CENTRAL BANK OF LIBERIA
ANNUAL REPORT
2012

JANUARY 1, 2012

TO

DECEMBER 31, 2012

CENTRAL BANK OF LIBERIA

Office of the Executive Governor

January 24, 2013

Her Excellency
Madam Ellen Johnson-Sirleaf
PRESIDENT
Republic of Liberia

Madam President:

In accordance with part XI Section 49(1) of the Central Bank of Liberia (CBL) Act of 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 for the period January 1 to December 31, 2012.

Respectfully yours,

J. Mills Jones

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

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Acronyms Used

AACB	-	Association of African Central Banks
ABLL	-	Access Bank Liberia Limited
ACH	-	Automated Clearing House
ACP	-	Automated Check Processing
AFBLL	-	Afriland First Bank Liberia Limited
AFI	-	Alliance for Financial Inclusion
AfDB	-	African Development Bank
AFEBL	-	Association of Foreign Exchange Bureaux of Liberia
AMCP	-	African Monetary Cooperation Program
ATM	-	Automatic Teller Machines
BIL	-	Banking Institute of Liberia
BOP	-	Balance of Payments
BRC	-	Banking Reform Committee
CAR	-	Capital Adequacy Ratio
CBA	-	Core Banking Application
CBL	-	Central Bank of Liberia
CBN	-	Central Bank of Nigeria
CC	-	Compliance Committee
DIE	-	Direct Investment Enterprises
EBID	-	ECOWAS Bank for Development and Investment
EBLL	-	Ecobank Liberia Limited
ECB	-	European Central Bank
ECF	-	Extended Credit Facility
ERMF	-	Enterprise Risks Management Framework
FDA	-	Forestry Development Authority
FDI	-	Foreign Direct Investment

FESASC	-	Foreign Exchange Sale Auction Supervisory Committee
FIBank		-First International Bank
FIA	-	Financial Institutions Act
FSC	-	Financial Stability Committee
FX	-	Foreign Exchange
GBLL	-	Global Bank Liberia Limited
GDP	-	Gross Domestic Product
GoL	-	Government of Liberia
GSM	-	Global System for Mobile Communications
GTB	-	Guaranty Trust Bank
HCPI	-	Harmonized Consumer Price Index
IBLL	-	International Bank Liberia Limited
IFC	-	International Finance Company
IFRS	-	International Financial Reporting System
IIA	-	Institute of Internal Auditors
IMF	-	International Monetary Fund
IT	-	Information Technology
LBA	-	Liberia Bankers Association
LBDI	-	Liberia Bank for Development and Investment
LCUNA	-	Liberia Credit Union National Association
LEAF	-	Liberia Extension and Availability Facility
LIFFE	-	London International Financial Futures Exchange
LNP	-	Liberia National Police
LWSC	-	Liberia Water and Sewer Corporation
MAMN	-	Malawi Microfinance Network
MAN	-	Metropolitan Area Network
MFIs	-	Microfinance Institutions

MMPRC	-	Money Management and Policy Review Committee
MOU	-	Memorandum of Understanding
MUSCCO	-	Malawi Union of Savings and Credit Cooperatives
NFA	-	Net Foreign Assets
NPL	-	Non-Performing Loans
NPS	-	National Payments System
OPEC	-	Organization of Petroleum Exporting Countries
PAR	-	Portfolio At Risk
POS	-	Points of Sale
PSPSC	-	Payments System Project Steering Committee
PWC	-	Price Waterhouse Cooper
RBM	-	Reserve Bank of Malawi
RBS	-	Risk-Based Supervision
RGDP	-	Real Gross Domestic Product
ROA	-	Returns on Assets
ROE	-	Returns on Equity
RPPD	-	Research, Policy & Planning Department
RTGS	-	Real Time Gross Settlement
SACCA	-	Savings and Credit Cooperative Association
SDR	-	Special Drawing Rights
SMEs	-	Small Medium Enterprises
SOL	-	Single Obligor Limit
SSA	-	sub-Saharan Africa
SSS	-	Scripless Securities Settlement
UBALL	-	United Bank for Africa Liberia Limited
ULSU	-	University of Liberia Student Union
UN	-	United Nations

UNCDF	-	United Nations Capital Development Fund
USA	-	United States of America
V-RegCoSS	-	Valtech Regulatory Compliance & Surveillance Software
VSLAS	-	Village Savings & Loan Associations
WABA	-	West African Bankers Association
WAIFEM	-	West African Institute for Financial and Economic Management
WAMA	-	West Africa Monetary Agency
WAMI	-	West Africa Monetary Institute
WAMZ	-	West Africa Monetary Zone
WEO	-	World Economic Outlook
WOCCU	-	World Council of Credit Unions

FOREWORD BY THE EXECUTIVE GOVERNOR

The year 2012 was marked by relatively strong economic growth, macroeconomic stability, and improvement in the general business climate. The foreign reserves position also strengthened, putting the Central Bank in the position to help contain volatility in the purchasing power of the Liberian dollar.

Developments in the banking sector remained favorable, reflecting the application of a robust supervisory regime. There was noted improvement in the quality of services and growth in lending to the private sector, demonstrating the important role being played by the banking sector in the general economy.

Consistent with its Policy Statement for 2012, the Central Bank did much during the course of the year to enhance access to credit. This included the launching of a mortgage stimulus program, a second credit initiative for Liberian-owned small and medium enterprises and an agriculture sector loan program. All of these were done through commercial banks. The CBL also initiated a micro-loan program, using microfinance institutions and various community-based financial intermediaries, including village savings and loan institutions which cater mainly to women in rural areas. These were all innovative interventions by the CBL to expand the private sector and promote job creation. However, complementary actions by other institutions and development partners are critical to increasing productivity in the real sector. Entrepreneurial activities, emphasizing value-added production are crucial to the transformation of the economy, and should be strongly supported. Having worked with stakeholders to establish a commercial court, the CBL has begun work to set up a collateral registry and is also taking measures to improve its credit reference system.

On the regional front, CBL maintained its cordial working relationship with other central banks in the sub-region in the implementation of several initiatives under the auspices of the West African Monetary Zone (WAMZ). In this regard, the mid-year Statutory Meetings of the WAMZ were hosted in Liberia for the first time – July 6th thru 13th, 2012 – by the CBL and the Ministry of Finance (MoF), working in collaboration with the West African Monetary Institute (WAMI). These interactions were geared towards strengthening regional integration to promote policy harmonization and ensure, among others, the enhancement of a functional and effective regional payments system among member countries. The Bank also continued to cement ties with international financial institutions such as the International Monetary Fund (IMF), the World Bank, and the African Development Bank.

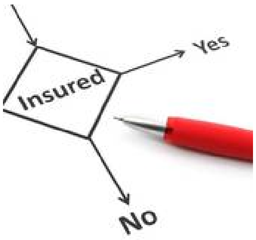
I am pleased to recognize the Board of Governors, senior management and staff of the Bank for their foresight, continued support and commitment to sustaining the pace of economic growth and development. I also appreciate the support of the government for our efforts to build a strong, independent Central Bank.

J. Mills Jones

HIGHLIGHTS

World Economy 	Global growth remained constrained by the uncertainties in the euro area, fragile financial markets, and the hovering US 'fiscal cliff', which requires spending cuts and tax increases in early 2013. The slowdown has lowered inflationary pressure, reducing headline inflation in most global economies.
Domestic Economy 	Real gross domestic product (RGDP) growth has remained robust despite the global economic slowdown. In 2012, RGDP was estimated at US$835.1 million, reflecting an increase of 8.7 percent, from US$768.0 million recorded in 2011. In 2013, economic growth is projected to expand by 7.9 percent. Inflation, like in the previous year, remained in single digit; averaging 6.9 percent for 2012, less than the 8.5 percent recorded in 2011. Core inflation (defined as inflation excluding food and transport) stood at 3.0 percent at end-2012, down from 4.0 percent in 2011.
Conducive Banking Environment 	The banking industry recorded strong growth in its balance sheet. By the end of October 2012, total assets grew by 10.6 percent to L$57,108.1 million, from L$51,650.2 million in 2011. Liquidity remained impressive in 2012 with a ratio of 43.6 percent, far in excess of the 15.0 percent minimum requirement. All of the banks were in excess of the minimum liquidity requirement and loan to deposit ratio for the industry was 43.1 percent. The average CAR for 2012 was 20.9 percent, which exceeds the minimum requirement by 10.9 percentage points.

Exchange Rate Stability  	The nominal exchange of the Liberian dollar vis-à-vis the United States dollar appreciated by 0.6 percent for buying and 0.5 percent for selling between January and December, 2012. The end-of-period exchange rate stabilized at L$72.50/US$1.00 while the period average depreciated by 1.7 percent to L$73.5/US$1.00 at end of 2012, from L$72.23/US$1 at end-December, 2011.
Performance in Meeting WAMZ Criteria  	Liberia, for the first time, successfully hosted the Statutory Meetings of the WAMZ from July 6-13, 2012. At end of 2012, the country satisfied 3 of the primary convergence criteria and 1 secondary criterion
Payments System 	Liberia is one of the beneficiaries of funding assistance from the African Development Bank (AfDB) in West Africa to modernize the payments system. The modernization is being implemented through the West African Monetary Institute (WAMI) in 4 selected countries in West Africa including Liberia. The CBL considers the modernization initiative as an important part of its financial sector reform and therefore has established a separate Unit and mandated it to spearhead the process.
Microfinance 	In 2012, 9 new microfinance institutions were certificated by the CBL. The Bank began the process of active engagement with credit unions and Village Savings & Loan Associations (VSLAs) during the year. Credit unions registered with the CBL increased to 220 at the end of the year, from 69 recorded at the beginning.

Reserve Position of the Bank 	The CBL continued to accumulate international reserves. The net international reserves position was US$335.4 million at end-December 2012, US$12.2 million more than the level recorded in 2011.
The Non-Bank Financial Sector  	The insurance reform program, aimed at strengthening the legal, institutional, and regulatory framework of the sector is on-going and is part of the overall financial reform strategy of the Bank. The Insurance Reform Road Map, earlier issued to insurance companies in September 2011, was revised and endorsed by the Board of Governors of the CBL The Bank, in conjunction with the Liberia National Police commenced the enforcement exercise against illegal foreign exchange operators.
CBL Finances  	The CBL's financial statements were for the fifth consecutive year prepared in accordance with International Financial Reporting Standards (IFRS). The unaudited financial statement of the CBL, exclusive of IMF related balances recorded total assets at L$45,338.23 million, compared with L$38,939.86 million in 2011, indicating a 16.0 percent rise.

MISSION AND OBJECTIVES

MISSION STATEMENT

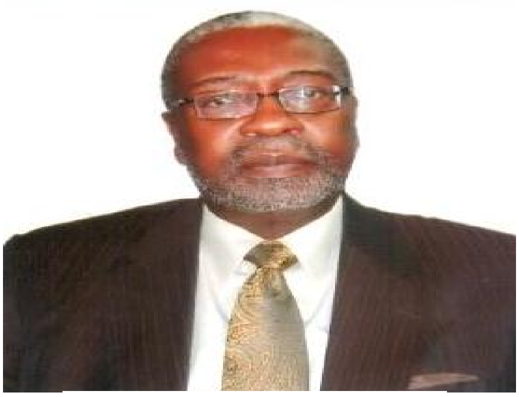
The Central Bank of Liberia was created by an Act of the National Legislature in 1999 as a functionally independent institution which seeks to carry out its statutory responsibility in the public interest. It is to contribute to the sound economic and financial well-being of the country.

OBJECTIVES

The Bank seeks to achieve this mission by devising and pursuing policies designed to:

- Promote, achieve and maintain price stability in the Liberian economy;
- Maintain constant regulatory surveillance and effective prudential controls over the domestic financial sector, while encouraging competition, improved financial services and accessibility for the benefit of the public;
- Encourage the mobilization of domestic and foreign savings and their efficient allocation for productive economic activities to engender sustained economic growth and development;
- Promote macroeconomic stability; internal and external equilibrium in the national economy;
- Facilitate the creation 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 orderly, balanced and sustained economic growth and development and
- Provide sound economic and financial advice to the Government.

BOARD OF GOVERNORS



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

John G. Bestman
Board Member

Mildred Reeves
Board Member

David K. Vinton
Board Member

Betty J. Saway
Board Member

CHAPTER I
GOVERNANCE AND ORGANIZATIONAL STRUCTURE

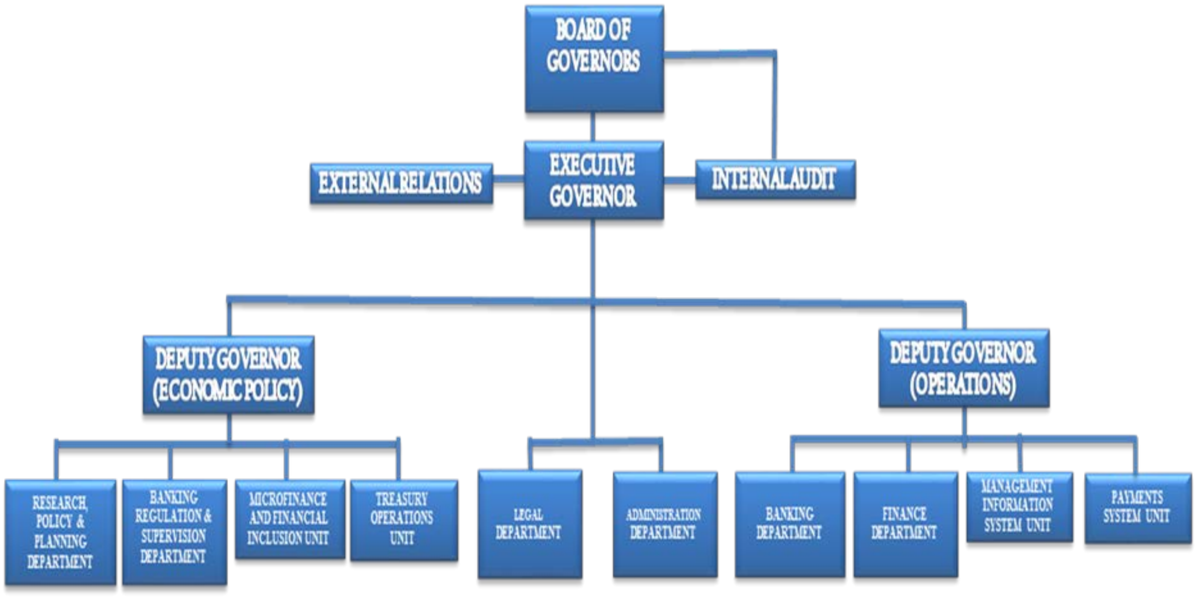
1.1 The Board of Governors

The governing body of the Bank, as stipulated in the Central Bank of Liberia Act of 1999 in Part IV Section 9 is the Board of Governors, which is responsible for formulation and implementation of policy. The Board of Governors consists of 5 Governors who are appointed by the President of Liberia and confirmed by the Liberian Senate. The Executive Governor, who runs the day to day activities of the Bank, is the Chairman of the Board.

As at end-December, 2012, the Board of Governors was composed of the following:

1. Dr. J. Mills Jones – Executive Governor/Chairman
2. Mr. John G. Bestman – Member
3. Mr. David K. Vinton – Member
4. Mrs. Betty G. Saway – Member
5. Mrs. Mildred B. Reeves – Member

Chart 1: Organizational Structure
As at December 31, 2012



1.2 Committees of the Board

As in 2011, there are currently 2 Board Committees, the Audit Committee and the Investment Committee. The Audit Committee assists the Board in ensuring that internationally accepted accounting procedures and internal controls are maintained, as well as ensuring compliance with such standards and statutory requirements. The Investment Committee has a mandate to review and make recommendations to the Board for approval, investment plans relative to the financial resources of the Bank including its foreign reserves, consistent with established policies and procedures for this purpose. The Committee also deliberates on periodic reports from the Management of the Bank on earnings generated and risk profiles of investment portfolios, and monitors the achievement of the intended policy and economic impact of such investments.

1.3 Policy Decisions by the Board

To further enhance efficiency of operations in the CBL, the Board of Governors recommended to the President of Liberia, the creation of the post of another deputy governor, amending Part IV Section 10(1) of the CBL Act of 1999. This now brings to two (2) the number of Deputy Governors within the CBL; one with responsibility for economic policy and the other for operations.

Also, during the year under review, the Board of Governors took the following decisions:

1) Amended Regulation Concerning Banking License. The amended regulation highlights and enhances the various structural and operational requirements and/or standards for establishing a bank, fundamental requirements for issuing banking licenses, risk management framework, among others;

2) Amended Corporate Governance Regulation. The regulation is intended to enhance corporate governance practices in the financial system, and places greater responsibilities on the board of directors of financial institutions in the management of their institutions. It takes into account, contemporary corporate governance practices consistent with regional and international best practices;

3) Amended Regulations Concerning Audit of Financial Institutions and Publications of Financial Statements. The amended regulation is intended to promote adequate disclosure and transparency relative to financial information and activities of financial institutions operating in Liberia.

1.4 Internal Committees

The internal committees of the CBL include the Money Management and Policy Review Committee (MMPRC), the Financial Stability Committee (FSC) — replacing the Compliance and the Banking Reform Committees, the Payments System Project Steering Committee (PSPSC), and the Foreign Exchange Sale Auction Supervisory Committee (FESASC). These committees carried out their respective functions in ensuring a sound and stable financial system that lends itself to a viable macroeconomic environment.

CHAPTER II
THE GLOBAL ECONOMY

2.1 World Output Growth

Global economic growth remained constrained by the continuing uncertainties in the euro area, tenuous financial markets, and the hovering US fiscal cliff**,** which involves automatic spending cuts and tax increases in early 2013. The simultaneous effects of these threats to the global economy have necessitated a downward revision of global growth forecasts. The IMF in its October, 2012 World Economic Outlook (WEO) forecasts that global growth will moderate to 3.3 percent from the 3.5 percent reported in the second quarter.

Generally, output has remained slow in advanced economies but relatively strong in many emerging markets and developing economies. Unemployment also remained high as financial conditions continued to be vulnerable. Global indicators of activity and unemployment have been sluggish as in the first half of 2012 with no real improvement in the second half of the year. Manufacturing slowed with the euro area receiving high decline in activity emanating from financial difficulties as evident by the increase in interest rate spread. In the United Kingdom and the US, there has also been a slowdown in activities. Spillovers from advanced economies have also affected emerging markets. Commodity prices have slumped significantly, with effects weighing on commodity exporters.

These developments, among others, suggest that global growth has been weaker than projected because the euro area crisis has not been resolved. There are weak financial institutions and inadequate policies in major advanced economies. Emerging markets and developing economies lacked sustainability measures for the high pace of growth and growing financial imbalances forcing a reduction in global growth by 0.2 percentage point in 2012.

The initially high momentum of growth in the United States was lowered to 1.7 percent as a result of slow labor market and consumption pace in the second quarter. However, data for the third quarter suggest that the housing market is stabilizing but is weak and private credits have begun to expand gradually. The major bottleneck has been the implementation of the fiscal cliff by policy makers. Growth is estimated to move up to 2.2 percent by the end of the year as reported in Table 1.

Table 1: Growth of Selected Global Output

	2010	2011	Projections 2012	2013	Difference from July Estimates	
World Output	**5.1**	**3.8**	**3.3**	**3.6**	**-0.2**	**-0.3**
Advanced Economies	**3.0**	**1.6**	**1.3**	**1.5**	**-0.1**	**-0.3**
United States	2.4	1.8	2.2	2.1	0.1	-0.1
Euro Area	2.0	1.4	-0.4	0.2	-0.1	-0.5
Japan	4.5	-0.8	2.2	1.2	-0.2	-0.3
United Kingdom	1.8	0.8	-0.4	1.1	-0.6	-0.3
Canada	3.2	2.4	1.9	2.0	-0.2	-0.2
Emerging and Developing Economies	**7.4**	**6.2**	**5.3**	**5.6**	**-0.3**	**-0.2**
Central & Eastern Europe	4.6	5.3	2.0	2.6	0.1	-0.2
Developing Asia	9.5	7.8	6.7	7.2	-0.4	-0.3
China	10.4	9.2	7.8	8.2	-0.2	-0.2
India	10.1	6.8	4.9	6.0	-1.3	-0.6
Latin America & the Caribbean	6.2	4.5	3.2	3.9	-0.2	-0.3
Middle East & North Africa	5.0	3.3	5.3	3.6	-0.2	0.0
Sub-Sahara Africa	5.3	5.1	5.0	5.7	-0.1	0.0
World Trade Volume (Goods & Services)	**12.6**	**5.8**	**3.2**	**4.5**	**-0.6**	**-0.7**
Imports						
Advanced Economies	11.4	4.4	1.7	3.3	-0.2	-0.9
Emerging and Developing Economies	14.9	8.8	7.8	6.6	-0.8	-0.4
Exports						
Advanced Economies	12.0	5.3	2.2	3.6	-0.1	-0.7
Emerging and Developing Economies	13.7	6.5	4.0	5.7	-0.7	-0.5
Commodity Prices(US dollars)						
Oil	27.9	31.6	2.1	-1.0	4.2	6.5
Non-fuel (average based on world commodity export weights)	26.3	17.8	-9.5	-2.9	2.6	1.4
Consumer Prices						
Advanced Economies	1.5	2.7	1.9	1.6	-0.1	0.0
Emerging and Developing Economies	6.1	7.2	6.1	5.8	-0.2	0.2

Source: IMF World Economic Outlook: October 2012

Crisis in the euro area have continued to contract output, mainly due to deep cutbacks in production in the surrounding economies, with financial and fiscal conditions being very tight. Sovereign issuers and banks in the euro area have struggled to attract foreign investors. Their sovereign debt spreads have risen appreciably, and their banks relied increasingly on the European Central Bank (ECB) for funding during the first and second half of the year. As a result, growth have been cut by 0.4 percent, a 0.1 percentage point lower than the WEO July, 2012 projection.

In emerging and developing economies, output is already above pre-crisis trends, suggesting that recovery is complete with expansion to follow. But policy tightening in response to capacity constraints, weaker external demand, among others, has slowed economic growth to 5.3 percent, from 5.8 percent in the first half of the year. According to the IMF, more than half of the downward revisions in real GDP growth in 2012 are rooted in domestic developments in these economies.

In developing Asia, China had a much stronger growth forecast than India. Although growth in China slowed due to a tightening in credit condition, India experienced a much sharper decline as a result of weak business confidence, slow approvals for new projects and sluggish structural reforms. GDP growth has been lower to 7.8 percent and 4.9 percent for China and India, respectively; indicating 0.2 and 1.3 percentage points lower than the mid-year forecast by the IMF.

Latin America growth has been slow in the first half of 2012, largely due to policy measures of containing inflationary pressure aimed at moderating credit growth in some market segments. Growth outlook for the region is projected at 3.2 percent and 3.9 percent in 2012 and 2013, respectively, reflecting a decline of 0.2 and 0.3 percentage points from the revised projections made in the July, 2012 WEO.

Growth in sub-Saharan Africa (SSA) remained robust during the year, although there was a 0.1 percentage point reduction for the third quarter to 5.0 percent for 2012. Growth forecast for 2013 is projected to move up to 5.7 percent. In the region, increased commodity prices and the improvements in emerging and developing market economies along with the region's relative insulation to external financial shocks are expected to keep growth robust for the remaining of the year.

2.2 Global Inflation

The slowdown in global economic activities has reduced inflationary pressure as reflected in the WEO update of October, 2012. Headline inflation has dipped in most economies, spurred by reduced commodity prices. In emerging market and developing economies headline inflation declined to 5.5 percent from the level recorded in the second quarter, while it stood at 1.5 percent in advanced economies.

2.3 Commodities Markets

Decline in oil production by OPEC and non-OPEC countries led to supply constraints at end-September, 2012. Productions in non-OPEC countries were affected by internal disturbances leading to the increase in the price of the commodity. The fall in global commodity prices were due largely to weak demand in advanced economies along with tighter credits measures in the euro area that held back production.

2.3.1 Oil

Crude oil price fell from US$118.5 per barrel in the first quarter of 2012 to settle at US$108.9 per barrel in the second quarter. However, at end-September, 2012, it increased marginally to about US$110.0 per barrel and settled at US$110.4 in the fourth quarter of 2012.

2.3.2 Cocoa

Cocoa price during the year has shown signs of improvement. Price of cocoa marginally recovered from a declining trend in 2011 to begin the year with an upward movement. Though there was a decline in the second quarter, price of cocoa increased to US$2,494.1 per metric ton at end-September, 2012 and remained at US$2,457.8 during the last quarter of the year. However, annualized fourth quarter comparison shows that price of cocoa reduced by 0.5 percent. But generally, there was recovery in the price of the commodity given the upward movement since the second quarter of 2012.

2.3.3 Iron Ore

The global meltdown had significant impact on metal prices, largely due to reduced demand from emerging market like China. Iron ore price fell from US$141.8 per metric ton in the first quarter of 2012 to US$111.7 per metric ton in the third quarter of 2012, reflecting a 21.2 percent decline. However, the fourth quarter has shown signs of improvements in the price of the commodity. As at end-December, 2012, iron ore price rose to $121.1 per metric ton, with prospects to increase during 2013.

2.3.4 Round Logs

The global market price for round logs showed a downward movement for most parts of the year. From an average of US$373.26 cubic meter in the first quarter, the price of round logs fell by 3.3 percent, 4.9 percent, and 5.5 percent in the second, third, and fourth quarters of

2012. However, the price of the commodity began to recover during the last part of the year, averaging US$352.7, up from a downward trend experienced during the last 2 months of 2012.The decline in the price of the commodity was mainly driven by weak external demand.

2.3.5 Rubber

Global price of rubber followed a moderate decline throughout the year. After experiencing a rise in the price of the commodity during the first quarter, averaging around 174.75 US cents per pound, rubber price declined throughout the second and third quarters, with third quarter average price of 140.4 US cents per pound. The fall in price was due to the slowdown in global demand as seen through low exports volume (Table 1).

2.4 Implication for the Liberian Economy

Outlook for the Liberian economy over the medium term remains favorable. The economy is projected to grow at an average of 7.4 percent over the period spanning 2012 to 2015; expected to be driven by continued rising growth in the agriculture, mining, and services sectors. However, a major risk to domestic real GDP growth remains the sluggishness in global economic activities that have already led to a fall in commodities prices including Liberia’s major primary commodity exports, iron ore and rubber. Inflation largely remained in single digit for most parts of 2012 and expected to remain stable over the medium term with an average of 5.0 percent; nonetheless, rising international prices of oil and food present a higher risk to maintaining a stable and low rate of inflation.

CHAPTER III
DEVELOPMENTS IN THE LIBERIAN ECONOMY

3.1 Overview

In 2012, real GDP was estimated at US$835.1 million, reflecting an increase of 8.7 percent, from US$768.0 million recorded in 2011, largely due to activities in the mining & panning, agriculture & fisheries and services sectors. Inflation in 2012 remained in single digit, spurred by improved domestic food production and efficient management of monetary policy. Average core inflation (defined as inflation excluding food and transport) at end-2012 declined by 1.0 percentage point to 3.0 percent, from 4.0 percent reported at end-2011. Major outputs in the real sector exhibited mixed variations. Production of rubber, cocoa and diamond recorded declines while round log, gold and cement showed increases.

Commercial bank credit to the economy at end-November, 2012 increased by 18.9 percent to L$19,226.8 million over the amount recorded for 2011, driven by rising economic activities in the economy. There were mixed trends in interest rates movements during the year. Average lending, mortgage, time deposits and savings rates recorded declines while personal loan rose; the rate on certificate of deposits remaining constant. Monetary aggregates at end-November, 2012 showed reductions with broad money (M2) reducing by 4.6 percent and narrow money (M1) by 8.7 percent.

Liberian’s balance of payments (BOP), in 2012, significantly improved from a deficit of US$21.0 million recorded in 2011 to a surplus of US$29.4 million. However, the current account balance recorded a deficit of US$1,607.06 million. Furthermore, the trade balance improved markedly from a deficit of US$1,438.4 million in 2011 to US$650.6 million in 2012. Total trade position was estimated at US$1,423.0 million in which imports accounted for 67.4 percent while exports constituted 32.6 percent.

Also during the period, the nominal end-of-period exchange rate of the Liberian dollar vis-à-vis the US dollar appreciated by 1.4 percent to L$72.50/US$1.00 at end-December, from L$73.5/US$1.00 at end-January, 2012. Liberia’s public debt stock at end-September, 2012 stood at US$561.5 million, indicating an increase of 8.2 percent relative to the level recorded at end-September 2011.

3.2 GDP Performance

Real gross domestic product (RGDP) growth in Liberia has remained robust despite the global economic slowdown. In 2012, real GDP was estimated at US$835.1 million, reflecting an increase of 8.7 percent, from US$768.0 million recorded in 2011, largely due to activities in the mining & panning, agriculture & fisheries and services sectors. Real GDP in 2013 is projected at 7.9 percent, 0.8 percentage point lower than the revised growth reported in 2012. The slowdown in real GDP in 2013 is expected to be driven by the rising but decreasing rate of production in the mining & panning sector. A detailed sectoral analysis of real GDP performance is presented in Table 2.

Table 2: Liberia: Sectoral Origin of Gross Domestic Product (GDP)
(At 1992 Constant Prices: 2010 – 2013)
(In Millions US$)

Sector	2010+	2011+	2012*	2013**
Agriculture & Fisheries	213.7	222.0	226.2	233.9
Forestry	86.0	88.9	91.1	92.7
Mining	11.3	30.1	69.1	88.9
Manufacturing	56.0	57.7	59.5	61.4
Services	343.2	369.3	389.2	424.6
Real Gross Domestic Product	710.2	768.0	835.1	901.5

Sources: Liberia Authorities and IMF Staff estimates and projections
*+Revised *Estimate **Projection*

3.3 Real Sector Performance

Rubber output at end-2012 was 56,350 metric tons, from 88,318 metric tons recorded in 2011, reflecting a 56.7 percent reduction. The decline in production was partly due to the fall in the global price of the product and a reduction in output by one of the major producing companies (Table 3).

Table 3: Key Agricultural and Forestry Production
(2010-2012)

Commodity	Unit	2010	2011+	2012
Rubber	MT	62,576	88,318	56,350
Cocoa Bean	MT	7,117	26,692	8,082
Coffee	MT	379	181	135*
Round Logs	M3	7,251	74,107	155,888*
Sawn Timber	PCS	543,793	331,540	245,901*

Ministry of Commerce; Liberia Produce & Marketing Corporation (LPMC); Forestry Development Authority (FDA)
**Figures are estimated +Revised*

Cocoa production in 2012 plummeted by 18,610 metric tons to 8,082 metric tons, from 26,692 metric tons at end-2011. Also, coffee output was estimated at 135 metric tons in the review year, from 181 metric tons produced in 2011. The decline was mainly due to the ageing of most coffee farms, which resulted to low yields.

Production of round logs surged to an estimated 155,888 cubic meters in 2012, from 74,107 cubic meters in the previous year, representing an increase of 110.4 percent. The rise in production was partly a direct outcome of growth in the number of companies engaged in logging activities. Also, an estimated 245,901 pieces of sawn timber was produced during the review period compared to 331,540 pieces in 2011, indicating a fall of 25.8 percent. The regulatory framework put in place by the Forestry Development Authority (FDA) in anticipation of full-scale mechanized timber production in the country was partly responsible for low output.

Diamond production at end-2012 was 34,271 carats, 14.0 percent or 5,595 carats lower than the previous year. The decline in output was partly attributed to the shifting of labour from diamond mining to gold mining (Table 4).

Table 4: Key Industrial Output (2010 – 2012)

Commodity	Unit	2010	2011+	2012
Cement	MT	71,733	80,594	108,840*
Beverages	Liter	25,457,394	30,503,151	28,099,740
Paints	Liter	261,916	295,179	354,005
Candle	KG	578,844	442,575	372,848*
Chlorox	Liter	662,285	694,593	709,734*
Rubbing Alcohol	Liter	743,960	221,184	217,107*
Mattresses	PCS	122,029	142,000	92,582
Gold	Ounce	21,402	14,427	20,609
Diamond	Carat	22,018	39,866	34,271
Finished Water	Gal	1,408,373,584	930,159,178	1,752,158,793
Iron ore	MT	N/A	386,968	2,369,850

Sources: Ministry of Commerce & Industry; Lands, Mines & Energy; and Liberia Water & Sewer Corporation (LWSC)
****Figures are estimates done by CBL +Revised***

Output of gold in 2012 increased by 6,182 ounces to 20,609 ounces, from 14,427 ounces in 2011, reflecting an increase of 42.9 percent. The increase in production was partly due to a surge in the global demand for the product and a rise in the number of companies engaged in the sector.

Cement production was estimated at 108,840 metric tons, from 80,594 metric tons produced a year ago. The increase in production was due in part to the slowdown in the importation of the product and the continuous infrastructural development activities taking place in the country.

The production of beverages was 28.1 million litres at end- 2012, from 30.5 million litres at end-2011, representing a decline of 7.9 percent.

Paint production during the year recorded 354,005 litres, from 295,179 litres in 2011, reflecting an increase of 19.9 percent or 58,826 litres. The surge in output was mainly due to increased construction activities taking place in the country.

Candle output was estimated at 372,848 kilograms in 2012, compared to 442,575 kilograms in 2011, a decline of 15.8 percent (Table 4). The reduction in candle production was mainly due to consumers shifting from candle usage to dry cell fluorescence light. Production of chlorox was estimated at 709,734 litres during the year under review, compared to 694,593 litres produced in 2011, reflecting 2.2 percent increase.

The number of mattresses produced in 2012 plummeted by 34.8 percent or 49,418 pieces to 92,582 pieces, from 142,000 recorded at the end of the previous year. The fall in output was largely due to increase in the prices of raw materials.

A total of 1.8 billion gallons of water was supplied in 2012, indicating an increase of 0.9 billion gallons over the level recorded in 2011. The surge in supply was a direct result of the expansion of water supply in the city of Monrovia and its environs by the Liberia Water and Sewer Corporation (LWSC).

The quantity of iron ore mined in 2012 was estimated at 2,369,850 metric tons, up from 386,968 metric tons produced in the previous year. The rise in output in the year was largely attributed to the resumption of iron ore production in late 2011.

3.4 Price Development

Inflation in 2012 remained relatively subdued and largely in single digit. The slowdown in inflation can be explained by the improved domestic food production and prudent management of monetary policy. Annual headline inflation in 2012 stood at 6.9 percent, from 8.5 percent reported at end-2011. The key drivers of inflation were food and non-alcoholic beverages (10.4 percent), transport (5.7 percent) and furnishings & household equipment (4.3 percent), representing 73.9 percent of annual headline inflation for the year ended, 2012 (Table 6). Out of the 6.9 percent of headline inflation recorded during the year, goods and services contributed 5.1 percentage points. By origin of consumer goods and services, the price indices for both local and imported items declined in the referenced period, compared with the corresponding period in 2011. Domestic items inflation declined on an annual basis by 1.8 percentage points, from 9.1 percent at end-2011 to 7.3 percent at end-2012. Imported goods prices also declined to 6.3 percent, from 7.6 percent recorded in the same period of 2011.

Average core inflation (inflation excluding food and transport) at end-2012, declined by 1.0 percentage points to 3.0 percent, from 4.0 percent reported in 2011 (Table 7 & Chart 3). The core inflation outturn in 2012 compared with 2011 was largely driven by declines in alcoholic beverages, tobacco and narcotics to 3.7 percent, from 10.3 percent; clothing and footwear to 3.2 percent, from 5.9 percent; housing, water, gas & others to 4.1 percent, from 5.7 percent; communication to 0.2 percent, from 2.9 percent and recreation and culture to 2.9 percent, from 4.4 percent. Food and transport constitute 51.3 percent of the overall weights of the Liberian consumer basket.

The outlook for inflation in 2013 remains positive with the expectation of achieving a single-digit inflation around 5.0 percent, which will largely depend on both domestic and imported food prices, the behaviour of international oil prices, the exchange rate as well as the state of domestic infrastructure.

Table 5: Year-on-Year Rate of Inflation
(2010 –2012)
(December, 2005 = 100)

	2010	2011	2012
January	12.9	4.7	8.9
February	11.5	7.5	10.3
March	13.2	6.5	8.7
April	11.9	7.4	7.7
May	8.0	7.6	6.7
June	2.5	8.8	7.1
July	4.2	10.6	3.6
August	3.3	10.3	4.3
September	5.2	6.2	5.7
October	4.9	10.7	4.8
November	5.7	9.9	7.3
December	6.6	11.5	7.7
Average Rate	**7.5**	**8.5**	**6.9**

Source: CBL and LISGIS

Chart 2: Year-on-Year Rate of Inflation
(2010 – 2012)
(December, 2005 =100)

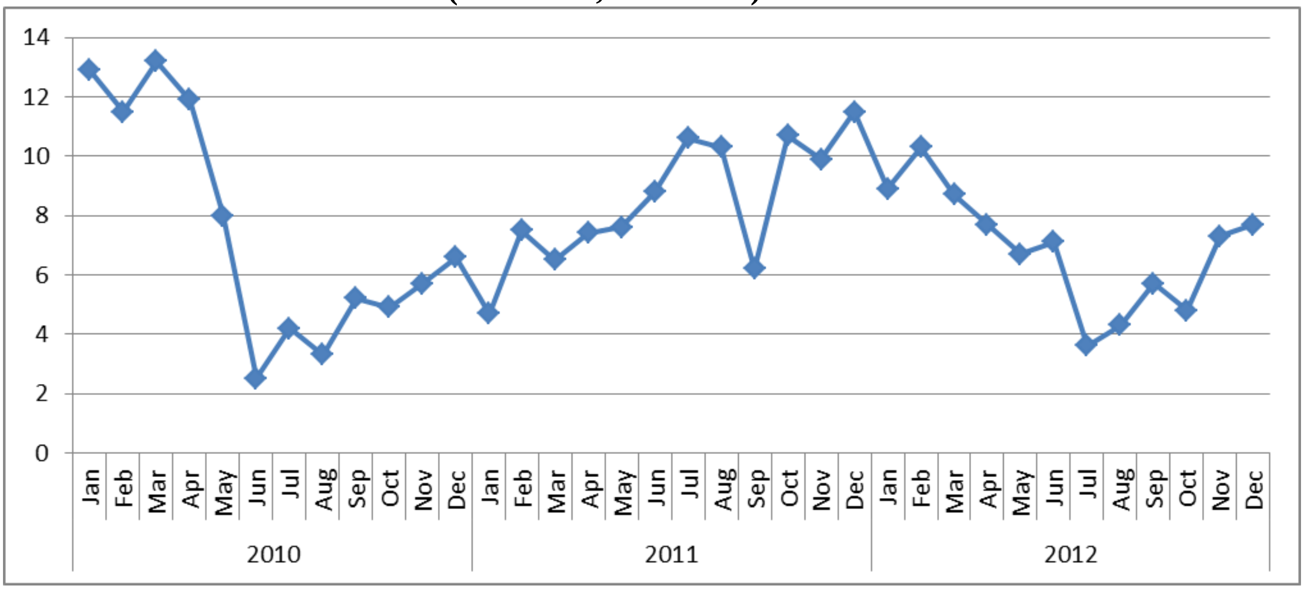


Table 6: Liberia: Harmonized Consumer Price Index (HCPI)
12 Month Percent Changes by Major Groups
(December 2005 =100)

MAJOR GROUP	WEIGHT	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
Food and Non-Alcoholic Beverages	45.20	11.91	13.95	12.79	11.72	10.35	11.16	5.56	7.51	9.61	6.06	11.5	12.2
Alcoholic Beverages, Tobacco and Narcotics	3.03	8.63	8.93	4.43	2.85	1.86	0.29	1.20	1.02	4.37	6.17	5.4	-0.5
Clothing And Footwear	7.75	3.43	3.99	4.28	3.26	3.53	4.10	1.82	1.52	4.24	3.34	3.2	3.0
Housing, Water, Electricity, Gas And Other Fuels	12.00	6.61	8.07	7.36	4.36	4.74	4.35	4.96	1.08	2.22	2.35	1.1	1.4
Furnishings, Household Equipment And Routine Maintenance Of The House	5.25	7.81	7.41	7.73	7.34	7.65	8.21	0.34	0.12	-0.72	4.09	1.9	0.4
Health	3.91	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-2.6	-4.6
Transport	6.11	16.97	16.46	5.07	5.13	1.44	1.19	-0.49	-0.39	0.39	6.20	6.1	10.5
Communication	1.53	0.10	0.18	0.23	0.32	0.36	0.44	0.19	0.15	0.18	-0.03	0.1	0.1
Recreation And Culture	3.85	4.35	4.58	2.81	-0.08	0.03	0.24	0.49	0.38	0.48	6.76	7.1	7.1
Education	3.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Restaurants And Hotels	4.64	2.28	2.79	2.77	3.23	3.46	2.59	1.10	1.00	1.55	0.26	1.0	2.1
Miscellaneous Goods And Services	3.53	1.54	6.65	6.32	6.05	2.12	2.89	1.40	1.50	1.32	8.10	6.2	5.3
General Rates Of Inflation	**100.00**	**8.93**	**10.30**	**8.69**	**7.67**	**6.69**	**7.08**	**3.58**	**4.25**	**5.68**	**4.84**	**7.3**	**7.7**
Special Rates Of Inflation													
All Imported Items	41.73	9.82	9.88	8.61	6.45	6.15	7.90	3.14	3.06	4.75	2.61	7.77	5.19
All Domestic Items	58.27	8.32	10.59	8.75	8.55	7.07	6.51	3.90	5.04	6.31	6.38	6.97	9.49
Imported Food Items	23.87	13.43	13.31	11.49	8.99	8.51	11.37	4.11	4.08	5.92	1.85	10.95	7.63
Domestic Food Items	21.33	10.44	14.59	14.14	14.66	12.30	10.95	7.03	10.73	13.22	10.19	12.03	16.80
Imported Fuel	2.14	19.55	18.00	17.76	11.67	9.59	7.51	2.54	2.91	5.89	6.99	6.72	4.99

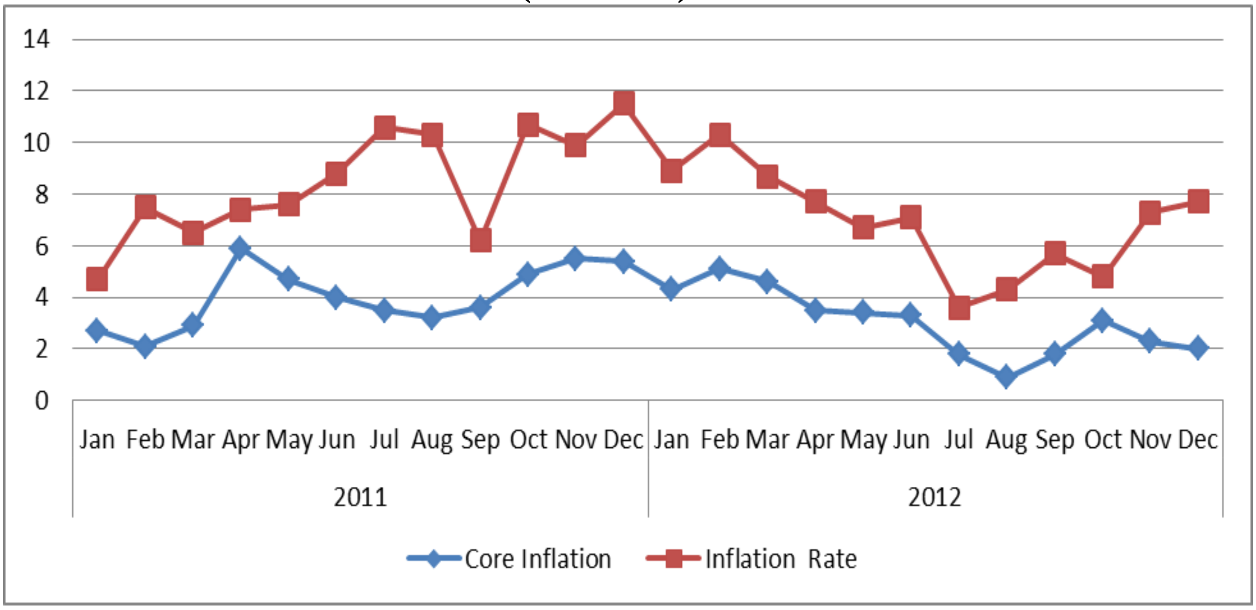
Source: LISGIS and CBL

Table 7: HCPI and Core Inflation
(In Percent)
(2011 – 2012)

Year	Inflation	Weight	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	HCPI(Gen)	100.0	4.7	7.5	6.5	7.4	7.6	8.8	10.6	10.3	6.2	10.7	9.9	11.5
	Core Infl	51.31	2.7	2.1	2.9	5.9	4.7	4.0	3.5	3.2	3.6	4.9	5.5	5.4
2012	HCPI(Gen)	100.0	8.9	10.3	8.7	7.7	6.7	7.1	3.6	4.3	5.7	4.8	7.3	7.7
	Core Infl	51.3	4.3	5.1	4.6	3.5	3.4	3.3	1.8	0.9	1.8	3.1	2.3	2.0

Source: LISGIS and CBL

Chart 3: HCPI and Core Inflation
(In Percent)
(2011- 2012)



3.5 Monetary Developments

3.5.1 Commercial Bank Credit

Total credit to the economy at end-November, 2012 amounted to L$19,226.8 million, representing an increase of 18.9 percent over the level recorded at the end of 2011. The growth is indicative of a gradual rise in lending to both the public and private sectors, especially with more lending to the private sector in view of rising economic activities taking place in the economy (Table 8 & Chart 4).

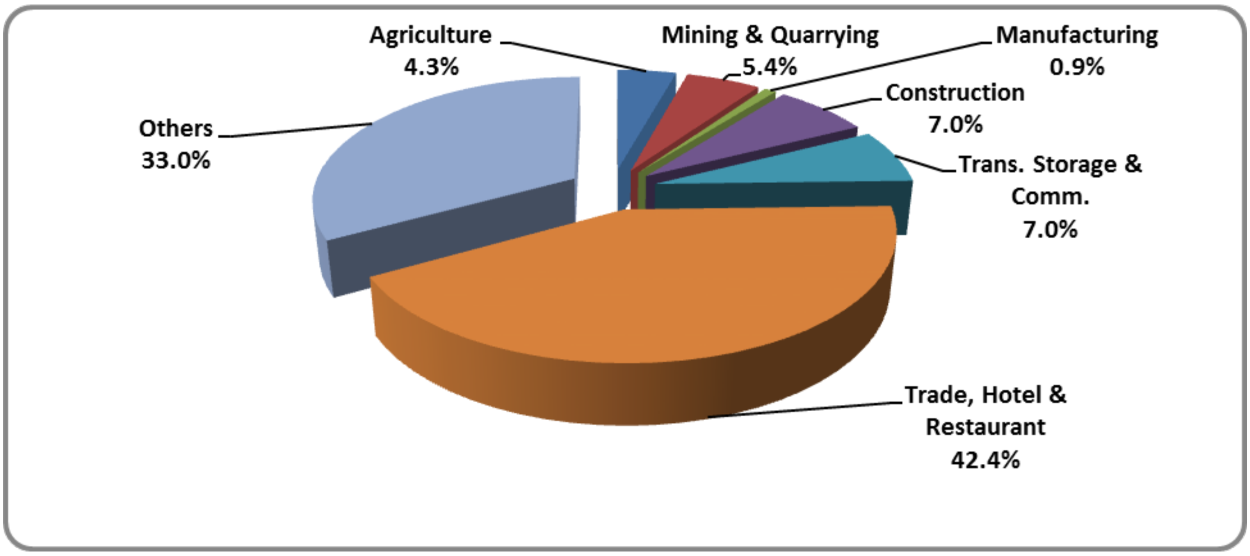
Table 8: Commercial Banks Loans by Economic Sectors (2010-November, 2012) (In Millions L$)

Sector	Dec-10	Share of Total	Dec-11**	Share of Total	Nov-12	Share of Total	Percentage Change 2011-Nov, 2012
Agriculture	398.3	3.2	748.3	4.6	830.4	4.3	11.0
Mining & Quarrying	2.1	0	139.6	0.9	1,044.4	5.4	648.1
Manufacturing	162.7	1.3	324.1	2	166.5	0.9	-48.6
Construction	1,215.4	9.6	1319	8.2	1,341.3	7.0	1.7
Trans. Storage & Comm.	2,823.6	22.4	1,351.6	8.4	1,340.5	7.0	-0.8
Trade, Hotel & Restaurant	3,977.7	31.5	6,662.2	41.2	8,148.5	42.4	22.3
Others	4,043.7	32	5,625.6	34.8	6,355.3	33.0	13.0
TOTAL	**12,623.5**	**100**	**16,170.3**	**100**	**19,226.8**	**100.0**	**18.9**

Source: Central Bank of Liberia, Monrovia, Liberia
*** Revised*

A disaggregation of total loan and advances by sectors showed that Trade, Hotel & Restaurant accounted for 42.4 percent; Construction, 7.0 percent; Transportation, Storage & Communication, 7.0 percent; Mining & Quarrying, 5.4 percent; Agriculture, 4.3 percent; and Manufacturing, 0.9 percent. The 'Others' sector, which comprises loans to individuals and public institutions accounted for 33.0 percent of the total loan for the period under consideration.

Chart 4: Percentage Distribution of Commercial Banks' Loans by Economic Sectors (2010-November, 2012)



3.5.2 Interest Rate

There were mixed trends in the interest rate movements during the year under review. Average lending, mortgage, time deposits and savings rates recorded declines while personal loan rate rose, with the rate on certificate of deposits remaining constant.

At end-November, 2012, lending and savings rates declined by 0.01 and 0.02 percentage points, respectively, to 13.84 percent and 2.00 percent. Similarly, average mortgage and time deposits rates fell by 2.03 and 1.10 percentage points, respectively (Table 9). The declines reflect a gradual rise in competitiveness of the industry. On the other hand, personal loan rate rose by 2.34 percentage points to 13.36 percent, compared with the average level reported at end-2011. The rate on certificate of deposits remained unchanged.

Table 9: Commercial Bank Interest Rates
(2010 - November, 2012)

Interest Rates	**Dec-10**	**Dec-11****	**Nov-12**
Avg. Lending Rate	14.17	13.85	13.84
Avg. Personal Loan Rate	14.15	11.02	13.36
Avg. Mortgage Rate	14.19	14.03	12.00
Avg. Time Deposit Rate	2.90	3.70	2.60
Avg. Savings Rate	2.01	2.02	2.00
Other Market Rate			
Avg. Rate on CDs	3.00	3.00	3.00

Source: Central Bank of Liberia, Monrovia, Liberia
*** Revised*

3.5.3 Monetary Policy Stance

The focus of monetary policy by the CBL during the period under consideration remained the achievement of broad exchange rate as the intermediate target and price stability as the ultimate target. To this end, and in the face of limited policy tools, the CBL has persistently relied on the weekly sale of foreign exchange as the only available instrument to influence domestic monetary conditions and working along with other key stakeholders to have other policy instruments available to impact domestic money supply. The introduction of the Treasury bill market will add to the number of policy instruments available to the CBL to influence domestic monetary conditions.

At end-November, 2012, Liberian dollars in circulation[1] amounted to L$7,556.5 million, reflecting an increase of 4.2 percent, from L$7,251.6 million at end-December, 2011. Of the total amount of currency in circulation, currency outside banks accounted for 85.0 percent while currency in banks constituted 15.0 percent. The expansion in currency in circulation was on account of a more than 100.0 percent increase in currency in banks, from L$547.3 million at end-December, 2011 to L$1,134.3 million at end-November, 2012. However, currency outside banks fell by 4.2 percent to L$6,422.2 million at end-November, 2012, from

[1]Currency in circulation equals currency in banks plus currency outside banks

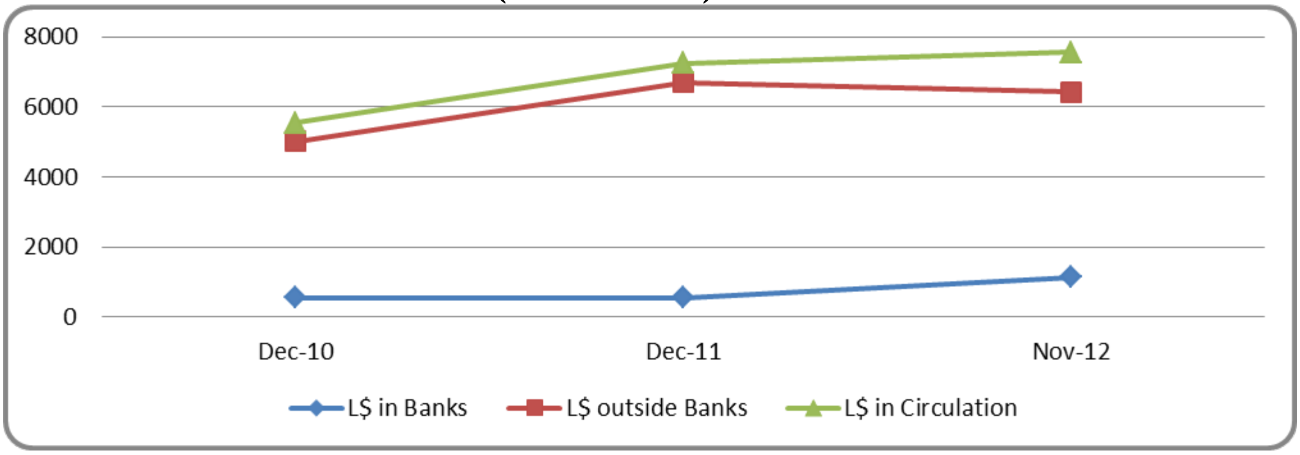
L$6,704.3 million at end-December, 2011. The sharp expansion of currency in banks is mainly as the result of confidence in the banking sector arising from the continuous stability enjoyed by the industry (Table 10 & Chart 5).

Table 10: Liberian Dollar in Circulation
(2010-November, 2012)
(In Millions L$)

End of Period	L$ in Banks	L$ outside Banks	L$ in Circulation
	(1)	(2)	(3)=(1)+(2)
Dec-10	542.6	5,007.9	5,550.6
Dec-11	547.3	6,704.3	7,251.6
Nov-12	1,134.3	6,422.2	7,556.5
Percentage Change			
2011- Nov, 2012	*107.3*	*(4.2)*	*4.2*

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 5: Liberian Dollars in Circulation
(2010-November, 2012)
(In Millions L$)



Money supply (M1)[2] in the review period totaled L$28,487.4 million, declining by 5.3 percent compared with L$30,069.0 million reported at end-December, 2011, driven largely by a 5.6 percent fall in demand deposits. Quasi Money[3], rose by 3.3 percent to L$13,770.5 million, from L$13,329.2 million at end-December, 2011, on account of a 21.7 percent increase in savings and time deposits.

[2] M1 is the narrowest definition of money supply. It is made up of currency outside banks plus demand deposits

[3]Quasi Money is defined as savings and time deposits in both currencies

Chart 6: Money Supply (M1)
(2010 - November, 2012)
(In Millions L$)

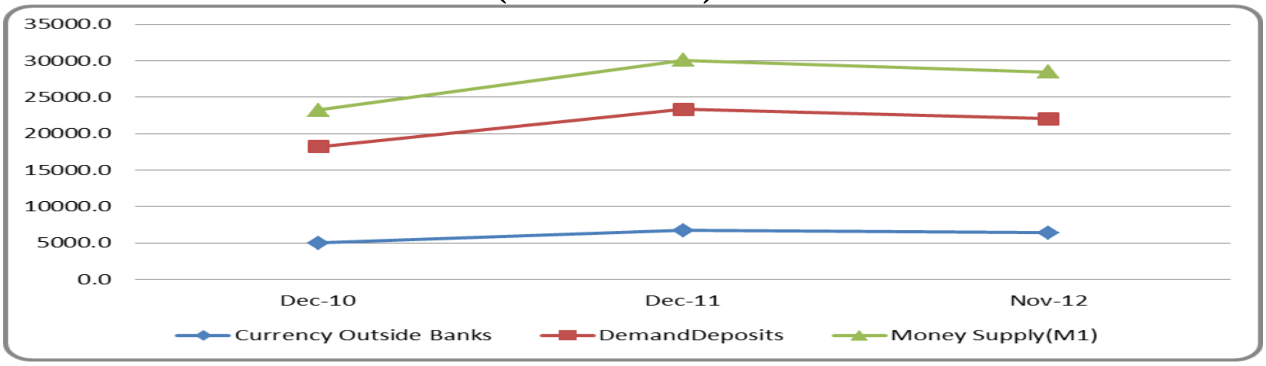


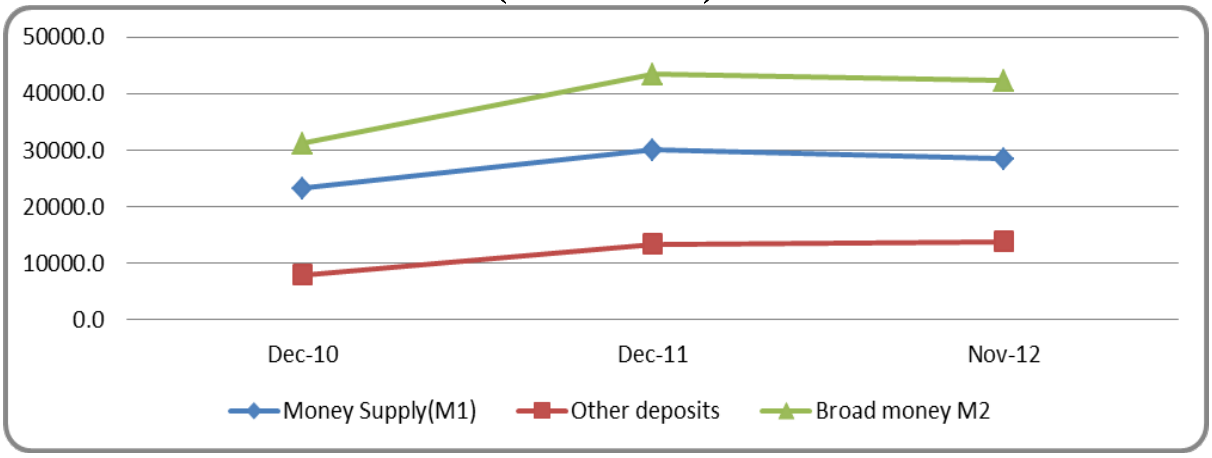
Table 11: Money Supply and its Sources
2010 – November, 2012
(In Million L$)

	Monetary Aggregates	10-Dec	11-Dec	12-Nov	Percent Change 2011-Nov, 2012
1	**Money Supply M2 (1.1 + 1.2)**	**31,103.9**	**43,398.2**	**42,257.9**	-2.6
	1.1 Money Supply M1	23,212.7	30,069.0	28,487.4	-5.3
	1.1.1 Currency outside banks	*5,008.0*	*6,704.3*	*6,422.2*	-4.2
	1.1.2 Demand deposit 1/	*18,204.7*	*23,364.7*	*22,065.2*	-5.6
	1.2 Quasi Money	**7,891.2**	**13,329.2**	**13,770.5**	3.3
	1.2.1 Time & Savings deposits	7,572.7	11,355.9	13,818.5	21.7
	1.2.2 Other deposits 2/	*318.5*	*1,973.4*	*-47.98*	-102.4
2	**Net Foreign Assets**	**23,629.5**	**26,814.5**	**22,654.3**	-15.5
	2.1 Central Bank	13,681.7	17,130.3	14,469.2	-15.5
	2.2 Banking Institutions	9,947.8	9,684.2	8,185.1	-15.5
3	**Net Domestic Assets (1 - 2)**	**7,474.3**	**16,583.8**	**19,603.6**	18.2
	3.1 Domestic Credit	**26,284.9**	**34,458.6**	**39,264.9**	13.9
	3.1.1 Government (net)	12,013.4	15,283.3	17,242.7	12.8
	3.1.2 Pvt. Sector & Other Pvt. Sector	14,271.5	19,175.3	22,022.3	14.8
	3.2 Other assets Net (3 - 3.1)	18,810.6	17,874.9	19,661.3	10.0
	Memorandum Items	**50,379.3**	**72,472.7**	**70,602.9**	-2.6
	1. Overall Liquidity	31,103.9	43,398.2	42,257.9	-2.6
	2. Reserve Money	19,275.5	29,074.5	28,344.9	-2.5
	Currency outside banks	*5,008.0*	*6,704.3*	*6,422.2*	-4.2
	Banks Reserves	*14,267.5*	*22,370.2*	*21,922.7*	-2.0

1/ Excludes Manager's checks from commercial banks
2/Includes official and managers Checks issued by the Central Bank

Broad money (M2)[4], in the review period, fell by 2.6 percent, to L$42,257.9 million, from L$43,398.2 million at end-December, 2011, largely on account of 15.5 percent decline in net foreign assets (NFA). Compared with the level in 2010, broad money rose by 35.9 percent.

Chart 7: Broad Money (M2)
(2010 - November, 2012)
(In Millions L$)



Reserve money also shrank by 2.5 percent in the reporting period, spurred by reductions in currency outside banks and commercial banks' reserves. The US dollar share in the total liquidity level amounted to 71.7 percent (L$30,290.3 million[5]) and the Liberian-dollar component accounted for 28.3 percent (or L$11,967.6 million), reflecting the highly dollarized nature of the Liberian economy (Table12 & Chart 8).

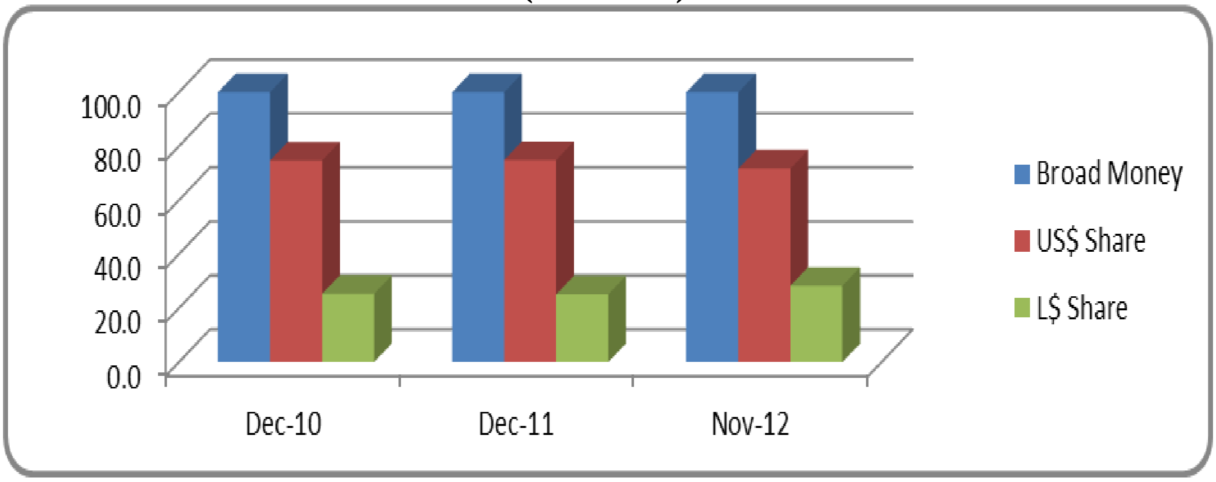
Table 12: Broad Money (M2): Share of US and Liberian Dollars
(2010 - November, 2012)
(In Millions L$)

	2010	Percent Share	2011	Percent Share	Nov-2012	Percent Share
Broad Money	31,103.9	100	43,398.2	100	42,257.9	100
US$ Share[6]	23,233.2	74.7	32,493.1	74.9	30,290.3	71.7
L$ Share	7,870.6	25.3	10,905.1	25.1	11,967.6	28.3

Source: Central Bank of Liberia, Monrovia, Liberia

[4]Broad Money (M2) is defined as M1 plus Quasi Money
[5]US-dollar share converted to L$
[6]The US$ component is converted to L$ at the end-of-period rate

Chart 8: Broad Money (M2): Share of US and Liberian Dollars (2010 - November, 2012) (In Percent)



3.6 External Sector Developments

Liberia's openness and high dependence on the rest of the world signifies the importance of the external environment to the overall performance of the domestic economy. The continued the widening of the current account deficit reflects the import dependent nature of the economy and suggests the need for policy makers to begin to prioritize inward looking strategy geared towards strengthening domestic production of goods and services for less reliance on imports .

The Central Bank of Liberia continued to accumulate international reserves. The net international reserves at end-December, 2012 was US$335.4 million, US$12.2 million more than the level recorded at the end of 2011.

3.6.1 Balance of Payments

In 2012, Liberia's balance of payments (BOP) significantly improved from a deficit of US$21.0 million recorded in 2011 to a surplus of US$29.4 million. However, the current account balance recorded a deficit of US$1,607.06 million, representing a deterioration of US$833.3 million due largely to reinvested earnings of direct investment enterprises operating in the country. However, the trade balance improved markedly from a deficit of US$1,438.4 million in 2011 to US$650.6 million in 2012 largely on account of declining imports. The services account also recorded a net outflow of US$746.5 million in 2012, from US$636.3 million, representing an increase in outflow of 17.3 percent mainly on account of increase in business travel and transportation.

In 2012, investment income recorded net outflows of US$1,244.0 million, from a net inflow of US$87.7 million reported in 2011. The increase was partly a result of growth in retained earnings made by direct investment enterprises (DIEs) during the year.

Table 13: Balance of Payments Statement (2010-2012)
(In Millions US$)

	2010	2011	2012†
Current Account Balance	**(367.00)**	**(773.76)**	**(1,607.06)**
Current Account Balance, excluding grants	(1,408.0)	(1,987.0)	(2,641.1)
Trade Balance	**(459.0)**	**(1,438.4)**	**(650.6)**
Merchandise Exports (FOB)	215.0	622.2	578.6
Merchandise Imports (FOB)	(674.0)	(2,060.6)	(1,229.2)
Services (Net)	**(830.0)**	**(636.3)**	**(746.5)**
O/w Freight	(55.6)	(21.3)	(30.7)
Investment income (Net)	**(182.00)**	**87.7**	**(1,244.0)**
Investment income - Credit	0.0	101.7	111.0
Investment income - Debit	(182.0)	(14.0)	(1,355.0)
Current transfers (Net)	**1,041.0**	**1,213.2**	**1,034.0**
Public transfers (Net)	978.0	956.3	956.8
Private transfers (Net)	63.0	256.9	77.2
Capital Account	**1,586.0**	**0.0**	**0.0**
Capital Transfers (Net)	1,586	0.0	0.0
Acquisition/disposal of non-produced	0.0	0.0	0.0
Non-financial assets (net)	0.0	0.0	0.0
Financial Account	**(1,215.4)**	**752.8**	**1,636.4**
Direct investment in reporting economy	450.0	1,277.5	1,354.1
Portfolio Investment (Net)	0.0	0.0	(4.1)
Private Financing (Net)	0.0	0.0	616.1
Other Investment (Net)	(1,665.4)	(524.7)	(329.6)
Errors and Omissions	**(3.6)**	**21.0**	**(29.4)**
Overall Balance	**(1,582.4)**	**(21.0)**	**29.4**

Sources: BIVAC Liberia, Ministry of Finance * Roberts International Airport

†/Preliminary 2012

Net current transfers declined to US$1,034.0 million in 2012, from US$1,213.2 million in 2011, indicating a growth rate of 14.8 percent. The reduction in current transfers was on account of a slowdown in net private transfers such as workers remittances.

Finally, direct investment in the economy recorded a significant inflow of US$1,636.4 million as a result of retained earnings of US$1,351.1 million by DIEs in Liberia.

3.6.2 Trade Balance

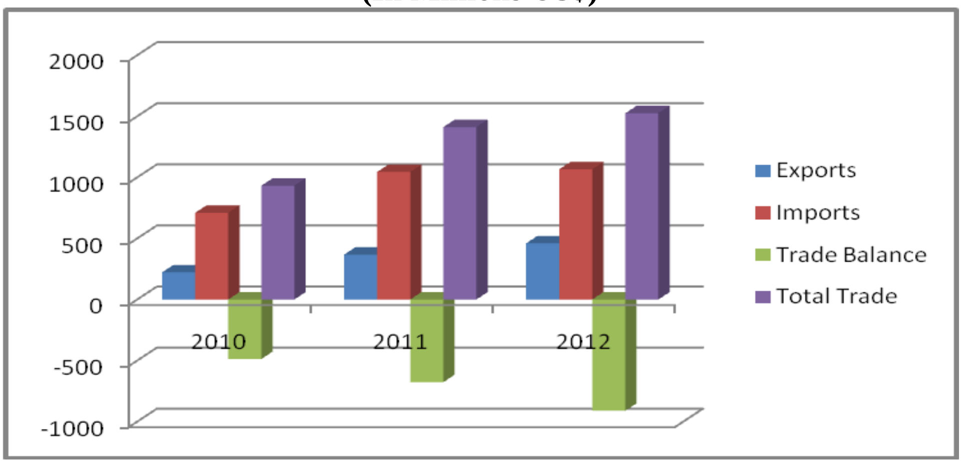
In 2012, the total trade position of Liberia amounted to an estimated US$1,525.0 million in which imports accounted for US$1,065.6 million, 69.9 percent while exports constituted US$459.4 million or 30.1 percent. Total trade value expanded by 8.1 percent, from US$1,411.3 million recorded during the previous year. Preliminary data available indicate that during the year 2012, the overall trade deficit worsen by 34.5 percent to US$911.0 million, from US$677.3 million reported at end-December, 2011. The deterioration was largely due to increase in import payments during the year.

Table 14: Exports, Imports & Trade Balance (2010 – 2012) (In Millions US$)

Year	Exports	Imports	Trade Balance	Total Trade
2010	222	709.8	-487.8	931.8
2011*	367	1,044.30	-677.3	1,411.30
2012**	459.4	1,065.60	-911	1,524.90

Sources: Ministry of Commerce & Industry, BIVAC Liberia, Ministry of Lands, Mines & Energy and Firestone Liberia
**Revised*
*** Preliminary*

Chart 9: Exports, Imports & Trade Balance (2010 – 2012) (In Millions US$)



3.6.3 Merchandise Exports

Aggregate export receipts grew during the year by US$92.4 million or 25.2 percent to US$459.4 million at end-November, 2012, from US$367.0 million reported at the close of 2011. The growth in export earnings was mainly attributed to increased transshipment of Iron Ore and round logs, improved infrastructure as well as gradual recovery of the extractive sector in the economy. Other commodities that also contributed to the expansion were gold and Other commodities category.

Iron ore was one of the biggest export earners during the year accounting for 25.5 percent of overall receipts. Compared with the preceding year, Iron Ore exports expanded significantly by five-folds to an estimated US$117.1 million, up from US$22.2 million of 2011. The rise was solely influenced by increase mining activities by a major mining company. The increased activities in mineral development by three other multibillion dollars concession companies indicate a positive medium term outlook in the iron ore sub-sector of the country.

Rubber products remained one of the traditional sources of export earnings, despite its poor performance during the year with a slowdown by 31.6 percent. Total receipts declined to US$154.6 million at the close of December, 2012, from US$226.1 million recorded during the previous year. The decline in export earnings of the commodity was driven by slump in the world prices of Rubber coupled with a fall in production by a dominant rubber company. Rubber accounts for 33.7 percent of total export receipts in 2012.

Round logs recorded increased receipts, to US$48.3 million in 2012 against US$21.3 million reported at end-December, 2011. As a ratio to total export, round logs proceeds accounted for 10.5 percent. The increase in the number of concession companies operating in the sector was the main driver for the growth in export receipts from the commodity.

Proceeds from gold also rose to US$26.3 million in 2012, from US$17.2 million at the close of December, 2011, representing a growth rate of 52.9 percent. Increased world prices of gold were the attributing factors that led to the expansion in receipts from the commodity.

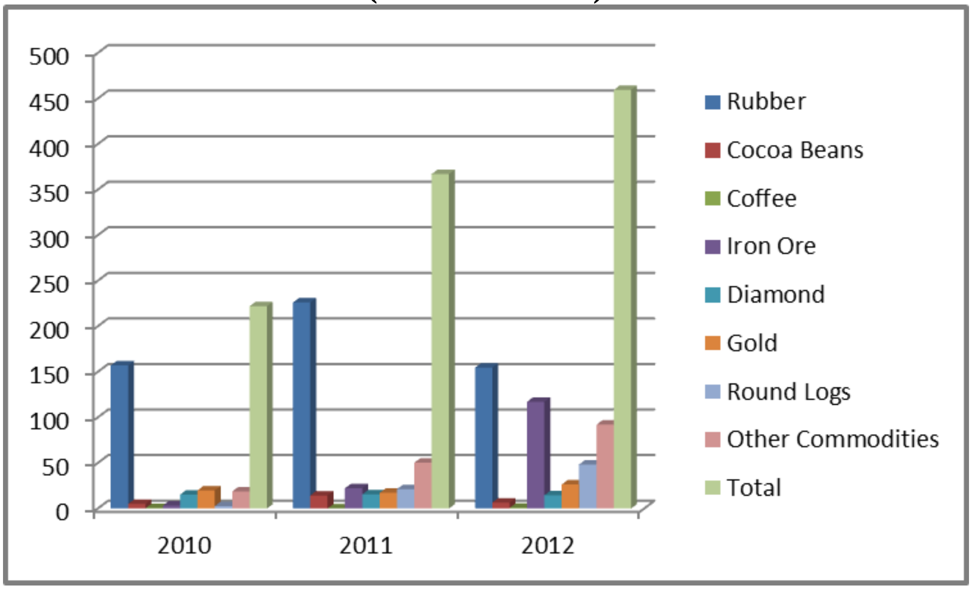
Contribution of gold to overall export receipts was 5.7 percent. Increased earnings were also recorded for “Other commodities” category, rising to US$92.0 million at end-December, 2012, from US$50.4 million for the previous year. Commodities included in this basket are mainly non-traditional exports such as scrap metals, palm oil, among others. It constituted about 20.0 percent of overall export receipts.

Table 15: Commodity Composition of Exports
(2010 – 2012)
(In Millions US$)

Commodity Composition of Exports	2010	2011*	2012**
Rubber	157	226.1	154.6
Cocoa Beans	5	14.3	6.6
Coffee	0.3	0.1	0.8
Iron Ore	3.1	22.2	117.1
Diamond	15.3	15.4	14.5
Gold	19.8	17.2	26.3
Round Logs	2.7	21.3	48.3
Other Commodities	18.8	50.4	92
Total	222	367	459.4

Sources: Ministry of Commerce & Industry, Ministry of Lands, Mines & Energy and Firestone Liberia
****Revised   ** Preliminary***

Chart 10: Commodity Composition of Exports
(2010 – 2012)
(In Millions US$)



3.6.4 Merchandise Imports

During the year, 2012, the total value of imports was estimated at US$1,065.6 million, up from US$1,044.2 million recorded in 2011, an increase of 2.0 percent. The slight increase in import payments during the review year was largely driven by Machinery & Transport Equipment and Petroleum Products which rose by 23.9 and 18.4 percent, respectively.

The total import bills for Manufactured Goods Classified chiefly by Materials grew by 14.5 percent over the year to US$107.7 million, from US$94.1 million of 2011. This was on account of worldwide price increase for capital goods coupled with robust investment activities currently taking place in the country.

Payments for Machinery & Transport equipment were also on the rise in 2012; increasing by 5.8 percent to US$265.4 million, from US$250.9 million registered in 2011. The increase was influenced by expansion in private investment in the mining and construction subsectors. Import bills for petroleum products also increased in 2012, from US$216.9 million, to US$235.7 million, an 8.7 percent increase. The growth in expenditure on this category was due to rise in the world market price of the commodity during the year.

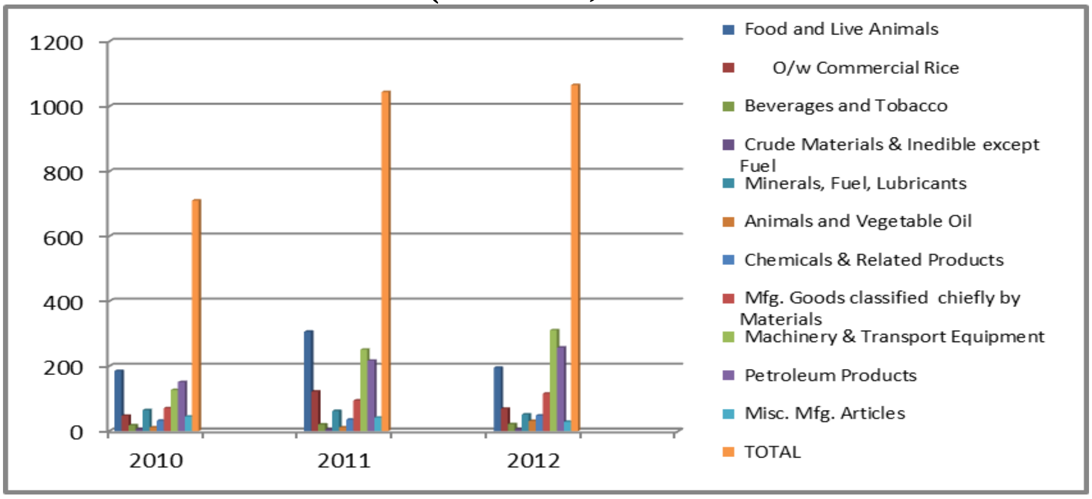
In contrast to the preceding, decline in payments was recorded in other categories. The decline in Import expenditures on Food & Live Animals were partly due to fall in the prices for commercial rice. Similarly, there were declines recorded in payments for Minerals, Fuel & Lubricants, 17.4 percent and Miscellaneous Manufactured Articles, 30.6 percent.

Table 16: Commodity Composition of Imports
(2010 – 2012)
(In Millions US$)

Commodity Composition of Imports	2010	2011*	2012**
Food and Live Animals	185.4	306.1	195.34
O/w Commercial Rice	47.3	121.8	68.83
Beverages and Tobacco	17.6	20.4	21.45
Crude Materials & Inedible except Fuel	6	5.4	6.28
Minerals, Fuel, Lubricants	64.5	62	51.18
Animals and Vegetable Oil	11.5	11.5	31.33
Chemicals & Related Products	31.8	35.4	48.04
Mfg. Goods classified chiefly by Materials	70.7	94.1	115.41
Machinery & Transport Equipment	126.7	250.9	310.86
Petroleum Products	150.8	216.9	256.93
Misc. Mfg. Articles	44.8	41.5	28.76
TOTAL	**709.8**	**1,044.20**	**1,065.58**

Sources: Ministry of Commerce & Industry, BIVAC Liberia,
****Revised ** Preliminary***

Chart 11: Commodity Composition of Imports (2010 – 2012) (In Millions, US$



3.6.5 Exchange Rate Developments

The average exchange rate between the Liberian and the US dollars depreciated by 1.8 percent, to L$73.51/US$1.00 in 2012, compared with L$72.23/US$1.00 for 2011 (Table 17) as a result of rising demand for foreign exchange during the year; resulting from higher growth in business activities. However, in the 12-month period to end-December, 2012, the end-of-period exchange rate showed an appreciation against the US dollar, despite the upward pressure faced during the first half of the year. The Liberian dollar appreciated by 1.4 percent to L$72.50/US$1.00 at end-December, 2012, from L$73.50/US$1.00 at end-January, 2012. The appreciation was largely due to CBL's aggressive intervention in the foreign exchange market and prudent management of liquidity; thus, helping to ensure the attainment of broad exchange rate stability (Table 18; Chart 12).

Table 17: Market Exchange Rates: Liberian Dollars per US Dollar (2010 - 2012)

Market Rate	Dec-10	Dec-11	Dec-12
End-of-Period	71.50	72.50	72.50
Period Average	70.19	72.23	73.51

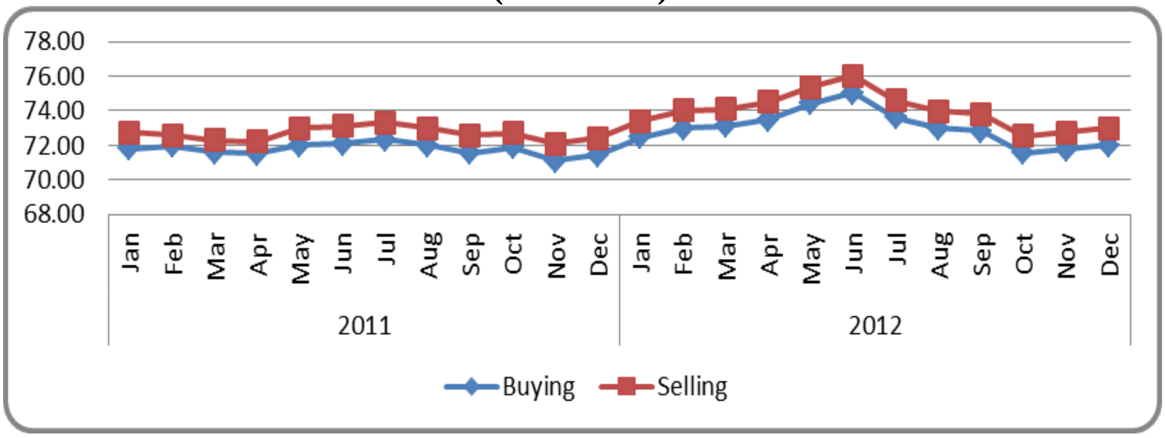
Source: Central Bank of Liberia, Monrovia, Liberia

Table 18: Monthly Averages of Buying and Selling Rates of Liberian Dollars per US Dollar
(2010 - 2012)

Period	2010		2011		2012	
	Buying	Selling	Buying	Selling	Buying	Selling
January	70.83	71.83	71.79	72.75	72.44	73.40
February	71.25	72.31	71.96	72.60	73.00	74.00
March	71.09	72.09	71.61	72.31	73.11	74.11
April	70.21	71.21	71.54	72.21	73.50	74.50
May	70.58	71.58	72.00	72.98	74.41	75.37
June	71.19	72.15	72.10	73.10	75.04	76.04
July	71.81	72.76	72.35	73.33	73.62	74.58
August	72.00	73.00	72.02	73.00	72.99	73.99
September	71.35	72.35	71.58	72.58	72.84	73.80
October	71.50	72.54	71.88	72.69	71.56	72.56
November	69.35	70.31	71.10	72.10	71.75	72.75
December	69.72	70.69	71.43	72.43	72.00	73.00

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 12: Monthly Averages of Buying and Selling Rates of Liberian Dollar per US Dollar
(2011 - 2012)



3.6.6 Remittances

Remittance inflows for the review period amounted to US$1,287.4 million, reflecting an increase of 2.1 percent compared with US$1,261.2 million reported for 2011. The growth was solely due to an expansion in service payments to US$379.4 million at-end November, 2012, from US$174.6 million recorded for 2011. This is the only category that recorded increase for the period. Compared with 2010, total inward remittances expanded by 31.3 percent, from US$980.5 million. A disaggregation of inward remittances by category reveals that workers' inward remittance accounted for the largest share of 35.7 percent; followed by service payment, 29.5 percent; exports, 22.8 percent; grants, 8.3percent; official transfers, 3.6 percent and loan, 0.02 percent.

Total outward remittances declined by 14.8 percent to US$1,160.2 million over the US$1,362.3 million reported during the preceding year. The slump was mainly on account of 33.9 percent reduction in import payments to US$657.6 million for the 11-month period, from US$994.2 million in 2011. A breakdown of total outflows indicates that import payments accounted for the highest portion of 56.7 percent; workers' outward remittances, 29.7 percent; service payments, 11.2 percent; official transfers outside of the economy, 2.4 percent; and loan payments of 0.05 percent (Table 19 & Chart 13).

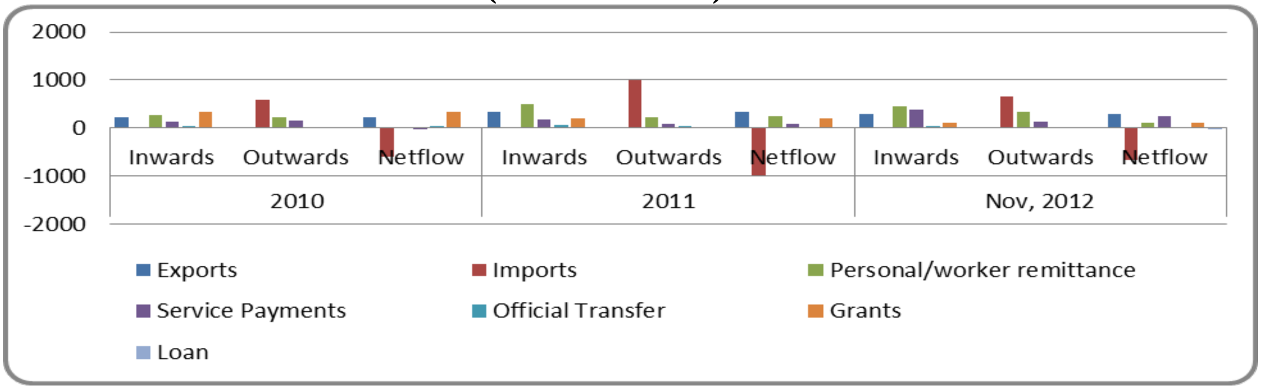
Remittance, being one of the major sources of foreign exchange for the economy, experienced higher inflows than outflows of foreign exchange during the period recorded; showing a net inflow of US$127.2 million in 2012, compared with a net outflow of US$101.1 million recorded for 2011.

Table 19: Remittances: Inflows and Outflows
(2010-November, 2012)
(In Millions US$)

	2010			2011			Nov, 2012		
	Inwards	**Outwards**	**Netflow**	**Inwards**	**Outwards**	**Netflow**	**Inwards**	**Outwards**	**Netflow**
Exports	214.0	0.0	214.0	328.6	0.0	328.6	294.0	0.0	294.0
Imports	0.0	599.7	-599.7	0.0	994.2	-994.2	0.0	657.6	-657.6
Personal Remittances	260.0	234.4	25.7	488.2	231.2	256.9	459.8	344.3	115.5
Service Payments	124.8	148.7	-23.8	174.6	87.6	87.0	379.4	129.6	249.8
Official Transfer	48.8	12.3	36.5	62.7	49.2	13.6	46.3	28.2	18.1
Grants	333.0	0.0	333.0	207.0	0.0	207.0	107.5	0.0	107.5
Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.5	-0.2
Total	**980.5**	**995.1**	**-14.5**	**1261.2**	**1362.3**	**-101.1**	**1,287.4**	**1,160.2**	**127.2**

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 13: Remittances: Inflows and Outflows
(2010-November, 2012)
(In Millions US$)



3.7 National Stock of Debt

Liberia's public debt stock at end-December, 2012 stood at US$579.2 million, indicating an increase of 7.7 percent relative to the level recorded at end-December, 2011, due to increases in both domestic and external obligations. The composition of the debt stock shows that external and domestic debts constituted 50.2 percent and 49.8 percent of the country's total public debt, respectively.

3.7.1 External Debt

Total external debt at end-December, 2012 stood at US$290.9 million, 12.8 percent higher than the level recorded at end-December, 2011. A disaggregation of external debt indicates that at end-December, 2012, multilateral and bilateral creditors accounted for US$157.1 (54.0 percent) and US$133.9 million (46.0 percent) of the country's external debt stock, respectively. Viewed against the corresponding period in 2011, multilateral debt expanded by US$34.1 million (27.7 percent), but bilateral debt shrank by US$0.9 million (0.7 percent), respectively.

3.7.2 Domestic Debt

The stock of Domestic debt amounted to US$288.3 million at end-December, 2012. Matched against the same period in 2011, it rose by US$8.3 million (3.0 percent), from US$280.0 million.

Debt obligation to financial institutions constituted the largest share of domestic debt stock. At end-December, 2012, domestic debt to financial institutions stood at US$280.5 million or

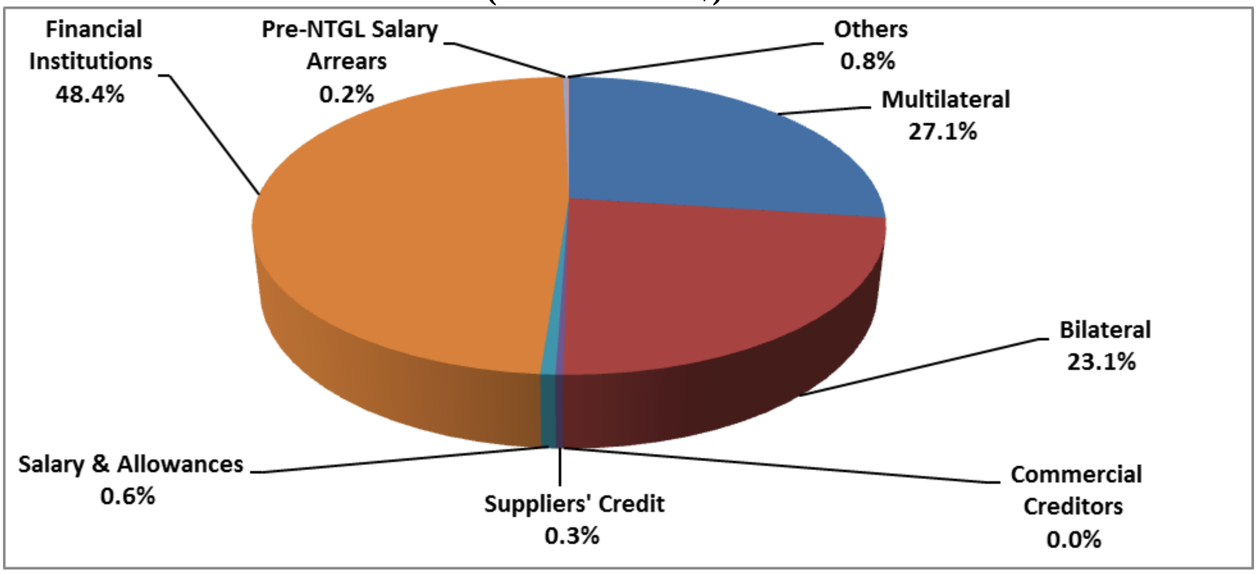
97.3 percent of the country's total domestic debt stock. It grew by US$11.4 million (4.2 percent), compared to the corresponding period in 2011. Suppliers' credit, salary & allowances, pre-NTGL salary arrears, and others accounted for US$1.9 million, US$3.7 million, US$1.3 million, and US$0.8 million, respectively.

Table 20: Liberia's Overall Debt Position
As At December 31, 2012
(In Millions US$)

Creditors	2010	2011	2012
Multilateral	98.9	123.0	157.1
Bilateral	123.4	134.8	133.9
Commercial Creditors	0.5	-	-
Total External Debt	**222.8**	**257.8**	**290.9**
Suppliers' Credit	5.6	2.2	1.9
Salary & Allowances	3.9	3.7	3.7
Financial Institutions	269.0	269.1	280.5
Pre- NTGL Salary Arrears	2.2	1.3	1.3
Others	0.2	3.7	0.8
Total Domestic Debt	**280.9**	**280.0**	**288.3**
Total Public Debt	**503.7**	**537.8**	**579.2**

Source: Ministry of Finance, Monrovia, Liberia.

Chart 14: Liberia's Overall Debt Position
At December 31, 2012
(In Millions US$)



CHAPTER IV
DEVELOPMENTS IN BANKS AND NON-BANK FINANCIAL INSTITUTIONS

4.1 Overview

The number of licensed and operating banks in the Liberian banking sector in 2012 remained 9 as was the case at end, 2011. However, bank branches' number around the country rose by 1, from 77 in 2011 to 78 in 2012.

The CBL, during the year, collaborated with the Liberia Bankers Association (LBA) in launching the third phase of the training program of the Banking Institute of Liberia (BIL) for commercial banks' staff, which brought together 54 participants from all of the commercial banks. The Bank also issued an official statement urging all delinquent borrowers with outstanding loan obligations that were past due for 180 days or more, to instantly contact banks that they are delinquent to in order to reach an agreement on the servicing of their obligations.

In 2012, the banking industry witnessed strong growth in its balance sheet, as total assets rose by 10.6 percent. Total capital and deposits grew by 5.8 percent and 7.5 percent, respectively. Liquidity for the sector remained strong during the year with 43.6 percent ratio, which is above the 15 percent minimum requirement.

The Bank, in collaboration with the Liberia National Police (LNP), commenced an enforcement exercise against illegal foreign exchange operators for several months in Monrovia and its environs as part of its efforts to reform the financial system. In 2012, the Board of Governors of the CBL endorsed the revised Insurance Reform Road Map which was issued earlier to insurance companies in 2011. The Bank also established a separate unit and mandated it to spearhead the process of payments system modernization in an effort of reducing transaction costs, eliminating risks and enhancing efficiency in the banking sector.

4.2 The Banking and Non-Bank Financial Systems

As was the case at the end of 2011, the Liberian banking sector is composed of 9 licensed and operating banks – the Liberian Bank for Development and Investment (LBDI); International Bank Liberia Limited (IBLL); Ecobank Liberia Limited (EBLL); the First International Bank

(FIBank); Global Bank Liberia Limited (GBLL); United Bank for Africa Liberia Limited (UBALL); Guaranty Trust Bank (GTB); AccessBank Liberia Limited (ABLL); and Afriland First Bank Liberia Limited (AFBLL).

During the course of the review period, the number of bank branches around the country increased by 1, from 77 in 2011 to 78 in 2012, as shown in the table below:

Table 21: Expansion of Banks Branches over 2011 and 2012

County	**Number of Branches**	
	2011	**2012**
Montserrado	47	46
Margibi	9	9
Grand Cape Mount	1	1
Grand Bassa	3	5
Sinoe	1	1
Maryland	4	4
Bong	2	2
Nimba	7	7
Lofa	2	2
Grand Gedeh	1	1
Total	**77**	**78**

This extensive level of branch network, in addition to promoting access to financial services by large segments of the population, creates several distinct advantages for the sector among which are: **e**conomies of scale, spreading of risk, diversification on deposits and assets, affordable remittance facilities, better facilities to customers, etc.

On the issue of financial inclusion and increasing access to finance, the CBL has made it a specific policy objective to broaden the scope of financial services through financial deepening that will promote greater resilience and capacity to cope with external shocks, enhance policy effectiveness, and support sustained growth. One of the measures identified by the CBL in this regard is the development of a lease financing industry as part of the financial sector, something which the CBL believes holds much potential to increase the growth and competitiveness of the local SME and agriculture sectors. The development of leasing as complementary tool to bank loans will provide an alternative solution for financing major capital investments such as equipment, and could significantly expand the available pool of medium and long-term capital to SMEs. It will allow smaller scale entrepreneurs to become economically active by enabling access to finance and, subsequently, access to income-producing assets. Additionally, leasing could be used to finance a broad range of equipment across the agro-business value chain, from simple tools to equipment for agro-processing and the food manufacturing business, thus facilitating increased food production and distribution. By strengthening the leasing sector, farmers and agro-business companies will find it easier to access term-equipment financing.

In order to promote competition and, consequently, efficiency in the sector, the CBL directed, and banks have begun implementation, that commercial banks should provide multiple money transfer services. This policy is intended to make money transfer services more convenient and affordable for the public, particularly the rural and low income population. Prior to the removal of exclusivity clause from international money transfer agreements, banks were providing only one transfer service, either Western Union or Money Gram.

With respect to capacity building in the sector, the CBL, in collaboration with the Liberia Bankers Association (LBA), launched the third phase of the series of training program of the Banking Institute of Liberia (BIL) for staff of commercial banks. This phase, which brought together a total of 54 participants representing the 9 commercial banks, was facilitated by the industry experts from both commercial banks and the Central Bank. Courses offered during the three-week training were Treasury Management Operations, Credit Risk Management, and Internal Audit & Compliance. Meanwhile, continuous efforts are being made by the LBA, in consultation with the CBL, for the transformation of the Institute into full-fledged institute that will not only enhance the performance of banks' staff but also provide training opportunity for local college graduates desirous of seeking employment in the banking sector. Since its inception, the BIL has trained 254 staff of commercial banks in diverse areas of banking.

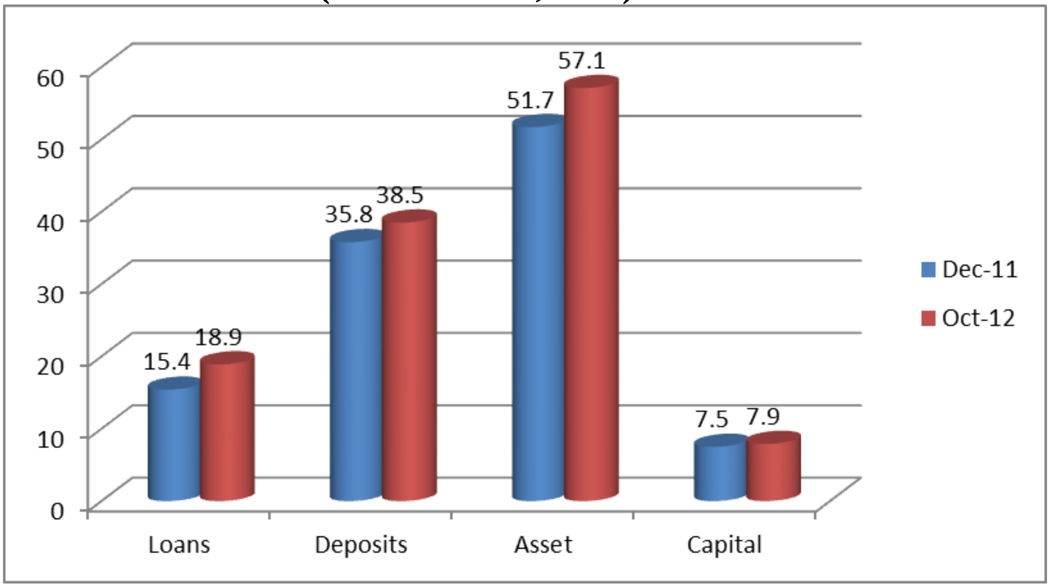
In an effort to address the problem of delinquent facilities in the banking sector, the CBL issued an official announcement urging all delinquent borrowers with outstanding loan obligations that are past due for 180 days or more as defined by CBL Prudential Regulation No. CBL/SD/004/2010, to immediately contact banks that they are delinquent to in order to reach an agreement on the servicing of their obligations. The CBL granted dispensation on the full payment of all accrued delinquent interests, as required by Section 3.15 of Prudential Regulation No. CBL/SD/007/2011, as a means of helping delinquent borrowers to establish a new debt servicing arrangement within the stipulated timeframe. Delinquent borrowers failing to comply with this dispensation face the risk of further actions from the CBL, including instruction to the banks not to do business with such borrower, such as making payments on their behalf, maintaining existing accounts or operating new accounts for them.

4.2.1 Balance Sheet of the Banking Sector

2012, like previous years, witnessed strong growth in the balance sheet of the banking industry. By the end of October 2012, total assets, compared to end-2011, had grown by 10.6 percent from L$51.7 billion to L$57.1 billion. Similarly, total loans and advances increased by 16.6 percent over the same period from L$16.2 billion to L$18.9 billion.

Additionally, total capital increased by 5.8 percent from L$7.5 billion to L$7.9 billion and deposits grew by 7.5 percent from L$35.8 billion to L$38.5 billion over the same period.

Chart 15: Balance Sheet of the Banking Sector
(As at October, 2012)



4.2.2 Financial Soundness Indicators

The table below shows key financial soundness and performance indicators of the banking sector for the year 2012 up to end-October. It evidences the fact that the sector is stable and contributing towards overall economic growth and development.

Table 22: Industry Financial Soundness Indicators (2011 & 2012)

	2011	**Oct-12**
(In Thousands L$)		
Gross Assets	51,650,228	57,108,087
Net Assets	49,703,913	53,998,846
Net Loans	14,321,134	16,594,383
Deposits	35,835,132	38,538,872
Reported Capital Net of Provisions	7,486,802	7,921,945
(In Percent)		
Reported Net Capitalization	15.1	13.7
Capital Adequacy Ratio	22.8	20.9
Classified Loans to Total Loans	24.3	27.1
Non-performing Loans to Total Loans	20.8	22.2
Provisions to Classified Loans Net of Interest in Suspense	45.1	46.2
Provisions to Non-performing Loans Net of Interest in Suspense (SSR 68)	53.2	54.4
Returns on Assets	-0.7	0.12
Returns on Equity	-4.7	0.9
Non-interest Income to Total Revenue	57.9	55.3
Net Interest Margin over Average Assets	7.2	6.2
Liquid Assets to Net Assets	54.0	51.8
Net Loans to Deposits	40.0	43.1
Liquidity Ratio	44.0	43.6

Source: Central Bank of Liberia, Monrovia, Liberia

As indicated in Table 22, the sector has a more than adequate capital position as shown by the two main capital measures – Capital Adequacy Ratio (CAR) and reported capital net of provisions. With respect to the CAR, the sector average for 2012 is 20.9 percent, slightly less than the 22.8 percent of 2011 due primarily to the growth in the loan portfolio. The CAR for 2012 exceeds the minimum required by 10.9percentage points. With respect to reported capital net of provisions, the sector recorded an average position for 2012 of US$12.14million, which exceeded the minimum requirement of US$10.0 million and represents an increase of 5.2 percent compared to 2011 average capital. Asset quality, on the other hand, witnessed a slight deterioration from 20.8 percent in 2011 to 22.2 percent in 2012.

Gross earnings for the period ended October 2012 stood at L$4.3 billion and net income for the same period was L$66 million, compared to a net loss position for 2011. ROE and ROA for the same period were 0.9 percent and 0.12 percent, respectively, compared to -4.7 percent and -0.7 percent, respectively, for 2011.

Liquidity, as has historically been the case for the sector, remained strong in 2012 with a ratio of 43.6percent, far in excess of the 15 percent minimum requirement. All of the banks were in excess of the 15percent minimum liquidity requirement and loan to deposit ratio for the industry was 43.1percent.

4.2.3 Developments in The Non-bank Financial Sector

4.2.3.1 Foreign Exchange Bureaux Operations

The CBL, in conjunction with the Liberia National Police (LNP), commenced the enforcement exercise against illegal foreign exchange operators. The exercise was conducted in Monrovia and its environs. The Bank, for several months, engaged foreign exchange operators in a bid to have them better organized and brought into the formal banking sector as part of efforts to reform the financial system. As a prelude to the enforcement exercise, the CBL and the LNP conducted a one-week sensitization and notification exercise to inform foreign exchangers on the importance and benefits they stand to gain as legally registered operators. As the result of this action, there has been a reduction in the number of illegal operators.

4.2.3.2 Insurance Sector

The insurance reform program, aimed at strengthening the legal, institutional, and regulatory framework of the sector is on-going and is part of the overall financial reform strategy of the Bank.

The Insurance Reform Road Map, which was earlier issued to insurance companies in September 2011, was revised and endorsed by the Board of Governors of the CBL for implementation. The Board's decision to revise the road map was motivated by regulatory flexibility and commitments made by the Chief Executive Officers of operating insurance companies to fully cooperate with the CBL in reforming the sector. The roadmap, which is being jointly implemented under the technical guidance of the First Initiative, an institutional partner of the World Bank, requires each insurance company operating in Liberia to comply with a number of requirements including: adequate capitalization, strong corporate governance structure, adequate risk management policies and adequate re-insurance cover. The deadline for meeting the above-mentioned requirements and other requirements of the road map is December 31, 2012. Only insurance companies that have fully complied with all the requirements of the road map on or/before the deadline will be licensed by the CBL to operate as legally recognized insurance company in Liberia. A number of companies have already made some appreciable strides in meeting some of the requirements.

Also during the period, the number of insurance companies that applied to the CBL's Registry increased by 10 companies, from 14 companies in 2011 to 24 companies in 2012. Similarly, the number of insurance brokers grew by 2, form 1 in 2011 to 3 in 2012.

As part of technical collaboration between the World Bank and the CBL regarding the insurance reform program, the CBL has benefitted from two technical missions by the First Initiative of the World Bank. The First technical mission, held in February 2012, exposed the technical team to challenges confronting the insurance sector including the lack of contemporary insurance laws and regulations. The second technical mission, held in October 2012, discussed key policy issues relevant to the drafting of a new Insurance Act to regulate and supervise the insurance sector of Liberia. As the result of these technical missions, the first draft of the new Insurance Act is expected in the first quarter of 2013.

4.3 Developments in the Payments System

A modernized National Payments System is critical to the development of our economy through the associated benefits of reducing transaction costs, eliminating risks and enhancing efficiency in the banking sector. In this regard, the African Development Bank (AfDB) has provided funding support for the modernization of the payments system in Liberia as part of a regional project in some member countries of the West Africa Monetary Zone (WAMZ). The modernization of the payments system is being implemented through the West African Monetary Institute (WAMI) in 4 selected countries in West Africa: The Gambia, Guinea, Sierra Leone and Liberia.

The objective of the project is to improve payments system through the installation of network infrastructure and electronic operating systems including the Real Time Gross Settlement System (RTGS), Automated Clearing House (ACH), Automated Check Processing (ACP), and Scripless Securities Settlement System (SSS) in the 4 countries' central banks. The improvement of the payments system is expected to contribute in the short term to facilitating trade, financial intermediation and access to financial services. In the long term, it will lead to promoting the financial integration of the 6 member countries of the WAMZ: Nigeria, Ghana, the Gambia, Liberia, Sierra Leone and Guinea.

The Central Bank of Liberia (CBL) considers the modernization initiative as an important part of its financial sector reform and therefore has established a separate Unit and mandated it to spearhead the process. Additionally, the Unit has set up the appropriate institutional framework that will enable it to manage the system and carry out oversight functions when it becomes fully operational.

4.3.1 Upgrading the Payments System Infrastructure

The implementation of the modernization process commences with upgrading the physical infrastructure. The Infrastructure upgrade components include IT room and Energy Upgrade, Network Upgrade and reconfiguration, and Internet and MAN. The CBL, in partnership with the AfDB, began the process in 2011, which was continued during 2012 and is expected to be concluded at the end of 2013 with the completion of all of the infrastructure upgrade components.

4.3.2 The National Electronic Payments Switch

The CBL, as part of its overall payments system reform, is pursuing efforts to acquire an Electronic Payments Switch to co-exist with the Real Time Gross Settlement System (RTGS), Automated Clearing House (ACH), Automated Check Processing (ACP), and Scripless Securities Settlement System (SSS). The primary goal of this initiative is to provide efficient, reliable, secure and cost-effective interbank electronic funds transfer and clearing services to the Liberian banking industry that meets international standards. It is expected that acquiring and implementing a National Switch will obviate the need for individual banks to invest in a switch thereby avoiding huge technological cost. For those banks already connected to their own switch, the National Switch will enable the sharing of switching services and reduce switching cost. The Switch will enable customers of one bank to use their bank cards (debit, credit or prepaid) to transact business at ATMs of other banks and to purchase goods and services at any point of sales (POS) with different merchants. This initiative is also geared towards promoting financial inclusion, especially for the unbanked population through the introduction of other innovative financial products such as mobile money. The introduction of plastic payment instruments will enable the national switch to effectively contribute to encouraging less use of cash.

4.3.3 Enactment of the Payments System Act

During the year under review, the CBL also completed the drafting of a Payments System Act which is currently undergoing the Legislative process. Payments system legislation is an important aspect of the overall reform process intended to establish a legal and regulatory framework that is consistent with international best practice.

4.4 Outlook for the Banking Sector in 2013

The Liberian banking sector has made some progress over the past years towards stabilizing and growing. The sector has come a long way since the CBL embarked on its reform agenda a few years ago. The fulcrum of these reforms was:

1. Improving the financial viability of banks;
2. Improving the macroeconomic environment for banks;
3. Fostering greater participation of the private sector in banking;
4. Improving the financial health and competitive position of banks; and
5. Furthering operational flexibility and competition among financial institutions.

These were intended to enable the banking system transform itself into one characterized by openness, competition, and prudential and supervisory discipline. Consequently, they have led to remarkable changes in the banking sector. Today, Liberian banks are more technologically-oriented than they were in the past as branch banking and ATM networks have evolved to place banking services on a new path. Furthermore, competitive forces have led to the emergence of internet and mobile banking to allow for the attraction and retention of customers. The banking sector is also gearing up to embrace the Basel II regime to benchmark with the global standards, a collateral registry to improve operations in the system, and the adoption of International Financial Reporting Standards (IFRS) to improve market discipline. These factors, and many more, are driving up competition, which in turn are forcing banks to innovate, as evidenced by a wide variety of innovative products that were unavailable a few years ago.

Heading into 2013, Liberian banks face many challenges but also stand at the verge of tremendous opportunities given a favorable economic outlook for the country in general. However, to take advantage of these opportunities, they must begin to address the legitimate concerns of their stakeholders, and in particular, the public in respect of past errors. This will involve making thoughtful changes to the way their businesses are run and structured to ensure the safety of the financial system, prudent governance and risk management, and transparency and fairness in dealing with customers. At the same time banks must change their business models to ensure that they are fit and sustainable under our evolving regulatory framework.

While banks have improved the health of their balance sheets, they are still some way from achieving a model capable of producing robust and sustainable returns. There is still much to be done. It is not enough for the banking sector to be simply a provider of credit; it must also be a contributor to the growth of the Liberian economy. Indeed, the success of Liberia banks is inextricably linked to the growth and strength of the Liberian economy. Therefore, finding the right business models and balances between risk, stability and profit for a successful financial sector is the key challenge facing the industry for the year 2013 and going forward.

CHAPTER V
INTERNAL DEVELOPMENTS

5.1 Overview

The total number of staff of the Central Bank of Liberia stood at 325 at end-December 2012, compared with 246 at end-December 2011. Efforts aimed at staff capacity and skill development were intensified in several areas in the Bank.

During the year, the microfinance sector continued to expand. Nine new microfinance institutions were certificated by the CBL and the Bank began the process of active engagement with credit unions and village savings & loan associations (VSLAs). Also, a 3-year business and strategic plan for the Microfinance and Financial Inclusion Unit was completed.

To ensure efficiency within the financial system, the CBL extended on-line banking services to its external customers through the provision of electronic statements. This service, which was in the past only used by the Ministry of Finance and the commercial banks, was rolled out to all other Government ministries and agencies. Also, the CBL during the course of the year improved the quality of the Liberian dollar banknotes.

The CBL undertook to conduct Risk-Based Supervision (RBS) in place on the Compliance-Based Supervision. Pursuant to a Memorandum of Understanding (MOU) between the CBL and the Central Bank of Nigeria (CBN) in 2009, the two institutions conducted joint examinations of two subsidiaries of Nigerian banks operating in Liberia.

The Research, Policy and Planning Department (RPPD) undertook a number of economic research, aimed at making recommendations within the scope of the Bank's operations. On the monetary policy front, the RPPD regularly updated senior management on developments in the exchange rates and other macroeconomic fundamentals at the weekly policy review meetings.

The Bank's financial statements were for the fifth consecutive year prepared in accordance with International Financial Reporting Standards (IFRS). The statements are currently being audited by PricewaterhouseCoopers-Ghana, the Bank's external auditor.

The Internal Audit Department, in 2012, focused on risk assessment and provided independent, objective assurance and advisory services designed to enhance the Bank's operation.

5.2 Human Resources Management

The total number of staff of the Central Bank of Liberia stood at 325 at end-December 2012, compared with 246 at end-December 2011. The Bank recruited 107 personnel during the year. As part of the incentives to boost morale and enhance productivity, the Bank promoted a number of employees to various senior and middle level positions.

During the year under review, efforts at capacity building, through staff competency development and skills enhancement, were intensified. Consequently, the CBL sponsored staff training programs, including workshops, conferences, seminars and courses within and outside Liberia. A total of 70 member of staff benefitted from these training courses, workshops, and seminars, which included among others, training in Computable General Equilibrium Modelling (CGE), Budgeting and Budget Control, Financial Management, Specialized Report Writing and Presentation, Macroeconometric Modelling and Forecasting for Policy Analysis, Banknote and Currency Management, Human Resource Management, Risk-based Auditing, etc. The Bank also granted study leave to a number of its employees to pursue advanced degrees in Economic Policy Management, Development Economics and Applied Statistics.

5.3 Microfinance Activities

Prior to 2012, the approach to advancing financial inclusion in Liberia had been from the perspective of fostering microfinance activities through the provision of support and engagement with microfinance institutions. During the year, the microfinance sector continued to expand. Nine new microfinance institutions were certificated by the CBL; however, the CBL will work with these institutions to ensure the expansion of branches into the rural parts of the country. In this same regard, the Bank began the process of active engagement with credit unions and village savings & loan associations (VSLAs) given their service to rural community dwellers and ability to further deepen outreach in the counties.

Credit unions registered with the CBL at the beginning of the year were 69 and at end-December, 2012, 220 credit unions completed registration in all of the 15 counties. On the VSLAs front, CBL commenced the process of identifying VSLAs in the country as there is currently no national apex structure. It also implemented an expansion program during the year in conjunction with the UNWomen Joint Program on Gender Equity and Women Economic Empowerment, creating 141 new VSLA groups in 12 counties impacting 3,505 women. By year end, VSLAs existed in all of the 15 counties.

Through consultancy services, a number of other key activities were implemented. A gender baseline supply study for microfinance in Liberia was conducted in Nimba, Grand Cape Mount, Bong, Rivercess, and Montserrado Counties. Also, a 3-year business and strategic plan for the Microfinance and Financial Inclusion Unit was completed. Some aspects of the plan are currently under implementation

Significant strives continue to be made in exploring opportunities for the expansion of mobile money in Liberia. During the year, CBL hosted a Joint Mission of the UN Capital Development Fund and the International Finance Corporation to assess the opportunity for technical capacity to expand mobile money. As a prelude, CBL conducted a nationwide assessment of Lonestar's mobile money operations to identify the challenges and constraints faced in their operations.

5.3.1 Sector Development

A number of key activities were implemented during the course of the year aimed at enhancing the financial infrastructure of the sub-sector. These included the revitalization of the apex organizations for microfinance institutions and credit unions.

Regarding the revitalization of the Credit Union Movement, the CBL commenced the process of working with existing credit unions around the country to reconstitute the apex organization, the Liberia Credit Union National Association (LCUNA). The CBL hosted a number of workshops and convened the first post-war general assembly in May, 2012. The result of that assembly was the adoption of a new constitution and the election of a Board of Directors for LCUNA.

On the reactivation of the Liberia Microfinance Network, the CBL convened a workshop of the microfinance sector to reactivate the apex organization of the sector, the Liberia Microfinance Network. The reorganization of the network was important for the revitalization and strengthening of the sector. Elections were held for a new corps of officers and a workshop was sponsored to facilitate the development of a code of ethics for the sector.

A number of workshops were held during the period, including Strategic, Business Planning and Risk Management for members of the board of directors, managing directors, branch managers and staff of credit unions and microfinance institutions.

5.3.2 Donor/Stakeholders Engagement

A monthly financial inclusion public forum was launched in 2012. The forum was held every last Friday of the month and brought together financial inclusion stakeholder to discuss topics essential to the advancement of financial inclusion in Liberia.

The World Council of Credit Unions (WOCCU) was invited to Liberia by the CBL to do an assessment of the credit union sector. Based on that assessment, the CBL worked with WOCCU to enable them to submit an application for the country under the Micro Lead Program of the UN Capital Development Fund to support and reinforce the credit union sector through the development of 4 regional credit unions and the strengthening of LCUNA with the ultimate objective of increasing access to finance in rural Liberia. The application was approved by UNCDF for a total of US$2.5 million over a 4-year period.

The CBL submitted a funding request to Alliance for Financial Inclusion (AFI) to update the National Strategy to include a road map to advance financial inclusion in Liberia. The funding request which has been approved, will include activities such as an assessment of the current state of financial inclusion supported by a credible nationwide survey that collects financial inclusion indicators; the crafting of a national document that provides a roadmap for implementation of programs that is accepted and validated by all key stakeholders; and the development of a financial inclusion database. With the development of an updated national strategy for financial inclusion and the creation of key stakeholders' roundtable, the CBL will be well equipped to spearhead a coordinated effort to improve the state of financial inclusion in the country.

5.3.3 Improving the Regulatory Environment

The CBL, in conjunction with ACDI/VOCA, a consultant was recruited to develop a draft policy and supervisory framework for credit unions in Liberia. The document provides the framework for the licensing and supervision of financial credit unions and it ensures an orderly development of the credit union sector as a critical step towards creating alternative and affordable financial services.

During the year, the CBL completed a 3-year business and strategic plan, with the intention to outline a road-map for the long term strategy of the unit.

5.3.4 Creating Opportunities for Access to Finance

During the course of the year, CBL continued to support private sector opportunities. The US$5.0 million Credit Stimulus Initiative Program for Liberian-owned small and medium size enterprises continued and a grant of US$200,000.0 was provided to the Liberia Business Association (LIBA) to build the capacity of the institutions.

A number of new initiatives were launched by the Central Bank during the course of the year. The Loan Extension and Availability Facility –LEAF, a L$200.0 million program designed and launched in continuation of one of CBL's access to finance initiatives. The program was intended to provide soft-loans to microfinance institutions, credit unions and village savings & loan associations. The program provided loans to these institutions for a 3-year period at only 3.0 percent to facilitate onward lending to their clients and members. Loan funds were provided in 2 rounds of call-for-proposals.

Also, the US$10.0 million CBL Mortgage Stimulus Initiative was launched during the year, a program intended to provide, for the first time in Liberia, the opportunity for Liberians to access loans for home ownership. Following the launch of the mortgage program, a US$7.0

million Agricultural Stimulus Initiative was also launched to help provide access to finance to the agriculture sector. This is an opportunity to make medium- to long-term credit facilities to farmers in order to stimulate private investment in the agricultural sector and create employment.

In helping to strengthen capacity building, an Access to Finance Conference was held in Fish town, Rivergee County. The 1-day conference organized by the CBL was hosted in conjunction with the Rivergee County Economic and Business development Trust (GEE-TRUST).

5.4 Banking Operations

The Central Bank of Liberia, in its quest to ensure efficiency within the financial system of the country, extended on-line banking services to its external customers through the provision of electronic statements. This service, which was in the past only used by the Ministry of Finance and the commercial banks, was rolled out to all other Government ministries and agencies. These statements enhance prudent financial management and discipline by owners of accounts with the CBL.

In another development, the CBL during the course of the year as part of its currency management strategy improved the quality of the paper used to manufacture the Liberian dollar banknotes. With this improvement in the quality of paper, the banknotes' resistance to water has increased, thus adding to its durability. The improved banknotes were put into circulation. The CBL conducted a nation-wide awareness campaign to inform the public of the improved quality banknotes.

5.5 Supervisory and Regulatory Activities

Over the last few years, there have been significant developments in the financial services industry that have changed the nature of the risks faced by, and risk management practices of, financial institutions. For example, products have become more sophisticated, globalization has caused risks to become more systemic and certain financial institutions have experienced multiple and server stresses to their solvency and liquidity. Because of these, the CBL undertook to conduct Risk-Based Supervision (RBS) in place on the Compliance-Based

Supervision and that had been in use over the year. Key among the benefits of RBS is that it establishes common approaches to evaluate risk and that risk management in financial institutions is flexible enough to be applicable to all financial products and services and to all types of financial institutions from large to small.

Continuing in this direction, and as part of efforts to continually improve the supervisory landscape for licensed financial institutions, the CBL issued the Risk-Based Supervision Policy Framework, which contains the principles, concepts and core processes used by the CBL to guide its supervision of financial institutions. The main objective of the frame work, which sets out the CBL's approach to the Supervision of financial institutions, is to provide an effective and efficient process to access the safety and soundness of financial institutions. Additionally, the framework is intended to promote transparency regarding the supervisory processes of the CBL and provides a platform for the consistent application of supervisory methodologies across various institutions. These methodologies, which specify international expectations for banking supervision, are to be applied by CBL within the context of its mandate and the nature of the financial services industry in Liberia. The CBL has, consequently, completed the first cycle of risk based supervision covering all nine (9) licensed banks.

In an effort to overcome the challenges posed by implementing manually to a large extent its supervisory practices, the CBL has embarked on a project to automate and modernize its regulatory and supervisory processes. This will require the acquisition of a robust electronic financial reporting and surveillance software – Valtech Regulatory Compliance & Surveillance Software (V-RegCoSS) – which will not only enhance the regulatory and supervisory functions of the Bank on a real-time basis, but also support the ongoing efforts of the CBL to easily adopt international regulatory and supervisory standards, such as Basel II, the Basel Core Principles and standards applicable to other sub-sectors of the financial system. The adoption of the software will further facilitate the harmonization of the CBL's supervisory processes with the other member central banks of the West African sub-region and enhance effective cross-border supervision and surveillance of regional banking groups.

In keeping with its 2012 Policy Statement, the CBL has begun work on the establishment of a collateral registry and an upgrading of the credit reference system with the support of the International Finance Company (IFC). In this regard, some staff of the CBL concluded a study tour at the Bank of Ghana, the purpose of which was to study that country's collateral registry system with a view to introducing similar infrastructure to the Liberian banking landscape. The desire to develop a collateral registry is in response to the problems in Liberia's credit environment, which constrain lending to SMEs in particular and the economy as a whole. The expected collateral registry, in addition to promoting a consistent credit enforcement framework, will improve standards of disclosure of information by borrowers and lenders and prohibit certain negative credit practices. Under this new regime, apart from immovable properties, lenders will be encouraged to accept diverse movable properties as collaterals for credit and the mechanisms for enforcing credit agreements will be significantly improved.

Finally, pursuant to a Memorandum of Understanding signed between the Central Bank of Liberia (CBL) and the Central Bank of Nigeria (CBN) in 2009 and in keeping with the Charter of the College of Supervisors of the West African Monetary Zone (CSWAMZ), a joint examination team comprised of examiners from the CBL and the CBN conducted joint examinations of two subsidiaries of Nigerian banks operating in Liberia. The joint examination is one of the many initiatives of the WAMZ countries intended to foster effective supervision, monitoring and harmonization of financial legislations and regulatory practices across the region. The joint examinations which were risk focused, lasted for two weeks each and were focused on key risks areas such as market risk, operational risk, credit risk, interest rate risk, internal controls among others. The exercise, which commenced last year, has been very useful in not only promoting financial stability in the Zone, but also knowledge and experience sharing among supervisors across the Zone.

5.6 Research and Publications

During the year, the Research, Policy and Planning Department (RPPD) undertook a number of economic research, aimed at making recommendations within the scope of the Bank's operations. On the monetary policy front, the RPPD regularly updated senior management on developments in the exchange rates and other macroeconomic fundamentals at the weekly policy review meetings.

Relative to the research work, staff produced several short papers during the year such as "Note on Inflation (January 2011-January 2012)", "Choosing an Appropriate Exchange Rate Regime for Liberia" and " Discussion Note on Encouraging The Use of Coins"

As one of its main tasks, the RPPD prepared several periodical releases, namely the monthly factsheet, the bi-monthly Statistical Bulletin, the Quarterly Financial & Economic Bulletin, the Quarterly Newsletter; and the monthly Liquidity Monitoring Framework. In addition, the RPPD provided data on key macroeconomic variables on a monthly basis to the IMF and also responded to questionnaires from several regional and sub-regional institutions such as the West African Institute for Financial & Economic Management (WAIFEM); the West African Monetary Agency (WAMA); the African Development Bank (AfDB), among others. The RPPD (in collaboration with Liberia Institute of Statistics & Geo-Information Services, LISGIS) continued the monitoring of price developments through the regular collection and compilation of price statistics.

The RPPD continued the compilation of the monetary and financial statistics in accordance with the IMF's Monetary and Financial Statistics Manual 2001. The RPPD made a significant leap during the year by compiling balance of payments (BOP) statistics on a quarterly basis. It can be recalled that it was not until 2008 that CBL began the compilation of BOP statistics after a break of more than 20 years.

5.7 CBL Finances

The CBL's financial statements were for the fifth consecutive year prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are currently being audited by PricewaterhouseCoopers-Ghana, the Bank's external auditor. The 2012 statutory audit is expected to be conducted on scheduled, consistent with the provisions of Section 50 of the CBL Act.

5.7.1 Income and Expenditure

The CBL's un-audited Income Statement for the year ended 2012 showed that gross income summed to L$796.7 million compared with L$802.4 million in 2011, indicating a marginal decline of 0.7 percent. The decrease in gross income in 2012 was mainly due to decrease in fees and commission.

The gross income included interest income of L$590.9 million, fees and commission of L$152.9 million and other income of L$28.9 million.

A total of L$1,317.19 million was recorded as expenditure for the year under review, compared with L$1,178.11 million in 2011, representing an increase of 12 percent over the level in 2011. The rise in expenditure was on account of increased operating and capital expenditures resulting from the expanding activities of the Bank and the construction of CBL new building.

5.7.2 Financial Position

The unaudited financial statement of the CBL, exclusive of IMF related balances recorded total assets at L$45,338.23 million, compared with L$38,939.86 million in 2011, indicating a 16.0 percent rise due primarily to increases in cash balances with commercial banks, loans to the GoL and property, machinery and equipment. . Excluding the IMF, approximately 43 percent of total assets are represented by claims on the Government of Liberia. The CBL's un-audited total liabilities, excluding IMF related liabilities at year-end 2012 amounted to L$32,932.78 million compared with L$28,066.01 million in 2011. The rise in liabilities by L$4,866.77 million was largely due to increase in deposit from banks.

The CBL's un-audited total owners' equity at year-end 2012 was L$12,405.46 million compared with L$10,873.86 million in 2011, on account of increase in assets in 2012.

5.7.3 The Budget

The CBL implemented the 2012 budget as approved by the Board of Governors. The budget was based on interest income on loans and advances to GOL, interest on placements abroad as well as service fees and commission which were used as sources of income inflows to cover the Bank's operating expenses and other non-recurrent and capital expenditures.

The Bank net Foreign Reserves for the year ended December 31, 2012 was projected at US$318 million down from US$323.2 million in 2011. The decrease is due to CBL economic stimulus initiatives in some critical sectors of the Liberian Economy gear towards the creation of wealth and economic growth.

5.8 Risk Management and Internal Audit

As enshrined in the CBL Act of 1999 mandating the Internal Audit Department of the Central Bank of Liberia to audit the operational activities and accounts of the CBL on a continuous and regular basis, the Department, focused on the risks associated with these activities. The risks were assessed to determine the level of impact of these activities, which also determined the frequency of the audit conducted during the period under review. The Department also provided independent, objective assurance and advisory services designed to enhance the Bank's operation. In the same vein, the Internal Audit Department advised the Management to adopt and implement the Enterprise Risks Management framework (ERM), which is to serve as the basis for the risk based internal auditing. The adoption processes of the ERM are ongoing.

Internal Auditing, as noted in the Institute of Internal Auditors' (IIA) formal definition, is about 'adding value and improving an organization's operations'. Ensuring that value is added, the CBL's management consistent with staff training policy aimed at enhancing the capacity of its staff, afforded six staff of the Department a Study Tour at the Bank of Ghana Internal Audit Department intended to expose them to best practices of internal auditing.

5.9 Legal Services

The Bank accelerated its effort at strengthening the legal and regulatory framework, as well as enhancing the overall effectiveness of the financial system. Activities in this regard included: the sustained push for the enactment of the National Payments System Act; the drafting of the Anti-Money Laundering Law; the collaboration with stakeholders for the establishment of the Financial Intelligence Unit of Liberia. Also, the Legal Department drafted agreements, gave legal opinions and advised the Bank in respect of legal matters.

5.10 Communication with Stakeholders

The CBL continued its engagement with key stakeholders, including the Banking and Currency Committees of the National Legislature, the Bankers Association, the Liberia

Business Association, the Foreign Exchange Bureau Association, etc. In consolidating the gains made so far within the financial system, the CBL continued to engage the management of banks through regular consultations and meetings to ensure a safe and sound operating environment.

During the year under review, the Bank intensified its interactions with the public. These included, among others, addressing the Joint Session of the National Legislature on key macroeconomic issues and periodically informing the public through its various publications on developments within the Liberian financial sector and the global economy.

5.11 Central Bank of Liberia Community Outreach Initiatives in 2012

The Central Bank of Liberia in 2012, continued its broad range of support to Liberian businesses, microfinance institutions, and students, with a view to stimulating economic growth and helping to build and sustain human capital in the country. During the course of the year, the Bank made available over L$200 million to Microfinance institutions (MFI), Credit Unions and Village Savings and Loan Associations (VSLAs) throughout the country through the Loan Extension and Availability Facility (LEAF) as a means of boosting financial inclusion and enhancing output and employment; and US$10 million to Liberian owned businesses. Among beneficiaries of the latter initiative were local furniture makers, the Liberian Tailor and Textile Union, and the Liberia Business Association. Also, the CBL launched the agricultural stimulus package in the amount US$7.5 million. The aim of the stimulus is to boost domestic agricultural production.

Further, on November 13, 2012, the CBL launched a US$ 10 million mortgage stimulus package with the Liberia Bank for Development and Investment (LBDI) intended to give a boost to the housing sector in the country and to further strengthen the LBDI's original mandate providing development banking services throughout the country. The aim of the mortgage stimulus package is to provide funds to those at the lower end of the income scale to become permanent home owners as well as creating a viable middle class.
In its drive to enhance capacity building throughout the country, the CBL made a number of contributions to needy students during the year. On March 16, 2012, the Bank donated L$5.0

million to the University of Liberia Student Union (ULSU) Scholarship Fund Drive. Also, in September, 2012, the CBL contributed a total of L$1.0 million to the Scholarship Fund Drive in the Borough of New Kru Town.

CHAPTER VI
EXTERNAL RELATIONS

6.1 Overview

In 2012, the IMF mission visited Liberia to conduct reviews of the country's performance under the Extended Credit Facility (ECF), and noted significant achievements made by the Government in fiscal and monetary management. The CBL made progress with the World Bank through the FIRST Initiative Group in finalizing a strategy paper that will serve as the basis for the formation of a capital market in Liberia.

The CBL participated, and for the first time, jointly hosted a successful mid-year Statutory Meetings of the WAMZ with the Ministry of Finance in Monrovia from July 6-13, 2013. On August 30, 2012, the 36th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held in Algeria, and "Financial Inclusion in Africa" was approved as the theme for 2013.

6.2 International Monetary Fund and the World Bank

6.2.1 International Monetary Fund

IMF missions were in Liberia in March and October, 2012 to conduct reviews of Liberia's performance under the Extended Credit Facility. At the end of the combined seventh and eighth reviews, the Executive Board noted that since the last (Article IV) consultation with Liberia in December 2010, the Government of Liberia had taken steps to strengthen public financial management, leading to the doubling of government revenue, the resumption of direct budgetary support, and the initiation of significant infrastructure development projects. The IMF said that monetary policy in Liberia had been focused on accumulating reserves, which sizably outperformed expectations and that financial policies' thrust had been on strengthening the banking system and promoting intermediation. The Executive Board also observed that economic activity remained robust in 2012, with inflation moderating at or near single digits and the exchange rate remaining stable. Moreover, the Bank during the year received technical assistance in a number of areas, including risk-based supervision, stress testing, balance of payments, etc.

6.2.2 The World Bank

The CBL in 2012 collaborated with the International Finance Company (IFC) of the World Bank to develop lease financing industry in the country. Also, a capital market strategy paper was finalized by the FIRST Initiative Group of the World. The strategy paper will serve as a basis for the development of capital market in Liberia.

6.3 Regional and Sub-Regional Organizations

6.3.1 West African Monetary Zone (WAMZ)

During the year under review, the CBL participated in a series of meetings of regional institutions in Africa including those of the West African Monetary Zone (WAMZ). The WAMZ comprises a group of six countries that are working towards the creation of a single currency by the year 2015, holding everything constant.

The mid-year Statutory Meetings of the WAMZ were successfully hosted in Liberia from July 6-13 during the year under consideration. This was the first time for Liberia to host these meetings since it acceded to full membership of the WAMZ in February of 2010. The meetings were organized by the Central Bank of Liberia and the Ministry of Finance in collaboration with the West African Monetary Institute (WAMI). The purpose of the meetings, among others, was to review and discuss macroeconomic performance of member countries of the zone, especially the status of convergence and compliance with policy harmonization benchmarks as required under the single currency program of the WAMZ.

All of the member countries of the WAMZ, ECOWAS Commission and WAMI were represented at the meetings. The West African Institute for Financial and Economic Management (WAIFEM), West African Monetary Agency (WAMA), West African Bankers Association (WABA), the ECOWAS Parliament, Union Economique et Monetaire Ouest Africaine (UEMOA), Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and ECOWAS Bank for Investment and Development (EBID) also attended as observers.

During the 27th meeting of the Committee of Governors of Central Banks of the member states of the WAMZ, the Governors deliberated on the status of implementation of the WAMZ work program covering the last six months of 2011. The Report of the 33rd Meeting of the Technical Committee of the WAMZ formed the basis of the Governors' deliberations. According to the Report, assessment of Liberia's performance on the primary convergence scale revealed that the country fared better compared with some member countries within the WAMZ. At end-December 2011, Liberia complied with 3 out of 4 primary convergence criteria, satisfying (1) the budget deficit/GDP ratio (2) gross external reserves expressed in months of imports and (3) Central Bank financing of fiscal deficit, and missing the inflation criterion which has been within a single-digit threshold for the past 3 consecutive years. However, Liberia came back on track with a 7.1 percent rate of inflation at end-June 2012. On the secondary convergence scale, Liberia improved its performance, satisfying two (2) criteria at the close of 2011, compared with one (1) in 2010. At end of 2012, the country satisfied three (3) of the primary convergence criteria and one (1) secondary criterion.

Under the ECOWAS single currency program, member countries' macroeconomic performances are assessed on a biannual basis to gauge their levels of preparedness in the lead-up to a single currency for the West African Monetary Zone in 2015. During the July meetings, the Executive Governor of the Central Bank of Liberia, Dr. J. Mills Jones, was elected as Chairman of the Committee of Governors of the Central Banks of member countries of the WAMZ, taking over from the Governor of the Bank of Sierra Leone who chaired the Committee for the first half of 2012.

6.3.2 The College of Supervisors of the WAMZ

The Central Bank Governors also met and considered the report of the College of Supervisors of the WAMZ on the fringes of the ECOWAS institutions' meetings on July 12, 2012. The report based on the financial system stability in the zone identified the challenges of growing non-performing loans, excess liquidity in the banking system, high interest rates and expanding operational costs. The College proposed that WAMI should undertake a study to provide policy guide on increasing lending rates and wide interest rate spread in the region.

6.3.3 Association of African Central Banks (AACB)

The 36th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held in Algiers, Algeria, on August 30, 2012. The Assembly of Governors adopted the following reports: Report on the AACB Symposium, held on August

11, 2011 in Lilongwe, Malawi; Report on the 35th Ordinary Meeting of the AACB Assembly of Governors, held in Lilongwe, Malawi; Report on the Implementation of the African Monetary Cooperation Program (AMCP); Report on the Continental Seminar for 2012; Progress Report on the Community of African Banking Supervisors (CABS); Report on Contributions to the AACB's budget for the year 2012; Report on Accession to the Revised Statutes; and the Progress Report on the activities of the AUC-AACB Joint Committee. The Assembly of Governors approved the theme "Financial Inclusion in Africa: Financial Innovations Challenges for Monetary Policy and Financial Sector Stability" for the 2013 AACB Continental Seminar.