CENTRAL BANK OF LIBERIA

POLICY STATEMENT 2014

I. OVERVIEW

The monetary and exchange rate policy of the Central Bank of Liberia (CBL) made a significant contribution to maintaining inflation in single digit in 2013, despite the challenging macroeconomic environment that was also characterized by a build-up in pressure on the Liberian dollar. In 2014, the CBL will continue to intervene in the foreign exchange market to help stabilize the exchange rate and take steps to improve its capability for more effective macroeconomic management. Critical issues which must be addressed by the Government include the existing dual currency regime and the need to ensure that foreign exchange earned through exports can better serve the domestic economy. It is also necessary to create an environment that supports the functional independence of the CBL. The lesson of experience shows that over the longer term, such independence contributes significantly towards macroeconomic stability and sustained economic growth. While central banks may differ in many ways, they all tend to feature, in some respect, the essential central banking power to strongly influence credit and money conditions in the country. Functional independence should not be construed to mean that a central bank is independent of the government; its authority is also subject to judicial review. In this connection, the CBL has continuously consulted with relevant authorities, and has made public its policy intentions through various channels, including its Annual Policy Statement which is submitted to the President of Liberia and individual members of the Legislature. The CBL also submits annually to the President of Liberia the audit report done by external auditors. Presently, Price WaterHouse Coopers, a reputable international auditing firm, serves as external auditor for the CBL. Price stability, sustained economic growth and high employment are objectives that are shared by both the government and the central bank, with the central bank taking the longer term view towards ensuring the realization of these objectives.

Financial inclusion is now considered by policymakers globally as an important vehicle in addressing the issue of poverty and job creation. This has been the basis for the CBL keeping its financial inclusion strategy on course. Financial inclusion will remain a central pillar of CBL’s activities in 2014, including the implementation of policies aimed at expanding mobile money services and the opening of additional Rural Community Finance Institutions (RCFIs) in various parts of the country, especially counties without major financial institutions.

II. RECENT ECONOMIC DEVELOPMENT

Global economic activities in 2014 are expected to strengthen from the slow pace recorded in 2013, largely due to improvements in the advanced economies, particularly the United States.

However, projections by the IMF suggest that global growth still remains below its potential, around a projection of 3.6 percent in 2014.

The Liberian economy grew at an annual rate of 8.7 percent in 2013, largely driven by improvements in the Mining and Panning sector and exceeded the 5.0 percent growth rate recorded for sub-Saharan Africa (SSA). However, projection for 2014 shows a reduction in growth by 2.8 percentage points to 5.9 percent due mainly to diminishing rate of growth in the Mining & Panning sector.

Inflation remained in single digit, averaging 7.6 percent during the year and 8.5 percent at end-December, 2013. Though it remained in single digit, it increased by 0.7 percentage point compared with the 6.9 percent recorded in 2012. The slight increase was driven mainly by increases in imported inflation. Consumer price outlook for 2014 is expected to remain in single digit. However, this will largely depend on international oil and food prices, the level of local food production, and the rate of depreciation of the Liberian dollar.

The banking sector remained steady and well capitalized and liquid due, in part, to the supervisory measures being implemented by the CBL. Non-performing loans (NPLs) dramatically declined, from 24.9 percent at end-December 2012 to 14.8 percent at end-December 2013. Credit to the private sector increased to L$27,169.4 million, from L$18,901.5 million for the same period. Money Supply (M1) at end-December 2013 amounted to L$38,666.5 million, from L$30,132.7 million at end-December 2012. This was driven mainly by a 33.9 percent increase in currency outside banks and 33.1 percent rise in demand deposits. Broad money (M2) or the overall liquidity of the banking system grew by 22.8 percent between December 2012 and December 2013. These developments are in support of the growth of the economy with a view to creating jobs and reducing poverty.

In deepening money market transactions in the country, the Government of Liberia (GoL) Treasury bills (T-bills) program and the CBL notes commenced in 2013. Issuance of GoL T-bills for the period May-December, 2013 amounted to L$1,077.0 million, while notes issued by the CBL amounted to L$2,327.5 million.

Macroeconomic Challenges

The lack of diversification, reinforced by the enclave sector led growth of the Liberian economy, the acute infrastructure deficit and limited skilled human capacity constitute major constraints to sustainable economic growth and development. These challenges combined, have led to the low level of productivity in the real sector, high unemployment and widespread poverty. The high demand for imports coupled with proceeds from exports not going through the banking system continues to exert pressure on the exchange rate, whose pass-through effect is gradually beginning to feed into higher prices. It is evident that our economic strategy should move away from relying on the export of a few primary commodities to supporting more vigorously the establishment of a value-added economy with emphasis on improving production and productivity in the agricultural sector. Light manufacturing should also be encouraged. In addition, it is necessary that steps be taken to get the forestry sector back on track. The removal of administrative and other bottlenecks to foreign investment should also be given priority so as to avoid sending mixed signals to existing and potential investors.

III. KEY POLICY DECISIONS: 2013

The Board of Governors took several decisions relative to strengthening the financial system, restructuring of the insurance sector, and strengthening the management of Liberian-dollar Liquidity in 2013. The decisions include the following:

- a policy for the promotion of mobile money services mainly allowing non-bank financial institutions such as subsidiaries of GSM companies to provide mobile money services;
- the endorsement for the establishment of Rural Community Finance Institutions in support of financial inclusion for inclusive economic growth and development;
- the implementation of a measure aimed at restructuring and improving payments on delinquent loans in the banking sector, which is intended to help address the problem of non-performing loans (NPLs) that is negatively impacting the profitability of the banks;
- the amendment to the Regulations on the Placement of Funds Abroad requiring a reduction from 50 percent to 40 percent intended to enhance the US dollar liquidity domestically and support lending in the domestic economy;
- the licensing of 18 companies that met the requirements of the first phase of the insurance sector reform, including the existing minimum capital requirement;
- the reduction in the reserve requirement ratio (RRR) on both US dollar and Liberian dollar deposits, from 22 percent to 15 percent, beginning with the US dollar deposit, with an understanding that banks will strive to enhance lending to the value-added productive sectors in the economy;
- the agreement on the payment of vetted claims on a stratified basis to depositors of failed/closed banks;

- the issuance of CBL's bills as an additional policy instrument to help manage Liberian-dollar liquidity;
- appointment of a Chief Risk Officer and development of a Risk Management Framework for the Bank, which is intended to strengthen internal risk management;
- approval and issuance of an Anti-Money Laundering Regulation for Financial Institutions to strengthen measures to protect the financial system from being used for illegal purposes;
- commissioning of a comprehensive audit of the National Housing and Savings Bank (inactive) and Agricultural and Cooperative Development Bank (inactive) to determine their financial status;
- endorsement of the action of the Liberia Bankers Association (LBA) to name and shame protracted delinquent borrowers through publications in the newspapers; and
- revision to the Foreign Exchange Sale Auction Rules and Regulations which requires foreign exchange bureaus and other small businesses to bid through the commercial banks along with other participants.

IV. POLICY DIRECTION FOR 2014

A. MONETARY

Against the backdrop of increased pressure on the foreign exchange market, which started in mid 2013, prudent management of Liberian-dollar liquidity is important to help maintain price stability. The CBL will continue to intervene in the foreign exchange market to help smooth movements in the exchange rate, but will take into account the priority the Government has placed on the accumulation of reserves which is expressed in terms of specific targets for the level of reserves at given dates under the program with the International Monetary Fund (IMF). It is important to note that the stability or value of the Liberian dollar largely depends on the ability of the economy to produce for both local consumption and export. In this connection, the CBL has consistently emphasized the need to diversify the Liberian economy, attaching greater importance to value-added activities.

Meanwhile, the CBL will increase the issuance of CBL notes and extend their maturities, as may be necessary to manage Liberian-dollar liquidity. However, a more effective strategy for liquidity management will require the MoF to also increase the sale of T-bills to drive the deepening of the money market. The CBL will also request the MoF to consider sterilizing some of the proceeds from the T-bill auction. In the circumstances, the CBL notes would be a supplementary monetary instrument, where the T-bills auction falls short of addressing the excess liquidity situation. Furthermore, the CBL intends to consider, along with the MoF, the conversion of a portion of the Government's debt to the CBL into T-bills as a means of creating an additional tool for the CBL to manage liquidity.

The CBL has proposed a roadmap to de-dollarize the economy over the medium term, working along with the International Growth Centre (IGC) of the London School of Economics (LSE) and the MoF. Work has been ongoing at the technical level involving the CBL, MoF, and the Ministry of State to outline the steps to be followed in the roadmap. The goal of the roadmap is to pave the way for an orderly transition to a single currency regime, where the Liberian dollar will be the sole legal tender currency for domestic transactions. It cannot be overemphasized that the implementation of the roadmap requires a consensus by the relevant authorities, including the Legislature. It is advisable that the Administration should take the lead.

B. THE FINANCIAL SYSTEM

The safety and soundness of the financial system remains critical to the growth of the economy. In this regard, efforts are being aimed at improving profitability, credit risk management, and infrastructure within the banking system. In keeping with its goal to promote the development of the private sector, the CBL will continue its efforts aimed at strengthening the credit environment through the establishment of a collateral registry and the improvement of the credit reference system. The collateral registry is expected to be operational around the middle of 2014. The CBL in partnership with the International Finance Corporation (IFC) will embark on a comprehensive public awareness campaign to educate the public on the operations and benefits of the collateral registry.

The regulatory and supervisory framework will be strengthened by putting into effect a macro-prudential framework for assessing vulnerabilities of the financial system and the interplay between the financial sector and the macroeconomic environment. In terms of expanding financial services, the CBL will consider leveraging technology, especially mobile money services and will design policy for the inclusion of other non-bank financial actors including microfinance institutions, Village Savings and Loan Associations (VSLA), and Credit Unions into the mobile money business. Moreover, the framework for consumer protection and market conduct will be strengthened so as to ensure that consumers of financial services are better served with respect to adequate redress, transparency and disclosure requirements relating to financial products and services. This is another area where a public awareness campaign will be launched in collaboration with the Liberia Bankers Association and the Association of Insurers of Liberia. The goal is to enhance market discipline in the conduct of business by financial service providers, boost public confidence, and provide the means for the CBL to receive feedback from the public on issues affecting consumers of financial services.

The CBL's licensing policy with regard to bank and non-bank financial institutions will continue to be guided by specific needs of the financial system and the economy, while guarding against market saturation. The CBL considers branch expansion by banks as an important driver of financial services to other parts of the country and will encourage banks to find innovative ways of reaching out, especially to counties without financial institutions.

In keeping with its vision to promote an inclusive financial system and balanced economic growth, the CBL will continue with its current efforts towards the establishment of RCFIs in various parts of the country. Two RCFIs were established in Grand Kru and River Gee Counties in early 2014, in addition to the first pilot project launched in Karnplay, Nimba County in December 2013. The people of Karnplay and surrounding areas are now benefiting from money transfers and other related financial services. The CBL, in collaboration with interested banks, will also support capacity building for the RCFIs in order to ensure that they are sustainable and serving as effective vehicles for promoting economic activities in rural communities. In support of this initiative, the CBL would welcome help from the Government by constructing facilities which would include the necessary safety feature to host such institutions, such as was done in Gbarpolu, Grand Kru and River Gee Counties.

The reform of the insurance sector remains on course. To date, 20 insurance companies have been licensed by the CBL, having complied with the existing minimum capital requirement based on the 1978 Insurance Act and instituted effective board oversight, better risk management systems and adequate reinsurance cover. The CBL, working with stakeholders, has drafted an Insurance Act, which it is hoped will be passed into law in 2014. The relevant regulations and guidelines have been concluded by the CBL involving the participation of stakeholders in the industry, and will be issued during the course of the year.

The CBL remains committed to addressing the problem of failed banks as part of its reform agenda. In this regard, a number of failed banks has been delisted and efforts are being made by the CBL to conclude the legal process for delisting of the remaining ones. The way forward in addressing the issue of settlement of claims is also being considered.

In terms of microfinance and financial inclusion, the CBL will strengthen its collaboration with the UNCDF Microlead Program, which is providing US$2.7 million over a 4-year period for revitalization of the credit union sector. The Program includes institutional support covering the necessary infrastructural and operational costs for the establishment of 4 regional credit unions located in Ganta, Zwedru, Buchanan and Tubmanburg. Two of those institutions have already been completed and are operational in Ganta, Nimba County and Zwedru, Grand Gedeh County. The Program also provides support to the Liberia Credit Union National Association (LCUNA) including the renovation of its national headquarters. CBL will also focus on the establishment of a national apex body of the village savings and loan associations to enhance their operations, standardize training programs and improve reporting requirements. The CBL will also work towards the development of a national financial inclusion database for the purpose of tracking financial inclusion indicators as a basis for measuring progress over time for microfinance institutions, credit unions, and VSLAs.

On the Treasury Operations front, the CBL expects to establish by mid-2014 an inter-bank market and a discount window as a means to facilitate inter-bank lending. This should help to ease liquidity constraint, including in the foreign exchange market. Also, the CBL plans to conclude work on the framework for the development of capital markets in Liberia in 2014.

In an effort to create a safe and efficient payments system to facilitate electronic transactions, the CBL has made significant progress towards the upgrading of the payments system infrastructure. The system is expected to go-live in 2014 with all components being fully implemented and functional. Work is ongoing at the data centers for the system with the preparation for the installation and operationalization of the Real-Time Gross Settlement Systems, Automated Clearing House and Automated Check Processing Systems, and Scriptless Security System. This will bring greater benefits to the banking public such as reduction in time for the clearing of checks and other paper based instruments. In addition, the CBL is also working on having a Central Switch in place in 2014 so as to help facilitate interoperability of existing networks across banks for ease of transactions. For example, a customer of one bank would be able to use a debit/credit card to withdraw cash from another bank’s ATM machine.

The CBL has prepared and submitted a draft Payments System Act to the National Legislature for enactment into law. The CBL urges the Legislature to take speedy action for its passage, which is necessary for the smooth functioning of a modern payments system.