CENTRAL BANK OF LIBERIA

ANNUAL REPORT 2010

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2010

JANUARY 1, 2010

TO

DECEMBER 31, 2010

CENTRAL BANK OF LIBERIA

Office of the Executive Governor

January 20, 2011

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, 2010.

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

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 banking 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, 2010

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

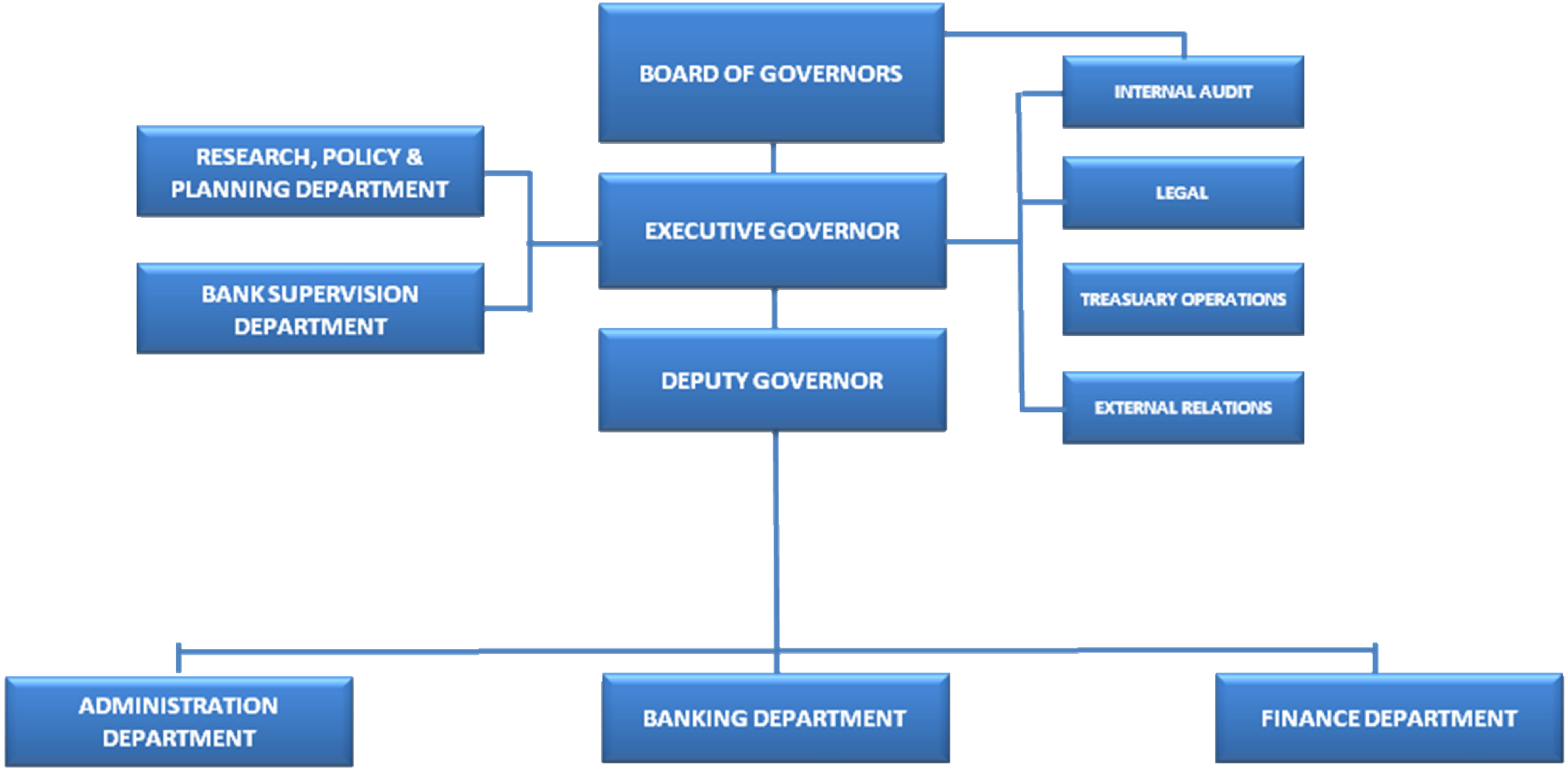
John G. Bestman
Board Member

David K. Vinton
Board Member

Mildred Reeves
Board Member

Betty J. Saway
Board Member

CENTRAL BANK OF LIBERIA
ORGANIZATIONAL CHART



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Acronyms Used

ABLL	-	Access Bank Liberia Limited
A_fDB	-	African Development Bank
AFI	-	Alliance of Financial Inclusion
AML/CFT	-	Anti-Money Laundering and Countering the Financing of Terrorism
BCEAO	-	Banque Centrale des Etats de l’Afrique Centrale l’Ouest
BEAC	-	Banque Centrale des Etats de l’Afrique Centrale
BOP	-	Balance of Payments
BOPSY	-	Balance of Payments Statistics Yearbook
BPM5	-	Balance of Payments Manual 5
BRC	-	Banking Reform Committee
CAR	-	Capital Adequacy Ratio
CBL	-	Central Bank of Liberia
CEAL	-	Combined Effort to Aid Liberians
CEOs	-	Chief Executive Officers
CC	-	Compliance Committee
CLAP	-	Community Livelihood Assistance Program
EBLL	-	EcoBank Liberia Limited
ES	-	Enterprise Survey
ECF	-	Extended Credit Facility
ECOWAS	-	Economic Community of West African States
FATF	-	Financial Action Task Force
FDI	-	Foreign Direct Investment
FIBLL	-	First International Bank Liberia Limited
FIU	-	Financial Intelligence Unit
GBLL	-	Global Bank Liberia Limited
GDP	-	Gross Domestic Product
GIABA	-	Inter-Governmental Action Against Money Laundering
GoL	-	Government of Liberia
GTBLL	-	Gauranty Trust Bank Liberia Limited
HCPI	-	Harmonized Consumer Price Index
HIPC	-	Heavily Indebted Poor Countries
IBLL	-	International Bank Liberia Limited

IC	-	Investment Committee
IDA	-	International Development Association
IFC	-	International Finance Corporation
IFRS	-	International Finance Reporting Standards
IMF	-	International Monetary Fund
LBA	-	Liberia Bankers Association
LBDI	-	Liberia Bank for Development and Investment
LEAP	-	Local Enterprises Assistance Program
LEDFC	-	Liberian Enterprise Development Finance Company
LEEP	-	Liberia Emergency Employment Program
LICPA	-	Liberian Institute of Certified Public Accountants
LIFS	-	Launch of an Inclusive Financial Sector
LISGIS	-	Liberia Institute of Statistics and Geo-Information Services
MDAs	-	Mineral Development Agreements
MDRI	-	Multilateral Debt Relief Initiative
MDRP	-	Monetary Data Reporting Procedure
MENA	-	Middle East and North Africa
MFIs	-	Microfinance Institutions
MIS	-	Management Information Services
MMPRC	-	Money Management and Policy Review Committee
MoF	-	Ministry of Finance
MoU	-	Memorandum of Understanding
NDA	-	Net Domestic Asset
NFA	-	Net Foreign Asset
NFL	-	Net Foreign Liability
NPLs	-	Non-Performing Loans
PFM	-	Public Financial Management
RBS	-	Risk-Based Supervision
ROA	-	Return on Assets
ROE	-	Return on Equity
SAM	-	School of Applied Microfinance
SDR	-	Special Drawing Rights
SMEs	-	Small- and Medium-Sized Enterprises
SSA	-	Sub-Saharan Africa

T-bills	-	Treasury bills
UA	-	Unit of Account
UN	-	United Nations
UNCDF	-	United Nations Children Development Fund
UNDP	-	United Nations Development Programme
UNIFEM	-	United Nations Development Fund for Women
WAIFEM	-	West African Institute for Financial and Economic Management
WAMA	-	West African Monetary Agency
WAMI	-	West African Monetary Institute
WAMZ	-	West African Monetary Zone
WEO	-	World Economic Outlook

FOREWORD BY THE EXECUTIVE GOVERNOR

The year 2010 proved to be a year of notable achievements for the Central Bank of Liberia (CBL). In its quest to enhance the financial system as a cardinal pillar of support for rapid and sustainable economic growth and development in Liberia, the Bank – inter alia – completed the institutional framework for the establishment of a treasury bill market; took steps to ensure that the recapitalization program for commercial banks remain on course; introduced a credit stimulus initiative to support Liberian small and medium-sized enterprises; successfully spearheaded, with technical and financial assistance from the International Finance Corporation (IFC), the drafting and passage into law the new Commercial Code Bill and the Bill to Establish a Commercial Court; and launched a project for the modernization of the payments system in Liberia. Also, with the cooperation of the commercial banks, the Banking Institute was established, which is vital to building capacity within the banking system for enhancing the delivery of services to the public.

The CBL is now entering the second phase of its reform agenda. It will be recalled that the first phase of the agenda focused on three pillars: recapitalization of the commercial banks; improving corporate governance within the banking system; and strengthening supervision. The emphasis will now be on improving intermediation so that credit is channeled to productive investment to grow the economy; building a modern payments system to support economic activities and reduce the cost of financial transactions; intensifying work toward the establishment of a capital market, in order to deepen the financial sector of the country; reforming and strengthening the insurance sector, as an important part of the financial system; and reforming the non-bank financial sector, including the operations of foreign exchange bureaux. The Bank has already begun some work in all of these areas.

It is imperative that our effort to promote a more vibrant private sector include the development of the microfinance industry, and the CBL has continued to make progress in this regard. During the course of the year, the Bank published a general strategy for the development of the microfinance industry for a five-year period (2009 – 2013), along with a microfinance regulatory and supervisory framework. Also, the CBL Board approved prudential regulations for micro-finance deposit-taking institutions, which have also been published. The practical effect of the steps taken to promote microfinance demonstrates itself in a loan portfolio of leading microfinance institutions of about US$ 7.9 million and a client base that has grown from about 8,000 clients in 2007 to about 54,742 at end-December 2010 – a more than fivefold increase.

The CBL continued work towards enhancing the soundness and efficiency of the banking system, leading to steady improvements in key indicators in the industry. At end-October 2010, the ratio of non-performing loans to total loans declined to 10.3 percent, from 13.4 percent one year earlier. The industry's gross earnings and operating profits rose by 22.1 percent and 5.9 percent, respectively, over what was recorded at end-October 2009. The minimum capital requirement was increased from US$8.0 million to US$10.0 million as at end-December 2010.

Meanwhile, as a means of helping to address the credit needs of the economy, the CBL increased the single obligator limit from 15 percent to 20 percent, and continued to encourage banks to engage in more loan syndications in order to share the risks for larger transactions. The branch banking network increased from 55 in 2009 to 74 in 2010. Employment in the banking sector also increased during 2010, totaling 1,419, compared with five years ago when the total employment in the sector was about 422.

Regarding the macroeconomy, Liberia's economic landscape today is much better than it was some five years ago. Underpinned by sound fiscal and monetary policies, real GDP growth has averaged 7.0 percent from 2006 thru 2010. Year-on-year inflation averaged 7.5 percent at the end of December, 2010, lower than in many countries in the region. The foreign exchange reserves of the CBL was US$293.1 million at end-December 2010, compared with about US$5 million at the beginning of 2006. The sound economic policies of the government encouraged strong support from development partners. A notable example of such support was the debt relief that was granted Liberia in the context of the HIPC Initiative. This was critical to helping create the fiscal space that should help the country step up the needed public investment in key areas, such as the development of infrastructure in order to improve the economy's competitiveness and, therefore, its productive capacity.

The restoration of Liberia's image in the international community, the heightened interest of foreign investors, the commitment of the authorities to maintaining a stable macroeconomic environment, the emphasis being placed on the development of Liberian businesses, the broad-based commitment of the Liberian people to peace and political stability are all signs of a country and an economy headed in the right direction. However, there are challenges ahead. A major one being the task of creating more jobs and expanding the benefits of economic growth more broadly throughout the population. It is recognized that addressing this challenge requires continued concerted action on the part of both government institutions and the various private sector organizations. The CBL shall remain an active participant in the nation's economic renaissance and commits to be totally involved in the Government's effort to strengthen the private sector as the basis for sustained economic growth and development.

Finally, I would like to thank the Board of Governors and the staff of the Bank for their cooperation and commitment. To the Government of Liberia, including the oversight committees of the Legislature, the banking community, our international partners, and the general public, we say a special thank-you for your support during the course of the year.

J. Mills Jones

Executive Governor

HIGHLIGHTS

<table>
<tr>
<td>THE MACROECONOMY
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<td>
❖ Real GDP growth in Liberia for 2010 was estimated at 6.3 percent, compared with 4.3 percent in 2009.

❖ Inflation was largely subdued in 2010, averaging 7.5 percent in the 12-months to December, 2010.

❖ In June 2010, the Boards of Directors of the IMF and the World Bank approved debt relief for Liberia under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

❖ External trade significantly improved during 2010. Exports as a ratio of GDP rose immensely from 27.0 percent of GDP to 39.8 percent of GDP in 2010. This was due largely to the recovery of the global economy from a period of economic recession.
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<tr>
<td>BANKING STABILITY
</td>
<td>
❖ The banking industry continued to exhibit steady growth in key financial soundness indicators. At the end of October 2010, the ratio of non-performing loans to total loan declined to 10.3 percent, compared to 13.4 percent for the same period in 2009; the industry's gross earnings and operating profits rose by 22.1 percent and 5.9 percent, respectively, over October 31, 2009 data.

❖ The Banking Industry's Capital Adequacy Ratio (CAR) as at October 31, 2010 was 23.9 percent, compared with the minimum requirement of 10.0 percent.

❖ CBL collaborated with the Liberian Institute of Certified Public Accountants to train staff of banking institutions in the procedures of International Financial Reporting Standard (IFRS).

❖ In September 2010, the National Legislature approved the Commercial Court Act. The Court will help fast-track the adjudication of commercial and financial contracts. It will also help to strengthen creditors' right and improve access to bank credit. The National Legislature also passed the Commercial Code Act.
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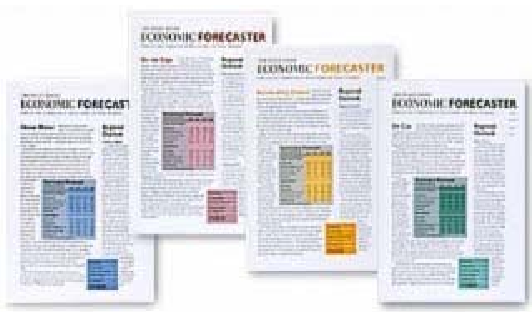
TREASURY OPERATIONS 	❖ The CBL completed a framework for the issuance of the Government of Liberia Treasury-bills (T-bills). ❖ The CBL completed an arrangement for a road map that would guide the orderly development of a Capital Market in Liberia.
CBL FOREIGN RESERVES POSITION 	❖ The net foreign reserves position of the CBL stood at US$293.1 million, up from US$269.0 million in 2009.
EXCHANGE RATE STABILITY 	❖ In the 12-month period up to December 2010, the Liberian-US dollar exchange rate remained broadly stable on average at L$71.0/US$1 for buying and L$72.0/US$1 for selling. The intervention of the CBL in the foreign exchange market contributed to the broad stability of the exchange rate. The CBL offered US$44.6 million through the auction in 2010, US$12.8 million more than the US$31.8 million in 2009.
MICROFINANCE 	❖ The number of major microfinance institutions (MFIs) operating in the country now stands at 7, from a mere 2 in 2006, with a loan portfolio of US$7.9 million and a client base of 51,500 from 8,000 in 2006, representing a 544 percent growth in the number of clients. ❖ The CBL developed in 2010 a Prudential Regulations for Microfinance Deposit-taking institutions (MDIs) to bring about further inclusion of the poor into the financial sector by making it possible for low income people to have opportunity to save as well as borrow.

<table>
<tr><td>PAYMENTS SYSTEM
</td><td>❖ In November 2010, the Board of the African Development Bank (AfDB) approved a grant of U.A 5 million (approximately US$7.5 million) for the extension of the West African Monetary Zone (WAMZ) payments system modernization project to Liberia which is currently ongoing in The Gambia, Sierra Leone and Guinea. The Project was launched on the 15th of December 2010 in Monrovia at the Central Bank of Liberia's Training Center. The program was attended by the Director-General of the West African Monetary Institute (WAMI), representative of the A_fDB, government officials as well as members of the Liberian Business community.</td></tr>
<tr><td>PRIVATE SECTOR CREDIT INITIATIVE
</td><td>❖ CBL launched a Credit Stimulus Initiative for Liberian-owned Small to Medium Scale Enterprises (SME).

❖ The CBL completed a placement of US$5 million with the commercial banks for onward lending to Liberian-owned enterprises in support of the development of Liberian- owned businesses and Liberian entrepreneurs who desire to start a business. The Credit Stimulus Initiative would enable banking institutions to have a better maturity structure for loans to Liberian-owned SMEs and to make the cost of credit more affordable.</td></tr>
<tr><td>ANTI-MONEY LAUNDERING
</td><td>❖ In 2010, the CBL partnered with relevant stakeholders to draft a new law on Anti-Money Laundering and Terrorist Financing for Liberia.

❖ In November, 2010, the Inter-Governmental Action Group against Money Laundering and Terrorist Financing (GIABA), conducted a mutual on-site evaluation for Liberia. The aim of the evaluation was to assess Liberia's progress relative to the GIABA's guidelines and regulations and to ascertain the country's compliance with international best practice.</td></tr>
<tr><td>PUBLICATION
</td><td>❖ The CBL continued with the publication of its Economic Bulletin, Liberia Financial Statistics (LFS), Newsletter, and the Fact Sheet on key economic and financial indicators.</td></tr>
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CHAPTER I
DEVELOPMENTS IN THE GLOBAL ECONOMY

1.1 GLOBAL GDP GROWTH

Global economic recovery continued to strengthen during the course of 2010, from a period of recession in 2009. However, the turmoil in sovereign debt markets remains a challenge to the stability of the international financial system. In general, volatility in financial, currency, and commodity markets still remains a concern. Major adjustments are still needed to be carried out in most advanced and a few emerging economies relative to strengthening household demand, stabilizing and further reducing public debt, and reforming their financial systems.

According to the IMF World Economic Outlook (WEO), the world economy was projected to grow by 4.8 percent in 2010, from a slump of 0.6 percent in 2009. The rebound in global economic activities was projected to be driven by Asia, led primarily by robust growth in China and India, which were expected to grow by 10.5 and 9.7 percent, respectively. Growth in advanced economies was projected at 2.7 percent, compared with a -3.2 percent in 2009. Advanced Asia, except for Japan, was expected to register impressive growth on account of pickup in their manufacturing sectors.

In emerging and developing economies, growth was projected to hover around 7.1 percent, from 2.5 percent in 2009. Again, developing Asia was the engine of the region's growth, driven by strong domestic demand in China, India, Indonesia, and others.

Latin America's recovery was also strong, with real GDP growth put at around 7.0 percent. The robust growth was led by Brazil, which was projected to grow by 7.5 percent, up from a sluggish 0.2 percent growth rate in 2009.

Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) also posted impressive performances. Output for Middle East and North Africa was projected at 4.1 percent, from 2.0 percent in 2009, while SSA was put at 5.0 percent, representing a 2.4 percentage-point increase over 2009. However, some emerging economies in Europe and the Commonwealth of Independent States, where the crisis hit hardest, are finding it increasingly difficult to sustain economic growth.

Global trade was also projected to make a strong comeback in 2010. World trade volume (goods and services) was projected to make a spectacular rebound in 2010, from a sluggish level in 2009; rising from a sluggish -11.0 percent growth rate in 2009 to an impressive 11.4 showing in 2010.

The recovery process remained largely dependent on the effective implementation of accommodative macroeconomic policies and improvements in the global financial system.

TABLE 1: The Global Economy (Percentage Change)

	Real GDP		
		Projections	
	2009	**2010**	**2011**
World Output	**-0.6**	**4.8**	**4.2**
Advanced Economies	**-3.2**	**2.7**	**2.2**
USA	-2.6	2.6	2.3
Euro Area	-4.1	1.7	1.5
Japan	-5.2	2.8	1.5
UK	-4.9	1.7	2.0
Emerging and Developing Economies	**2.5**	**7.1**	**6.4**
Central and Eastern Europe	-3.6	3.7	3.1
Commonwealth of Independent States	-6.5	4.3	4.6
China	9.1	10.5	9.6
India	5.7	9.7	8.4
Brazil	-0.2	7.5	4.1
Sub-Saharan Africa (SSA)	2.6	5.0	5.5
Liberia	4.6	6.5	8.5
Memorandum Items			
World Trade Volume (goods and services)	**-11.0**	**11.4**	**7.0**
Imports			
Advanced Economies	-12.7	10.1	5.2
Emerging and Developing Economies	-8.2	14.3	9.9
Exports			
Advanced Economies	-12.4	11.0	6.0
Emerging and Developing Economies	-7.8	11.9	9.1
Consumer Prices			
Advanced Economies	0.1	1.4	1.3
Emerging and Developing Economies	5.2	6.2	5.2

Source: World Economic Outlook (WEO) October 2010

1.2 GLOBAL INFLATION

Global inflation in 2010 was projected to stay low amid continued excess capacity and high unemployment. The recovery of commodity prices has raised the level of consumer prices. Headline inflation for 2010 was expected to remain around 1.25 percent.

In 2011, global inflation is projected at 1.5 percent. However, current developments in food inflation and the gradual rise in global oil price have implications for higher inflation in 2011.

1.3 COMMODITY MARKET

Oil

The average price per barrel of crude oil for the first three quarters of 2010 stood at US$77.6 per barrel, indicating a rise of about 36.4 percent over the corresponding period in 2009. Increased supply and lower market demand occasioned the stability in oil price for the review period. The decline in demand was due to the slow pace of economic activities in the world economy, triggered by the sovereign debt issues in the Eurozone.

Forecast for global oil price is expected to be around US$100/barrel in 2011 on speculation of recovery of the global economy and increasing demand from emerging market economies, especially China.

Rubber

Global rubber demand is projected to reach 10.3 million tons in 2010, from 9.4 million tons in 2009. The price of natural rubber averaged US$3,088.67/ton during the first three quarters of 2010, from US$2,975.7/ton for the same period in 2009. The rise in demand for natural rubber can be attributed to the growth of automobile industry in India and China; thus placing prices of rubber at historically high levels.

Cocoa

Prices of cocoa on the world market between January and August of 2010 averaged £2,259.5, compared with £1,780.9 for the same period in 2009. The rise was triggered by Armajaro, a London-based hedge fund specializing in commodity trading, purchasing around 250,000 tons of cocoa.

Gold

Gold prices reached record highs of US$1,350 per ounce in November of 2010, due largely to robust demand for gold jewelry in Asian markets, strong gold investment demand as a result of economic and currency concerns, and heavy industrial gold demand for consumer electronics.

CHAPTER II
GOVERNANCE

2.1 The Board of Governors

The powers of the Central Bank of Liberia (CBL) are vested in the Board of Governors, which consists of the Executive Governor, Chairman of the Board, and 4 non-Executive Governors, according to the 1999 Act that created the Bank. 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 from 4 years to 1 year, and they are also eligible for reappointment for a fixed period of 5 years.

The fundamental responsibility of the Board is to formulate policies that are necessary for the achievement of the Bank's principal objective which is to achieve and maintain price stability in the Liberian economy. To achieve this objective, 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 financial 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. In addition, the Board is responsible to ensure effective and efficient operation of the banking system in accordance with the New Financial Institutions Act (FIA) of 1999.

2.2 Committees of the Board

In addition to its Audit Committee which assists it in ensuring that internationally accepted accounting procedures and internal controls are maintained, as well as ensuring compliance with such standards and statutory requirements, the Board also has an Investment Committee which was constituted in 2010. The mandate of the Investment Committee is to review and recommend to the Board for approval, investment plans relative to the financial resources of the CBL, including its foreign reserves, in keeping with the policies and procedures established for this purpose. The Committee is also responsible to receive and deliberate on periodic reports from the Management of the Bank on earnings generated and risk profiles of investment portfolios, as well as monitor the achievement of the intended monetary policy and economic impact of such investments.

2.3 Major Issues Considered by the Board

The Board considered the below-listed major issues during the year in accordance with its work program:

- In order to make financial services accessible to a larger segment of the Liberian population, particularly low-income earners and small- and medium-sized enterprises (SMEs) in the economy, and to promote Government's Poverty Reduction Program, the Board considered and approved the framework for Microfinance Regulation and Supervision;

- Considered and approved the Government of Liberia Treasury Bills Auction Rules and Regulations to facilitate the implementation of the T-bill program;

- Approved the Credit Reference Bureau Regulation intended to provide the legal and regulatory framework for the establishment and operation of a credit reference bureau;

- Considered and approved the Guidelines on Due Diligence concerning Prospective and Existing Employee(s) of Financial Institutions, setting minimum requirements for the engagement or hiring of persons and/or the assessment of existing employees by licensed financial institutions;

- Amended the Prudential Regulations for Asset Classification, Provisions for Loan Losses (reducing the General Provision for Loan Losses from 2 percent to 1 percent) and Suspension of Interest Rates on Non-Performing Loans and Advances;

- Considered and approved the Prudential Regulations for Deposit-Taking Microfinance Institutions (DMIs) to regulate the establishment, operations and business conduct of DMIs that seek to take deposits from the public and engage in microfinance lending;

- Considered and approved a Directive concerning Vault Security and Surveillance Systems requiring banks to comply with a minimum security standards to ensure adequate security protection of their premises and facilities including head offices, branches, cash centers, outlets, etc.; and

- By Resolution, authorized the Management of the CBL to make placements with banking institutions on a discretionary basis, so that they can provide credit to Liberian-owned small and medium enterprises with a view to stimulating the economy.

2.4 Key Internal Committees

In 2010, the number of key internal committees of the CBL remained at 3, comprising the Money Management and Policy Review Committee (MMPRC), the Compliance Committee (CC), and the Banking Reform Committee (BRC). The MMPRC deliberated on several policy-related issues and provided prudent policy direction for the Bank. The CC discussed a number of issues concerning the various banking institutions and appropriate actions were taken where necessary, to ensure compliance with regulations and directives. Appropriate measures were also taken to correct weaknesses in the concerned individual banks. For its part, the BRC deliberated on several supervisory and regulatory issues which led to the issuance of a number of regulations and directives during the course of the year with a view to enhancing operation of the banks.

2.5 Improving Access to Credit by the Private Sector

In its quest to improve access to credit by the private sector, the CBL undertook a number of measures including: (1) the introduction of a credit stimulus initiative for Liberian-owned Small and Medium-scaled Enterprises (SMEs), and (2) the reduction in the lending rates and general provisions for loan losses.

In launching a credit stimulus initiative for Liberian-owned SMEs, the CBL placed medium-term funds to the tone of US$5 million with selected banking institutions. This placement was done with a two-fold objective; namely, to enable these institutions have a better maturity structure for loans to Liberian-owned SMEs, and to make the cost of credit to such enterprises more affordable. Specifically, the interest rate relative to this Initiative, including all bank commissions and fees, will not exceed 8.0 percent.

With regard to reduction in the lending rates and general provision for loan losses, the banks, through the Liberia Bankers Association (LBA), committed to reduce their lending rates by 0.75 percentage points effective December 31, 2010; the CBL, on its part, reduced the general provision for loan losses from 2.0 percent to 1.0 percent.

2.6 Establishment of a Banking Institute

The CBL, in collaboration with the Liberia Bankers Association (LBA), launched the Banking Institute of Liberia in early August of 2010. This was followed by the commencement of the first series of courses, which included introduction to banking, audit and compliance, banking frauds, credit risk management, etc. The courses were facilitated by trained and experienced staff of the CBL and the banking institutions. Participants were issued certificates at the end of each course. The first session of the Institute's training program, which lasted for three (3) months, was concluded in October 2010, with a total of 124 participants.

The purpose of the Institute is to help address the capacity needs of the banking sector, which is one of the key constraints facing the sector. As a medium-term goal, the Institute is expected to provide professional training in banking, finance, accounting, etc. for individuals from local colleges and universities desirous of seeking employment in the banking sector.

The establishment of the Institute is part of CBL's overall objective of promoting active participation of Liberians in the management of the banking system. As a near-term plan, the Institute will seek collaboration with regional training institutes to offer specialized training courses. In this regard, discussions were initiated with the Charter Institute of Bankers in Nigeria to provide specialized courses in real estate and agriculture financing. These initiatives are expected to be concretized in 2011. The commercial banks have committed themselves to financing the activities of the Institute; even though potential donor assistance will be needed in this effort.

2.7 Communication with Stakeholders

a. Engagement with Foreign Exchange Bureau Association

During the year under review, the Central Bank of Liberia engaged the leadership and membership of the Association of Foreign Exchange Bureaux and other non-licensed operators in Liberia with the aim of reforming and modernizing the foreign exchange business in the country in line with regional practices. The key issues discussed with the foreign exchange dealers included (1) strengthening the regulation and supervision of foreign exchange bureaux activities, (2) encouraging steps aimed at bringing foreign exchange bureaux more into the formal economy, (3) promoting merger and consolidation among foreign exchange bureaux or operators, (4) requiring minimum deposit to demonstrate financial capacity to undertake or provide other financial services, (5) requiring minimum institutional set up and record keeping system, and (6) restructuring the leadership of the Association to reflect a broader representation.

Based on discussion with the CBL , the existing leadership of the Association was reconstituted to reflect a broader representation and a new Advisory Board set up to promote corporate governance in the Association. The restructuring of the leadership is important for promoting dialogue between the CBL and the foreign exchange dealers concerning the conduct of foreign exchange business in the country.

b. Engagement with the Liberia Bankers Association

In its quest to foster and promote dialogue with the commercial banks, the CBL held several working luncheons with the Chief Executive Officers (CEOs) of commercial banks. The working luncheons were intended to provide an informal forum for the CBL and CEOs of the commercial banks to discuss pertinent issues concerning the banking sector with the objective of developing a common strategy and agenda to address those issues.

As a result of those discussions, the CBL reached consensus with the commercial banks on a number of important issues, including (1) the establishment of the Banking Institute of Liberia, (2) reduction in the lending rates and general provisions for loan losses, (3) placement of CBL medium-term deposit with the commercial banks for onwards lending to small and medium sized Liberian-owned businesses, and (4) the joint sponsorship of a two-week training in International Financial Reporting Standards (IFRS).

c. Engagement with the Insurance Sector

The CBL held a series of consultative meetings with heads of insurance companies and other relevant stakeholders of the insurance industry, including the Ministry of Transport and the Ministry of State, as a means of reaching consensus on the way forward for enhancing the regulation and supervision of the insurance industry.

The latest meeting with representatives of insurance companies was held in December, 2010, at which time they were informed that the CBL intended to promote the safety and soundness of all insurance companies operating in Liberia in keeping with its mandate under the law.

This would involve ensuring adequate capitalization, enhanced corporate governance , the institutionalization of strong risk management systems, and ensuring adequate re-insurance.

In order to ensure the smooth exercise of its regulatory and supervisory functions in regard to the insurance sector, the CBL took several actions over the past two years to prepare itself for carrying out this task. One of the steps taken by the Bank was the recruitment of experienced, trained and competent staff to manage the process of regulating and supervising the insurance sector. Also during the year, the Bank developed a road map for taking over the regulation and supervision of the sector. The road map, among other things, comprises (1) the development of an interim regulatory and supervisory framework, (2) establishment of an Insurance Section at the CBL, and (3) the conduct of an industry-wide survey to facilitate the development of the appropriate regulatory framework based on international best practices.

d. Collaboration with Stakeholders to improve the credit environment

The CBL worked with various stakeholders, including the Liberia Bankers Association, the Liberia Bar Association and the International Finance Corporation (IFC) in taking steps to improve the credit environment in the country. This effort led to the passing into law the legislation of the Revised Commercial Code and the legislation regarding the establishment of a fast-track commercial court.

The objective of both the Commercial Code and the Commercial Court is to provide separate and clear rules by which financial contracts, particularly loan contracts, will be enforced through inexpensive, speedy and simple procedures.

In addition, the CBL, with technical assistance from the IFC, developed a regulatory framework for finance leasing for commercial banks. The framework is intended to promote alternative financing instrument for lending to small and medium enterprises.

CHAPTER III
OPERATIONS OF THE CBL

3.1 Risk Management and Audit

The Central Bank of Liberia's Internal Audit continues to provide independent, objective assurance and advisory services designed to enhance the Bank's operations. The Audit Section helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of the Bank's risk management, control and governance processes. Functional oversight of the Internal Audit function rests with the Board Audit Committee.

During the year 2010, Internal Audit continued its risk assessments in all departments and sections of the Bank, identifying opportunities for structural improvements to the Bank's organizational chart in order to better manage, and improve the Bank's operations. The Board Audit Committee's terms of reference were updated and renamed "Board Audit Committee Charter" with the aim to further strengthen the Committee's oversight responsibilities and align its terms of reference with best practice among central banks.

The IMF, following close monitoring of the development of capacity within the Internal Audit function of the CBL, has informed the CBL that the bi-annual Monetary Data Reporting Package (MDRP) audit, which includes reviews of internal control, previously carried out by the external auditors, PwC, could now be performed by CBL's Internal Audit Section. This decision by the IMF is consistent with CBL's reform programs, which have seen the CBL attain several milestones in the integrity and effectiveness of its governance processes.

3.2 Fiscal Agent for the Government

Civil Servants' Salary Encashment

The CBL continues to facilitate the encashment of the GOL civil servants' salaries and allowance checks in the leeward counties by encouraging commercial banks branch networks. However, the CBL maintains a few permanent payments centers in areas where there are limited or no presence of commercial bank branch networks to facilitate GoL's check encashment process.

Transitory Accounts Establishment

The CBL was instrumental in concluding an agreement with the Ministry of Finance to establish transitory accounts for the collection of GOL revenue. The establishment of the transitory accounts with banks is intended to enhance the process of revenue collection consistent with the Public Financial Management (PFM) Law. In addition to the One-Stop-Shop initiative, this process will help alleviate some of the difficulties experienced by tax payers in the past such as the amount of time used in processing tax payment documents.

Steps in Alleviating Check Fraud

The CBL, in its effort to reduce check fraud, embarked on a number of measures including the automation of a check verification process and the printing of checks through internationally accredited security printing firm outside of the country. In addition, a number of government ministries and agencies are being paid through a direct deposit scheme at commercial banks which is facilitated and closely monitored by the CBL.

Replacement of Mutilated Banknotes

In its effort to ensure that mutilated Liberian dollar banknotes are withdrawn from circulation and replaced with cleaner notes at face value in a timely manner, the CBL increased the number of days from 1 to 5 (Monday to Friday) on which the general public can exchange mutilated banknotes at the CBL. The objective of the CBL's Clean Note Policy is to ensure that cleaner banknotes are circulating in the economy at all times in facilitating economic activities as well as to enhance a wider use of the Liberian dollar. Mutilated Liberian banknotes can also be deposited at commercial banks for cleaner notes.

3.3 Payments System Modernization

Following Liberia's accession to the West African Monetary Zone (WAMZ) as a full-fledged member in February 2010, the CBL initiated discussions with the West African Monetary Institute in order for the African Development Bank (AfDB) funded payments system modernization project to be extended to Liberia. In November 2010, the Board of Directors of the African Development Bank approved a grant of U.A 5 million (approximately US$7.5 million) to cover the additional cost arising from the extension of the WAMZ payments system modernization project to Liberia which is currently ongoing in The Gambia, Sierra Leone and Guinea.

The Project was launched in mid December 2010 in Monrovia at the CBL's Training Center and the program was attended by the Director-General of the West African Monetary Institute (WAMI), a representative of the African Development Bank (AfDB), government officials as well as members of the Liberian Business community. The modernization of the payments system is critical for the deepening of the financial sector in Liberia which will improve its basic infrastructure, create opportunities for banks to develop new financial products and improve their income position.

In addition, the WAMZ payments system development project is geared towards the realization of a full economic and monetary union in the WAMZ countries and to help foster a conducive environment for private sector-led growth as well as improve efficiency in financial intermediation among banks and private investments within the West African Monetary Zone.

3.4 CBL Accounting and Finances

The CBL's financial statements for the third 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 2010 audit was conducted as 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 2010 revealed gross income of L$1,171.3 million compared with L$2,549.4 million in 2009. The decrease in gross income in 2010 was mainly due to increase in cost associated with the printing of Liberian Dollar. The main drivers of revenue were interest income of L$561.1 million and Fees & commission amounting to L$227.8 million

- Total expenditure for the year including actuarial loss on defined benefit pension plan amounted to L$818.3 million, compared with L$503.2 million in 2009. This is attributed to increase in cost associated with Liberian Dollar in circulation coupled with increase in administrative and other operating expenses resulting from the expanding activities of the Bank.

- The Bank's net comprehensive income for 2010 was L$353.0 million compared to L$2,046.2 million in 2009, a decrease of L$1,693.2 million due to increase in expenses in 2010.

Financial Position

- The CBL's un-audited Statement of Financial Position recorded total assets of L$73,117.33 million for the year ended 2010, compared with L$52,960.87 million in

2009. This 38.1 percent increase was mainly due to disbursements of Special Drawing Rights (SDRs) by the IMF under the Extended Credit Facility (ECF) program, increased in liquid assets and the purchase of additional equipment. Excluding the IMF, approximately 52.0 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.

- The CBL's un-audited total liabilities at year-end 2010 amounted to L$61,108.6 million compared with L$97,787.0 million in 2009. The decrease in liabilities of L$36,679.4 million was mainly attributed to debt relief at the HIPC Completion Point.

- The CBL's un-audited total owners' equity at year-end 2010 was L$12,008.7 million compared with L$11,416.0 million in 2009.

The Budget

- The CBL implemented the 2010 budget as approved by the Board of Governors in July 2010. The budget was based on interest income on loans and advances to GOL, interest on placements abroad as well as service fees and commission.

- The Bank net Foreign Reserves for the year ended December 31, 2010 was US$293.1 million, up from US$269.0 million in 2009. The increase of US$24.1 million was mainly due to an increase in the holdings of SDRs through loan disbursements by the IMF under the Extended Credit Facility program.

3.5 Supervisory and Regulatory Activities

(a) Supervisory Activities

Implementing Risk-Based Supervision

During 2010, the CBL made significant progress with the implementation of its risk-based supervision program. In addition to issuing risk management and internal control guidelines to commercial banks to guide them in developing or updating their risk management programs, the CBL also concluded a review of the risk management program of each bank. Furthermore, an institutional profile was developed for each bank, focusing on its corporate profile, risk management system, risk profile and other regulatory and supervisory issues. Other tools related to risk-based supervision were also developed, including updating of the RBS Framework.

The CBL also conducted a sensitization workshop for board members, senior and middle-level staff of commercial banks in 2010. The workshop, which was facilitated by the IMF Advisor providing technical assistance to the Supervision Department, highlighted the role and responsibility of the board and senior management of commercial banks as a cardinal component of an effective risk management system. A walk-through evaluation of the risk management system of each bank was concluded in August 2010, which was followed by the first pilot examination under the RBS framework in September 2010.

The adoption of risk-based supervision will promote international respectability for the Liberian banking system, ensure a stronger banking system, and provide greater protection for depositors' funds. A successful transitioning to risk-based supervision will prepare the CBL toward the adoption of Basel II Supervisory Standards and place the CBL's supervisory regime on par with the sub-region and international standards. The existing CBL's supervisory regime is more focused on Basel I, which is a more simplified approach to the measurement of the capital requirement of banking institutions, while the Basel II approach entails a more complex approach covering all aspects of banking risks and activities based on three re-enforcing pillars, which include (1) computation of minimum capital requirements, (2) supervisory review process, (3) market discipline and information disclosure.

There are also ongoing training activities of staff of the Supervision Department, which are being provided by the IMF Technical Advisor on various components of CBL Risk-Based Supervisory Framework.

International Financial Reporting Standards (IFRS)

Given the international character of banks, it has become increasingly important that investors and other users of financial statements are able to compare banking institutions across borders using similar standards. Based on the foregoing, the CBL required the adoption of the International Financial Reporting Standards (IFRS) by all commercial banks by end-December 2012. This is expected to present a uniform basis for the recognition, classification and measurement of financial assets and liabilities, and the related income, and expenditure of financial institutions.

In keeping with this policy decision, the CBL started preparatory work to ensure a smooth transition by the banks to IFRS by the deadline indicated above. The Bank began work on developing guidelines on the adoption and implementation of IFRS by commercial banks, and in collaboration with the Liberia Institute of Certified Public Accountants (LICPA) and the Liberia Bankers Association, held a two-week industry-wide training in IFRS for commercial banks and CBL staff. The workshop was jointly funded by the commercial banks and the CBL, and facilitated by an international expert from the United Kingdom (UK).

Supervisory Cooperation

The CBL, during 2010, sought further collaborations with other regulatory agencies of countries in which the parent companies of local banks are domiciled. The Bank signed the MOU for supervision cooperation and exchange of information for West African Monetary Zone countries, which include Ghana, Sierra Leone, Guinea, Nigeria, The Gambia and Liberia.

As a practical step for the effective implementation of the MOU for WAMZ countries, the Committee of Governors of central banks of the WAMZ countries signed the Charter for the establishment of a College of Supervisors in the WAMZ. The College, which is a collaborative mechanism among supervisors of the member countries, will reduce regulatory duplication and inconsistencies, improve bilateral dialogue between regulators and supervisors, increase the level of trust and enhance cooperation among supervisors regarding the activities of international banking organizations operating across member countries. The College is not a substitute for effective national supervision nor intended to supplant the legal and prudential responsibilities of respective national supervisory authorities.

The objectives of the College include: (1) facilitating the exchange of information, views and assessments among supervisors to enhance the efficiency and effectiveness of the supervision of institutions both on a solo and consolidated basis; (2) enabling supervisors to develop a common understanding of the risk profile of a banking group as a starting point for risk based supervision at both the solo and consolidated levels; (3) ensuring proper coordination of the decisions of the individual supervisory authorities in the zone; (4) coordinating supervisory review and risk assessment processes of members towards the establishment of supervisory plans and joint on-site visits, thus avoiding duplication of work and reducing regulatory burden; and (5) contributing to the consistent implementation of WAMZ directives and the convergence of member states' supervisory practices across the zone.

The CBL is fully committed to these initiatives, and was represented at both the inaugural meeting of the College, which was held at the Headquarters of the Central Bank of Nigeria (CBN) in Abuja in August, 2010, and the 2nd meeting held in Accra, Ghana in November , 2010.

(b) Regulatory Activities

In 2010, the CBL issued several new directives, guidelines, and regulations, and amended one existing regulation. The newly issued regulations include the Regulation on Deposit-Taking Microfinance Institutions, which provide the regulatory framework for specialized microfinance institutions wishing to take deposits from the low income segment of the population; the Regulation on Credit Reference Bureau, which provides the regulatory framework for the licensing and supervision of a privately-owned credit reference bureau; the Guideline on Due Diligence concerning prospective and existing employees, which defines the minimum recruitment criteria for all existing and/or prospective employees and is intended to prevent the hiring of unscrupulous individuals in the banking sector; Directive Concerning Security & Surveillance Systems at financial institutions, which sets out the minimum standards relating to the security of the premises and facilities of financial institutions; and Directive on the Display of Interest Rates and Other Charges, which requires banks to publicly display their lending and other related charges as a means of promoting transparency and competition in the banking sector. The Prudential Regulations for Asset Classification, Provisions for Loan Losses and Suspension of Interest on Non-Performing Loans was amended to lower the general provisions for loan losses from 2 percent to 1 percent with the intent of helping to reduce the cost of borrowing and to align the regulatory rules with regional best practice.

In early 2010, the CBL granted a provisional license to Afriland First Bank Liberia Limited (In-Organization), a subsidiary of Afriland Group, a registered holding company operating largely in Central Africa. The focus of the proposed bank will be to provide financing to the agricultural sector and small and medium enterprises, and is expected to render technical advice, training and assistance to individuals, farmers, co-operatives and farmer organizations in the country. The proposed bank is expected to commence full banking business in early 2011.

The CBL granted approval for the opening of several new bank branches throughout the country in 2010, bringing the total number of branches in the country to 74. Presently, 11 of the 15 counties have at least 1 bank branch compared to 55 branches in 6 counties at the end of 2009. Two other counties, Grand Kru and Sinoe, are expected to benefit from approvals granted in 2010 to establish bank branches. As economic activities around the country increase, the number of bank branches is expected to increase accordingly. In terms of distribution of existing and proposed branches by county, Montserrado County has 45; Bong County, 2; Grand Cape Mount County, 1; Grand Bassa County, 3; Nimba County, 6; Lofa County, 2; Grand Gedeh County, 1;

Maryland County, 4; and Margibi County, 8; plus one proposed branch for Sinoe County and one for Grand Kru County.

The approval of establishment of more 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 deepen the financial sector of the country.

3.6 Research and Publications

The publication of the Financial and Economic Bulletin, the Liberia Financial Statistics, the Newsletter, and the Fact Sheet on leading macroeconomic and financial indicators remained nonstop during 2010 by the CBL. Also, the provision of monetary and financial data to the IMF, WAMA, WAMI, WAIFEM, and the ECOWAS Commission was continued during the year. The CBL also submitted Liberia's balance of payments (BOP) statistics to the IMF which was published in its 2010 Balance of Payments Yearbook.

In a bid to help ensure a stable macroeconomic environment, the CBL continued the daily monitoring of the foreign exchange market and the regular market survey on price developments in the economy. These activities were accompanied by appropriate interventions in the market by the CBL through its foreign exchange auction program.

3.7 Information Technology

Central Bank of Liberia E-Statement

During the year under review, the CBL provided E-Statement facility to the Ministry of Finance and the various commercial banks operating in the country. The benefit of the web-based e-statement is that it avoids the excessive use of paper for printing statements and curtails human intervention in carrying statements from one point to another. It is uploaded daily, with GoL and commercial banks' statements.

3.8 Work Begins on CBL's Headquarters

During the year under review, the CBL put out notice for tender for the completion of its headquarters located at the intersection of Ashmun, Lynch and Buchanan Streets.

The building project comprises 2 phases: Phase 1 involves the completion of the perimeter fence, which started in July and ended in December of 2010. Phase 2 of the project involves the rehabilitation, remodeling, and extension of the existing structure. This phase commenced in

September of 2010 with the preparation of the design and bid documents. The construction work is expected to start early March of 2011 and be completed a year later.

3.9 Human Resources Management

At the end of the year under review, the number of staff at the CBL stood at 237, compared to 220 employees at end- 2009, indicating a total of 17 new recruitments. Of the 237 employees, 59 are fixed-term employees. The rise in the number of employees is reflective of the increased responsibilities of various departments and the establishment of new sections and units within the Bank.

Moreover, the CBL has supported the Government of Liberia vacation job program headed by the Inter-ministerial Steering Committee. This program does not only provide income to vacation students, but it also affords them the opportunity to gain practical knowledge and skills during their stay at the CBL.

Capacity Building

As in previous years, the CBL has continued to prioritize the training of its staff so as to build a corps of professionals who can efficiently deliver on their assigned tasks. To this end, a total of 83 staff members from various departments of the Bank benefitted from various training programs sponsored by the CBL, regional and international institutions including the WAIFEM, the Central Banks of Ghana and Nigeria as well as the IMF. The trainings covered various areas of central banking.

Foreign training courses in which staff of the Bank participated in 2010 were offered in the United States, South Africa, Nigeria, Ghana, Tanzania, Zimbabwe and Tunisia. As part of the CBL’s policy on staff capacity development through the transfer of knowledge, returning staff members from short-term foreign training courses are encouraged to conduct workshops on various topics and related issues covered in such courses for other staff of the relevant departments of the Bank.

3.10 Relations with International Institutions

During the course of 2010, the CBL continued its engagement with international financial institutions including relations with the Bretton Woods Institutions, regional central banks, and the specialized agencies of the Economic Community of West African States (ECOWAS).

IMF staff concluded Article IV consultations for 2010 and the fourth and fifth reviews of Liberia's Extended Credit Facility (ECF) with the Bank. Based upon recommendations of the staff of the IMF and the World Bank's International Development Association (IDA), the Executive Boards of both institutions determined that Liberia took the necessary policy actions to reach the HIPC completion point. Therefore, debt relief from both the HIPC and MDRI became irrevocable given that Liberia successfully implemented its poverty reduction strategy and maintained a stable macroeconomic environment, despite the global economic crisis.

Liberia became the 29th country to reach the completion point under the HIPC Initiative. The completion point marked the end of the HIPC process, which started in 2008 when the Executive Boards of the IMF and the World Bank agreed that Liberia had met requirements for reaching the decision point, when countries start receiving debt relief on an interim basis.

3.11 Regional and Sub-Regional Organizations

In 2010, the President of Liberia signed the Protocol of Accession of Liberia to the WAMZ, making Liberia a full-fledged member of the zone in addition to The Gambia, Ghana, Guinea, Nigeria, and Sierra Leone. Also, at the Committee of Governors Meeting of the WAMZ, the central banks of member countries of the WAMZ signed the Charter for the establishment of a College of Supervisors in the WAMZ with a view to reducing regulatory duplication and inconsistencies, improving bilateral dialogue between and among regulators and supervisors, increasing the level of trust, and enhancing cooperation among supervisors regarding activities of international banking organizations operating across member countries.

The CBL participated in all of the statutory meetings of the West African Institute for Financial and Economic Management (WAIFEM), the West African Monetary Agency (WAMA) and the West African Monetary Institute (WAMI). Major issues discussed at the meetings covered performance of the world economy, economies of member countries of the West African Monetary Zone (WAMZ), the status of implementation of the West African Single Currency Program, training program of WAIFEM, and WAMA's program of monitoring policy harmonization and multilateral surveillance mechanism.

3.12 Treasury Operations

The Treasury Operations Section was established in February of 2010 with the mandate to manage the Bank's foreign exchange reserves, conduct Treasury bill operations, and work on the orderly development of a capital market in Liberia.

During the review period, staff of the Treasury Operations Section conducted a 2-week understudy of Treasury Securities Operations at the Bank of Ghana. To demonstrate its readiness to implement the T-bill auction, a mock auction was conducted on June 28, 2010 with the participation of the commercial banks. The rules and regulations governing the T-bills auction have been approved by the Board of Governors of the Bank. The Treasury Section has also developed a registry system. The CBL expects to launch the T-bills auction program in 2011.

Regarding the development of a capital market, the CBL, in line with its mandate to ensure the orderly development of financial and capital markets that are responsive to the needs of the national economy, invited Cellcom to review and discuss its Offering of Convertible Debentures. Following these discussions, Cellcom made changes intended to enhance the disclosure of information about the company and the nature of the debenture being offered with a view to safeguarding the interest and trust of the public and ensuring orderliness in the process of issuing such financial instruments. The development of a capital market in Liberia is of interest to the CBL, and the Bank announced the need for avoiding any actions on the part of businesses that have the potential of creating problems that could lead to a loss of confidence of the public in the issuance of shares and/or debt obligations ahead of the establishment of a well functioning capital market. Meanwhile, the CBL has engaged the services of consultants to aid in the creation of a road map that will lead to the orderly development of a capital market in Liberia.

3.13 Anti-Money Laundering

In 2010, the CBL continued its efforts to assiduously implement acceptable international standards against money laundering and terrorist financing. In this connection, a new Law against Money Laundering and Terrorism Financing for Liberia was drafted.

In order to build the necessary framework and capacity to respond rapidly to the problems of money laundering and terrorist financing, staff of the CBL in May, participated in a workshop in

Monrovia aimed at implementing international standards for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) system in Liberia. The workshop centered on the Role and Function of the Financial Intelligence Unit (FIU). Additionally, a pre-evaluation workshop was held with the aim of preparing for the evaluation of Liberia's compliance with requirements of the Financial Action Task Force (FATF) of the International Monetary Fund and Resolutions and Conventions of the United Nations.

Also, in September, the CBL received technical assistance from the World Bank sponsorship where 2 members of its staff traveled to Washington DC to participate in the 4th Annual Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) International Leadership Program. This Leadership Program brought together participants from several countries to discuss cutting-edge policy and implementation issues and challenges commonly faced in improving effectiveness of an AML/CFT system.

The Inter-Governmental Action Group against Money Laundering and Terrorist Financing (GIABA) conducted a Mutual on-site evaluation from November 1 – 11, 2010, in Monrovia. The purpose of the meeting was to assess Liberia's progress relative to GIABA guidelines and regulations and ascertain the level of compliance with accepted international standards and good practice as well as with the Financial Action Task Force (FATF) 40 plus 9 recommendations.

CHAPTER IV
DEVELOPMENTS IN THE LIBERIAN ECONOMY

4.1 Review of Sectoral Performance

The growth of the economy during 2010 was projected at 6.3 percent, up from 4.3 percent in 2009. The increase in growth was largely attributed to the Agriculture and Services Sectors, accounting for 40.7 percent and 26.5 percent of overall projected real GDP for 2010, respectively, (Table 2). Foreign direct investment in forestry and mining was lower than expected, which was due, in part, to ongoing reform in the forestry sector and the slow pace of recovery of the global economy.

Growth is expected to be more robust in 2011, projected at 8.5 percent. Revamping of the real sector should be given urgent attention so as to redirect resources to domestic use and help reduce the high foreign exchange loss to the economy.

Table 2: Liberia: Sectoral Origin of Gross Domestic Product (GDP)
(at 1992 constant Prices)
(2008-2010)
(In Millions US$)

Sector	**2008**	**2009**	**2010**
Agriculture & Fisheries	213.8	221.3	229.9
Forestry	97.5	105.4	119.8
Mining	0.8	0.8	0.9
Manufacturing	64.3	62.7	64.5
Services	130.7	140.1	149.5
Real Gross Domestic Product	**507.1**	**530.3**	**564.7**

Sources: Liberia Authorities and IMF Staff estimates and projections

A review of the sub-sectors of the economy during 2010 shows higher growth, compared with 2009. Growth in the Agriculture & Fisheries sector has been gradually improving over the years. A growth of 3.9 percent was recorded in 2010, compared with 3.5 percent in 2009 (Table 2). The growth in the sector was influenced by the large number of the population engaged in farming activities and Government incentive programs relating to the provision of seeds and other farming implements. For 2011, a stronger expansion is expected with more support through the Government's incentive programs.

Table 3: Key Agricultural and Forestry Production (2008-2010)

Commodity	Unit	2008	2009	2010*
Rubber	MT	87,901.0	62,879.7	52,495
Cocoa Bean	MT	3,285.0	5,075.0	17,256
Coffee	MT	124.0	130.0	528
Round Logs	M3	NA	NA	24,084
Sawn Timber	PCS	1,036,879.0	826,094.6	649,711

Figures are estimated
Source: Ministry of Commerce; Liberia Produce & Marketing Corporation (LPMC); Forestry Development Authority (FDA)

Rubber production declined by 10,385 metric tons to 52,495 metric tons in 2010, from 62,879.7 metric tons in 2009 (Table 3). The drop was due, in part, to the ageing of rubber trees. The estimated production of cocoa during the year increased by 12,181 metric tons to 17,256 metric tons in 2010, from 5,075 metric tons in 2009. The resettlement of most displaced cocoa farmers to their original villages mainly accounted for the rise in production. Also, Coffee production increased by 398 metric tons to 528 metric tons, from 130 metric tons in 2009.

Although the United Nations (UN) sanction placed on log exports was lifted in 2006, actual exports of round logs only started during the third quarter of 2010. At the end of 2010, 24,084 cubic meters of round logs was produced. Also for the same period, a total of 649, 711 pieces of sawn timber was produced, compared with 826,094 pieces in 2009, indicating a decline of 21.4 percent, occasioned by the introduction of new regulations in the forestry sector.

Exportation of iron ore is expected to resume during 2011, mainly by Mittal Steel, while others are expected at a later date following the completion of several iron ore concession agreements. In addition to the iron ore projects, a number of Mineral Development Agreements (MDAs) were also signed between the government and private mining enterprises for the exploitation and development of diamond and gold mines in the country.

A total of 25,357 carats of diamond was mined during 2010, compared with 36,752 carats in 2009. The poor state of technology utilized for alluvial diamond mining accounts largely for the low production.

Table 4: Key Industrial Output
(2008 - 2010)

Commodity	Unit	2008	2009	2010*
Cement	MT	94,037	70,584	66,747
Beverages	Liter	17,595,586	19,979,814	25,675,338.00
Paints	Liter	119,540	211,694	349,386
Candle	KG	289,041	323,200	448,136
Chlorox	Liter	456,534	529,396	677,038
Rubbing Alcohol	Liter	118,964	231,060	797,758
Mattresses	PCS	108,596	47,278	120,371
Gold	Ounce	20,067	16,859	25,708
Diamond	Carat	60,536	36,828	25,357
Finished Water	Gal	1,446,029.6	299,664,128	1,510,407,848

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

Output of gold production expanded by 8,849 ounces to 25, 708 ounces in 2010, from 16,859 ounces in 2009. Growing external demand and intensification of industrial mining of gold are the main drivers for the rise in gold production.

Production of cement during 2010 totalled 66, 747 metric tons, compared with 70,584 metric tons in 2009, representing a 5.7 percent reduction in production. The decline in output was mainly on account of opening of the cement market where other businesses are allowed to import cement, which has caused a slowdown in cement production by CEMENCO.

Output of beverages stood at 25.7 million litres in 2010, up from 19.9 million litres in 2009, an increase of 29.1 percent. The increase in the consumption of beverages was mainly driven by the reduction in the prices of the commodities.

Output of paint during the year increased by 137,692 litres to 349,386 litres in 2010, from 211, 694 litres in 2009, due largely to rising construction activities. Candle production totalled 448,136 kilograms in 2010, compared with 323,200 kilograms in 2009, reflecting an increase of 38.7 percent (Table 4). Chlorox production also rose to 677,038 litres during the year, from 529,396 litres produced in 2009.

The pieces of mattresses produced during the review period amounted to 120,371, compared with 47,278 pieces manufactured for the same period of 2009. The growth in production was mainly due to the introduction of new technology after the fire incidence of 2009.

Employment

Total employment in the formal sector rose to 144,647 during the year, from 124,755 in 2009. The private sector continues to be the major employer in the economy. During 2010, it accounted for about 74.1 percent of the total number of people employed in the formal sector. The Government's road reconstruction program, implemented through the Liberia Employment Action Program (LEAP) and the Liberia Emergency Employment Program (LEEP), helped to increase employment during the year. The number of persons employed in the private sector rose from 90,755 in 2009 to 93,991 in 2010, reflecting a rise of 3.6 percent (Table 5).

Table 5: Level of Employment
Total Number of Employees by Sector
(2008 – 2010)

Sector	2008	2009	2010*
Public	47,681	34,000	37,532
Private	59,287	90,755	107,115
Total	**106,968**	**124,755**	**144,647**
Informal Sector	487,000	569,790	672,352

Figures are estimates
Source: Ministry of Labor, Monrovia, Liberia

The sectors accounting for a larger proportion of employment in the formal sector are Agriculture and Forestry, 26.7 percent; Government of Liberia, 25.9 percent; Social & Community Services, 19.4 percent; Business Services, 7.0 percent; Transportation & Communication, 6.5 percent; General Merchandise/Wholesale/Retail Trade, 5.2 percent; Banking & Insurance, 4.4 percent; Construction 2.7, percent; Mining, 1.1 percent; and Manufacturing 0.95 percent.

Table 6: Employment by Industry
(2008-2010)

Industry	2008	2009	2010*
Agriculture and Forestry	22,616	34,882	38,615
General Merchandise/Wholesale/Retail Trade	10,028	10,998	7,536
Business Services	6,231	9,467	10,179
Social/Community Services	9,213	20,160	28,020
Manufacturing	2,215	2,075	1,367
Construction	390	1,659	3,856
Transportation & Communication	4,984	5,563	9,423
Mining	1,421	1,907	1,691
Banking & Insurance	2,189	4,044	6,426
GoL	47,681	34,000	37,532
Total: Formal Sector	**106,968**	**124,755**	**144,647**
Informal Sector	487,000	569,790*	672,352*

Figures are estimates
Source: Ministry of Labor, Monrovia, Liberia

4.2 Price Developments

The average rate of inflation as measured by the Harmonized Consumer Price Index (HCPI) for 2010 was 7.5 percent, 0.1 percentage point higher than the average rate of inflation for 2009 (Table 7 & Chart 1). The moderate increase in inflation was driven mainly by increases in the prices of domestic food and imported fuel to 6.2 percent and 19.6 percent, from -4.87 percent and - 25.6 percent, respectively. Vegetables & Fruits, Kerosene, Petrol and Diesel are the major items in the consumer basket responsible for the increase. The poor state of infrastructure in the country and low level of domestic food production are other factors that accounted for the rise in the general price level during the year. Nonetheless, inflation remained in single digit.

Inflation in 2011 will largely depend on domestic food prices in the economy and the behaviour of oil and food prices on the global market, the state of domestic infrastructure and the exchange rate.

Table 7: Year-on-Year Rate of Inflation
(2008-2010)
(December, 2005 =100)

	2008	**2009**	**2010**
January	16.5	6.4	12.9
February	14.8	7.0	11.5
March	14.3	6.9	13.2
April	11.7	7.8	11.9
May	19.2	7.7	8.0
June	22.0	7.6	2.5
July	21.3	7.3	4.2
August	26.5	4.9	3.3
September	20.0	8.0	5.2
October	18.6	8.2	4.9
November	15.5	7.8	5.7
December	9.4	9.7	6.6
Average Rate	**17.5**	**7.4**	**7.5**

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

Chart 1: Year-on- Year Rate of Inflation
(2008 -2010)
(December, 2005 =100)

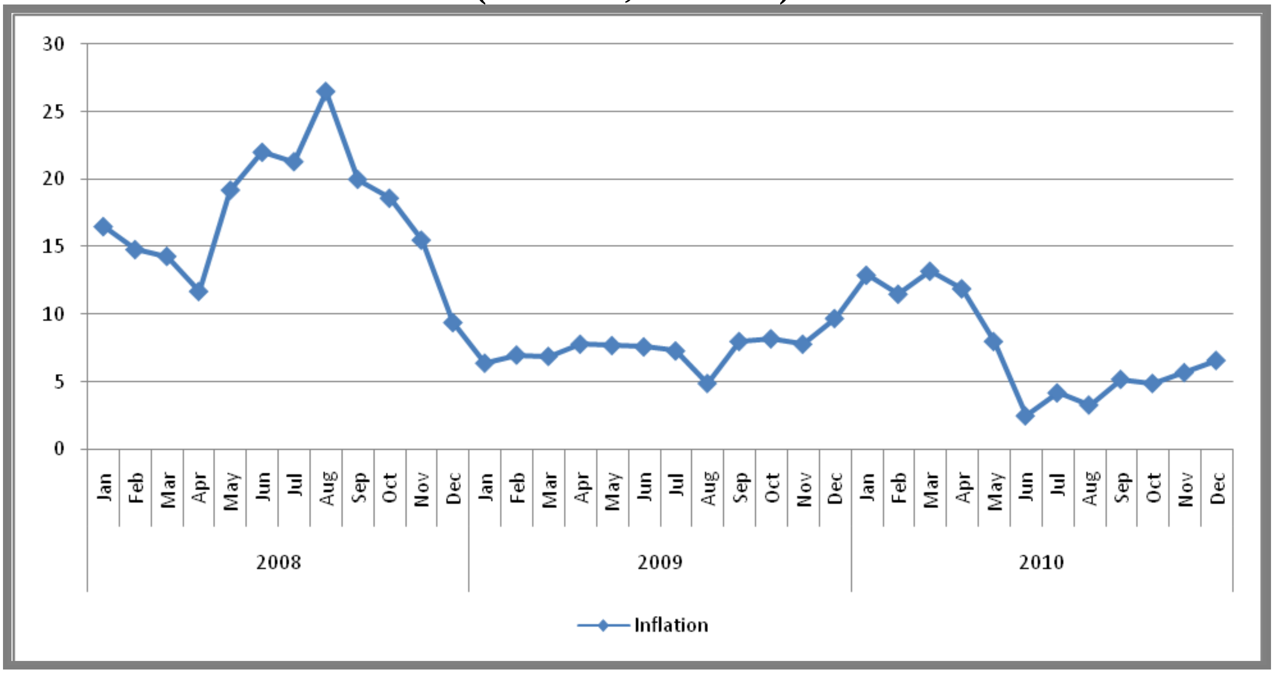


Table 8: Liberia: Harmonized Consumer Price Index (HCPI)
12 Month Percent Changes by Major Groups
(December 2005 =100)

MAJOR GROUP	WEIGHT	10-Jan	10-Feb	10-Mar	10-Apr	10-May	10-Jun	10-Jul	10-Aug	10-Sep	10-Oct	10-Nov	10-Dec
FOOD AND NON-ALCOHOLIC BEVERAGES	45.20	9.37	6.65	10.95	8.68	11.96	1.42	4.22	3.49	7.13	7.25	7.73	8.98
ALCOHOLIC BEVERAGES, TOBACCO AND NARCOTICS	3.03	15.34	20.63	11.80	10.83	14.14	12.38	7.55	2.37	2.64	5.94	11.43	13.90
CLOTHING AND FOOTWEAR	7.75	11.54	11.86	14.80	16.14	8.13	4.63	6.59	5.21	3.79	4.91	8.36	8.85
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	12.00	2.62	3.25	2.97	2.88	2.60	2.95	2.43	3.34	5.28	3.36	3.74	4.42
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE	5.25	23.98	25.19	18.58	15.02	1.05	2.27	5.88	4.38	4.23	-4.35	‘3.12	-1.90
HEALTH	3.91	4.05	4.05	0.00	0.00	0.00	0.00	0.32	0.32	0.32	0.32	0.32	0.00
TRANSPORT	6.11	3.43	4.30	3.96	4.12	4.62	3.20	5.15	5.15	5.15	5.67	4.79	6.31
COMMUNICATION	1.53	1.10	1.16	1.06	0.76	0.66	0.29	5.77	5.62	5.57	5.73	5.92	5.99
RECREATION AND CULTURE	3.85	4.40	4.56	7.88	3.33	1.64	1.49	0.70	0.50	0.12	1.11	1.55	1.22
EDUCATION	3.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
RESTAURANTS AND HOTELS	4.64	107.10	88.76	88.06	90.58	7.30	5.99	5.65	3.20	2.91	3.92	5.05	5.41
MISCELLANEOUS GOODS AND SERVICES	3.53	13.49	12.95	13.47	14.57	4.03	1.28	0.33	-1.12	-1.55	0.50	0.13	0.43
GENERAL RATES OF INFLATION	100.00	12.88	11.45	13.21	11.92	8.01	2.50	4.18	3.34	5.17	4.89	5.67	6.61
SPECIAL RATES OF INFLATION													
ALL IMPORTED ITEMS	41.73	18.82	17.47	15.72	12.99	13.06	2.34	4.54	2.97	5.64	2.50	3.03	6.70
ALL DOMESTIC ITEMS	58.27	9.57	7.46	11.45	11.16	4.64	2.61	4.76	4.44	4.85	6.61	7.58	6.56
IMPORTED FOOD ITEMS	23.87	19.31	17.94	15.26	11.63	15.60	-0.07	4.39	2.87	7.70	1.77	1.23	6.38
DOMESTIC FOOD ITEMS	21.33	0.53	-3.76	6.42	5.53	8.20	3.09	4.04	4.16	6.54	13.27	15.00	11.80
IMPORTED FUEL	2.14	23.32	32.37	32.17	32.99	35.04	23.99	9.65	9.67	8.80	9.33	5.59	11.94

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

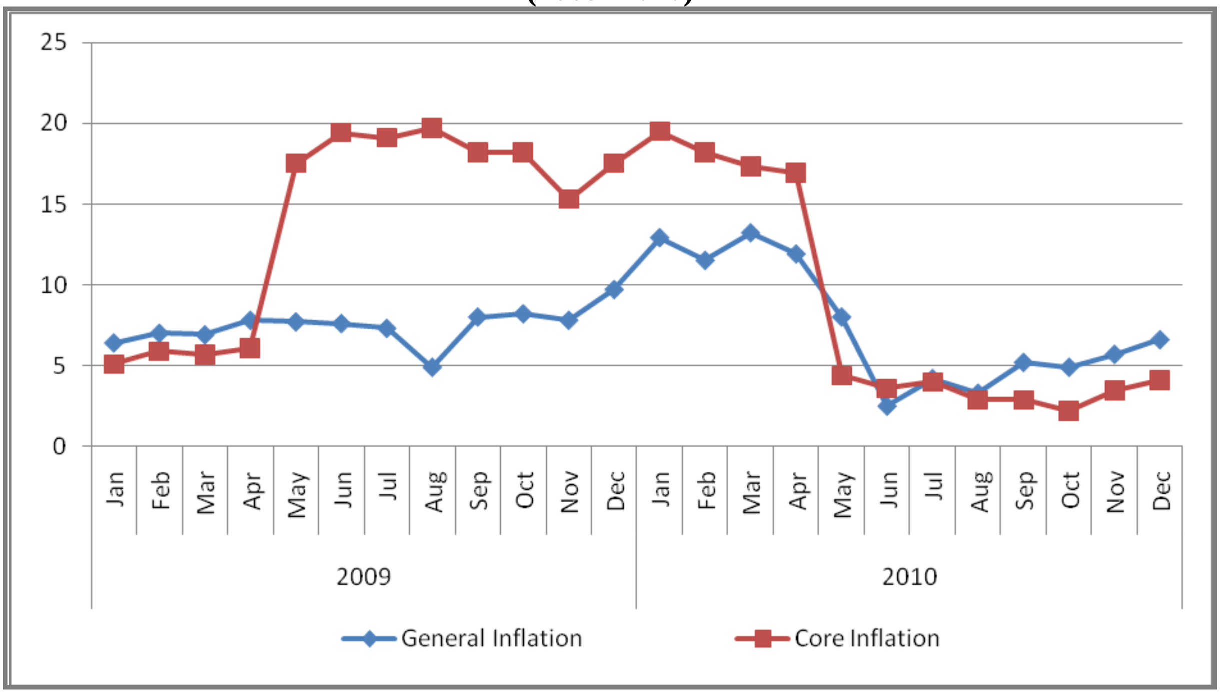
The Core inflation, excluding Food & Non-alcoholic beverages and Transport, reduced by 5.3 percentage points to an average of 8.7 percent for 2010, from 14.0 percent in 2009. This indicates that increases in the prices of food and transport items contributed to inflationary pressure in 2010.

Table 9: HCPI and Core Inflation
(In Percent)
(2009 – 2010)

Year	Inflation	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	HCPI(Gen)	6.4	6.9	6.9	7.8	7.7	7.6	7.3	4.9	8.0	8.2	7.8	9.7
	Core Infl	5.1	5.9	5.7	6.1	17.5	19.4	19.1	19.7	18.2	18.2	15.3	17.5
2010	HCPI(Gen)	12.9	11.5	13.2	11.9	8.0	2.5	4.2	3.3	5.2	4.9	5.7	6.6
	Core Infl	19.5	18.2	17.3	16.9	4.4	3.6	4.0	2.9	2.9	2.2	3.5	4.1

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

Chart 2: HCPI and Core Inflation
(In Percent)
(2009- 2010)



4.3 Monetary Developments

4.3.1 Monetary Policy Stance

The maintenance of broad exchange rate stability and low inflation remained the focus of monetary policy by the CBL during the year. Given the limited tools for monetary policy, the weekly foreign exchange auction remains the key policy instrument used to affect the level of

Liberian-dollar money supply in the economy. The possible introduction of a Treasury-bill (T-bill) market in 2011 will assist in broadening the scope of policy instruments available to the CBL for the conduct of monetary policy.

4.3.2 Monetary Aggregates

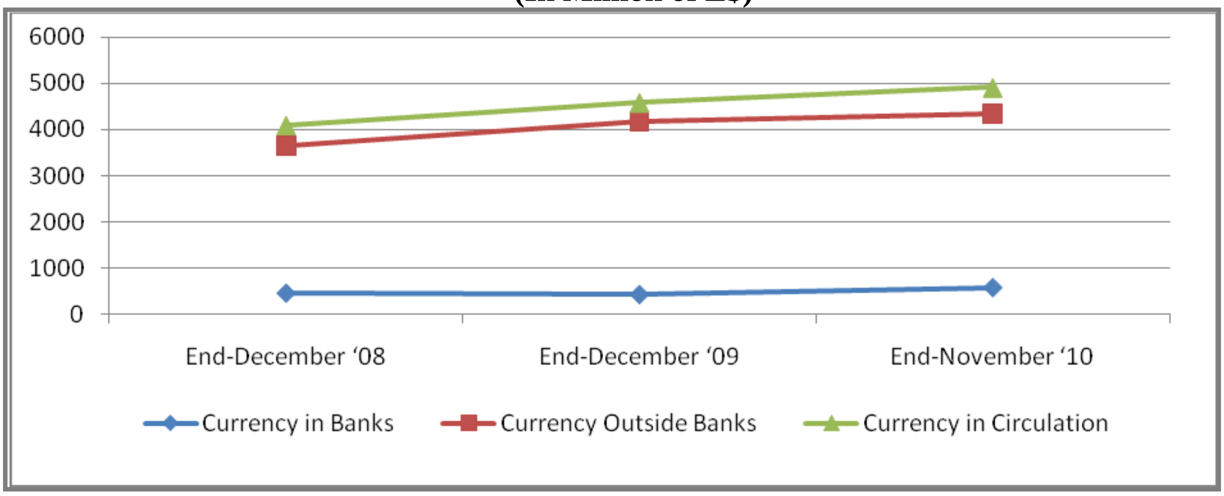
At end-November, 2010, Liberian dollars in circulation[1] totaled L$4,910.3 million, representing an increase of 7.1 percent from L$4,583.4 at end-December, 2009. Of the total amount in circulation, currency in banks accounted for L$573.3 million (or 11.7 percent) while currency outside banks accounted for L$ L$4,337.0 million (or 88.3 percent). The rise in Liberian dollars in circulation can mainly be explained by the 36.0 percent increase in currency in banks, from L$421.6 million at the end of 2009 to L$573.3 million at end-November, 2010 (Table 10 & Chart 3).

Table 10: Liberian Currency in Circulation
(2008-November, 2010)
(In Million of L$)

Period	Currency in Banks	Currency Outside Banks	Currency in Circulation
	(1)	(2)	(1) + (2) = (3)
End-December '08	452.9	3,637.1	4,090.0
End-December '09	421.6	4,161.8	4,583.4
End-November '10	573.3	4,337.0	4,910.3

Source: Central Bank of Liberia, Monrovia, Liberia

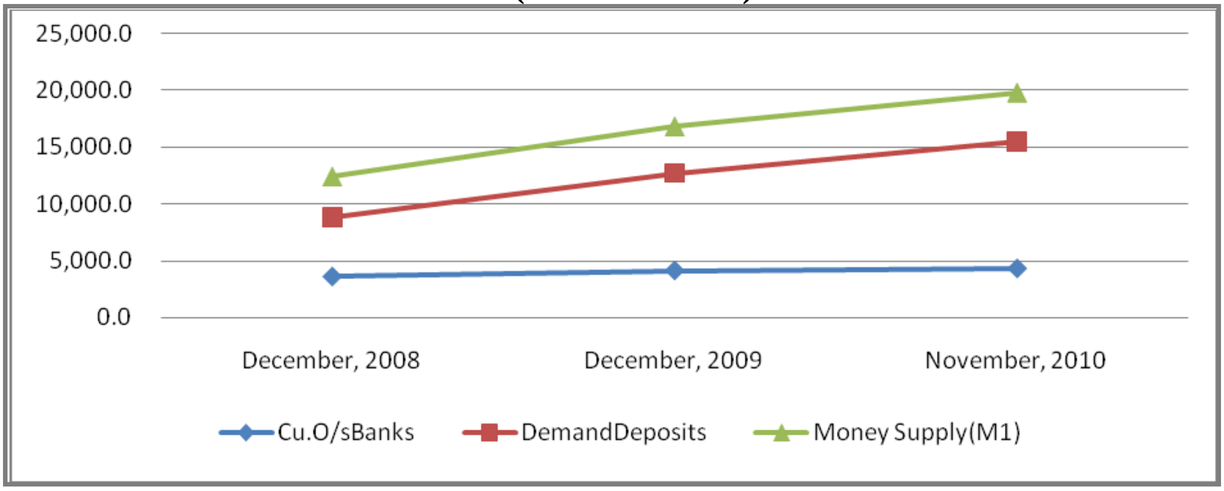
Chart 3: Liberian Dollars in Circulation
(2008-November, 2010)
(In Million of L$)



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

During the period, money supply (M1)[2] totaled L$ L$19,805.1 million, rising by 17.6 percent over the L$16,847.8 million reported at end-December, 2009. The 21.9 percent increase in demand deposits, from L$12,686.0 million at end-December, 2009 to L$15,468.1 million at end-November, 2010 was the major factor responsible for the increase (Table 11 & Chart 4). The expansion in money supply (M1) was in response to the need for liquidity in the system to help facilitate the growing economic activities taking place in the economy.

Chart 4: Money Supply (M1)
(2008 - November, 2010)
(In Million of L$)



Quasi Money[3] also rose by 47.3 percent, from L$6,007.6 million at end-December, 2009 to L$8,847.0 million at end-November, 2010. The growth in quasi money was on account of a 36.4 percent increase in savings and time deposits.

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

Table 11: Money Supply and its Sources
December, 2008 – November, 2010
(In Million of L$)

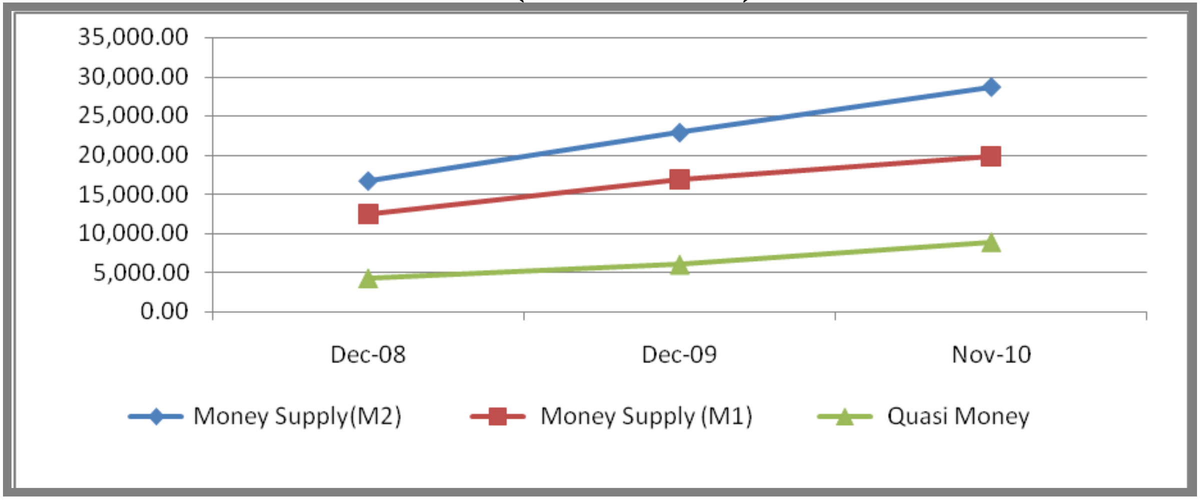
	Dec-08	Dec-09	Nov-10	Percent Change	
				Dec-09	Nov-10
1 Money Supply(M2) = (1.1 + 1.2)	**16,717.9**	**22,855.4**	**28,652.0**	**36.7**	**25.4**
1.1 Money Supply (M1)	12,443.5	16,847.8	19,805.1	35.4	17.6
1.1.1 *Currency Outside Banks*	*3,637.1*	*4,161.8*	*4,337.0*	*14.4*	*4.2*
1.1.2 *Demand Deposits*	*8,806.4*	*12,686.0*	*15,468.1*	*44.1*	*21.9*
1.2 Quasi Money	4,274.4	6,007.6	8,847.0	40.5	47.3
1.2.1 *Time & Savings Deposits*	*4,183.2*	*5,884.4*	*8,025.0*	*40.7*	*36.4*
1.2.2 *Other Deposits*[1/]	*91.3*	*123.2*	*822.0*	*34.9*	*567.2*
2 Net Foreign Assets[2/]	**(43,137.1)**	**(46,832.1)**	**20,381.0**	**8.6**	**-143.5**
2.1 Central Bank	(48,911.3)	(52,811.5)	13,685.0	8.0	-125.9
2.2 Commercial Banks	5,774.2	5,979.4	6,696.0	3.6	12
3 Net Domestic Assets (1 - 2)	**59,855.0**	**69,687.5**	**8,271.0**	**16.4**	**-88.1**
3.1 Domestic Credit	75,573.1	86,629.8	25,898.0	14.6	-70.1
3.1.1 *Government (net)*	*68,862.1*	*75,739.8*	*12,068.0*	*10.0*	*-84.1*
3.1.2 *Pvt. Sector & Other Pub. Sector*	*6,711.0*	*10,890.0*	*13,830.0*	*62.3*	*27.0*
3.2 Other Assets Net (3 – 3.1)	(15,718.1)	(16,942.3)	(17,626.0)	7.8	4.0
4 Memorandum Items	**29,036.9**	**37,598.4**	**46,716.0**	**29.5**	**24.2**
4.1 Overall Liquidity[3/]	16,717.9	22,855.4	28,652.0	36.7	25.4
4.2 Reserve Money	12,319.0	14,743.0	18,064.0	19.7	22.5
4.2.1 *Currency Outside Banks*	*3,637.1*	*4,161.8*	*4,337.0*	*14.4*	*4.2*
4.2.2 *Banks Reserves*	*8,681.9*	*10,581.2*	*13,727.0*	*21.9*	*29.7*

1/ other deposits include manager checks from commercial banks
2/ Net Foreign Assets is converted to L$ at end of period exchange rate
3/ Overall Liquidity comprises Money Supply (M1) plus Quasi Money in both currencies
Source: Central Bank of Liberia, Monrovia, Liberia

During the review period, broad money (M2)[4] rose by 25.4 percent, from L$22,855.4 million at end-December, 2009 to L$28,652.0 million at end-November, 2010. This is lower than the 36.7 percent growth recorded in 2009. The slower growth in broad money followed a 143.5 percent reduction in Net Foreign Liability (NFL), largely on account of debt waiver by the international community following Liberia reaching the HPIC Completion Point in June of 2010. This is reflective of the 125.9 percent reduction in Central Bank’s foreign liability. Also, there was an 88.1 percent fall in Net Domestic Asset (NDA) as a result of an 84.1 percent decline in net claim on Government, which was due to the ongoing repayment of domestic debt by the Government (Table 11 and Chart 5).

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

Chart 5: Broad Money (M2)
(2008 - November, 2010)
(In Million of L$)



Reserve money, in the 11-month period, rose by 22.5 percent, from L$14,743.0 million at end-December, 2009 to L$18,064.0 million, at end-November, 2010. The growth was driven mainly by a 29.7 percent increase in commercial banks' reserves, from L$10,581.2 million at end-December, 2009 to L$13,727.0 million at end-November, 2010.

The US dollar component of broad money constituted 73.6 percent while the Liberian-dollar component accounted for 26.4 percent in the 11-month period up to November, 2010. The US-dollar component of broad money increased by 27.7 percent, from L$16,516.2 million at end-December, 2009 to L$21,096.6 million at end-November, 2010, while the Liberian-dollar share expanded by 19.2 percent during the same period. The higher percentage share of US dollars reflects the highly dollarized nature of the Liberian economy, (Table 12 & Chart 6).

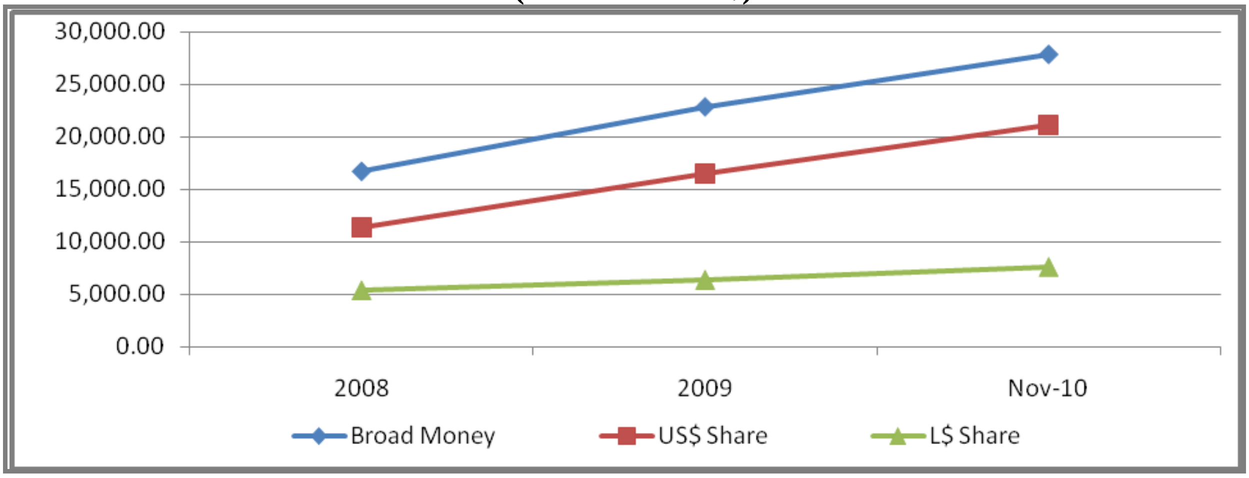
Table 12: Broad Money (M2): Share of US and Liberian Dollars
(2008 - November, 2010)
(In Million of L$)

	2008	Percent Share	2009	Percent Share	November 2010	Percent Share
Broad Money	16,717.9		22,855.4		28,652.0	
US$ Share[5]	11,372.8	68.0	16,516.2	72.3	21,096.6	73.6
L$ Share	5,345.2	32.0	6,339.2	27.7	7,555.6	26.4

Source: Central Bank of Liberia, Monrovia, Liberia

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

Chart 6: Broad Money (M2): Share of US and Liberian Dollars
(2008 - November, 2010)
(In Million of L$)



4.4 Exchange Rate Developments

The exchange rate of the Liberian dollar relative to the US dollar remained relatively stable at L$71.00/US$1 for buying and L$72.00/US$1.00 for selling in 2010. The broad stability in the exchange rate can be explained, in part, by the CBL's weekly foreign exchange auction. The amount of US dollars offered by the CBL through the auction increased by US$12.8 million to US$44.6 million at end-December,2010, compared with US$31.8 million offered in 2009. On average, the exchange rate depreciated by 5.3 percent, from L$67.81/US$1.00 at end-December, 2009 to L$71.40/US$1.00 at end-December, 2010, (Table 13 and Chart 7). The end-of-period exchange rate stood at L$71.50 per US dollar, from L$70.50 per US dollar for the same period of 2009 (Table 14).

Table 13: Monthly Averages of Buying and Selling Rates of Liberian Dollar per US Dollar
(2008 to 2010)

	2008		2009		2010	
	Buying	**Selling**	**Buying**	**Selling**	**Buying**	**Selling**
January	62.96	64.00	63.94	64.93	70.83	71.83
February	62.20	63.20	64.00	65.00	71.25	72.31
March	62.00	63.01	64.50	65.35	71.09	72.09
April	62.06	63.08	65.60	66.23	70.21	71.21
May	62.78	63.56	67.46	68.37	70.58	71.58
June	63.00	64.00	69.34	70.30	71.19	72.15
July	63.00	64.00	70.61	71.59	71.81	72.76
August	63.00	64.00	71.67	72.75	72.00	73.00
September	63.00	63.94	71.35	72.44	71.35	72.35
October	63.00	64.00	70.59	71.56	71.50	72.54
November	62.92	63.70	67.36	68.36	69.35	70.31
December	62.81	63.76	67.31	68.31	69.72	70.67

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 7: Monthly averages of Buying and Selling Rates of Liberian Dollar per US Dollar (2008 to 2010)

Table 14: Market Exchange Rates: Liberian Dollars per US Dollar
(2008 - December, 2010)

Exchange Rate	2008	2009	2010
End of Period	64.00	70.50	71.50
Period Average	63.29	67.81	71.40

Source: Central Bank of Liberia, Monrovia, Liberia

4.5 Remittances

Total inward remittances during the 11-month period stood at US$862.7 million, compared with US$782.6 million at end-December, 2009. Of the total remittance inflows, exports constituted 22.2 percent; workers' remittances, 24.7 percent; service payments, 12.2 percent; official transfers, 5.3 percent; grants, 35.2 percent and investment (excluding Government's concession agreement), 0.5 percent, (Table 15 & Chart 8).

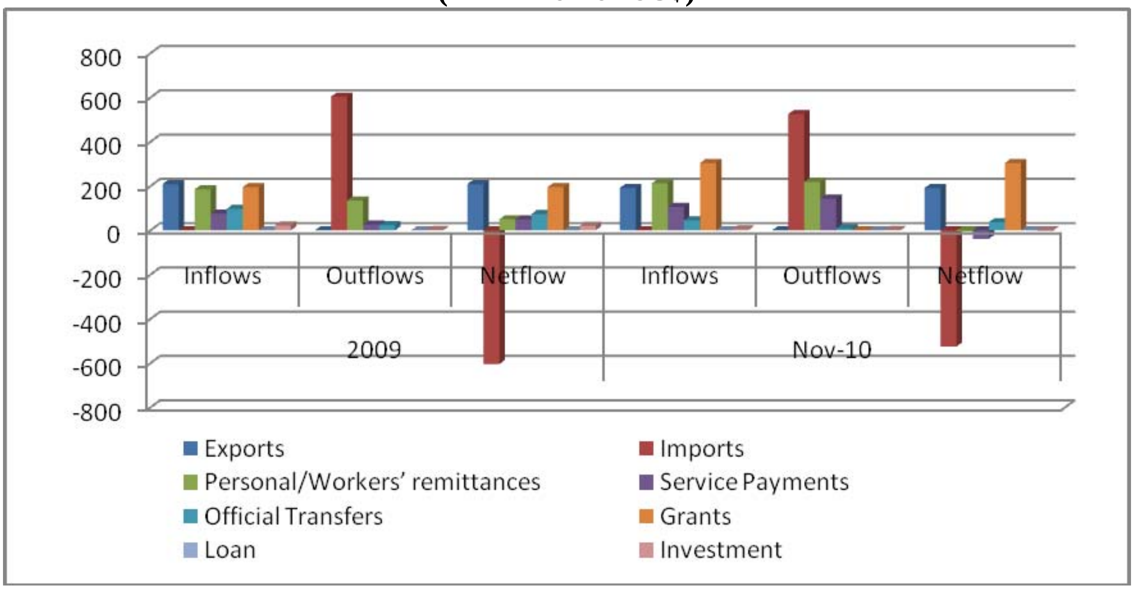
Table 15: Remittances: Inflows and Outflows
(2009 - November, 2010)
(In Million of US$)

	2009*			Jan – Nov, 2010		
	Inflows	Outflows	Netflow	Inflows	Outflows	Netflow
Exports	209	-	209	191.1	-	191.1
Imports	-	604	(604)	-	524.8	(524.8)
Workers' remittances	185	135	50	212.8	218.8	(6.0)
Service Payments	75	26	49	105.1	143.9	(38.8)
Official Transfers	97	23	74	45.3	9.2	36.1
Grants	195		195	303.9	-	303.9
Loan	-	-	-	-	-	-
Investment	22	2	20	4.5	2.0	(2.5)
Total	782.6	789.7	(7.1)	862.7	898.7	(36.0)

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

Recorded remittance outflows from the economy for the 11-month period increased by 13.8 percent, from US$789.6 million at end-December, 2009 to US$898.7 million at end-November, 2010. The percentage distribution of outward remittances indicates that imports accounted for 58.4 percent; workers' remittances, 24.3 percent; service payments, 16.0 percent; official transfers, 1.0 percent and investment, 0.22 percent. A comparison of aggregate remittance inflows and outflows for the review period reflects a net outflow of US$36.0 (Table 15).

Chart 8: Remittances: Inflows and Outflows
(2008 - November, 2010)
(In Million of US$)



4.6 External Sector Developments

During the year, there was improvement in the terms of trade, due to growing external demand and rising commodity prices in the world market resulting from the recovery of the global economy, coupled with the rapid expansion of major Asian economies such as China and India.

On the domestic front, improved stability in the operating environment also contributed to the growth in export earnings during the year. The export to GDP ratio was 39.8 percent at end-December, 2010, compared with 27.0 percent in 2009.

4.6.1 Merchandise Trade

Merchandise trade rose by US$263.4 million to US$963.8 million in 2010, from US$700.4 million in 2009. The gradual recovery of industrialized nations from the global recession is a major contributing factor to this development (Table 16 & Chart 9).

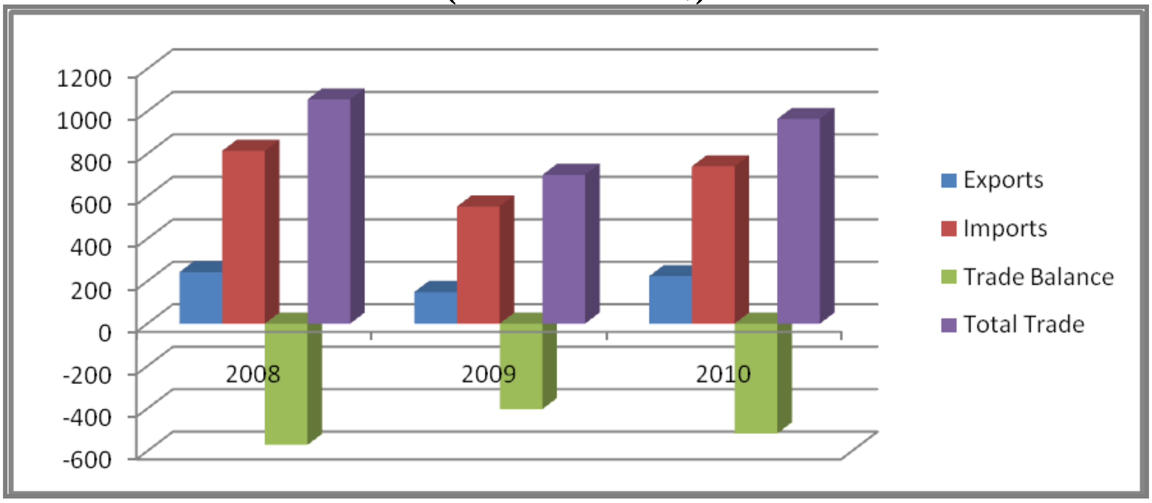
The net trade position widened to US$517.1 million during the year, from US$402.8 million in 2009. The expansion in the deficit is reflective of the economy large dependence on imports, especially during this period of infrastructural development.

Table 16: Exports, Imports & Merchandise Trade
(2008 - 2010)
(In Millions - US$)

Year	Exports	Imports	Trade Balance	Total Trade
2008	242.4	813.5	(571.10)	1,055.90
2009*	148.83	551.59	(402.75)	700.42
2010**	223.35	740.49	(517.14)	963.84

***Revised **Preliminary**
Source: Ministries of Commerce and Industry (MCI), Lands, Mines & Energy (MLME), Forestry Development Authority (FDA) and Firestone, Monrovia, Liberia

Chart 9: Exports, Imports & Merchandise Trade
(2008 – 2010)
(In Millions – US$)



4.6.2 Exports

Export receipts for 2010 increased by 50.1 percent to US$223.4 million, from US$148.8 million at the end of 2009. The significant rise in export proceeds during the year can largely be attributed to increased demand for primary commodities in response to current global economic recovery. The major commodities that contributed to the rapid increase in export proceeds were rubber, iron ore, diamond, and gold.

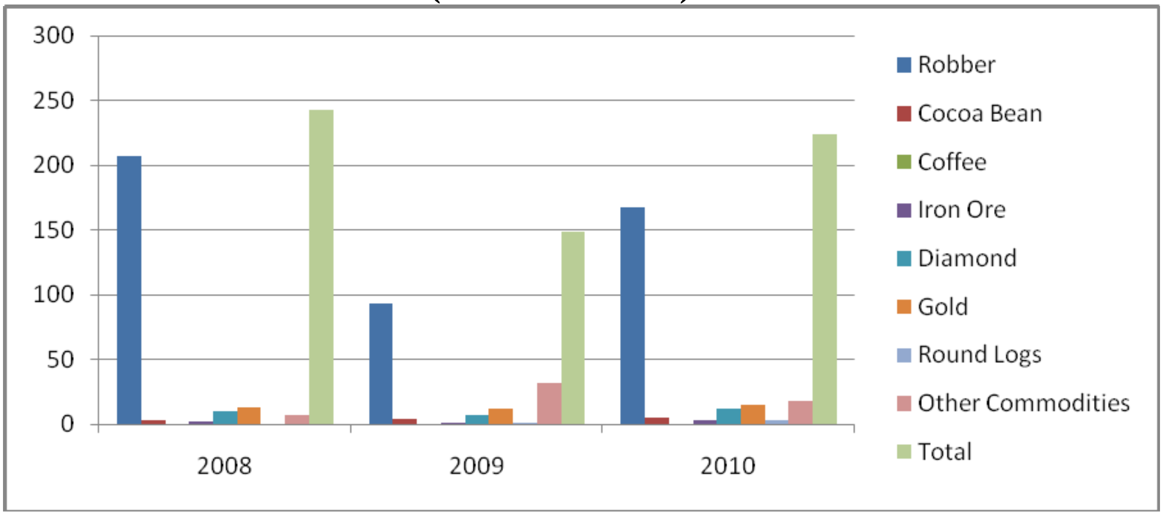
Export earnings from rubber accounted for 74.8 percent of total export proceeds at end-December, 2010. Receipts from rubber exports registered a sharp rise of 79.5 percent to US$167.1 million in 2010, compared with US$93.1 million in 2009. Rubber is currently the major contributor to growth in the external sector. The surge in rubber proceeds during the year was mainly due to improvement in prices and increased reactivations of small holder farms that are key suppliers to Firestone, the main exporter of rubber.

Table 17: Commodity Composition of Exports
(2008 - 2010)
(In Millions - US$)

Commodity Composition of Exports	2008	2009*	2010**
Robber	206.8	93.1	167.1
Cocoa Bean	3.4	3.6	5.6
Coffee	0.0	0.1	0.3
Iron Ore	1.5	0.9	2.4
Diamond	10	6.9	11.9
Gold	13.3	11.9	15.3
Round Logs	0.2	1.1	3.1
Other Commodities	7.3	31.2	18.0
Total	**242.4**	**148.8**	**223.5**

Source:* *Ministries of Commerce and Industry (MCI), and Lands, Mines and Energy (LME), and Firestone Liberia Rubber Company

Chart 10: Commodity Composition of Exports
(2008 – 2010)
(In Millions – US$)



Export receipts from diamond increased by 72.4 percent to US$11.9 million at end-December, 2010, from about US$7.0 million in 2009. Similarly, receipts from gold rose by 29.0 percent to US$15.3 million, from US$11.9 million for the same period. Other primary commodities that accounted for the expansion in export earnings were round logs whose proceeds rose by US$1.9 million; cocoa bean, by US$1.8 million; coffee, by US$0.2 million and iron ore, by US$1.5 million (old stock pile of iron ore) (Table 17 & Chart 10).

4.6.3 Imports

Payments for imports rose by 57.0 percent to US$740.5 million at end-December, 2010, from US$551.6 million at end December 2009. The rise was mainly on account of food & live animals, machinery & transport equipment and petroleum products (Table 18 & Chart 11).

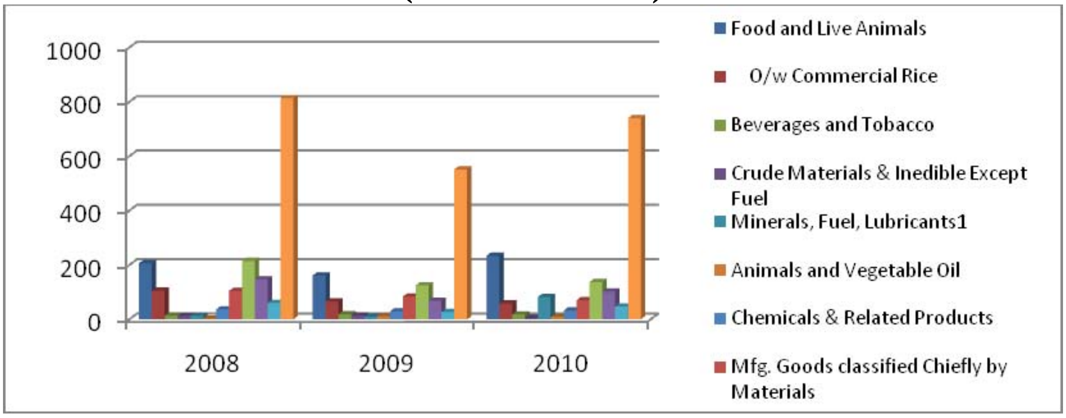
The cost of imports in the Food & Live Animals category rose to US$234.0 million in 2010, from US$161.8 million in 2009. The Nation's staple food, rice constituted about 25.0 percent of spending on this category and 7.9 percent relative to overall imports. Payments for Machinery & Transport Equipment rose by 9.8 percent to US$137.4 million, which was due to the importation of capital goods, including earth-moving equipment.

Table 18: Commodity Composition of Imports
(2008 - 2010)
(In Millions - US$)

Commodity Composition of Imports	**2008**	**2009***	**2010****
Food and Live Animals	**206.8**	**161.75**	**234.03**
O/w Commercial Rice	105.6	65.65	58.43
Beverages and Tobacco	13.9	18.59	18.02
Crude Materials & Inedible Except Fuel	12.9	14.35	5.58
Minerals, Fuel, Lubricants1	13.2	10.47	82.48
Animals and Vegetable Oil	2.9	12.14	9.46
Chemicals & Related Products	36.5	29.63	32.71
Mfg. Goods classified Chiefly by Materials	104.7	84.03	70.50
Machinery & Transport Equipment	215.2	125.14	137.39
Petroleum Products	147.2	68.49	102.99
Misc. Mfg. Articles	60.1	26.99	47.32
Grand Total	**813.5**	**551.59**	**740.49**

****Revised***
*****Preliminary***
Source: Ministries of Commerce and Industry (MCI), and BIVAC Liberia International

Chart 11: Commodity Composition of Imports
(2008 – 2010)
(In Millions – US$)



4.6.4 Balance of Payments (BOP) Enterprise Survey

In 2008, the CBL resumed publication of the balance of payments (BOP) statement of Liberia, using the International Monetary Fund Balance of Payments Manual 5 (BPM5), covering the period 2004 – 2008. The statement was subsequently published by the IMF in its BOP Statistics Yearbook (BOPSY) for 2009.

The BOP statement covering 2009 was submitted to the IMF for publication in its BOPSY for 2010. Also in 2010, the CBL conducted an Enterprise Survey (ES) in preparation for the BOP statistics compilation for 2010, which covered 200 registered enterprises in five counties, namely; Montserrado, Bomi, Margibi, Bong, and Grand Bassa. The ES captures information on foreign direct investment (FDI) inflows and outflows through the private sector.

4.7 National Stock of Debt

The total stock of Liberia's public debt as at end-December 2010 stood at US$503.3 million, of which external debt accounted for US$222.8 million (44.3 percent) and domestic debt, US$280.4 million (55.7 percent) (Table 19).

External Debt

Total external debt as at end-December, 2010 was recorded at US$222.8 million, from US$1,663.6 million at end-December, 2009, indicating an 86.6 percent reduction. The huge fall in Liberia's external debt was on account of the country reaching the HIPC Completion in late June 2010. A percentage distribution of total external debt reveals that multilateral debt amounted to 44.4 percent; bilateral debt, 55.4 percent, and commercial creditors, 0.2 percent.

Domestic Debt

The total level of domestic debt as at end-December, 2010 stood at US$280.4 million, down from US$292.6 million at end-December 2009. This reflects payments to local financial institutions, vendors, former Armed Forces of Liberia Personnel, among others. Of the US$280.4 million owed to domestic creditors, US$269.3 million or 96.0 percent is owed to financial institutions.

Table 19: Liberia's Overall Debt Position
(In Millions US$)
As at December 31, 2010

	December 31, 2009	December 31, 2010
Multilateral	1,072.4	98.9
Bilateral	570.7	123.4
Commercial Creditors	20.50	0.5
Total External Debt	1,663.6	222.8
Suppliers' Credit	6.6	5.6
Salary & Allowances	3.80	3.9
Financial Institutions	269.73	269.3
Pre-NTGL Salary Arrears	10.3	2.2
Total Domestic Debt	292.6	280.4
Total Public Debt	1,956.2	503.3

Source: Ministry of Finance, Monrovia, Liberia

CHAPTER V
BANKING SECTOR DEVELOPMENTS

5.1 Overview

During 2010, the number of operating banks remained at eight– The Liberian Bank for Development & Investment (LBDI), International Bank Liberia Limited (IBLL), Ecobank Liberia Limited (EBLL), First International Bank Liberia Limited (FIBL), Global Bank Liberia Limited (GBLL), United Bank for Africa Liberia Limited (UBAL), AccessBank Liberia Limited (ABLL) and Guaranty Trust Bank Liberia Limited (GTBLL).

There were substantial growth in the industry's loan portfolio, deposits, total assets and total capital positions as reported below. Additionally, there were positive developments with respect to ensuring stability and protecting the integrity of the banking sector through more robust regulation and supervision; improving the operating environment; enhancing the supervisory capacity of the CBL; and enhancing transparency and disclosure of financial information.

5.2: Financial Performance of the Banking Sector

During the period under review, asset quality of the industry continued to exhibit slow but steady improvement. This is evidenced by the decline in the ratio of non-performing loans to total loan by 3.4 percentage points to 10.3 percent as at October 31, 2010 compared with 13.4 percent in the same period of 2009 (Chart 12). In absolute terms, however, non-performing loans increased by 5.7 percent, from L$1.22 billion as at October 31, 2009 to L$1.30 billion as at October 31, 2010. The key explanatory factors for the relatively high NPLs are, weak credit administration within a few banks, which were being corrected during the year, and the poor credit culture still existing in the country.

The industry's CAR declined due to increase in risk assets, mainly loans, even though it was more than 13.9 percentage points above the regulatory minimum ratio of 10%. The CAR for the industry as at October 31, 2010 was 23.9 percent, down from 27.9 percent for the same period of 2009 (Chart 12). All of the banks, except one, had higher than the 10% minimum requirement.

The industry recorded gross earnings of L$2.90 billion and operating profit of L$665.30 million (before loan loss provisions and taxes), representing improvements of 22.1 percent and 5.9

percent, respectively, over October 31, 2009. Earnings in the industry are skewed towards non-interest sources, as evidenced by 56.7 percent of the industry's earnings coming from fee-based activities. The ROA and ROE for the industry for the period under review were negative 0.2 percent and negative 1.1 percent, respectively, compared to 0.2 percent and 1.3 percent for the corresponding period of last year (Table 20 & Chart 12). This is due largely to extra loan loss provisions on non-performing loans and high pre-operating expenses recorded by the new banks.

Table 20: Financial Soundness Indicators of the Industry

(In L$'000)	31-Oct-10	31-Oct-09	31-Oct-08
Gross Assets	35,380,148	26,762,679	18,588,056
Net Assets	33,885,309	25,716,192	17,638,442
Net Loans	11,189,448	8,099,547	5,307,240
Deposits	25,315,259	18,662,366	12,906,270
Reported Capital Net of Provisions	5,847,785	4,646,955	2,298,153
		(In Percent)	
Reported Net Capitalization	17.3	18.1	13.0
Regulatory Capital Ratio	24.0	28.0	21.8
Classified Loans to Total Loans	16.3	16.0	18.7
Non-performing Loans to Total Loans	10.3	13.4	14.2
Provisions to Classified Loans Net of Interest in Suspense	63.4	65.5	73.9
Provisions to Non-performing Loans Net of Interest in Suspense	111.8	78.8	98.4
Returns on Assets	-0.2	0.2	0.5
Returns on Equity	-1.1	1.3	4.3
Non-interest Income to Total Revenue	56.7	62.6	65.6
Net Interest Margin over Average Assets	6.2	5.2	5.2
Liquid Assets to Net Assets	50.6	55.5	55.5
Net Loans to Deposits	44.2	43.4	41.1
Regulatory Liquidity Ratio	39.4	46.7	53.0

Note: The required minimum CAR is 10.0 percent and the required minimum Liquidity Ratio is 15.0 percent
Source: Central Bank of Liberia, Monrovia, Liberia

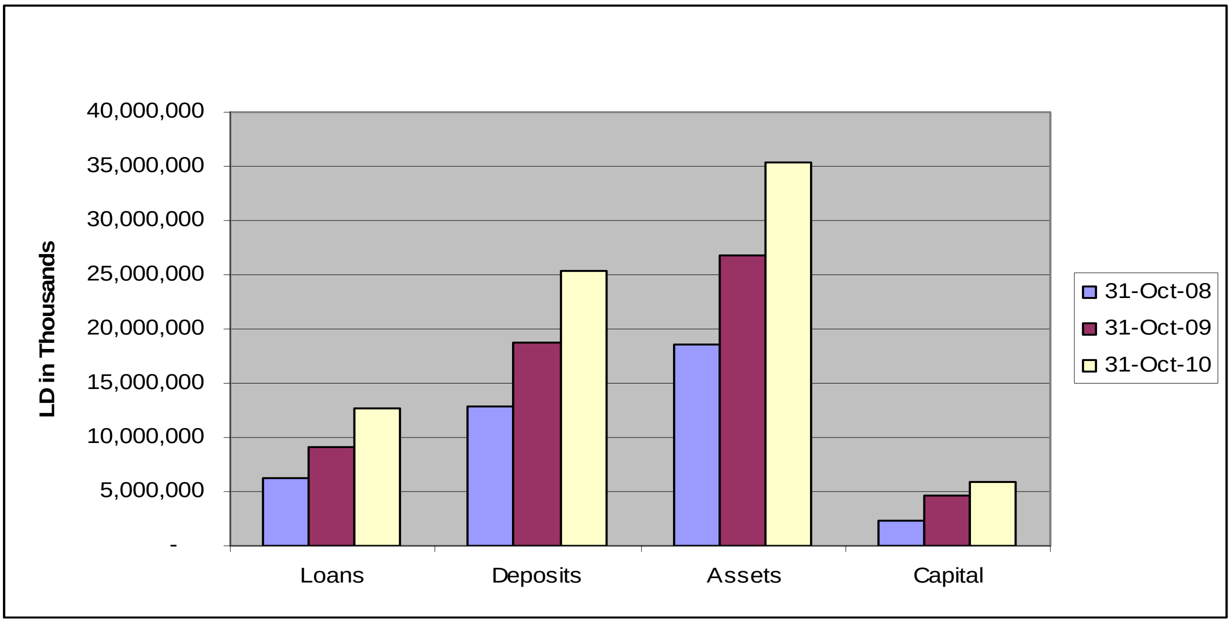
5.3 Balance Sheet of the Banking Sector

The banking sector, in 2010, continued with the strong growth pattern recorded in previous periods. For the period ended October 2010, the industry's balance sheet, in terms of total assets, expanded by 32.2 percent to L$35.40 billion compared with the corresponding period in 2009, and total loans and advances grew by 38.9 percent over the same period (Chart 12). Currently, almost all of the industry's credits are extended to the private sector.

Total deposits recorded a growth rate of 35.7 percent as at October 2010, compared with October 2009. Total capital increased by 25.8 percent during the same period. Additionally, the banking system continued to be very liquid. SME and microfinance lending by commercial banks continued to increase. As at October 31, 2010, SME and microfinance lending increased by 207.3

percent over October 2009 level. Overall, these growth rates reflect continuous confidence in the banking system, increased financial deepening and increased economic activities.

Chart 12: Annual Growth Trend of the Banking Industry



5.4 Outlook for the Banking Sector

Based on the measures started or implemented during the year 2010, the outlook for the banking sector for 2011 and beyond is optimistic for the following reasons.

First of all, over the last two years, the CBL has progressively increased the minimum capital requirement from US$2.0 million to the current US$8.0 million, with a further increase to US$10.0 million at end-2010. Additionally, and in order to build a strong buffer for both known and unknown risks inherent in the activities of the commercial banks and provide greater protection of depositors' funds , the capital adequacy ratio for the banking system was increased from 8 percent to 10 percent. As a result of these increments in the capital requirements, the banking system has made significant improvements from its position a few years ago to the current state. This increased level of capitalization means that the banks are now in the position to fund growth in their assets, expand and improve services to the banking public, and provide the needed financial resources to the economy.

Second, the establishment of a special Commercial Court is expected to give banks a speedy and cost-effective remedy to collecting their bad debts and improve the credit culture in the country. This improvement will be manifested through reduced provision expenses, thus leading to higher earnings and greater organic growth in the banks' capital positions.

Third, because of the CBL's switch to RBS, risk management in banks has now come under the spotlight. As a result, banks, under the new supervisory regime, will be more risk-conscious and adopt policies and measures aimed at improving their risk management structures. This increase level of scrutiny will compel greater participation by the boards of directors in the affairs of their respective financial institutions, leading to improved levels of overall management performance.

Fourth, the implementation of IFRS means that banks will now have to make a lot more disclosure in their financial reporting than was previously the case. This, in itself, is an incentive for banks' management to guide their actions by the highest standards of corporate governance, which should translate into greater productivity and improved performance.

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 opportunities for profitability for banks and also an outlet for the investment of their excess liquidity.

CHAPTER VI
MICROFINANCE

6.1 Overview

The CBL has over the years endeavored to improve access to finance by a vast majority of the Liberian people. This is evident by the Bank's collaborative effort with UNDP, UNCDF, UNIFEM and the IFC to ensure the continuity of this important sub-sector and to make it an integral part of the financial sector. This collaboration aims to ensure a competitive and inclusive financial sector through support to microfinance initiatives in the areas of capacity building of Microfinance Institutions (MFIs), policy development, resource mobilization and dissemination of sound microfinance principles and best practices.

6.2 Strategy for Financial Inclusion and Microfinance Regulatory and Supervisory Framework

During the reporting period, the CBL published the Liberian Strategy for Financial Inclusion, and launched the Microfinance Regulatory and Supervisory Framework for Liberia. The Strategy document is an embodiment of the vision, challenges, goals and prospects for the institutionalization of a sustainable microfinance sector in Liberia and the strategic direction to be pursued. The national strategy, in consonance with its action plan, will promote access to financial services for all segments of the Liberian population.

The Microfinance Regulatory and Supervisory Framework for Liberia harmonizes operating standards and provides a strategic platform for the evolution of microfinance institutions and promotes appropriate regulations, supervision and adoption of best practices.

The 5th Liberia Microfinance Investment Committee (IC) meeting convened in 2010 to review proposals for funding submitted by eight microfinance service providers. Three of the 8 institutions were approved for funding, namely, Community Livelihood Assistance Program (CLAP) which was approved for USD125,000.0; Liberia Entrepreneur Assistance Program (LEAP), USD400,000.0; and Combined Effort to Aid Liberians (CEAL), USD75,000.00. The funding support is intended for these institutions to increase their client outreach and develop new loan products to meet the needs of rural dwellers and cross border traders.

During 2010, 7 credit-only microfinance institutions registered with the CBL in compliance with the Microfinance Regulatory and Supervisory Framework. This is in addition to the specialized microfinance bank- AccessBank Liberia Limited. These institutions have opened a total of 26 branches, covering 8 counties, reaching a total of 54,743 active borrowers as at September 30, 2010. Currently, the counties benefiting from MFIs branch network are Montserrado, Margibi, Bong, Nimba, Cape Mount, Bomi, Lofa and Maryland. The total loan portfolio outstanding of these financial services providers stood at US$8,060,359.00 as at end-September, 2010.

Her Royal Highness, Princess Maxima of the Netherlands, United Nations Secretary General Special Advocate for Inclusive Finance for Development, paid a 3-day working visit to Liberia during the year. During her visit, the Princess met with officials of the CBL, where she was advised of the Bank's activities in developing the microfinance sector. The discussions also focused on the use of new technology such as mobile banking, the establishment of commercial courts, consumer protection and transparency measures undertaken by the CBL, among others.

The CBL became a member of Alliance of Financial Inclusion (AFI), an independent network of policy makers in developing and emerging markets. The organization provides its members with the tools and resources to share, develop and implement knowledge of financial inclusion policies that works.