**OPENING STATEMENT BY NATHANIEL R. PATRAY**
**EXECUTIVE GOVERNOR-DESIGNATE OF THE CENTRAL BANK OF LIBERIA**

**AT HIS SENATE CONFIRMATION HEARING**

July 20, 2018

- Hon. Chairman of the Banking and Currency Committee
- Hon. Members of the Banking and Currency Committee
- Hon. Members of the House Senate and House of Representatives
- Officials of Government
- Members of the Board of Governors, Management and Staff of the Central Bank of Liberia
- Members of the Fourth Estate
- Ladies and Gentlemen

THIS IS A DAY THE LORD HAS MADE

First, I thank God for sparing my life to see this day.

Second, I thank His Excellency Dr. George Manneh Weah for giving me the opportunity to serve at the Central Bank of Liberia as Executive Governor.

I thank you for affording me the opportunity to appear before you today for my confirmation hearing as Executive Governor-Designate of the Central Bank of Liberia (CBL). It is an honor to have had the opportunity to serve the National Bank of Liberia as well as the Central Bank of Liberia for more than twenty-five (25) years in various capacities. Also, it is a privilege to be nominated by His Excellency Dr. George Manneh Weah, President of the Republic of Liberia, to serve my country in this new capacity during this period of renewal and reconstruction of our economy. Furthermore, on behalf of my family, I wish to extend my heartfelt appreciation to His Excellency Dr. George Manneh Weah, President of the Republic of Liberia for his confidence reposed in me.

I am fully aware that the role of the institution to which I have been nominated is critical to the well-being of every Liberian across the length and breadth of this country. Hence, when confirmed, we will assume the role of helping to creating an enabling economic environment for high employment, economic growth, price stability, interest-rate stability, stability in the financial market, and most importantly stability in the foreign exchange market.

THE ECONOMY

Today, the Liberian economy is faced with enormous domestic and foreign challenges. The past six years have been quite challenging for every Liberian, especially the poor. The economy has witnessed slow growth since 2014, due to:

- ✓ the EBOLA crisis;
- ✓ the fall in international prices of our major export commodities namely, iron ore and rubber;
- ✓ a growing external sector deficit;
- ✓ persistent inflationary pressure; and
- ✓ the rapid depreciation of the Liberian dollar.

Though growth is expected to rebound this year with real gross domestic product (RGDP) projected to expand 3.2 percent from 2.5 percent in 2017, the rapid depreciation of the Liberian dollar continues to pose a serious challenge to this outlook. The anticipated recovery in growth remains far lower than our pre-crisis average growth rate of 7.5 percent and slightly lower than both Sub-Saharan Africa and global growth rate of 3.4 and 3.9 percent, respectively. If we should ensure a sustainable growth and development of our economy, we will need to review our current economic strategy in terms of reducing our reliance on the enclave sector and move towards the agricultural and manufacturing sectors, in order to create more jobs for our people. This, I know, is cardinal to the National Development Plan, which will be launched by His Excellency, Dr. George Manneh Weah, President of the Republic of Liberia.

## PRICE DEVELOPMENT

As at end-May 2018, headline inflation stood at 21.3 percent, compared to 13.2 percent a year ago as the Liberian dollar recorded a 24.1 depreciation against the United States dollar during the same period. This has culminated in welfare loss, reducing the purchasing power of most Liberians, especially the poor. Therefore, when confirmed, Honorable Chairman, we will embark on the use of a mix of available monetary policy instruments to first and foremost ensure Broad exchange rate stability, and low and stable inflation in the Liberian economy.

## MAJOR POLICY ACTIONS

While it is true that the prevailing economic fundamentals are unfavorable, I believe a combination of various policy measures and tools, from both the fiscal and monetary sides, can help reverse the growing exchange rate depreciation and inflationary pressure, and put our economy back on the path of growth and stable inflation.

This is why the Technical Economic Management Team (TEMT) was constituted by the President to examine the prevailing macroeconomic issues and challenges to come up with Policy Options for Economic Recovery. Hon. Samuel D. Tweah, Jr., Minister of Finance and Development planning is Chairman of the TEMT. The Team includes all macroeconomic players in the economy, including but not limited to the Central Bank of Liberia (CBL), Ministry of Finance and Development Planning (MFDP), Ministry of Justice (MoJ), Ministry of Commerce and Industry (MoCI), Monrovia City Corporation (MCC), and Hon. Charles Bright, Economic Advisor to the President. The TEMT has been working for weeks on major short-term measures to help resuscitate the economy. The key issues during this period are:

1. <u>THE SUSTAINED DEPRECIATION OF THE LIBERIAN DOLLAR.</u> The Liberian dollar continues to experience sustained depreciation pressure year-on-year, recording double-digit rate of depreciation.
2. <u>HIGH LEVEL OF INFLATION:</u> Inflationary pressure persist and remains in sight largely on the back of continuous depreciation of the Liberia dollar.

## POLICY OBJECTIVE

The TEMT is to take immediate actions to ensure broad exchange rate stability and price stability (low and stable inflation).

## PROPOSED POLICY MEASURES

That the TEMT will meet and agreed on a number of monetary and fiscal policy measures to be implemented July 2018. The policy options are two (2) folds—short-term measures to resuscitate the economy and medium-term measures for rebound and sustained recovery.

Below are the proposed policy measures for implementation and their expected outcomes:

SHORT-TERM POLICY MEASURES (2018)

1. That the CBL issues a directive to commercial banks to stop the payment of all Liberian dollar legacy notes — the old notes — to the public to help withdraw the legacy notes, reduce the volume of legacy notes in circulation, and control counterfeiting.
2. That the CBL carry out FX Auction exercise in the amount of US$25 million dollars to help meet the demand in the FX market, minimize the high level of volatility in the FX market and ensure broad stability in the exchange rate.
3. That the CBL issues a regulation on currency hoarding to help reduce currency outside banks, ensure greater control over currency in the economy, and influence broad exchange rate stability.
4. That the CBL in collaboration with the relevant stakeholders (LNP, MCC, and the PCC) heighten and sustain its enforcement and monitoring exercises to help weeding out unlicensed operators, minimize speculation and control erratic quotations of rates, and bring order and sanity in the foreign exchange market.
5. That the CBL issues a directive on withdrawal of both United States and Liberian dollars over the counter at commercial banks to reduce the holding of cash and enhance the use of electronic payment system.
6. That the FIU, in collaboration with relevant stakeholders, institute stringent monitoring and enforcement of the Regulation on Physical Movement of Cash and Currency Declaration to help curtail the illicit financial flows.
7. That the CBL in collaboration with FIU reviews and strengthens the regulation on Transfer of Cash Abroad to help slow down the outflow of foreign exchange.
8. That the CBL introduces additional monetary policy instruments, the Standing Deposit Facility (SDF) to control excess liquidity in the commercial banks and outside banks. It is important to note however that this policy has cost implication and the recapitalization of the CBL.
9. That the CBL issues bond in the amount of L$6 billion to help mop up and sterilize excess liquidity in the banking system and by extension ensure broad exchange rate stability.
10. That the CBL in collaboration with the Ministry of Finance and Development Planning (MFDP) lend support to small Liberian foreign exchange operators to help reduce the number of unlicensed operators in the streets and bring sanity and order in the foreign exchange market.
11. That the Government of Liberia through MoCI, CBL, and FIU reviews and strengthen the implementation of the Import Permit Declaration (IPD), specifically ensure that major importers use Letter of Credit (LC), to help monitor the restriction on the volume of importation of non-priority imports and as well assess the actual demand for foreign exchange.
12. That the Government of Liberia through the MoCI and LBR ensure that prices are quoted in both currencies with the Liberian dollar prices be determined by using the published CBL exchange rate.

13. That the Government of Liberia through MoCI restricts the volume of importation of non-priority imports for which there are local substitutes to help strengthen domestic manufacturing and reduce the demand of foreign exchange for import payments thereby ensuring broad exchange rate stability.

MEDIUM-TO-LONG TERM POLICY MEASURES (2019)

1. That the CBL work with the National Legislature on Export Proceeds Repatriation Law to ensure regular and constant flows of foreign exchange in the economy, and by extension increase the supply of foreign exchange in the economy.
2. That the CBL and the Ministry of Finance and Development Planning (MFDP) work with the National Legislature and other stakeholders on a revised framework for dedollarization, to revert to a single currency (Liberian dollar) regime.
3. That the CBL and the Ministry of Finance and Development Planning (MFDP) work with the National Legislature to introduce new banknotes to replace the existing banknotes with a uniform family of banknotes.
4. That the GOL invest in critical infrastructure (such as roads, electricity, rule of law, and enforcement of property right, amongst others) that promotes diversification.
5. That the GoL through the MFDP, MOA, MoC1, and the CBL develop a value chain around agriculture output to stimulate domestic production, income generation, and employment.
6. That the GOL through MFDP, CBL, National Investment Commission (NIC), and MoCI initiate a strategy to invest in the actualization of the Special Economic Zones (SEZs) to encourage domestic manufacturing in the economy.

If I am confirmed, the Central Bank of Liberia will work closely with the Ministry of Finance and Development Planning (MFDP) and other Government Agencies through various structures, including the Economic Management Team and the Debt Management Committee to promote and maintain a stable and sustainable economic environment.

Honorable Chairman and Members of the Banking and Currency Committee, price and broad exchange rate stability will remain the CBL's major goal. Apart from the goal mentioned, the CBL will work with other GOL stakeholders to recognize a number of other economic goals including: 1. Economic efficiency (to achieve the maximum fulfillment of wants using the available productive resources). 2. Economic freedom (to guarantee that businesses, workers and consumers have a high degree of freedom in their economic activities). 3. To bring about equitable distribution of income (that is to ensure that no group of Liberians faces stark poverty while others enjoy extreme luxury) 4. To provide economic security (security for those who are for those who are ill, disable, handicapped, laid off, aged, or unable to earn minimal level of income). And 5. Balance of trade (to seek a reasonable overall balance with the rest of the world in international trade and financial transactions).

The CBL, under my administration, will also focus on financial inclusion programs and the development of needed financial infrastructures across Liberia to help enhance:

A. financial intermediation;

B. reduce transaction costs; and

C. create an enabling environment for inclusive growth.

I believe that my predecessors have made some progress, however, the prevailing exchange rate pressure continues to challenge policy implementation. Thus, when confirmed, we at the CBL will build on the achievements of the previous leadership and will strengthen the institutional capacity and policy environment over time in our quest to restore the purchasing power of the Liberian dollar.

The CBL will also strengthen policy coordination with the fiscal authority in various areas ranging from liquidity and debt management to economic diversification and trade financing, among other factors. The Bank will also focus on concrete steps such as periodic intervention in the foreign exchange market through open market operations, that is, the sale or purchase of securities to withdraw or inject liquidity into the system. There are several advantages when this policy tool is used:

1. Flexibility will exist both in terms of amounts and the timing of interventions.
2. The CBL has the initiative, whereas in the case of discount rate (which is set to follow the market) to decide whether to borrow and how much to borrow.
3. Transactions are voluntary to market yields.

The CBL will continue to undertake open market operations in either the secondary market (based on purchase and sale of existing securities, or self-reversing transactions, such as repurchase agreements) or the primary market involving new issues and redemptions.

Honorable Chairman, there will be practical problems with this policy tool. The effective utilization is closely linked to the development of money market. These instruments will both be facilitated, and help foster, money market development. A strong relationship also exists between Government of Liberia debt management policy and indirect instruments of monetary control.

The major disadvantage of policy is the decrease in investment opportunities over a period of time.

RESERVE REQUIREMENT (cash in vault and deposit with the CBL)-the CBL possesses the power to change the reserve requirements of banks operating in Liberia by altering the reserve ratio. Today, the ratio is 10% on a dollar deposited. This can have an immediate, significant impact on the ability of commercial banks operating in Liberia to create money.

The power of the reserve requirements is not only its advantage but also its disadvantage because a very small reduction in the reserve requirement can make a big change in the number of dollars that are in excess reserves in the commercial banks. Such big change in required reserves and excess reserves have the potential to disrupt the economy. If confirmed, we at the CBL will ensure that change in the required reserve is appropriate for the smooth operation of the economy.

The effectiveness of the reserve ratio will depend on whether the commercial banks have enough short-term securities or not. With enough short-term securities, the commercial banks can sell them to the CBL and get cash and hence make the policy ineffective. I must note, however, if expatriate banks are very large, the policy may not be effective. Honorable Chairman, if confirmed, we will ensure the effectiveness of the reserve requirements in controlling the money supply.

DISCOUNT RATE- is the interest rate banks pay by borrowing directly from the CBL. The CBL will ensure that the discount rate follows the market rate because if it is high money will be expensive which will make it difficult for commercial banks to borrow funds. The success of this tool will depend on the business environment.

Honorable Chairman, if confirmed, the CBL will also use other policy tools, if necessary, such as: (1) special deposits mainly to contract credit and to reinforce open market operations and (2) special directive basically to instruct commercial banks, when necessary, to apply a certain percentage of their loan portfolio in certain sector of the economy (e.g., agricultural sector). We will also innovate and introduce additional monetary policy instruments to help enhance the effectiveness of our monetary policy, prioritize and strengthen our currency and international reserve management. We will enhance our supervisory and regulatory activities to safeguard against money laundering and other malpractices that tend to undermine financial soundness and financial stability.

Putting together the Technical Economic Management Team (TEMT) by the President should be applauded because many of the goals mentioned above may not be consistent with each other. The goal of price stability often conflicts with the goals of interest-rates stability and high employment in the short-run but not necessarily in the long-run. We must take note of the fact that when the economy is expanding, and unemployment is falling, both inflation and interest rates will increase. If the CBL tries to prevent the rise in interest rates this will cause the economy to overheat and stimulate inflation.

Let me give some Analysis of Stock of money as of May 2018 in support the instructions of the President:

1. Currency in Circulation = LSI 7,029.90
2. Currency Outside Banks = L$15,242.53
3. Cash in Vault (Commercial Banks) = L$1,787.37

This cannot continue!

Finally, the CBL under my leadership will play an important role in ensuring that the pro-poor agenda of the Government is achieved.

I thank you for your attention, and I will be pleased to take any questions from you.

END

**SIGNED: CBL MANAGEMENT**