based strategy and instruments, including the regular foreign exchange auction for the sale and purchase of foreign exchange. The Bank will continue the implementation of the Remittance Split Policy (RSP).

As a medium-term strategy, the Bank will pursue policy options in facilitating trade finance for businesses, and reduce the pressure for FX payment for businesses, develop the financial markets to attract foreign investment in domestic financial assets, and provide policy advice to the government on the diversification of the Liberian economy with the aim of strengthening the Balance of Payments (BoP) of Liberia. To address the challenges faced by many small and medium Liberian businesses, the CBL will explore the possibility of establishing bilateral currency swap arrangements with other central banks, especially in the West African Monetary Zone (WAMZ).

## VI. FINANCIAL SECTOR POLICIES

A stable, safe and sound financial system is an important foundation for an inclusive, balanced and sustainable economic growth and development. Despite current challenges, the financial system remains generally stable, solvent and liquid. In this regard, the CBL will continue its efforts to improve risk management, strengthen corporate governance, and implement policies to ensure the stability and viability of the sector. The CBL will ensure that sustained financial services are accessible to the financially–excluded population in keeping with its financial inclusion agenda.

The CBL will consider licensing institutions with focus on meeting strategic needs of the economy such as agriculture, housing, manufacturing, and small & microenterprises. The Bank recognizes the need to take regulatory and supervisory steps designed to contain the risks of cybercrimes in the financial system, including the CBL. The Bank has already taken several steps to strengthen its infrastructure and internal systems against cybercrimes and risks.

Specifically, the Bank will implement the following measures with respect to the financial system:

- Develop risk-based Cyber Security framework to guide financial institutions on the development and implementation of their cyber security programs and to promote the protection of customer information as well as the information technology systems of financial institutions;
- Develop an Enterprise Architecture Framework that follows the Open Group Architecture Framework (TOGAF), which is a framework for enterprise architecture that provides an approach for designing, planning, implementing, and governing an enterprise information technology architecture;
- Develop policy and regulatory framework on Specialized Lending which will include: SMEs, Agriculture and Mortgage Lending to provide incentives for banks to diversify and support the economic development agenda of government;
- Continue the review of the Financial Institutions Act of 1999 to address existing shortcomings consistent with international standards and best practices; and
- Continue to work with the commercial banks to address the issue of high non-performing loans and low profitability in the banking system. This will involve working closely with all stakeholders, especially the commercial court to fast track commercial cases and foreclosure.

**Insurance Sector**

The CBL shall continue the reform of the insurance sector with the goal of building a viable and strong industry that will meet the needs of the Liberian economy. A strong insurance sector is pivotal to building a viable financial system and in mobilizing long-term funds for domestic investment, thus supporting the overall development agenda of the government. In this connection, the CBL shall pursue the following policies during 2019:

- Enhance the reporting and disclosure frameworks of insurance companies: The CBL shall issue a revised reporting framework that will support adequate analysis of the insurance sector. Part of the reporting reform would involve automating the report rendering process from insurers to the CBL by linking insurance companies to the electronic/online reporting software of the CBL. Additionally, the new framework will require timely disclosure of information about individual insurance companies as well as the industry to facilitate informed decision making by the insureds and investors.

- Ensure enforcement of and full compliance with the capital requirements for insurance business in Liberia which was issued in 2014 as follows:
  - (i) Life Insurance Business: US$750,000.00;
  - (ii) General Insurance Business: US$1,500,000.00;
  - (iii) Composite: US$2,250,000.00; and
  - (iv) Re-insurance: US$5,000,000.00.

  Insurance companies that do not have capital to conduct any form of insurance business shall be made to exit the market in a non-disruptive way including the consummation of mergers and acquisition.

- Develop and introduce a framework for domestic reinsurance: The CBL shall create, through a regulatory and supervisory framework, an enabling environment for the creation of domestic reinsurer(s) in Liberia. This will play a key role in making more economic resources available domestically, thus supporting the domestic insurance market and mobilizing capital resources for economic growth and development;
- Support the introduction of micro-insurance as part of the broader financial inclusion goal of the bank; and
- Enhance consumer's awareness of financial products in the insurance sector which could bolster their income and serve as a safety net for low–income consumers.

The Bank will engage the government with regard to restructuring of the National Insurance Corporation of Liberia (NICOL) and to redefine its role in the insurance sector of Liberia in keeping with current regional and international best practices.

**Microfinance Sector**

The CBL remains committed to reforming the microfinance sector as part of its responsibility in ensuring the safety and soundness of the sector. In this regard, the CBL will:

- Continue to strengthen the regulatory and supervisory frameworks of microfinance institutions with emphasis on tiered and risk-based supervision. This new risk-based approach to regulation will strengthen the regulation and supervision of microfinance institutions (MFIs) in Liberia;

- Support capacity building for microfinance institutions, Credit Unions and Rural Community Finance Institutions (RCFIs). With regard to the Rural RCFIs, the CBL in collaboration with the Project Implementation Unit (PIU) at the Ministry of Agriculture (MoA) has begun implementation of the Rural Finance Project (RFP) funded by International Fund for Agricultural Development (IFAD). The IFAD's funding, which is largely a concession funding, will significantly improve the operations of the RCFIs and provide additional resources for investment intended to revive and build a strong rural economy across the country.

**Financial Markets Policies**

The Bank considers the development of the financial markets as a key pillar for deepening the financial sector and supporting the flow of financial resources in the economy. Developed financial markets are also an important cornerstone for effective monetary policy operations. The CBL through its Financial Markets Department (FMD) will continue to strengthen the regulatory framework and enhance its engagements with stakeholders to deepen the interbank market; government bond markets; the money and securities markets; and the secondary market. The department will also enhance its ongoing program of investors' education/public awareness program.

As a further step toward deepening the financial markets, the Bank will roll out several new financial products aimed at managing excess liquidity in the economy.

**Digital Financial Services/National Payments System**

The Bank's policies with respect to digital financial services and national payments system will be guided by the following principles:

(1) Deepening the financial system and promoting financial inclusion;
(2) Promoting efficient payment systems at a reduced cost; and
(3) Facilitating the transition to a cash-lite society consistent with the government's objective of digitizing the Liberian economy.

Pursuant to the above-mentioned principles, the CBL will pursue the following policy measures during 2019:

- Develop and issue a regulatory framework for Licensing and Operations of Electronic Payments Services in Liberia. This framework would serve as a guidance for new entrants to be licensed by the CBL and promote safe and efficient delivery of quality payment services such as Automated Terminals Machines (ATM), Point of Sale (POS) terminals, MasterCard QR Code and other e-payment channels;

- Develop and issue a Digital Credit framework that would allow flexibility in the menu of the mobile money products for the illiterate population and increase women participation into digital finance space;
- Continuous awareness and sensitization of digital products and services to increase acceptance and usage;
- Implement in collaboration with MFDP, the Automation of the Government of Liberia's (GOL) Revenue collection/Receipts and Disbursements/Payments for efficiency and cost effectiveness;
- Develop and implement a Retail Payment Strategy, focusing on the expansion of the range of payment instruments and increased demand;
- Ensure full implementation of the National Electronic Payment Switch (NEPS), integrate all Payment service providers (PSPs), and promote an inclusive Digital Payment ecosystem;
- Cooperate with central banks in the sub-region, WAMI, and the AFREXIM Bank on the Regional Integration project;
- Liaise with Central Banks in the sub-region and WAMI for the harmonization of the Laws, Regulations, processes and procedures to facilitate the smooth implementation and functioning of integrated systems for cross border trading; and
- Strengthen the oversight function of the National Payment Systems Council.

In support of the government's digitization agenda of the Liberian economy, the Bank will work with all stakeholders to develop a national program, as part of the National Payments System. The first step requires in this effort is digitizing all government's payments and revenue collections, which will not only promote transparency and accountability in public financial management, but also reduce the transaction costs for tax payers and civil servants.

**Consumer Protection**

Consistent with its mandate of promoting trust and confidence in the financial sector, coupled with ensuring that customers of financial institutions are protected against unfair or unethical practices, the CBL will continue to ensure disclosure and transparency of all products and services provided by financial institutions and safeguard consumers' rights and interest. In this regard, the CBL will:

- Implement consumer awareness and sensitization programs to help consumers understand their rights, obligations and the existing redress mechanisms; and

- Amend the existing Consumer Protection & Market Conduct Regulation to broaden the scope of its application by including other financial institutions and to also ensure compliance with the disclosure requirements with respect to Truth in Lending and Key Fact Statement.

The Bank will encourage the public to utilize the services of the Consumer Protection Unit to provide feedback to it on the behavior of commercial banks towards their customers and the banking public.

**Collateral Registry System**

The Collateral Registry System continues to maintain an online platform that allows lenders to share credit information concerning the perfection of security interests in movable assets and notification to third party on all existing security interests. The system is largely web-based; however, being cognizant of the challenges with internet connectivity in remote areas of the country, the CBL intends to introduce the use of the computer-based offline version of the system to the public. This offline version will enable users to register as many financing statements as possible and later upload the files into the online system once connected to internet.

The CBL will take steps to expand the Registry's services throughout the country and make the services accessible to all users, including microfinance institutions, RCFIs, and credit unions, etc.

**Credit Reference System Project**

During 2017 and 2018, the CBL embarked on the enhancement and upgrading of the existing credit reference system into a robust and full-fledged credit reference bureau. This transformation of the credit reference system is part of Central Bank's deliverable under both the Millennium Challenge Corporation (MCC) and the World Bank's Budget Support triggers.

The Bank has completed Phase 1, which involved the design and development of a functional model (i.e. a proof-of-concept) that is ready for deployment. However, to go public, the second and third phases of the project would need to be implemented. This will require significant investment. The CBL will work with key stakeholders in the financial system, the government and our partners for possible funding and investment of the next phases of the project.

The establishment of a full-fledged credit reference system will not only address the existing challenges with the credit environment, but it will also address the issues of fraud and promote access to credit to the small, micro and medium enterprises (SMME).

**Engagements with Regional and Continental Monetary Cooperation Programs**

Pursuant to the decisions of the Authorities of Heads of State and Government of the Economic Community of West African States (ECOWAS) on the Revised Roadmap for a Single Currency Program for the region**,** the CBL continues to engage and participate actively in the ECOWAS Monetary Cooperation Program (EMCP) activities, including meetings of regional economic institutions (the West African Monetary Agency and West African Monetary Institute) and other sister central banks to support implementation of the revised road map. The revised road map which includes the development of the model for a common central bank, the framework for a common monetary policy framework, the framework for a common exchange rate policy, seeks to achieve a single currency in ECOWAS by 2020. At the same time, the Bank will continue to play an active role in the African Monetary Cooperation Program (AMCP) which seeks to achieve a single currency for Africa with a common central bank under the wider African Economic Integration Program.

As a further step to consolidate domestic support for the ECOWAS single currency, the CBL will commence consultation with all domestic stakeholders in 2019 to articulate Liberia's interest in the monetary cooperation program.

**CBL's Internal Reform**

**Human Resource Management**

In response to its many internal challenges, the CBL is actively involved with the automation of its Human Resource (HR) Procedures to increase efficiency and transparency; methodically promote the continuous strengthening of the Bank's capacity to fulfill its mandate; promote transparency, fair and consistent performance management; and implement a revised structure and organogram. In achieving these goals, the following measures are being implemented:

Human Resource Management (HRM)

- All HR records and processes are being digitized, automated and web-based;
- Development of a robust capacity building strategy that responds to current and emerging organizational needs;

- Ensuring value addition to training investment through performance and knowledge transfer; and
- Ensuring transparent, fair and consistent performance evaluation.

**Internal Audit**

The Central Bank is reviewing and revising its Internal Audit Charter, where necessary, to ensure that it supports the strategic goals of the Bank, in line with best practices; conduct audits and assessment to promote efficiency and integrity in the management of all Bank's resources; detect the incidence of risk and gaps in controls; and promote general adherence to corporate policies and guidelines through compliance audits and corporate governance reviews.

The intended outputs are:

- Low incidence of risk to the Bank's goals and objectives, and early detection of such risks;
- Low incidence of fraud and error in the Bank's activities, and early detection of such risks;
- Audit reports on asset management for submission to the Board Audit Committee;
- Business units' compliance with corporate policies and procedures; and
- All management's strategic decisions are fully supported by documented Board approval.

**Legal Activities**

During 2019, the Legal Office will continue work on the amendment of the existing legal and regulatory frameworks of the CBL and the Financial Sector to align them with international best practices; resolve outstanding cases involving the Bank and complete the liquidation of all failed private; and work with the Government regarding the status of government-owned banks (i.e. National Housing and Savings Bank and Agricultural Cooperative Development Bank).

The intended outputs are:

- A revised Legal and regulating framework that aligns with international standards and are passed by the Legislature;
- All outstanding cases involving CBL are dismissed or otherwise resolved; and
- All failed banks/other financial institutions are liquidated in accordance with the laws of the Republic of Liberia.

**Economic Policy Division**

The main objective of the division is to expedite the adoption of new and revised financial sector legislation including amendment to the New Financial Institutions Act; continue robust supervision of all financial institutions to promote full compliance with the legal and regulatory framework; fully operationalize the Banking Institute of Liberia (BIL) in collaboration with the Liberia Bankers' Association (LBA); and promote financial inclusion through enhanced consumer protection and alternative product offers. The intended outputs are:

- A revised legal and regulatory framework that aligns with international standards;
- All Financial Institutions (FIs) are fully compliant with laws and regulations;
- Highly efficient banking operations that promote inclusiveness;
- All non-bank financial institutions (NBFIs) fully capacitated to fulfill their mandates and remain fully compliant and aligned with international standards;
- A robust Banking Institute that serves the current and future needs of the financial sector;
- Expanding access to finance by consistently improving the regulatory and supervisory framework for consumers protection and empowerment due to information asymmetries typical of financial services;
- Supporting the development and implementation of the Digital Financial Services / Mobile Money Strategy; and
- Expanding Mobile Money activities through group finance, women groups and other non-bank institutions and growing agent network.

## Appendix

### Key Policy Decisions: 2018

The Board of Governors of the CBL took several decisions in 2018 aimed at maintaining the stability and deepening of the financial system; and responding to the drastic depreciation of the Liberian dollar vis-à-vis the US dollar. In addition, measures aimed at deepening the financial sector, promoting financial inclusion, ensuring effective regulation and supervision of the financial system were also implemented. Key decisions taken by the Board were as follows:

**Interbank Market Framework**

This framework is intended to develop the interbank market and strengthen the capacity of the CBL to perform its lender of the last resort function. The framework establishes the rights and responsibilities of the CBL and commercial banks in the interbank market.

**Money Market Developments**

In 2018, the CBL through its Financial Market Department (FMD) embarked on the development of the interbank market, money market and government bond market. In this regard, the department developed a framework on the administration of the interbank market (IBM) and guidelines on repurchase and reverse repurchase agreement. The Board of Governors approved the two documents in January 2018.

In addition to the interbank market framework and guidelines on repurchase and reverse repurchase agreement, the FMD developed other guidelines for the issuance of corporate bonds, commercial papers (CP) and bankers' acceptance (BA) to provide regulatory guidance for their issuance in the money market, which are expected to be approved in 2019. The Bank also amended the October 2016 guidelines on standing credit facilities to make provision for standing deposit facility as a monetary policy tool to manage liquidity in the economy.

**Interbank Transactions**

Prior to the evolution of the IBM framework, the banks had been engaged in informal IBM activities, but after the introduction of the IBM framework the CBL has been able to formalize most of the processes from the initiation of transactions to their settlement and reporting. The framework requires commercial banks to submit daily interbank transactions to the FMD.

**Guidelines on Repurchase and Reverse Repurchase Agreements**

These Guidelines were designed to: a) establish the scope of repurchase transactions that can be conducted by licensed banks; b) promote sound risk management practices by licensed banks and particularly on credit risk, market risk, and settlement risk for the conduct of repurchase transactions; and c) protect investors by introducing requirements on the use of repurchase and reverse repurchase agreements by licensed banks.

**Direct Currency Mop-up Exercise to Address the Exchange Rate Depreciation**

In response to the sharp depreciation of the Liberian Dollar during and up to July 16, 2018, the CBL, in consultation with the Technical Economic Management Team (TEMT), and with the approval of His Excellency Dr. George Manneh Weah, President of the Republic of Liberia, advanced US$25.0 million to the Government of Liberia (GoL) for aggressive intervention in the FX market beginning July 17, 2018. The intervention which continued throughout the year, significantly contributed to the broad stability in the exchange rate. By end of the year, only US$17.0 million was used. The intervention coupled with the regular FX auction, totaled US$51.7 million.

**Resolution of Undercapitalized Insurance Companies**

Following its earlier decision to delicense undercapitalized insurance companies, the CBL began a phased process of installing provisional administrators at the affected companies to oversee their resolution. This process was expected to conclude by the end of 2018, and the affected companies were advised of the opportunity to capitalize before that deadline to be in compliance with the law and regulations of the CBL.

**Amended Regulation on Foreign Exchange Bureaus to accommodate Category C**

To constructively engage all actors in the foreign exchange market, including scratch card dealers and street vendors operating in the parallel foreign exchange market, the CBL amended its Regulation on Foreign Exchange Operations to include Category C License. This category prescribes lower licensing requirements than Category A or B bureaus which is expected to take off in 2019.

**CBL Notes Issuance**

The Board also approved the issuance of CBL Notes to the public for the first time as part of its monetary policy instruments and its efforts to strengthen the money market. In preparation for the rolling out of these Notes, the CBL conducted an awareness campaign to generate public interest in the Notes. The issuance of the Note is expected overtime to increase public interest in both the private and public bond issuance and other government securities. This action follows the issuance of CBL Bills in 2013 in the amount of L$9.0 billion, which was fully redeemed.

**Regulations No. CBL/RSD/006/2017 Concerning Supervisory Intervention**

Guidelines No. CBL/SD/005/2000 Concerning Guidelines on Supervisory Intervention was superseded by Regulations No. CBL/RSD/006/2017. The new Regulation which was issued in 2018 is intended to ensure timely and transparent implementation of corrective and remedial actions in a bank that shows one or more weaknesses that threatens its safety and soundness. These regulations set out the appropriate supervisory actions against each of the weaknesses and/or conditions that the CBL may enforce against a deficient bank.

**Amended Prudential Regulations No. CBL/RSD/007/2017 Concerning Related Persons Transactions**

The Central Bank of Liberia (CBL), has amended Prudential Regulations No. CBL/RSD/007/2017 Concerning Related Party Transactions thereby replacing Prudential Regulations No. CBL/SD/003/2000 Concerning Related Persons Transactions.

These regulations which were issued in 2018 are intended to promote arm's length relationships in dealings between bank financial institutions and their affiliates or associates, directors, officers, shareholders and their related interests; and to ensure transparency and enhance disclosures in banks' transactions with related parties.

**Amended Regulation No. CBL/RSD/008/2017 Concerning Audit of Financial Institutions and Publication of Financial Statements**

The Central Bank of Liberia (CBL), has amended Regulations No. CBL/RSD/008/2017 Concerning Audit of Financial Institutions and Publication of Financial Statements thus replacing Regulations No. CBL/RSD/012/2011 Concerning Audit of Financial Institutions and Publication of Financial Statements.

The amendment of these regulations is to allow external auditors of financial institutions include in their terms of reference, and subsequent reports, a section on regulatory compliance which includes the auditors' assessment of the audited financial institution's (in) solvency, (ii) liquidity, capital adequacy and compliance with the new FIA and regulations/directives and guidelines issued by the CBL.

**Directive #CBL/RSD/DIR/003/2018 Concerning the Withdrawal of LRD Legacy Banknotes**

This directive requires all commercial banks to stop payment of all LRD Legacy Banknotes effective July 9, 2018 and surrender all the Legacy Banknotes in their vaults to the CBL to be exchanged for the new enhanced Liberian dollar banknotes. However, this directive does not prohibit banks from accepting LRD Legacy Banknotes from the public. It is important to note that this directive was withdrawn during the last quarter of 2018.

**Directive # CBL/RSD/DIR/004/2018 Concerning the Imposition of Limit of LRD Cash Withdrawal**

This directive required all commercial banks to limit their Daily Liberian Dollar cash withdrawal to no more than L$250,000 for both businesses and individuals. Commercial banks were encouraged to explore and advise their customers of alternative means of payments such as mobile money, direct deposits, etc. However, the directive ceased to be effective beginning November 27, 2018.

**Directive #CBL/RSD/DIR/006/2018 Suspending Section 2.0 of Regulation No. CBL/RSD/004/2016 Concerning Payment of Inbound Money Transfer**

The Central Bank of Liberia suspended Section 2.0 of Regulation No. CBL/RSD/004/2016 Concerning Payment of Inbound Transfer and directed all licensed financial institution engaged in money transfer services, including Western Union, MoneyGram and similar services to make payments of all inbound money transfer in United States Dollars only for the entire month of December 2018.