CENTRAL BANK OF LIBERIA

POLICY STATEMENT 2018

I. INTRODUCTION

In keeping with Section 50 of the Central Bank of Liberia (CBL) Act, the CBL publishes its annual policy statement intended to communicate with the public and policymakers the policy direction and objective of the Bank for each year. The Statement also provides the medium for the public and policymakers to engage the CBL in understanding the monetary and financial policies of the Bank in keeping with its mandate.

II. OVERVIEW

The policy thrust of the CBL will focus on supporting the Government's Pro-Poor Policy in keeping with one of the pillars of its Strategic Plan, the Financial Inclusion Pillar. In this regard, CBL will continue with its efforts in sustaining a stable macroeconomic environment that is characterized by broad exchange rate stability and low inflation as the monetary policy thrust of the CBL. Despite the current macroeconomic challenge, the slow recovery in the prices of our main commodities (rubber and iron ore), the CBL will continue its intervention in the foreign exchange market to help smooth out volatility and prevent the rapid fall of the Liberian dollar vis-à-vis the United States dollar. The CBL will continue to work closely with the Fiscal Authority to promote policy coordination in ensuring price stability. The Bank will also continue to ensure that the financial sector remains supportive of economic growth.

The foreign exchange auction will remain a key instrument, among others, that the Bank will use to keep a stable foreign exchange environment, and by extension, preserve the purchasing power of the Liberian dollar. Additionally, the Bank will continue to issue financial market instruments on behalf of Government and issue CBL bills, when necessary, etc., to help efficiently manage liquidity in the economy. The Bank will develop indicators to monitor performance of the economy, consumer and business perceptions of the economy, and provide policy prescriptions. The CBL will enhance its credit reference system (CRS) by implementing a state of the art biometric identification feature to uniquely identify customers of the financial system with the aim of improving the credit environment, curtail frauds, and improve access to credit at the micro and small enterprise levels.

The CBL in collaboration with the Liberia Bankers Association (LBA) will build on ongoing efforts to ensure the full operationalization of the Banking Institute of Liberia (BIL) to address the capacity needs of the sector in order to promote efficiency and enhance productivity in the sector. The Bank will continue to implement reforms in the insurance sector which will help promote economic growth and development and deepen the overall financial system. The Bank will take further steps to fast track the implementation of key projects and reforms of the Financial Sector Development Implementation Plan (FSDIP) and its Strategic Plan (2016-2018).

The absence of Monetary Policy Rate (MPR) and Monetary Policy Committee (MPC) reflect a major constraint in the monetary policy implementation for the CBL. The CBL will work with the Legislative and Executive Branches to undertake the appropriate reforms in both the Financial Institutions Act of 1999 and the Central Bank of Liberia (CBL) Act of 1999 to align these legal frameworks with international best practices, taking into account the specific circumstances of Liberia.

The CBL will further engage all stakeholders on the question of the currency regime for the country with respect to de-dollarization. The CBL is of the view that a gradual transition is critical and essential in order to avoid unintended consequences and downside risks.

III. RECENT ECONOMIC DEVELOPMENTS

Global growth continues to rebound and was estimated at 3.6 percent for 2017, primarily supported by increased investments, manufacturing activities and trade, alongside general accommodative monetary policies in the advanced economies. The recovery has been strong in advanced economies while emerging market and developing economies are also picking up. Sub-Saharan Africa saw a modest recovery in 2017 mainly due to improvements in the region's largest economies (namely, Nigeria, South Africa and Angola).

Although near-term global growth outlook is favorable, political risk and policy uncertainty still linger which must be controlled and addressed to sustain the growth momentum. In addition, weaker total factor productivity and diminishing workforce mainly in the United States are potential risks with substantial downside effects on global growth. Global inflation remained largely subdued for the most part of 2017, the closure of the output gaps in some advanced countries has led to gradual monetary policy normalization, while financing conditions still remain favorable, as low interest rates in most advanced economies persist.

In Liberia, real GDP growth in 2017 saw some level of improvement. Growth was estimated at 2.5 percent, from negative 1.6 percent in 2016. The expansion in real GDP was a result of increases in the mining and panning sector to 28.8 percent, and the manufacturing sector to 1.4 percent. The growth in the mining and panning sector was largely on account of the rise in industrial gold production. Other major sectors that declined, but remained positive were: agriculture and fisheries sector to 1.8 percent, from 6.4 percent in 2016; and services sector to 1.0 percent from 2.1 percent recorded in 2016. The forestry sector declined to negative 8.0 percent (from zero percent).

Growth in 2018 is projected to further rise to 3.2 percent, mainly on account of all the major sectors of the economy. The key risks to growth in 2018, however, will include declines in the global market prices of the country's key export commodities (rubber and iron ore), infrastructural challenges and Government's fiscal policy.

Average headline inflation for 2017 was 12.4 percent, up from 8.8 percent when compared with the previous year. The 3.6 percentage points increase in average inflation was generally explained by the depreciation of the Liberian dollar, the rise in the average price of petroleum products on the global market; and government tax policy on petroleum products. The average exchange rate between the Liberian and the US dollars depreciated by 24.5 percent to L$125.50/US$1.00 in December, 2017 compared with L$100.80/US$1.00 in December, 2016. Similarly, the annual average exchange rate for 2017 depreciated by 19.2 percent to L$112.61/US$1.00 compared with L$94.46/US$1.00 for 2016. The depreciation was largely a result of deteriorating terms of trade (ToT), high demand for forex to facilitate imports, reflected by the high demand for foreign exchange through the CBL's foreign exchange auction, and increased Liberian dollar expenditure by Government of Liberia.

Another major factor that contributed to the increased pressure on the exchange rate was the decline in net inward remittances, which fell by US$121.0 million (or 49.4 percent) to US$124.1 million, from US$245.1 million during in 2016. At end-2017, total liquidity as measured by (M2), expanded by 17.6 percent to L$78,431.8 million, from the L$66,711.9

million recorded in 2016 which was mainly triggered by a 52.9 percent rise net domestic assets.

Macroeconomic Challenges

Developments in the Liberian economy are often hedged on global prospects; especially movements in global commodity prices. Liberia relies on primary commodity exports (mainly rubber and iron ore) as major sources of foreign exchange earnings.

Gradual recovery in the global prices of iron ore and rubber, after the prolonged decline from 2014 to 2016 is likely to enhance export receipts. Conversely, the accompanying increase in the prices of petroleum products and food (rice) are likely to increase payments towards imports, possibly outweighing the increase in export prices, and inducing inflationary pressure.

In addition to slumps in the prices of the country's key commodity exports (rubber and iron ore), although there has been encouraging price uptake particularly in the last quarter of 2016, other factors constraining economic growth have been the delays in planned investments by major business entities, low access to credit for the agricultural sector, due to cautious lending policy by banking institutions on account of increasing level of non-performing loans (NPLs).

Reliance on primary commodity exports has over the years exposed the structural weaknesses of the Liberian economy and highlights the importance of developing the agriculture and manufacturing sectors which have the potential to propel the country from the traditional mode of production to a more institutionalized and diversified agro-processing and export-focused manufacturing sector.

Weak implementation of public investment projects is another critical challenge. There is a need to sustain the efforts being made to accelerate the implementation of critical Government's infrastructure programs.

IV. Key Policy Decisions: 2017

The Board of Governors of the Central Bank of Liberia (CBL) took several decisions in 2017 based on the recommendations of the Financial Stability Committee (FSC) aimed at promoting financial stability and deepening the financial system. Key decisions taken by the Board are as follows:

1. **New Regulations and Regulatory Policies**

(a) Agent Banking Regulation No. *CBL/RSD/001/2017*

The objective of the regulation is to promote access to financial services particularly to the rural and underserved population in a cost-efficient manner. This regulation allows for merchants as well as low-scale financial service providers such as Credit Unions, Village Savings and Loans Associations (VSLAs) and Microfinance Institutions (MFIs) to serve as agents for commercial banks to provide basic banking services, including domestic transfer and payment services, and deposit mobilization.

(b) Revised AML/CFT Regulation No. *CBL/RSD/002/2017*

This Regulation replaces the previous AML/CFT Regulation No. CBL/RSD/004/2013, which requires banks to report suspicious and cash transactions to the CBL. With the establishment of the Financial Intelligence Unit (FIU), the regulation was amended to require all suspicious and cash transactions to be reported to the FIU pursuant to §67.5(2) and (3) of the Act that established the FIU.

(c) Emergency Liquidity Assistance (ELA) Framework

The Emergency Liquidity Assistance Regulation was issued pursuant to Section 32 of the CBL's Act. The regulation provides the framework for commercial banks that are solvent and viable to access temporary liquidity support from the CBL due to unforeseen liquidity constraints, subject to stringent requirements. The framework further provides Government's support in case of systemic liquidity situations.

(d) Amended Regulation on Consumer Protection and Market Conduct

The amended Regulation includes a new section on Truth-In-Lending Disclosure requirements which is intended to promote transparency and disclosure in commercial banks' lending rates and related charges in the loan contracts with borrowers.

(e) Interest Rate Regulation (7.19)

The new regulation complements the Regulation for Consumer Protection and Market Conduct. The regulation provides for the publication of the effective interest rate, which reflects the actual cost of lending; disclosure of the interest rate to be applied on a product; and details about the method of computing interest. It requires commercial banks to publicly display their rates at their branches, publish them on their websites and in the local daily newspapers.

(f) Directive No. CBL/RSD/DIR/002/2017 Barring Commercial Banks and other Regulated Financial Institutions from Providing Financial Services to Delinquent Borrowers that Fail to Resolve their Delinquent Status. The amendment was intended to support the effective implementation of the new Insolvency and Bankruptcy Act which will allow delinquent borrowers declared by the Commercial Court to be insolvent, access to financial services in the banking system as part of the process of restructuring of the private sector.

(g) Policy actions to maintain broader exchange rate stability

Adoption of the Weighted Average Exchange Rate Survey to determine the Market Exchange Rate

In light of the exchange rate volatility facing the Liberian economy, the CBL adopted the weighted average exchange rate survey, which broadens the base of information with which rates are determined to include the parallel market (unregistered foreign exchange bureaus and businesses) and the CBL itself.

(h) The CBL has set a new deadline of March, 2018 for all insurers to comply with the new capital requirement based on the 3-year timeframe (2016-2018) approved by the Bank. Insurance companies failing to meet the new requirements commencing March, 2018 will be required to merge, or be acquired by more viable companies, or have their licenses revoked by the CBL.

(i) Establishment of the Assets and Liabilities Committee (ALCO)

During the year, the Board of Governors approved the establishment of the Assets and Liabilities Committee (ALCO), responsible for balance sheet planning and management from a risk-return perspective and for strategic management of interest and liquidity risks.

V. POLICY DIRECTION FOR 2018

A. MONETARY

- Pursue policies aimed at sustaining a stable macroeconomic environment. In this regard, managed float exchange regime and single digit inflation will remain the monetary policy thrust of the CBL.
- The Bank will continue its intervention in the foreign exchange market to help smooth out volatility and prevent the rapid fall of the Liberian dollar vis-à-vis the United States dollar.
- The Bank will develop a Composite Index of Economic Activity (CIEA) to monitor the monthly performance of the economy as well as guide the Bank's monetary policy decision relative to the various sectors of the economy.
- The Bank will also develop a Consumer Confidence Index (CCI) and a Business Confidence Index (BCI) which would help it understand both consumer and business perceptions about current economic situation and expectations for future policy development.
- The CBL will continue to review the policy on remittance split to determine the optimal percentage that will continue to instill confidence in the system while also allowing for most effective interventions in the foreign exchange market.
- The CBL will also encourage an active interbank market and intends to widen the participation of the T-bill auction to include private firms and individuals and encourage the Fiscal Authority to offer more attractive yields on its treasury instruments as a means to create a secondary market and develop additional policy instruments for effective management of excess liquidity in the economy.

To this end, the CBL will work closely with the Ministry of Finance and Development Planning (MFDP) to develop the bond market in the country. The Bank will also work with the West African Monetary Institute (WAMI) for technical and institutional support in this effort.

- Given the level of excess liquidity in the banking system, the Bank will issue, if necessary, its own CBL papers in addition to the GoL T-bills, in order to effectuate its monetary policy objective of exchange rate and price stability through the sterilization of its notes.
- The Bank will continue to conduct economic and statistical research and analysis on monetary, financial and other macroeconomic issues and collaborate with the Ministry of Finance & Development Planning (MFDP) in managing liquidity through the Liquidity Working Group (LWG). Building on the close working relationship with MFDP and the need to promote strong coordination between the CBL and MFDP, the Bank will pursue the establishment of a Monetary Policy Committee (MPC) to oversee the implementation of the monetary policy for the country in keeping with international and regional best practice.

B. FINANCIAL STABILITY

Confidence in the financial system continues to increase as evidenced by strong balance sheet position. The CBL continuous promotion of financial inclusion through ensuring access to finance and effective payment systems has help boost the confidence in the system. In this regard, the CBL will continue to strengthen its supervisory oversight with respect to improving risk management and corporate governance practices. The CBL will continue its efforts in establishing macro-prudential supervisory framework to ensure stability and viability of the financial sector.

The CBL will remain guided by present realities in the banking sector in order to avoid overconcentration of business focus and strategy which has the tendency of exposing the sector to potential systemic vulnerabilities. In this regard, the CBL’s licensing policy with regards to banks and non-bank financial institutions would remain robust and will continue to be guided by specific needs of the financial sector, the economy and the financial inclusion agenda of the CBL. Hence, the CBL will:

- Develop regulatory framework on Specialized Lending which will include: SMEs, Agriculture and Mortgage Lending to provide incentives for banks to diversify and support the economic development agenda of Government;
- Review its existing Regulations on Corporate Governance and Licensing of Banks to align the existing standards and methodologies with current realities in the market and with standards of Basel Committee for Banking Supervision. The CBL will ensure that steps are taken by financial institutions to enhance their internal controls system, risk management practices and corporate governance system;
- Develop a crisis management and bank resolution framework. The framework will enhance mechanisms with which the CBL will handle problems in banks and crisis situation in the banking system, including early warning system and intervention;
- Continue to work on meeting the primary preconditions for the establishment for an effective deposit insurance scheme and the drafting of the legal framework for the establishment of the scheme in Liberia;
- Undertake a review of the Financial Institutions Act of 1999 and the CBL Act of 1999 to address existing shortcomings in both Acts, enhancing the powers and authority of the Bank in effectively carrying out its mandate.

Credit Reference System Project

In its efforts to promote information sharing in a timely, accurate and efficient manner, which will result in a more effective credit risk management, improved credit governance, reduce fraud and encourage credit discipline, the CBL in 2017 embarked on the enhancement of credit reference system (CRS) in collaboration with Liberia Bankers Association (LBA). This will help reduce information asymmetry and deal with the situation of high non-performing loans (NPLs) in the banking sector. All banks' employees and customers will be required to enroll in the system and will be issued a unique identification number for transacting banking and financial businesses in the country.

Banking Institute of Liberia (BIL)

As a result of the growing human capacity needs in the banking sector, the CBL in collaboration with the Liberia Bankers Association has embarked on the formalization of Banking Institute of Liberia (BIL). The Institute will seek to become one of the premier training institutes on the sub-region. The CBL will give the necessary support to the Institute and ensures that the Institute serves as a center of excellence in training professional Liberian bankers to take leadership roles in the banking system.

Insurance Sector

The CBL remains committed to reforming the insurance sector and to building a viable and strong insurance sector that will meet the needs of the Liberian economy. A strong insurance sector is critical to building a viable financial system and in mobilizing long-term funds for domestic investment. To this end, the CBL will:

- Ensure strict enforcement of the new capital requirements for insurance business in Liberia which was issued in 2014. Existing insurance companies that do not meet the minimum capital requirements will be required to exit the market in a non-disruptive way;

- Develop and introduce a framework for domestic reinsurance: The CBL shall create, through a regulatory and supervisory framework, an enabling environment for the creation of domestic reinsurer(s) in Liberia. This would play a key role in making more economic resources available domestically, thus supporting the domestic insurance market and mobilizing capital resources for economic growth and development; and

- Focus on boosting consumer's awareness of financial products such as micro insurance which could bolster their income and serve as a safety net for low–income consumers.

Digital Financial Services

In its stance to promote the financial inclusion objectives, which is one of the pillars of the financial sector development implementation plan (FSDIP), the CBL will implement the following:

- Issue a regulatory framework for Electronic Payments Schemes in Liberia which will provide guidance for new entrants and financial institutions engaged in e-payment schemes such as Automated Terminals Machines (ATM), Point of Sale (POS) terminals and other e-payment schemes on sound practices for managing risks and assist in driving of financial inclusion;

- Collaborate with national stakeholders in carrying out awareness and sensitization programs on electronic products and services; and
- Ensure competition in the DFS Ecosystem by licensing of additional e-payment providers.

Consumer Protection

Building consumers' trust and confidence in the banking sector has been one of the key roles of the CBL. The Bank remains focused in fostering and ensuring trust and safeguarding personal data and consumer funds. To this end, the CBL will initiate the following:

- Create Consumer Protection Data Portal on the CBL Website;
- Carry out consumer awareness and sensitization programs of consumer rights and redress mechanisms; and
- Ensure compliance of the Consumer Protection Regulation by all licensed financial institutions.

Microfinance Sector

The development of a vibrant, stable and sound microfinance sector that is capable of promoting financial inclusion in terms of providing access to finance, financial services and products mostly to the unbanked populace in an effective, affordable and sustainable manner remains a cardinal objective of the CBL. To this end, the CBL will:

- Adopt a tiered risk-based micro finance framework in which the regulation and supervision of all types of microfinance institution in Liberia will be based on risks. This new risk-based approach to regulation will strengthen the regulation and supervision of microfinance institutions (MFIs) in Liberia;
- Link MFIs to the Collateral Registry (CR) and CRS in order to secure movables collaterals of MFIs as part of the broader reform of the microfinance sector; and
- Support capacity building for microfinance institutions, credit unions and the Rural Community Finance Institutions (RCFI). In the specific case of the RCFIs, the CBL will work with the Ministry of Finance and Development Planning and the Ministry

of Agriculture to ensure that the International Fund for Agricultural Development (IFAD) fund on loan to the Liberian Government will significantly improve the operations of the RCFIs and build a strong rural economy across the country.

Building the Financial Market

The CBL will continue to strengthen the regulatory framework and enhance its engagements with stakeholders to deepen the interbank and government bond markets and develop the money and securities markets as well as the secondary market and enhance its investors' education/public awareness program. Specifically, the Bank will:

1. Encourage the Fiscal Authority to offer more attractive yields on its treasury instruments and work towards widening the investors' base for government securities to include retail investors (private firms and individuals).
2. Develop additional policy instruments for effective monetary policy interventions through open market operations;
3. Further develop the Central Securities Depository with the capabilities to capture and store data of securities issued in the Liberian financial markets and offer additional value added services such as immobilization and dematerialization of securities and transferring of securities ownership; and
4. Continue with a robust reserves management program to improve investment returns while maintaining its conservative posture on investments of reserves in line with its existing reserves management policy.

Financial Inclusion and National Payments System Project

The CBL will continue to work with the World Bank and other stakeholders on implementation of the Financial Sector Development and Implementation Program (FSDIP). Specifically, the Bank will focus on the areas of agent banking, mobile money, payments systems, consumer protection, consumer financial capability, microfinance institutions (MFIs) regulation, supervision and governance, and capacity building to promote financial inclusion that will facilitate inclusive economic growth. The Bank will:

1. Finalize the draft Financial Education Strategy framework to test potential priority financial capability programs and the develop corresponding monitoring and evaluating programs;
2. Developed media and communication plan for dissemination of Digital Financial Service (DFS) education program;
3. The CBL will coordinate with donors for support for hardware and software limited to MFIs which are compliant with regulations and reporting for credit underwriting analysis and financial reporting;
4. The CBL will conduct training in governance for the boards of MFIs including on risk management, for those not supported by international partners;
5. The CBL will evaluate the feasibility of introduction of micro insurance for certain MFIs for life, health, credit, and crop failure;
6. The Bank will develop a Government Payment Program with the objective to migrate all disbursements (including social cash transfers), collections, and payrolls to electronic payments, based on the USAID-GEMS initiative;
7. Coordinate with Presidential Delivery Unit for the transition of all G2P (Government to People) payments (salaries and transfers) to a digital platform; and
8. The Bank will work with the banks to introduce domestic debit cards which will reduce the cost of payment transactions and promote financial inclusion in the country.

Engagement in the ECOWAS Monetary Cooperation

Pursuant to the decision of the Authorities of ECOWAS to fast track the Single Currency project in the region, the CBL will be actively engaged with the relevant regional institutions (the West African Monetary Agency and West African Monetary Institute) and sister central banks to ensure a successful transition to the Single Currency and broader monetary union. The CBL will work with all domestic stakeholders in defining Liberia's engagement in the regional integration program.

VI. CONCLUSION

In conclusion, it is important to highlight that the CBL remains committed to execute meticulously, its statutory mandates of maintaining a stable exchange rate and low inflationary environment that is conducive for a balanced, sustained and broad-based economic growth and development. The CBL intends to strengthen its macro-prudential supervisory oversight with respect to improving risk management and corporate governance that ensure stability in the sector. The CBL will ensure that the safeguarding of consumer personal data is enhanced. The financial inclusion objective of the Bank will remain high as it embarks on electronic payments schemes. The CBL will also remain focus on developing capacities in the financial system through the Banking Institute.

While Liberia remains committed to the Single Currency project for the ECOWAS, it will ensure that the future monetary union supports the domestic economic interest of the country.