



CENTRAL BANK OF LIBERIA

ANNUAL REPORT

2007

JANUARY 1, 2007
TO
DECEMBER 31, 2007



CENTRAL BANK OF LIBERIA

Office of the Executive Governor

January 14, 2008

Honorable Members of The Legislature
Capitol Building
Capitol Hill
Monrovia, Liberia

Honorable Ladies and Gentlemen:

In accordance with part XI Section 49(1) of the Central Bank of Liberia Act, 1999, I have the honor on behalf of the Board of Governors and Management of the Bank to submit, herewith, the Annual Report of the Central Bank of Liberia to the Government of Liberia and the Legislature for the period January 1 to December 31, 2007.

Sincerely yours,


J. Mills Jones
Executive Governor

P.O. BOX 2048, cnr WARREN 'n CAREY ST's, MONROVIA, LIBERIA
TEL.: (231) 226-991, FAX: (231) 226-144, TELEX: 44215

**BOARD OF GOVERNORS
AS AT DECEMBER 31, 2007**



Dr. J. Mills Jones
**Executive Governor and
Chairman of the Board**



John G. Bestman
Board Member



David K. Vinton
Board Member

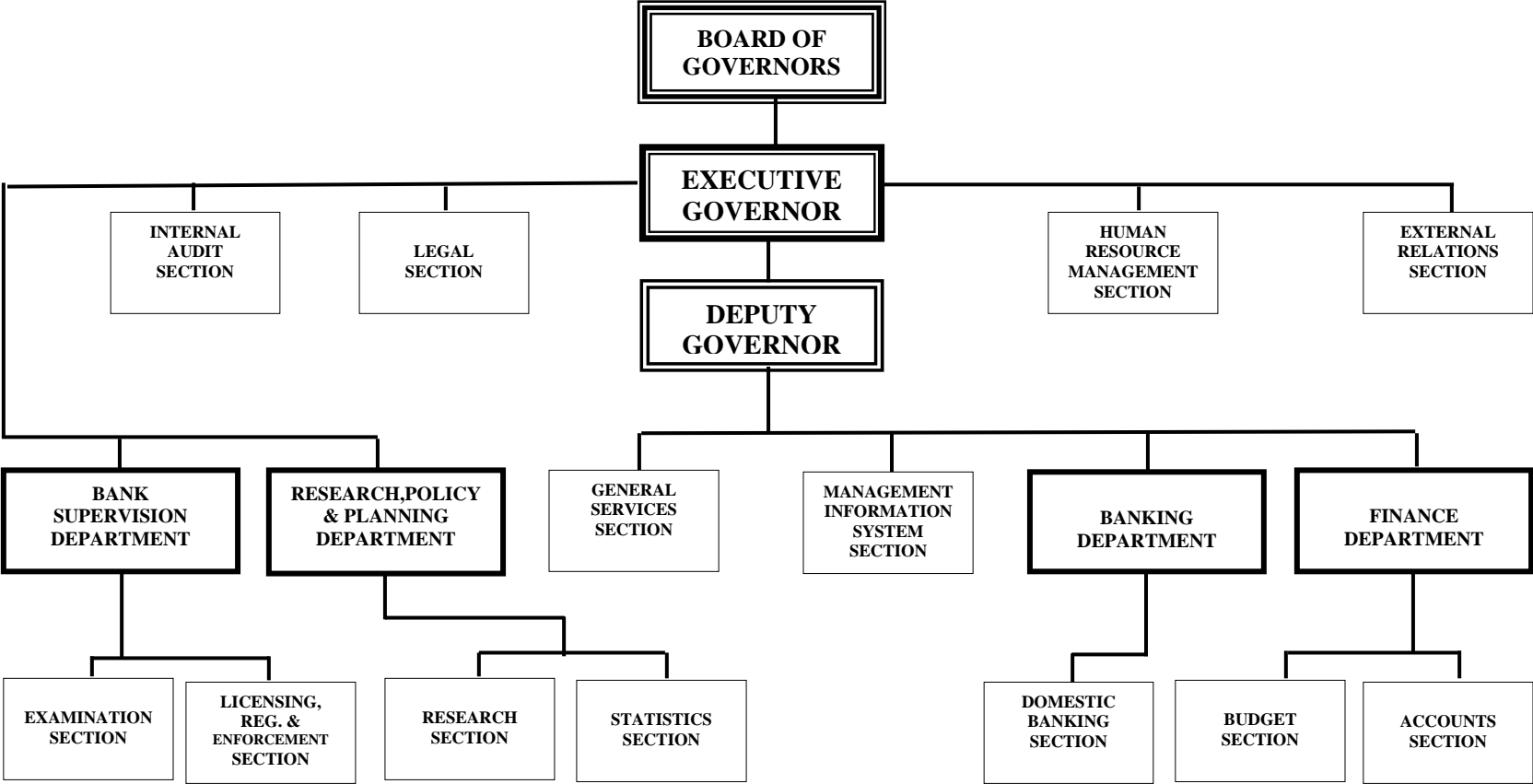


George H. Gooding
Board Member



Betty J. Saway
Board Member

Central Bank of Liberia Organizational Chart



**MANAGEMENT
AS AT DECEMBER 31, 2007**



Dr. J. Mills Jones
Executive Governor



Ethel Davis
Deputy Governor

HEADS OF DEPARTMENTS



A. Richard Dorley
Director
**Research, Policy &
Planning Department**



Melisa A. Emeh
Director
Banking Department



Charles E. Sirleaf
Director
Finance Department



Kolli S. Tamba
**Senior Advisor/
Multilateral Relations
& Special Projects**



A. Tefleh Wollor
Officer-In-Charge
Supervision Department

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Acronyms Used

AC	Aid Coordination
ACDB	Agricultural and Cooperative Development Bank
AfDB	African Development Bank
ATM	Automatic Teller Machine
BM+	Bankmaster Plus
BPS	Bill Payment System
BOP	Balance of Payments
BRC	Banking Reform Committee
CAR	Capital Adequacy Ratio
CBL	Central Bank of Liberia
CC	Compliance Committee
CMC	Cash Management Committee
EBLL	Ecobank Liberia Limited
ECOWAS	Economic Community of West African States
EFF	Extended Fund Facility
EPA	Environmental Protection Agency
ERC	Economic Revitalization Committee
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FDA	Forestry Development Authority
FEB	Financial and Economic Bulletin
FIA	Financial Institutions Act
FIBLL	First International Bank Liberia Limited
FSI	Financial Stability Institute
GIABA	Governmental Action Group Against Money Laundering
GBLL	Global Bank Liberia Limited
GDP	Gross Domestic Product
GEMAP	Governance and Economic Management Assistance Program
GoL	Government of Liberia
HCPI	Harmonized Consumer Price Index
HIPC	Heavily Indebted Poor Countries

IBLL	International Bank Liberia Limited
IAS	International Auditing Standards
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
INGO	International Non-governmental Organization
IMF	International Monetary Fund
IMMTC	Inter-Ministerial Mineral Technical Committee
JAI	Joint Africa Institute
LBDI	Liberia Bank for Development & Investment
LEAP	Local Enterprise Assistance Program
LEDFC	Liberia Enterprise Development Finance Company
LEEP	Liberia Emergency Employment Program
LFS	Liberia Financial Statistics
LIFS	Launching of an Inclusive Financial Sector
LIMPAC	Liberia Macroeconomic Policy Analysis Capacity Building Project
LISGIS	Liberia Institute of Statistics and Geo-Information Services
MA	Master of Arts
MCPI	Monrovia Consumer Price Index
MDAs	Mineral Development Agreements
MDRI	Multilateral Debt Relief Initiative
MFIs	Microfinance Institutions
MIS	Management Information System
MMPRC	Money Management and Policy Review Committee
MoF	Ministry of Finance
MOU	Memorandum of Understanding
OLEM	Other Loan Especially Mentioned
OFAC	Office of Foreign Assets Control
NBFIs	Non-Bank Financial Institutions
NBL	National Bank of Liberia
NGO	Non-Governmental Organization

NPLs	Non-Performing Loans
NSDS	National Strategy for Development of Statistics
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Process
SAM	School of Applied Microfinance
SMP	Staff-Monitored Program
TA	Technical Assistance
UBA	United Bank for Africa
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNMIL	United Nations Mission in Liberia
UNODC	United Nations Office on Drugs and Crime
USA	United States of America
USAID	United States Agency for International Development
WAIFEM	West African Institute for Financial and Economic Management
WB	World Bank

Highlights: 2007

THE MACROECONOMY



- In real terms, the Liberian economy was projected to grow by 9.4 percent to US\$473.9 million in 2007, driven mainly by the Agriculture and Services Sectors.
- The rate of inflation as measured by the Harmonized Consumer Price Index (HCPI) was 11.7 percent at end-December, 2007. With the adoption of the HCPI in 2007 as the method for computing inflation, year-on-year comparative analysis of inflation will commence in 2008.

BANKING STABILITY



- The Central Bank of Liberia (CBL) adopted and implemented a policy of bi-annual comprehensive on-site inspection of banks. All 5 banks were examined. Complementary, off-site surveillance of all banks was also carried out.
- The Compliance Committee established by Management enhanced its operations, leading to improved capitalization of banks as well as better corporate governance and internal controls. The enforcement of CBL's directives was also intensified.
- The Capital Adequacy Ratio (CAR) for the banking system was 23.0 percent at end-November, 2007, compared with 12.0 percent at end-December 2006. This reflected, in part, a capital injection by banks amounting to L\$220.7 million or US\$5.5 million in 2007.
- The intermediation role of the commercial banks was enhanced in 2007, evidenced by the 61.4 percent rise in total credit to the private sector, from L\$2,690.0 million in 2006 to L\$4,342.4 million. There was a significant expansion in credit to small and medium scale Liberian businesses. This was particularly evident for the two largest banks whose combined credit totaled more than US\$29.0 million.
- Non-performing loans as a percentage of total loans declined to 19.0 percent at end-November, 2007, compared to 42.0 percent at end-December, 2006.










- One non-bank financial institution, Liberia Enterprise Development Finance Company (LEDFC), was licensed to operate.
- An international bank, United Bank for Africa (UBA), was granted provisional license to establish a subsidiary bank in Liberia, UBA (Liberia), whose initial capital base will be considerably more than the present minimum capital requirement. This reflects the new approach of the CBL to have banks in the country that are sufficiently capitalized to be able to better contribute to the financing needs of the private sector.
- A Corporate Governance Guideline was developed for financial institutions, which is to be put into effect in 2008.
- The CBL, in conjunction with the Ministry of Finance (MoF), was successful in having the Office of Foreign Assets Control (OFAC) of the US Treasury provide clarification in Vol. 72, No. 99 of the Federal Register of 2007 regarding banking services to Liberia. There was no general prohibition on the provision of banking services to Liberia, including the maintenance of correspondent banking relationships with Liberian banks.

CBL FINANCIAL MANAGEMENT



- The CBL adopted a set of criteria for the selection of external auditors to enhance transparency in the selection process.
- Using the criteria, PricewaterhouseCoopers-Ghana was selected through a competitive bidding process that was open to both domestic and foreign firms.
- Implementation of the transition to the International Financial Reporting Standard (IFRS), the accounting framework adopted by the CBL in 2006, is underway.
- The CBL's operational budget recorded a surplus of US\$3.98 million.
- The CBL's total assets at end-December 2007 amounted to L\$91.0 billion, from L\$78.0 billion at end of 2006. Total liabilities amounted to L\$77.0 billion for the period, from L\$66.0 billion at end-December, 2006. Owner's equity totaled L\$14.0 billion compared to L\$11.0 billion at end-December, 2006.

<p style="text-align: center;">RESERVES</p> 	<ul style="list-style-type: none"> • The net foreign reserves position of the CBL increased from US\$22.0 million at end-December, 2006, to US\$35.1 million at end-December, 2007.
<p style="text-align: center;">EXCHANGE RATE STABILITY</p> 	<ul style="list-style-type: none"> • The CBL continued its regular foreign exchange auction program during the year to help stabilize the exchange rate. The total amount auctioned was US\$17.4 million, compared to US\$5.5 million in 2006. • The exchange rate of the Liberian Dollar vis-à-vis the US Dollar was broadly stable, fluctuating between L\$60.00 and L\$63.00 per US Dollar.
<p style="text-align: center;">MICROFINANCE</p> 	<ul style="list-style-type: none"> • A 5-year Microfinance Strategy and Action Plan emanating from a national stakeholders workshop was drafted. • Two microfinance institutions (MFIs), Local Enterprise Assistance Program (LEAP) and Liberty Finance received grants of US\$300,000 and US\$310,000, respectively, under the Inclusive Financial Sector Program, mainly for on-lending. • Capacity building workshops for Operation Officers of MFIs were held at the CBL Training Center. • A strategic partnership with the University of Liberia was established whereby 21 graduating seniors were provided scholarships for training in microfinance fundamentals. The students are now serving 6 months internship with various institutions.
<p style="text-align: center;">PAYMENTS SYSTEM</p> 	<ul style="list-style-type: none"> • The CBL established 8 new mobile payments centers. As a result, the CBL is providing services in all of the counties. The centers now encash both Liberian dollar and US dollar checks. • Consistent with the CBL's policy of encouraging banks to improve services, approval was given to Ecobank (Liberia) Limited (EBLL) to introduce an ATM debit card system. • The clean banknote policy of the CBL continued during the year and was extended to encashment centers throughout the country.

<p>CAPACITY BUILDING</p> 	<ul style="list-style-type: none"> ● A total of 43 staff members of the CBL participated in various training programs organized and sponsored by various institutions such as the IMF, Federal Reserve Bank, JAI, WAIFEM, South African Reserve Bank, UNODC, FSI, and the World Bank. The courses covered included Safeguards Assessments of Central Banks, International Financial Reporting Standards, Computer Applications in Accounting, Audit and Financial Management, Econometric Modeling for Monetary Policy Analysis, Financial Programming and Policies, Anti-Money Laundering, Anti-Terrorist Financing, Advanced Banking Supervision, among others. ● A staff member completed a 6-month secondment program at the World Bank in Washington, D.C. ● The Bank granted financial assistance under its scholarship program to one of its staff in order to pursue a Master of Arts (MA) degree in Economics at Williams College, Massachusetts, USA. ● The CBL hosted 3 courses offered by WAIFEM during the year. The courses offered were Research Methods and Survey Methodology, External Assistance and Aid Management and Data Management for Post-Conflict Countries. ● The CBL requested and received IMF Technical Assistance in the form of 2 Resident Advisors, one assigned to the Supervision Department and the other to the Banking Department.
<p>TECHNOLOGICAL IMPROVEMENTS</p> 	<ul style="list-style-type: none"> ● The CBL upgraded its Swift operations. ● The Bankmaster application was enhanced. ● Security Cameras were installed in strategic areas of the CBL.
<p>ANTI-MONEY LAUNDERING</p> 	<ul style="list-style-type: none"> ● As part of its ongoing efforts to combat money laundering and terrorist financing activities, the Legal Section of the CBL conducted several workshops at which time the need for strengthening laws for combating money laundering and terrorist financing was emphasized. ● The World Bank (WB) selected the CBL to participate in a pending video lecture session on Anti-Money Laundering and Combating of Terrorist Financing as well as to give a lecture on Regulatory, Institutional and Compliance Requirements for Financial Institutions.

PUBLICATIONS



- The Bank continued with its major publications, which include the bi-monthly Liberia Financial Statistics (LFS) and quarterly Financial and Economic Bulletin (FEB).
- The CBL submitted a Balance of Payments (BOP) Statement to the IMF in fulfillment of a benchmark agreed by the IMF and the CBL.
- The CBL, in conjunction with the Liberian Institute of Statistics and Geo-Information Services (LISGIS), adopted the HCPI that replaced the Monrovia Consumer Price Index (MCPI), which was developed in 1964.

ENGAGEMENT WITH THE IMF



- The CBL, in concert with the Ministry of Finance (MoF), held constructive interactions with the IMF, leading to the normalization of Liberia's relations with the IMF and fast-tracking debt forgiveness for Liberia.

ENGAGEMENT WITH THE LEGISLATURE AND OTHER STAKEHOLDERS



- The Bank provided briefings for the respective Committees of the House of Representatives and the Senate on Banking and Currency to apprise them of developments and challenges within the banking system.
- The CBL maintained a policy of active engagement and dialogue with the Liberian Bankers' Association, including informal working luncheons for exchange of views on topical issues.
- The CBL also engaged the Foreign Exchange Bureau Association to explore ways to better integrate the bureaus into the financial system.

Governor's Statement

The year 2007 witnessed the continuation of efforts by the Central Bank of Liberia (CBL) to further strengthen the banking system. Critical to this endeavor was the enhancement of the supervisory activities of the CBL by instituting a program of having at least 2 comprehensive on-site examinations for each bank during the year. This has led to improved capitalization of the banks and further steps towards better corporate governance.

Against this background, there was an expansion of the banking sector, with 1 large foreign bank, United Bank for Africa (UBA), given a license to operate commercial banking activities in Liberia and with the licensing of a non-bank financial institution, the Liberian Enterprise Development Finance Cooperation (LEDFC), whose primary purpose is to provide medium-term financing to Liberian businesses.

Meanwhile, the number of offices and/or branches of commercial banks increased from 11 in 2006 to 17 in 2007, with such expansion taking place not just in Montserrado County, but Nimba and Grand Bassa Counties also. The experiences gained will set the stage for appropriate expansion in other parts of the country.

The financial position of the CBL has improved since early 2006. The 2007 budget showed a cash surplus on operations, reflecting a more prudent approach to managing foreign currency holdings and the careful monitoring of expenditures. However, the undercapitalization of the CBL remains a major constraint to its ability to effectively carry out its mandate with functional independence.

The banking system made a significant contribution to the growth of the economy. Aggregate credit increased by 61.4 percent over the level recorded for 2006, from L\$2,690.0 million to L\$4,342.4 million, largely benefiting the trade, services,

construction, agriculture, transportation and communications sectors. It is worth noting that there was a large increase in credit to small and medium scale Liberian businesses, with combined credit of the two largest banks amounting to US\$29.0 million. A major challenge, however, is to reduce the level of non-performing loans, so as to enhance prospects for profitability in the industry. In this regard, all stakeholders must work to bring about a more conducive environment for debt collection and the enforcement of financial contracts between banks and their clients.

The Central Bank of Liberia continued to play its role to maintain a relatively stable macroeconomic environment. In the circumstances of limited monetary policy tools, the Bank has used regular auctions of foreign exchange, the amount of which increased significantly over the level in 2006, to help stabilize the exchange rate. This was done while also giving importance to the need to build up the net foreign reserves position of the CBL, which increased from US\$22.0 million at end-2006 to US\$35.1 million at end-2007. The CBL will continue to strengthen its ability to conduct monetary policy, including completing plans for the possible introduction of credit and deposit auctions.

There is optimism about the future, with strong economic growth continuing in 2008. However, there are key challenges. On the external front, there are concerns about a slowdown in the global economy in 2008, with adverse consequences for primary commodity exports from developing countries. The weak dollar and the increasing price of petroleum on the world market are also likely to affect prices in Liberia. Domestically, steps must be taken to ensure that economic growth is underpinned by a strong microfoundation that is focused on, among others, a more concerted development of Liberian entrepreneurship; increased food production; infrastructural development, especially in areas that more directly affect production costs; and the promotion of small- and medium-scale enterprises, as a means for enhancing employment opportunities. Moreover, movements in income must also be more aligned with increases in productivity to help guard against inflationary pressures.

As for the banking sector, the outlook is for a further strengthening of the health of the financial system and expansion of the sector. The CBL is committed to developing a more vibrant and competitive banking system, buttressed by a strong capital base and credible business plans, which is critical for financing the private sector as the engine of growth and increased employment.

The Board of Governors and Management would like to thank the Government of Liberia for its continued support.



J. Mills Jones
Executive Governor

CHAPTER I: The Central Bank of Liberia at a Glance

1.1 Objectives of the Bank

The principal objective of the Bank is to maintain price stability in the Liberian economy. In this regard, it endeavors to minimize the erosion in the purchasing power of the national currency; promote internal and external equilibrium in the national economy; and encourage the mobilization of domestic and foreign savings and their efficient allocation for productive economic activities; facilitate the emergence of financial and capital markets that are capable of responding to the needs of the national economy; foster monetary, credit and financial conditions conducive to ensure an orderly, balanced and sustained economic growth and development.

1.2 Functions of the Bank

As set forth in Part II Section 4 of the CBL Act, the CBL has functional independence in exercising its power and authority to carry out its mandate. Its primary responsibilities are: to issue legal tender banknotes and coins; conduct monetary policy; manage the country's foreign reserves; regulate and supervise banks and non-bank financial institutions; create and maintain an efficient payments system; advise the Government on financial and economic matters; act as fiscal agent for the Government; administer the New Financial Institutions Act of 1999; and provide credit to financial institutions.

(i) Issuance of banknotes:

This is a major responsibility of the CBL and forms part of its operational costs. The CBL has continued to fulfill this responsibility, keeping in mind the importance of the timely availability of banknotes to facilitate economic activities in the largely cash-based Liberian economy. Printed banknotes are periodically monetized, that is, put into circulation as conditions dictate. Sometimes the banknotes are used to replace mutilated bills, something that the CBL has been doing with its clean notes policy in the past 2 years.

The features of the banknotes have not changed, and the monetary unit of Liberia remains the Liberian dollar. The CBL has been aware of the need to have banknotes that are of good qualities, with features that make counterfeiting difficult.

(ii) Conduct of monetary policy

It is through the conduct of monetary policy that the CBL should strive to maintain price stability. At present, the CBL has limited monetary policy instruments, and is looking at ways to improve the situation. For now, reliance is placed on the auction of the United States dollars to help stabilize the exchange rate.

(iii) Regulation of banks and non-bank financial institutions

This aspect of the CBL's work is critical to ensuring stability of the financial sector. Accordingly, the CBL issues and enforces directives on capital adequacy, liquidity, asset quality and corporate governance of commercial banks. It is also the agency that issues licenses to commercial banks and non-bank financial institutions (NBFIs).

(iv) Management of foreign exchange reserves of the country

Adequate foreign exchange reserves help central banks to be in a position to pursue policies aimed at maintaining internal and external equilibrium in the economy. For instance, the level of reserves helps to determine the level of foreign exchange that the CBL makes available to the market through the auction, which has been conducted weekly, for the most part, during the course of the year.

(v) Economic and financial advisor to the Government

The CBL provides the Government with independent advice through consultations with relevant government functionaries, including policy advice at the highest level. It brings to bear its understanding of the dynamics of the market and developments in the private sector and thereby encourage policies that will enhance macroeconomic stability and economic growth. In this regard, policy coordination with the Ministry of Finance has been important, including matters regarding the development and implementation of the Government's economic program that was agreed with the IMF. The CBL serves on key Government committees. It also collects a broad range of economic data that it makes available to the public and Government institutions.

During the year, the Bank served as a member of the following public sector committees: the Economic Revitalization Committee (ERC), Liberia Macroeconomic Policy Analysis Capacity Building Project (LIMPAC), National Strategy for Development of Statistics (NSDS), Aid Coordination (AC), Environmental Protection Agency (EPA), Inter-Ministerial Mineral Technical Committee (IMMTC) and Governance and Economic Management Assistance Program (GEMAP). The Bank also chairs the National Task Force on Microfinance program and Microfinance Investment Committee, which operates under the Inclusive Financial Sector Project.

(vi) Creation and Maintenance of an efficient payments system

The payments system is a key pillar of the economy, given that it connects the various actors of the financial system to ensure the smooth flow of goods and services in the economy. In short, the payments system is critical for the development of the private sector and for confidence building in the banking system.

(vii) Fiscal Agent for the Government

In this capacity, the Bank performs the role of the principal custodian of all Government revenues and effectuates general disbursements on behalf of the Government. Presently, the CBL plays a major role in facilitating the collection of Government revenues.

1.3 Organizational Structure of the Bank

Part IV Section 9 of the CBL's Act vests in the Board of Governors the power to formulate and implement policies of the Bank.

The Board of Governors

In consonance with the statutes establishing the CBL, the Board of Governors is appointed by the President of the Republic of Liberia, with the Executive Governor as its Chairman. Eligibility for Board membership requires individuals who have good character and relevant experience and training to steer the course of such an important national institution. The Executive Governor is appointed to serve for 5 years and may be appointed for another 5-year term. Each of the other 4 governors is appointed on a staggered-term basis, for terms ranging from 4 years, 3 years, 2 years and 1 year.

The Executive Governor

Part IV Section 10 subsection 2a and b, vests in the Executive Governor the following:

- (a) serves as Chief Executive Officer of the Bank, responsible to the Board of Governors for the implementation of its policy, and in charge of the day-to-day management of the Bank;
- (b) has powers to act, contract and sign instruments and documents, for and on behalf of the Bank;
- (c) he may, pursuant to resolution of the Board of Governors, delegate such powers to others.

Departments and Sections

Currently, the core departments of the Bank are: the Research, Policy and Planning Department, the Supervision Department, the Banking Department, and the Finance Department. There are also a number of autonomous sections, which include Internal Audit, Human Resource Management, General Services, Legal, and Management Information System. The organizational structure can be altered as conditions dictate.

Chapter II: Operations of the CBL

2.1 Administration of the Bank

The Board of Governors continued to exercise its statutory mandate, meeting in several informal sessions and Called Meetings throughout the year, in addition to the regular quarterly meetings required by statute. The informal meetings constituted an important channel through which the Chairman and Executive Governor sought guidance from the Board on key policy questions regarding the operations of the Bank. The Board has welcomed this initiative of the Chairman and Executive Governor as a major step in the direction of enhancing transparency and the credibility of the Bank.

The CBL provided briefings to the Committees on Banking and Currency of both Houses of the National Legislature. During these deliberations, Management apprised the legislators of the health of the banking system and the challenges that have to be addressed. Some specific issues discussed included: the exchange rate of the Liberian dollar relative to the US dollar; the impact of depreciation of the Liberian currency on inflation; the work being done to ascertain a feasible approach to providing financing to the agricultural sector; and the microfinance activities of the CBL, among others. Management also sought to provide clarification on the CBL's role in the issuance of banknotes.

Management maintained a policy of active engagement and dialogue with the Liberian Bankers' Association, including Working Luncheons which provided a forum for an informal exchange of views on topical issues. Management also engaged officers of the Foreign Exchange Bureau Association to obtain their views on the performance of the exchange market and to see how foreign exchange bureaus can be better integrated into the financial system. The Association has welcomed the consultative process. This has all been a part of the efforts of the CBL's management to maintain an "open door" to all stakeholders, which is necessary to revitalize and deepen the financial system of the country.

The CBL, in concert with the Ministry of Finance, held constructive interactions with the IMF, putting the country on track for debt forgiveness and the normalization of relations with the IMF. The CBL and the Ministry of Finance have been negotiating with the Fund for a PRGF/EFF program, which is expected to be approved early in 2008 by the IMF Board.

2.2 Key Committees

In 2007, internal senior management committees continued their work in the Bank. They are the Money Management and Policy Review Committee (MMPRC), the Banking Reform Committee (BRC), and the Compliance Committee (CC).

The MMPRC, established by the Executive Governor in 2006, considers broad policy and operational issues as a way of improving decision making in the Bank. During the year, this committee, among other things, spearheaded work leading to the conclusion of a memorandum of understanding (MOU) with the Government of Liberia (GoL) on restructuring of the GoL debt to the CBL as well as developed the terms of reference for technical assistance to various departments of the Bank, which led to the IMF agreeing to provide long-term resident advisors in the areas of banking supervision, payments system, balance of payments and monetary statistics. Issues relating to the auction of the US dollars, conducted as part of the Bank's efforts to stabilize the exchange rate, were also considered by the MMPRC. The Committee also reviewed implementation of the CBL's budget.

The BRC worked on getting a clearer message to the banking sector that the capital base of banks needed to be strengthened. Corporate governance in individual banks was also a priority of the CBL. Furthermore, banks were advised to prepare to offer share ownership to Liberians. Emphasis was also placed on the need for the majority of directors to be domiciled in Liberia in order to enhance accountability.

Under the chairmanship of the Deputy Governor, the Compliance Committee has been critical to implementing the CBL's intensified inspection policy by ensuring that banks take corrective measures that are required to deal with deficiencies spotted during the on-site inspections. Consequently, a new culture began developing in the banking system regarding respect for the supervisory and regulatory role of the CBL. The banks have realized that they cannot operate outside the prudential regulations of the CBL with impunity. Strong supervision by the CBL has become the basis for developing a strong banking system in which the public can have confidence. The year 2007 saw major steps in this direction.

2.3 Capacity Building

The CBL continued to give priority to capacity building in 2007. Upon the request of the CBL, the IMF fielded several Technical Assistance (TA) missions in the areas of Balance of Payments, Liquidity Monitoring, Banking Supervision, Central Bank Accounting, etc. As a result, there have been noticeable improvements in the work done by the staff.

The CBL has also benefited from close collaboration with the West African Institute for Financial and Economic Management (WAIFEM), which has provided courses in Research Methods and Survey Methodology, External Assistance and Aid Management and Data Management for Post Conflict Countries. All of these courses were conducted at the CBL Training Center.

Several staff members also participated in seminars and workshops conducted by the IMF, Federal Reserve Bank, Euromoney, IFC, the South African Reserve Bank, UNCDF, and the World Bank. Staff also participated in a course conducted by the School of Applied Microfinance (SAM) in Mombasa, Kenya. Some staff members toured the Central Bank of Nigeria and the Bank of Ghana to acquaint themselves with the development and content of microfinance policy in those countries.

The CBL sponsored a workshop on Anti-Money Laundering and Combating of Terrorist

Financing using the knowledge acquired by staff from the various anti-money laundering and combating terrorist financing workshops and seminars conducted by GIABA, the World Bank, IMF, the Commonwealth and the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG).

During the year, 9 Staff members returned with advanced degrees in accounting, finance, and economics from various universities in South Africa, Ghana, and United States; while another began pursuing a graduate degree in economics in the United States.

2.4 Audit

As mandated by the CBL's Act, continuous and regular audits of the operational activities and accounts of the Bank were conducted during the year by the Internal Auditors, working under the guidance of the Board Audit Committee. The work of the Auditors included verification and examination of transactions relative to the Bank's financial statements and accounting principles; monitoring the transition to the International Financial Reporting Standard; monitoring the upgrading processes of the present banking software; and follow-up on the implementation of past recommendations made by auditors and technical assistance missions.

According to Part X Section 46 (2) of the Act Establishing the CBL, the accounts of the CBL shall be audited at least once every year by reputable and professional external auditors appointed by the Board of Governors.

To ensure greater transparency in the selection of external auditors, the Board of Governors adopted a set of criteria for the selection of external auditors, which is based on a competitive bidding process that is open to both local and international auditing firms. The selection criteria stipulate that the external audit of the CBL must be undertaken by an accounting firm whose principal is a member of an accredited professional body related to the audit profession that is affiliated with an international association such as the International Auditing and Assurance Standards Board.

Nine auditing firms bidded to audit the financial statements of the CBL for the period of 3 years beginning 2007. They were required to provide information on the following:

- 1) Relevant experience and expertise of the firm, particularly that of its partner(s), audit manager(s) and staff in conducting audits of central banks and other financial institutions in accordance with International Auditing Standards (IAS);
- 2) Membership of the Standards Board of the International Federation of Accountants;
- 3) Availability of resources to conduct the audit;
- 4) Independence of the Auditing Firm;
- 5) The audit fee;
- 6) Audit approach and methodology;
- 7) Ability to meet deadlines;
- 8) Other services offered by the firm; and
- 9) Presence of the firm in Liberia throughout the duration of the audit, in case the head office is located outside of Liberia.

PricewaterhouseCoopers-Ghana was chosen as the external auditor for the year 2007.

2.5 Fiscal Agent for the Government

During the year, the CBL continued to assist the Government in the collection of revenue. With support from USAID, steps were taken to begin the collection of revenue on the premises of the National Port Authority.

The Bank remitted timely payments to the International Monetary Fund, the World Bank and the African Development Bank on behalf of the Government. Similarly, transfers of funds were made to diplomatic missions and other entities abroad on behalf of the Government and related agencies.

Payments System

The CBL established 8 mobile payments centers in 2007, creating a presence for the Bank in all of the counties. Beginning October, 2007, the payment centers began the encashment of United States dollar checks, in addition to salary checks denominated in Liberian dollars.

One of the banks, Ecobank (Liberia) Limited (EBLL) concluded arrangements for introducing an ATM debit card system.

The CBL concluded arrangements with UNMIL in 2007 for the construction of 3 additional permanent payments centers under UNMIL Quick Impact Project, to be located in Greenville, Sinoe County; Harper, Maryland County; and Barclayville, Grand Kru County. Construction of the Harper payment center has already begun and should be completed in the first quarter of 2008, while proposals for Sinoe and Grand Kru centers are under consideration.

The CBL requested and has received IMF Technical Assistance in the form of a Resident Advisor to assist in developing a comprehensive national payments system. More intensive work is expected to take place on this project in 2008.

The implementation of the clean banknotes policy continued in 2007, and has been extended to encashment centers throughout the country.

Progress has been made in upgrading and expanding the electronic settlement component of the manual check clearing system to provide automation of some aspects so as to provide the participants in the clearing house with output in electronic format. In addition, testing of new software is in progress to ensure improved electronic interface between the clearing system and the Bank's upgraded accounting system.

Auction Activities

The auctioning of United States dollars continued in 2007 and contributed to the relative stability in the Liberian dollar/United States dollar exchange rate during the period. The

total amount auctioned increased from US\$5.5 million in 2006 to US\$17.4 million in 2007.

Microfinance

The Microfinance Unit, which was established in 2006, embarked on a number of initiatives during the year. In collaboration with the “Launch of an Inclusive Financial Sector in Liberia” (LIFS) project, a major awareness program, “Unsung Heroes of Microfinance” was held. The program brought together hundreds of Liberians who testified how the receipt of financing under the project has transformed their lives into more productive, responsible citizens. The keynote address at the program was delivered by the Vice President of Liberia.

The 2 leading microfinance institutions, LEAP and Liberty Finance, received grants of US\$300,000 and US\$310,000, respectively, under the LIFS project, mainly earmarked for on-lending to clients.

During the year, the CBL did considerable work towards creating an enabling environment for the promotion and development of the microfinance industry. In collaboration with the LIFS project, a comprehensive sector assessment was undertaken together with other major stakeholders. Information gathered from the updated sector assessment was used to organize a national stakeholder’s workshop. During the workshop, facilitated by a UNCDF consultant, a 5-year Microfinance Strategy and Action Plan was drafted.

The CBL, working with the IFC, has concluded a review of existing banking laws to determine their applicability to microfinance. There were also study tours funded by the IFC for the staff of the Microfinance Unit to Uganda and Tanzania. A key output of these efforts was the finalization of a draft legal and regulatory framework for the microfinance sector. Consultation will be held with the appropriate authorities in 2008 to move the process forward.

Twenty-one individuals were sponsored in the Microfinance Distance Learning course in

collaboration with Njala University of Sierra Leone. Furthermore, a partnership was developed with the University of Liberia, leading to 21 graduating seniors being provided scholarships to train in the fundamentals of microfinance. The students are now serving 6-month internships with various institutions.

2.6 CBL Accounting and Finances

Priority has been given to preparing more accurate and timely financial reports. This has been achieved through streamlining the activities of the Finance Department and clearly defining the roles and duties of staff, based on their competence and technical proficiency. In addition, two employees with advanced degrees returned in March, 2007, enhancing the Finance Department's capacity in the areas of budgeting and financial reporting.

Income and Expenditure

- The CBL's un-audited consolidated Income Statement for the year ending 2007 revealed gross income of L\$758.0 million compared to a gross income of L\$565.0 million in 2006. This increase in consolidated gross income was a result of increase in interest income from Government claims and foreign deposits.
- The Bank's consolidated expenditure for the year amounted to L\$550.0 million compared to consolidated expenditure of L\$392.0 million in 2006. This increase was mainly attributed to banknotes printing expense and increased personnel cost.
- The Bank's consolidated net profit at end-December, 2007 was L\$208.0 million compared to L\$174.0 million in 2006.

Financial Position

- The CBL's un-audited Balance Sheet recorded total assets for the year ending 2007 at L\$91.0 billions compared to L\$78.0 billion in 2006. Excluding the IMF, approximately 67.0 percent of total assets are represented by claims on the Government of Liberia. The issue of non-performing loans, which was a subject

of qualification in the 2005 and 2006 audits, has been resolved. In keeping with the memorandum of understanding signed on May 8, 2007 between the CBL and the Government of Liberia, the loans are now being serviced.

- The CBL's un-audited consolidated total liabilities during the year amounted to L\$77.0 billion compared to L\$66.0 billion in 2006. This increment was due to an increase in Liberian currency in circulation and an increase in Government and commercial banks' deposits.
- The CBL's un-audited total consolidated owners' equity at year-end 2007 was L\$14.0 billion compared to the amount of L\$11.0 billion in 2006. This was due to an increase in net profit.

The Budget

- The 2007 budget of the CBL was implemented with the intended objective of ensuring financial prudence in the utilization of the Bank's resources to improve its operation and attain targets agreed with the IMF under the SMP, all of which were met.
- A cash surplus on operations in the amount of US\$3.98 million was recorded in 2007, compared to a surplus of US\$1.06 million in 2006. This performance was mainly due to the Bank's adoption of a more prudent approach to managing its holdings of foreign currency and implementation of mechanisms to monitor expenditure against the budget.
- Net Foreign Reserves increased by US\$13.1 million, from US\$22.0 million at December 31, 2006 to US\$35.1 million at December 31, 2007.

2.7 Supervisory and Regulatory Activities

During 2007, the CBL strengthened its supervisory oversight by embarking on an aggressive inspection of the banks, carrying out 2 comprehensive on-site examinations

for each bank during the year. As a complementary tool to the on-site inspections, the Supervision Department continued with off-site surveillance of all licensed commercial banks by analyzing the various prudential and other returns submitted by banks. The analysis covered the quality of assets and liabilities, liquidity management, earnings performance, capital adequacy and risk exposure, among others. The essence of these analyses is to monitor compliance, accuracy and detect early warning signals. Cases of violations of CBL's regulations were reviewed regularly by the Compliance Committee and the appropriate remedial actions enforced. The enhanced oversight has produced positive results, including improved capitalization and steps towards better corporate governance.

2.8 Research and Publication

During 2007, the CBL continued with the collection, compilation, analysis and publication of relevant economic statistics. The Bank has remained an important source of statistics covering the various sectors of the economy. The data, mainly the monetary, fiscal, real and external sectors, are published in the Bank's quarterly Financial and Economic Bulletin (FEB) as well as the bi-monthly Liberian Financial Statistics (LFS).

The CBL also compiled the monetary survey (a monthly collection of monetary and financial statistics on the economy) and produced an improved balance of payments statement, both of which were submitted to the IMF. Also, the Bank compiled, analyzed and submitted monetary and financial data to the ECOWAS in compliance with the ECOWAS multilateral surveillance mechanism.

The Research Department regularly surveyed the foreign exchange market in order to fully keep abreast of developments in the market. The Department, in conjunction with the Liberia Institute of Statistics and Geo-Information Services (LISGIS), adopted the

Harmonized Consumer Price Index (HCPI). The HCPI contains a wider market basket than the obsolete Monrovia Consumer Price Index (MCPI), which was developed in 1964.

The Library of the Bank remained opened to students, researchers and the general public. The intake of the library during the year totaled 3,580 of which 2,580 were students from colleges and universities.

2.9 Information Technology (IT)

The Management Information System (MIS) Section embarked on 3 major projects, all of which improved the security of both the physical and non-physical assets of the Bank:

1. The completion of phase II migration of Swift, which has contributed to increased speed and improved security tracking of transfer messages within the Swift system, brought about marked technological improvement at the Bank.
2. The Bankmaster application was upgraded. This upgrading was necessary for hardware and network compatibility, and to enhance speedy processing of the government revenue collection when it is installed at the various sub-stations that will be constructed. The Bankmaster Plus (BM+) will easily be integrated with the Bill Payment System (BPS) at those stations.
3. The installation of a Security Camera System in strategic locations of the Bank, including teller cages, the vault and the bulk counting room.

2.10 Anti-Money Laundering

The Bank's Legal Section participated in a series of anti-money laundering and anti-terrorist financing meetings/workshops sponsored by an Inter-Governmental Action Group Against Money Laundering (GIABA), the World Bank, the International Monetary Fund (IMF), US Treasury Department and the Commonwealth.

The CBL also sponsored a local workshop on Anti-Money Laundering and Combating of

Terrorist Financing. The workshop brought together various stakeholders, including the commercial banks. The CBL has been selected by the World Bank to participate in a pending video lecture session on Anti-Money laundering and Combating of Terrorist Financing and give a lecture on Regulatory, Institutional and Compliance Requirements for Financial Institutions.

Chapter III: Banking Sector Developments

3.1 The Banking System

For the period under review, the number of commercial banks remained 5, consisting of Ecobank Liberia Limited (EBLL), First International Bank Liberia Limited (FIBLL), Global Bank Liberia Limited (GBLL), International Bank Liberia Limited (IBLL) and Liberia Bank for Development and Investment (LBDI). However, the number of offices and/or branches increased from 11 in 2006 to 17 in 2007. A few of the money-transfer windows were transformed into full branch facilities. Counties currently benefiting from expansion in banking services are Montserrado, Nimba and Grand Bassa. The opening of branches, which is supported by the CBL, took place against the background of improved capital position of the commercial banks and better corporate governance, although there is still room for further progress.

The banking system showed improvements during 2007. The Capital Adequacy Ratio (CAR) of the system at end-November 2007 was 23.0 percent (Table 1), with only 1 bank falling short of the 8.0 percent required minimum. This improved CAR position, which is 11.0 percent higher than that of December 2006, was due largely to injection of fresh capital by 4 of the 5 banks operating in the country. The total additional capital injection reported for the period under review was L\$220.7 million or US\$5.5 million. Another major factor contributing to the improved CAR of the system was the restructuring of the GoL indebtedness to the Liberia Bank for Development and Investment.

**Table 1: Financial Soundness Indicators
(In Percent)**

	2005	2006	2007
Reported Net Capitalization	16.0	14.0	13.0
Regulatory Capital Ratio	2.3	12.0	23.0
Classified Loans to Total Loans	57	45.0	23.0
Non-performing loans to Total Loans	15.5	42.0	19.0
Provisions to Classified Loans Net of Interest in Suspense	27.0	50.0	71.0
Provisions to Non-performing Loans Net of Interest in Suspense	97.0	54.0	87.0
Returns on Assets	0.5	-1.0	0.2
Returns on Equity	3.2	-4.0	1.0
Non-interest Income to Total Revenue	81.0	76.0	72.0
Net Interest Margin over Average Assets*	1.8.0	8.0	9.0
Liquid Assets to Net Assets	17.8	60.0	56.0
Net Loans to Deposits	36.0	35.0	38.0

**The ratio for 2005 was based on total assets while those for 2006 and 2007 were based on total earnings assets.*

Source: Central Bank of Liberia, Monrovia, Liberia

As shown in Table 2 below, total assets of the banking system increased by L\$4,842.3 million during 2007, from L\$9,211.0 million at end-December, 2006 to L\$14,053.3 million at end-November, 2007. Total deposits of the banking system for the period under review amounted to L\$9,439.0 million, representing 67.2 percent of total assets and reflecting a 47.3 percent increase compared to the deposit level at end-December, 2006. The increase in deposits reflects, in part, the increasing public confidence in the banking system.

Notwithstanding these positive developments, the profitability of the banking system continued to be hampered by high non-performing loans (NPLs) and the associated loan loss provisions. The decline in NPLs ratio from 2006 to 2007, as reflected in Table 1 above, is attributed largely to the increase in total loans and the conversion of the GoL loan to 1 of the banks into a long-term bond. The CBL has been holding consultations on ways to make it easier for banks to foreclose on collaterals as well as enforce legal contracts.

**Table 2: Financial Soundness Indicators
(In Millions of L\$)**

	2005	2006	2007
Gross Assets	7,303.6	9,211.0	14,053.3
Net Assets	6,844.3	8,437.9	13,259.5
Net Loans	1,759.2	2,272.9	3,608.8
Deposits	4,922.9	6,407.6	9,439.0
Reported Capital Net of Provisions	1,107.6	1,205.5	1,680.7

Source: Central Bank of Liberia, Monrovia, Liberia

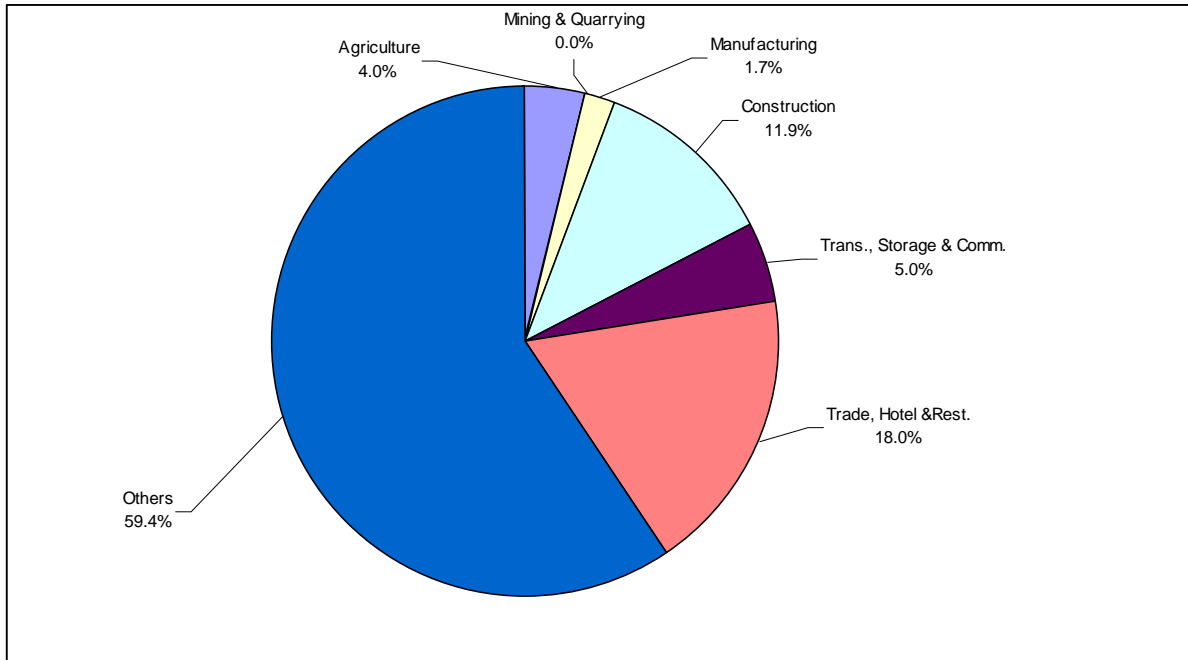
In 2007, the CBL, in collaboration with the Ministry of Finance, succeeded in having the Office of Foreign Asset Control of the US Treasury provide an official clarification that Liberian banks were not under sanctions and, as such, US banks could establish banking relationship with them.

3.2 Commercial Bank Credit

Total credit by commercial banks in 2007 increased by 61.4 percent, from L\$2,690.0 million at end-December, 2006, to L\$4,342.4 million at end-November, 2007.

As indicated in Chart 1 below, Trade, Hotel and Restaurant Services accounted for 18.0 percent of the total loans and advances. This was followed by the Construction Sector, 11.9 percent; Transportation, Storage & Communication, 5.0 percent; and the Agriculture Sector, 4.0 percent. Manufacturing marginally increased its share by 0.1 percentage points, from the 1.6 percent recorded in 2006. The “Others” category includes loans and advances to individuals and public corporations which accounted for 59.4 percent.

**Chart 1: Commercial Banks' Loans by Economic Sectors
(December, 2005 – November, 2007)
(In Millions of L\$)**



3.3 Interest Rates

The average lending rate negligibly decreased by 0.4 percentage points to 14.80 percent at end-November 2007, from 15.20 percent at end-December 2006 (Table 3). The average personal loan rate increased to 13.20 percent, from 13.00 percent recorded at the end of 2006. Factors such as risk profile, credit histories, among others, account for the level of personal loan rate. There was no change in the average mortgage rate. The interest rate for time deposits fell by 0.6 percentage points to 4.30 percent at end of 2007, from 4.90 percent in 2006. Given the level of inflation at 11.7 percent, the lending rate in real terms was 3.1 percent, while the real savings rate was a negative 9.6 percent. This indicates that capital remains expensive with negative consequences for potential investments. Savings mobilization is not encouraged by the low level of deposit rate.

**Table 3: Commercial Banks' Interest Rates
(December, 2005 – November, 2007)**

Commercial Banks	Dec-05	Dec-06*	Nov-07**
Avg. Lending Rate	14.00	15.20	14.80
Avg. Personal Loan Rate	12.70	13.00	13.20
Avg. Mortgage Rate	12.00	12.00	12.00
Avg. Time Deposit Rate	2.80	4.90	4.30
Avg. Savings Rate	3.00	3.00	2.10
Avg. Rate On CD's	5.00	0.00	3.00

**Revised*

*** Actual data are up to November, 2007*

Source: Central Bank of Liberia, Monrovia, Liberia

3.4 Licensing

The CBL continued to pursue a guarded approach to issuing licenses for establishing new banks, due to the need to prevent potential stress in a fragile market as well as to ensure that reputable banks are the ones given the opportunity to partner with existing banks or open on their own.

United Bank for Africa (UBA), a reputable international banking group with subsidiaries in several countries, was granted a provisional license for 6 months effective October 26, 2007 to begin organizational process of establishing a subsidiary bank. UBA (Liberia) will be capitalized at US\$6.0 million, which will be increased to US\$7.0 million by end July 2008.

One non-bank financial institution, the Liberia Enterprise Development Finance Company, was licensed on September 5, 2007 as a development finance and equity investment non-bank financial institution that will focus its activities on providing medium- and long-term lending to Liberian businesses. The number of licensed foreign exchange bureaus remained at 52.

Chapter IV: Monetary and Exchange Rate Developments

4.1 Monetary Aggregates

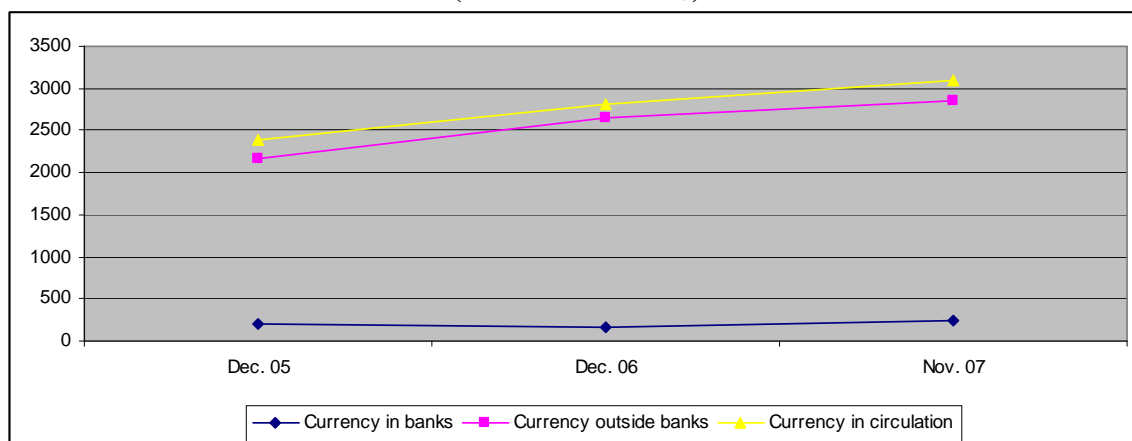
Currency in circulation in terms of Liberian dollars was L\$3,102.4 million at end-November, 2007, a 10.3 percent increase compared to the level recorded at end-December, 2006. The change was mainly accounted for by the increase in currency in banks, from L\$166.3 million at end-December, 2006, to L\$244.8 million at end-November 2007. Currency outside banks increased from L\$2,647.6 million at end of December, 2006 to L\$2,857.5 million at end-November, 2007 (Table 4 and Chart 2)

**Table 4: Liberian Currency in Circulation
(December 2005-November 2007)
(In Millions L\$)**

End of Period	Currency in banks	Currency outside banks	Currency in circulation
	(1)	(2)	(1+2=3)
2005	210.3	2,168.9	2,379.3
2006	166.3	2,647.6	2,813.9
Nov- 07	244.8	2,857.5	3,102.4

Source: Central Bank of Liberia, Monrovia, Liberia

**Chart 2: Liberian Currency in Circulation
(December 2005 - November 2007)
(In Millions of L\$)**



Money Supply or narrow money (M1) was L\$8,785.4 million at end-November, 2007, indicating a 32.7 percent increase over the level recorded in 2006. The expansion reflects CBL's response to the need for liquidity consistent with the growth of the economy and the goal of the Bank in building up its net foreign exchange reserves position. The increase was largely accounted for by a 49.2 percent rise in demand deposits, from L\$3,973.2 million at end December, 2006, to L\$5,927.8 million at end-November, 2007 (Table 5 and Chart 3).

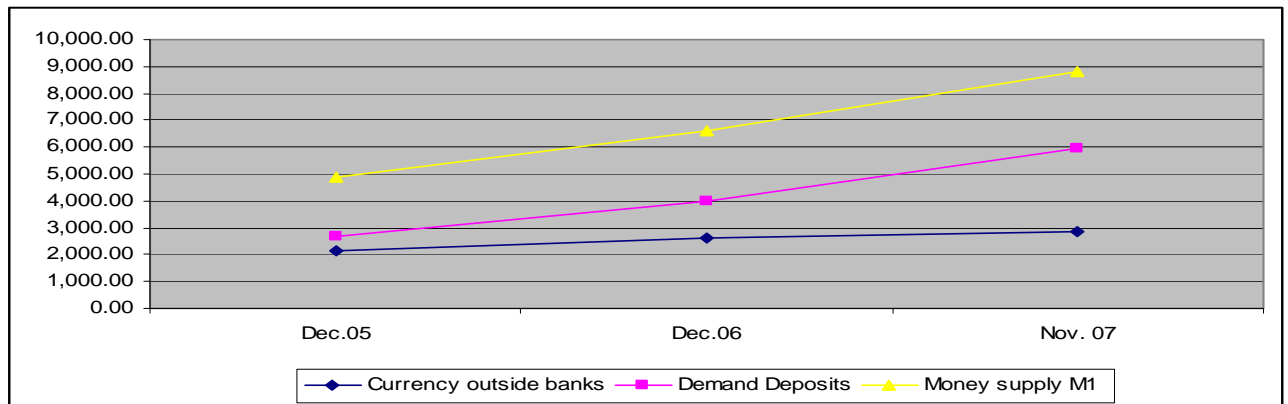
**Table 5: Money Supply and Broad Money
(December 2005 – November 2007)
(In Millions of L\$)**

End of Period	Currency outside banks	Demand Deposits	Money supply M1 (1+2)	Savings Deposits	Time Deposits	Quasi-money (4+5)	Broad Money-M2
	(1)	(2)	(3)	(4)	(5)	(6)	(3+6)
Dec.05	2,168.9	2,701.9	4,870.9	1,429.7	61.4	1,491.0	6,361.9
Dec.06	2,647.6	3,973.2	6,620.8	1,830.4	97.6	1,928.0	8,548.8
Nov-07	2,857.5	5,927.8	8,785.4	2,654.7	423.7	3,078.4	11,863.8

**Actual data are up to November, 2006*

Source: Central Bank of Liberia, Monrovia, Liberia

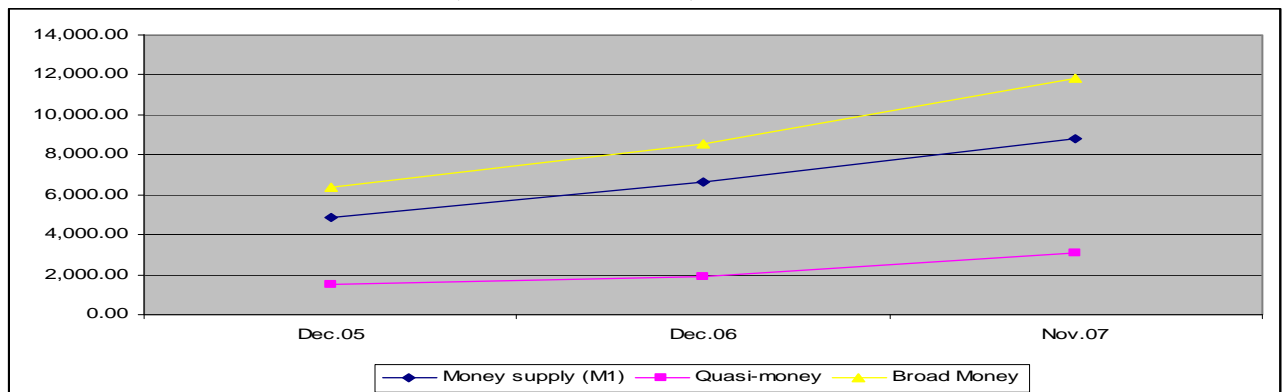
**Chart 3: Money Supply (M1)
(December 2005 – November, 2007)
(In Millions of L\$)**



Broad Money or M2 (M1 plus quasi money) rose by 38.8 percent to L\$11,863.8 million at end November 2007, moving from L\$8,548.8 million at end-December, 2006. Quasi money, which includes savings and time deposits, rose by 59.7 percent, from L\$1,928.0 million at end-December, 2006, to L\$3,078.4 million at end-November, 2007 (Table 5 & Chart 4).

Unlike 2006 when the increase in quasi money was mainly on account of a rise in savings deposits, both savings and time deposits increased in 2007. Savings deposits expanded from L\$1,830.4 million at end December, 2006, to L\$2,654.7 million at end-November, 2007; time deposits moved from L\$97.6 million to L\$423.7 million for the same period. These developments suggest a broad indication of the rebuilding of confidence in the banking system.

**Chart 4: Broad Money (M2)
(December 2005-November, 2007)
(In Millions of L\$)**



For 2007, the Liberian Dollar component of broad money totaled L\$4,271.5 million while the US dollar component amounted to US\$127.6 million or L\$7,592.3 million. The Liberian dollar component rose by 23.0 percent, from L\$3,473.4 million at end-December, 2006 to L\$4,271.5 million at end-November, 2007. The US dollar component, converted at an end-of-period exchange rate of L\$59.50 per US dollar, expanded by 49.6 percent to L\$7,592.3 million at end-November, 2007, from L\$5,075.4 million at end-December, 2006.

The US dollar component accounted for 64.0 percent of broad money, thus indicating a high degree of dollarization in the economy (Table 6 and Chart 5). Most of the large private and public sector transactions are conducted in US dollars while a significant amount of savings at commercial banks are maintained in US dollars.

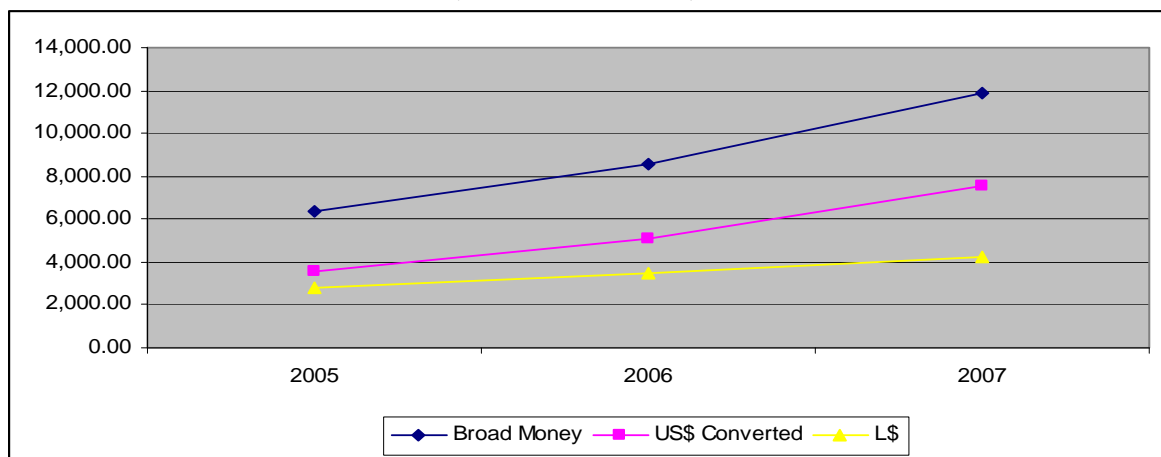
**Table 6: Broad Money (M2): Share of US and Liberian Dollars
(December, 2005 – November, 2007)
(In Millions of L\$)**

	2005	% Share	2006	% Share	2007	% Share
Broad Money	6,361.9		8,548.8		11,863.8	
US\$ Converted*	3,580.6	56.3	5,075.4	59.4	7,592.3	64.0
L\$	2,781.3	43.7	3,473.4	40.6	4,271.5	36.0
		100.0		100.0		100.0

** US Dollar components are converted at end of period exchange rates*

Source: Central Bank of Liberia, Monrovia, Liberia

**Chart 5: Broad Money (M2): Share of US and Liberian Dollars
(December, 2005 – November, 2007)
(In Millions of L\$)**



4.2 Exchange Rate Movements

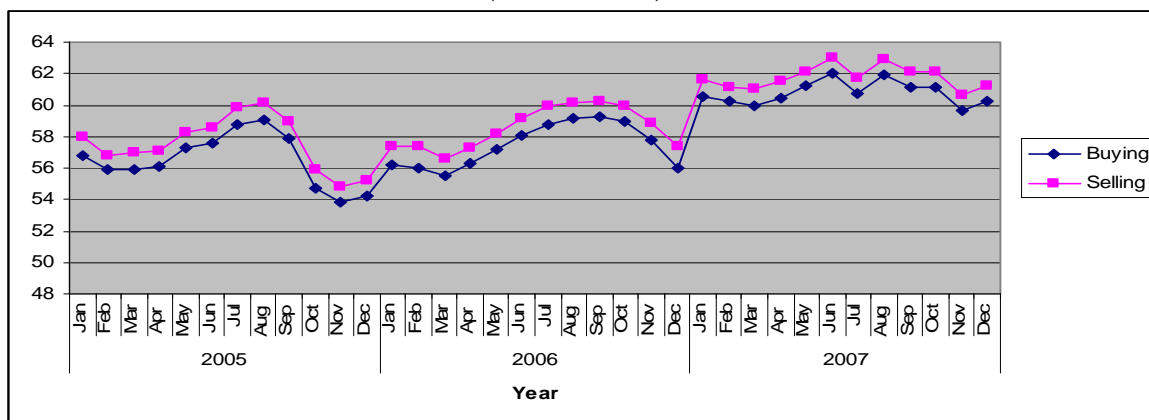
For the year under review, the exchange rate of the Liberian dollar vis-à-vis the United States dollar generally remained stable, fluctuating between L\$60.00 and L\$63.00 to US\$1.00 on average (Table 7 and Chart 6). This indicates that the foreign exchange auction had some positive effects. The end-of-period exchange rate for 2007 was L\$63.00 per US dollar while the period average was L\$61.27 to US\$1.0 (Table 8).

Table 7: Monthly Averages of Buying and Selling Rates of Liberian Dollars Per US dollar (2005 – 2007)

	2005		2006		2007	
	Buying	Selling	Buying	Selling	Buying	selling
January	56.81	57.96	56.15	57.40	60.57	61.65
February	55.88	56.77	56.04	57.38	60.21	61.13
March	55.89	56.94	55.52	56.57	60.00	61.01
April	56.13	57.13	56.30	57.32	60.40	61.54
May	57.31	58.23	57.19	58.13	61.22	62.17
June	57.58	58.58	58.06	59.12	62.02	63.00
July	58.81	59.81	58.81	59.94	60.77	61.71
August	59.11	60.11	59.19	60.19	61.91	62.91
September	57.88	58.94	59.23	60.21	61.12	62.12
October	54.73	55.90	59.00	60.00	61.13	62.15
November	53.85	54.85	57.81	58.90	59.65	60.67
December	54.22	55.22	56.04	57.40	60.27	61.27

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 6: Monthly Averages of Buying and Selling Rates of Liberian Dollars Per US dollar (2005 – 2007)



**Table 8: Exchange Rates: Liberian Dollars per US Dollar
(2005 – 2007)**

EXCHANGE RATE	Dec-05	Dec-06*	Dec-07
Market Rate: End of Period	56.50	57.00	63.00
Market Rate: Period Average	54.72	58.36	61.27

**Data for 2006 were revised*

Source: Central Bank of Liberia, Monrovia, Liberia

4.3 Remittances

Remittances to Liberia have over the years become one of the significant sources of foreign exchange. As at end November 2007, inflows totaled US\$690.7 million, while outward transfers amounted to US\$633.5 million, leading to a net flow of US\$57.2 million. Table 9 below shows comparisons with the two preceding years.

**Table 9: Remittances: Inflows and Outflows
(In Millions of US Dollars)
(December, 2005 – November, 2007)**

	Dec.05	Dec.06*	Nov.07**
Inflows	630.2	685.0	690.7
Outflows	597.6	621.9	633.5
Net Flows	32.6	63.1	57.2

**Data for 2006 were revised*

*** Actual data are up to November, 2007*

Source: Central Bank of Liberia, Monrovia, Liberia

Chapter V: Economic Developments

Macroeconomy

5.1 Output

For 2007, Gross Domestic Product (GDP) was projected to grow at 9.4 percent in real terms, from US\$433.2 million in 2006 to US\$473.9 million, driven by the agriculture and services sectors. The growth in the Agriculture Sector was primarily influenced by investment in the rubber sub-sector, favorable weather condition, donor assistance to subsistence farmers and improved security environment, while the expansion of the Services Sector was propelled mainly by Construction, Trade, Hotels & Restaurants activities and Transportation & Communications (Table 10).

**Table 10: Liberia: Sectoral Origin of Gross Domestic Product (GDP*)
at 1992 Constant Prices
(In Million of US\$)**

Sector	2005	2006	2007
Agriculture	184.8	192.3	210.4
Rubber	41.5	35.3	38.6
Cocoa	1.2	1.3	1.4
Coffee	0.1	0.1	0.1
Rice	32.0	36.9	40.4
Cassava	36.5	42.0	45.9
Others	72.5	76.8	84.0
Forestry	71.3	74.1	81.1
Logs & Timber	0	0	0.0
Charcoal & Wood	71.3	74.1	81.1
Mining & Panning	0.7	0.7	0.8
Iron ore	0	0	0.0
Other	0.7	0.7	0.8
Manufacturing	51.7	55.5	60.7
Cement	14.9	13.4	14.7
Beverages	33.7	38.7	42.3
Other	3.2	3.5	3.8
Services	93.3	110.5	120.9
Electricity & Water	2.8	3.0	3.3
Construction	8.0	11.3	12.4
Trade, Hotels, etc	20.1	29.2	31.9
Transportation & Communication	28.6	30.9	33.8
Financial Institutions	10.3	10.8	11.8
Government Services	9.9	10.4	11.4
Other Services	13.6	14.9	16.3
GDP	401.8	433.2	473.9

** IMF Staff and Government authorities estimates and projections*

Sources: IMF Staff Mission to Liberia in November 2006 and the Liberian authorities

Financial institutions contributed significantly to the growth of the economy. Aggregate credit of commercial banks increased from L\$2,690.0 million in 2006 to L\$4,342.04 million in 2007, largely benefiting activities in Trade, Hotels & Restaurants, Construction, Agriculture, Transportation & Communications.

The reactivation of the mining sector continued during the year: regulatory policies were put in place which made Liberia Kimberly compliant; an iron ore concession agreement was signed between the Government of Liberia and Arcelor Mittal Steel; there was tendering of the Western Cluster Iron and the Bong Range Iron Ore Projects; and renewed Mineral Development Agreements (MDAs) were signed between the Government and various mining establishments. A total of 21,700 carats of diamonds valued at about US\$2.7 million was mined during the year, while gold production valued at about US\$5.5 million increased from 304 ounces in 2006 to 10,014 ounces in 2007.

During the year, the Manufacturing Sector grew from US\$55.5 million in 2006 to US\$60.7 million (Table 10), while maintaining its share of 12.8 percent in overall GDP in 2007. The potential of the sector is being underutilized, primarily due to the inadequacy of public-electric generating capacity, the low level of investment, high cost of imported raw materials, and shortage of skilled labor.

Rubber production increased by 41,667 metric tons (44.5 percent), from an estimated 93,533 metric tons in 2006 to 135,200 metric tons in 2007 (Table 11). This was attributed, in part, to seasonal rainfall, termination of illegal occupation of rubber plantations by former combatants and the resumption of full production of rehabilitated rubber farms.

The production of cocoa during the year increased to 2,126 metric tons in 2007, from 1,107 metric tons in 2006. The gradual resettlement of displaced cocoa farmers to their original villages mainly accounted for the rise in production.

**Table 11: Key Agricultural Production
(2005-2007)**

Commodity	Unit	2005	2006*	2007**
Rubber	Mt.	124,778	93,533	135,200
Cocoa	Mt.	2,192	1,107	2,126
Coffee	Mt.	-	11	-
Round Logs	M ³	-	-	-
Sawn Timber	M ³	-	-	610,864

*Revised.

** Estimates.

Sources: Ministry of Planning & Economic Affairs, Forestry Development Authority (FDA);
Ministry of Commerce & Industry(MCI), and the Liberia Produce Marketing Corporation (LPMC),
Monrovia, Liberia

Although the United Nations (UN) sanction placed on log exports was lifted, actual logging on a large scale is yet to commence, reflecting the extended time taken for the Government to prepare policy guidelines to regulate logging and logging-related activities.

Output of cement increased to 157,200 metric tons during the year, from 135,486 metric tons in 2006. The 16.0 percent rise in output was a result of heightened domestic demand, influenced by the reconstruction activities taking place in the country. Beverage production recorded a 15.0 percent increase, from 17.3 million liters in 2006 to 19.9 million liters in 2007.

**Table 12: Key Industrial Outputs
(2005-2007)**

Commodity	Unit	2005	2006*	2007**
Cement	Mt.	143,847	135,486	157,200
Beverages	Liter	15,393,455	17,275,820	19,911,496
Paint	Gal.	168,750	89,998	77,980
Nail	Kg.	50,938	n.a.	n.a
Candle	Kg.	390,653	579,233	473,239
Chlorox	Liter	362,505	713,776	526,153
Rubbing Alcohol	Liter	277,323	210,127	297,105
Mattresses	Pcs.	68,834	978,373	102,802
Deep Well Water ¹	Gal.	63,918,844	54,720,361	54,786,474
Finished Water ²	Gal.	462,168,224	643,436,265	782,711,379
Gold	Ounces	872	304	10,014
Diamond	Carat	-	-	21,7009

Note: ¹Water from drilled wells

² Water from the treatment plant in White Plains

* Revised.

** Estimates, except for gold and diamond

Sources: Ministry of Planning & Economic Affairs; Ministry of Lands, Mines & Energy; and Liberia
Water & Sewer Corporation, Monrovia, Liberia

5.2 Employment

Formal sector employment in 2007 rose by 6.2 percent from 133,274 persons in 2006 to 141,581, in contrast to a 1.6 percent decline recorded in 2006. However, the level of employment in Government and in the trade sector declined during the year.

As part of its strategy to reduce unemployment, Government has an ongoing community development program—Liberia Emergency Employment Program (LEEP)—with the objective to ensuring a coordinated and strategic short-term approach to the unemployment problem. The program has provided employment for youths in various communities.

**Table 13: Employment by Industry
(2005 - 2007)**

Industry	2005	2006	2007*
Agriculture and Forestry	11,200	12,200	33,672
General Merchandise/Wholesale/Retail Trade	42,700	43,500	36,633
Business Services	2,430	2,475	9,872
Social/Community Services	11,340	12,470	15,575
Manufacturing	950	1,045	5,813
Construction	486	535	987
Transportation & Communication	1,400	1,540	2,194
Mining	918	1,009	3,290
Banking & Insurance	-	-	1,645
GOL	64,000	58,500	31,900
Total: Formal Sector	135,424	133,274	141,581
Informal Sector	430,000	470,000	480,000
Unemployment Rate	80	85	80

**Estimates*

Source: Ministry of Labor, Monrovia, Liberia

**Table 14: Level of Employment in Liberia
Total Number of Employees by Sector
(2005-2007)**

Sector	2005	2006	2007*
Public Sector	64,000	58,500	31,900
Private Sector	71,424	74,774	109,681
Total	135,424	133,274	141,581
Informal Sector	430,000	470,000	480,000

**Estimates*

Source: Ministry of Labor, Monrovia, Liberia

5.3 Inflation

The rate of inflation for 2007 averaged 11.4 percent. At end-December, it was 11.7 percent. Excluding the food and non-alcoholic beverages, the rate was 6.0 percent. The inflationary pressure was pronounced mainly in domestic food, clothing, water, rent and transportation. Domestic Food items recorded an average rate of inflation of 25.80 percent, during the year. It contributed 4.20 percent to the overall average rate of inflation. The rise in the prices of the food commodities was due to the escalation in the price of petroleum products on the world market, which contributed to the rise in transportation cost.

The inflationary situation in the economy was mainly driven by structural factors, including poor condition of infrastructure, dilapidated state of farm-to-market roads, inadequate farm inputs, concentration of some subsistence farmers on gold mining rather than on farming, and the general shortage of some domestically-produced food items. Although exchange rate movements do have direct impact on inflation, the data for 2007 showed that while the quarterly rate of change in the exchange rates was moderately increasing, the quarterly rate of change in inflation was declining. The quarterly average rate of depreciation of the domestic currency was 6.6 percent, while the quarterly average rate of change in inflation showed a decline of 6.2 percent for the same period. This development demonstrates the importance of the foreign exchange auction conducted regularly by the CBL in order to help stabilize the exchange rate.

The influx of people, mainly returning from neighboring countries has exerted enormous pressure on the demand for housing, thereby increasing the cost of rent. The growing cost of building materials, such as cement, paint, timber, etc. also contributed to the increases in rent.

Health and Communications registered declines of 0.64 percent and 4.81 percent, respectively. The decline in the Health category is attributed to the free medical services rendered patients and donations of medications by health-related International Non-Governmental Organizations (INGO). Competition in the communications industry, particularly in the cellular phone sector, has drastically pushed down the cost of communication.

**Table 15: LIBERIA: HARMONIZED CONSUMER PRICE INDEX (HCPI)
12 MONTH PERCENT CHANGES BY MAJOR GROUP
(December 2005=100)**

MAJOR GROUP	WEIGHT	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Ave. 2007
FOOD AND NON-ALCOHOLIC BEVERAGES	45.20	16.56	17.41	19.46	18.14	24.81	16.44	23.03	23.33	16.89	21.26	11.17	15.28	18.40	18.80
ALCOHOLIC BEVERAGES, TOBACCO AND NARCOTICS	3.03	8.95	6.11	3.33	3.52	7.58	7.24	2.56	4.08	5.45	3.47	6.87	1.36	0.89	4.37
CLOTHING AND FOOTWEAR	7.75	14.96	11.81	14.36	10.12	9.12	7.99	8.64	7.59	7.34	3.83	4.64	4.20	5.41	7.92
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	12.00	10.45	11.08	10.96	10.34	10.02	9.11	9.19	8.85	8.93	9.22	9.20	2.50	2.56	8.50
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE	5.25	11.15	10.83	10.58	5.21	2.10	2.82	0.96	3.91	3.66	6.67	9.70	5.79	6.07	5.69
HEALTH	3.91	1.35	0.34	0.00	0.00	0.00	0.00	0.00	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-0.64
TRANSPORT	6.11	-0.19	-0.36	0.35	0.31	0.38	0.24	2.04	2.38	2.38	22.02	21.61	23.29	25.27	8.32
COMMUNICATION	1.53	-12.33	18.81	15.19	-10.80	-10.27	-10.20	-10.20	-7.20	-6.14	-6.26	-10.24	-10.44	-10.00	-4.81
RECREATION AND CULTURE	3.85	9.77	12.61	11.99	12.34	12.14	12.01	2.80	0.56	0.98	1.14	1.64	0.60	4.87	6.14
EDUCATION	3.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
RESTAURANTS AND HOTELS	4.64	15.08	5.34	10.44	4.00	-3.33	3.34	1.69	1.08	1.12	0.07	3.22	3.91	5.58	3.04
MISCELLANEOUS GOODS AND SERVICES	3.53	6.51	6.09	1.00	5.57	3.75	3.53	2.02	-1.31	-0.63	-1.72	-2.05	-1.17	7.72	1.90
GENERAL RATES OF INFLATION	100.00	11.91	11.99	12.98	11.21	13.49	10.08	12.45	12.62	9.91	12.71	8.59	9.46	11.66	11.43
SPECIAL RATES OF INFLATION															
ALL IMPORTED ITEMS	41.73	7.83	7.55	9.25	8.27	9.60	8.34	10.03	9.16	4.24	7.54	6.10	4.28	11.95	8.02
ALL DOMESTIC ITEMS	58.27	14.84	14.31	14.81	13.49	11.71	10.51	13.35	14.57	13.18	16.34	10.29	13.05	11.46	13.09
IMPORTED FOOD ITEMS	23.87	6.98	7.50	9.93	9.87	12.85	11.82	14.68	12.76	4.08	10.87	7.99	4.40	15.57	10.19
DOMESTIC FOOD ITEMS	21.33	27.27	25.76	27.60	27.19	27.68	19.17	29.52	32.95	28.01	31.36	14.09	26.16	21.07	25.88
IMPORTED FUEL	2.14	-4.88	-5.49	-3.45	-0.89	-0.23	-0.64	4.92	5.94	5.93	8.18	6.95	22.77	28.71	6.06

**Table 16: Year-on-Year Rate of Inflation
(2005-2007)**

Month			
	2005*	2006*	2007**
Jan	15.7	7.2	12.0
Feb	16.1	7.1	13.0
Mar	16.8	6.4	11.2
Apr	15.8	7.4	13.5
May	15.0	8.4	10.1
Jun	16.6	6.8	12.5
Jul	4.7	7.0	12.6
Aug	4.6	8.0	9.9
Sep	5.2	7.2	12.7
Oct	8.6	5.8	8.6
Nov	7.4	8.1	9.5
Dec	7.0	8.9	11.7
Ave	11.1	7.4	11.4

**Data are from the Monrovia Consumer Price Index (MCPI) with base period May 1998=100*

***Data are from the Harmonized Consumer Price Index with base period December 2005=100*

Source: Liberia Institute of Statistics and Geo-Information Services (LISGIS) and Central Bank of Liberia, Monrovia, Liberia

5.4 The National Stock of Debt

As at end-September, 2007, total public debt stood at US\$4,524.6 million, indicating a 17.6 percent increase over the level recorded at end-September, 2006. The increase was due mainly to interest on arrears of external debt. The debt stock now stands at about 954.8 percent of GDP.

External Debt

For the reporting period, the external debt amounted to approximately US\$4,254.6 million or 94.0 percent of the total stock of debt. The accumulation of interest arrears continues to increase the stock. Compared with the level recorded at end-September 2006, external debt rose by US\$882.1 million.

At end-September, 2007, multilateral debt amounted to US\$1,819.5 million (40.0 percent of the total public debt); bilateral debt, US\$1,001.0 million (22.0 percent); external commercial banks credit, US\$1,384.1 million (31.0 percent), and suppliers' credit, US\$50.0 million (1.0 percent).

In 2007, a number of countries expressed willingness to cancel Liberia's debt. On the multilateral front, the IMF announced that it has secured the financing assurances needed to clear Liberia's arrears. The World Bank and the African Development Bank (AfDB) during the year, cleared Liberia's arrears, respectively.

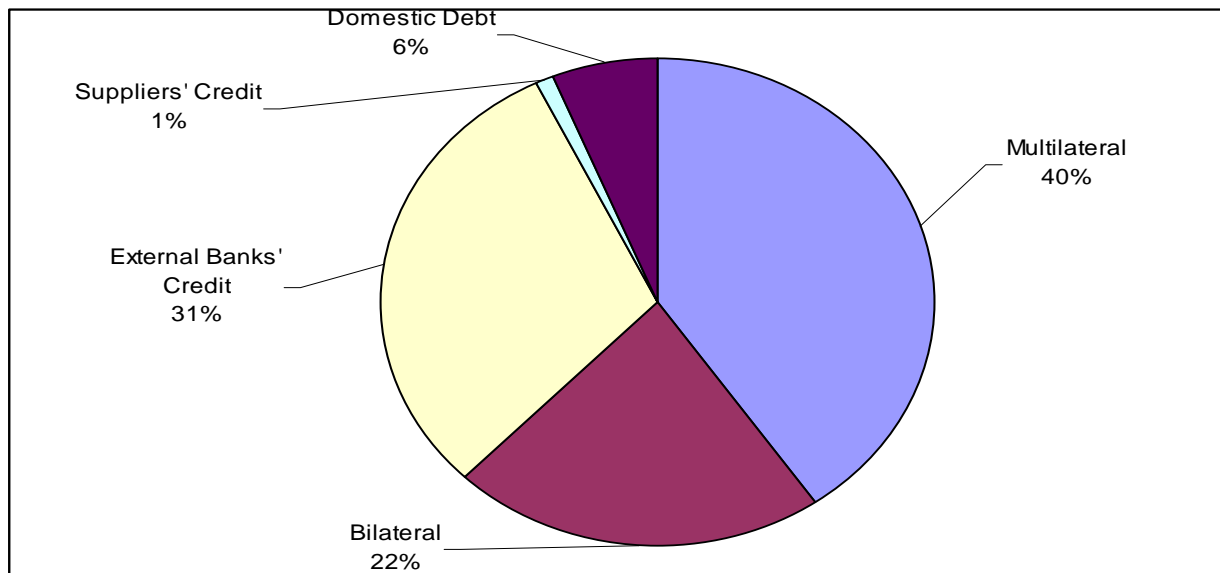
The clearance of arrears will allow the country to fully benefit from resources of the International Development Association (IDA), and it also positions the country for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

**Table 17: Summary of Liberia's Public Debt by Creditor
(2006- 2007)
(In Millions US\$)**

National Debt	2006	2007			% Dist. Of Total Debt	
	3 rd Quarter	2 nd Quarter	3 rd Quarter			
External Debt			Prin.	Int. Arres.	Total	
Multilateral	1,560.5	1,635.4	715.0	1,104.5	1,819.5	40.0
Bilateral	1,019.3	960.0	687.0	314.0	1,001.0	22.0
External Banks' Credit	744.6	1,055.2	233.0	1,151.1	1,384.1	31.0
Suppliers' Credit	48.1	50.0	50.0	-	50.0	1.0
Sub-Total	3,372.5	3,700.6	1,685.0	2,569.6	4,254.6	
Domestic Debt	475.8	300.2	270.0	-	270.0	6.0
Sub-Total	475.8	300.2	270.0	-	270.0	
Total Stock of Debt	3,848.3	4,000.8	1,955.0	2,569.6	4,524.6	100.0

Source: Ministry of Finance, Monrovia, Liberia

**Chart 7: Percentage Distribution of Liberia's Public Debt by Creditor
(3rd Quarter, 2007)**



5.5 External Trade

Total merchandise trade in 2007 expanded to an estimated US\$682.8 million, indicating an increase of US\$ 58.3 million above the 2006 level. Meanwhile, the trade deficit widened slightly from US\$308.9 million in 2006 to US\$314.6 million in 2007 (Table 18). The deficit was 66.4 percent of estimated real GDP of US\$473.9 million.

**Table 18: Foreign Trade
(2005 - 2007)
(In Millions US\$)**

Year	Exports	Imports	Trade Balance	Total Merchandise Trade
2005	131.3	309.9	-178.6	441.2
2006*	157.8	466.7	-308.9	624.5
2007**	184.1	498.7	-314.6	682.8

**Revised.*

***Provisional*

Sources: Ministry of Commerce, Ministry of Finance & Ministry of Lands, Mines and Energy, Monrovia, Liberia

Exports

Total export earnings were estimated at US\$184.1 million in 2007, as compared to US\$157.8 million in 2006, a 16.7 percent increase. This was due mainly to the increase in earnings from rubber.

**Table 19: Commodity Composition of Exports
(2005-2007)
(In Millions US\$)**

Commodity	2005	2006*	2007**
Rubber	126.7	150.1	170.9
Logs	n.a.	n.a.	n.a.
Cocoa Beans & Coffee	0.3	0.3	1.3
Iron ore	-	1.0	0.5
Gold		0.05	4.5
Diamond		0	2.3
Others Commodities	4.3	6.4	4.6
Total	131.3	157.85	184.1

**Revised.*

***Provisional*

Sources: Ministry of Commerce and the Ministry of Lands, Mines & Energy, Monrovia, Liberia

The export sector continues to be dominated by rubber, accounting for over 92.0 percent of total exports in 2007. This dominance has persisted since the imposition of sanctions on log export, which accounted for the major share of exports before the imposition of the sanctions. Though the sanction on log exportation has been lifted, export of the commodity is yet to begin. Gold and diamond have been included in the list of exports. The lifting of sanctions on diamond has led to a boost in diamond mining across the country.

Commodities from the non-traditional export category, "Other Commodities," depicted a noticeable decline. Earnings from these commodities amounted to an estimated US\$4.6 million for the current year, from US\$6.4 million in the previous year. Proceeds from scrap metals and palm oil dominated receipts from this category.

Imports

The value of imports grew during the course of the year to an estimated US\$498.7 million, compared to US\$466.7 million during the previous year, representing an increase of 6.8 percent (Table 20).

The nation's staple food, rice, which is a major component of the Food & Live Animals category, accounted for 13.1 percent of total imports. The rise in the expenditure on rice was mainly on account of increased demand for the commodity coupled with increase in its price. There were also increases recorded in expenditures on Manufactured Goods and Machinery & Transport Equipment. The increase in payments to these categories is indicative of the build-up of investors' confidence, rooted in the conducive investment climate and secured political environment prevailing in the country. Payments to Petroleum Products also rose on account of the hike in the world market price of oil.

**Table 20: Commodity Composition of Imports
(2005 – 2007)
(In Millions US\$)**

Category	2005	2006*	2007**
Food & Live Animals	68.2	117.0	121.8
O/w: Rice	17.2	62.4	65.3
Beverages & Tobacco	8.4	13.7	14.8
Crude Materials	8.0	11.9	7.9
Minerals, Fuel & Lubricants	28.9	10.6	9.4
Animals & Vegetable Oil	2.6	7.5	7.9
Chemical & Related Products	9.2	23.6	19.6
Manufactured Products	27.3	48.7	63.8
Machinery & Transport Equipment	32.6	57.3	90.2
Petroleum Products	91.0	122.0	125.1
Miscellaneous Articles	30.3	54.4	38.2
Total	309.9	466.7	498.7

* Revised.

**Provisional

Sources: Ministries of Commerce & Industry and the Ministry of, Finance, Monrovia, Liberia