CENTRAL BANK OF LIBERIA

POLICY STATEMENT 2016

OVERVIEW

The Central Bank of Liberia (CBL) will continue to pursue its ultimate price stability goal with a view to ensuring macroeconomic stability characterized by low inflation and stable exchange rate. The CBL will remain strongly supportive of the national agenda for economic growth and development, especially the recovery of the economy from various shocks including declining prices of Liberia's primary commodity exports, the negative effects of the Ebola crisis, and UNMIL's drawdown. This will be done through enhanced policy coordination and harmonization between the CBL and the Ministry of Finance and Development Planning (MoFDP).

Also, to preserve the purchasing power of the Liberian dollar, the CBL will continue to intervene in the foreign exchange market while at the same time endeavor to accumulate reserves in the context of an appreciable level of months of import cover. It is important to state that the realization of CBL's monetary policy objectives can only take place in an environment that does not limit the operational autonomy of the Bank but one that allows the CBL to continue to carry out its typical central bank responsibilities in line with leading central banking practices so as to strengthen CBL's monetary policy execution. In this regard, the CBL commits to a better and stronger engagement with the Executive and the Legislature for the fostering of monetary policy implementation through effective liquidity management.

The CBL will continue to work towards ensuring a stable and sound financial system, which is an integral part of economic recovery. In this connection, the CBL will continue to work with all relevant stakeholders in ensuring financial inclusion by creating an enabling environment for easy access to financial services. The Bank will continue to support efforts towards financial deepening by encouraging private operators to invest in innovative financial products such as mobile money operations as a mean of enhancing the government financial inclusion agenda.

The Bank will widen the scope of its regular communication with all stakeholders and the public as a whole through its various publications.

II. RECENT ECONOMIC DEVELOPMENTS

Global economic growth was downgraded to 3.1 percent in 2015, from an earlier projection of 3.3 percent and 3.4 percent for 2014. The slowdown, which cuts across regions, was due to uneven prospects arising from major world economies as a result of the global commodity price slumps, currency depreciation mainly arising from the strengthening of the dollar and slowdown in the growth of the Chinese economy. However, projection for 2016 appears favorable with respect to growth momentum in advanced economies, emerging market & developing economies and sub-Saharan Africa, with projection set at 3.6 percent.

For Liberia, real GDP growth in 2015 was estimated at 0.0 percent, down from 0.7 percent in 2014. The decline in growth was largely occasioned by slowdown in mining & panning and rubber production, triggered by declining prices of these commodities (iron ore and rubber) on the global market. Growth in 2016 is estimated at 2.5 percent and is expected to be driven by major sectors of the economy except forestry which is expected to remain unchanged. The risks, however, to obtaining this level of growth will include a resurgence of the Ebola Virus Disease (EVD) which could affect the existing and planned investments and also the continuous declines in the prices of the country's primary commodity (iron ore and rubber) exports.

Average annual headline inflation fell by 2.1 percentage points to 7.8 percent at end-2015, from 9.9 percent a year ago. The decline in inflation was largely a result of declining price of oil (petroleum) and food on the global market, the cessation of the EVD crisis which saw gradual improvement in domestic food production and the relative stability in the exchange rate. Consumer price outlook for 2016 is estimated to remain in single digit at around 8.0 percent. The key risks, however, to maintaining this level of inflation will include the behavior of international oil and food prices, low domestic food production as well as the level of depreciation of the local currency.

The Liberian dollar on average in 2015 depreciated by 7.1 percent to L$88.5 per US$1.00, from L$84.13 per US$1.00 in 2014. Similarly, on the end of period basis, the Liberian dollar depreciated by 7.3 percent at end-2015 to L$88.5 per US$1.00, from L$82.5 per US$1.00 at end-2014. The single digit rate of depreciation in the exchange rate can mainly be attributed to enhanced liquidity management by the CBL through its intervention in the forex market and the management of excess liquidity in the banking system. Also, net inflows of remittances was one of the major factors that helped reduced the exchange rate pressure in 2015. The year-on- year rate of depreciation of the Liberian dollar in 2016 relative to 2015 is projected to also remain in single digit.

At end-December, 2015, Narrow Money Supply (M1) increased by 12.0 percent to L$41,036.5 million, up from L$36,634.5 million recorded for the same period in 2014. Similarly, as at end- December, 2015, broad money supply (M2) increased by 12.9 percent to LD$60,627.0 million, from LD$53,696.9 million recorded at end-December, 2014. The rise in both broad and narrow money supplies were occasioned by increased economic activities due to the cessation of the EVD crisis.

Macroeconomic Challenges

The persistent slumps in our primary commodities prices on the world market and the Ebola legacy have exposed the structural weaknesses of the Liberian economy. This highlights the compelling need for a more concerted effort to restructure the economy, moving away from heavy reliance on the enclave sector 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 around 2.5 percent in 2016, from 0.0 percent in 2015 which is far lower than the pre-Ebola (2006-13) growth of about 7.0-8.0 percent. This revision was a result of lower than expected growth in agriculture and mining as a result of declining rubber and iron ore prices. The price of iron ore on the global market declined significantly by 41.2 percent at end-2015, thus serving as a disincentive to increase production. Following the trend of iron ore, rubber price on the world market also declined by 25.3 percent over the same period; thus, restricting growth in the sector and the economy at large.

III. Key Policy Decisions: 2015

The Board of Governors took several decisions to further strengthen the economy from both internal and external shocks while at the same time deepening financial intermediation and strengthening inclusion program. Below is a summary of key decisions by the Board:

i. Issued Regulations for the Licensing and Operations of Credit Unions as part of the efforts to reform the financial sector and to bring other financial service providers under the regulation of the Central Bank of Liberia as prescribed by Section 4 (6) of the CBL Act;

ii. Approved the Licensing requirements for Insurance Brokers and Agents and the licensing of qualified brokers and agents as part of the ongoing reform of the insurance sector; and

iii. Approved the procurement and deployment of banking supervision software (Valtech's Regulatory Compliance and Surveillance System (vRegCoSS)) for use by the CBL as part of its efforts to reform and strengthen the financial sector. The software is being deployed by members of Central Banks of the West African Monetary Zone (WAMZ). When completed, the infrastructure will significantly enhance the supervisory oversight of the CBL and policy response to issues evolving in the banking sector.

IV. POLICY DIRECTION FOR 2016

A. MONETARY

The CBL will continue to accelerate efforts in maintaining a stable macroeconomic environment that is characterized by broad exchange rate stability and low inflation. The CBL will continue its collaboration with the Ministry of Finance & Development Planning (MFDP) especially in the areas of liquidity management through the Liquidity Working Group. In light of this, the Bank will, in collaboration with MFDP, work to ensure the synchronization of T-bills and CBL Notes for both fiscal and monetary operations. Furthermore, in an effort to further deepen the money market, the CBL will encourage an active interbank market and widen the participation of the T-Bill auction to include private firms and individuals.

B. FINANCIAL SYSTEM

The financial system remains one of the supportive components of the Liberian economy helping to spur growth and development. Having evolved over the years, the financial system has continued to serve the economy through the mobilization of capital, channeling credits to potential users, facilitating payments, and contributing to job creation in Liberia. The safety and soundness of the system is therefore critical to the vibrancy of the Liberian economy and the standard of living of the citizenry. As a regulator of the financial system, the CBL will continue its efforts in ensuring that the system remains safe and sound both at individual institution's level and sectoral level. As such, the CBL will take further measures to strengthen its supervisory oversight with respect to improving risk management and strengthening corporate governance at financial institutions, while at the same time take concrete steps and measures to establish a framework for macroprudential supervision to ensure that stability is maintained in the system.

The CBL will remain guided by present realities in the banking sector in order to avoid overconcentration of business focus and strategy which has the tendency of exposing the sector to potential systemic vulnerabilities. As such, the CBL's licensing policy will be guided by the following principles:

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

Non-bank financial institutions will also be guided by Counts 2 and 3 above.

The CBL will review the existing liquidity management, capital adequacy regulations and stress testing frameworks to align the standards and methodologies with current realities of the market and standards of Basel Committee for Banking Supervision. The Bank will ensure that steps are taken by commercial banks to step up their internal controls system, risk management practices and corporate governance systems.

The Bank will ensure that greater emphases are placed on the board of directors and shareholders of financial institutions to uphold their fiducial responsibilities relative to corporate governance and will hold accountable banks that fail to do so.

The CBL will continue with ongoing efforts to develop the appropriate macroprudential framework with clear mandate in consultations with relevant stakeholders to ensure effective supervision of the financial system.

Under the Financial Sector Development Implementation Project (FSDIP), which is being implemented by Liberia with technical assistance from the World Bank, the CBL will work with all relevant stakeholders in implementing the necessary reform measures required to strengthen the financial sector.

The Ebola Crisis underscored the need for establishing a crisis management framework for effective response to crisis in the financial system. In this regard, urgent attention will be given to developing the required framework and tools to effectively respond to vulnerabilities in time and to minimize their impacts on the economy. Accordingly, the Bank:

- Will work on establishing an appropriate institutional framework to respond to the high NPLs in the financial system;
- Seek technical assistance in this regard and leverage on the experiences of other countries;
- Improve the Lender of Last Resort (LoLR) function of the CBL to appropriately respond to potential liquidity problems at individual banks and systemic level;
- Developed, in this regard, a framework to ensure transparency in the provision of liquidity support to banks with clear rules;
- Will work with all relevant stakeholders for the establishment of a deposit insurance scheme in Liberia to strengthen confidence and ensure transparency in the banking system;
- Will continue to work on developing a comprehensive Bank Resolution Framework to enhance the current Regulations for Distressed Banks;
- Will strengthen collaboration with other central banks in the area of cross-border supervision and collaboration concerning cross-border financial institutions; and
- Will continue to play an active role in various supervisory colleges and initiatives as forums for sharing of information and policy response to emerging issues involving cross-border banking institutions.

One of the key issues seriously affecting the viability of the banking system is the high and increasing frequency of frauds and burglaries in the banking system. The level and volume of these incidents over the years have had significant negative financial consequences for the banks and has increased operational risk. While some of these incidents can be attributed to weaknesses in the internal controls and security environment of some banks, most are attributed to collusion among internal staff and external collaborators.

In this regard, the CBL will continue to 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 menace which is a systemic risk that threatens the stability of the financial system.

As a further step to boost the drive towards branchless banking, the CBL will promote agency banking which has the potential of promoting access to financial services particularly to the rural and underserved population in a more cost-efficient manner.

With the goal of fostering financial inclusion, the CBL would develop the necessary regulatory framework to support additional delivery channels of financial products and services. In continuation 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. These institutions have facilitated the payments of salaries and allowances and are a potential mean of rejuvenating the agricultural sector, among others.

In order to foster growth and development of the RCFIs, the CBL in collaboration with potential development partners will:

- Continue to support RCFIs, particularly in targeted areas of the country, with productive economic activities;
- Develop a proportionate regulatory and supervisory framework for effective regulation and supervision of the RCFIs; and
- Work with the Government for budgetary support and tax incentives for RCFIs in support of their development and growth.

The CBL will pursue further steps to strengthen the AML/CFT Regime in the financial sector and the country at the larger level.

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 will adopt a “zero tolerance” for banks that will fail to comply with the regulations and/or exhibit weak AML/CFT practices.

The Bank will develop AML/CFT Inspection/Examination procedures and begin on-site inspection and off-site surveillance during the course of the year.

And finally, the CBL will conduct preliminary AML/CFT risk assessment of the financial sector as a prelude to the national risk assessment to identify 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 counter terrorist financing.

The insurance sector remains an important part of the financial system and can play a more meaningful role in the sector. Since the assumption of the regulation and supervision of the insurance sector by the CBL, there have been significant changes in the regulatory and supervisory landscape of the sector. In support of the ongoing reform, the CBL will:

- Enforce the new capital requirements issued to the sector beginning June, 2016 instead of September, 2015 due to the Ebola Crises;
- In collaboration with relevant stakeholders, enforce the Marine and the Compulsory Motor Vehicle Third Party Liability Schemes, to support the growth and development of the sector as well as strengthen the revenue-generating capacity of the Government;
- Develop a discussion paper regarding the restructuring of the National Insurance Corporation of Liberia (NICOL); and
- Develop an action plan for the adoption of the International Financial Reporting Standards (IFRS) by operating insurance companies beginning December, 2017 to ensure transparency and disclosure in the insurance sector.

In continuation of the Bank's effort to enable a safe and efficient payments system and facilitate financial inclusion in the country, the CBL will continue the exercise of developing appropriate operational procedures, rules and policies to govern the Automated Check Processing System (ACP), the Automated Clearing House (ACH), the Real Time Gross Settlement (RTGS), and the Core Banking Application (T24). The CBL will continue the phase implementation of the National Switch which is intended for the interoperability of the existing payments networks by implementation of the shared switch platform, the Multi-banks hosting switch and the mobile banking platform.

To facilitate the development of the stock/security market and ensure regulations, the CBL submitted two acts to the presidency; the Security Markets Act (SMA) and the Central Security Deposit Act (CSDA). The SMA seeks to address the development of a capital market in Liberia which covers debt and equity and access to international capital markets while the CSDA is created to serve as the custodian of government, corporate and municipal securities. The CBL will work closely with the Executive and Legislative branches of Government to ensure that these acts are passed into law.