CENTRAL BANK OF LIBERIA
ANNUAL REPORT
2011

JANUARY 1, 2011

TO

DECEMBER 31, 2011

CENTRAL BANK OF LIBERIA

Office of the Executive Governor

January 26, 2012

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

Honorable Ladies and Gentlemen:

In accordance with part XI Section 49(1) of the Central Bank of Liberia (CBL) Act, 1999, I have the honor on behalf of the Board of Governors and Management of the Bank to submit, herewith, the Annual Report of the Central Bank of Liberia to the Legislature for the period January 1 to December 31, 2011.

Sincerely 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

TABLE OF CONTENTS

List of tables

List of Charts

Acronyms Used

AACB	-	Association of African Central Banks
ACH	-	Automated Clearing House
AfDB	-	African Development Bank
AFEBL	-	Association of Foreign Exchange Bureaux of Liberia
ATM	-	Automatic Teller Machines
BIL	-	Banking Institute of Liberia
BRC	-	Banking Reform Committee
CAR	-	Capital Adequacy Ratio
CBA	-	Core Banking Application
CBL	-	Central Bank of Liberia
CC	-	Compliance Committee
ECF	-	Extended Credit Facility
FDA	-	Forestry Development Authority
FDI	-	Foreign Direct Investment
FIA	-	Financial Institutions Act
FX	-	Foreign Exchange
GDP	-	Gross Domestic Product
GoL	-	Government of Liberia
GSM	-	Global System for Mobile Communications
IT	-	Information Technology
LBA	-	Liberia Bankers Association
LIFFE	-	London International Financial Futures Exchange (LIFFE)
LWSC	-	Liberia Water and Sewer Corporation
MAMN	-	Malawi Microfinance Network
MAN	-	Metropolitan Area Network
MMPRC	-	Money Management and Policy Review Committee

MOU	-	Memorandum of Understanding
MUSCCO	-	Malawi Union of Savings and Credit Cooperatives.
NPL	-	Non-Performing Loans
NPS	-	National Payments System
PAR	-	Portfolio At Risk
POS	-	Points of Sale
PSPSC	-	Payments System Project Steering Committee
PWC	-	Price Waterhouse Cooper
RBM	-	Reserve Bank of Malawi
ROA	-	Returns on Assets
ROE	-	Returns on Equity
RTGS	-	Real Time Gross Settlement
SACCA	-	Savings and Credit Cooperative Association
SDR	-	Special Drawing Rights
SMEs	-	Small Medium Enterprises
SOL	-	Single Obligor Limit
SSS	-	Scripless Securities Settlement
UNCDF	-	United Nations Capital Development Fund
USA	-	United States of America

FOREWORD BY THE EXECUTIVE GOVERNOR

The year 2011 was an eventful year for Liberia. The Liberian people took bold steps to consolidate the nation's young democracy, by successfully conducting the second consecutive presidential and legislative elections following a protracted civil war. Meanwhile, on the economic front, sound fiscal and monetary policies and institutional reforms contributed to strong economic growth of about 6.9 percent, with relatively low inflation. The foreign reserves position of the CBL also strengthened. It is also noteworthy that the banking system continued to show progress, increasing its contribution to the growth of the economy.

Having succeeded in restoring confidence to the banking system, the CBL in 2011 began implementing the second phase of its reform agenda. Work undertaken during the course of the year was geared towards improving intermediation so that credit is channeled towards productive investment; laying the building blocks for a modern payments system to support economic activities and reduce the cost of financial transactions; and intensifying background research to inform decisions regarding the establishment of a capital market. Steps were also taken aimed at reforming the insurance sector; putting in place the framework for enhancing the non-bank financial sector; and making the operations of foreign exchange bureaux a more integral part of the formal economy.

During the year, the CBL continued its focus on maintaining regulatory surveillance and effective prudential controls, while encouraging improved financial services and accessibility to financing for the benefit of the public. Towards that end, the Bank issued a revised Code of Ethics for the Supervision Department to guide the staff's relationship with the commercial banks; established a Consumer Protection Unit within the Regulation and Supervision Department to ensure that consumers are protected from unfair or unethical practices by financial services providers; and removed monopoly clauses in agreements between commercial banks and Money Transfer Organizations. Permission was given for banks to engage in Mobile Money Services in order to further extend financial services to the rural areas.

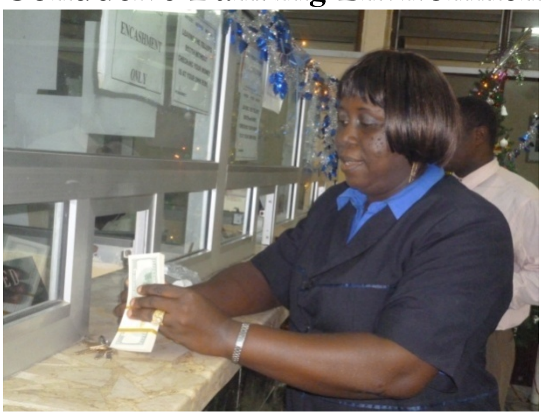
Looking forward, it can be said that a good foundation has been laid for the economy to continue with a healthy growth momentum over the medium term. However, greater attention must be given to addressing the unemployment issue, which entails, among others, giving added impetus to the Liberian business sector. In this connection, increased attention has to be given to initiatives that support *"the bricks and mortar of development"* – infrastructure, with emphasis on power and roads; agriculture rehabilitation and expansion; enhancing the country's manufacturing potential; and improved capacity building through both knowledge transfer and requisite technology and equipment. These are necessary for economic transformation, which is critical to bringing about more vibrant, broad-based endogenous economic growth.

The availability of affordable medium-to-long term credit to sectors of the economy underserved by commercial banks, but holding the potential for diversification, value addition and job creation for the low-skilled outside the enclave sectors remains a challenge. Sectors of the economy that require long gestation periods and carry investment risks, such as agriculture, have not been adequately served by commercial banks. Only 3.3 percent of total bank credit went to agriculture in 2011, whereas agriculture accounted for 41.3 percent of GDP. The CBL will continue to do what it can to enhance credit to the economy, learning from the experience of its Credit Stimulus Initiative for Liberian-owned SMEs, and is considering how additional medium-term resources for targeted lending can be provided. However, it must be recognized that help from the CBL in terms of providing such medium term funding can only be done within the confines of its limited resources. The Government and development partners also have an important role to play.

I conclude by thanking the Board of Governors, senior management and staff of the Bank for their continued support and commitment. I would also like to take this opportunity to express my thanks to the Government of Liberia, including the oversight committees of the Legislature, the banking community, and the general public for the support and encouragement received during the year.

J. Mills Jones
Executive Governor

HIGHLIGHTS

World Economy 	• The IMF projects the global economy to grow by 4.0 percent in 2011 and 2012. • Global inflation increased during the year due to rising energy and food prices, though core inflation fell.
Domestic Economy  	• The growth of the Liberian economy was projected at 6.9 percent in 2011. This level of growth is 1.4 percentage points above the revised growth rate in the previous year. • The rate of inflation has remained in single digit, averaging 8.5 percent at end – December, 2011, compared with 7.5 at end-December, 2010. • Average Core Inflation (Inflation excluding food and transport sub-groups) at end-December 2011 was 4.0 percent, down from 8.3 percent for the same period in 2010. • The country’s credit worthiness improved substantially owing to the debt relief in 2010. • Export earnings totaled US$295.2 million against total import payments of US$814.3 million at end-December, 2011, resulting into a trade deficit of US$519.1 million.
Conducive Banking Environment 	• As in 2010, the banking sector recorded strong growth in 2011. Total assets rose by 31.3 percent in 2011, compared with 2010. The liquidity position is also strong, standing at 44.0 percent at end-December 2011, 29.0 percentage points above the minimum requirement of 15.0 percent. • At end-December, 2011, the banking sector’s Capital Adequacy Ratio (CAR) was 22.8 percent, which is 12.8 percentage points higher than the threshold of 10.0 percent. • Gross earnings and operating profits of the industry rose by 20.4 percent and 24.9 percent, respectively, compared with end-December, 2010.

Exchange Rate Stability 	• The exchange rate of the Liberian dollar relative to the US dollar remained relatively stable at L$72.00 per US$1.00. The CBL intervened weekly in the foreign exchange market through its auction program. • The end-of-period exchange rate at end-December 2011, was L$72.50 per US dollar, while the period average stood at L$72.23 per dollar.
Performance in Meeting WAMZ Criteria 	• Liberia was the only country that met and sustained all 4 primary convergence criteria of the WAMZ.
Payments System 	• The CBL has embarked on a modernization program for the National Payments System (NPS) in order to bring the system in line with international standards for safety and efficiency. • As part of the modernization program, the CBL did a stocktaking report of the payments system and prepared a Retail Payment Strategy. These documents underpin the National Payments System Vision for Liberia.
Microfinance 	• The number of major microfinance institutions (MFIs) operating in the country increased to 8, from 7 in 2010, with a loan portfolio of US$9.9 million and a client base of 51,683 at end-September, 2011, from 53,556 during the same period of 2010. This represents a 3.5 percent decline due to write-offs associated with non-performing clients.

Reserve Position of the Bank 	• At end-December, 2011, the net foreign reserves position of the CBL was US$323.3 million, up from US$288.0 million at the end-December, 2010.
Treasury Operations 	• The CBL increased its work toward developing a blueprint for the roadmap of a capital market in Liberia. • In the face of the Bank's desire to employ additional monetary policy, a framework was developed to begin the issuance of CBL Notes.
The Non-Bank Financial Sector	• A number of steps were taken to reform the non-bank financial sector, including the insurance sector, the foreign exchange bureau operations, and specialized non-bank financial institutions.
CBL Finances 	• Total unaudited assets of the Central Bank of Liberia were recorded at L$43,712.2 million at end 2011, from L$34,346.3 million in 2010.

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; and
- Foster monetary, credit and financial conditions conducive to orderly, balanced and sustained economic growth and development.
- Provide sound economic and financial advice to the Government.

BOARD OF GOVERNORS
AS AT DECEMBER 31, 2011

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

John G. Bestman
Board Member

David K. Vinton
Board Member

Mildred Reeves
Board Member

Betty J. Saway
Board Member

CHAPTER I
GOVERNANCE AND ORGANIZATIONAL STRUCTURE

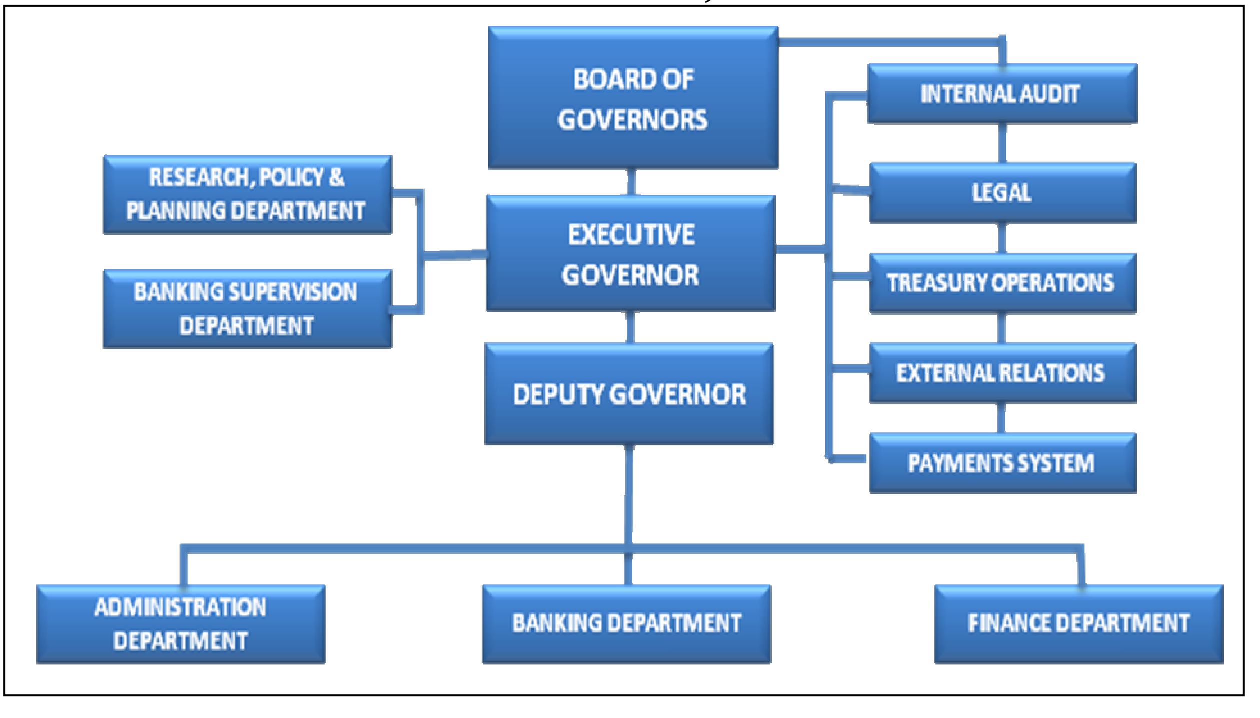
Introduction

The Act of the Central Bank of Liberia (CBL) provides that the Bank, within 30 days after the close of each financial year, submit to the Government and the Legislature an Annual Report which shall contain a report of its operations and affairs during that year, and a report on the state of the economy, which shall include information on the banking system, growth in monetary aggregates, financial market developments, balance of payments performance, and activities of the Central Bank.

1.1 The Board of Governors

The Board of Governors is the policy making arm of the Bank. The Executive Governor is the Chairman of the Board of Governors as well as the Chief Executive Officer of the Bank. The CBL Act makes provision for one Deputy Governor. The Bank currently has five Departments and five major sections, as indicated in the chart below:

Chart 1: Organizational Structure
As At December 31, 2011



Members of the Board of Governors and the Deputy Governor are appointed by the President of Liberia, subject to confirmation by the Liberian Senate. The Executive Governor and the Deputy Governor are appointed for a 5-year term each, and are eligible for reappointment once. The 4-non-Executive Governors are appointed on a staggered-term basis, and are also eligible for reappointment for a fixed period of 5 years.

The Board devises and pursues policies intended to (a) preserve the purchasing power of the national currency; (b) promote internal and external equilibrium in the national economy; (c) encourage the mobilization of domestic and foreign savings and their efficient allocation for productive economic activities; (d) facilitate the emergence of money and capital markets that are capable of responding to the needs of the national economy; and (e) foster monetary, credit and financial conditions conducive to orderly, balanced and sustained economic growth and development.

1.2 Committees of the Board

There are currently two 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

In accordance with its 2011 work program, the Board effected the following major policy decisions:

- approved the implementation of measures aimed at reforming the Foreign Exchange Bureau operations based on the following 3 key objectives: (1) encourage mergers and consolidation to create larger and sustainable foreign exchange bureaus; (2) modernize operations and activities of foreign exchange business; and (3) reform of the Association of the Foreign Exchange Bureaus of Liberia to ensure wider representation,
- approved the Interim Regulations for Non-Bank Financial Institutions to accommodate non-deposit taking activities,
- approved the Revised Regulation and Supervision Department Code of Ethics in line with the enhanced role of the Department in terms of its relationship with the commercial banks,
- amended the Regulation concerning Banking License to make it more comprehensive and relevant in keeping with contemporary international standards, including the Basel Core Principles,
- endorsed the establishment of a Consumer Protection Unit within the Regulation and Supervision Department to focus on insuring that customers are protected against unfair or unethical practices by financial service providers, and that applicable regulations are adhered to,
- approved a policy to remove the monopoly clauses in agreements between banks and Money Transfer Organizations,
- approved a policy for the Bank to intervene in the microfinance sector through the Investment Committee of the Financial Inclusion Project to enhance credit to micro businesses,
- approved the Guidelines for Mobile Money Services to further extend financial services to the non-banked public,
- authorized Management to develop the framework for the issuance of CBL Notes, and
- approved a policy to extend credit to micro businesses through the AFBLL, mainly to the agricultural sector.

1.4 Internal Committees

With the creation of the Payments System Project Steering Committee (PSPSC) in 2011, the number of internal committees rose to four: The other committees are the Money Management and Policy Review Committee (MMPRC), the Compliance Committee (CC), and the Banking Reform Committee (BRC). During the year under review, these committees carried out their respective responsibilities, with the MMPRC taking the lead role in deliberating on a number of policy and related issues. The CC discussed several issues relating to bank and non-bank financial institutions and appropriate actions were taken to ensure compliance with regulations and directives.

1.5 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 CBL 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.

1.6 Central Bank of Liberia Community Outreach Initiatives in 2011

In 2011, the Central Bank of Liberia undertook several community outreach initiatives. These endeavors were aimed at promoting education, creating employment opportunities, as well as rendering economic services in local communities.

The CBL awarded 115 scholarships to students of 3 local universities, awarded vacation jobs to 25 students, and supported the renovation of a building on the main campus of the Cuttington University College (CUC) in Suakoko, Bong County.

In its effort to support community development, the Bank provided funds to the Chocolate City Youth Association for the construction of a bridge that links that community to other communities.

Meanwhile, the Credit Stimulus Initiative launched by the CBL for Liberian-owned SMEs in January 2010 seems to be having the desired effect, encouraging a better maturity structure for loans to Liberian entrepreneurs and making the cost of credit more affordable. During the period under review, loans related to this initiative were disbursed to more than 29 Liberian-owned businesses at an average annual interest rate of about 6 percent with a minimum and maximum tenor of 12 and 60 months, respectively. These businesses cut across more than 10 industries that employ more than 2,600 persons, either as direct employees or independent contractors.

CHAPTER II
THE GLOBAL ECONOMY

2.1 World Economy

During the last half of 2011, the IMF announced that global economic output was to grow by 4.0 percent in both 2011 and 2012, down from 5.1 percent in 2010. Real GDP in industrialized countries was expected to grow by a modest 1.6 percent, lower than the 3.1 percent growth in 2010. Growth in the emerging and developing economies was projected to be around 6.4 percent in 2011, down from 7.3 percent in 2010.

As a result of the natural disaster in Japan, which affected the global supply chain, the IMF reduced its forecast for economic growth in the United States in 2011 to 1.5 percent, down from 2.5 percent in June. It also lowered growth prospects for 2012 for the United States to 1.8 percent, from 2.7 percent (Table 1).

The global economy continued to face a challenging environment towards the end of 2011, although the impact from the disruptions to the global supply chain emanating from the natural disasters in Japan had receded significantly. Manufacturing activity rebounded amid a firm recovery from global supply chain disruptions. In the latter part of the year, global economic activity continued to expand, but at a modest pace. However, in the advanced economies, growth continued to be hampered by high unemployment, a sluggish housing market and weakening perception of the global financial markets.

Table 1: Growth of Selected Global Output

			Projections	
	2009	2010	2011	2012
World Output	**-0.7**	**5.1**	4	4
Advanced Economies	-3.7	3.1	1.6	1.9
United States	-3.5	3	1.5	1.8
Euro Area	-4.3	1.8	1.6	1.1
Japan	-6.3	4	-0.5	2.3
United Kingdom	-4.9	1.4	1.1	1.6
Canada	-2.8	3.2	2.1	1.9
Emerging and Developing Economies	2.8	7.3	6.4	6.1
Sub-Saharan Africa	2.8	5.4	5.2	5.8
World Trade Volume (Goods & Services)	-10.7	12.8	7.5	5.8
Imports				
Advanced Economies	-12.4	11.7	5.9	4
Emerging and Developing Economies	-8	14.9	11.1	8.1
Exports				
Advanced Economies	-11.9	12.3	6.2	5.2
Emerging and Developing Economies	-7.7	13.6	9.4	7.8
Commodity Prices (US dollars)				
Oil	-36.3	27.9	30.6	-3.1
Non-fuel (average based on world commodity export weights)	-15.7	26.3	21.2	-4.7
Consumer Prices				
Advanced Economies	0.1	1.6	2.6	1.4
Emerging and Developing Economies	5.2	6.1	7.5	5.9

Source: IMF World Economic Outlook: September 2011

Economic growth in the United States (US) subsided from an annual rate of 2.75 percent in the second half of 2010 to 1.0 percent in the first 6 months of 2011. Even though the US economy was expected to slow, the fall was deeper than projected principally on account of the natural disasters in Japan. Also, household and business confidence plummeted and market volatility increased amid worries about the lukewarm recovery, the recent downgrade in the US sovereign credit rating, and the problems with sovereign debt in the euro area.

In the third quarter of 2011, growth of the US economy was sustained at 1.6 percent on a year-on-year basis. On a seasonally adjusted annualized basis, the US economy grew at a faster pace of 2.5 percent. Consumption spending in the United States rose, indicating resurgence in motor vehicle sales and a rise in services on account of a drawdown in personal savings. However, the pace of consumption spending remained modest due to a fall in real wage and financial net wealth.

Economic growth in the euro area slowed to 1.6 percent on a year-on-year basis, while on a quarterly basis, growth was sustained at 0.2 percent, spurred by a rebound in economic activity in Germany and France, the two biggest economies in the zone. Overall, growth in the region stayed modest due to weak domestic demand as private sector sentiments in both the core and peripheral economies were affected by the intensification of the sovereign debt crisis.

The IMF forecasts that real GDP growth in the euro area is expected to slow from an annual rate of 1.6 percent in the first half of 2011 to 0.25 percent in the second half, before rising to above 1.1 percent in 2012. The ongoing financial turbulence, according to the IMF, will be a drag on activity through lower confidence and financing, even as the negative effects of temporary factors such as high commodity prices and supply disruptions from the Japanese earthquake recede.

Asia economy grew as a result of the recovery in the global supply chain network. Regional exports were supported by demand from within Asia and other emerging economies, while commodity exporting economies continued to benefit from higher commodity prices. Domestic demand remained strong in the region as favorable labor market conditions and rising wages sustained private consumption.

In Africa, economies continued on an upward path of recovery, although the pace moderated and there were major variations among countries. Economic activity in general was buoyed by relatively high export commodity prices, notwithstanding the slowdown in global growth. In the North African region as a whole, growth slumped sharply during the first half of 2011, linked to the political turmoil and its aftermath in Tunisia, Libya, and Egypt. In the second quarter of 2011, economic activity in Tunisia began to demonstrate a U-turn recovery, strengthened by positive activity in local export-orientated industries. In Libya, where the political situation is still evolving, the recovery remains fragile and will depend on a number of factors, including how quickly oil production can be restored to pre-crisis levels. In South Africa, the brisk pace of 3.6 percent real GDP growth recorded in the first quarter of 2011 slowed in the second quarter to an annual rate of 3.2 percent. While activity in the tertiary sector expanded, real value added in the main producing sectors contracted notably. Activity in the manufacturing sector recorded a substantial contraction in the second quarter of 2011. Despite attractive international prices for mining commodities, mining activity declined.

The Sub-Saharan Africa (SSA) region has generally been posting impressive macroeconomic performance, with most of the countries already growing at rates close to their pre-crisis levels. The global slowdown has not significantly affected the region thus far, however, downside risks have emerged. Real economic activity in the region rose strongly in 2010 and the trend has continued in 2011, underpinned by robust private and public consumption. Real GDP growth is projected to hover around 5.3 percent to 5.8 percent during 2011-2012, albeit with significant differences across the region.

2.2 Global Inflation

Globally, the higher energy and food prices have pushed up headline inflation. However, core inflation, the measure of inflation that excludes food and energy prices, has remained low, although it has been creeping up. Higher food and energy prices have eroded real incomes of many of the world's poor. In Asia, food prices have risen by 10 percent. Furthermore, rising inflation is hampering efforts by some countries trying to protect consumers through subsidies and cash transfers. Governments in a number of developing countries, including North Africa and Western Asia, have stepped up subsidies in response to social and political unrest.

The IMF, in its World Economic Outlook released in September, indicated that inflation has been edging up, reflecting the sharp recovery of commodity prices. However, core inflation remains low in major advanced economies; by contrast, it has risen significantly, but now shows signs of moderating. With commodity prices forecast to stabilize, headline inflation can be expected to subside. In emerging market economies, underlying inflation pressure is likely to continue to stay elevated on account of strong economic activity and relatively low unemployment. During the first half of 2011, inflationary pressures in most African countries were exerted by rising prices for raw materials coupled with volatile oil prices.

2.3 Commodity Market

During the third quarter of 2011, many commodity prices fell, owing largely to higher interest rates in emerging markets and slower growth in advanced economies, especially in the USA. With the huge inflows over the last 3 years at risk of reversing, commodities could be under bearish pressure for some time.

2.3.1 Oil

Crude oil prices fell alongside equity markets as demand weakened in the aftermath of the US sovereign rating downgrade, continued euro-area debt concerns and weak economic data. The average weekly price of oil closed at US$110.33 at end of August, 2011, having risen by 17.0 percent, from the end-2010 price of US$94.28 per barrel. The end-August price indicated a price increase of 46.8 percent on an annualized basis.

2.3.2 Cocoa

Cocoa prices staged a modest recovery after being pressured throughout May. Lower cocoa prices observed in the second quarter can be attributed to the improved political environment in Cote d'Ivoire, coupled with good weather in both the Cote d'Ivoire and Ghana, which together account for over 60 percent of global output.

The London International Financial Futures Exchange (LIFFE) weekly average price in 2011 year opening was £2,039.00 per metric ton. For the first eight months of the year 2011, the average weekly LIFFE was reported at £1,986.60, compared with the average of £2,259.50 over the corresponding period in 2010. The end-August 2011 price of £1,910 represented a weakening of 1.8 percent on an annualized basis.

2.3.3 Gold

The price of gold posted an impressive performance during the second half of 2011; it stood above US$1,900.00 per ounce amidst mounting concerns that the global economy was faltering. Gold and Swiss Franc once again hit high record levels as investors poured money into an ever-narrowing range of 'safe' assets. For the first eight months of the year, gold price increased by 29.3 percent, from US$1,384.73 to US$1,790.00 per ounce, with some volatility over the period.

2.4 Global Financial Markets

Developments in the global financial markets during the year largely reflected significant downward revisions of market participants' expectations of growth in several developed economies. Equity prices dropped by 11.0 percent on average, with bigger falls in Europe and slightly smaller declines in emerging market economies. The downward expectations of growth led to heightened risk aversion, reflected in a sharp fall in equity markets, sudden reversal of capital flows from emerging market economies and the increased demand for liquid assets. There were a number of events that affected investor confidence. In August, heightened financial market volatility was due mainly to intensified concerns over fiscal issues in the USA, especially, the uncertainties surrounding the debt ceiling debate which eventually led to the downgrade of the US sovereign credit rating. In September, market confidence was affected by renewed concerns over a potential Greek sovereign debt default.

In spite of pronouncements by European leaders of a second bailout package for Greece in late July, financial markets remained highly volatile given uncertainties surrounding the plan and growing concerns over contagion risk to the other euro area economies. In particular, Italy and Spain experienced sovereign rating downgrades while their long-term bond yields rose to record highs. In October, global financial conditions slightly improved on investors' optimism that European leaders will agree on a comprehensive solution to the debt crisis, prompting a rebound in equity markets and a rise in the yields on Treasuries.

After trending higher in the course of 2010 on the back of the global recovery, major African equity markets have sagged since the start of 2011. South African share prices registered a high in mid-February, 2011, but subsequently fluctuated alongside declining prices in international equity markets. Other major African equity markets generally recorded a similar pattern. Between December 2010 and mid-September 2011, the stock index in Egypt lost around 21 percent; the Nigerian index was down by 18.4 percent; while the Kenyan index lost 14.0 percent over the same timeframe. In Tunisia, the stock market stabilized after relapsing sharply during the first quarter and recorded substantial gains between June and September, 2011.

2.5 Implication for Liberia

An unabated global economic slowdown and commodity price weakness could translate into reduced foreign direct investment flows to the country as well as the scaling down of aid on account of budgetary austerity in donor countries. With growth in Liberia in the short to medium term largely projected to be driven by resurgence in iron ore and timber exports, a sluggish global macroeconomic environment will have ramifications for government's revenue and ultimately public spending, which are key to the restoration of vital infrastructure.

CHAPTER III
DEVELOPMENTS IN THE LIBERIAN ECONOMY

3.1 GDP Performance

The growth of the Liberian economy was estimated at 6.9 percent in 2011, 1.4 percentage points higher than the revised rate of 5.5 percent in 2010. The performance of the economy was largely driven by the Agricultural sector through increased rubber production and the first post-war iron ore export during the last half of 2011. The growth outlook for the economy in 2012 is favourable, with a projected growth rate of 9.5 percent. A detailed sectoral analysis of GDP performance is presented below:

Table 2: Liberia: Sectoral Origin of Gross Domestic Product (GDP)
(1992 Constant Prices)
(2009 – 2011)
(In Millions US$)

Sector	**2009+**	**2010+**	**2011***	**2012****
Agriculture & Fisheries	228.1	236.7	247.7	254.6
Forestry	80.5	89.7	91.6	93.4
Mining & Panning	8.8	9.6	22.5	60.5
Manufacturing	54.3	56.0	57.8	59.6
Services	159.7	168.8	179.9	188.4
Real Gross Domestic Product	**531.4**	**561.0**	**599.5**	**656.4**

Sources: Liberian Authorities and IMF Staff estimates and projections
+Revised *Estimates **Projection

Table 3: Key Agricultural and Forestry Production
(2009-2011)

Commodity	**Unit**	**2009**	**2010**	**2011***
Rubber	MT	62,879.7	62,577	88,026
Cocoa Bean	MT	5,075.0	7,117	26,770
Coffee	MT	130.0	379	215
Round Logs	M^3	NA	7,251	74,208
Sawn Timber	PCS	826,094.6	543,793	382,334

Sources: Ministry of Commerce (MoC); Liberia Produce & Marketing Corporation (LPMC); Forestry Development Authority (FDA)
****Figures are estimates done by the CBL***

The production of rubber for 2011 was estimated at 88,026 metric tons, from 62,577 metric tons produced in 2010, reflecting a 40.7 percent increase. The growth in production was largely attributed to the global demand for the product and favourable weather condition (Table 3).

Output of Cocoa for the period was estimated to increase sharply to 26,770 metric tons, from 7,117 metric tons at end-2010. The marked increase was on account of the continuous rise in the rehabilitation of smallholders farms. However, coffee production fell to an estimated 215 metric tons, from 379 metric tons in 2010. The decline in output was mainly due to the ageing of most coffee trees.

Log production was estimated at 74,208 cubic meters in 2011, from 7,251 cubic meters in 2010. The increase in production was partly a direct outcome of growth in the number of companies engaged in logging activities. An estimated 382,334 pieces of sawn timber was produced in the reporting year, compared with 543,783 pieces in 2010, indicating a decline of 29.7 percent. The major factor responsible for the low production in sawn timber is the ongoing regulatory reform being put in place by the Forestry Development Authority (FDA) in the sector.

A total of 39,865 carats of diamond was mined at end-2011, 17,847 carats more than the previous year. The increase was largely driven by the global demand for the product as well as an increase in the number of local exporters (Table 4)

Table 4: Key Industrial Output
(2009 – 2011)

Commodity	**Unit**	**2009**	**2010**	**2011***
Cement	MT	70,584	71,733	60,764
Beverages	Liter	19,979,814	25,457,394	30,986,250
Paints	Liter	211,694	270,217	284,072
Candle	KG	323,200	578,844	473,383
Chlorox	Liter	529,396	662,285	816,152
Rubbing Alcohol	Liter	231,060	743,960	309,767
Mattresses	PCS	47,278	122,029	142,066
Gold	Ounce	16,859	21,402	15,092+
Diamond	Carat	36,828	22,018	39,865+
Finished Water	Gal	299,664,128	1,408,373,584	1,821,139,929

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

Gold output in 2011 declined to 15,092 ounces, from 21,402 ounces in 2010, reflecting a slump of 29.5 percent partly due to the increase in royalty fees to 3.0 percent, up from 2.0 percent.

Output of cement declined by 15.3 percent to 60,764 metric tons during the year, compared with 71,733 metric tons produced a year ago. The fall in cement output can be ascribed to the low local production and an increase in imported cement.

Production of beverages totalled 31.0 million liters at end-2011, up from 25.5 million liters at end-2010, representing an increase of 21.6 percent. The surge in beverages was mainly driven by the introduction of new beverages.

Output of paint during the year was estimated to increase by 13,855 gallons, from 270,217 gallons in 2010 to 284,072 gallons in 2011 due mainly to increase in construction activities. Candle output was projected at 473,383 kilograms in 2011, compared with 578,844 kilograms in 2010— a decline of 18.2 percent (Table 4). The reduction in candle production was mainly due to the behaviour of consumers shifting from the use of candle to fluorescence lights. Clorox production was estimated at 816,152 liters during 2011, compared with 662,285 liters produced in 2010, reflecting 23.2 percent increase. Production of mattresses registered an increase of 16.4 percent during the year under review, when matched against output of 2010. An estimated 142,066 pieces of mattresses were produced in 2011, compared with 122,029 pieces produced in the preceding year, given a new state-of-the-art technology in production.

Finished water supply in 2011 was estimated to increase by 0.4 billion gallons to 1.8 billion gallons, from 1.4 billion gallons in 2010, reflecting the expanded output of Liberia Water and Sewer Corporation (LWSC).

Inflation

Annual headline inflation for 2011 averaged 8.5 percent, up from 7.5 percent at end-December, 2010. The gradual build-up of inflationary pressure was driven mainly by food and transport. Domestic food inflation for 2011 surged to 17.0 percent, from 6.2 percent in the same period of 2010, on account of the poor state of farm-to-market roads in the country. Transport inflation rose from 4.7 percent at end-December, 2010 to 18.2 percent at end-December, 2011 due mainly to the increase in the price of petroleum products.

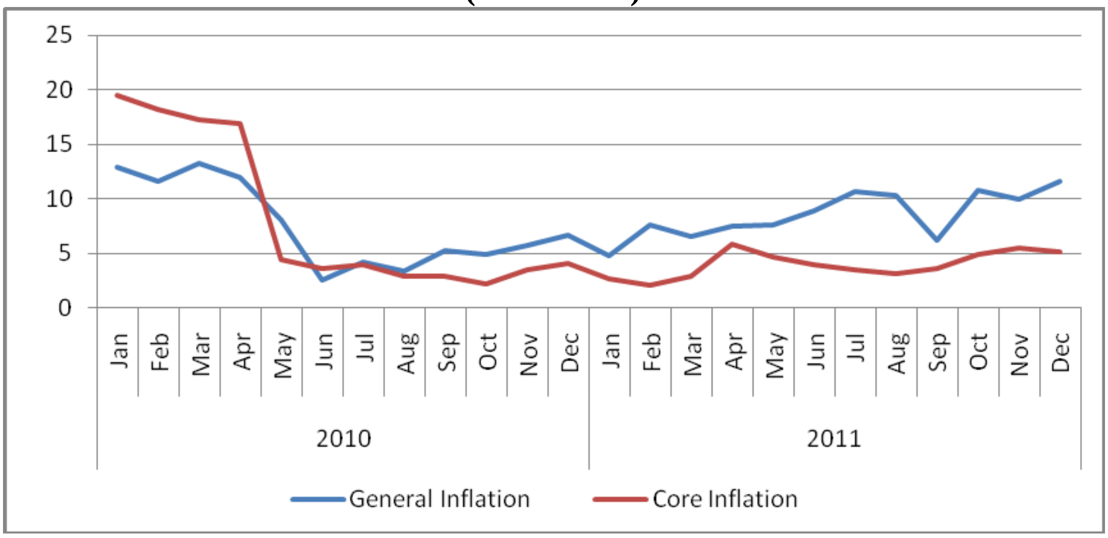
The average core inflation, defined as inflation excluding food and transport, dropped from 8.3 percent in 2010 to 4.0 percent at end-December, 2011 (Table 5).

Table 5: HCPI and Core Inflation
(In Percent)
(2010 – 2011)

Year	Inflation	Wgt.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave
2010	Headline	100	12.9	11.5	13.2	11.9	8	2.5	4.2	3.3	5.2	4.9	5.7	6.6	7.5
	Core	51.31	19.5	18.2	17.3	16.9	4.4	3.6	4	2.9	2.9	2.2	3.5	4.1	8.3
2011	Headline	100	4.7	7.5	6.5	7.4	7.6	8.8	10.6	10.3	6.2	10.7	9.9	11.5	8.5
	Core	51.31	2.7	2.1	2.9	5.9	4.7	4	3.5	3.2	3.6	4.9	5.5	5.2	4.0

Sources: LISGIS and CBL

Chart 2: HCPI and Core Inflation
(In Percent)
(2010 - 2011)



Inflationary pressure in 2012 is projected to remain in single digit around 7.0 percent. However, higher petroleum price, poor state of roads and higher price of food on the world market could present major downside risk to lower inflation and the attainment of single-digit inflation. World food prices have declined modestly from their highest recorded levels in recent months, even though they still remain higher compared with a year ago. The IMF food price index at end-October, 2011 was about 20.0 percent higher than the same quarter of 2010 and considerably above the average real price for the last ten years.

Table 6: Year-on-Year Rates of Inflation
(2009 – 2011)
(December, 2005 = 100)

	2009	**2010**	**2011**
January	6.4	12.9	4.7
February	7.0	11.5	7.5
March	6.9	13.2	6.5
April	7.8	11.9	7.4
May	7.7	8.0	7.6
June	7.6	2.5	8.8
July	7.3	4.2	10.6
August	4.9	3.3	10.3
September	8.0	5.2	6.2
October	8.2	4.9	10.7
November	7.8	5.7	9.9
December	9.7	6.6	11.5
Average Rate	**7.4**	**7.5**	**8.5**

Sources: Central Bank of Liberia and Liberia Institute for Statistics and Geo-Information Services (LISGIS)

Chart 3: Year-on-Year Rates of Inflation
(2010 – 2011)
(December, 2005 = 100)

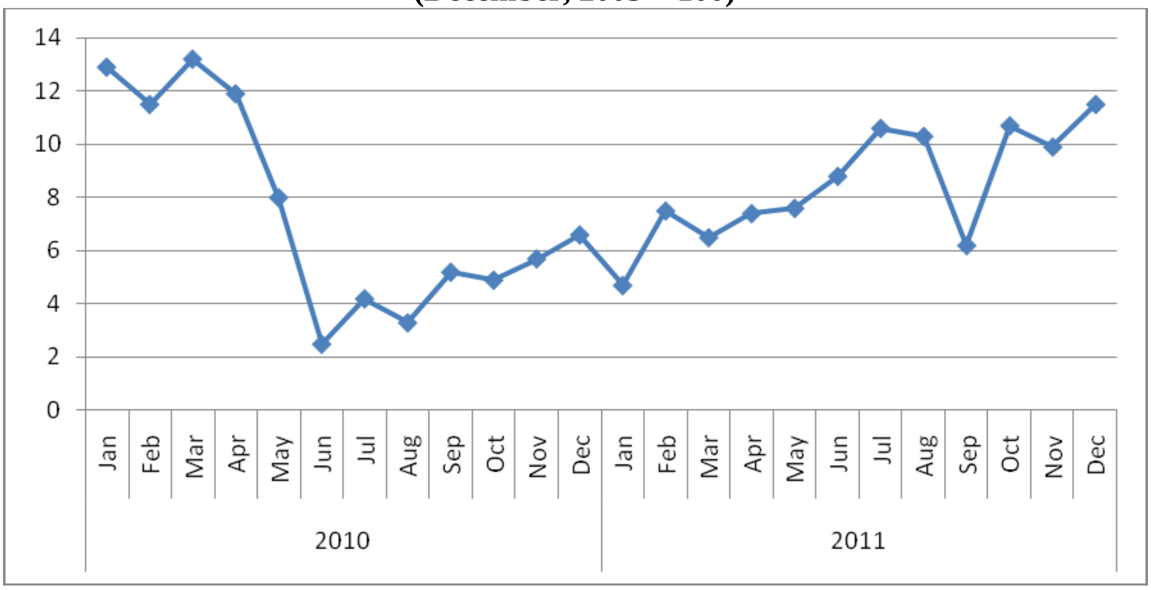


Table 7: Liberia: Harmonized Consumer Price Index (HCPI)
12 Month Percent Changes by Major Groups
(December 2005 =100)

MAJOR GROUP	WEIGHT	11-Jan	11-Feb	11-Mar	11-Apr	11-May	11-Jun	11-Jul	11-Aug	11-Sep	11-Oct	11-Nov	11.Dec
FOOD AND NON-ALCOHOLIC BEVERAGES	45.2	6.34	12.63	8.11	9.03	7.94	11.04	15.71	15.21	6.74	14.6	12.47	16.07
ALCOHOLIC BEVERAGES, TOBACCO AND NARCOTICS	3.03	12.86	9.58	10.59	10.92	8.9	8.42	9.4	10.81	12.49	12.26	8.23	8.83
CLOTHING AND FOOTWEAR	7.75	4.77	6.15	6.2	8.29	9.28	8.07	5.1	4.51	4.75	4.8	4.25	4.68
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	12	4.56	2.4	4.47	5.62	6.8	6.15	6.34	6.21	6.06	6.23	7.46	6.50
AND ROUTINE MAINTENANCE OF THE HOUSE	5.25	-3.5	-3.09	-2.68	-1.52	-0.56	-2.05	-0.32	-0.72	1.36	11.75	12.80	11.89
HEALTH	3.91	0	0	0	0	0	0	-0.32	-0.32	-0.32	-0.32	-0.32	0.00
TRANSPORT	6.11	6.27	6.27	19.74	20.61	24.42	24.44	20.08	20.02	19.44	19.37	19.04	17.67
COMMUNICATION	1.53	5.73	5.65	5.64	5.77	5.97	5.72	0.08	0	0.03	0.04	0.26	0.26
RECREATION AND CULTURE	3.85	1.1	0.92	2.78	6.3	6.82	6.17	5.05	4.83	4.65	4.2	4.85	4.83
EDUCATION	3.2	0	0	0	0	0	0	0	0	0	0	0.00	0.00
RESTAURANTS AND HOTELS	4.64	3.91	3.5	3.78	1.79	2.94	2.91	2.26	1.78	1.98	1.94	3.30	3.30
MISCELLANEOUS GOODS AND SERVICES	3.53	-1.83	-5.13	-3.76	-2.32	2.69	1.75	0.94	-0.26	0.18	-1.72	3.28	3.22
GENERAL RATES OF INFLATION	100	4.74	7.45	6.54	7.39	7.58	8.78	10.6	10.27	6.21	10.68	9.88	11.45
SPECIAL RATES OF INFLATION													
ALL IMPORTED ITEMS	41.73	3.09	5.4	4.82	7.67	7.31	7.98	9.96	8.05	4.91	11.29	8.96	11.82
ALL DOMESTIC ITEMS	58.27	5.92	8.94	7.8	7.19	7.76	9.35	11.06	11.86	7.13	10.26	10.52	11.19
IMPORTED FOOD ITEMS	23.87	2	5.5	3.94	6.81	5.9	7.59	12.08	9.12	3.98	14.37	10.94	15.75
DOMESTIC FOOD ITEMS	21.33	10.92	20.69	12.83	11.52	10.18	14.81	19.64	21.75	9.59	14.83	13.97	16.40
IMPORTED FUEL	2.14	16.21	16.96	23.27	33.43	33.23	34.73	34.07	33.85	31.47	31.08	29.75	23.87

Sources: Central Bank of Liberia and LISGIS

3.2 Money and Credit Developments

3.2.1 Monetary Policy Stance

The monetary policy stance of the CBL has remained the achievement of broad exchange rate stability for the attainment of low inflation in the Liberian economy. To this effect, and in the face of limited policy tools, the CBL uses the foreign exchange auction as the principal policy instrument available to influence domestic monetary condition. At the moment, modality is being worked out to introduce a treasury-bill market to increase the number of policy instruments available to the CBL. The CBL has already completed the operational framework for the commencement of the sale of Government of Liberia Treasury bills. The CBL is also contemplating issuing its own notes.

3.2.2 Monetary Aggregates

At end-November, 2011, Liberian dollars in circulation[1] amounted to L$6,534.0 million, representing an increase of 17.7 percent, from L$5,550.6 million at end-December, 2010. Of the total currency in circulation, currency outside banks accounted for 92.2 percent while currency in banks constituted 7.8 percent, indicative of the need for greater domestic saving mobilization by banks. The rise in Liberian dollars in circulation was driven by a 20.3 percent increase in currency outside banks, from L$5,007.9 million at end-December, 2010, to L$6,022.4 million at end-November, 2011. Meanwhile, currency in banks fell by 5.6 percent to L$512.4 million at end-November, 2011, from L$542.6 million at end-December, 2010, (Table 8 & Chart 4).

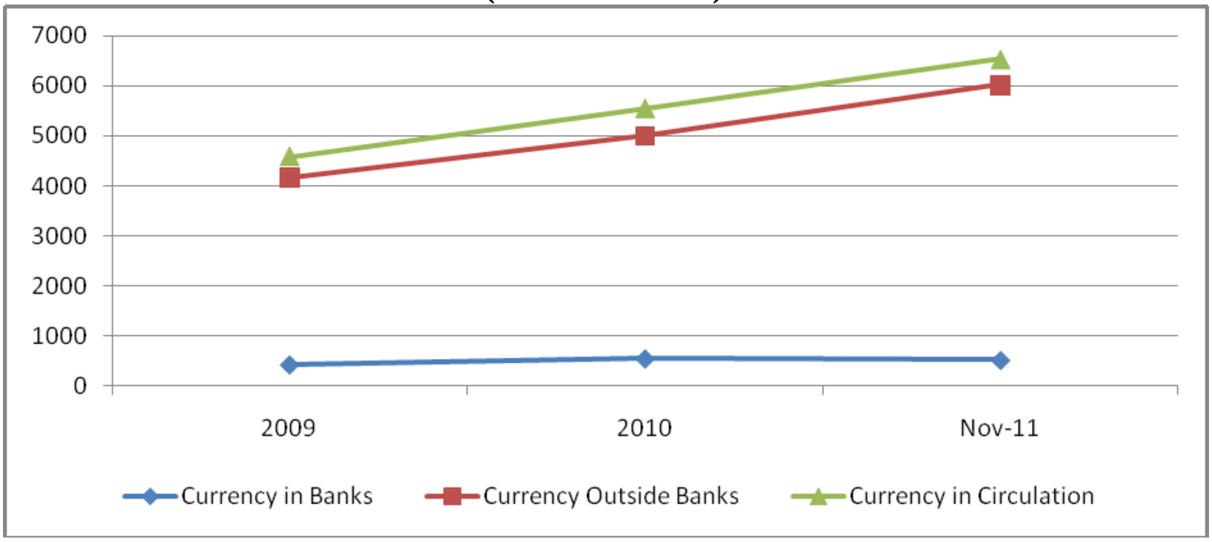
Table 8: Liberian Currency in Circulation
(2009-November, 2011)
(In Million of L$)

Period	Currency in Banks	Currency Outside Banks	Currency in Circulation
	(1)	(2)	(1) + (2) = (3)
End-December '09	421.6	4,161.8	4,583.4
End-December '10	542.6	5007.9	5,550.6
End-November '11	512.4	6,022.4	6,534.0

Source: Central Bank of Liberia, Monrovia, Liberia

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

Chart 4: Liberian Dollars in Circulation
(2009-November, 2011)
(In Million of L$)



In the 11-month period to November 2011, money supply (M1)[2] stood at L$28,148.7 million, representing a growth of 21.3 percent over the L$23,212.7 million reported at end-December, 2010. The expansion was driven by a 21.5 percent increase in demand deposits, from L$18,204.7 million at end-December, 2010 to L$22,126.3 million at end-November, 2011 and a 20.3 percent rise in currency outside banks, from L$5,007.9 million to L$6,022.4 million at end-November, 2011, (Table 9 & Chart 5). The expansion in money supply (M1) was in response to the need for liquidity in the system to facilitate the growing economic activities taking place in the economy.

Quasi Money[3] also rose by 47.9 percent, from L$7,891.2 million at end-December, 2010 to L$11,674.3 million at end-November, 2011. The growth in quasi money was on account of a L$2,976.4 million increase in savings deposits and a L$1,010.4 million surge in time deposits.

---

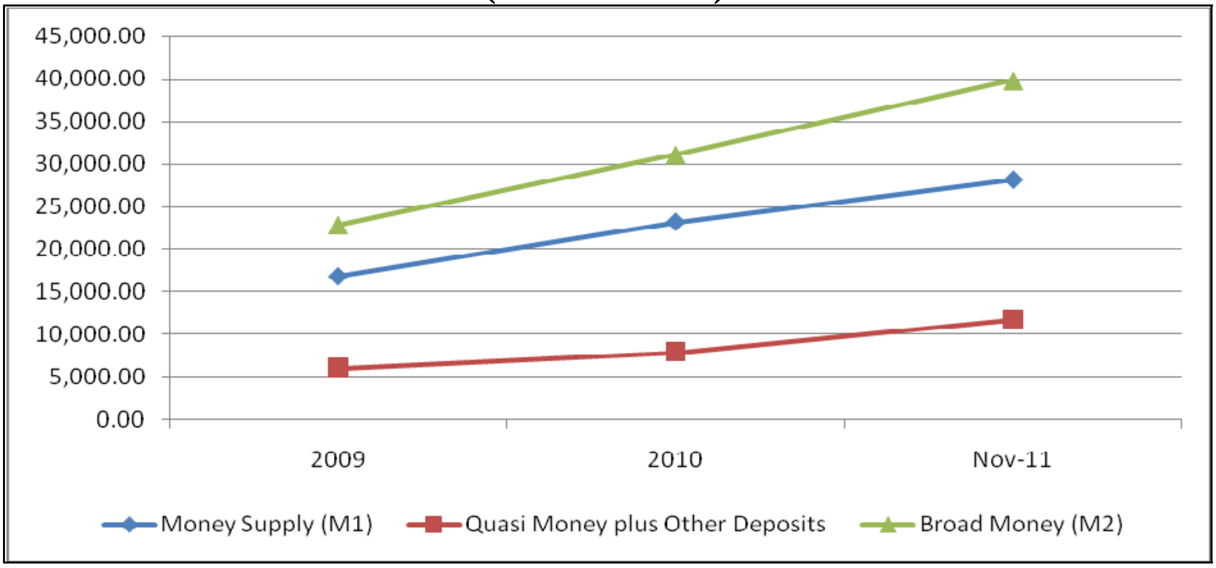
[2] M1 is the narrowest definition of money supply. It is made up of currency outside banks plus demand deposits
[3] Quasi Money is defined as time and savings deposits in both currencies

Table 9: Money Supply and its Sources
December, 2009 – November, 2011
(In Million of L$)

Monetary Aggregates	Dec-09	Dec-10	Nov-11	Percent Change	
				Dec 09-10	Dec 10-Nov 11
1 Money Supply M2 (1.1 + 1.2.1)	**22,855.4**	**31,103.9**	**39,823.0**	**36.1**	**28.0**
1.1 Money Supply M1	16,847.8	23,212.7	28,148.7	37.8	21.3
1.1.1 Currency outside banks	*4,161.8*	*5,007.9*	*6,022.4*	20.3	20.3
1.1.2 Demand deposit [1/]	*12,686.0*	*18,204.7*	*22,126.3*	43.5	21.5
1.2 Quasi Money	**6,007.6**	**7,891.2**	**11,674.3**	**31.4**	**47.9**
1.2.1 Time & Savings deposits	5,884.4	7,572.7	11,559.5	28.7	52.6
1.2.2 Other deposits [2/]	*123.2*	*318.5*	*114.9*	158.5	-63.9
2 Net Foreign Assets	**(46,832.1)**	**23,629.5**	**22,546.8**	**-150.5**	**-4.6**
2.1 Central Bank	(52,811.5)	13,681.7	14,846.2	-125.9	8.5
2.2 Banking Institutions	5,979.4	9,947.8	7,700.6	66.4	-22.6
3 Net Domestic Assets (1 - 2)	**69,687.5**	**7,474.3**	**17,276.2**	**-89.3**	**131.1**
3.1 Domestic Credit	**86,629.8**	**26,284.9**	**33,252.2**	-69.7	**26.5**
3.1.1 Government (net)	75,739.8	12,013.4	14,964.8	-84.1	24.6
3.1.2 Pvt. Sector & Other Pvt. Sector	10,890.0	14,271.5	18,287.4	31.1	28.1
3.2 Other assets Net (3 - 3.1)	16,942.3	18,810.6	15,976.0	11.0	-15.1
Memorandum Items	**37,598.4**	**50,379.3**	**65,358.5**	**34.0**	**29.7**
1. Overall Liquidity	22,855.4	31,103.9	39,823.0	36.1	28.0
2. Reserve Money	14,743.0	19,275.4	25,535.5	30.7	32.5
Currency outside banks	*4,161.8*	*5,007.9*	*6,022.4*	20.3	20.3
Banks Reserves	*10,581.2*	*14,267.5*	*19,513.1*	34.8	36.8

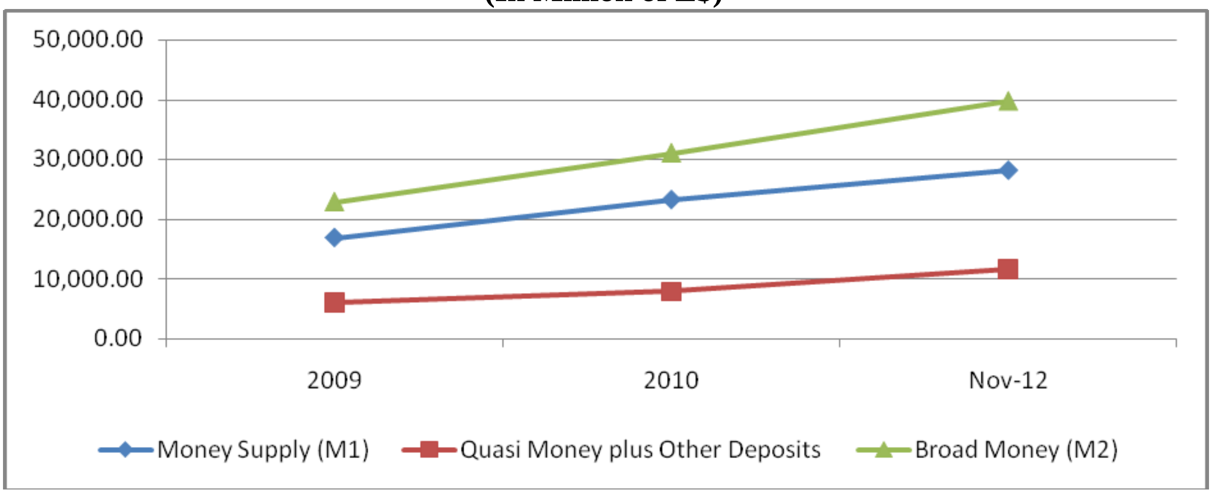
Source: Central Bank of Liberia (CBL)
[1]***Excludes manager check from commercial banks.***
[2]***Includes official and managers checks issued by the Central Bank***

Chart 5: Money Supply (M1)
(2009 - November, 2011)
(In Million of L$)



During the period, broad money (M2)[4] or overall liquidity grew by 28.0 percent, from L$31,103.9 million at end-December, 2010 to L$39,823.0 million at end-November, 2011. The rise in broad money followed the 21.3 percent and 47.9 percent growth in M1 and quasi money, respectively. In terms of sources of broad money supply, the 131.1 percent increase in net domestic assets (NDA) largely explained the growth in overall liquidity (Table 9 & Chart 6). The growth in overall money supply was mainly driven by the expansion of credit to the private sector in support of economic growth and development.

Chart 6: Broad Money (M2)
(2009 - November, 2011)
(In Million of L$)



[4] Broad Money (M2) is defined as M1 plus Quasi Money

Reserve money at end-November 2011 rose by 32.5 percent to L$25,535.5 million, from L$19,275.4 million at end-December, 2010. The increase was driven predominantly by a 36.8 percent rise in commercial banks' reserves, from L$14,267.5 million at end-December, 2010 to L$19,513.1 million at end-November, 2011.

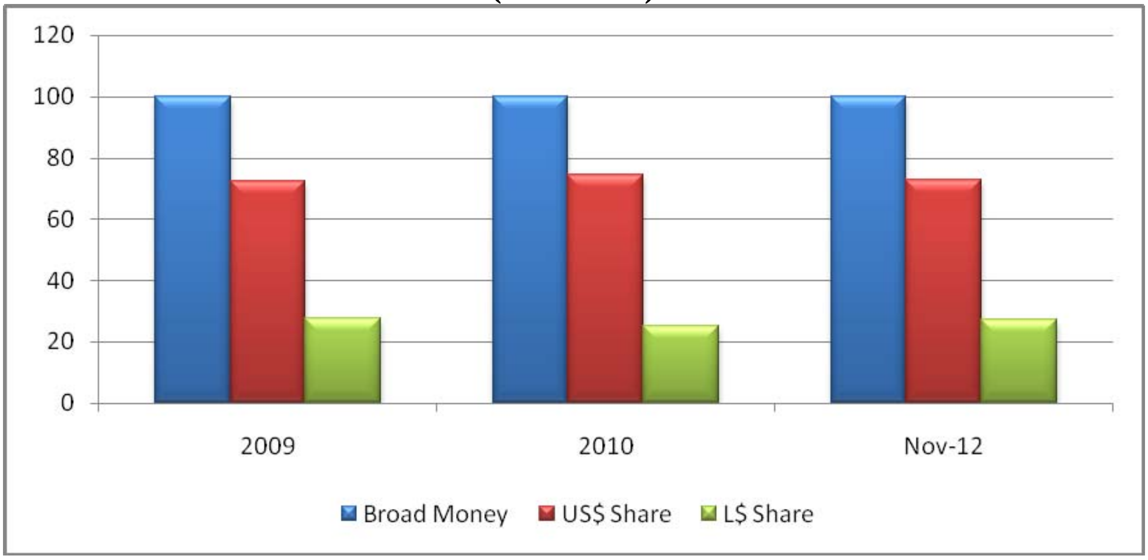
The US dollar share of broad money stood at 72.7 percent while the Liberian-dollar component accounted for 27.3 percent during the review period. The US and Liberian dollar shares of broad money remained largely stable between 2009 and 2011. However, the US-dollar share is remained high, reflecting the dollarized nature of the Liberian economy (Table 10 & Chart 7).

Table 10: Broad Money (M2): Share of US and Liberian Dollars
(2009 - November, 2011)
(In Million of L$)

	2009	Percent Share	2010	Percent Share	Nov-2011	Percent Share
Broad Money	22,855.4	100	31,103.9	100	39,823.0	100
US$ Share[5]	16,516.2	72.3	23,233.2	74.7	28,944.4	72.7
L$ Share	6,339.2	27.7	7,870.6	25.3	10,878.6	27.3

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 7: Broad Money (M2): Share of US and Liberian Dollars
(2009 - November, 2011)
(In Percent)



[5] The US$ component is converted to L$ at the end-of-period exchange rate

3.3 Exchange Rate Developments

The CBL continued intervention in the foreign exchange market has helped stabilize the exchange rate. The exchange rate of the Liberian dollar relative to the US dollar remained relatively stable at around L$72.00 per US$1.00 during 2011.The end-of-period exchange rate for 2011 was L$72.50 per US dollar, while the period average stood at L$72.23 per US dollar for the same period (Table 12).

Table 11: Monthly Averages of Buying and Selling Rates of Liberian Dollars per US Dollar (2009 - December, 2011)

	2009		2010		2011	
	Buying	**Selling**	**Buying**	**Selling**	**Buying**	**Selling**
January	63.94	64.93	70.83	71.83	71.79	72.75
February	64.00	65.00	71.25	72.31	71.96	72.60
March	64.50	65.35	71.09	72.09	71.61	72.31
April	65.60	66.23	70.21	71.21	71.54	72.21
May	67.46	68.37	70.58	71.58	72.00	72.98
June	69.34	70.30	71.19	72.15	72.10	73.10
July	70.61	71.59	71.81	72.76	72.35	73.33
August	71.67	72.75	72.00	73.00	72.02	73.00
September	71.35	72.44	71.35	72.35	71.58	72.58
October	70.59	71.56	71.50	72.54	71.88	72.69
November	67.36	68.36	69.35	70.31	71.10	72.09
December	67.31	68.31	69.72	70.67	71.43	72.43

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 8: Monthly Averages of Buying and Selling Rates of Liberian Dollars per US Dollar (2009 to 2011)

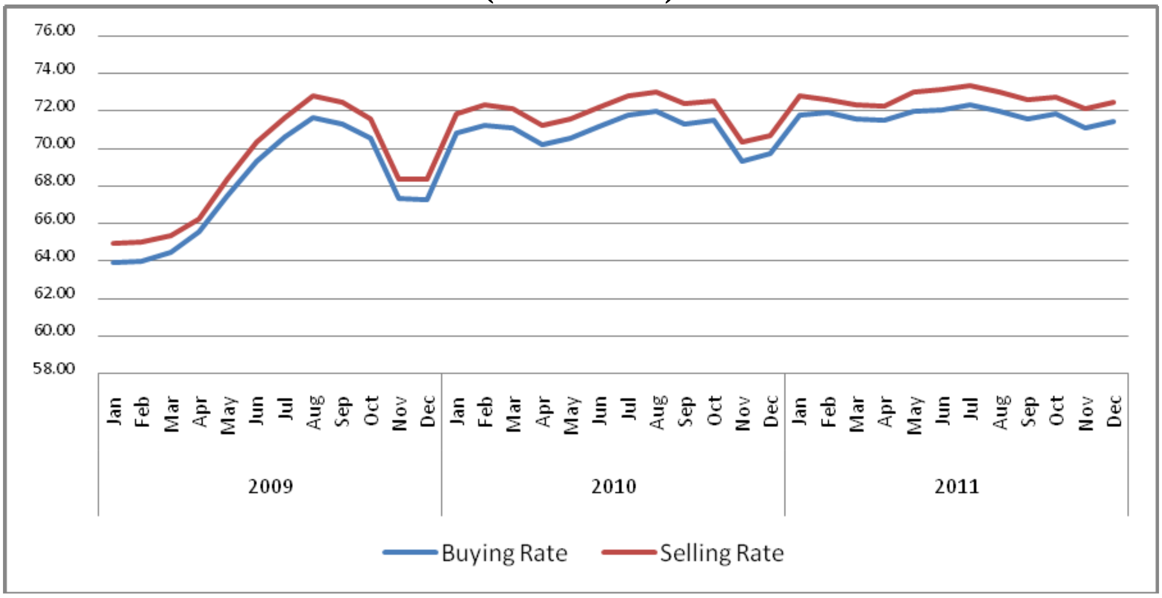


Table 12: Market Exchange Rates: Liberian Dollars per US Dollar (2009 - December, 2011)

Exchange Rate	2009	2010	December 2011
End of Period	70.50	71.50	72.50
Period Average	67.81	70.19	72.23

Source: Central Bank of Liberia, Monrovia, Liberia

3.4 National Stock of Debt

3.4.1 Overview

During the year under review, the IMF updated Liberia's Debt Sustainability Analysis (DSA). The update found that the country is in a low risk of debt distress. At end-September 2011, Liberia's total public debt was recorded at US$519.0 million (44.9 percent of GDP), from US$511.2 million (44.2 percent of GDP) at end-September, 2010.

3.4.2 External Debt

Total external debt at end-September 2011 was recorded at US$238.5 million, indicating an increase of about 2.3 percent over the level recorded at end-June, 2011. A disaggregation of external debt showed that multilateral debt accounted for 45.2 percent; bilateral, 54.7 percent, and commercial, 0.1 percent.

3.4.3 Domestic Debt

At end-September 2011, total domestic debt was recorded at US$280.5 million, representing an increase of approximately 0.9 percent. The rise in domestic debt was driven mainly by a rise in Others (Miscellaneous Debt), which rose by US$3.1 million in the reporting period.

Table 13: Liberia's Overall Debt Position As at September 30, 2011

	2010	2011	
Creditor	**September**	**June**	**September**
Multilateral	138.94	110.5	107.8
Bilateral	123.18	122.1	130.4
Commercial	20.5	0.3	0.3
Total External Debt	**282.62**	**232.9**	**238.5**
Suppliers' Credit	5.07	3.3	3.3
Salary & Allowances	3.8	3.7	5
Financial Institutions	270	269.1	269.1
Pre-NTGL Salary Arrears	3.06	1.4	0
Others	0	0	3.1
Total Domestic Debt	**281.93**	**278.1**	**280.5**
Total Public Debt	**564.55**	**511.2**	**519.0**

Source: Ministry of Finance, Monrovia, Liberia

3.5 Balance of Payments

The estimate of Liberia's balance of payments for 2010 recorded a deficit of US$42.5 million, widening from a deficit of US$25.0 million reported in 2009. This development was largely due to deterioration in the current account, mainly caused by the worsening of the trade balance and services. The rise in the trade deficit was on account of a significant increase in import expenditure that more than offset the increase in the nation's export earnings during the year under review. The current account deficit increased by 42.0 percent to US$ 413.0 million in 2010, from US$291.2 million recorded in the previous year.

The income account recorded a surplus of US$24.1 million in 2010 as against the US$127.8 million deficit reported in 2009. Current transfers stood at US$954.0 million in 2010, down from US$1,086.7 million in 2009. This shows a 12.0 percent drop in donor assistance inflows in 2010. Current transfers comprised mostly UNMIL operation, donor assistance to Liberia, and other transfers net that passed through the banking system of Liberia.

Capital and financial account was US$370.6 million in 2010, compared with US$266.2 million in 2009, representing a 39.0 percent increase in 2010. This was a result of the debt forgiveness the Government of Liberia benefited and an increase in foreign direct investment.

Table 14: Balance of Payments of Liberia, 2010
(In Million US Dollars)

Code		**2009**			**2010**		
		Credit	**Debit**	**Net**	**Credit**	**Debit**	**Net**
993	**1. Current account**	**1,558.8**	**1,850.0**	**(291.2)**	**1,382.2**	**1,795.3**	**(413.1)**
	A. Goods and services	454.1	1,704.2	(1,250.1)	397.1	1,788.4	(1,391.2)
100	*a. Goods*	180.0	559.0	(379.0)	240.0	715.3	(475.4)
200	*b. Services*	274.1	1,145.2	(871.1)	157.2	1,073.0	(915.8)
300	*B. Income*	18.1	145.9	(127.8)	31.1	7.0	24.1
379	*C. Current transfers*	1,086.7	0.0	1,086.7	954.0	0.0	954.0
996	**2. Capital and financial account**	**266.2**	0.0	**266.2**	**370.6**	0.0	**370.6**
994	***A. Capital Account***	1,526.0	0.0	1,526.0	1,586.0	0.0	1,586.0
995	***B. Financial Account***	**(1,259.8)**	0.0	**(1,259.8)**	**(1,215.4)**	0.0	**(1,215.4)**
500	*1. Direct investment*	217.8	0.0	217.8	450.0	0.0	450.0
555	1.1. in Liberia	217.8	0.0	217.8	450.0	0.0	450.0
600	*2. Portfolio investment*	-	0.0	-	-	0.0	-
700	*3. Other investment*	(1,164.8)	0.0	(1,164.8)	(1,591.4)	0.0	(1,591.4)
703	3.1 Assets	200.4	0.0	200.4	1.4	0.0	1.4
753	3.2 Liabilities	(1,365.3)	0.0	(1,365.3)	(1,592.8)	0.0	(1,592.8)
802	*4. Reserve assets*	(312.7)	0.0	(312.7)	(74.0)	0.0	(74.0)
	Total	**1,825.1**	**1,850.0**	**(25.0)**	**1,752.8**	**1,795.3**	**(42.5)**
998	**Net errors and omissions**			**(25.0)**			**(42.5)**

Sources: Central Bank of Liberia and BIVAC

Balances on goods and Services mostly explained the current account deficits. In the goods account, the trade balance of export and import, was US$475.4 million deficit in 2010, compared with US$379.0 million deficit in 2009. Service account net balance was US$915.8 million deficit in 2010, compared with US$ 871.1 million deficit in 2009.

3.6 Remittances

Aggregate remittance inflows for the review period totaled US$1,144.0 million, reflecting a 16.7 percent increase compared with US$980.6 million at end-2010. The increase was largely occasioned by a 67.5 percent rise in workers' remittance inflows to US$435.4 million at-end November, 2011, from, US$260.0 million recorded for 2010. This flow of US dollars to the economy is an important factor that is also helping to cushion the stability of the exchange rate. A disaggregation of inward remittances reveals that workers' remittances accounted for 38.1 percent; followed by exports, 26.7 percent; grants, 15.6 percent; service payment, 14.2 percent; and official transfers, 5.4 percent.

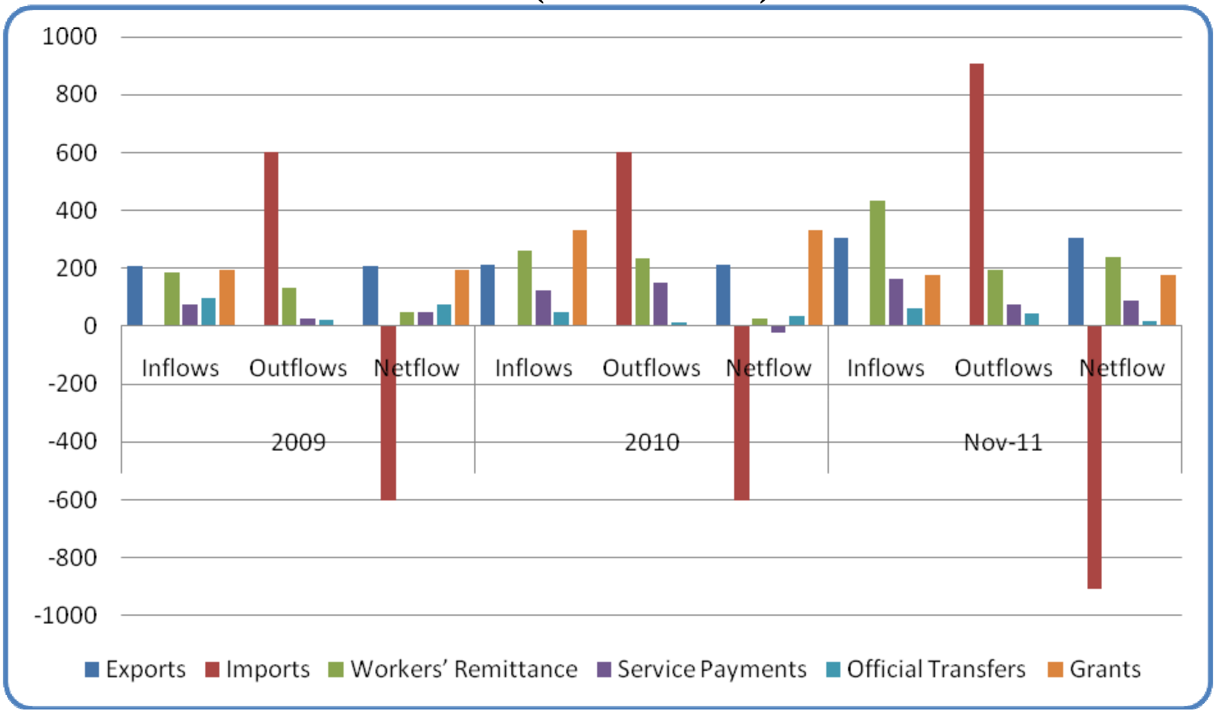
Outward remittances for the 11-month period grew by 22.9 percent to US$1,222.8 million, from US$995.1 million at end-2010, resulting into a negative net outflow of US$78.8 million. The expansion was mainly on account of a 51.1 percent rise in import payments to US$906.4 million at end-November, 2011, from US$599.7 million for the previous year. A breakdown of total outflow indicates that import payments received the highest share of 74.1 percent; workers' remittances, 16.0 percent; service payment, 6.2 percent and official transfers, 3.7 percent (Table 15 & Chart 9).

Table 15: Remittances: Inflows and Outflows
(2009-November, 2011)
(In Millions US$)

	2009			2010			November-2011		
	Inflows	Outflows	Netflow	Inflows	Outflows	Netflow	Inflows	Outflows	Netflow
Exports	209.4	0.0	209.4	214.0	0.0	214.0	305.6	0.0	305.6
Imports	0.0	603.7	-603.7	0.0	599.7	-599.7	0.0	906.4	-906.4
Workers' Remittance	184.6	134.7	49.9	260.0	234.4	25.7	435.4	195.4	240.0
Service Payments	74.5	25.7	48.8	124.8	148.7	-23.8	162.7	76.3	86.5
Official Transfers	97.0	23.2	73.8	48.8	12.3	36.5	61.4	44.7	16.7
Grants	194.7	0.0	194.7	333.0	0.0	333.0	178.9	0.0	178.9
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**760.2**	**787.3**	**-27.1**	**980.6**	**995.1**	**-14.5**	**1,144.0**	**1,222.8**	**-78.8**

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 9: Remittances: Inflows and Outflows
(2009-November, 2011)
(In Millions US$)



3.7 External Sector Developments

3.7.1 Trade Balance

In 2011, total export earnings amounted to an estimated US$295.2 million against total import payments of US$814.3 million, resulting into a widening of the trade deficit to US$519.1 million, from US$487.8 million in 2010. The persistent expansion in the deficit is reflective of the import-driven nature of the Liberian economy.

Table 16: Exports, Imports, & Trade Balance
(January, 2009 – November, 2011)
(In Millions US$)

Year	Exports	Imports	Trade Balance	Total Trade
2009	148.8	551.6	(402.8)	700.4
2010*	222.0	709.8	(487.8)	931.8
2011**	295.2	814.3	(519.1)	1,109.5

Sources: Ministries of Commerce & Industry (MCI), Lands, Mines & Energy (LME), Forestry Development Authority (FDA), & BIVAC
****Revised***
*****Preliminary***

3.7.2 Merchandise Exports

Overall export receipts expanded during the year under review by 33.0 percent to US$295.2 million, from US$222.0 million at the end of 2010. Recommencement of iron ore exports, improved state of infrastructure, coupled with gradual expansion of economic activities across key sectors made possible by a stable operating environment were the main contributors to the growth in exports during the year. Major export commodities were rubber, cocoa beans, iron ore, round logs and other commodities category.

During 2011, export earnings from rubber remained buoyant, expanding to US$198.1 million at end-November, 2011, from US$157.0 million generated in 2010- representing an increase of 26.2 percent and accounting for 67.1 percent of total export earnings in 2011. Proceeds from rubber export remain the largest foreign exchange earner over the past half decade.

Cocoa export also rose during the year basically on account of revamping of cocoa farms, with a subsequent increase in production of the commodity. Total receipts increased by US$8.2 million to US$13.2 million at end-November, 2011, from US$5.0 million during the previous year. Receipts from iron ore exports expanded to an estimated US$6.4 million in 2011, from US$3.1 million in 2010. The rise was solely due to the resumption of iron ore exports by Arcelor Mittal.

Increased receipts were also recorded for timber exports, rising to US$18.9 million in 2011 against US$2.7 million at end-December, 2010. The resumption of logging activities, following the verification of agreements with several logging concessions, resulted to the rise in production, and subsequent expansion in receipts.

Proceeds from ‘Other commodities category’ also rose during the year under review, from US$18.8 million in 2010 to an estimated US$27.6 million in 2011. This category of exports comprises non-traditional export commodities such as scrap metals and palm oil, among others.

Table 17: Commodity Composition of Exports
(January, 2009 – November, 2011)
(In Millions, US$)

Commodity Composition of Exports	2009	2010*	2011**
Rubber	93.1	157.0	198.1
Cocoa Beans	3.6	5.0	13.2
Coffee	0.1	0.3	0.1
Iron Ore	0.9	3.1	6.4
Diamond	6.9	15.3	14.8
Gold	11.9	19.8	16.1
Round Logs	1.1	2.7	18.9
Other Commodities	31.2	18.8	27.6
Total	**148.8**	**222.0**	**295.2**

Sources: Ministries of Commerce & Industry (MCI), Lands, Mines & Energy (LME), Forestry Development Authority (FDA), & BIVAC
**Revised*
***Preliminary*

3.7.3 Merchandise Imports

The total import bill during 2011 increased by US$104.5 million, or 14.7 percent, to US$814.3 million, from US$709.8 million of 2010. This was mainly on account of increased payments for such items as Food & Live Animal, Beverages & Tobacco, Chemical & Related Products, Manufacture Goods classified chiefly by Materials, Machinery & Transport Equipment, and Petroleum Products. Total import payments remain on an upward path for the past 3 years.

Import payments for Food & Live Animal category rose by US$39.8 million or 21.5 percent at end November, 2011 to US$225.2 million, from US$185.4 million. Of the total amount, rice, the nation’s staple food, accounted for 34.5 percent as at end-November, 2011. The influx of Ivorian refugees partly contributed to the increase in the import bill for rice (Table 18).

Expenditures on Imported Beverages & Tobacco and Chemical & Related Products in 2011 rose marginally by 2.3 percent and 3.5 percent, respectively. There was also a rise in the import bill of Petroleum Products, largely on account of increase in the price of oil on the world market.

The bill for Machinery & Transport Equipment increased by 35.8 percent to US$172.1 million, from US$126.7 million for 2010. Expenditure on Manufactured Goods also expanded to US$83.4 million as at November, 2011, from US$70.7 million recorded at end-

December, 2010, an increase of 18.0 percent. This is reflective of the growing level of economic activities currently taking place in the country.

Table 18: Commodity Composition of Imports
(January, 2009 – November, 2011)
(In Millions, US$)

Commodity Composition of Imports	**2009**	**2010***	**2011****
Food and Live Animals	161.8	185.4	225.2
O/W Commercial Rice	65.7	47.3	77.8
Beverages & Tobacco	18.6	17.6	18.0
Crude Materials & Inedible Except Fuel	14.4	6.0	5.4
Minerals, Fuel, & Lubricants	10.5	64.5	53.4
Animals & Vegetable Oil	12.1	11.5	6.9
Chemicals & Related Products	29.6	31.8	32.9
Mfg. Goods Classified Chiefly by Materials	84.0	70.7	83.4
Machinery & Transport Equipment	125.1	126.7	172.1
Petroleum Products	68.5	150.8	176.0
Misc. Mfg. Articles	27.0	44.8	41.0
Total	**551.6**	**709.8**	**814.3**

Sources: Ministries of Commerce & Industry (MCI), Lands, Mines & Energy (LME), Forestry Development Authority (FDA), & BIVAC
****Revised***
*****Preliminary***

3.8 Liberia's Status of Convergence Under the West African Monetary Zone (WAMZ) Performance Criteria 2011

Since Liberia's accession to the West African Monetary Zone (WAMZ) as a full-fledged member in 2010, its performance with respect to the WAMZ convergence criteria continues to be praised at various Statutory Meetings of the WAMZ.

For the first half of 2011, an ECOWAS Joint Multilateral Surveillance Mission to Liberia comprising ECOWAS Commission, the West African Monetary Agency (WAMA), and the West African Monetary Institute (WAMI), indicated in its Assessment of Macroeconomic Convergence Report on Liberia that, the country maintained compliance with all of the four primary convergence criteria under the WAMZ Single Currency Program, having met and sustained all four criteria throughout 2010, the only country in the Zone to do so. These criteria are (1) a single digit inflation, (2) fiscal deficit/GDP ratio less than or equal to 4 percent, (3) central bank financing of fiscal deficit less than or equal to 10 percent of the previous year's revenue and (4) gross external reserves position relative to months of import cover equal to or greater than 3 months of import cover. On the secondary convergence criteria, Liberia's performance also improved during the review period, as it met two criteria, bringing to six, the total number of convergence criteria met by Liberia during the first half of 2011. The two secondary criteria satisfied were tax revenue/GDP ratio greater than 20 percent and public investment from domestic resources greater than 20 percent. The economic performance assessment of member countries of the WAMZ for the second half of 2011 will be conducted in early 2012.

For 2011, the CBL fully contributed to the operational budgets of WAMI, WAMA and WAIFEM, and participated in all statutory and other meetings of these specialized institutions of ECOWAS. Liberia is expected to host the mid-year Statutory Meetings in 2012.

CHAPTER IV
FINANCIAL SYSTEM DEVELOPMENT

4.1 Banking Sector Developments

One additional bank, Afriland First Bank Liberia Limited (AFBLL) was granted a license to operate in 2011, bringing the total number of banks operating in the country to 9. The other banks operating are: the Liberian Bank for Development & Investment (LBDI), International Bank Liberia Limited (IBLL), Ecobank Liberia Limited (EBLL), First International Bank Liberia Limited (FIBLL), Global Bank Liberia Limited (GBLL), United Bank for Africa Liberia Limited (UBALL), AccessBank Liberia Limited (ABLL) and Guaranty Trust Bank (GTBLL). AFBLL brings to the banking sector special skills and expertise in lending to the agricultural sector.

During the period under review, the number of bank branches increased from 74 in 2010 to 77 in 2011, with 10 of the 15 counties having at least 1 bank branch, as shown in Table 19 below.

Table 19: (Expansion in Bank Branches over 2010 and 2011)

County	Number of Branches	
	2010	**2011**
Montserrado	46	47
Margibi	9	9
Grand Cape Mount	1	1
Grand Bassa	3	3
Sinoe	0	1
Maryland	4	4
Bong	2	2
Nimba	6	7
Lofa	2	2
Grand Gedeh	1	1
Total	**74**	**77**

Source: Central Bank of Liberia

The establishment of additional bank branches throughout the country is in keeping with the CBL's policy to promote access to financial services by all segments of the population and to deepen the financial system. Employment in the sector increased by 8.2 percent from 1,338 in 2010 to 1,448 at end-November 2011.

The banking system experienced an increase in the number of Automated Tellers Machines (ATMs) and Points-of-Sale (POS), with more banks now offering debit card services. One of the banks, UBALL, is now paying out Liberian Dollars in addition to United States Dollars via its ATMs.

In keeping with its commitment to enhance and promote financial inclusion in the country, the CBL approved the introduction of mobile money services. Ecobank is the first bank to provide this new product. Two other banks have submitted requests to the CBL to engage in mobile banking.

The Banking Institute of Liberia, which is a joint initiative of the Liberia Bankers Association and Central Bank of Liberia, hosted the second series of training programs in August of 2011, for the purpose of building capacity in the banking sector and providing training for local college graduates desirous of seeking employment in the banking sector. The courses offered: included Credit Risk Management; Audit and Compliance; and Banking Operations. A total of 75 participants from the 9 commercial banks benefited from the training program, thereby bringing the total number of participants benefiting from the training programs of the Institute since its inception to 199.

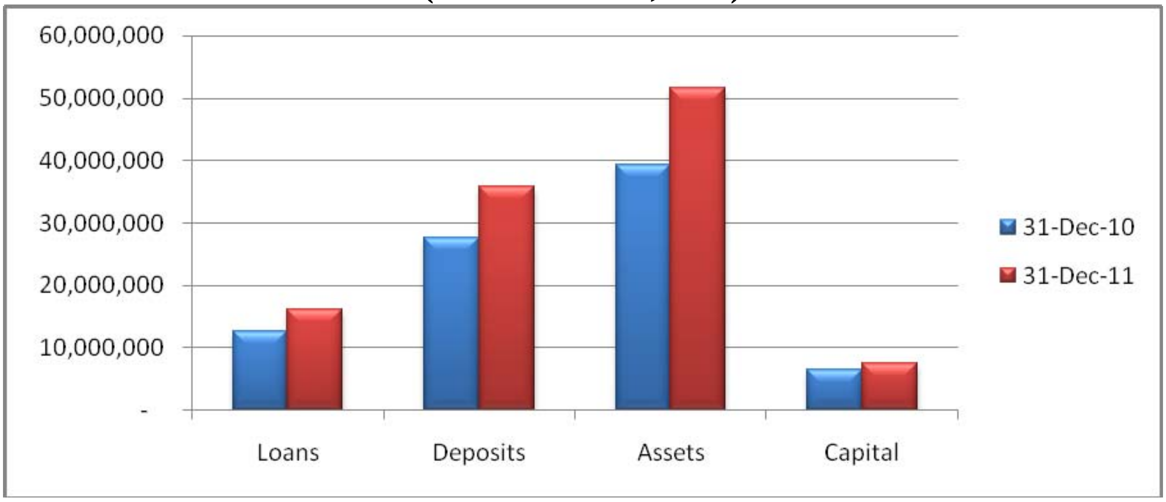
The Bank worked with various stakeholders, including the Liberia Bankers Association (LBA), the Liberia National Bar Association (LNBA) and the International Finance Corporation (IFC) to ensure the successful enactment of the Revised Commercial Code, the legislation for the establishment of a fast-track commercial court, and the operationalization of the court. The establishment of the court is expected to enhance the enforceability of financial contracts, including loan agreements, through inexpensive, speedy and simple procedures. An improved credit culture should lower the cost of borrowing and enable more credit extension to the private sector.

4.2 Balance Sheet of the Banking Sector

During 2011, the banking sector continued with the strong growth pattern recorded in past years. At end-December 2011, total assets of the industry grew by 31.6 percent to L$51.7 billion, compared with L$39.3 billion at end-December, 2010. Total loans and advances increased by 22.2 percent to L$15.4 billion, compared with L$12.6 billion in 2010. Credit to private sector as a ratio of GDP was 18.3 percent in the 11-month period to November of 2011, remaining largely the same compared with the 18.2 percent at end-December of 2010.

Total capital also increased by 14.3 percent to L$7.5 billion, compared with 2010. The sector continued to maintain a strong liquidity position. Deposits, which are the main source of financing of the banks' asset base, recorded a growth of 29.7 percent to L$35.8 billion, from L$27.6 billion in 2010.

Chart 10: Balance Sheet of the Banking Sector
(As at December, 2011)



As shown in the Table 20, sectoral allocation of total credit shows that Trade, Hotel & Restaurant constituted 41.1 percent, the highest proportion of loans to the private sector; followed by Others, largely comprising personal loans, 35.1 percent; Construction, 8.9 percent; Transportation, Storage & Communication, 8.6 percent; Agriculture, 3.2 percent; Manufacturing, 2.2 percent; and Mining & Quarrying, 0.9 percent. The data draw attention to the low manufacturing base of the country, which must be addressed as a basis for a more broad-based sustainable growth.

Table 20: Commercial Banks' Loans by Sectors
(2010-2011)
(In Thousands of Liberian Dollars)

Sector	**December 2010**	**percent Share**	**November 2011**	**percent Share**
Agriculture	398,250	3.2	488,026	3.2
Mining & quarrying	2,085	0.0	144,006	0.9
Manufacturing	162,694	1.3	339,911	2.2
Construction	1,215,416	9.6	1,365,694	8.9
Transportation, Storage & Communication	2,823,580	22.4	1,326,120	8.6
Trade, Hotel & Restaurant	3,977,725	31.5	6,304,642	41.1
Other	4,043,743	32.0	5,386,001	35.1
Total	**12,623,491**	**100.0**	**15,354,399**	**100.0**

Source: Central Bank of Liberia

4.3 Financial Soundness Indicators

The table below shows the key financial soundness and performance indicators of the banking sector for the year 2011. The indicators show that the banking sector continues to be resilient and stable, and is contributing to economic growth and development of Liberia. However, there are challenges in a few areas, especially the level of non-performing loans and profitability.

Table 21: Industry Financial Soundness Indicators
(2010 & 2011)
(In L$'000)

	2010	**2011**
Gross Assets	39,332,282.5	51,650,228.0
Net Assets	37,405,891.0	49,703,913.0
Net Loans	10,794,708.0	14,321,134.0
Deposits	27,587,214.0	35,835,132.0
Reported Capital Net of Provisions	6,548,172.5	7,486,802
	In Percent	
Reported Net Capitalization	17.5	15.1
Capital Adequacy Ratio	27.4	22.8
Classified loans to Total Loans	30.2	24.3
Non-performing Loans to Total Loans	25.1	20.8
Provisions to Classified Loans net of interest-in-suspense	45.8	45.1
Provisions to Non-performing Loans net of interest-in-suspense	55.6	53.2
Returns on Assets	-0.5	-0.7
Returns on Equity	-2.7	-4.7
Non-interest income to Total Revenue	53.9	57.9
Net Interest Margin over Average Assets	7.9	7.2
Liquid Assets to Net Assets	56.6	54.0
Net Loans to Deposits	39.1	40.0
Liquidity Ratio	48.7	44.0

Source: Central Bank of Liberia

Asset quality of the industry showed an improvement, evidenced by a reduction in the ratio of non-performing loans to total loans by 4.3 percentage points to 20.8 percent compared with 25.0 percent in 2010. The issue of NPLs, though improved over the years, remains one of the key challenges in the banking industry, impeding the profitability and internal capital growth of the sector.

The industry recorded a Capital Adequacy Ratio (CAR) of 22.8 percent, which was 12.8 percentage points above the regulatory minimum ratio of 10.0 percent. Compared with December of 2010, this reflects a decrease of 4.6 percentage points. This decline was attributed to higher credit growth in 2011. The sector also recorded an average capital of US$11.6 million, which exceeded the minimum capital requirement of US$10.0 million.

Gross earnings stood at L$4.7 billion, representing an increase of 20.5 percent over the L$3.9 billion level in 2010. The ROA and ROE for the industry recorded negatives of 0.7 percent and 4.7 percent, respectively, compared with negative 0.5 percent and negative 2.7 percent for the corresponding period of last year. This was due largely to extra loan loss provisions on non-performing loans, high operating costs and losses from fraud and burglary at a number of banks. Earnings remain skewed toward non-interest sources, as evidenced by 57.9 percent of the industry's earnings coming from non-interest income, which constitutes mainly charges and fees.

The banking industry continues to maintain a strong liquidity position, recording a liquidity ratio of 44.0 percent at end-December, 2011, which was 29.0 percentage points above the minimum threshold. Compared with the corresponding period of 2010, the liquidity ratio reduced by 4.7 percentage points. All of the banks recorded ratios above the minimum required liquidity ratio of 15.0 percent. Loan to deposit ratios both at individual bank level as well as industry's level have been below 60.0 percent (the industry's ratio being 40.0 percent at end-December, 2011), which is an indication of the comfortable liquidity position of the banking industry to meet the liquidity needs of their customers and other contingent liabilities**.**

4.4 Developments in the Payments System

The Central Bank of Liberia (CBL) has embarked on a program of reforms to modernize the National Payments System (NPS) and bring the systems in line with international standards for safety and efficiency. The NPS modernization initiative in Liberia is part of a regional project to upgrade the payments infrastructure in WAMZ, the aim of which is to improve the basic infrastructure of the financial sector, increase the participation of private sector businesses into the formal financial sector and enhance efficiency of fund transfer with in Liberia and other countries in the Zone. The major share of funding is provided by the African Development Bank (AfDB) and is being supervised by the West African Monetary Institute (WAMI)

The Modernization of the Payments System in Liberia requires the simultaneous existence of two data centers: 1) the primary site or main data site and; 2) the disaster recovery site for business continuity purposes. Accordingly, the CBL remodeled its Virginia property to serve as the disaster recovery site for the Payments System Network. The main data center will be at the headquarters of the CBL.

The project in Liberia has two key components: 1) The infrastructure component and 2) the software component. The software component is as follows:

- A Real Time Gross Settlement (RTGS) system – the backbone for the National Payment System, settling the payment leg of all large value payments and securities transactions;
- A Scripless Securities Settlement (SSS) system – allowing book-entry and custody for all Government and central bank-issued securities;
- An Automated Clearing House (ACH) – a single clearing house for credit and debit transfers, card transactions and other retail instruments. It includes an automated check processing component;
- The Core Banking Application (CBA) to create the platform for comprehensive banking solutions for the CBL;

The infrastructure component include: 1) reconfiguration and network upgrade of the Central Bank of Liberia; 2) Internet and the Metropolitan Area Network; and 3) an IT room and energy upgrade with two standby generators.

Apart from the physical infrastructure mentioned, the modernization of the Payments System in Liberia involves a wide range of other reform initiatives. These include institutional development, revision of the legal framework to ensure adequacy and alignment with other legislation, capacity building, and project management. In furtherance to the reforms initiative, the CBL established a payments system unit in May 2011 to spearhead the modernization process. Upon its establishment, the Unit, working in collaboration with the Legal Department of the CBL prepared and submitted the draft of Payments System Act to the National Legislature for enactment into law. The new Payments System Act will set the legal basis for the regulation and supervision of payments system and payment service providers. Also, the CBL along Payments System consultant from the IMF, has prepared the Stocktaking report and the Retail Payment Strategy document, which will serve as the foundation for the development of the National Payment System Vision in Liberia.

4.5 Developments in The Non-bank Financial Sector

4.5.1 Foreign Bureaux Operations

The CBL, in keeping with its 2011 Policy Statement, took a number of steps to reform the non-bank financial sector, including the insurance sector, the foreign exchange bureau sector, and other specialized non-bank financial institutions.

With regard to the reform of the foreign exchange bureaux operations, the CBL held several consultative meetings with the leadership, members of the Foreign Exchange Bureau Association and non-members with the objective of building a consensus on the reform policy and strategy. These consultative meetings led to a number of reform measures taken and implemented by the CBL during 2011. They included:

- Restructuring of the Association of Foreign Exchange Bureaux of Liberia (AFEBL) to make it more representative and broad-based;

- Upgrading the previous regulatory and supervisory guidelines regarding foreign exchange business, including the operational requirements;
- Re-licensing all foreign bureaux in keeping with the new guidelines and requirements; and

- Classifying foreign exchange operators into two categories with separate minimum regulatory requirements and incentive packages for each category.

The reform measures have been implemented in phases within specified timeframes up to end-January, 2012.

In order to ensure the successful implementation of the ongoing reform, the CBL carried out a series of public information and awareness program which comprised public announcements, skits and jingles. These measures were intended not only to encourage illegal dealers and operators of foreign exchange business to comply with the reform process, but also to call on the general public to support the Bank's effort by doing business with only licensed dealers and operators. In addition, the CBL hosted a training workshop for foreign exchange dealers and/or operators in preparing basic financial records and reports for submission to the CBL.

The CBL has adopted a 2-pronged strategy for the implementation of the reform measures. The first strategy, which is currently being implemented by the Bank, is to require compliance through the use of various incentives and moral suasion. Going into 2012, the CBL will implement the second strategy, which would require enforcement actions against violators of the new regulatory requirements. At end-November, 2011, the total number of registered foreign exchange bureaux was 25.

4.5.2 Insurance Sector

In keeping with its mandate under Section 8 of the New FIA of 1999 and Sections 4 (6) & 5 (1) of the CBL Act, the CBL began the process of assuming authority of the regulation and supervision of the insurance sector of Liberia. In this regard, the Bank conducted a verification and assessment exercise of each insurance company with the aim of getting a fair idea of the general state of affairs and condition of the sector.

The exercise covered 21 insurance companies and one brokerage insurance firm. The findings of the assessment and verification exercise showed that the insurance industry is faced with serious structural and institutional challenges that need to be urgently addressed to strengthen the sector. These challenges include inadequate capitalization, weak corporate governance, lack of risk management system, inadequate reinsurance coverage and inadequate licensing policy. Based on the findings and recommendations from the assessment and verification exercise, an action plan was developed, and has been implemented in stages.

The first phase of the action plan, which was issued on September 6, 2011, constitutes the following initial measures:

- Insurance companies that have not completed their 2010 audits were required to submit to the CBL the name of their external auditors by September 9, 2011 and to conclude their audits by December 15, 2011 in keeping with the Insurance Act of 1973 which requires audited statements for the previous year to be submitted by the end of the first quarter of the succeeding year;

- All existing insurance companies were required to apply to a registry established by the CBL to be recognized as insurance companies operating in Liberia by September 12, 2011, clearly stating the company's intention to be granted license by the CBL to operate as a non-bank financial institution in Liberia, a definition that applies to insurance companies in Section 2 (16) and Section 8 of the new FIA and Sections 2(m) and 4(6) and 5(1) of the CBL Act of 1999;

- All insurance companies were required to fully comply with the existing minimum capital requirement of US$450 thousand for composite insurance and US$300 thousand for life insurance by January 31, 2012. This requirement is only calling on insurance companies to comply with the capitalization mandate specified in the 1978 Insurance Act, which in the present economic environment is considered significantly inadequate. Many companies are operating below this 1978 minimum requirement; and

- All insurance companies were required to submit specified monthly returns to the Central Bank, beginning November 15, 2011, to facilitate effective monitoring and supervision of the sector. In this regard, the CBL held training workshop with insurance companies to facilitate the preparation and submission of the required returns.

These measures are expected to set the stage for further reforms in 2012. Only insurance companies that are in compliance with the above-listed requirements will be issued provisional license by the CBL to operate as legally recognized insurance companies.

At end-November, 2011, insurance companies that applied to the CBL's Registry to be noted as non-bank financial institutions totaled 14.

4.5.3 Microfinance

4.5.3.1 Overview

The CBL continues to impact the lives of the underserved population in the financial sector, low income people, and rural dwellers especially women, with the promotion of microfinance services. It also seeks to continue building the capacity of stakeholders in the sector.

In 2011, one additional credit-only microfinance institution registered with the CBL in compliance with the Microfinance Regulatory and Supervisory Framework, bringing the number to eight. These institutions now cover 3 additional counties, totaling 11 counties now benefitting from MFIs branch network. The counties are Montserrado, Margibi, Bong, Nimba, Cape Mount, Bomi, Lofa, Maryland, Sinoe, Grand Gedeh and Grand Bassa. The number of active clients reduced from 53,556 as at September 30, 2010 to 51,683 in September 30, 2011. The decrease in the number of active clients is due to write-offs by two MFIs, Liberty Finance and LEAP.

Following the assessments conducted, it was discovered that both of them carried non-performing clients in their portfolios. Since then, they have undergone restructuring of their balance sheets to reflect actual performing clients. This exercise was necessary to show realistic portfolio-at-risk (PAR). The total loan portfolio outstanding increased by 21.0 percent to US$9,886,184 over the same period in 2010.

4.5.3.2 Study Tour

A 4-person team from the CBL, comprising employees from the Microfinance Unit, the Regulation & Supervision Department and the UNCDF Country Technical Advisor, undertook a study tour to Malawi with the purpose of better understanding the supervision of microfinance deposit-taking institutions and credit unions, the establishment of a vibrant financial infrastructure, including the establishment of credit reference bureau, microfinance network, etc.

The study tour afforded the team an opportunity to have interactions with the Malawi Union of Savings and Credit Cooperatives (MUSCCO), the Malawi Microfinance Network

(MAMN), the Reserve Bank of Malawi (RBM), the Director of Economic Affairs of the Ministry of Finance, Financial Inclusion of Malawi, Opportunity International Bank of Malawi (OIBM), Foundation for International Community Assistance (FINCA), Malawi Rural and Finance Corporation, (MRFC), CARE Malawi, New Building Society (NBS), and site visits to Microfinance clients and VSLAs. These institutions are reaching out to the rural poor through innovative means including branchless banking, mobile banking, client education, and agricultural finance. The knowledge gained from this study tour will help inform the work of the Microfinance Unit of the CBL in 2012.

4.5.3.3 Organizational Workshop for Credit Unions

The CBL is working closely with development partners to revamp the credit union movement in the country following several years of inactivity. In this regard, a 2-day workshop was organized by the CBL, in collaboration with the Launch of an Inclusive Financial Sector (LIFS) Project in Ganta, Nimba County from June 16 to 17, 2011 on the Revitalization and Modernization of Credit Unions in Liberia.

The objective of the workshop was to resuscitate the credit unions to provide basic financial services to urban and rural households and rebuild the capacity of their apex body, Liberia Credit Union National Association (LCUNA).

Representatives of credit unions, including 35 practitioners from 22 primary societies eight counties and LCUNA participated. The workshop discussed the broader issues of the credit union movement, including good corporate governance, development of legal and regulatory framework, prospect and challenges, among others. It was resolved that current internationally accepted principles and best practices including good efficient governance, accountability and transparency would be adapted to the Liberian situation. At the end of the workshop, a committee was established to drive the implementation of the workshop recommendations.

4.5.3.4 Capacity Needs Assessment of Liberia's Microfinance Sector

A capacity needs assessment of the Liberian microfinance sector was undertaken to gather information on capacity gaps in the sector with a view to improving the performance of Microfinance Institutions in Liberia. This exercise included the completion of a comprehensive questionnaire and an interview component. It involved 10 microfinance institutions registered with the CBL as well as other support institutions such as policy makers, educational, financial, technical, and professional service providers. A number of field visits have already been conducted to institutions located in Montserrado, Grand Cape Mount, Margibi, Bong, Lofa and Nimba counties. Once completed, the CBL will have both comprehensive report on the capacity needs and a database of financial inclusion players in Liberia, which information can be utilized to develop a framework of meeting training needs in the sector.

4.6 Outlook for the Banking Sector in 2012

Going forward, the Liberian banking sector is bracing itself for stronger support of economic growth and development of Liberia. Notwithstanding the relatively high non-performing loans (NPLs), the outlook of the banking sector for 2012 and beyond is bright and optimistic, largely on account of the following:

First, the growing trend and the relatively stable macroeconomic environment provides an enabling environment for the banks to finance profitable projects.

Second, the increase in the minimum capital requirement from US$2.0 million prior to 2006 to the current US$10.0 million and the minimum capital adequacy ratio (CAR) from 8 percent to 10 percent, has now placed the banks in a stronger position to accommodate both known and unknown risks inherent in their activities, to fund growth in their assets, expand and improve services to the banking public, and undertake innovation in new financial products.

Third, with the establishment of a Special Commercial Court, it is expected that there will be improvement in the credit culture in the country. The establishment of the court means that banks will now have a cost-effective remedy to collecting on their bad debts. This improvement will be manifested through reduced provision expenses, thus leading to higher earnings, greater organic growth in the banks' capital positions, lower cost of borrowing and increase lending to the private sector.

Fourth, because of the shift in the supervisory practice from compliance-based to risk-based supervision, risk management in banks has been heightened. As a result, banks, under the new supervisory regime, are required to adequately manage their risk appetite and adopt policies and measures aimed at improving their risk management system. This increase level of scrutiny requires boards of directors to have greater oversight in the affairs of their respective financial institutions, which will lead to improved levels of overall management performance and strengthening of financial institutions.

Fifth, the implementation of International Financial Reporting System (IFRS) means that banks will now have to make a lot more disclosure in their financial reporting than was previously the case. This provides an incentive for the managements of the commercial banks to guide their actions by the highest standards of corporate governance, which will translate to greater productivity and performance in financial institutions.

Finally, the promotion of medium to long-term lending to targeted sectors of the economy including the agricultural, housing, SME and microfinance sectors, and the current drive by the CBL to introduce treasury instruments will open up new markets and business opportunities for the banks and also an outlet for investing their excess liquidity and enhance their profitability.

CHAPTER V
CBL MAIN ACTIVITIES

5.1 Treasury Operations

The CBL, in keeping with its mandate to ensure the orderly development of the money and capital markets that are responsive to the needs of the national economy, engaged two consultants who, working alongside Treasury Operations staffs, have done extensive work in developing a blueprint for the roadmap of a capital market in Liberia. Meanwhile, engagements aimed at understanding the workings of various capital markets within the region continued during the period under review. In response to an invitation extended by United Bank for Africa (UBA) to Treasury Operations, a three-man delegation traveled to Lagos, Nigeria in August, 2011 on a study tour that included visits to various discount houses, the Nigerian stock exchange, the Nigerian Interbank Settlement system, and the Central Bank of Nigeria.

As part of its efforts to deepen the financial market, the CBL decided to develop the necessary framework for the issuance of CBL Notes. This should also provide the Bank with an additional instrument for implementing monetary policy. That framework is to be refined with technical assistance provided by the IMF in early January, 2012.

5.2 Risk Management and Internal Audit

The Central Bank's Internal Audit Department remained focused on the provision of independent, purposeful assurance and advisory services designed to enhance the Bank's operations. Its approach took into consideration a systematic evaluation of the structures and mode of operations adopted by Management in achieving planned objectives. In this way, issues were identified and reported with the appropriate adjustments recommended to mitigate would-be risks. With these controls, Management's planned objectives were achieved without material hindrances.

In order to further strengthen its capacity, the Audit Department sent five of its staff for training at the Management Development and Productivity Institute and PricewaterhouseCoopers (PwC) respectively, in Accra, Ghana, in the areas of Internal

Auditing and International Financial Reporting Standard (IFRS). This effort led to enhanced efficiency and effectiveness. Planned programs for the year were executed on time, including surprise visits to payment centers. Efforts were also made to acquire a command language system (software) that interrogates data that should enable Internal Audit adopt a modern risks-based approach to ensure effective risks management.

5.3 Accounting and Finances

The CBL's financial statements for the fourth year are being 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 2011 statutory audit is expected to be conducted on scheduled, consistent with the provisions of Section 50 of the CBL Act.

Income and Expenditure

- The CBL's un-audited Income Statement for the year ended 2011 revealed gross income of L$1,486.3 million compared with L$2,345.2 million in 2010. The gross income include interest income, fees and commission, other income and exchange gain on translation to presentation currency. The decrease in gross income in 2011 was mainly due to decrease in interest income and decrease in exchange gain on translation. The main revenue drivers were interest income of L$446.6 million and Fees & commission and other income amounting to L$188.7 million.

- Total expenditure for the year amounted to L$885.7 million, compared with L$841.7 million in 2010. This 5.2 percent increase was attributed to increase in operating expenses resulting from the expansion in the Bank's activities.

Financial Position

- The CBL's un-audited Statement of Financial Position excluding IMF related balances recorded total assets of L$43,712.20 million for the year ended 2011 compared with L$34,386.31 million in 2010. This 27.1 percent increase was mainly due to increase in cash and balances with commercial banks and also increase in property, machinery and equipment. Excluding the IMF, approximately 39.7 percent of total assets are represented by claims on the Government of Liberia. The loans are currently performing based on a memorandum of understanding (MOU) signed in 2007 between the CBL and the Government of Liberia.

- The CBL's un-audited total liabilities excluding IMF related liabilities at year-end 2011 amounted to L$29,803.49 million compared with L$23,296.25 million in 2010. The increase in liabilities of L$6,507.24 million was mainly attributed to increase in deposit from banks and increase in retirement & benefit obligations.

- The CBL's un-audited total owners' equity at year-end 2011 was L$13,908.7 million compared with L$11,090.04 million in 2010, on account of increase in assets in 2011.

The Budget

- The CBL implemented the 2011 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's net Foreign Reserves position at end-December 22, 2011 was US$337.9 million, up from US$288.0 million in 2010. The increase of US$49.9 million was mainly due to increase in the holdings of Special Drawing Rights (SDRs) through loan disbursements by the IMF under the Extended Credit Facility (ECF) program.

5.4 Banking Supervision and Regulation

5.4.1 Supervisory Activities

During the period under review, the Central Bank took a number of regulatory and policy actions to ensure the continuous stability of banking sector, improve the operating environment, enhance transparency and disclosure of financial information, and strengthen its supervisory capacity.

(i) Measures to Improve the Profitability and Balance Sheet of Commercial Banks

In addition to actions taken in the past to strengthen internal controls and security requirements to minimize internal frauds and burglary in commercial banks, the CBL implemented the following actions during 2011, which were aimed at improving the balance sheets and income statements of the commercial banks:

- reduced the general loan loss provisions from 2 percent to 1 percent and specific loan loss provision for substandard loans from 25 percent to 20 percent. This action is expected to improve the income statements and balance sheets of the commercial banks through lower provision expenses associated with the general loan book and delinquent loans outstanding for a period of 90 to 180 days, respectively;

- increased the Single Obligor Limit (SOL) from 15.0 percent to 20.0 percent for all categories of loans or credit facilities as a means of enabling the banks to finance large-volume transactions with better returns based on their financial capacity;

- considered the full value of security or collateral of readily marketable goods in the calculation of loan loss provisions. This action will further help in improving the income statement and balance sheet through lower provision expense; and

- amended the Guidelines for the management of foreign exchange risk and placement of funds abroad to enable the commercial banks to place portion of their excess liquid assets with regional banking institutions, subject to specified regulatory limits, for better returns.

(ii) New directives, guidelines, and regulations

The CBL issued several new directives, guidelines and regulations during the year under review intended to ensure the continuous stability, protect the integrity and strengthen the banking system. They include:

- regulation on Deposit-Taking Microfinance Institutions: This regulation provides the regulatory framework for specialized microfinance institutions wishing to take deposits from microfinance clients;

- regulation on Credit Reference Bureau: This regulation provides the regulatory framework for licensing and supervision of privately-owned credit reference bureau, and the management of the existing CBL Credit Reference System (CRS);

- guideline on Due Diligence concerning prospective and existing employees: This guideline sets the minimum standards for due diligence in the regular monitoring and recruitment of all existing and/or prospective employees, respectively, in the banking sector. It is intended to prevent the hiring of unscrupulous individuals in the banking sector and protect the integrity of the sector;

- directive Concerning Security & Surveillance Systems at financial institutions: The directive sets out the minimum standards relating to the security of the premises and facilities of financial institutions as a measure against persistent burglary on commercial banks' banking premises and to protect depositors' funds and maintain confidence in the system;

- directive on the Display of Interest Rates and Other Charges: This directive requires banks to publicly display their lending and other related charges as a means of promoting transparency and competition in the banking sector. It is intended also to guide commercial banks' customers, particularly the unsophisticated customers such as the small and medium enterprises (SMEs) against unscrupulous banking charges;

- amended Prudential Regulations for Asset Classification, Provisions for Loan Losses and Suspension of Interest on Non-Performing Loans: As mentioned earlier, this regulation was amended to lower the general provisions for loan losses from 2 percent to 1 percent and the specific loan loss provision on substandard loans from 25 percent to 20 percent as a means of improving the income statements and balance sheets of commercial banks consistent with regional and international best practices;

- amended Guidelines concerning the Management of foreign Exchange Risk Exposure and Placements Abroad by Commercial Banks: These guidelines were amended to enable commercial banks to place portion of their excess liquid assets with banks within the sub-region with a minimum rating of “B”, subject to specified regulatory limit, for better returns;

- amended Regulations concerning Large Exposures and Concentration of Credits: As mentioned earlier, this regulation was amended to increase the single obligor limit (SOL) from 15 percent to 20 percent to enable the banks finance large-volume transactions with better returns to improve their profitability;

- regulation concerning Non-Bank Financial Institutions (NBFIs): This regulation provides the framework for the licensing and supervision of specialized NBFIs including: (i) finance houses/companies, (ii) mortgage finance companies, (iii) acceptance houses, (iv) venture capital companies, (v) development finance companies, (vi) credit institutions, (vii) discount houses, (viii) building societies, and (ix) pension funds management companies. The new regulation is intended to deepen the financial system and promote alternative financial services to the population;

- regulation concerning Finance Lease for Bank-financial Institutions: This regulation is intended to enable banks to engage in finance leasing as an alternative credit instrument, particularly for the small and medium enterprises;

- amended Regulation for licensing and supervision of the foreign exchange bureaux: The amended regulation defines the new regulatory, structural and operational requirements intended to strengthen the foreign bureaux and make the sector play a more meaningful role in the economy;

- directive to Promote Competition Concerning International Money Transfer Operations: This directive is intended to promote competition among international money transfer businesses and reduce the cost of money transfer services to the population. The new directive called for the termination of monopolistic practices in money transfer services such as exclusivity clauses in the agreements between international money transfer organizations and their local money transfer agents in keeping with Section 37 (2) of the new FIA of 1999, which prohibits anti-competitive arrangements or monopolistic practices in the provision of financial services in Liberia;

- amended Regulation Concerning Banking License: The new regulation enhances the standards for issuing banking licenses based on current international standards, taking into account the managerial and financial capacity of the shareholders as well as their integrity;

- guidelines for the provision of Mobile Money Services: These guidelines set the regulatory framework for the provision of mobile money services. The guidelines prohibit monopolistic practices in the provision of the services, and require inter-operability among the service providers. Under the current regulatory guidelines, only banks are allowed to provide the services, in partnership with GMS companies and their agents;

- amended Corporate Governance Regulation: The amended regulation reflects a substantial upgrading of the previous regulation to meet current international and regional standards, taking into account the specific circumstances of Liberia. The revised regulation defines the eligibility requirements of the Board of Directors and senior management of financial institutions and also their tenure of services. It also places greater responsibilities of the management of financial institutions on the Board in keeping with the requirement of Risk-Based Supervision;

- amended Regulation on Audit of Financial Institutions and Publication of Financial Institutions: The amended regulation, among other things, reflects a substantial upgrading of the previous regulation to meet current international best practices. It calls for greater disclosure requirements and transparency in the financial information of financial institutions, and define eligibility and tenure of external auditing firms’ services to financial institutions;

- framework for the Relationship between the Central Bank of Liberia and external auditors of financial institutions. This framework calls for greater collaboration between the Central Bank and external auditing firms, defining the expectations of the CBL of external auditing firms during the course of their services to financial institutions, as an important tool for supporting the supervisory work of the CBL.

(iii) Publication of Interest Rates

In keeping with its objective of promoting transparency and disclosure in the activities of commercial banks and to protect the banking public and promote confidence in the system, the CBL commenced the publication of the consolidated financial charges (i.e. lending rates, deposit rates, commissions and fees) of the individual banks on a monthly basis in various newspapers and on the Bank's website. The objective of the publication is to enable the public to make informed decisions and choices regarding credit and deposit products offer by the various commercial banks.

***(iv)* Establishment of a Consumer Protection Unit**

During the period under review, the CBL established a **Consumer Protection Unit**. The rationale for establishing this unit is to strengthen confidence in the sector and provide a channel for redress to complaints from clients of commercial banks and the public as a means of protecting clients against unethical banking practices and maintaining the integrity of the banking system. The unit also has an expanded mandate of undertaking financial literacy and education for the public as a means of promoting financial inclusion in the country.

5.4.2 Regulatory Activities

(i) Implementation of Risk-Based Examination

In keeping with its risk-based supervision framework, which was adopted in 2009, the CBL concluded risk-based examinations of seven (7) of the nine (9) banks. Unlike in the past, the findings of these examinations were discussed with the Board of Directors of each of the examined banks and the Boards are required to ensure the timely corrections of the deficiencies noted by the examinations within specified timeframes.

Also in keeping with the Memorandum of Understanding (MOU) signed by the Central Bank of Nigeria (CBN) and Central Bank of Liberia (CBL) in 2009 and the Charter of the College of Supervisors of the West African Monetary Zone (CSWAMZ), the CBN and CBL concluded joint examinations of two of three banking institutions operating in Liberia with their parent companies in Nigeria. The exercise is part of the collaborative effort of the central banks in the sub-region to promote cross-border supervision and ensure financial stability in the sub-region.

***(ii)* Implementation of the International Financial Reporting Standards (IFRS)**

In an effort to promote transparency, accountability and adequate disclosures in the financial reporting of commercial banks, as well as promote a common standard of measuring the performance and financial condition of commercial banks, the CBL, in 2009, mandated that all commercial banks be IFRS-compliant by December 31, 2012.

In keeping with this deadline, the Central Bank of Liberia, during the year, established an IFRS implementation committee, comprising of staff of the CBL, the commercial banks and auditing firms operating in the country. The committee developed a roadmap to guide the transition process, covering issues such as broad based assessments, impact analysis, standards and disclosures applicable to banks, production of a model set of IFRS financial statements, training etc. This roadmap was issued to all commercial banks and is being used as a monitoring & compliance tool by the CBL.

Going into 2012, the CBL will collaborate with the commercial banks in strengthening their capacity in terms of training. The CBL expects technical assistance from the International Monetary Fund (IMF) for training of its staff in the Regulation & Supervision Department.

(iii) Introduction of a New Reporting System for Banks

In order to help improve the monitoring and surveillance of the financial system, the CBL introduced "e-returns", an electronic reporting platform for commercial banks. The platform allows commercial banks to submit their returns electronically to the Central Bank. There are several benefits associated with this initiative, including reducing costs to the commercial banks in filing their returns with the CBL, and facilitating the consolidation and processing of data and reports on the financial sector on a more efficient and timely basis. This development is part of the greater effort of the CBL to fully automate its monitoring and surveillance system. In this regard, the CBL is working toward galvanizing the necessary resources to acquire the appropriate software (i.e. an electronic financial analysis and surveillance system (e-FASS) software).

5.5 Banking Operations

5.5.1 CBL Steps Up Assistance in Revenue Collection

As part of its role as fiscal agent to the Government of Liberia, the CBL has opened additional windows for the collection of GOL revenue payments.

During the period under review, a window was open at the Liberia Business Registry as part of the One-Stop-Shop project. Additionally, the CBL opened a window at the Ministry of Health. This window collects fees levied by that Ministry on behalf of Government. These windows bring to four the number of collection points controlled by the Central Bank outside its main offices.

5.5.2 CBL Continues its Clean Notes Policy

The CBL as part of its mandate ensures quality Liberian Dollars banknotes are in circulation within the economy. To this end, the CBL collects for subsequent destruction unfit Liberian Dollars or "Tear Tear" from the public on a one-to-one basis. Meanwhile, plans are underway to sensitize the public on the handling of the Liberian Dollars banknotes so as to make it last for a longer time in circulation.

5.6 Research and Publications

The Bank's publication and dissemination of essential macroeconomic and financial indicators to the general public was further enhanced in 2011. This was done through the regular publications, which include Quarterly Economic and Financial Bulletin, the bi-monthly Fact Sheet and Quarterly Newsletter, and the continuation of the monthly provision of the monetary survey to the IMF. Moreover, the submission of economic statistic to some leading international financial institutions, such as WAMA, WAIFEM, WAMI and the ECOWAS Commission continued during the year. This was done through the filling in of questionnaire for these respective institutions.

Also, during the year, the Bank submitted a preliminary BOP Statement to the Fund. The CBL is waiting for comments before finalization and subsequent publication.

The Bank also continued its regular survey of the foreign exchange market in order to monitor the daily movement of the rate. In addition the Bank continued to monitor price developments in the economy in collaboration with the Liberian Institute of Statistics and Geo-Information Services (LISGIS). This is done through the collection, compilation and analysis of the Harmonized Consumer Price Index (HCPI).

5.7 Human Resources Management: Training and Professional Development

At end-December 2011 the total workforce of the CBL was recorded at 246, compared with 237 in 2010. The Bank also hired 25 vacation students during the year under review in support of the Government of Liberia Vacation Job Program. In addition to providing income for the students, the students gained practical knowledge and skills during their stay at the Bank.

Capacity Building

During the year under review, staff of the Bank benefitted from a number of training courses offered locally and abroad by institutions including the CBL, WAIFEM, World Bank, and the IMF and the Centre for Central Banking Studies (CCBS of the Bank of England and the Bank of Ghana) . Some of the courses offered included Medium Debt Strategy for Anglophone West African countries; Economic Modeling and Forecasting; Making Finance Work for Africa; Financial Programming and Policies; Banknotes and Currency Management and Forecasting for Central Banks; Bank Examiner's Level; Office Management and Administration; Clearing Operations; Internal Auditing; Microsoft Dynamics Great Plain 10.0; Financial Reporting Software; Management Development Program for Senior Secretaries; Essential Office Document Handling for Senior Executives.

The Regulation & Supervision Department benefitted from ongoing technical assistance from the IMF on the implementation of risk-based supervision. In December, 2011, the Bank sent three staff of the Insurance Section on attachment with the Central Bank of The Gambia to gain hands-on experience in insurance regulation and supervision, and in preparation for moving the reform process forward in 2012.

5.8 Strengthening the AML/CFT Regime

The CBL in collaboration with other stakeholders including, the Ministry of National Security, the Ministry of Finance and the Ministry of Justice established an inter-ministerial committee for the implementation of anti-money laundering and combating financing of terrorism (AML/CFT) standards in Liberia. The Committee was charged with three main tasks: (1) establishing the Financial Intelligence Unit, (2) developing a National AML/CFT Strategy, and (3) drafting the AML/CFT law.

The Committee, with technical assistance from the World Bank, concluded work on the AML/CFT Strategy and the new AML/CFT Law. Both the strategy and draft law take account the recommendations of the Mutual Evaluation Exercise conducted on Liberia in 2010. The Committee also developed a draft proposal for the setting up of an interim FIU to be housed at the CBL.

Members of the Committee also participated in the 15th and 16th GIABA Technical Committee and Plenary Meetings held in Dakar, Senegal and Lome, Togo, respectively. At the 15th Plenary meeting, Liberia's Mutual Evaluation Report was discussed

Staff of the CBL also participated in a GIABA-sponsored workshop for regulators of non-bank financial institutions and a World Bank-sponsored Tactical Analysis Training Workshop for operations of Financial Intelligence Unit (FIU).

CHAPTER VI
EXTERNAL RELATIONS

6.1 Bretton Woods Institutions

The CBL held meaningful consultations with the IMF and the World Bank with a view to strengthening macroeconomic performance, growth and development of the Liberian economy. A number of IMF missions visited the country during 2011 to review Liberia's performance under the Extended Credit Facility (ECF), and it was concluded that the Program is on track.

The CBL received technical assistance from the IMF in the areas of balance of payments (BoP), monetary statistics, Banking Supervision, and IFRS.

The First Initiative, a multi-donor grant facility providing technical assistance (TA) to promote financial sector strengthening, approved a technical assistance package for the CBL to review and upgrade the existing regulatory and supervisory frameworks for specialized non-bank financial institutions, the insurance sector, and deposit-taking microfinance institutions and to develop a framework for the development of a capital market in Liberia. The package also entails training of staff of the CBL.

In addition, the CBL, in collaboration with the International Finance Corporation (IFC), sponsored a training workshop on finance lease for various stakeholders, including the commercial banks, non-bank financial institutions, the Liberia Chamber of Commerce, the Liberia Business Association, among others. The Bank also held discussions with IFC on its plan to upgrade the existing CBL Credit Reference System, establish a collateral registry and mobilize long-term financing for SMEs.

6.2 Regional and Sub-regional Organizations

6.2.1 West African Monetary Zone (WAMZ)

During the course of the year, the CBL participated in meetings of regional institutions in Africa including the technical meetings of the West African Monetary Zone (WAMZ) and the Convergence Council of Ministers and Governors of Central Banks of member countries of the WAMZ. During these meetings assessments were made of progress by the WAMZ countries toward macroeconomic convergence relative to the single currency program. Also, the status of implementation of the various aspects of the WAMZ program including the payments system modernization project, financial system integration, harmonization of statistics and harmonization of trade policies, etc., were reviewed.

6.2.2 West African Monetary Agency (WAMA)

The CBL also participated in the meeting of the West Africa Monetary Agency (WAMA) Joint Technical Committees and the Committee of Governors (Governors of central banks of ECOWAS) during the year to review progress of WAMA relative to multilateral surveillance and statistical and policies harmonization among countries of the zone as part of the roadmap to the WAMZ single currency.

6.2.3 West African Institute for Financial and Economic Management (WAIFEM)

Like the WAMA meetings, the Bank participated in the meetings of the Board of Governors of the West African Institute for Financial and Economic Management (WAIFEM). Deliberations at WAIFEM's meetings centered around its training programs for the WAMZ countries. The Bank benefited from several courses offered by WAIFEM including Bank Examination, Economic Modeling & Forecasting, and Financial Programming & Policy (FPP).

6.2.4 College of Supervisors

The CBL signed a Memorandum of Understanding (MOU) concerning information sharing and supervision among central banks of the West African Monetary Zone (WAMZ) in August, 2010. Also, as demonstration of its commitment to the Charter of the College of Supervisors of the WAMZ, the Bank participated in all of the College's meetings. Some of the important achievements of the College during the year were:

- taking steps to harmonize supervisory practices across WAMZ by urging members to implement key benchmarks including RBS, IFRS and ensuring compliance with the Basel Core Principles (BCPs);

- promoting the sharing of information on the operations of international banking groups, and developing a framework for the sharing of information;
- promoting cooperation with the Banking Commission of UEMOA, the francophone economic bloc of West Africa;
- developing a standard Corporate Governance Framework for the Zone;
- developing, in collaboration with WAIFEM, a specialized training module on banking supervisors for the Zone; and
- preparing a financial stability report on the Zone for the first half of 2011.

6.2.5 Cooperation with Microfinance Institutions

The CBL embarked upon strengthening its relationship with international partners involved with micro financing. During the period under review, the CBL was represented in several international fora, including the Alliance of Financial Inclusion (AFI) Global Policy Forum, the Pricing Transparency in Microfinance Forum, the World Council of Credit Unions (WOCCU) Annual Conference, and the Savings and Credit Co-operatives Association (SACCA) Congress.

The AFI 2011 Global Policy Forum held in Riviera Maya, Mexico brought together policy makers of more than 180 developing countries and 90 financial inclusion stakeholders from 65 countries. The group reflected on challenges, defined new milestones, and set their path for creating a more inclusive sector. These efforts resulted into the formulation of the Maya Declaration on Financial Inclusion, a joint commitment of the AFI network,.

The purpose of the Pricing Transparency Forum held in Nairobi, Kenya was to provide policy makers and regulators with the opportunity to exchange their experiences in facilitating client protection and pricing disclosure in the microfinance industry. Training was provided on pricing transparency calculations and on formulating strategies for developing and implementing pricing disclosure policy for microfinance institutions.

At the WOCCU conference held in Glasgow, Scotland, the CBL gained recognition from WOCCU and other international credit unions that Liberia has started the process of revitalizing and modernizing her credit union movement and would welcome assistance in that regard. As a result of this appeal, the Irish League of Credit Unions Foundation (ILCUF) included Liberia in a concept note submitted to the ACP/EU Microfinance program which was essentially a regional initiative to enable stronger credit union movements in West Africa to provide technical and training support to emerging credit union movements such as those in Liberia. The concept note was accepted and the CBL further collaborated with the ILCUF to develop same into a full proposal.

The SACCA congress held in Accra, Ghana under the theme: “Empowering Africa through Financial Inclusion-Model of SACCO, was focused on four main objectives:

- highlighting the role cooperatives play as a mitigating agent to challenges affecting achievement of MDGs;
- bringing the sector’s stakeholders to have a common bond that leads to social, economical and political empowerment on the continent;
- promoting effective governance structures within the sector through regulatory framework as a multiplier effect on the continent’s development agenda;`
- encouraging sustainable development of cooperative sector by engaging the youth and narrowing the gender disparity.