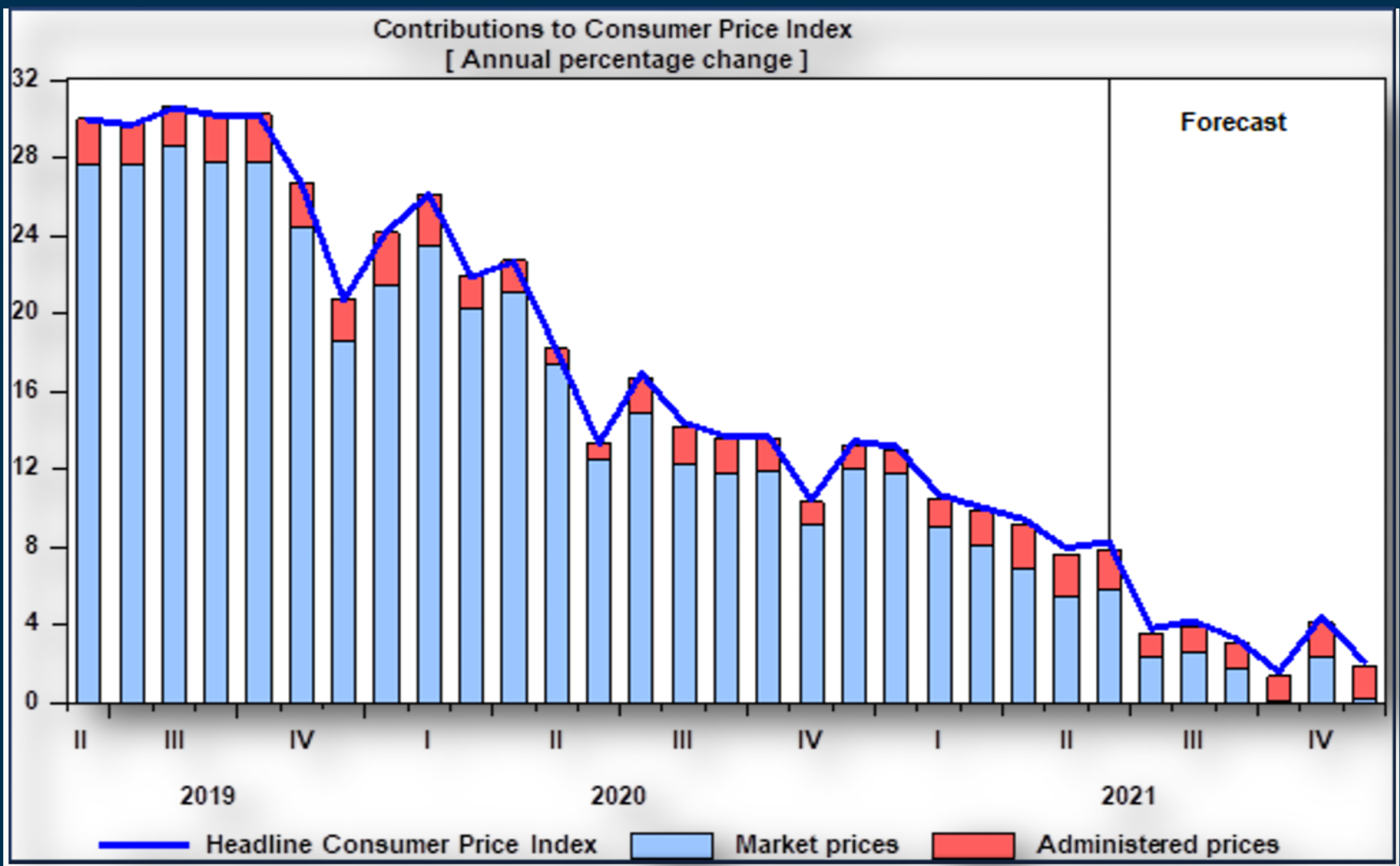
October 2021

The REGULATOR

Promoting financial inclusion, consumer protection and financial sector development

2019 to 2021: How CBL Beat High Inflation, Stabilized Prices and the LD Exchange Rate



The REGULATOR is the official newsletter of the Central Bank of Liberia, produced by its Corporate Communications Unit, Central Bank of Liberia: Lynch & Ashmun Streets. Website: http//cbl.org.lr

In This Issue

From the Governor's Desk

Regional issues dominate this edition of the Regulator, ranging from the dominant role the Central Bank of Liberia is playing in regional economic institutions to the latest decision to postpone the launch of the single West African currency to 2027 and the secondment of three Central Bank of Liberia staff members to the West African Monetary Institute (WAMI) and the West African Monetary Agency (WAMA). It is also worth noting that the former Governor of the Central Bank of Sierra Leone, Dr. Patrick Saidu Conteh, is now on a USAID-sponsored consultancy program with the Central Bank of Liberia, serving as Resident Advisor.

All of these latest developments owe to one important factor – the transformation in the image of CBL over the last year or two. The new leadership within the CBL senior management has played no small role in the transformation that CBL has seen since 2019.

Following the turbulence that CBL had gone through in 2018 and 2019, the Bank was given a new lease of life towards the end of 2019 and early 2020 with the appointments of Madam Nyemadi Pearson as Deputy Governor for Operations, Dr. Musa Dukuly as Deputy Governor for Economic Policy and Mr. J. Aloysius Tarlue, Jr., as Executive Governor to complete the unfinished terms of Mr. Charles Sirleaf, Dr. Mounir Siaplay and Mr. Nathaniel Patray, III.

Prior to the arrival of the new leadership, CBL was plagued with financial improprieties, low public confidence in the banking sector, and worsening economic circumstances. Inflationary pressures have significantly eased from 30% in 2019 to just 7.0% in August 2021. Similarly, the Liberian dollar has appreciated in value against the US dollar from LD213 in 2019 to LD168 in September 2021.

The change in the CBL leadership brought a change in its fortunes, which is the theme of this edition and most likely why CBL is trusted with leadership roles within West African economic institutions.

Vote of Confidence for CBL Executive Governor, Deputy Governor for Economic Policy

Executive Governor J. Aloysius Tarlue, Jr. (right) taking the Oath of Fidelity and Secrecy

The re-appointment of J. Aloysius Tarlue, Jr., and Dr. Musa Dukuly as Executive Governor and Deputy Governor, respectively, of the Central Bank of Liberia is an indication of the approval by the President of Liberia, His Excellency Dr. George Manneh Weah, Sr. and the Honorable Liberian Senate for the manner in which the CBL senior management steered the affairs of the Bank from 2019 up to the time of their re-appointments for a five-year term. Prior to their initial appointments in 2019, inflation had skyrocketed to about 30%, and the Liberian dollar exchange rate was erratic, contributing to general economic uncertainty and a financial sector characterized by high risks.

The induction ceremony which included the CBL Oath of Fidelity and Secrecy, took place on July 29, 2021, in the CBL auditorium. The event was attended by the CBL Board of Governors, senior staff, and family members.

In their post-induction remarks they thanked His Excellency President George M. Weah, Sr. and the Liberian Senate for their nomination, confirmation, and commitment to the operational independence of the Bank.

Governor Tarlue further indicated that prior to the coming of the new management team, the CBL has sailed through turbulent times resulting from low public confidence in the banking sector, and low staff morale. All of this he indicated is now history, as stability has crept into Liberia's financial system, re-enforced by a considerable decline in inflation from 30.6% at the end of October 2019 to the current 7.0 %. since-August 2021 This level of single digit inflation which is consistent with the threshold of the West African Monetary Zone (WAMZ) countries has been witnessed by Liberia on a monthly basis since March 2021.

Deputy Governor of Economic Policy Dr. Musa Dukuly (right) taking the Oath of Fidelity and Secrecy

The CBL Governor stressed that his vision for the next five years would be to maintain a single-digit inflation, build strong foreign exchange reserves to support imports for at least three months and maintain a stable exchange rate. Alongside these three strategic imperatives, the CBL will revamp the payment system infrastructure, respond to technological innovations within the financial sector and strengthen regulations and supervision of commercial banks, with the view to curbing bad loans.

For his part, the Deputy Governor for Economic Policy indicated that "we still have a long way to go; we should not be complacent, given where we have come from and where we are. We have a lot to do. If we have to transform this economy, we must dedicate our time and effort to the work in our respective capacities".

Executive Governor Tarlue in Three West African Roles in 2021

CBL Executive Governor J. Aloysius Tarlue, Jr. (front) and members of the CBL Board of Governors (back)

2021 will long be remembered by the Central Bank of Liberia as the year in which its Executive Governor served in three capacities on a regional level.

Chairman of West African Bureau of AACB Governors

Until August 2021, Executive Governor J. Aloysius Tarlue served as Chairman of the West African Bureau of the Association of African Central Bank (AACB) Governors. Days after turning over the gavel of authority of the West African Bureau of the AACB Governors to the Governor of the Central Bank of Guinea, Executive Governor Tarlue was again selected as Chairman of the Committee of Central Bank Governors of the West African Monetary Zone (WAMZ) at its 58th Ordinary Meeting that was held virtually in August 2021.

Chairman of the Committee of Central Bank Governors WAMA

Prior to his selection in August 2021 as Chairman of the West African Monetary Agency (WAMA), Executive Governor Tarlue was in February 2021 selected Chairman of the Committee of Central Bank Governors of the West African Monetary Agency (WAMA), a post where he chairs the Board of Governors of West African central banks and he still holds. This brings to two, the chairmanship positions he simultaneously holds of West African regional institutions.

In his chairmanship role, Executive Governor Tarlue will have the unenviable role of overseeing the reversal of the havoc that COVID -19 has wreaked on West African economies that had registered an economic growth of 3.1% in 2019, just before the advent of COVID-19.

In his keynote address at WAMA's 58th Ordinary Meeting, Chairman Tarlue said West African economies had declined to a 1.1% growth rate in 2020, with the dire economic ramification of such a decline.

Chairman of the Committee of WAMZ Central Bank Governors

As a result of the economic downturn in 2020, brought on by COVID-19, increased budget deficits and public debts had become the norm within the West African Monetary Zone (WAMZ). The dream West African Single Currency Project had also become a casualty of COVID-19 because some west African nations rationalized the already tight resources to fight the pandemic and thus missing out on some of the key macroeconomic convergence criteria The Authority of Heads of State and Government of ECOWAS (Economic Community of West African States) have had no alternative but to revise the erstwhile macroeconomic convergence and stability pact, as well as come up with a new roadmap, extending the launch of the West African Single Currency from 2020 to 2027.

In view of the adverse impact of COVID-19 on West African economies, Chairman Tarlue urged his fellow West African Central Banks Governors to consider a new Central Bank role that would require that they finance structural and developmental initiatives, thereby diversify public revenue sources and minimize periodic pressures on the monetary authority.

West African Central Bank Governors

Printing of New Liberian Dollar Banknotes on Course

Senior Technical Advisor, Mr. Mussah A. Kamara (left) and Director for Banking, Mr. Williams Jlopleh (right) at ELBC

The shortage of Liberian dollar banknotes in the banking sector has for a while been a lingering problem in the banking sector of the country. The situation has become more acute particularly around the two major festive seasons in Liberia – July 26 and Christmas.

The situation could, however, be settled once and for all, when a new family of Liberian dollar banknotes and coins are injected into the system, beginning December 2021.

Speaking Wednesday, September 29, 2021, on CBL's flagship radio program, Money Matters, on ELBC radio, the Chairman of the Technical Committee for Currency Reform (TCCR), Mr. Mussah A. Kamara and the Director for Banking, Mr. Williams Jlopleh, said the Bank is on course in procuring the printing of the new banknotes and the minting of coins, in line with the mandate of the National Legislature. The CBL Board of Governors, it was disclosed, has already approved the designs and other features for the new currency.

They said preparations have progressed to make sure that the first batch of newly printed LRD $100 are in the country in time for the festive season. "The process is in an advanced stage to make sure we provide additional liquidity in the economy by December so that there are no difficulties in people getting their money from the banks for the festive season," the chairman of the TCCR, Mr. Kamara disclosed.

Messrs. Kamara and Jlopleh said the CBL is well on course in meeting the timeframe set for the procurement of the new money, as the Bank collaborates with its partners, including the International Monetary Fund (IMF) and Kroll Associates, to guarantee that there is a gradual, smooth, but speedy process, and that the exercise is orderly and void of confusion and panic among the public.

The CBL Currency Reform committee members noted that the process will be implemented in two stages. The first stage, which begins in December 2021, they said, will include the injection of the new LRD $100 banknotes to ease the liquidity squeeze, while the second phase, which commences in the second quarter of 2022, will begin the process of replacing mutilated banknotes and the legacy banknotes in circulation.

On May 6, 2021, the National Legislature adopted a Joint Resolution authorizing the Central Bank of Liberia to print and mint coins of a new family of banknotes in the tune of LD$ 48,734Billion.

Under the resolution, L$20, L$50, L$100, L$500 and L$1000 denominations will be printed and L$5 and L$10 coins will be minted. In line with the Resolution, the printing and minting will take place in 2021, 2022 and 2024.

Meanwhile, the two CBL officials informed the public that the Bank will shortly embark on a public awareness campaign aimed at providing detailed information to the public about the currency reform program as part of the transparency process.

New Central Bank Note

2019 to 2021: How CBL Beat High Inflation, Stabilized Prices and the LD Exchange Rate

The latest inflation figure hovers around 7.0%.

This is a remarkable climb down from the 30% inflation level recorded around October 2019. At that time, in addition to the high double-digit inflation, there were other economic uncertainties including the rapid depreciation of the domestic currency. The Liberian dollar, on a year-on-year basis at end-October 2019 relative to October 2018, depreciated by 21 percent to L$213 per US$1.00. These two factors resulted to the loss of confidence in the Liberian dollar as a store of value. Liquidity shortfalls, especially around festive season, caused public anxiety and adversely affected public confidence in the banking system (I am not sure how the currency reform program can be credited for the achievement at this time considering that the new currency has not been introduced yet).

A comparative analysis of the exchange rate market in the country shows that the Liberian dollar, at end-August 2021 appreciated by 19.3 percent to L$171.8 per US$1.00, compared with L$213 per US$1.00 in November 2019. The stable exchange rate and low inflation were due mainly to prudent liquidity management by the CBL, including the tight monetary policy stance of the CBL and favorable (though gradually rising) international oil prices.

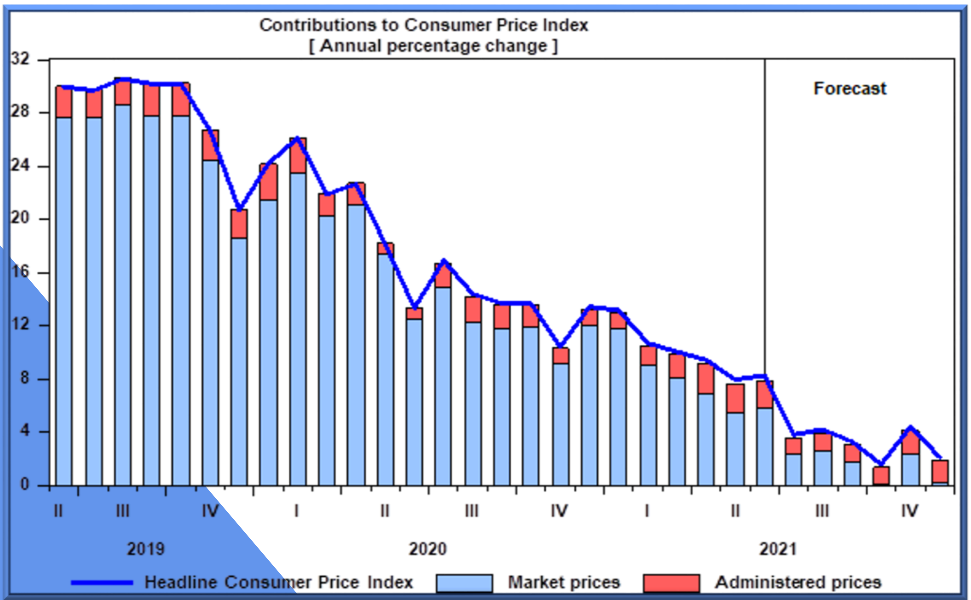
CBL did not just wave a magic wand to arrive at these desired results. To achieve these good results, the CBL had to make a deliberate and coordinated transition on its monetary policy framework from exchange rate targeting that characterized its monetary policy from 2000 to October 2019 to the existing monetary targeting policy with interest rate as the principal monetary policy instrument.

The main monetary policy instrument used by CBL to achieve exchange rate stability prior to 2019 was foreign exchange auction, through which it intervened in the foreign exchange market by purchasing Liberian dollars with the US dollar. As stated, the effect was a reduction in Liberia's international reserves and could not be sustained.

By using a combination of policy instruments, including monetary policy rates, CBL Bills, the reserve requirement, and standing deposit facility, accompanied by public awareness on the use of digital financial services, CBL has succeeded in curbing high inflation level while at the same time keeping exchange rates relatively stable over a sustained period of time.

From November 2019 to the present, an inter-departmental committee, the Monetary Policy Advisory Committee (MPAC), headed by the Deputy Governor for Economic Policy, has been meeting at regular intervals to assess and discuss developments in Liberia's economy, after which monetary policy recommendations are proffered for consideration by CBL's Board of Governors.

The present CBL monetary policy framework has largely succeeded in stabilizing the Liberian dollar exchange rate and curbing inflation. It is likely to remain in place and even be strengthened, following the passage of the Amended and Restated CBL Act of 2020. This will give impetus to the existing CBL monetary policy regime through the establishment of a Monetary Policy Committee and the strengthening of CBL's monetary policy communications.



Informed by Global and Domestic Developments, CBL Cuts Monetary Policy Rate

The CBL Board of Governors currently performing the function of the Monetary Policy Committee (MPC) announced a new set of monetary policy decisions which it said were based on global and domestic economic developments. Such decisions are announced every three months, following recommendations proffered by CBL's Monetary Policy Advisory Committee (MPAC).

Latest Monetary Policy Decisions

The latest monetary policy decisions included a new monetary policy rate of 20%, reflecting a reduction by 500 basis points in the previous monetary policy rate of 25%. It is hoped that the cut in the monetary policy rate would further strengthen liquidity conditions, help support the achievement of a 3.6% economic growth forecast.

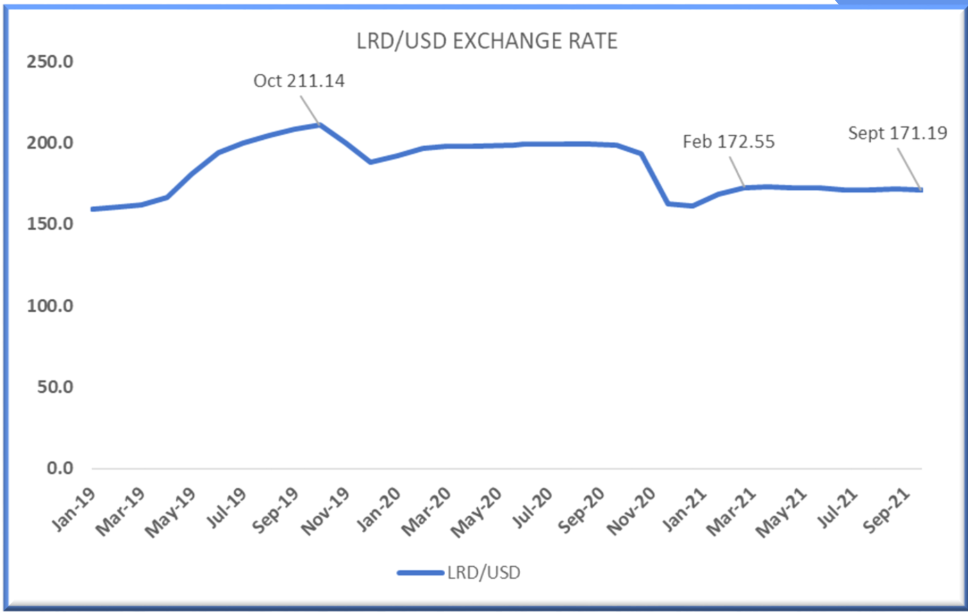
Following its 18th and 20th August 2021 sitting, the CBL Board of Governors decided to retain the previous reserve requirement thresholds of 25% for Liberian dollars and 10% for United States dollars.

Additionally, the Board of Governors, in implementing its structural policies, issued directives for banks to undertake more aggressive and sustainable debt recovery strategies and actions in pursuit of defaulting borrowers. The directives also required banks to enhance their overall credit risk management processes. Banks will therefore be required to continue the restructuring of delinquent credits that were current prior to the COVID-19 Pandemic to facilitate flexible repayment terms for borrowers. CBL, for its part, will automate its existing Credit Reference System to enhance its capacity and credibility.

Rationale for Latest Decisions

Domestic economic considerations were apparently a dominant factor in the latest monetary policy decision-making process. There had been an increase in non-performing loans (NPLs) within the domestic banking sector, contributing to liquidity challenges and low confidence in the banking system, something the Board of Governors considered to be a "systemic concern undermining the financial soundness of the banking system", hence their decision to contain NPLs.

The performance of the domestic banking sector, on the whole, was largely acceptable, as reflected by the favorable capital adequacy ratio (CAR). This clearly influenced the decision to retain the previous levels of reserve requirements.



West African Single Currency

His Excellency Nana Addo Akufo-Addo, President of Ghana and ECOWAS Chairman

After more than a decade of committing itself to the ideal of a single West African currency, realization of that goal remains elusive for West African economic policy makers.

2020 was the timetable given for members of the 15-nation Economic Community of West African States (ECOWAS) to abolish their own national currencies and adopt a common currency for the West African economic bloc whose population is nearly 400 million. In addition to the establishment of a common West African currency, ECOWAS member nations also committed themselves to the establishment of a West African Central Bank to manage the single West African currency.

2020 has come and gone and a single currency is yet to be attained. Although COVID-19 is the official culprit used for skipping the 2020 timetable, it must be said that prior to 2020 hardly any West African country had achieved all the economic benchmarks agreed upon for the single currency for a sustained period of time. This is not to trivialize the adverse effects of COVID-19, which wreaked havoc not only on West African economies but also on the world economy, threatening the very survival of many national economies.

It can be argued that the devastating effects of COVID-19 is more reason for a greater economic integration of West African economies, which could have been shielded from the worst effects of the Pandemic. Had ECOWAS nations met the macroeconomic convergence criteria for the establishment of a monetary union in 2020, they would have pooled their resources, protected the West African single currency and negotiated on more favorable terms with foreign creditors.

Obstacles

Can ECOWAS nations achieve in 2027 what they could not achieve in the preceding decade? And why have the macroeconomic convergence criteria been so elusive for many West African nations, if not all of them? Also, should ECOWAS wait for all its members to achieve the convergence criteria before launching a single currency or should it proceed without unanimity on the currency criteria, declaring a single currency for those who meet the convergence criteria. These are important questions that policymakers must answer.

To begin with, there is the potential of hegemonic behavior by the dominant economies within ECOWAS, mainly Nigeria, but also Ghana and the Ivory Coast, whose economies, put together, account for more than two-thirds of the GDP of ECOWAS. Another reason for potential hegemonic behavior by the dominant ECOWAS economies is the fact that the populations of Nigeria, Ghana and Ivory Coast account for nearly 70% of ECOWAS population.

On the other hand, the GDPs of the five smallest economies of the region – Cape Verde, Gambia, Guinea-Bissau, Liberia and Sierra Leone – account for less than two percent of ECOWAS' GDP, making their potential marginalization by the big West African economic players an issue of concern. (I am not sure if this has been a major concern.

The lack of economic diversifications in many of the West African economies is another daunting obstacle obstructing the launch of the single West African currency. The countries that lack economic diversification depend on the sale of raw materials, whose prices are often very volatile, something that could have different effects within the region. When oil price rises, Nigeria, a net oil exporter, will benefit, while the oil importers will be hurt, thus creating difficulties in managing economic fluctuations.

There is the other challenge of having to deal with French-speaking West African nations, who have their own currency arrangement that overlap with the ECOWAS currency zone. The West African Economic & Monetary Union (WAEMU), which includes Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo have their own currency arrangement and, moreover, are part of the CFA (Communauté Financière Africaine) zone.

Delayed, But the Vision Remains

Then there is the Cape Verde, whose currency is also pegged to the Euro.

The Way Forward

The important first step in achieving a West African single currency is to exercise caution and not rush to create a common currency, making the decision to set 2027 as the year of the launch of the common currency laudable and an important first step to make the Road Map work.

The second most important step in achieving a West African monetary union in 2027 is to effectively enforce the criteria that member states have agreed to.

Thirdly, it is important that the West African Monetary Zone (WAMZ) (This should be about the monetary union and WAMZ) learn from the successes and failures of other monetary zones. In that vein, Nigeria could serve as an anchor for a West African Monetary Union, along with other emerging West African economic heavyweights, just like Germany and other resilient European economies serve as the anchor for the Eurozone.

The adage 'small is beautiful' could be instructive for the prospect of a West African monetary union so that, rather than a full monetary union, ECOWAS could proceed at a smaller scale, avoiding the political baggage of common currency. ECOWAS could learn from the experience of the Association of Southeast Asian Nations, which has an extensive network of financial and trade arrangements without requiring monetary union. The advantage of this approach is economic integration with a unified voice on economic and geopolitical issues without the tensions that arise from coordinating monetary and fiscal policies. Without losing sight of monetary union, ECOWAS nations could proceed at this slower pace, making economic integration, rather than monetary union, their first priority.

Heads of State and Government of ECOWAS-member nations (Photo Credit: ECOWAS)

In Conclusion

West Africa monetary union has immense benefits if it is done correctly. It could accelerate trade and investment flows within the region and provide a safeguard against external economic shocks. Coupled with a strong central bank at its core, a West African monetary union could serve as a check on inflationary pressures.

Notwithstanding the promise of regional economic prosperity emanating from a West African monetary union, there must be the necessary pains before such a monetary union is birthed. Such pains include those that come with fiscal belt-tightening, wage reduction in some countries, and the loss of an independent currency and monetary policy.

It has to be remembered that the pains are short term, and the gains are long-term and permanent. Furthermore, the long-term gains cannot come without the short-term pains.

Flags of ECOWAS-member countries

CBL Gets Modern Documents Center

The Central Bank of Liberia (CBL) roared into the 21st century with the setting up of a new state-of-the art document management center.

CBL Executive Governor, J. Aloysius Tarlue, Jr., accompanied by deputy governors Madam Nyemadi D. Pearson, Dr. Musa Dukuly as well as senior staff from the Management Information Systems and General Support Services Departments toured the CBL's premises in Virginia, Montserrado County on 16 July 2021 to dedicate the Center.

The Deputy Governor for Operations, Madam Nyemadi Pearson, who presided over the establishment of the Center said CBL's documents, which have expanded significantly in recent years will be secured and protected, and made available whenever needed.

(L-R) CBL Executive Governor J. Aloysius Tarlue, Jr., Deputy Governor for Operations Nyemadi Pearson, and Deputy Governor for Economic Policy Dr. Musa Dukuly

Currently, the various CBL departments are organizing documents that will be transferred to the Center. Briefing Executive Governor Tarlue, Madam Pearson disclosed her vision for the Center. She said: "Currently, the facility will be limited to the physical storage of certain kinds of bank documents, but it is envisioned that in the not-too-distant future the digital components, where computers and servers will be needed to manage the operations, will be integrated."

Such a digital component of the Document Management Center will make the Center paperless, in which case the documents will be stored on computers and servers. It may even be possible to save them on the 'cloud', something that will secure them from the risk of computer hard drive failure, fire, flood or burglary. It is hoped that this will usher the CBL Document Center into the 21st century and place it among the most user-friendly document management centers around.

Once fully migrated into a digitized documents center in the not-too-distant future, the features of the CBL Document Management Center will include:

Document Sharing: It will be possible for whole documents or sections of them to be shared with individuals who are given different levels of permissions. The facility will have a feature to even log changes made to any documents.

Search Facility: The cloud-based documents will have a powerful search facility, to enable users to search for documents based not only on the file names, but also by keywords and contents. Such search facility will not be limited to Microsoft Documents, but also PDFs and even screenshots.

Notifications: Whenever anyone adds to, or subtracts from, the contents of any digitized documents based at the Document Management Center, notifications will be sent about who did what and when.

These are only few of the features of the computer-based document system that Madam Pearson foresees for the CBL Document Management Center. It goes without saying that CBL's senior management will have the option of determining the retention period for any of the folders and files, either in days, weeks, months or even years.

Impressed with the new state-of-the art CBL Document Management Center, Executive Governor Tarlue praised Deputy Governor Pearson for the level of work she put into the establishment of the Center and her vision for it.

Three CBL Staffs Seconded to Regional Economic Institutions

In keeping with its staff development policy, CBL has seconded three additional staff members to West African monetary institutions in Ghana and Sierra Leone, bringing to eight (8), the total number of CBL staff members seconded to regional economic institutions. Mr. William Sulonkemelee Jr. of the CBL Regulations & Supervision Department was seconded to the West African Monetary Agency (WAMA) in Freetown, Sierra Leone, while Ms. Sylvia Freeman from the CBL Finance Department and Joseph Yengbe Jr. of the CBL Research, Policy & Planning Department were both seconded to the West African Monetary Institute (WAMI) in Accra, Ghana.

The secondment of Mr. William Sulonkemelee Jr. to WAMA, brings to three (3), the number of CBL staff seconded to that institution, while the secondment of Ms. Sylvia Freeman and Mr. Joseph Yengbe Jr. to WAMI, brings to five (5) the number of CBL staff secondments there.

Sylvia Freeman

At WAMA, Mr. William Sulonkemelee Jr. joins Mr. P. Mah Kruah and Mr. Blama Goll, also of the Research, Policy & Planning Department; while at WAMI, Ms. Sylvia Freeman and Joseph Yengbe Jr. have joined Clifton Garpeh of the Payments System Department, Votee Cheyee of the Finance Department and Eric Sambola of the Research, Policy and Planning Department.

It is expected that, upon their return from Sierra Leone and Ghana, the three (3) staff members would have acquired the requisite skills to improve the capacities of their respective departments. The institutions in which they will be spending the next two years are reputable economic institutions in West Africa and critical to the work of ECOWAS (the Economic Community of West African States).

As an organ of ECOWAS, the functions of WAMA, among other things, include routing and clearing trade transactions and services, as well as monitoring,

William Sulonkemelee, Jr.

coordinating, and implementing the ECOWAS Monetary Cooperation Programme (EMCP), geared towards the creation of an ECOWAS single currency.

WAMA comprises the central banks of The Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone, as well as the central banks of seven (7) French-speaking West African countries and Guinea Bissau.

The West African Monetary Institute, where a total of five (5) CBL staff will now be based, had been responsible for the establishment of a common West African Central Bank for the six (6) West African Monetary Zone (WAMZ) member states. It now has an expanded mandate which, in addition to monitoring the convergence to a single currency, includes facilitating trade integration, financial sector integration, payments system development and statistical harmonization. It also undertakes multilateral surveillance missions to ensure compliance with quantitative and qualitative benchmarks.

Joseph Yengbe, Jr.

CENTRAL BANK OF LIBERIA

ESTABLISHED 1999