CENTRAL BANK OF LIBERIA

ANNUAL REPORT

2008

JANUARY 1, 2008

TO

DECEMBER 31, 2008

CENTRAL BANK OF LIBERIA

Office of the Executive Governor

January 27, 2009

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 Government of Liberia and the Legislature for the period January 1 to December 31, 2008.

Sincerely yours,

J. Mills Jones

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

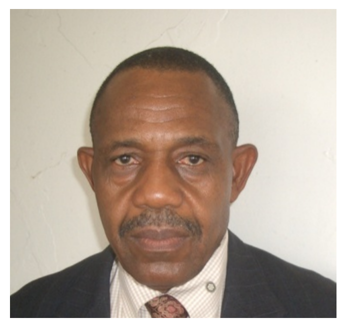
The Bank seeks to achieve this mission by devising and pursuing policies designed to:

- 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, 2008

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

John G. Bestman
Board Member

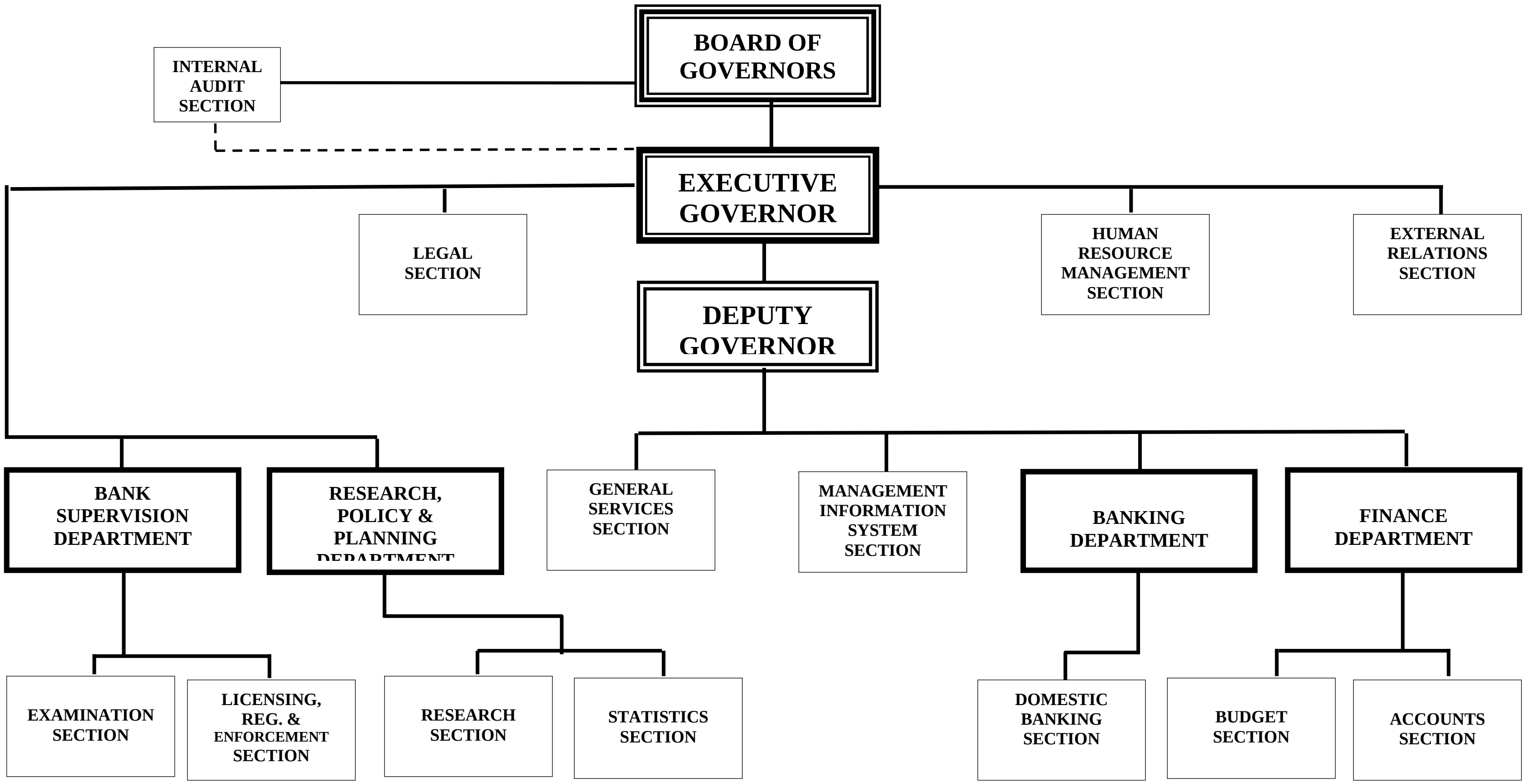


David K. Vinton
Board Member

Samuel W. Thompson
Board Member

Betty J. Saway
Board Member

Central Bank of Liberia Organizational Chart



MANAGEMENT
AS AT DECEMBER 31, 2008

Dr. J. Mills Jones
Executive Governor

Ethel Davis
Deputy Governor

HEADS OF DEPARTMENTS

A. Richard Dorley
Director
Research, Policy & Planning Department

Charles E. Sirleaf
Director
Finance Department

Mussah Kamara
Director
Supervision Department

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

Joseph G. Kollie
Officer-In-Charge
Banking Department

Table of Contents

List of Tables

List of Charts

Acronyms Used

AACB	African Association of Central Banks
ABLL	AccessBank Liberia Limited
ACDB	Agricultural and Cooperative Development Bank
AfDB	African Development Bank
AML/CTF	Anti-Money Laundering and Combating of Terrorist Financing
ATMs	Automatic Teller Machines
BOP	Balance of Payments
BRC	Banking Reform Committee
CEBSAC	Central Bank of Liberia Social and Athletic Club
CAR	Capital Adequacy Ratio
CBL	Central Bank of Liberia
CC	Compliance Committee
CORDAID	Catholic Organization for Relief and Development Aid
CPI	Consumer Price Index
EBLL	Ecobank Liberia Limited
ECOWAS	Economic Community of West African States
FDA	Forestry Development Authority
FEB	Financial and Economic Bulletin
FIA	Financial Institutions Act
FIBLL	First International Bank Liberia Limited
FIU	Financial Intelligence Unit
GIABA	Governmental Action Group Against Money Laundering
GBLL	Global Bank Liberia Limited
GDP	Gross Domestic Product
GEMAP	Governance and Economic Management Assistance Program
GoL	Government of Liberia
GTBL	Guarantee Trust Bank Liberia
HCPI	Harmonized Consumer Price Index
IBLL	International Bank Liberia Limited
IFRS	International Financial Reporting Standard

IMF	International Monetary Fund
JAI	Joint Africa Institute
LBA	Liberia Bankers Association
LBDI	Liberia Bank for Development & Investment
LFS	Liberia Financial Statistics
LIFS	Launching of an Inclusive Financial Sector
LISGIS	Liberia Institute of Statistics and Geo-Information Services
LUBI	Liberian United Bank Incorporated
MFIs	Microfinance Institutions
MIS	Management Information System
MMPRC	Money Management and Policy Review Committee
MoF	Ministry of Finance
MOU	Memorandum of Understanding
NBFIs	Non-Bank Financial Institutions
NGO	Non-Governmental Organization
NPLs	Non-Performing Loans
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Process
SAM	School of Applied Microfinance
SMS	Short Message Service
TA	Technical Assistance
TRADEVCO	Liberian Bank for Development & Trade
UBAL	United Bank for Africa Liberia
UN	United Nations
UNCDF	United Nation Capital Development Fund
UNDP	United Nation Development Program
USA	United States of America
WAIFEM	West African Institute for Financial and Economic Management
WAMA	West African Monetary Agency
WB	World Bank
WR	Workers' Remittances

Highlights: 2008

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<td>THE MACROECONOMY
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Real GDP was projected to grow at 7.1 percent. This was lower than the 9.5 percent estimated for 2007 on account of lower than expected performance in the mining and logging sectors.
The rate of inflation for 2008 as measured by the Harmonized Consumer Price Index (HCPI), averaged 17.5 percent. It peaked 26.5 percent at end-August 2008, but declined consistently during the latter part of the year to 9.4 percent at end-December 2008.
In March, following the clearance of Liberia’s arrears totaling US$841.0 million to the IMF, the IMF Board approved Fund financing of around US$900.0 million under the Poverty Reduction and Growth Facility and Extended Fund Facility (PRGF/EFF).
Liberia also formally entered the HIPC process which allows the IMF and other creditors to forgive Liberia’s debts of over US$4.7 billion in the context of the HIPC initiative framework.

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<td>BANKING STABILITY
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The Compliance Committee and Banking Reform Committees continued their effort to ensure adequate re-capitalization of the banks in the sector, improve supervision and regulation of financial institutions. As an important pillar of its reform agenda to enable the Liberian banking sector to play a more meaningful and productive role in the economy, the CBL increased the minimum capital requirement for commercial banks from the current level of US$2.0 million to US$6.0 million effective end- December 2008.
Provisional licenses were issued to 3 internationally reputable banks: AccessBank, the microfinance bank, Guaranty Trust Bank and Oceanic Bank Incorporated.

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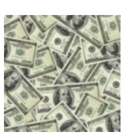
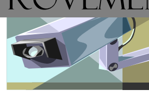
CBL FINANCIAL MANAGEMENT 	• The CBL produced its first IFRS based financial statement in keeping with the decision of the Board of Governors to transition to IFRS by end 2008. • The budget targets as agreed under the Government's Program with the IMF were met by the CBL.
GOVERNANCE 	• On the recommendation of the Management, the Board of Governors of the CBL adopted a number of internal guidelines aimed at ensuring transparency and accountability, including: Fiscal Misconduct Policy; an Internal Audit Charter; Internal Audit Operating Procedures; and Foreign Exchange Reserve Guidelines. • During the year under review, the Bank developed, adopted and implemented purchasing policy and procedures governing purchase requisition, purchase orders, delivery of purchased goods, payments, bidding, petty cash, lease agreements, service contracts, and safekeeping of documents. The policy and procedures underscore the need for utilizing financial resources available to the Bank as efficiently and prudently as possible. • Also the Bank adopted guidelines governing the management and operations of the Bank's foreign exchange resources.
RESERVES 	• The net foreign reserves position of the CBL increased from US$35.1 million at end-December, 2007, to US$49.4 million at end-December, 2008.

EXCHANGE RATE STABILITY 	• The exchange rate of the Liberian Dollar vis-à-vis the US Dollar remained broadly stable during the year, fluctuating between L$62.50 and L$63.50 per US$ 1.00, supported by the weekly sales auction of US Dollar.
MICROFINANCE 	• A program honoring "Unsung Heroes of Microfinance Entrepreneurship in Liberia" was held, bringing together a number of microfinance clients who gave testimonies of how microfinance services have helped transformed their economic conditions. • A National Strategy for Financial Inclusion document was completed by the Microfinance Unit. The document outlines objectives, target groups, principles and best practices for implementation in Liberia spanning the period 2008-2012. • Two major microfinance institutions benefited from a grant of US$1.1 million from UNCDF/UNDP and CORDAID through the Investment Committee chaired by the CBL during 2008.
PAYMENTS SYSTEM 	• A National Payment Committee (NPC) was established by the Bank charged with the responsibility of developing a strategic framework for modernizing the payments system in the country. During the year, short message service (SMS) and Internet banking were introduced.
TECHNOLOGICAL IMPROVEMENTS 	• During 2008, the Bank upgraded its information technology system using more advanced softwares for better security and to improve efficiency.

ANTI-MONEY LAUNDERING 	• Planning began for the establishment of a Financial Intelligence Unit at the CBL to collect, analyze and disseminate information on financial crimes.
PUBLICATIONS 	• The Bank continued with its major publications, including the bi-monthly Liberia Financial Statistics (LFS) and quarterly Financial and Economic Bulletin (FEB). A new monthly publication entitled Fact Sheet on Key Economic and Financial Indicators, was added. • The CBL published for the first time in 21 years, a Balance of Payments Statements.
ENGAGEMENT WITH THE LEGISLATURE AND OTHER STAKEHOLDERS 	• The Bank continued its engagement with the National Legislature, through relevant committees of the House of Representatives and the Senate. • There was increased dialogue between the CBL and the Liberia Bankers Association, with the establishment of a Secretariat by the Bankers Association. • During the year, the Bank continued to engage the Foreign Exchange Bureau Association to explore ways to better integrate the bureaux into the financial system.

Executive Governor's Statement

Against the background of a global financial crisis and the attendant global economic downswing, the Liberian economy continued its steady pace of recovery, expanding by an estimated 7.1 percent in 2008, although lower than the earlier estimate of 8.8 percent. There was a sharp spike in inflation, which averaged 17.5 percent, mainly due to increases in the international price of food and oil. Infrastructure bottlenecks also played a role. However, the year-on-year rate of inflation stood at 9.4 percent, reflecting the fall in the international price of both food and oil and the intensified efforts of the CBL to maintain broad stability in the exchange rate, the main policy anchor for helping to contain inflation. We will remain focused on our primary objective of maintaining price stability, being aware of the pick up in core inflation to 4.7 percent, from 3.4 percent at end-December 2007. Available evidence suggests that there has been further growth in employment in both the formal and informal sectors, although the level of unemployment remains high coupled with the high degree of underemployment across the broad spectrum of the economy. This remains an area that requires continued concerted actions for improvement, both in the short and medium term.

Efforts aimed at strengthening the banking system remained unabated throughout the year. The minimum capital requirement was increased from US$2.0 million to US$6.0 million by end-December 2008, with further increases mandated by end-2009 and end-2010. Several operating banks are already above the new minimum requirement. A new Corporate Governance Regulation was instituted, which was necessary to ensure that Boards of Directors clearly understood their responsibility, individually and collectively.

Meanwhile, we have enhanced our supervisory activities, involving on-site inspection and off-site reviews; individual meetings with the management of banks; meetings with boards of directors; and sometimes convening meetings with principal shareholders. We are beginning to see an enhanced appreciation for the supervisory role of the CBL within the banking community, with more timely responses to our directives and other communications. One of the main lessons emanating from the recent financial crisis is that a properly functioning banking sector is indispensable to sustained economic growth. There is also a heightened sense of public support for supervisory agencies to be able to effectively carry out their mandate in order to keep the financial system on an even keel. In this connection, we wish to thank the government and the Liberian public for supporting our reform program, which is aimed at promoting the stability of the banking sector, more efficient operations and better protection for depositors.

The banking sector saw further growth in 2008, increasing its relevance to the economic recovery of Liberia. At end-November 2008, total loans amounted to L$6,234.0 million compared with L$4,250.8 million in 2007, representing 11.3 percent of estimated nominal GDP. One additional bank became operational, bringing the number to six; provisional licenses were given to three internationally reputable banking institutions to operate in Liberia; namely, AccessBank Liberia Limited – The Microfinance Bank, Guaranty Trust Bank Liberia Limited, and Oceanic Bank Liberia Limited. We expect nine banks to be operating in Liberia by mid-2009. The CBL will work with these institutions to expand branch office outside Monrovia and its environs; this is already taking hold with the opening of branches in Cape Mount and Margibi. Approval has been given for one of the banks to open offices in Maryland County. At end-November 2008, the banking sector gross assets totaled L$19,034.0 million, increasing by 35.4 percent over the level recorded at end-December 2007; and the net worth was L$2,311.0 million, a 37.5 percent increase over the 2007 level.

There was also progress towards the expansion of microfinance activities. Towards this end, the regulations on asset classification and other accounting provisions were amended to accommodate microfinance lending by commercial banks. For the second consecutive year, the CBL, along with UNDP and others, sponsored an honoring program for participants in the microfinance program being supported through Local Enterprise Assistance Program (LEAP) and Liberty Finance. US$1,060,970 was distributed in 2008, under the "Launch of an Inclusive Financial Sector (LIFS) Project."

Prudential management of the CBL's resources has remained on course. We met our budget targets as agreed under the Government's program with the IMF. CBL's reserves increased to

US$49.4 million as at end-December 2008, about a ten-fold increase over the last three years. The CBL has also produced its first financial statements based on the International Financial Reporting Standards (IFRS). Meanwhile, the Bank also underwent two safeguard audits in 2008 as recommended by the IMF. The first which was done in August indicated that monetary data presented to the IMF were correct and that by and large operational procedures were being adhere to. The second audit for the second half of 2008 is underway.

On the recommendation of management, the Board of the CBL adopted a number of internal guidelines aimed at ensuring transparency and accountability, including: Fiscal Misconduct Policy; an Internal Audit Charter; Internal Audit Operating Procedures; and Foreign Exchange Reserves Management Guidelines. All of us at the CBL are committed to carrying out our duties in a professional and responsible manner and are fully aware of our accountability to the government and people of Liberia. We have received the full support of the Board, whose work has been aided in large measure by its Audit Committee. At the management level, the decision making process has benefited from the Money Management and Policy Review Committee, the Compliance Committee, which is the focal point for engaging with the banks on issues relating to our supervisory work, and the Banking Reform Committee, which spearheads our ongoing work to reform the banking sector.

Although economic growth is expected to be strong in 2009, the risks posed by the current global economic turmoil and the possibility for spillover effects cannot be overlooked. The poor state of the nation's infrastructure remains a major challenge to our ability to be competitive. Given the potential adverse effect of the global crisis on government revenue, through the negative impact on export earnings and the level of investment, and the increasing financial difficulty being faced by donor countries, it may be necessary to "think outside the box" to ensure that the country's reconstruction program remain on track over the medium term and that proper safety nets are in place to protect the most vulnerable of our citizens. The potential of the forestry sector to be a major source of income and employment needs to be fully explored.

The need to also find innovative ways to buttress the private sector cannot be overemphasized. In this connection, support for the development of Liberian entrepreneurship must be a priority, as this is the key to expanding the middle class that will serve as the bedrock of the Liberian economy and generate growth from within. The CBL remains committed to further strengthening the health of the financial sector and to working with stakeholders to advance this important objective.

Finally, on behalf of the Board of Governors, I would like to take this opportunity to express my thanks to the Government of Liberia, including the oversight committees of the Legislature, the banking community, and the general public for the support and encouragement received during the course of the year. I also congratulate the CBL staff for their cooperation and good work.

J. Mills Jones
Executive Governor

Chapter I: Operations of the CBL

1.1 The Bank at Work

The Board of Governors fulfilled its responsibility of supervising and monitoring the operations and financial performance of the Bank. This took place through the statutory quarterly meetings, call meetings and other informal consultations. The Management also benefited from consultations with the Banking and Currency Committees of the National Legislature. The Committees were briefed on the national economy in general and the performance of the financial sector in particular. The Committee of the House of Representatives on Banking and Currency received a detailed briefing on the dynamics of inflation, which was a topical issue during the course of the year. Fact Sheets containing major macro-economic data were provided monthly to the members of the Legislature, Ministries, and the general public. The Management of the Bank also held consultations with the President of Liberia, in keeping with its mandate to serve as economic advisor to the Government of Liberia.

In order to strengthen and coordinate activities of the financial system, the CBL continued to engage the Liberia Bankers Association. Such engagements helped the CBL to explain its policies to the banking community and get cooperation on regulatory measures that were being put in place.

The Foreign Exchange Bureau Association also featured in the CBL's strategy of having a broad-based consultative approach. The meetings provided an opportunity to further address problems in the forex exchange market and bring the forex bureaux more into the financial system.

1.2 Key Internal Committees

The Money Management and Policy Review Committee (MMPRC) remained the major forum for examining major policy question as well as Management's overall strategic vision. In this connection, discussions were focused on the foreign exchange auction and its impact on exchange rate, the development of the Microfinance industry as a means of enhancing access to financial services to all segments of the population as part of the government's poverty reduction program, issues regarding the capitalization of the CBL, the transition to the International Financial Reporting Standard (IFRS), budgetary operations, and developing an approach to resolving the issues of abandoned banks, among others.

The Compliance Committee met more often during the year, with the institutionalization of the two on-site inspections for each commercial bank. Key deficiencies observed during these examinations were reviewed by the Committee and recommendations for remedial and corrective actions made to the Executive Governor. The Committee also deliberated on developments in the banking sector, as reported in the Quarterly Off-site Surveillance Reports submitted by the Bank Supervision Department, making recommendations for appropriate action. One of the issues that claimed the Committee's attention was the growing stock of non-performing loans on the books of commercial banks, which led to a meeting with the Bankers Association to discuss options and a strategy for addressing the problem. There was a broad consensus from that meeting on the need to establish a fast-track commercial court to deal with the enforcement of financial contracts. The Committee also took keen interest in monitoring requests of individual banks for branch expansion, to ensure that such expansion was consistent with the financial and managerial capacity of the bank making the request.

The Banking Reform Committee continued to examine the evolving role of the banking sector with a view to making it more responsive to the needs of the economy, as well looked into issues that impeded the efficiency of the sector. Among the issues considered by the Committee were the single obligor limit, with the objective of raising the current limit for the financing of certain essential commodities, and the need to create opportunities for the banks to invest their excess liquidity in order to help make them more profitable.

1.3 Risk Management and Audit

Pursuant to the CBL Act, continuous and regular audits of the activities and accounts of the Bank were carried out in 2008 by the Internal Audit Section, guided by the Audit Committee of the Board. Transactions were examined and verified in line with Generally Accepted Auditing Standards (GAAS). The Audit Committee of the Board approved an internal audit plan which was constructed to ensure adequate coverage of the Bank's basic functions—operational, compliance and financial reporting system—as well as enhance the auditors' ability in preparing statements of adequacy and effectiveness regarding the bank's risk management and governance processes.

During the year under review, two principal audits were carried out in March and August by both an IMF Safeguards Assessment Mission and Pricewaterhouse Coopers (PwC)- Ghana, the Bank's external auditors, respectively.

The IMF Mission's report pointed to a number of progress made by the Bank in respect of the 2007 audit. The Mission also recognized further steps taken by the Bank in transitioning to the International Financial Reporting Standards (IFRS). The Mission concluded that the Bank implemented most of the measures recommended by the 2007 assessment Mission.

A Special Purpose Audit of the Monetary Program Data Reporting Package (MPDRP) was conducted by PwC covering the first half of 2008. This was in response to the IMF Safeguard Assessment Mission's recommendation of March 2008. PwC Audit Report revealed that the CBL made significant progress in achieving all quantitative benchmarks established under the PRGF program with the IMF for reserves accumulation, ceilings on expenditure, and budget balance. A second audit for the second half of 2008 is expected to be conducted in early 2009.

The CBL, in its strides to strengthen internal control, contracted the services of PwC to conduct risk-based and IT auditing training for internal auditors. Management also submitted a number of control procedures and policies to the Board of Governors which were approved. These included the Foreign Exchange Reserves Management Guidelines (FERMG/2008) and the Foreign Exchange Operations Guidelines (FEOG/2008).

1.4 Fiscal agent for the Government

Pursuant to Part II Section IV, Subsection VI of the CBL Act of 1999 which mandates the Bank to act as fiscal agent for the Government, the CBL continued to assist the Government in the collection of revenue. The CBL maintained an office at the Ministry of Finance responsible for tax collection system with direct link to its headquarters. Additionally, the Bank, on behalf of the Government, remitted timely payments and transfers to international financial institutions, diplomatic missions and other institutions abroad.

Payments System Modernization Project

A National Payment Committee (NPC) was established by the CBL and chaired by the Deputy Governor of the Central Bank of Liberia with the Chief Executive Officers of commercial banks, and the Deputy Minister of Finance for Expenditure as members.

The Committee's primary responsibility is to develop a strategic framework for modernizing the payments system. A subgroup comprising technicians from the CBL, commercial banks and the Ministry of Finance was also to facilitate the work of the Committee. A 5-year National Payment Strategic Framework Guidelines paper has been drafted.

Currently, the CBL operates permanent payments centers in 6 counties. These are 8 mobile payments centers to accommodate Government employees in counties that do not have permanent centers. The CBL plans to expand its permanent payment centers in the near future.

The upgraded and expanded electronic component of the manual check-clearing system was completed during the year and will be operationalized in 2009. The automation of the clearing system will provide participants of the clearing house with output prepared in an electronic format.

Auction Activities

During the year under review, the CBL continued its foreign exchange auction with an increase in frequency from bi-monthly in 2007 to weekly in 2008. A total of US$26.0 million was offered and sold through the auction for 2008, US$7.5 million more than 2007. The increase in the amount of US dollars sold through the auction was one of those factors responsible for the broad exchange rate stability experienced during the year.

1.5 CBL Accounting and Finances

The financial statements of the Central Bank of Liberia are for the first time prepared in accordance with International Financial Reporting Standards (IFRS). Account balances at year-end 2007 are restated for comparative purposes. These financial statements are currently being audited by PricewaterhouseCoopers-Ghana, the Bank's external auditor. The transition to IFRS has been a significant exercise, which has been achieved through staff training, technical assistance and the streamlining of activities of the Finance Department by clearly defining the roles and duties of staff, based on their competence and technical proficiency.

Income and Expenditure

The Bank derives its income primarily from loans and advances granted to the GOL and its offshore investments/placements with foreign banks. The CBL's un-audited Income Statement for the year ended 2008 revealed gross income of L$1,126.3 million compared to L$2,927.7 million in 2007. This was mainly due to a decline in interest income by L$1,718.5 million or 85.0 percent. In 2007, income was exceptionally high and included previously deferred interest on government claims as a result of loan restructuring. The underlying interest declined due to lower interest rate earned on deposits with foreign banks.

The Bank's main expense drivers for the year ended 2008 were staff cost and currency expense. Total expenditure for the year amounted to L$634.6 million compared with L$565.2 million in 2007 excluding assets impairment charges. The Bank's net income for 2008 was L$491.7 million.

Financial Position

The CBL's un-audited Statement of Financial Position recorded total assets of L$108,837.4 million for the year ended 2008 compared with L$86.5 million in 2007. The increase was primarily due to a rise in IMF related assets following the clearance of GoL arrears with the Fund and increase in CBL liquid assets. The March 14, 2008 arrears clearance resulted to an increase in Liberia’s SDR Holdings. Excluding the IMF, approximately 57.0 percent of total assets are represented by claims on the Government of Liberia. The loans are currently performing based on a memorandum of understanding signed on May 8, 2007 between the CBL and the Government of Liberia.

The CBL un-audited total liabilities at year- end 2008 were L$99,199.4 million compared with L$77,342.7 million in 2007. This increase in liabilities of L$21,856.7 million or 28.0 percent was mainly attributed to a 29.3 percent increase in commercial banks deposits and 31.0 percent increase in IMF related liabilities. The increase in commercial banks deposits is primarily due to growth in reserve requirement of commercial banks by 39.0 percent. The increment in IMF related liabilities was due to the acquisition of Poverty Reduction Growth Facility (PRGF) and Extended Fund Facility (EFF) loans during the arrear clearance in March 2008.

The CBL’s un-audited total owners’ equity at year-end 2008 was L$9,638.0 million compared with the amount of L$9,146.3 million at end-2007. This was due to an increase in net profit.

The Budget

The 2008 budget of the Central Bank of Liberia was implemented with the intended objective of ensuring financial prudence in the utilization of the Bank’s resources to improve its operation and attain targets agreed upon with the IMF under the Poverty Reduction Growth Facility (PRGF) Program. The budget was based on interest income at the rates prevailing at end 2007 and mid 2008. Since then interest rates has fallen and income has dropped.

A cash surplus of US$78,181 was recorded in 2008, compared with a surplus of US$1.8 million in 2007. This decrease in the cash surplus was due to a drastic decline in interest rate on the Bank’s foreign deposits as a result of the global financial crisis.

The Bank reported a net Foreign Reserves position of US$49.4 million for 2008 compared to US$35.1 million in 2007.This increase of US$14.3 million or 41.0 percent is a reflection of the Bank’s policy to build up reserves consistent with its international obligation.

1.6 Supervisory and Regulatory Activities

During the year, the CBL continued its supervisory strategy of an aggressive inspection of the banks, which involved conducting two comprehensive on-site examinations for each bank. This was complemented by a robust off-site surveillance system of all licensed commercial banks as well as non-bank financial institutions. Prudential data and information submitted by banks were analyzed to ensure compliance, accuracy, and detect early warning signals. The analyses covered data on the quality of assets and liabilities, liquidity management, earning performance, capital adequacy, risk exposure, and other prudential standards. Cases of violations of CBL's directives, regulations, and other corporate governance and management weaknesses revealed from examination of each bank were deliberated on by the Compliance Committee and the appropriate remedial actions taken. Also, the Compliance Committee deliberated on adverse developments in the banking sector which were discovered from the off-site surveillance reports of the commercial banks. This continuous oversight of the CBL has yielded positive results, including improved corporate governance, risk management, internal controls, and adequate capitalization in the banking sector. Such a development has led to increased public confidence in the banking sector.

One new regulation was issued and two existing regulations amended. The new regulation, Regulation No. CBL/SB/002/2008, was the Corporate Governance Regulation for Financial Institutions, intended to strengthen and enhance Board oversight of commercial banks. The Prudential Regulations on Assets Classification, Loan Loss Provisions, and Suspension of Interest on Non-performing Loans, Regulation No. CBL/003/2008, was amended to accommodate microfinance lending by commercial banks, as part of CBL's effort to promote lending to low income earners and economically active poor.

As an important pillar of its reform agenda to strengthen the Liberian banking sector so as to enable it play a more meaningful and productive role in the economic recovery process, the CBL increased the minimum capital requirement for commercial banks from US$2.0 million to US$6.0 million by end-December, 2008. The directive further indicated that the minimum capital requirement will be raised to US$8.0 million by end-December, 2009 and to US$10.0 million by end-December, 2010. The minimum capital adequacy ratio (CAR) was also increased during the year, from 8.0 percent to 10.0 percent, which takes effect from December 31, 2008.

The CBL continued its supervision and regulation of licensed non-bank financial institutions, including forex bureaux, money remittance entities and a credit-only institution. As at end-December 2008, the number of licensed foreign exchange bureaux stood at 52, money remittance entities at 2, and 1 development finance institution.

The CBL also concluded the liquidation exercises of two former financial institutions, the Liberian United Bank Incorporated (LUBI) and the Liberian Trading and Development Bank Limited (TRADEVCO).

During the course of the year, the CBL engaged other key stakeholders to improve the credit environment, including making the case for the establishment of a fast-track commercial court to expedite cases involving financial contracts.

1.7 Research and Publication

Research remained one of the core activities of the CBL during the period under review, providing the Management of the CBL with the foundation for the formulation and implementation of monetary policy. The Bank continued to publish macroeconomic data via its quarterly Financial and Economic Bulletin, the bi-monthly Liberia Financial Statistics (LFS), the monthly publication of the key economic indicators (Fact-Sheet),the Monetary Policy Statement of the Bank and, more recently, the Balance of Payments Statement.

The CBL continued the submission of the monetary survey (a collection of monetary and financial statistics of the economy) to the IMF during the year. It also continued the regular surveys of the foreign exchange market in order to monitor exchange rate movements on a daily basis, in addition to collaborating with the Liberia Institute of Statistics and Geo-Information Services (LISGIS) in the collection, compilation and analysis of the consumer price index (CPI).

During the course of the year, the Balance of Payments Unit, with technical assistance from the IMF, published the first BOP statement since 1988.

1.8 Information Technology (IT)

During the year, the Bank upgraded its information technology using more advanced softwares with the view to enhancing efficiency of the Bank's operations in providing timely delivery of services to the Government and the public. Also, the improved state of technology has enhanced posting of checks and security of the Bank.

1.9 Anti-Money Laundering

The Bank has been stepping up efforts to strengthen the institutional environment to prevent money laundering. During the year under review, the Legal Section of the Central Bank of Liberia (CBL) participated in several Anti-Money Laundering and Combating of Terrorist Financing (AML/CTF) seminars and workshops locally and abroad, sponsored by the Inter-Governmental Action Group against Money Laundering (GIABA) and the World Bank.

Additionally, in collaboration with GIABA, the CBL sponsored a 2-day sensitization workshop held in Monrovia, Liberia, from the 19th –20th August 2008, on AML/CTF under the theme "Enlisting the Support of the Liberian Media, Civil Society Organizations and Professional Groups for GIABA's Strategic Action Plan to Combat Money Laundering and Terrorist Financing in Liberia."

The CBL has also begun to work toward establishing a Financial Intelligence Unit (FIU), which will be based in the institution initially. Its role will be to collect, analyze and disseminate information on financial crimes, including, but not limited to, money laundering. The Unit will analyze and disseminate information on terrorist financing. Its personnel will be drawn from the CBL, Ministry of Justice, and relevant sections of security agencies concerned in the investigation of financial and economic crimes.

The CBL has transmitted to the Ministry of Justice samples of the model legal framework drafted by GIABA with the input of the IMF, World Bank, US Treasury, French Treasury and other stake holders in the fight against money laundering and terrorist financing.

Liberia is due to be evaluated for compliance with the Financial Action Task Force (FATF) recommendation in 2010 as to whether it is complying with the FATF and the convention of the United Nations against money laundering and terrorist financing. Other countries in the region are also being evaluated.

1.10 Human Resources Management

At the close of the year under review, the number of staff at the CBL stood at 209, from 145 at end of 2007. Of the 209 staff, 61 are fixed-term employees.

Capacity Building

The Management of the Bank continued to prioritize capacity-building. During the year, a total of thirty-nine (39) employees participated in training programs hosted by several institutions, including, the IMF, WAIFEM, ECOWAS, the Federal Reserve Bank of New York, National Banking College of Ghana , the World Bank and the CBL itself. The training programs covered, Balance of Payments, Econometric Modeling, Inflation-targeting, International Financial Reporting Standards, Banking Supervision, Risk-Based Supervision and Business Continuity, Money Laundering and Terrorist Financing in West Africa, Swift Migration Training, among others.

The Bank received Technical Assistance from the IMF in the areas of Balance of Payments compilation, Central Bank Accounting, Bank Supervision and Reform, and Payments System. Regarding the Technical Assistance received in BOP compilation, the Resident Advisor upgraded the capacity of the staff of the BOP Unit in methodology and the construction of a BOP statement, which culminated in the publication of Liberia's BOP statement for the first time in 21 years. With regard to the assistance in central bank accounting, the IMF consultant assisted staff of the Finance Department to acquire basic training in the International Financial Reporting Standards (IFRS); this helped the Bank transition to the IFRS framework, an end-

June 2008 benchmark for the Bank. With the CBL bent on ensuring a vibrant banking sector, the IMF's Resident Advisor on bank supervision conducted a number of workshops and training for new inspectors and provided higher level courses to the experienced inspectors; developed supervisory policies and follow-up techniques to ensure that significant deficiencies are addressed in the banks. Consequently, bank supervisors are now able to quickly detect any anomalies within any of banks upon examination and make appropriate recommendations to Management. The Payments System Modernization Resident Advisor worked assiduously to evolve a national payments system in the country.

The Bank's computer literacy program continued in 2008. Courses offered were typing, Microsoft Access, Microsoft Excel, Window Basics, Microsoft Word and PowerPoint. Each course is offered for eight weeks. The computer literacy program is aimed at improving staff proficiency, efficiency, and enhancing professionalism in the discharge of their functions.

The Bank granted study leave to one of its employees to undertake graduate studies abroad in quantitative Economics. The CBL also granted full scholarship to another employee to study at the West African Insurance Institute in Banjul, The Gambia. This is an attempt to build capacity to enable the Bank carry out its regulatory responsibility regarding the insurance industry in keeping with its mandate. .

1.11 Relations with International Institutions

During the period under review, the CBL played an active role in moving Liberia forward toward debt relief under the HIPC Initiative by working with the IMF on the development and implementation of an economic and financial program that is supported by the Poverty Reduction and Growth Facility (PRGF) of the IMF. A program for 2009 agreed with the Fund staff in the latter part of 2008 was approved by the Executive Board of the IMF on December 22, 2008.

1.12 Regional and Sub-Regional Organizations

The CBL maintained close contacts with regional and sub-regional organizations via increased representations at meetings organized by the West African Monetary Agency (WAMA), the West African Institute for Financial and Economic Management (WAIFEM) and the Association of African Central Banks (AACB). During 2008, The Bank made payments totaling US$60,000.0 to WAMA, US$92,500.0 to WAIFEM and US$9,025.0 to AACB.

1.13 Community Outreach

The Central Bank of Liberia Social and Athletic Club (CEBSAC) as part of its 2008 program, carried out a community outreach program titled, "*Taking CBL to the People*". The outreach which took place on July 25, 2008, saw the donations of food made to Calvary International Orphanage Mission Home located on Barnesville Road, the Deaf & Dumb, and the Blind Homes in Virginia.

Chapter II: Banking Sector Developments

2.1 The Banking Sector

For the period under review, the number of commercial banks increased to six (6): Ecobank Liberia Limited (EBLL), First International Bank Liberia Limited (FIBLL), Global Bank Liberia Limited (GBLL), International Bank Liberia Limited (IBLL), Liberian Bank for Development and Investment (LBDI), and United Bank for Africa Liberia (UBAL).

The number of bank branches increased from 17 in 2007 to 28 at end-2008. Also,a total of 14 windows were opened during the year. Several approvals were granted for the establishment of branches in counties without bank branches and offices. Counties currently benefiting from the expansion in banking services are Montserrado, Nimba, Margibi, Bong, Grand Cape Mount and Grand Bassa. The expansion is in line with CBL's policy of promoting access to banking services to all segments of the population.

As at end-November, 2008, the banking sector gross assets totaled L$19,034.0 million, increasing by 35.4 percent over the level recorded at end-December, 2007. The total capital (net worth) of the sector rose by 37.5 percent to L$2,311.0 million, when compared with the level at the end of 2007. The capital adequacy ratio for the industry was 21.0 percent, 2.0 percentage points less when compared with December ending 2007, but much greater than the 8.0 percent minimum requirement (Table 1). The increase in the net worth of the banking sector was largely the result of injection of additional capital by one new bank and the recapitalization of an existing bank.

As an indication of increased public confidence, the sector experienced a 43.5 percent increase in deposits, from L$9,298.0 million in 2007 to L$13,341.8 million as at end-November, 2008. The US dollar denominated deposits accounted for L$11,449.0 million (US$181.0 million) of total deposit at end-November, 2008 while the Liberian component accounted for L$1,892.0 million.

The sector’s liquidity ratio of 53.0 percent was far in excess of the 15.0 percent required minimum. The risk averse nature of commercial banks and limited financial instruments are some of the factors responsible for the excess liquidity in the sector. This calls for the need to deepen the financial sector through, for example, the introduction of more money market instruments and the eventual development of a capital market, which would help strengthen demand for the Liberian dollar.

Non-performing loans (NPLs) as a ratio of total loans in the sector remained essentially the same at 19.0 percent. The continued high ratio is attributed largely to the growth in aggregate loan portfolio. In absolute terms, total NPLs as at end-November, 2008 was L$1,206.0 million compared with L$726.1 million as at end-December, 2007. This development flagged the problem of poor loan recovery in the banking sector. As a result of this, the CBL has been working to ensure an improved credit environment.

As part of its bank reform program, the CBL held consultative meetings with the Liberia Bankers Association during the year with the view to recommending to the Government the need to fast-track the establishment of a commercial court that would expeditiously enforce financial contracts, which will help curb the high non-performing loans in the banking sector and eventually lead to a change in the credit culture of some debtors. In furtherance of good corporate governance, the CBL amended several regulations governing the operations of commercial banks based on results of both off-site and on-site inspections.

The banking sector is gradually modernizing its operations. During the year under review, automatic teller machines (ATMs), short message service (SMS), and internet banking were introduced by some of the banks. These financial innovations are outcomes of a healthy competitive environment being encouraged by the CBL.

Table 1: Financial Soundness Indicators
(In Percent)
(2007- November, 2008)

	2007	Nov-2008
Net Capitalization	13.0	13.0
Capital Adequacy Ratio	23.0	21.0
Classified Loans to Total Loans	23.0	24.0
Non-performing Loans to Total Loans	19.0	19.0
Provision to Classified Loans Net of Interest-In-Suspense	71.0	65.0
Provision to Non-Performing Loans Net of Interest-In-Suspense	87.0	82.0
Return on Assets	0.2	-0.2
Return on Equity	1.0	-2.0
Non-Interest Income to Total Income	72.0	66.0
Net Interest Margin over Average Assets	9.0	6.0
Liquid Assets to Net Assets	56.0	56.0
Net Loans to Deposits	38.0	40.0
Liquidity Ratio	49.9	53.0

Source: Central Bank of Liberia, Monrovia, Liberia

Table 2: Financial Soundness Indicators
(In Millions L$)
(2007 – November, 2008)

	2007	Nov-2008
Gross Assets	14,053.3	19,034.2
Net Assets	13,259.5	17,957.4
Net Loans	3,608.8	5,316.6
Deposits	9,439.0	13,345.7
Capital Net of Provision	1,680.7	2,311.3

Source: Central Bank of Liberia, Monrovia, Liberia

2.2 Commercial Bank Credit

The expansion of credit (inclusive of both US and Liberian dollars loans) by banks to various sectors of the economy continued during the year. Total credit at end-November, 2008 was L$6,234.0 million — reflecting a 46.7 percent rise over the level recorded at end-December,

2007. The US dollar component of total credit increased by US$27.7 million to US$89.9 million at end-November, 2008, from US$62.2 million at end-December, 2007. Also, total credit in Liberian dollars rose by L$180.8 million to L$545.5 million, from L$364.7 million for the same period.

Of the total credit at end-November, 2008, Trade, Hotel & Restaurant accounted for 30.6 percent; Transportation, Storage and communication, 12.3 percent; Construction, 9.2 percent; Agriculture, 5.0 percent; Manufacturing 2.9 percent; and Mining & Quarrying, 0.4 percent (Table 3). The "Others" category, which consists of lending to individuals and services-related entities, accounted for 39.6 percent. On the overall, there was an increase in credit to all sectors of the economy during 2008.

Table 3: Commercial Banks' Loans by Economic Sectors
(2006 – November, 2008)
(In Millions L$)

	Dec-06	% Share	Dec-07*	% Share	Nov.-08	% Share
1. Agriculture	260.6	7.1	207.3	4.9	310.8	5.0
2. Mining & Quarrying	1.4	0.0	0.0	0.0	25.3	0.4
3. Manufacturing	41.8	1.1	108.9	2.6	181.9	2.9
4. Construction	215.5	5.9	279.0	6.6	575.5	9.2
5. Trans., Storage & Comm.	149.7	4.1	218.4	5.1	764.3	12.3
6. Trade, Hotel &Rest.	691.6	18.9	915.8	21.5	1,907.7	30.6
7. Other	2,308.6	62.9	2,521.4	59.3	2,468.5	39.6
Total	**3,669.1**	**100.0**	**4,250.8**	**100.0**	**6,234.0**	**100.0**

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

2.3 Interest Rates

At end-November, 2008, average lending rate declined slightly by 0.1 percentage points to 14.20 percent, from 14.30 percent at end December, 2007. This level can be largely explained by the risk profile, credit history of clients and the level of non-performing loans in the banking sector. Personal loan rate, on average, remained generally the same but with a marginal decline of 0.5 percentage points to 14.42 percent, from 14.90 percent a year ago. The interest rate on mortgage loan increased on average to 14.00 percent for the period, representing a 2.0

percentage points rise, from 12.00 percent recorded at end-December, 2008. Average time deposit rate fell by 0.6 percentage points to 3.70 percent, from 4.30 percent recorded for 2007 while average savings rate increased negligibly by 0.01 percentage points to 2.11 percent, from 2.10 percent at end of the previous year. The large lending-savings rate spread shows how shallow and underdeveloped the financial system is, which calls for efforts that should be tailored at deepening the financial system through the modernization of the money market and eventual development of a capital market. The average rate on certificate of deposits (CDs) remained unchanged at 3.0 percent on a year-on-year basis.

Table 4: Interest Rates
(2006 – November, 2008)

RATES	2006	2007*	Nov-2008
Avg Lending Rate	15.20	14.30	14.20
Avg Personal Loan Rate	13.00	14.90	14.42
Avg Mortgage Rate	12.00	12.00	14.00
Avg Time Deposit Rate	4.90	4.30	3.70
Avg Savings Rate	3.00	2.10	2.12
Avg Rate on CDs	0.00	3.00	3.00

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

2.4 Licensing of Credit and Financial Institutions

Consistent with its 2008 policy of expanding the banking sector through a guarded approach, the CBL issued provisional licenses to 3 internationally reputable financial institutions, namely AccessBank Liberia Limited (ABLL) — the Microfinance Bank, Guaranty Trust Bank Liberia Limited (GTBL) and Oceanic Bank Incorporated, to conduct full banking business in Liberia.

Two banks, through sub-agent agreements are providing money transfer services in Grand Gedeh and Maryland Counties. Permission to commence branch construction activities in 3 counties was granted by the CBL. The counties included Maryland, Lofa, and Bong.

Liberia Enterprise Development Finance Company (LEDFC), the only licensed non-bank financial institution (NBFI), focuses its activities on medium and longer term lending to Liberian-owned small- and medium-size enterprises (SMEs). During 2008, LEDFC extended a total of 8 loan facilities amounting to US$1.31 million. The products granted by LEDFC were in 2 categories, which include working capital loans for short term needs and investment loans for purchase of capital equipment.

Chapter III: Microfinance

The CBL has a general mandate to help foster the promotion and development of the microfinance industry, with a view to integrating it into the formal financial sector in order to meaningfully impact the social and economic condition of the poor and low-income earners by providing them financial services at affordable cost. During the year, the CBL, through its Microfinance Unit, worked in close collaboration with international partners in support of the "Launch of an Inclusive Financial Sector (LIFS) Project" by holding a series of awareness and sensitization programs and workshops.

Microfinance services in Liberia are offered by a number of diverse providers, including commercial banks, private microfinance institutions, NGOs, credit unions, rotating saving and credit associations, such as "susu" groups, and informal credit providers, such as money changers. Despite this array of groups and institutions, the provision of sustainable microfinance services is limited. Most of the services, which are confined to Monrovia, together with intervention in a few other counties, are provided by two main microfinance NGOs, Local Enterprise Assistance Programme (LEAP) and American Refugee Committee (ARC)/Liberty Finance.

The CBL continued to take more steps towards the expansion of microfinance services. The Bank started discussions with potential partners for a pilot project to aid the development of 16 credit unions that will help provide financing to farmers and others in Grand Cape Mount, Grand Bassa, Rivercess and Rivergee counties. This initiative is expected to be extended to other counties.

During the year under review, new operators emerged in the field of microfinance in Liberia and they are expected to improve outreach and delivery of quality services. Building Resources Across Communities (BRAC), established a credit-only microfinance company in collaboration with the Soros Economic Development Fund to deliver microfinance services solely to female clients. BRAC plans to initially establish 20 branch offices in 7 counties: Montserrado, Grand Cape Mount, Bomi, Grand Bassa, Margibi, Bong and Nimba. It has already established 5 branches in parts of Monrovia and its environs. Lending operations should begin during the first quarter of 2009. Also, BRAC has projected that in 2 years it will be transformed into a deposit-taking institution offering a complete set of services for poor and disadvantaged families.

AccessBank (Liberia), *The Microfinance Bank*, licensed to provide not only loan but also deposit-taking services, through the mobilization of savings for low-income earners as well as other services, should begin operations in January of 2009. The licensing of *The Microfinance Bank* is a manifestation of CBL's effort at creating a sustainable microfinance industry. It is well capitalized at US$6.0 million with solid institutional investors such as the AfDB, the International Finance Corporation (IFC), the investment arm of the World Bank Group, the European Investment Bank (EIB) and AccessHolding Microfinance, the Commercial Microbanking Group, a new strategic investor in the microfinance industry.

The demand for microfinance services in Liberia was estimated in 2007 at about 138,000 micro entrepreneurs. To date, about 13,825 clients (of which more than 85.0 percent were women) were being served.

Table 5: LEAP Active Clients

Location	Category		
	Male	Female	Total
Montserrado County	672	2,695	3,367
Kakata, Margibi County	113	1,064	1,177
Ganta, Nimba County	9	71	80
Tubmanburg, Bomi County	181	1,450	1,631
Harbel, Margibi County	193	1,006	1,119
LEAP Internal Loan Scheme	13	242	255
Head office, Montserrado	3	5	8
Total	***1,184***	***6,533***	***7,717***

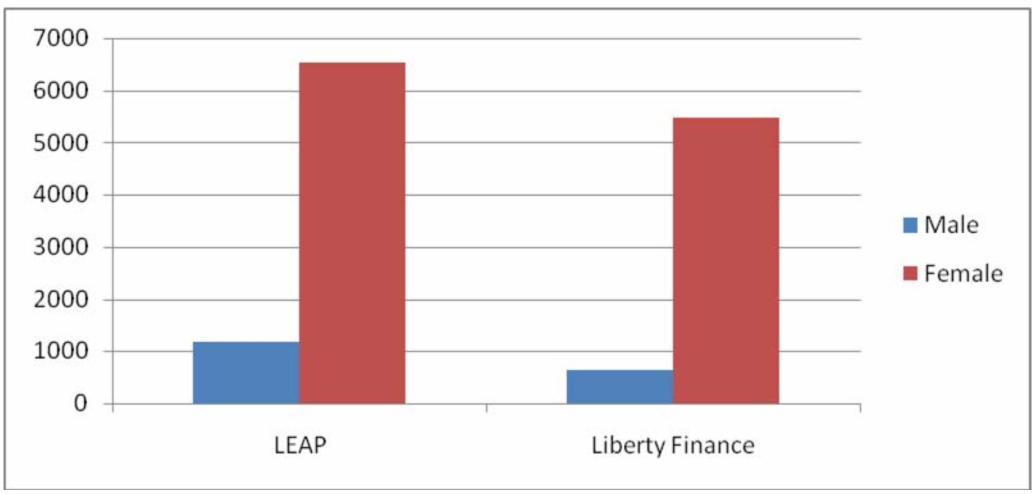
Source: Central Bank of Liberia, Monrovia, Liberia

Table 6: Liberty Finance Active Clients

Location	Category		
	Male	Female	Total
Montserrado, County	242	2,943	2,943
Kakata, Margibi County	209	1,092	1,301
Ganta, Nimba County	0	496	496
Gbarnga, Bong County	177	1,191	1,368
Total	***628***	***5,480***	***6,108***

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 1: LEAP and Liberty Finance Active Clients



During the year, the CBL, along with UNDP, successfully held a major awareness and sensitization program honoring the "Unsung Heroes of Microfinance Entrepreneurship in Liberia". The program brought together a number of microfinance clients who gave testimonies of how microfinance services have transformed their lives into economically productive and responsible citizens. Ten microfinance clients, 9 females and 1 male were honored.

The total amount of grants disbursed by United Nation Capital Development Fund (UNCDF)/United Nations Development Fund (UNDP) and Catholic Organization for Relief and Development Aid (CORDAID) through the Investment Committee chaired by the CBL, to the two major microfinance institutions was US$1.1 million (Liberty Finance — US$585,970 and LEAP — US$475,000). These organizations have outreach programs in Monsterrado, Margibi, Bomi, Bong and Nimba.

During 2008, the CBL completed work on the National Strategy for Financial Inclusion (2008-2012), laying out the framework for developing the microfinance industry over the next five years. The strategy outlines the objectives, target groups, principles and best practices of microfinance which are to be adopted for implementation. Also, an accompanying document, "Investing in Microfinance in Liberia," which consists of the costing for the interventions proposed in the strategy was drafted. The CBL also drafted the National Microfinance Policy Framework and the Microfinance Regulatory and Supervisory Framework for Liberia.

The National Microfinance Taskforce helped to guide and oversee the development and implementation of the national microfinance policy in support of an inclusive financial sector. In harnessing greater support, the Bank continued its dialogue and collaboration with donors and the members of the private sector through a series of meetings and round-table conferences.

The CBL, along with UNDP, through its internship program, in collaboration with the University of Liberia graduated and certificated 21 students, following a year-long intensive training in microfinance principles. Almost all of the interns have been hired by the institutions where they served as interns. Also, 52 individuals from NGOs, microfinance institutions and commercial banks were awarded certificates following their participation in a 4-month microfinance foundation course held at the Cuttington University Graduate School. Five persons, including 2 staff members of the CBL, attended an international training program at the School of Applied Microfinance (SAM) in Mombassa, Kenya.

Chapter IV: Monetary and Exchange Rate Developments

4.1 Monetary Policy Stance

During the year, the conduct of monetary policy, anchored on foreign exchange reserve management, was targeted towards ensuring broad stability in the exchange rate of the Liberian dollar. The CBL foreign exchange auction continues to be the mechanism through which monetary condition is affected to impact the exchange rate and price level in the economy. Increasing the frequency of the auction from bi-weekly to weekly was one of the factors largely responsible for the broad stability of the exchange rate experienced during 2008.

4.2 Monetary Aggregates

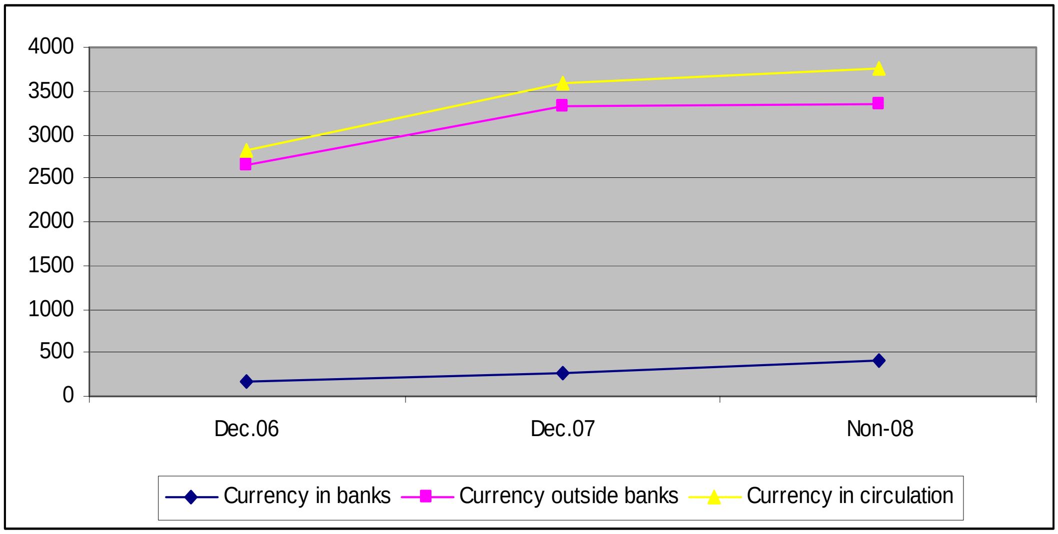
Liberian dollars in circulation at end-November, 2008 was L$3,767.6 million, increasing by 4.8 percent (or L$173.2 million), from L$3,594.4 million at end-December 2007. The increase was driven mainly by the 48.3 percent rise in currency in banks to L$410.7 million, from L$276.9 million at end of 2007. Currency outside banks also rose by 1.2 percent to L$3,356.9 million for the same period (Table 7 & Chart 2). This development reflects growing public confidence in the banking sector and increasing service delivery to the public by the CBL, especially the payment of civil servants' salaries and arrears in all parts of the country during the last quarter of 2008.

Table 7: Liberian Dollars in Circulation
(2006 – November, 2008)
(In Millions)

End of Period	Currency in banks	Currency outside banks	Currency in circulation
	(1)	(2)	(1+2=3)
Dec.06	166.3	2,647.6	2,813.9
Dec.07	276.9	3,317.4	3,594.4
Nov-08	410.7	3,356.9	3,767.6

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 2: Liberian Dollars in Circulation
(2006 – November, 2008)
(In Millions)



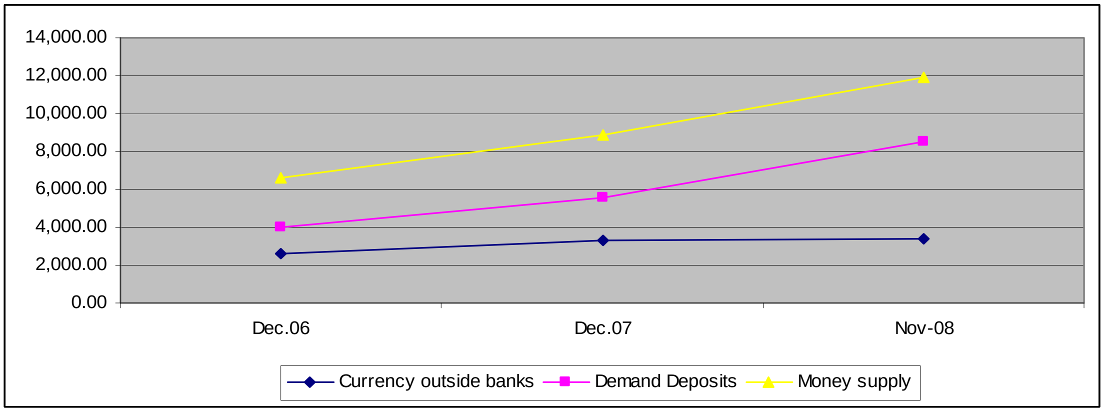
Money supply (M1), narrowly defined as currency in circulation plus demand deposits or checking accounts, totaled L$11,879.5 million at end-November, 2008. This stock of money supply represents 34.1 percent (L$3,020.3 million) rise over the level recorded at end-December, 2007. The increase was essentially a result of the CBL response to the need for providing services to the economy to help promote growth and development. The 53.8 percent growth in demand deposits to L$8,522.6 million at end-November, from L$5,541.7 million at end of 2007 was the major factor that propelled the increase in money supply (Table 8 & Chart 3).

Table 8: Money Supply and Broad Money
(2006 – November, 2008)
(In Millions L$)

End of Period	Currency outside banks	Demand Deposits	Money supply M1 (1+2)	Savings Deposits	Time Deposits	Quasi-money (4+5)	Broad Money-M2
	(1)	(2)	(3)	(4)	(5)	(6)	(3+6)
Dec.06	2,647.6	3,973.2	6,620.8	1,830.4	97.6	1,928.0	8,548.8
Dec.07	3,317.4	5,541.7	8,859.2	2,664.3	453.6	3,118.0	11,977.1
Nov-08	3,356.9	8,522.6	11,879.5	3,902.6	360.3	4,262.9	16,142.4

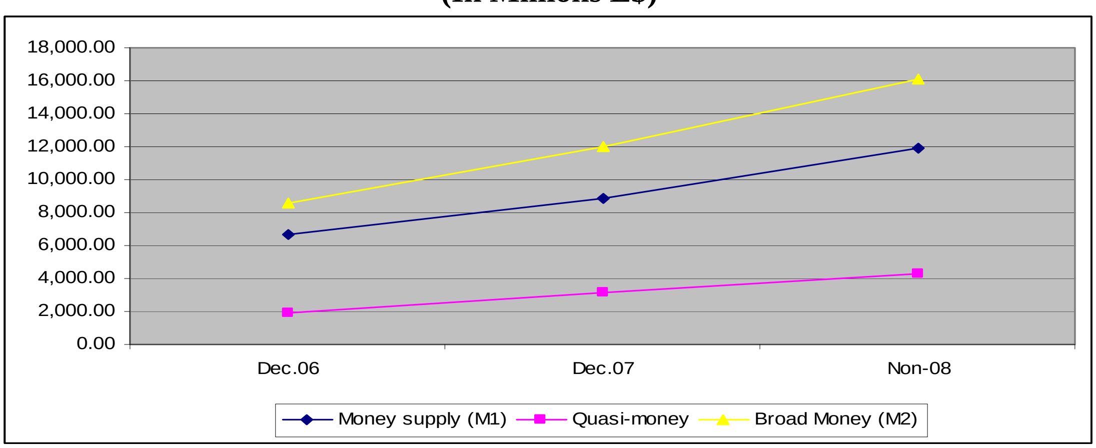
Source: Central Bank of Liberia, Monrovia, Liberia

Chart 3: Money Supply (M1)
(2006 – November, 2008)
(In Millions L$)



Broad money (M2) comprising M1 plus quasi money (time and savings deposits) totaled L$16,142.4 million at end-November, 2008 — reflecting a 34.8 percent (L$4,165.3 million) increase over the level recorded at end-December, 2007. The surge in broad money was driven largely by a 46.5 percent rise in savings deposits to L$3,902.6 million at end of November, 2008, from L$2,664.3 million at end-December, 2007 (Table 8 & Chart 4). The 36.7 percent increase in quasi money to L$4,262.9 million at end of the year under review, from L$3,118.0 million at end of 2007 demonstrates the regaining of public confidence in the banking sector and the need for concerted efforts by the banks and the judiciary to ensure loan recovery, which could encourage banks to increase lending to various sectors of the economy, reducing the excess liquidity and improving financial intermediation.

Chart 4: Broad Money (M2)
(2006 – November, 2008)
(In Millions L$)



Similar to previous years, the US dollar component of broad money accounted for the larger share of 67.2 percent (L$10,852.9 million or US$171.6 million) compared with 32.8 percent (L$5,289.5 million) for the Liberian dollar component. The US dollar share rose by 46.4 percent over the L$7,411.5 million level recorded for end-December, 2007 while the Liberian dollar component declined by 3.8 percent when compared with the end-December, 2007 level of L$4,565.6 million (Table 9 & Chart 5).

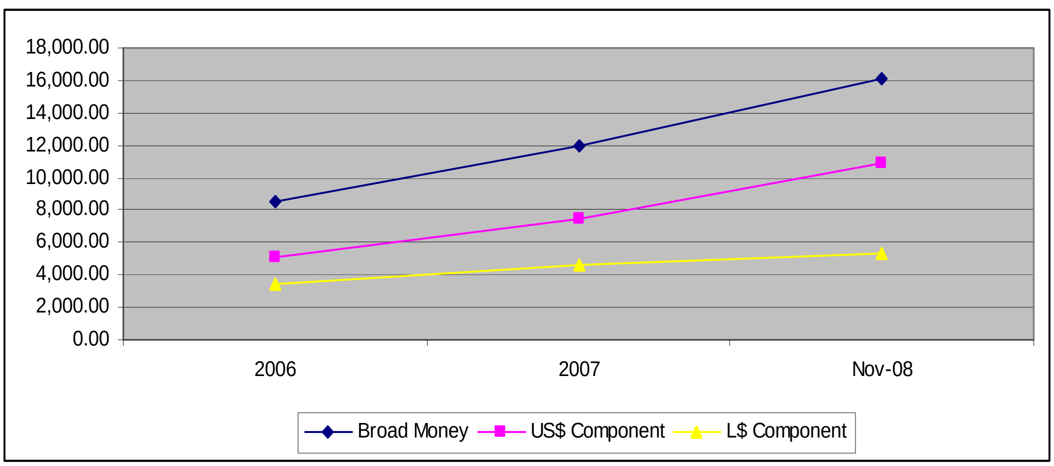
Developments in the supply of broad money clearly indicate a surge in the rate of dollarization of the economy. One estimate puts the ratio of foreign currency in circulation and foreign currency deposits to broad money averaged 90.0 percent, which shows a continuous move towards full dollarization in the absence of concrete steps to arrest and reverse this trend.

Table 9: Broad Money (M2): Share of US and Liberian Dollars
(2006 – November, 2008)
(In Millions L$)

	2006	% Share	2007	% Share	Nov-08	% Share
Broad Money (M2)	8,548.8		11,977.1		16,142.4	
US$ Component*	5,075.4	59.4	7,411.5	61.9	10,852.9	67.2
L$ Component	3,473.4	40.6	4,565.6	38.1	5,289.5	32.8
		100.0		100.0		100.0

*The US dollar component was converted at the end-of-period exchange rate
Source: Central Bank of Liberia, Monrovia, Liberia

Chart 5: Broad Money (M2): Share of US and Liberian Dollars
(2006 – November, 2008)
(In Millions L$)



4.3 Exchange Rate Movements

The average Liberian-US dollar exchange rate remained generally stable at L$63.5 per US$1.00 throughout 2008, with the buying and selling exchange rates fluctuating between L$61.00 and L$64.01 per US$1.00 (Table 10 & Chart 6). The broad stability of the exchange rate can be attributed, in part, to the CBL's weekly foreign exchange auction and prudent Liberian dollar liquidity management by the Bank. The end-of-period rate at end of December stood at L$64.00 to US$1.00 while the period average rate was L$63.29 for US$1.00 (Table11).

Table 10: Monthly Averages of buying and selling Rates of Liberian Dollars per US Dollar (2006 – 2008)

	2006		2007		2008	
Period Average	**Buying**	**Selling**	**Buying**	**Selling**	**Buying**	**Selling**
January	56.15	57.40	60.57	61.65	62.96	64.00
February	56.04	57.38	60.21	61.13	62.21	63.21
March	55.52	56.57	60.00	61.01	62.00	63.01
April	56.30	57.32	60.40	61.54	62.06	63.08
May	57.19	58.13	61.22	62.17	62.78	63.56
June	58.06	59.12	62.02	63.00	63.00	64.00
July	58.81	59.94	60.77	61.71	63.00	64.00
August	59.19	60.19	61.91	62.91	63.00	64.00
September	59.23	60.21	61.12	62.12	63.00	63.94
October	59.00	60.00	61.13	62.15	63.00	64.00
November	57.81	58.90	59.65	60.67	62.92	63.70
December	56.27	57.56	60.27	61.27	62.81	63.76

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 6: Monthly Averages of buying and selling Rates of Liberian Dollars per US Dollar (2006 – 2008)

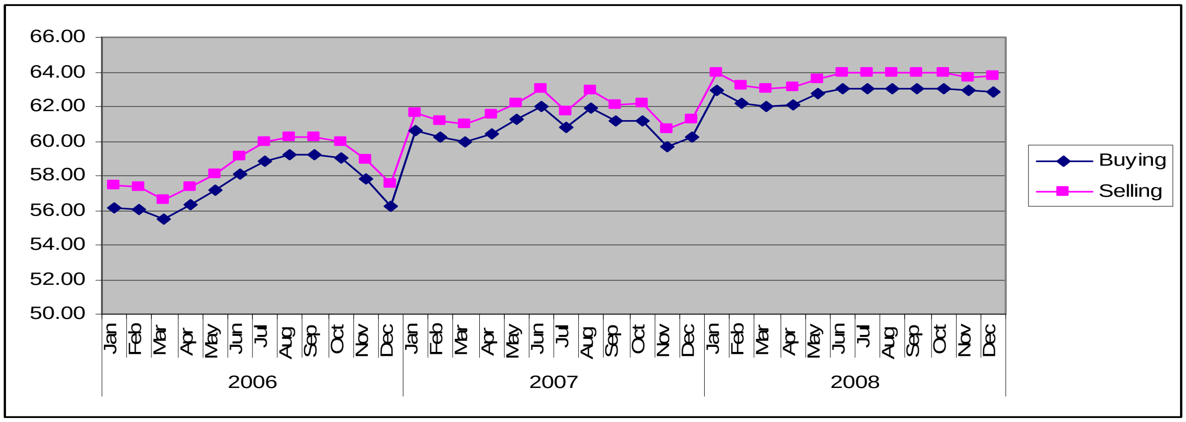


Table 11: Exchange Rates: Liberian Dollars per US Dollar (2006 – 2008)

EXCHANGE RATE	Dec-06	Dec-07*	Dec-08
Market Rate: End-of-Period	57.00	62.50	64.00
Market Rate: Period Average	58.36	60.77	63.29

* Revised

Source: Central Bank of Liberia, Monrovia, Liberia

4.4 Remittances

Inward remittances received by embassies, service providers, UN/UNMIL, NGOs and individuals through the banks[1] and private firms[2] totaled US$883.9 million at end-November, 2008, US$131.1 million (17.4 percent) more than the level recorded at end 2007. Also, outward transfers amounted to US$834.9 million at end of November, 2008, from US$710.3 million at end-2007, representing a 17.5 percent rise over the outflows level at end-December, 2007. A net inflow of US$49.0 million to the Liberian economy was recorded at end-November, 2008.

[1] Commercial banks are agents for Western Union and Money Gram

[2] The private firms are two licensed money remittance institutions which include People Enterprises Incorporated and I.B. Xpress (Lib) Incorporated

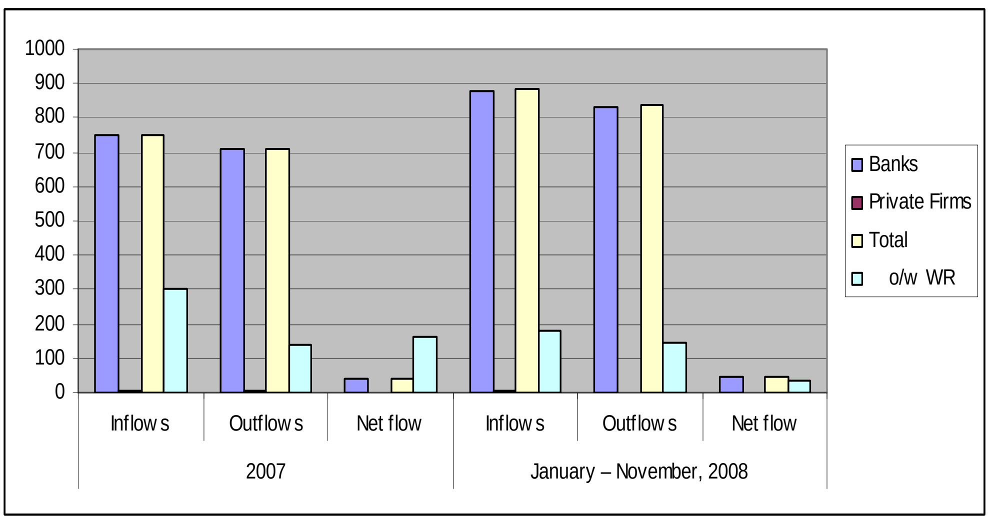
Of the total inward transfers, banks accounted for US$880.7 million while private firms accounted for US$3.2 million. Also, the banks had the larger share of total outflows of US$832.2 million, with private firms accounting for US$2.7 million (Table 12).

Table 12: Remittances: Inflows and Outflows
(In Millions US$)
(2007 – November, 2008)

	2007			**January – November, 2008**		
	Inflows	**Outflows**	**Net flow**	**Inflows**	**Outflows**	**Net flow**
Banks	749.6	707.6	42.0	880.7	832.2	48.5
Private Firms	3.2	3.1	0.1	3.2	2.7	0.5
Total	**752.8**	**710.3**	**42.5**	**883.9**	**834.9**	**49.0**
o/w WR*	303.2	139.5	163.7	181.0	144.9	36.1

*WR denotes workers' remittances
Source: Central Bank of Liberia, Monrovia, Liberia

Chart 7: Remittances: Inflows and Outflows
(In Millions US$)
(2007 – November, 2008)



Workers' remittances represented 20.5 percent of total inward transfers recorded at end-November, 2008. Compared with end-2007, inward personal transfers, declined significantly by 40.3 percent, from US$303.2 million at 2007 ending.

The fall in inward workers' transfers can be largely explained by the existing global financial and economic crisis, especially in the USA, which is the major source of personal remittances to Liberia. However, outflows increased slightly by 3.9 percent (US$5.4 million). This development has the propensity to undermine GoL's effort at reducing poverty, reduce household demand for goods and services which could impact negatively on aggregate demand, slowdown economic growth and affect the present relative stability of the exchange rate of the Liberian dollar. There was a net workers remittance inflow of US$36.1 million recorded at end of November, 2008, declining from US$163.7 million at end-December, 2007.

Chapter V: The Domestic Economy

5.1 Output

Economic growth in 2008 was initially projected at 9.5 percent, but was later adjusted to 8.8 percent and then to 7.1percent; mainly resulting from delays in the resumption of mining activities and full-scale forestry operations. Expansion of the economy was projected to be primarily driven by the Agriculture and Services Sectors, accounting for 42.2 percent and 25.8 percent of overall projected real GDP for 2008 (Table 13), respectively.

Table 13: Liberia: Sectoral Origin of Gross Domestic Production (GDP) at 1992 Constant Price (In millions US$)

Sector	**2006**	**2007**	**2008**
Agriculture & fisheries	**192.3**	**210.4**	**213.8**
Rubber	35.3	38.6	31.2
Cocoa	1.3	1.4	0.1
Coffee	0.1	0.1	1.4
Rice	36.9	40.3	46.6
Cassava	42.0	46.0	49.0
Other	76.1	84.0	85.5
Forestry	**74.1**	**81.1**	**97.5**
Logs & Timber	0.0	0.0	18.9
Charcoal	74.1	81.1	78.6
Mining & Panning	**0.7**	**0.8**	**0.8**
Iron ore	0.0	0.0	0.0
Other	0.7	0.8	0.8
Manufacturing	**55.5**	**60.8**	**64.3**
Cement	13.4	14.6	15.7
Beverage	38.7	42.3	44.7
Other			3.9
Services	**110.5**	**120.9**	**130.7**
Electricity & Water	3.0	3.3	3.8
Construction	11.3	12.3	16.1
Trade, Hotels, etc.	29.2	31.9	36.7
Transportation & Communication	30.9	33.8	34.8
Financial Institutions	10.8	11.8	11.9
Government Services	10.4	11.4	11.3
Other Services	14.9	16.3	16.2
Real Gross Domestic Product	**433.2**	**473.9**	**507.1**

Sources: Liberian Authorities and IMF Staff estimates and projections

Sectoral Review

The performance of the agriculture sector during 2008 was mixed. Rubber production declined, while output of coffee and cocoa increased.

Table 14: Key Agricultural and Forestry Production (2006-2008)

Commodity	Unit	2006	2007	2008
Rubber	MT	93,533	135,200	87,901
Cocoa Bean	MT	1,107	2,126	3,285
Coffee	MT	11	N/A	124
Sawn Timber	PCS	N/A	610,864	1,036,879

Sources: Liberia Institute for Statistics and Geo-Information service (LISGIS); Forestry Development Authority (F D A); Ministry of Commerce & Industry, and Liberia Produce Marketing Corporation (LPMC)

Estimated output of rubber in 2008 totaled 87,901 metric tons, from 135,200 metric tons in 2007. The level of production declined by almost 35.0 percent when matched against the level of the previous year, owing to the ageing of rubber trees.

Production of coffee recorded a total of 124 metric tons during the year. Cocoa production expanded to 3,285 metric tons in 2008, from 2,126 metric tons in the preceding year. The gradual resettlement of farmers to their original villages was generally responsible for the increase in production.

Forestry activities have not fully resumed; however, the production of sawn timber continued. A total of 1,036,879 pieces of sawn timber was produced compared to 610,864 pieces produced in 2007, a rise of 69.7 percent. There is a need for full-scale logging operation in the country to help create jobs and reduce unemployment. Finalization of forestry agreements must be fast-tracked and logging activities started.

Although the mining sector has not resumed full activities since the end of the civil war, it has made significant strides since the beginning of 2008. During the year, tenders for the exploitation of iron ore in the Western and Central regions were launched. The tender for the Western Cluster Iron Ore Project was launched and the bids evaluated. The Western Cluster was later relaunched after a procedural error in the evaluation process. The bidding and selection process for the Western Cluster is expected to be completed in 2009. Additionally, the tender for the Bong Range Iron Ore Project in central Liberia was launched and evaluated. A Chinese Company, China Union, was selected following the evaluation to develop and exploit the iron ore in old Bong Mines in Bong County.

These direct foreign investments are anticipated to increase employment level, government revenue generation (particularly foreign exchange earnings), and improve infrastructure of the country. Besides the iron ore projects, a number of Mineral Development Agreements (MDAs) were also signed between the Government and private mining ventures for the exploitation and development of diamond and gold mines in certain parts of the country.

Table 15: Key Industrial Output (2006-2008)

Commodity	Unit	2006	2007	2008
Cement	MT	135,486	157,200	94,037
Beverages	Liter	17,275,820	19,911,496	17,595.586
Paints	Liter	89,998	77,980	119,540
Candle	KG	579,233	473,239	289,041
Chlorox	Liter	713,776	526,153	456,534
Rubbing Alcohol	Liter	210.127	297,105	118,964
Mattresses	PCS	978,373	102,802	108,596
Finished Water	Gal	643,436,265	782,711,379	N/A
Gold	Ounce	304	10,014	20,067
Diamond	Carat		21,700	60,536

Sources: Liberia Institute of information and Geo-Information Service (LISGIS); Lands, Mines & Energy; Forestry development Authority (FDA), and Liberia Water & Sewer Corporation (LWSC)

A total of 60,536 carats of diamond was mined in 2008. The increase in production was primarily due to the shift of resources (both human and capital) from gold production to diamond production because of high financial returns to diamond. Gold production expanded also by 10,053 ounces to 20,067 ounces, from 10,014 ounces in 2007. Increase in the number of artisanal miners and intensification of industrial mining of gold were responsible for the rise in production.

Production of cement totaled 94,037 metric tons compared to 157,200 metric tons in 2007. The 40.0 percent decline in output is largely attributed to the inadequate production capacity of the cement-producing company as against growing demand for the commodity for construction activities. As construction activities are on the rise throughout the country after a devastating war, the cement market needs to be truly opened and made competitive to ensure sustained availability. This will significantly help in Government's economic recovery efforts.

Output of beverages declined to 17.6 million liters in 2008, from 19.9 million liters in 2007—a fall of 11.6 percent. Reduction in output was largely on account of a decrease in the production of alcoholic beverages.

5.2 Employment

Total employment rose to an estimated 295,354 during the year, from 141,581 in 2007. The private sector continues to provide a greater share of employment in the economy. During 2008, it accounted for about 84.0 percent of estimated number of people employed in the formal sector. Moreover, the Government, through programs such as the Liberia Employment Action Program (LEAP) and the Liberia Emergency Employment Program (LEEP), has been responding to the problem of unemployment by boosting employment through public work investment. Employment in the informal sector remained almost stable primarily on account of the paucity of data on developments in the sector.

Table 16: Level of Employment in Liberia
Total Number of Employees by Sector
(2006 – 2008)

Sector	2006	2007	2008*
Public Sector	58,500	31,900	47,681
Private Sector	74,774	109,681	247,673
Total	**133,274**	**141,581**	**295,354**
Informal Sector	470,000	480,000	487,000

**Estimates*
Source: Ministry of Labor, Monrovia, Liberia

The sectors generally accounting for a larger proportion of employment in the economy include Agriculture & Forestry, General Merchandise/Wholesale/Retail Trade and Social & Community Services. A disaggregation of employment by industry shows that agriculture and forestry contributed 59.7 percent; General Merchandise/wholesale/Retail Trade, 6.4 percent; Community and Social Services, 4.5 percent; Transportation & Communication, 3.8 Percent;

Business Services, 3.4 percent; Banking & Insurance, 2.8 percent; Construction, 1.5 percent; Manufacturing, 0.9 percent; and Mining, 0.8 percent. Full reactivation of agricultural and forestry related activities holds key to the provision of employment opportunities—generation of government revenue, and ensuring economic survival for over seventy percent of the Liberian population.

Table 17: Employment by Industry (2006 – 2008)

Industry	2006	2007	2008*
Agriculture and Forestry	12,200	33,672	176,326
General Merchandise/Wholesale/Retail Trade	43,500	36,633	18,928
Business Services	2,475	9,872	10,115
Social/Community Services	12,470	15,575	13,327
Manufacturing	1,045	5,813	2,785
Construction	535	987	4,300
Transportation & Communication	1,540	2,194	11,178
Mining	1,009	3,290	2,508
Banking & Insurance		1,645	8,206
GOL	58,500	31,900	47,681
Total: Formal Sector	**133,274**	**141,581**	**295,354**
Informal Sector	470,000	480,000	487,000

**Estimates*
Sources: Ministry of Labor, Monrovia, Liberia

5.3 Inflation

The rate of inflation for 2008, as measured by the Harmonized Consumer Price Index (HPCI) averaged 17.5 percent compared with 11.4 percent in 2007. This sharp increase in inflation was driven mainly by price increases in the international market for food and oil. The poor state of infrastructure in the country and the low level of domestic food production also played a role in driving up the general price level during the year.

Core inflation, defined to exclude Food and Transport items from the Consumer basket, increased by 0.8 percentage points to 4.7 percent at end-December, from 3.9 percent recorded at end-January of the year. The annual rate of core inflation averaged 6.0 percent, while the average rate of headline inflation stood at 17.5, indicating the enormous influence of oil and food on the general price level.

The inflationary pressure surged from a rate of 16.5 percent in January and peaked at 26.5 percent in August, the highest level recorded during the year. The rise in the inflationary condition followed the marked increase in the prices of oil and food on the world market, but the situation eased during the last half of the year following a downward trend in the prices of oil and food on the world market. Moreover, the fall in inflation during the latter part of 2008 was partly an outcome of the dry season when inter-county and farm-to-market roads are more accessible to enable farmers to bring their produce to the market. At end-December, the rate of inflation stood at 9.4 percent (Table 20).

Table 18: HCPI and Core Inflation
(In Percent)
(January – December, 2008)

Inflation	2008											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
HCPI (General)	16.5	14.8	14.3	11.7	19.2	21.9	21.3	26.5	20.0	18.6	15.5	9.4
HCPI ex Food and Transport	3.9	3.6	4.7	5.8	6.4	6.0	7.4	8.4	6.0	8.6	6.4	4.7

Source: Central Bank of Liberia, Monrovia, Liberia

Chart 8: HCPI and Core Inflation
(In Percent)
(January – December, 2008)

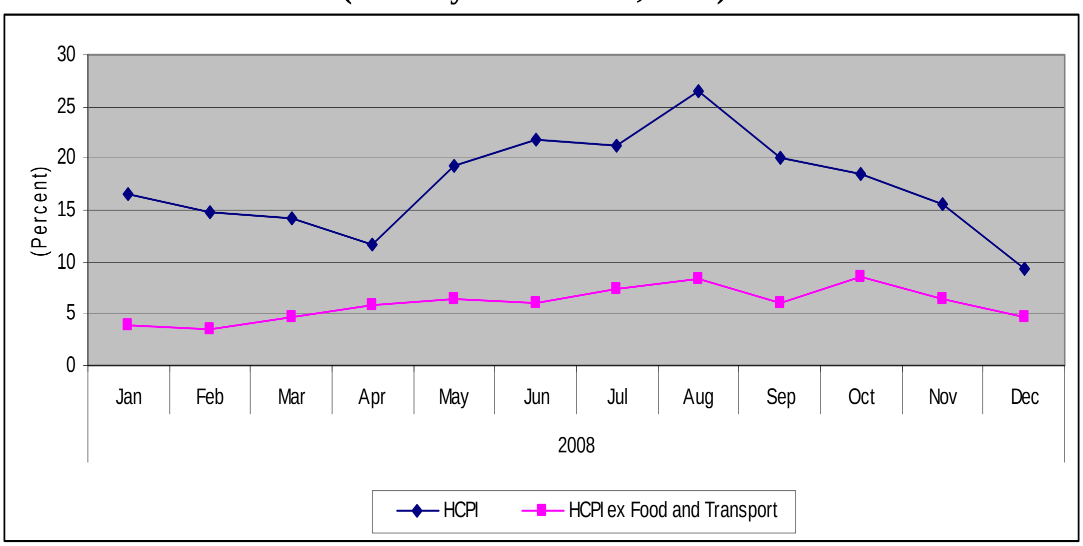


Table 19: LIBERIA: HARMONIZED CONSUMER PRICE INDEX (HCPI)
12 MONTH PERCENT CHANGES BY MAJOR GROUP
(December 2005=100)

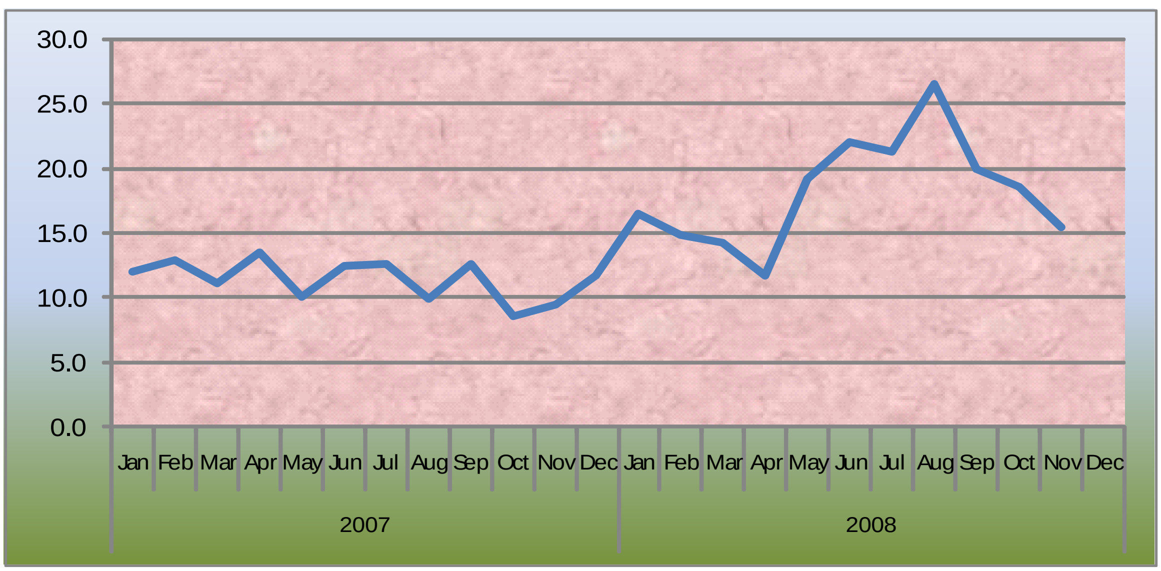
MAJOR GROUP	WEIGHT	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	AVE. 2008
FOOD AND NON-ALCOHOLIC BEVERAGES	45.20	28.27	24.65	22.46	15.70	26.29	31.83	28.82	39.24	27.86	25.09	19.17	11.10	25.04
ALCOHOLIC BEVERAGES, TOBACCO AND NARCOTICS	3.03	4.53	2.39	6.24	4.62	4.44	6.41	3.35	0.52	2.36	3.34	2.91	4.43	3.79
CLOTHING AND FOOTWEAR	7.75	2.62	0.71	1.14	1.32	3.98	1.45	5.44	2.35	4.96	10.76	11.97	8.83	4.63
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	12.00	3.89	4.58	5.44	5.73	9.46	9.62	10.63	12.27	11.80	9.03	5.66	3.37	7.62
FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE	5.25	9.39	11.25	12.30	16.62	15.75	15.42	11.93	21.54	23.69	21.10	24.38	8.30	15.97
HEALTH	3.91	-0.34	0.00	2.03	0.00	0.34	1.01	0.00	0.00	0.00	0.00	0.00	0.00	0.25
TRANSPORT	6.11	26.44	28.68	26.18	27.52	68.99	68.40	67.93	67.92	39.53	39.09	36.87	28.93	43.87
COMMUNICATION	1.53	-3.41	-0.49	-3.26	-0.57	-0.60	-3.31	-1.68	-1.86	-1.75	2.62	2.81	2.31	-0.77
RECREATION AND CULTURE	3.85	4.43	4.62	9.41	9.19	9.11	8.02	11.34	10.72	10.51	9.98	11.21	7.57	8.84
EDUCATION	3.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
RESTAURANTS AND HOTELS	4.64	5.54	0.49	2.55	6.39	0.75	0.86	7.99	3.76	3.29	3.33	3.58	3.42	3.49
MISCELLANEOUS GOODS AND SERVICES	3.53	5.05	7.59	7.69	9.32	8.66	8.67	9.58	10.33	10.55	9.68	10.41	2.13	8.30
GENERAL RATES OF INFLATION	**100.00**	**16.50**	**14.78**	**14.29**	**11.72**	**19.22**	**21.95**	**21.26**	**26.54**	**19.97**	**18.57**	**15.52**	**9.39**	**17.48**
SPECIAL RATES OF INFLATION														
ALL IMPORTED ITEMS	41.73	17.59	13.50	12.46	11.44	17.55	21.73	19.63	26.05	23.61	20.45	17.38	7.60	17.42
ALL DOMESTIC ITEMS	58.27	15.76	15.65	15.34	15.64	20.39	22.09	22.36	26.86	17.65	16.53	14.34	10.81	17.79
IMPORTED FOOD ITEMS	23.87	26.37	19.89	16.99	14.34	22.27	30.13	26.10	38.33	33.75	28.45	22.49	10.83	24.16
DOMESTIC FOOD ITEMS	21.33	30.02	29.24	27.64	24.20	30.40	33.43	31.24	40.01	23.02	21.98	16.42	11.85	26.62
IMPORTED FUEL	2.14	32.39	39.79	31.95	36.88	51.48	52.82	55.00	59.43	49.73	19.44	16.72	-17.04	35.71

Table 20: Year-on-Year Rate of Inflation
(2007 – 2008)
(December, 2005 = 100)

Month	**2007**	**2008**
January	12.0	16.5
February	13.0	14.8
March	11.2	14.3
April	13.5	11.7
May	10.1	19.2
June	12.5	22.0
July	12.6	21.3
August	9.9	26.5
September	12.7	20.0
October	8.6	18.6
November	9.5	15.5
December	11.7	9.4
Average Rate	**11.4**	**17.5**

Data were obtained from the Harmonized Consumer Price Index (HCPI) with base period December 2005=100
Source: Liberia Institute of Statistics and Geo-Information Services (LISGIS), and the Central Bank of Liberia (CBL)

Chart 9: Year-on-Year Rate of Inflation
(2007 – 2008)
(December, 2005 = 100)



5.5 External Trade

The external trade sector during the year was faced with numerous challenges both on the domestic and international fronts. On the domestic front, the narrow export base and poor state of infrastructure are adversely impacting on the economy’s ability to generate more foreign exchange earnings; while on the international front, declines in the prices of primary export commodities and the current global financial and economic crisis could undermine potential export receipts accruing to the economy.

Exports

For 2008, export receipts rose by 19.3 percent to US$238.8 million, from US$200.2 million in 2007. The major export commodities that contributed to the increase in export receipts were rubber, gold and diamond. Receipts from rubber rose by 11.7 percent, from US$183.9 million at year-end 2007 to US$205.6 million at end-November, 2008. The increase was mainly on account of rise in demand and the gradual improvement in productive sector related activities. At end-November, 2008, rubber exports accounted for 86.1 percent of total exports.

Earnings from minerals such as diamond and gold also contributed to the growth in total exports. Proceeds from diamond rose four-folds to US$9.8 million at end-November, 2008, from US$2.7 million recorded in 2007. Receipts from gold more than doubled to US$12.1 million for the same period due to an increase in the number of operators in the sector.

The “Other Commodities” category which includes charcoal, palm oil, scrap metals, personal effects, showed an increase of 25.9 percent to US$6.8 million at end of November 2008, from US$5.4 million during 2007. The increase was driven mainly by the relaxation of the ban on exports of scrap metals and palm oil during the year.

Iron ore mining has not yet become fully operational. It is however anticipated that the first shipment of iron ore will be exported by mid-2009, which will expand the country’s export base. Although the sanctions on the exportation of logs have been lifted, actual logging activities are yet to commence.

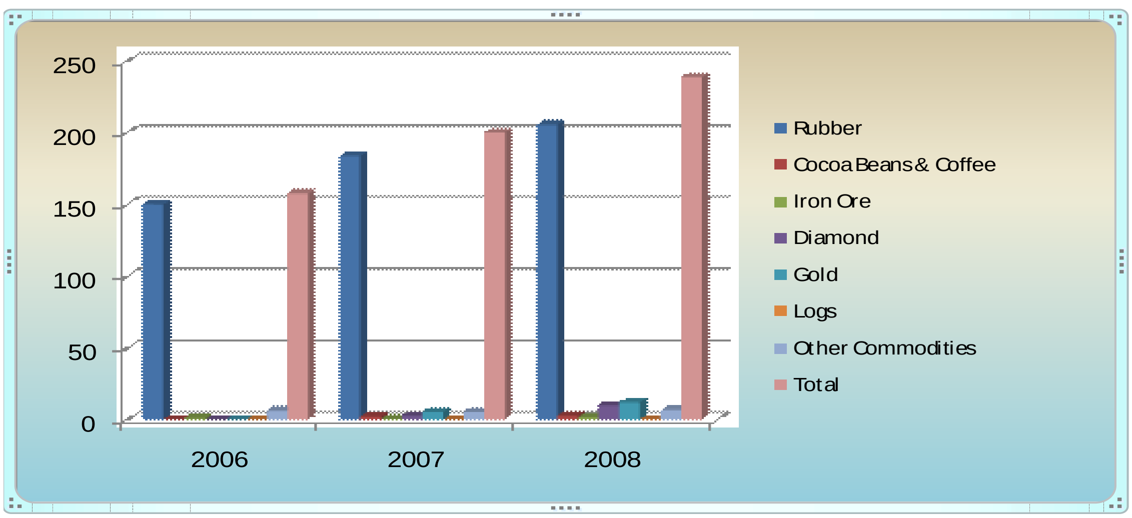
Receipts from coffee and cocoa exports were considerably low on account of cross-border trade, a situation which has led to under-reporting of exports of these commodities. For the reporting year, receipts from these commodities were recorded at US$2.8 million, from US$2.2 million in 2007.

Table 21: Commodity Composition of Exports
(2006 – November, 2008)
(In Millions US$)

Commodity	2006	2007*	Nov. 2008
Rubber	150.1	183.9	205.6
Cocoa Beans & Coffee	0.3	2.2	2.8
Iron Ore	1.0	0.5	1.5
Diamond	0.0	2.7	9.8
Gold	0.1	5.5	12.1
Logs	0.0	0.0	0.2
Other Commodities	6.4	5.4	6.8
Total	**157.9**	**200.2**	**238.8**

** Revised*
Sources: Ministries of Commerce and Industries (MCI), Land, Mines and Energy (MLME) and Firestone - Liberia

Chart 10: Commodity Composition of Exports
(2006 – November, 2008)
(In Millions US$)



Imports

As at end November 2008, import payments totaled US$797.8 million, from US$501.5 million. The expansion reflected the robust growth in import payments for Food & Live Animals, Manufactured Products, Machinery & Transport Equipment and Petroleum Products (Table 22).

The cost of imports for the Food & Live Animals category grew by 56.8 percent to US$205.3 million, driven mainly by rice imports which accounted for 61.3 percent of expenditures on this category and 15.8 percent of total import payments. The rise in payments for rice was mainly due to the hike in world market price of the commodity. Liberia imports more rice than it produces.

Payments for manufacturing products rose considerably by 40.5 percent to US$99.3 million. These imports include cement, zinc, and other building materials. This is reflective of the heightened reconstruction activities currently taking place in the country.

Payments to the Machinery & Transportation Category also rose significantly at end-November, 2008, from US$97.4 million in 2007 to US$204.2 million in 2008. The more-than-doubling in payments to this category is also reflective of the on-going reconstruction and recovery efforts in the country. The Machinery category includes importation of equipment by major concession entities, such as Arcelor Mittal Steel, Buchanan Renewable Energy (BRE) and others. The proliferation of motorcycle and vehicles in the country during the year also gave rise to the expansion in import bills to the category.

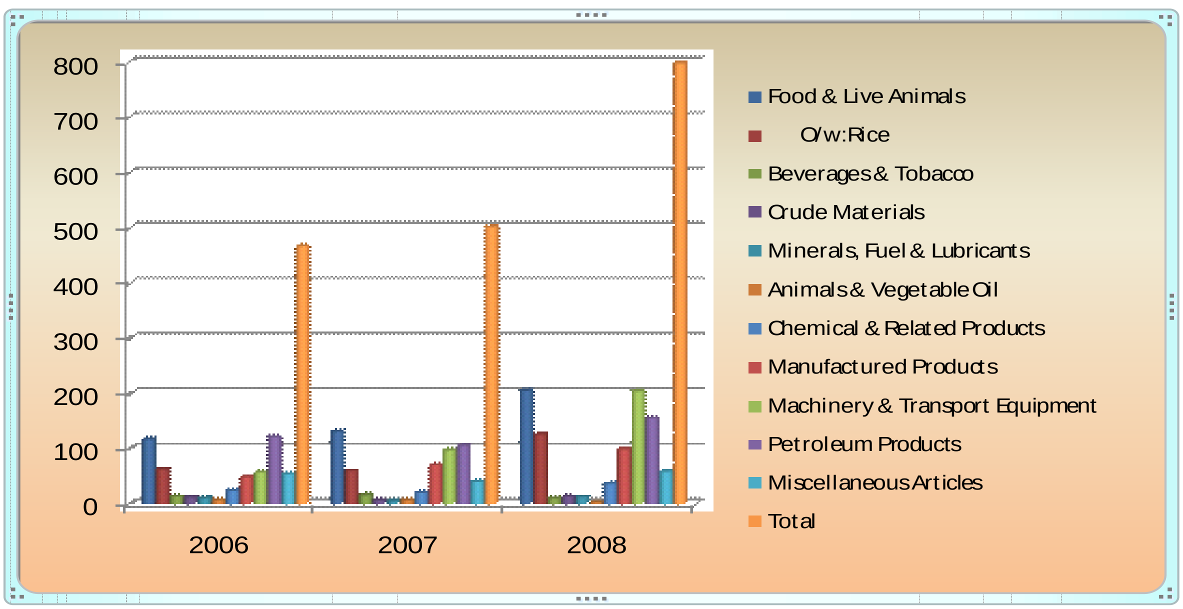
The total cost of imports for petroleum products increased by 46.9 percent to US$155.6 million at end-November 2008, from US$105.9 million at end-December, 2007. This was largely attributed to the rise in the global price of oil.

Table 22: Commodity Composition of Imports
(2006 – November, 2008)
(In Millions US$)

Commodity	2006	2007*	Nov. 2008
Food & Live Animals	117.0	130.9	205.3
O/w:Rice	62.4	60.0	125.8
Beverages & Tobacco	13.7	15.7	10.1
Crude Materials	11.9	6.9	13.5
Minerals, Fuel & Lubricants	10.6	5.7	12.7
Animals & Vegetable Oil	7.5	7.2	2.7
Chemical & Related Products	23.6	20.4	36.4
Manufactured Products	48.7	70.7	99.3
Machinery & Transport Equipment	57.3	97.4	204.2
Petroleum Products	122.0	105.9	155.6
Miscellaneous Articles	54.4	40.6	58.0
Total	**466.7**	**501.5**	**797.8**

** Revised*
Sources: Ministries of Commerce and Industries (MCI), Land, Mines and Energy (MLME) and Firestone – Liberia

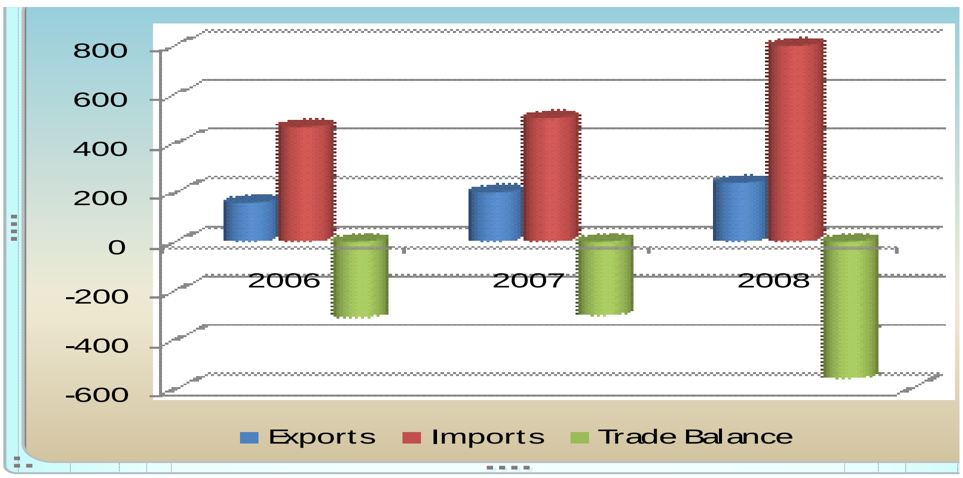
Chart 11: Commodity Composition of Imports
(2006 – November, 2008)
(In Millions US$)



Balance of Trade

As at end-November, 2008, the trade balance widened to negative US$559.0 million, from a deficit of US$301.3 million in 2007. The worsening of the deficit was due mainly to a significant rise in import payments which outpaced increase in export earnings. This deteriorating trend has existed in the last 3 years owing largely to the import-dependent nature of the economy whose productive sector is yet to regain full-scale operations.

Chart 12: Exports, Imports & Trade Balance
2006 – November 2008
(In Millions US$)



Total Merchandise Trade

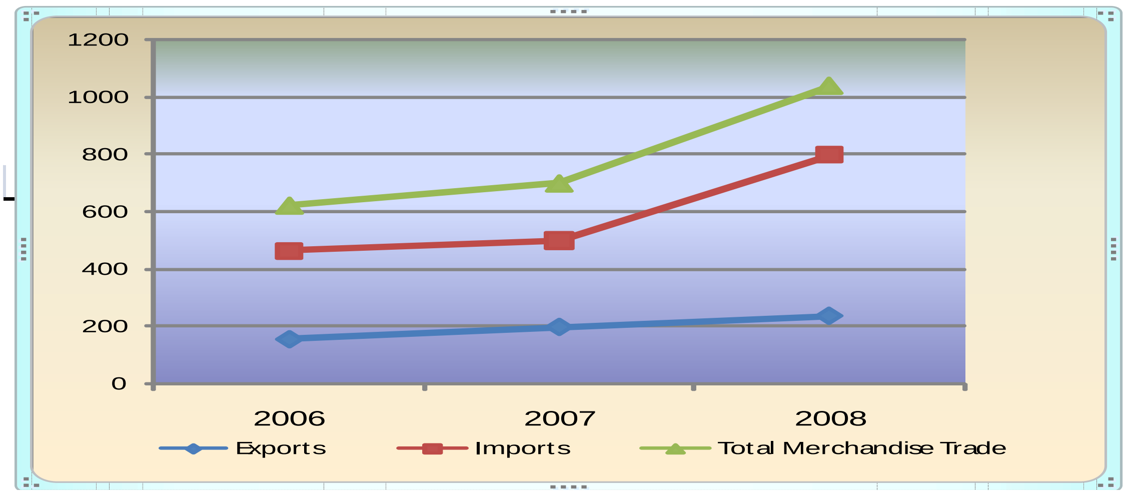
The year under review showed that both exports and imports continued to expand. Total trade amounted to US$1,036.6 million at end-November, 2008, indicating a rise of 47.7 percent (US$334.9 million in absolute terms) compared with the level recorded for the previous year. This was largely on account of growing economic activities during the year, especially the export of rubber and minerals as well as the importation of petroleum products, food (mainly rice), live animals, machinery and capital equipment.

Table 23: Foreign Trade
(2006 – November, 2008)
(In Millions US$)

Year	Exports	Imports	Trade Balance	Total Merchandise Trade
2006	157.8	466.7	-308.9	624.5
2007*	200.2	501.5	-301.3	701.7
Nov.2008	238.8	797.8	-559.0	1,036.6

** Revised*
Sources: Ministries of Commerce and Industries (MCI), Land, Mines and Energy (MLME) and Firestone - Liberia

Chart 13: Export, Import & Total Merchandise Trade
2006 – November, 2008
(In Millions US$)



5.6 The National Stock of Debt[3]

The total stock of Liberia's public debt at end-October was recorded at US$4,274.6 million, of which external debt accounted for US$3,359.0 million (78.6 percent) and domestic debt, US$915.6 million (21.4 percent)

External Debt

The country's external debt, at present, is not sustainable; but is projected to improve. The latest low-income country debt sustainability analysis for Liberia shows that the country is in debt distress. However, debt dynamics are projected to be manageable following the full

[3] Debt numbers are provisional

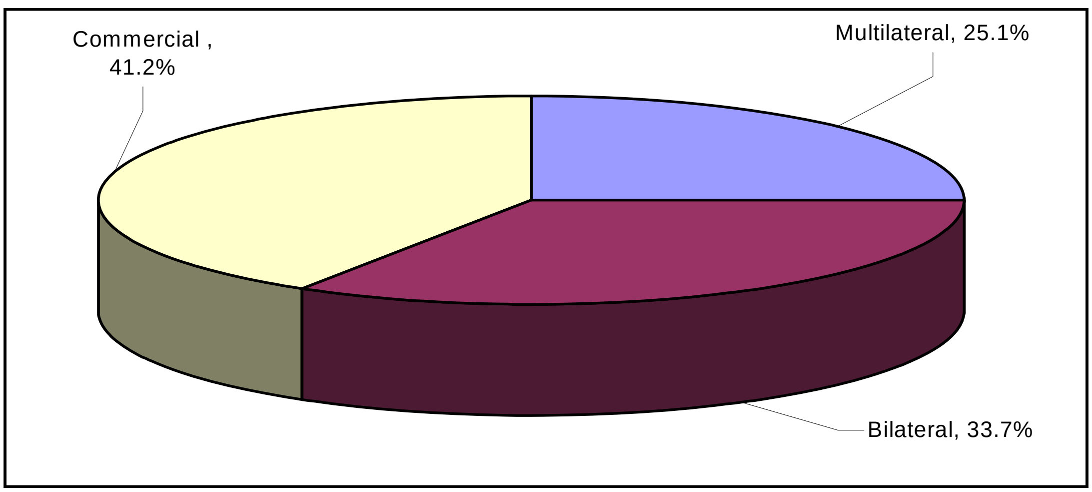
delivery of Heavily Indebted Poor Countries (HIPC), Multilateral Debt Relief Initiatives (MDRI), and other debt relief initiatives. Total external debt as at end-October, 2008 stood at US$3,359.0 million, indicating a decrease of US$464.0 million over the level recorded at end-June 2008.

Table 24: Summary Estimates of External Debt Stock & Status
As at End-June and End-October, 2008
(In Millions US$)

	June, 2008		October, 2008	
	Estimates Debt Relief	**Stock at End-June**	**Estimates Debt Relief**	**Stock as at End-October**
Multilateral	655.0	960.0	655.0	1,051.0
Bilateral	254.0	1,289.0	843.0	700.0
Commercial creditors	-	1,574.0	-	1,574.0
International organizations	-	-	-	34.0
Total	**909.0**	**3,823.0**	**1,498.0**	**3,359.0**

Source: Ministry of Finance and Central Bank of Liberia, Monrovia, Liberia

Chart 14: Summary Estimate of External Debt Stock & Status
as at October 31, 2008



Debt Relief

As at end-October 2008, the country received a total of US$1,498.0 million in debt relief, indicating an increase of US$589.0 million over the level of debt relief reported at end-June 2008 (Table 24). A disaggregation of debt relief by creditors shows that a total of US$655.0

million has been given in relief by multilateral creditors, and a total of US$843.0 million by bilateral creditors. Of the US$655.0 million realized in multilateral debt relief, US$400.0 million was cleared through the World Bank bridge loan, while the African Development Bank (AfDB) gave a total of US$255.0 million through its Post-Conflict Countries Facility (PCCF).

In March 2008, following the clearance of Liberia's arrears totaling over US$841.0 million to the IMF, the IMF Board approved Fund financing of around US$900.0 million under the Poverty Reduction and Growth Facility and Extended Fund Facility (PRGF/EFF). During the year, Liberia also formally entered the HIPC process which allows the Fund and other creditors to forgive Liberia's debts of over US$4.7 billion in the context of the HIPC Initiative framework. Since its achievement of the HIPC Decision Point in March, 2008, Liberia has started to benefit from IMF interim debt relief, which is expected to continue with the full application of the IMF's share of debt relief to be delivered when Liberia reaches the HIPC Completion Point.

During the year, Paris Club creditors offered US$254.0 million in immediate reduction, with no debt service payment for the next 3 years. Most Paris Club creditors have committed themselves to give the country more favorable terms which will lead to an eventual debt cancellation. China announced its intention to forgive 100.0 percent of its debt outstanding.

With regard to commercial creditors, the government met 3 of its creditors and there is a likelihood that there will be a debt buyback with support from the International Development Association (IDA) Debt Reduction Facility.

As a result of the current debt relief initiative, the Fund will be providing Liberia with new financial resources on concessional terms under the PRGF, equivalent to about $63.0 million over three years. On December 22, 2008, the Executive Board of the IMF completed the first review of Liberia's economic performance under a 3-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review made SDRs 7.0 million (about US$10.8 million) available to Liberia, bringing the total disbursements under the arrangement to SDRs 214.26 million (about US$331.0 million).

Domestic Debt

Total domestic debt at end-October 2008 was recorded at US$915.6 million. A breakdown of this by category shows the following: suppliers credit, US$8.1 million (0.9 percent); Salary and Allowances, US$3.8 million (0.4 percent); Financial Institutions-Agreements, US$276.9 million (30.2 percent); Pre-NTGL Salary, US$11.7 million (1.3 percent), and Contingent Liabilities, US$615.1 million (67.2 percent).

During the year, the GoL finalized the validation of outstanding domestic debt and accepted claims totaling US$300.5 million. Of the valid claims, about US$268.0 million is held by the CBL, while valid claims amounting to approximately US$51.0 million to private suppliers have been discounted in accordance with the government's domestic debt strategy to US$8.1 million. The remaining claims consist of restructured bank loans and wage arrears. The 2006 domestic debt resolution strategy envisioned the setting up of a trust fund to help service this debt, but the authorities are now reconsidering this approach because a large number of claims were rejected, which reduced the funding need, and in light of a low probabilities of donor support for such a trust fund.

Table 25: Domestic Debt as verified in 2006-2008 (In Millions US$)/1									
	Debt				Paid				Total Stock
	2006	2007	2008	Total	2006	2007	2008	Total	Total
Suppliers Credit[a]	4.6		6.7	11.3		2.3	0.9	3.2	8.1
Salary & Allowances	3.8			3.8				0.0	3.8
								0.0	
Financial Institutions-Agreements	276.9			276.9				0.0	276.9
of which:									
Central Bank	267.5			267.5				0.0	267.5
CBL- Overdraft/ Loan	260.5			260.5				0.0	260.5
CBL-Recapitalization Bond	7.0			7.0				0.0	7.0
Commercial Banks	9.4			9.4				0.0	9.4
LBDI	8.2			8.2				0.0	8.2
ECOBANK	0.3			0.3				0.0	0.3
ECOBANK	1.0			1.0				0.0	1.0
Loans to Corporations	0.0			0.0				0.0	0.0
Pre-NTGL Salary	32.2			32.2		20.5		20.5	11.7
Total Verified Liabilities	**317.5**	**0.0**	**6.7**	**324.2**	**0.0**	**22.8**	**0.9**	**23.7**	**300.5**
Contingent Liabilities[b]									
Rejected	615.1			615.1				0.0	615.1
Total Liabilities-Valid and Contingent	**932.6**	**0.0**	**6.7**	**939.3**	**0.0**	**22.8**	**0.9**	**23.7**	**915.6**

Note 1 – No new domestic debts were accrued, but the series for 2006 – 2008 are based on the validation results by external financial Advisors.

Source: Ministry of Finance, Monrovia, Liberia

5.7 Outlook for 2009

General economic prospects for 2009 remain favorable. Real GDP growth is expected to continue but at a slower pace between 6 and 7 percent, as a result of the potential impact of the global financial and economic crisis. This growth is anticipated to be largely driven by the resumption of logging, rebound in agricultural production and increase in mining and services. Inflation is projected to decline to single digits and the current account deficit is likely to narrow in 2009. However, a sharper-than-projected slow-down in growth of the global economy, or significant declines in world commodity prices, could reduce demand for Liberia's key exports, or delay investment activity in the economy, more than projected.

The CBL expects to contain inflation by keeping the exchange rate relatively stable through the conduct of its foreign exchange auction to manage Liberian dollar liquidity. The CBL also intends to continue with implementation of measures to further strengthen the banking sector to support growth of the economy.

As one of the means of supporting economic growth through increased consumer spending, the Government is expected to institute a series of tax reform measures, including reduction of personal income and corporate tax rates.

The ongoing implementation of the Government's Poverty Reduction Strategy (PRS) Program which includes 4 pillars, namely; Peace & Security, Economic Revitalization, Governance & Rule of Law, and Infrastructure & Basic Services, is expected to help bring about gradual improvement in the socio-economic condition of the population during 2009 and beyond.

Notwithstanding the relatively optimistic outlook for Liberia's near-term economic prospects, a prolonged global recession could have significant adverse impact on domestic economic activities including the areas of foreign direct investments, export earnings, consumption and remittance inflows.

Chapter VI: Global Economic Developments

6.1 The World Economy

Owing to a mixed dose of a global increase in commodity prices and a major meltdown in the financial markets of the world's most developed nations, the year 2008 was one in which the global economy suffered a significant downturn. Mutually reinforcing deterioration in financial and economic conditions exacerbated this global economic meltdown in which initial increases in commodity prices boosted headline inflation. Deflating asset prices, rising unemployment, depressing consumption, a global credit crunch, are but a few militating forces which dampen prospects for an instantaneous turnaround.

Having enjoyed a sustained average growth rate of about 5.0 percent per year for the four years preceding 2008, Global GDP growth projections for 2008 and 2009 are 3.7 percent and 2.2 percent, respectively. With activity in the advanced economies expected to contract to 0.3 percent in 2009, from 1.4 percent in 2008, prospects for a global recovery have deteriorated although recovery is projected to begin in late 2009 (Table 26 and Chart 15). Also, emerging and developing economies are projected to slowdown to 5.1 percent during 2009, from 6.6 percent in 2008. All economies of the world have been negatively impacted to some extent by the existing global financial and economic crisis.

Chart 15: World Real GDP Growth (Percent Change)
(1970 – 2009)

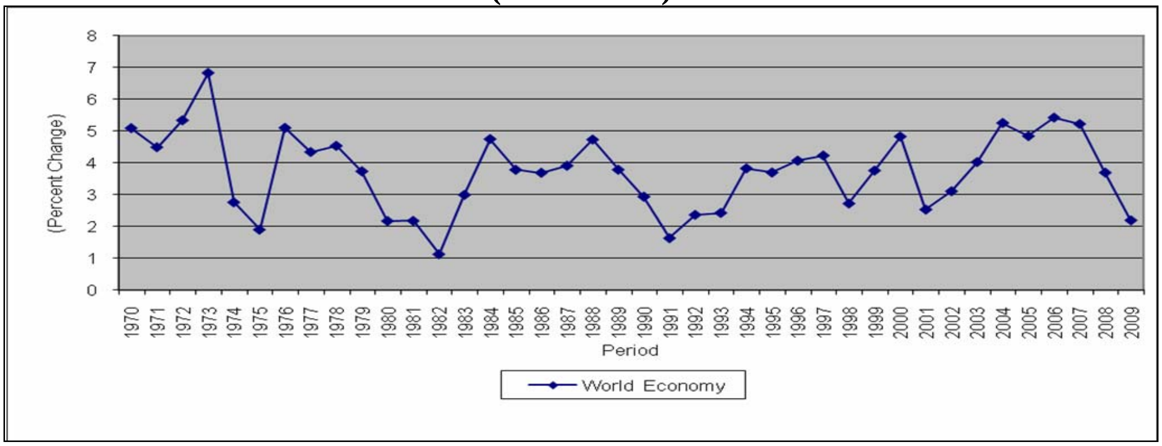


Table 26: Overview of the World Economic Outlook Projections
(Percent change unless otherwise noted)

	Year-on-Year Projections			
	2006	**2007**	**2008**	**2009**
World Output - GDP	5.1	5.0	3.7	2.2
Advanced Economies	3.0	2.6	1.4	-0.3
United States	2.8	2.0	1.4	-0.7
Euro area	2.8	2.6	1.2	-0.5
Germany	3.0	2.5	1.7	-0.8
France	2.2	2.2	0.8	-0.5
Italy	1.8	1.5	-0.2	-0.6
Spain	3.9	3.7	1.4	-0.7
Japan	2.4	2.1	0.5	-0.2
United Kingdom	2.8	3.0	0.8	-1.3
Canada	3.1	2.7	0.6	0.3
Other Advanced Economies	4.5	4.7	2.9	1.5
Newly industrialized Asian economies	5.6	5.6	3.9	2.1
Emerging and developing economies	7.9	8.0	6.6	5.1
Africa	6.1	6.1	5.2	4.7
Sub-Sahara Africa	6.6	6.9	5.5	5.1
Central and Eastern Europe	6.7	5.7	4.2	2.5
Commonwealth of Independent States	8.2	8.6	6.9	3.2
Russia	7.4	8.1	6.8	3.5
Excluding Russia	10.2	9.8	6.9	1.6
Developing Asia	9.9	10.0	8.3	7.1
China	11.6	11.9	9.7	8.5
India	9.8	9.3	7.8	6.3
ASEAN-5	5.7	6.3	5.4	4.2
Middle East	5.7	5.9	6.1	5.3
Western Hemisphere	5.5	5.6	4.5	2.5
Brazil	3.8	5.4	5.2	3.0
Mexico	4.9	3.2	1.9	0.9
World Trade Volume (goods and services)	9.4	7.2	4.6	2.1
Imports				
Advanced economies	7.5	4.5	1.8	-0.1
Emerging and developing economies	14.9	14.4	10.9	5.2
Exports				
Advanced economies	8.4	5.9	4.1	1.2
Emerging and developing economies	11.2	9.6	5.6	5.3
Commodity Prices (US Dollars)				
Oil	20.5	10.7	40.2	-31.8
Nonfuel	23.2	14.1	9.4	-18.7
Consumer prices				
Advanced economies	2.4	2.2	3.6	1.4
Emerging and developing economies	5.4	6.4	9.2	7.1

Source: IMF, World Economic Outlook, November 2008

6.2 Industrialized Countries

Weak underwriting standards and unsound risk management practices were, among others, factors that combined to create vulnerabilities in the U.S. financial system. During the period of strong global growth and increasing capital flows earlier in this decade, market participants sought higher yields without full appreciation of the risks, and in many cases failed to exercise appropriate due diligence. The consequence of such action was the collapse of the U.S. sub-prime mortgage market and the subsequent evolution of a financial crisis, which has had a snowball effect throughout the industrialized world. This crisis entered a tumultuous new phase in September 2008 that has badly shaken confidence in global financial institutions and markets.

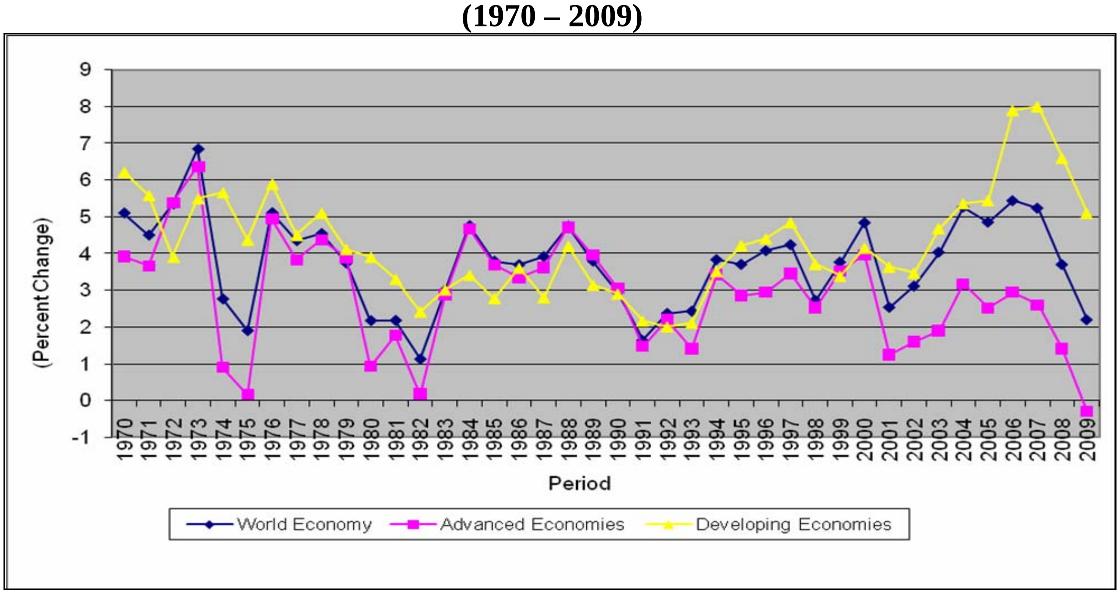
As a result of the crisis, the US economy is projected to contract by 2.1 percentage points to negative 0.7 percent at end of December, 2009, from 1.4 percent at end of 2008. This is largely on account of households' response to depreciating real and financial assets and tightening financial conditions. Economic activity, also being hard hit by financial tightening and falling confidence in the Euro area, is also projected to slowdown by 1.7 percentage points to negative 0.5 percent, from 1.2 percent for 2008 (Table 26).

Increasing solvency concerns have triggered a cascading series of bankruptcies, forced mergers, and governmental interventions in the United States, Western Europe and Asia. For example, once reputable and outstanding financial institutions, found themselves at the mercy of bankruptcy or figuratively screaming to be rescued by their respective governments. The latest stage of the financial crisis started in September 2008 when several very important U.S. financial institutions abruptly exited the market. Both the world's largest Insurance Company and Brokerage House (AIG & Merrill Lynch, respectively) had to be rescued by the U.S. government, while the likes of Lehman's Brothers had to file for bankruptcy. Lehman Brothers' decision to file for bankruptcy, in particular, reverberated across global financial markets, exacerbating the severe contraction in market liquidity.

Governments throughout the industrialized world have embarked upon a host of comprehensive policy actions to address the root causes of their financial stress and to support demand. With regard to monetary policy, initiatives undertaken included a coordinated reduction in interest rates by major central banks, use of public funds to recapitalize banks and provide comprehensive guarantees, and the purchasing of distressed assets. These governmental interventions have involved a mix of unprecedented measures aimed at restoring confidence, stabilizing markets and rescuing key financial institutions.

The International Monetary Fund (IMF) predicts that industrial economies as a whole will shrink through 2009 by 0.3 percent (Table 26), representing the worst slump of the post war era. If this forecast materializes, then the toll imposed by the downturn across the industrialized world would weaken the strength of the world economy and trigger a global recession. Next year's global growth is forecast to be an anemic 2.2 percent; an amount below the 2.5 percent threshold at which the world economy is judged to be in the grip of a global recession.

Chart 16: World, Advanced and Developing Economies Real GDP Growth (Percent Change) (1970 – 2009)



6.3 Emerging and Developing Economies

Virtually no country, developing or industrial, has escaped the impact of the global financial crisis; emerging and developing economies have seen their average GDP growth eased from

8.0 percent in 2007 to a projected 6.6 percent for 2008 and 5.1 percent for 2009. For many developing countries, the global financial crisis will mean slower growth and rising unemployment.

The aggregate African economy is projected to grow at a lower rate of 4.7 percent in 2009, from 5.2 percent in 2008; followed by Central and Eastern Europe growing at a slower rate of 2.5 percent, from 4.2 percent; Developing Asia, 7.1 percent, from 8.3 percent with China slowing down to 8.5 percent growth rate, from 9.7 percent in 2008. Countries in East Asia, including China, generally have also suffered some level of markdowns because their financial systems are largely linked to the international financial money and capital markets.

6.4 International Commodity Prices

The fall in international commodity prices can be explained significantly by weakening global demand. For 2009, the average price per barrel of oil on the world market is projected to decline by 72.0 percentage points to 31.8 percent, from 40.2 percent at end-2008. Prices of nonfuel commodities are also projected to contract to 18.7 percent in 2009, from their levels in 2008 (Table 26).

Similarly, consumer prices in advanced economies are projected to decline to 1.4 percent in 2009, compared with 3.6 percent at end-2008. Also, prices in emerging and developing economies are projected to fall to 7.1 percent, compared with 9.2 percent during 2008.

6.5 ECOWAS

Founded in 1975, the Economic Community of West African States (ECOWAS) is a regional group comprising fifteen West African countries and has a mission to promote economic integration in all fields of economic activity amongst member states.

Table 27: ECOWAS Member States

BENIN	GHANA	NIGER
BURKINA FASO	GUINEA	NIGERIA
CAPE VERDE	GUINEA BISSAU	SENEGAL
COTE D’IVOIRE	LIBERIA	SIERRA LEONE
GAMBIA	MALI	TOGO

Notwithstanding the global economic and financial crisis, there has generally been continued improvement in the economic performance of the member states, and regional economic growth for 2008 is expected to remain above 5.0 percent. Nonetheless, there remains significant risk to the outlook of this region because of the potentially deeper and longer period of global financial turmoil and resulting slowdown in global economic activity.

While remaining engaged in its principal objective of promoting regional cooperation and economic integration, ECOWAS is moving steadily towards the establishment of a monetary union in West Africa. It has focused on macroeconomic policy harmonization geared toward the creation of a single regional currency. Member states are steadily moving towards the achievement of macro-economic policy convergence and the attainment of common market objectives of free movement of people, goods and services. Progress towards the establishment of an ECOWAS customs union is also being made.

Challenges militating against the monetary integration process within this community abound. The difficulty faced by a number of member countries in meeting the convergence criteria such as a single digit rate of inflation, fiscal deficit less than 4.0 percent of GDP; central bank financing of less than 10.0 percent of previous year's tax revenue; gross foreign reserves greater than 3 months of imports; no domestic arrears; tax revenue as a percentage of GDP greater than 20.0 percent; real interest rate greater than zero, are among the challenges facing the ECOWAS Monetary cooperation program. Liberia is yet to receive full membership status within the West African Monetary Zone (WAMZ) member countries. Presently, Liberia and Cape Verde are only recognized as observers at WAMZ's meetings. Current members of the WAMZ include Nigeria, Ghana, Sierra Leone, The Gambia and Guinea.