Central Bank of Liberia Newsletter

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TOPICS CARRIED IN THIS EDITION

INTRODUCING CBL'S MAIDEN NEWSLETTER

Dr. J. Mills Jones
Executive Governor

This is the maiden edition of the Central Bank of Liberia's Newsletter , which seeks to provide information to the public about the CBL, the banking sector and developments in the economy.

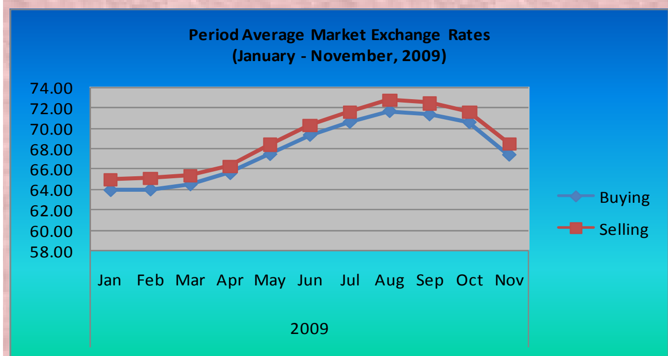
The Newsletter complements other periodic publications, which include the Bank's monthly Fact Sheet, the Bi-monthly Liberia Financial Statistical Bulletin, and the Quarterly Financial and Economic Bulletin. This is consistent with CBL's ongoing communication strategy , geared towards maintaining a meaningful dialogue with the Liberian public and other stakeholders.

CENTRAL BANK OF LIBERIA

EXCHANGE RATE DEVELOPMENTS

The Liberian dollar exchange rate has come under enormous pressure since January of 2009. The depreciation of the Liberian dollar means more Liberian dollars will have to be offered or exchanged for one US dollar, which helps to make things expensive for both businesses and consumers.

On average, the Liberian dollar depreciated by 11.6 percent, from L$64.93/US$1.00 at end-January to L$72.44/US$1.00 at end-September, 2009. This development is different from what obtained during the corresponding period in 2008, when the exchange rate remained virtually unchanged at L$64.00/US$1.00 for most part of that period. The depreciation of the Liberian dollar can generally be ascribed to slowdown in the rate of inward workers' remittances, declines in export earnings, and higher market demand for US dollars, including for tax payments. In order to help stabilize the exchange rate, the CBL intensified its intervention in the foreign exchange market. In the last two months, the CBL increased the sale of US dollars by an additional amount of US$4.5 million. The action of the CBL has contributed to a strengthening of the Liberian dollar relative to the US dollar by about 8.2 percent, moving from L$73.00/US$1.00 to L$67.00/US$1.00 as at mid-November, 2009. The CBL has encouraged a wider use of the Liberian dollar. Recently, the Ministry of Finance (MoF) authorized the payment of additional taxes in Liberian dollar .



INFLATION SITUATION

The general rate of inflation has remained in a single digit since the beginning of 2009 despite the pressure on the Liberian dollar/US dollar exchange rate. The inflation rate reached a low of 8.0 percent at end-September, 2009, from a high of 20.0 percent at end-September of 2008. This behavior of the rate of inflation is due to both external and domestic factors.

Movements in global prices of oil and food have signifi-

(Continued on page 2)

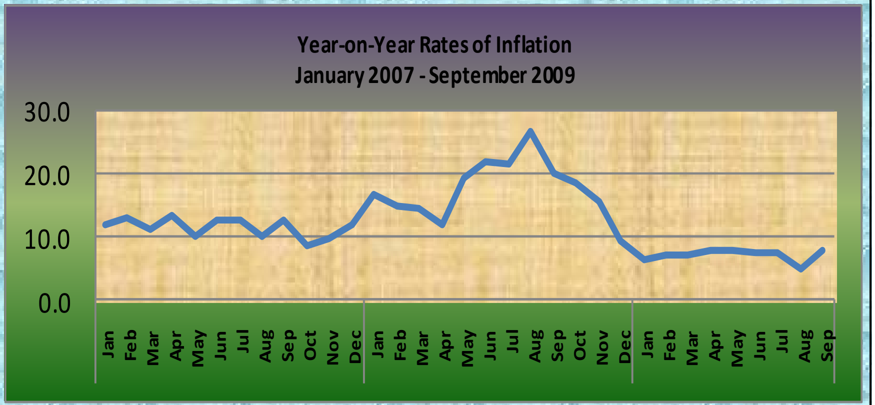
(Continued from page 1) ***INFLATION SITUATION***

cant impact on domestic prices, given that petroleum products and food have

Year-on-Year Rate of Inflation
(January, 2007 – August, 2009)

Month	2007	2008	2009
January	12.0	16.5	6.4
February	13.0	14.8	7.0
March	11.2	14.3	6.9
April	13.5	11.7	7.8
May	10.1	19.2	7.7
June	12.5	21.9	7.6
July	12.6	21.3	7.3
August	9.9	26.5	4.9
September	12.7	20	8.0
October	8.6	18.6	
November	9.5	15.5	
December	11.7	9.4	

higher weights in the consumer basket. High prices of these items on the world market lead to higher inflation as was the case during the first 8 months of 2008. This makes the economy vulnerable to external shocks, which are beyond the control of the authorities.

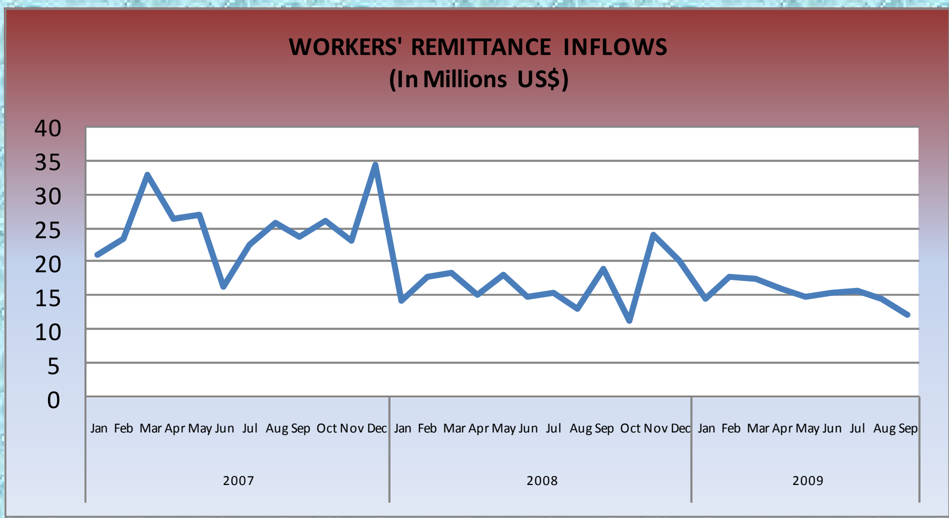


The reduction in the rate of inflation was largely on account of general declines in the prices of food and oil on the world market relative to 2008 prices.

Structural problems relating to the poor state of infrastructure and other domestic supply constraints affect the level of inflation in the country.

THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON WORKERS' REMITTANCE INFLOWS INTO LIBERIA

Recent data released by the World Bank indicates that the financial crisis will reduce remittance inflows to sub-Saharan Africa by an amount between 1—2 billion dollars in 2009 relative to 2008. Liberia, Lesotho, Gambia and Seychelles are highly vulnerable to reductions in workers' remittances because inflows represent more than 10 percent of their gross domestic product (GDP). Slowdown in such inflows into Liberia has implication for the ongoing poverty reduction program.



Workers' remittance inflows into Liberia have declined over the past few years on account of the global financial crisis and economic difficulties in developed countries.

Total inward workers' remittances at end-September, 2007, totaled US$219.6 million, US$145.8 million at end-September 2008 and US$138.4 million at end-September, 2009, showing persistent decline in workers' remittance inflows into the.

IMPROVING THE PAYMENTS SYSTEM:
Commercial Banks Encashing Civil Servants Checks

The Central Bank of Liberia has requested banks operating in Liberia to encash GOL civil servants salary and allowance checks subject to approved guidelines and procedures. This reform, in the payments system, is based on a MOU signed amongst the CBL, commercial banks and the MoF on September 17, 2009. As a result, customers do not have to stand in long queues at the CBL for the purpose of salary checks encashment.

Commercial banks now have branches in 9 of the 15 counties, making it easier for government workers to cash checks in addition to providing other banking services to residents of these counties. As branch network expands, the CBL will not need to maintain payment centers as has been the case in 7 counties where these centers have been established. The CBL payment center in Margibi County was closed recently, with the county being serviced by 3 commercial banks. Meanwhile, in counties where there are no permanent payment centers or commercial banks, mobile teams are sent to those counties for a period of 2 weeks usually after the 15th of each month for the purpose of checks encashment. With some of the commercial banks creating new products, including debit and credit cards, and the expected introduction of a treasury

(Continued on page 3)

IMPROVING THE PAYMENTS SYSTEM:
Commercial Banks Encashing Civil Servants' Checks

(Continued from page 2)
bills market, the CBL hopes to move Liberia from a predominantly cash-based economy to the use of more financial instruments including checks, IOUs, among others.

EASY AND CONVENIENT TAX PAYMENT SYSTEM

The Ministry of Finance, in collaboration with the Central Bank of Liberia, has opened the Freeport of Monrovia TAX payment center (One-Stop-Shop).

Importers and exporters conducting business within the Freeport no longer have to go to the CBL/ MOF annex at the Ministry of Finance to pay Customs and other Duties.

TAX PAYERS AT THE ONE-STOP-SHOP
Freeport of Monrovia

EXPERIENCE THE ONE-STOP-SHOP:

- For convenient and speedy tax payment
- To save precious business time
- For the enhancement of GOL revenue collection

INTERNAL AUDITING AT CBL

Internal Auditing, as noted in the Institute of Internal Auditors' (IIA) formal definition, is about "adding value and improving an organization's operations". Few would argue with the assertion that such objectives have never been more critical than in the current Liberian environment, where virtually every organization is facing unprecedented challenges. The Executive Governor, along with members of the Audit Committee of the CBL Board of Governors, has responded to these challenges by reforming the Internal Audit function of the Bank, focusing on methodology, personnel and systems. The improved methodology is the risk-based audit approach, which is considered an international best practice. The focus of the CBL's systems is on enhanced automation that reduces manual interferences in its business processes.

CBL Internal Auditors at work

The Internal Audit Charter of the CBL was developed by the current administration to clearly define the mission, scope, accountability, responsibility, authorization, independence and standards of the Internal Audit function. The Charter, in effect, is Internal Audit's terms of reference. Fulfillment of the Charter requires a continuous risk assessment effort that culminates into derivation of an audit risk universe, which in turn drives the annual audit plan. The annual audit plan then provides the basis for the continuous monitoring programs of Internal Audit.

The Board, upon recommendation of the Audit Committee, has also approved a communication strategy by which Internal Audit's findings and recommendations, and related issues, are communicated to both the management team of the CBL and the Board Audit Committee. The Board Audit Committee, to whom Internal Audit reports functionally, comprises non-executive governors, and meets frequently with the Internal Auditor in their governance and oversight responsibility of the internal audit function. A key quality of an effective internal audit function is building professional relationships with all parties with whom the Internal Auditor must interact in the discharge of his duties.

MANAGEMENT OF CBL'S FINANCES AND OPERATIONAL CONTROLS

In an effort to build a transparent and credible system of financial reporting, the Board of Governors of the Central Bank of Liberia passed a resolution in 2006 to formally adopt the International Financial Reporting Standards (IFRS) as the Bank's accounting framework beginning at end-2008. At the end of 2008, CBL's external auditors (PricewaterhouseCoopers—Ghana) certified that the Bank was in full compliance with IFRS. This was a major achievement for the Bank.

CBL's external auditor completed the mid-year Monetary Data Reporting Package (MDRP) audit on September 9, 2009. The audit which covered the period January 1, 2009 to June 30, 2009 indicated that internal operational procedures are being followed and validated the accuracy of data submitted by the CBL to the IMF as correct and consistent with approved standards and best practice.

Also, the safeguard assessment findings showed that there is adequate segregation of duties and top management involvement. The tone at the top and the general control environment is quite strong.

The Monetary Data Reporting Package audit is usually done twice a year in accordance with an understanding reached with the IMF relative to safeguards assessment procedures. The primary objective of the audit engagement was to ascertain that the level of net international reserves, floor on the Bank's budget balance, and ceiling on payments of arrears are reported in a manner that is consistent with that defined in the Technical Memorandum of Understanding (TMU) dated February 27, 2008 and revised on April 15, 2009 between the Liberian authorities and the IMF under the Poverty Reduction and Growth Facility arrangement.

BANKING SUPERVISION: Key to CBL's Reform Agenda for Commercial Banks

As provided for in the New Financial Institutions Act (FIA) of 1999, the CBL has the mandate of regulating and supervising the financial sector of Liberia, which includes bank- and non-bank financial institutions. The Supervision Department is responsible for carrying out this regulatory and supervisory mandate. The underlying philosophy governing bank supervision is that, while banks must be free to allocate credit according to market forces and be entitled to set terms and conditions for their operations in an environment of competition, strict supervisory rules must be set in order to protect depositors, other creditors, and the financial system as a whole. Pursuant to this, the objective of bank supervision in Liberia is to promote and maintain the safety, soundness, and integrity of the Liberian banking and financial system and of each institution within the system; to implement and ensure compliance with the New FIA of 1999 and other applicable regulations issued by the CBL; and promote confidence in the financial system through the implementation of policies and standards that are in keeping with international best practices for supervision and regulation.

In pursuit of these objectives, the Supervision Department utilizes the following tools: promulgation and enforcement of regulations/directives; on-site examinations; off-site surveillance; and reorganization and/or liquidation of distressed institutions. The Department is headed by a Director and conducts its activities through two functional sections; namely, Policy & Regulation Section and Supervision Section, both of which are overseen by Assistant Directors. The principal responsibility of the Policy & Regulation Section is to promulgate regulations, directives and guidelines for the effective regulation and supervision of financial institutions, and ensure compliance by licensed financial institutions with, and enforcement of, all CBL's regulations, directives and guidelines. The primary responsibility of the Supervision & Surveillance Section is to ensure the effective and adequate supervision and monitoring of the performance and developments in the financial system on a regular and timely basis.

Banking Supervision Staff at Work

Currently, one of the Department's primary focus is on developing and strengthening a new regulatory framework, a process which has involved ongoing consultations with the industry and other stakeholders that have laid the basis for the development and adoption of new supervisory regulations and prudential guidelines, along with revisions to existing ones. Additionally, this new regulatory framework necessitates a greater level of supervision of the financial sector, which the Department has endeavored to fulfill through a more robust off-site function and semi-annual full scope on-site examinations of licensed financial institutions. Since this shift in the supervisory approach, there have been some positive banking developments: banks, some of which were previously undercapitalized, are now above the existing minimum capital requirement of US$6.0 million, from the original minimum level of US$2.0 million. A number of banks have already taken actions to meet the US$8.0 million threshold by end-December 2009; the Capital Adequacy Ratio (CAR) of the banking industry improved from a negative position to a level far in excess of the minimum 10% requirement; gross assets have consistently reflected positive growth over the last few years; the industry's loan portfolio and deposit base have also shown consistent growth patterns, reflecting increasing levels of intermediation and confidence in the system; and intensified on-site examinations and supervisory enforcements have led to improved corporate governance and accountability in the banking system.

Meanwhile, not only have the number of banks in the system increased, but there has also been an increase in the number of branches to more than 30 throughout the country, thereby increasing access to financial services and banking products.

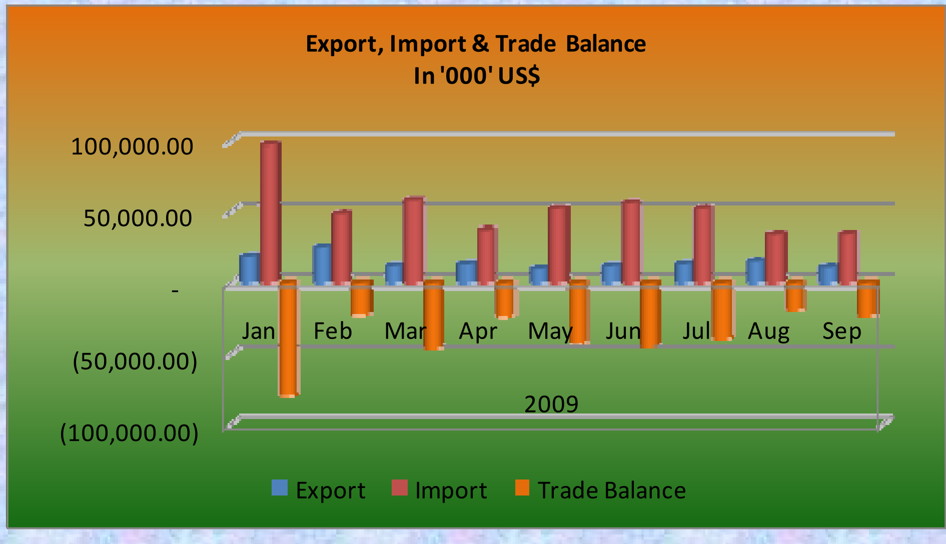
IMF RESUMES PUBLICATION OF LIBERIA'S BALANCE OF PAYMENTS

After nearly 21 years, the Central Bank of Liberia resumed the publication of the country's BOP statistics in 2008 with technical assistance from the International Monetary Fund (IMF). This was achieved as a result of the CBL's desire to help reconstruct a sound and reliable database on the Liberian economy. The data have now been published in the IMF 2009 BOP Yearbook, which was a goal of the CBL.

With the resumption of the publication of the BOP statement, policy makers, researchers, investors, and others now have the opportunity to make use of the statistical information for research and decision making from a more informed viewpoint, including the determination of policies that could help strengthen the country's trade and capital positions.

During the period January – September, 2009, the external trade position of the Liberian economy showed a deficit, registering US$343.8 million (averaging US$38.2 million monthly). This trend has been a persistent issue in the recent past, in part, due to the import-dependent nature of the economy. The growing import bills of the country far outpace the earnings from exports mainly due to the narrowness of the export sector. The authorities have initiated reforms that are intended to facilitate an enabling investment climate that would attract additional investments in the export sector. Diversification of the export sector is another aspect of the Government's development agenda in fostering an export-led growth of the economy.

Rubber exports continue to dominate the export sector, accounting for nearly 61.0 percent of total exports during the period (January-September, 2009). Two traditional exports with huge earnings in pre-war Liberia, mining and logging, are yet to resume at full scale.



Food imports including the nation's staple (rice), accounted for about 29.0 percent of total imports during the period. The huge payments to this category continue to place enormous pressure on the demand for foreign exchange in the country. Also, machinery and transport equipment, (23.0 percent), follows the food and live animal category, in response to the revamping of damaged infrastructure in the country (equipment for road construction, farming, mining, logging, etc.). The growing need for intermediate products which are used to produce final goods and services, coupled with the rising need for energy to boost production of goods and services also accounts for a significant amount of import payments.

The policy implication is that effort must be harnessed at the development of the real sector and at addressing the infrastructure problem of the economy with a view to expanding the manufacturing and the agriculture sectors of the country. The creation of an investment-friendly environment is also cardinal for the realization of these goals because foreign assistance may not be sustainable in the long-run.

MICROFINANCE SECTOR

It is in realization of the great potentials of microfinance that the Central Bank of Liberia's interest has been generated in addressing the needs of the informal financial sector.

The Microfinance Unit of the Central Bank of Liberia, which was established under the current administration, continues to collaborate with foreign partners in building the capacities of financial services providers in order to significantly strengthen the economic base of the poor and low income self-employed people, through increased access to credit and other financial services in line with the Poverty Reduction Strategy of the Government of Liberia (GoL).

The focus of the CBL's collaboration with foreign partners in implementing financial inclusion is mainly centered around creating an enabling policy and regulatory environment and disseminating sound microfinance principles and best practices.

Policy Environment

The CBL has developed a National Strategy for Financial Inclusion and a Microfinance Policy, Regulatory and Supervisory Framework that would enhance the provision of financial services (microfinance) to positively affect the lives of low income entrepreneurs. The CBL has amended Prudential Regulation on Asset Classification and Provision for Loan Losses to enable commercial banks to conduct microfinance activities.

Establishment of Microfinance Bank and Institution

AccessBank Liberia Limited – The Microfinance Bank (ABLL)

The CBL has licensed AccessBank Liberia – The Microfinance Bank which started its operation in January, 2009.

(Continued on page 6)

MICROFINANCE SECTOR

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Since establishment, AccessBank has opened two branches at the Paynesville Red Light and Duala, Bushrod Island. As of October 31 2009, AccessBank had a total loan portfolio of US$1.4 million and L$591,825.50, and average loan of US$904.62 and L$24,659.40. The total number of persons receiving US-dollar loan was 1,575 and 24 persons benefited from Liberian-dollar loan.

Building Resources across Communities (BRAC) Liberia Microfinance Company

BRAC, one of the largest microfinance companies in the world which is involved in other development activities such as education and health, was authorized by the CBL to engage in credit only microfinance services. BRAC Liberia Microfinance Company is a collaboration between the George Soros Economic Development Fund (24.5 percent), the Omeidyar Network (24.5 percent) and BRAC International (51 percent). It was capitalized at US$4.1 million and started its lending operation in June 2009. BRAC Liberia Microfinance Company has, since its inception up to September 2009, worked with a total of 4,690 clients in four counties, Montserrado, Margibi, Bong and Nimba.

As of June 2009, two microfinance institutions in the country, the Local Enterprise Assistance Program (LEAP) and Liberty Finance together with BRAC Liberia Microfinance Company Ltd, had a total of 21,670 clients in seven counties: Montserrado, Margibi, Bomi, Grand Cape Mount, Bong, Nimba, and Lofa with an outstanding portfolio of US$1,167,972.

H.E. Madam Ellen Johnson-Sirleaf congratulates Ms. Kebbeh Sumbo, Microfinance Outstanding Client for 2008

Capacity Building

The second phase of the foundation course in microfinance which commenced on March 20, 2009 was completed on June 14, 2009. Forty five successful participants were certificated during the commencement program at the Cuttington University in Suakoko, Bong County. The foundation course is based on the United Nations Capital Development Fund (UNCDF) computer based instruction.

The CBL continues to build internal capacity. All staff of the Microfinance Unit have received specialized training at the School of Applied Microfinance (SAM) in Mombassa, Kenya. Additionally, workshops have been held for practitioners from various Microfinance Institutions.

The CBL, in collaboration with UNDP/UNCDF, held the first and second phases of the Village Savings and Loan Association training. Fifty women, 25 each from Gbarma, Gbarpolu County and ELWA Rockhill Community in Paynesville, Montserrado County participated.

RECRUITMENT AND STAFF DEVELOPMENT AT THE CBL

In recent years, the CBL has stepped up recruitment and intensified training of its staff locally and abroad to enable it to function more effectively in various areas of its operation, eg., to improve internal controls, enhance research and strengthen its supervisory role. Employees returning from training are required to share with other staff the knowledge acquired from those training programs through workshops or seminars.

From January to September 2009, 13 of the Bank's staff attended training courses, workshops and seminars in the United States, Europe and Africa at various institutions including the IMF, World Bank, Federal Reserve, Swiss Bank, the Joint Africa Institute, the Financial Stability Institute (FSI), West African Institute for Financial And Economic Management (WAIFEM), and the School of Applied Microfinance.

Staff of the Finance Department have been undergoing continuous IFRS training in Accra, Ghana, for the purpose of enhancing capacity in the implementation of the Bank's newly adopted accounting framework (IFRS). Also, staff of the Supervision Department benefited from training in various aspects of bank supervision from the Central Bank of Nigeria (CBN). They also received on a regular basis technical assistance from the IMF on risk-based supervision methods as the Department prepares to move away from the current compliance-based supervision towards risk-based supervision.

Additionally, the Bank's staff benefited from professional exposure from attending meetings organized by international professional institution; between January and September 2009.

As a central bank, recruiting the best qualified and administering a strong staff development program for its employees remains a priority of the Management.

IMF THIRD REVIEW OF LIBERIA'S PRGF PROGRAM

The International Monetary Fund has completed the third review of Liberia's performance under its Poverty Reduction and Growth Facility (PRGF) Program. This took place between October 15 – 28, 2009, with Fund staff holding discussions with key economic ministries and agencies of the GoL on the implementation and achievement of the program's key quantitative and structural benchmarks.

At the conclusion of the review, the IMF found implementation of monetary and financial policies under the program satisfactory.

The review concluded that monetary developments continued to be in line with program projections through end-June, 2009. Relative to the build-up of reserves, the review stated that the net foreign exchange position of the CBL is above program objective, and implementation of CBL's budget was consistent with a balanced budget position for 2009.

Relative to fiscal policies, the review found that the fiscal program for 2008/2009 remained largely on track, with tax revenue showing resilience, exceeding program projections, as personal income tax over performed and other categories attained their budgeted levels.

The review ended with the Minister of Finance and the CBL Governor, signing a Memorandum of Economic and Financial Policies (MEFP), which summarized the substantial progress made by the Liberian authorities in improving the performance of the economy and outlined economic and structural policies for 2010.

HEAVILY INDEBTED POOR COUNTRIES INITIATIVE

The Heavily Indebted Poor Countries (HIPC) Initiative is an agreement among official creditors designed to help the poorest, most heavily indebted countries escape from unsustainable debt. It enables poor countries to focus their energies on building the policy and institutional foundation for sustainable development and poverty reduction. It includes foreign debts owed to bilateral creditors (Paris Club), multilateral creditors (international financial institutions, such as the World Bank and the IMF) and commercial creditors (London Club).

The Initiative is open to the poorest countries, those that: (1) are eligible only for highly concessional assistance such as from the World Bank's International Development Association (IDA) and the IMF's Poverty Reduction and Growth Facility (formerly called Enhanced Structural Adjustment Facility); (2) face an unsustainable debt situation even after the full application of traditional debt relief mechanisms; and (3) have a proven track record of implementing strategies focused on reducing poverty and building the foundation for sustainable economic growth.

The HIPC Initiative was launched in 1996 by the IMF and the World Bank, with the aim of ensuring that no poor country faces a debt burden that it cannot manage. Since then, the international financial community including multilateral organizations and governments have worked together to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries.

In 1999, a comprehensive review of the Initiative allowed the IMF to provide faster, deeper and broader debt relief and strengthen the links between debt relief, poverty reduction and social policies.

In 2005, to help speed up progress toward the United Nations Millennium Development Goals (MDGs), the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI). The MDRI allows for 100 percent relief on eligible debts by three multilateral institutions – the IMF, the world Bank, and the African Development Bank (ADB) – for countries completing the HIPC Initiative process. In 2007, the Inter-American Development Bank (IADB) also decided to provide additional (beyond HIPC) debt relief to the five HIPCs in the Western Hemisphere.

Two Step Process

Countries must meet certain criteria, commit to poverty reduction through policy changes and demonstrate a good track-record over time. The Fund and the Bank provide interim debt relief in the initial stage, and when a country meets its commitments, full debt relief is provided.

First Step: **Decision point**. To be considered for HIPC Initiative assistance, a country must fulfill the following four conditions:

be eligible to borrow from the World Bank's International Development Agency, which provides interest-free loans and grants to the world's poorest countries, and from the IMF's Poverty Reduction and Growth Facility (PRGF), which provides loans to low-income countries at subsidized rates.

face unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms;

have established a track record of reform and sound policies through IMF and World Bank supported programs;

have developed a Poverty Reduction Strategy Paper (PRSP) through broad-based participatory process in the country.

once a country has met or made sufficient progress in meeting these four criteria, the Executive Boards of the IMF and World Bank formally decide on its eligibility for debt relief and the international community commits to reducing debt level that is considered sustainable. This first stage under the HIPC Initiative is referred to as the "decision point". Once a country reaches its decision point, it may immediately begin receiving interim relief on its debt service falling due.

Second Step: **Completion point.** In order to receive full and irrevocable reduction in debt available under the HIPC Initiative, a country must:

establish a further track record of good performance under programs supported by loans from the IMF and the World;

implement satisfactorily key reforms agreed at the decision-point;

adopt and implement its PRS for at least one year.

Once a country has met these criteria, it can reach the completion point. This allows it to receive the full debt relief committed at decision-point.

Liberia is working toward reaching the completion point sometime in mid 2010, having reached the decision point two years ago. If this happens, the Liberian Government will be able to borrow from the IMF, World Bank and other international financial institutions as well as friendly governments for the social economic development of the country.

The CBL has played a major role in negotiating and implementing Liberia's PRGF Program with the IMF. The Executive Governor is a co-signatory, along with the Minister of Finance to the Letter of Intent from the Government of Liberia to the IMF on the program with Liberia.

CBL'S GOVERNOR KEYNOTE ADDRESS AT THE LIBERIAN BANKERS ASSOCIATION DINNER

Distinguished Ladies and Gentlemen, Friends and Colleagues, it is with great satisfaction that I speak at this occasion. Today marks another milestone in the banking industry; and it highlights the important role the banks continue to play in the economic recovery of Liberia. On behalf of the CBL family, I congratulate the Liberia Bankers Association (LBA) for organizing this program which, in our view, has the benefit of promoting awareness and public confidence in the banking system. The occasion also highlights the hard work of the Secretariat of the Liberia Bankers Association, under the stewardship of Mr. Milton Weeks, whose initiative has led to significant changes in the activities of the Association.

In this room tonight are the leaders of the financial sector, the captains of industry and trade, members of the top echelon of the political establishment, key intellectuals − a conspicuous cross-section of the movers and shakers of society on whose shoulders rest the hopes of the Liberian nation. Within the collectivity that defines us as a nation, particular note must be taken of the poor, the uneducated, our children, and the elderly. In many respects, they are the voiceless and the invisible. So as we celebrate our achievements, let us remain mindful that the measure of our success will be determined by the extent to which our actions have a positive impact on their lives. This is our responsibility; this is our calling; this is the challenge of the moment.

We have endured a long period of darkness as a people. And although the sun is beginning to shine, there are still difficult days ahead. But we must be reminded that it is when the nation is experiencing rough seas that we need to be most optimistic. Negativism will not make us stronger or better. We are at a point in our history when we need to be most united; when we should sing more in unison --- from the Mano River to the Cavalla River -- our song of freedom and self-assurance, "All Hail, Liberia Hail". Bruce Cole, in a speech at New York University, cautioned that "A nation that does not know why it exists or what it stands for, cannot expect to long endure….We cannot expect that a nation that has lost its memory will keep its vision". But I am confident that because of their resilience, the Liberian people, even if beaten to the ground, like the phoenix, will rise again; that despite distractions based on false promises, we have not lost our memory; and our vision for a more prosperous Liberia remains a unifying force just as it was throughout our history.

That we have arrived at this stage when bankers would set aside an entire week, pondering on the theme: "The Banking Sector: A Partner for Growth and Development," is a glaring manifestation that we are on a new course.

To those who ask whether change is coming to the banking industry in Liberia, I say: change is here. And I can also say that the process of change will continue. The road to a more vibrant banking system must be a road down the path of reform. It is with this in mind that we pledge on behalf of the Central Bank that we will not relent in our reform efforts, keeping our eyes focused on the objective of making the banking system an effective and efficient instrument for lubricating the wheels of private sector growth and development. A major part of this effort is to ensure that financial resources are channeled to Liberian entrepreneurs. We emphasize this because building a Liberian middle class is critical to our democracy, and the strength of that middle class has to be rooted in private business, particularly small and medium scale enterprises. The challenge for the banks is that they must think more boldly of how to enhance their intermediation role.

Distinguished Ladies and Gentlemen: Only a few years ago, bank failures were the order of the day, accompanied by an overwhelming lack of confidence in our banking system. However, since this Administration came into office, with the cooperation of the Bankers Association, we have reversed that course and have much to celebrate. For the first time in the banking history of our nation, we can say that we have had a significant recapitalization of commercial banks operating in Liberia, with the minimum capital requirement having been increased to US$6 million. By end-December 2009, this amount will increase to US$8 million. Banks have been reminded of the regulation, and we will ensure that all are in compliance. The banking industry is also making a significant contribution to the recovery of the economy. Total credit to nominal GDP has increased from about 9 percent in 2005 to 15 percent as at September 30, 2009, and total employment has increased, from about 422 in 2005 to about 1121 in 2009, a 165 percent increase. The salary range for lower to middle management is above the national average.

Meanwhile, we can point to a number of innovations and the introduction of new financial products, including debit cards, ATMs, SMS banking and branch banking. Many parts of Liberia now have access to banking services, and we will continue to encourage the expansion of branch banking throughout the country. Microfinance lending has also increased, which should support the Government's Poverty Reduction Strategy. Access Bank (Liberia) Limited –The Microfinance Bank is now operational. We have also amended the Prudential Regulation on Asset Classification to enable other commercial banks to engage in microfinance lending.

Despite the challenging environment in which banks operate, they are much stronger compared with the recent past. The capital adequacy ratio as at September 30, 2009 was 28.7 percent compared with 17% as at end-December 2005. The ratio of non-performing loans to total loans is 13.5%, down from 56.6% over the same period. Total assets have grown from L$7.3 billion as at end-December 2005 to L$26.6 billion as at September 30, 2009. During the same period, deposits increased from L$4.9 billion to L$18.8 billion; and total capital from L$1.1 billion to L$4.7 billion.

The continued robust banking supervision efforts of the CBL have led to improved risk management and corporate governance in our banking sector. We are in the final stages of concluding a memorandum of understanding with the Central Bank of Nigeria (CBN) on supervisory cooperation and the sharing of information on banking institutions operating in both countries, Nigeria being the host country of the parent companies of a number of banks operating in Liberia. Hopefully, this memorandum will be signed during the visit of the Nigerian Central Bank Governor on the 4th of November. We will continue with our policy of diversifying the banking system, as part of measures to minimize contagion effects from any one country or region.

Ladies and Gentlemen, the complex risks arising from rapid and multiple product innovations, potential contagion effects due to increased linkages and inter-dependence between local and regional banks, and the growing trend of businesses without borders call for a new approach to protecting the financial health and stability of our economy.

In this regard, the Central Bank of Liberia is stepping up its mode of supervision from the traditional CAMELS-based approach to Risk-Based Supervision (RBS). We have begun building capacity within the CBL to undertake this task, with technical assistance from the IMF. This move will put the supervisory regime of the CBL on par with central banks of other countries, and engender inves-

(Continued on page 9)

CBL'S GOVERNOR KEYNOTE ADDRESS AT THE LIBERIAN BANKERS ASSOCIATION DINNER

(Continued from page 8)

tor confidence in the banking system. However, it will also require a greater responsibility on the part of the boards of directors of the commercial banks to ensure adequate risk management policies and practices in their respective institutions. We also intend to advance on ongoing discussions with the banks and the Liberia Institute of Certified Public Accountants regarding the adoption and implementation of the International Financial Reporting Standards (IFRS) to promote uniform accounting standards for all banks.

As part of our efforts to promote Liberian ownership in the banking sector, we have granted approval to LBDI and preliminary approval to Guaranty trust Bank (Liberia) Limited to sell additional shares to the Liberian public, including those in the diaspora. We encourage other banks to follow the footsteps of LBDI and GTBLL. However, we understand that the response of both Liberians and Liberian entities to the share offer of LBDI is very slow. To date, the total number of LBDI shares purchased by private Liberians is reported at 2,764 shares, sold to only 72 individuals out of 100,000 shares offered.

Ladies and Gentlemen, as policy-makers, we are all obliged to look beyond the HIPC debt relief phase to how we can fundamentally address the issue of sustained economic growth and high unemployment. This would require thinking outside the proverbial box or the result that we get at the end of the day will be not so dissimilar from what was obtained in the past. When one is behind in the development race - and there is no argument as to whether or not we are – then there are two options to catch up: one has to either ask those ahead to slowdown or one has to run faster. The rest of the world is not going to slow down; so we have only one option and that is, to run faster. We submit that we must apply our energies to crafting country –specific solutions. The best practice for Liberia should be the practice that works.

As for the banking sector, work should be directed at providing practical solutions aimed at channeling excess liquidity towards sustainable growth in the agricultural, mining and manufacturing sectors to support export promotion, certain import-substituting production and value-added transformation of critical commodities like, rice, cocoa, palm oil, pepper, rubber, and timber It is also critical to increase investment in infrastructure to support the private sector, encourage diversification and improve competitiveness. This is an area where donor support is critical, particularly in the context of Liberia's cash based balanced budget and the strain on public finances associated with the global crisis.

Let me add at this juncture that it is not only government finances that have been affected by the global financial crisis. The crisis has led to a weakening of the exchange rate, contributing to higher than expected inflation during 2009. It should be noted, however, that the U.S dollar itself weakened against other major currencies during the course of the year, which would also affect the price level in Liberia. But we have not had runaway inflation. The year-on-year rate of inflation is estimated at 8 percent at end-September 2009, and we expect the rate to moderate in 2010. A comparison of movements of the Liberian dollar/US dollar exchange rate with what obtained in countries in the sub-region shows that the Liberian dollar has performed relatively well. But the CBL does not take satisfaction from this. We continue to be guided by what is best for the Liberia people, and have been taking steps to help stabilize the exchange rate. In fact, not only has the exchange rate stabilized over the last few months, there are signs of a gradual strengthening of the Liberian dollar. We expect to see further movement in this direction.

Our reserve position is strengthening, and the Special Drawing Rights (SDR) allocation has significantly improved the picture. The reserve position of the CBL is targeted to be around US$ 248 million at end-December 2009 compared to US$ 49.4 million as of end-December 2008. The improved position of the country's international reserves should help us better manage shocks to the balance of payments and the exchange rate. The market should take its cue from this. It should be emphasized, nevertheless, that the relative strength or weakness of the Liberian dollar is fundamentally a longer-term balance of payments issue that must be addressed by the government's overall economic strategy.

As you all know, the foreign exchange auction has been the main instrument for controlling Liberian dollar liquidity. I would like to advise that the CBL is putting in place the mechanism for a Treasury-Bills market which will not only be an additional instrument for monetary policy, but will also assist government to meet its post-HIPC borrowing needs and create some needed fiscal space to smooth out the expenditure pattern of government. Banks would also have an opportunity to invest some of their Liberian dollar excess liquidity.

We are also committed to addressing the credit needs of the economy, particularly for essential commodities that affect the welfare of the society. In this regard, we are contemplating raising the single obligor limit from the current level of 15% to 20%, while we encourage banks to engage in more loan syndications in order to share the risks for larger transactions. But the public should acknowledge that the banks are operating in a difficult credit environment. When we hear complaints about stringent collateral requirements, the public should also be aware that the money that is being given as loans by banks is their money – the money of depositors; and what the Central Bank is doing is trying to make sure that depositors' money is safe. If people borrow and don't pay, the banks get into trouble and depositors' money is put at risk.

However, we do not believe that only stringent collateral requirements can resolve this difficulty. Our support for the establishment of a fast-track commercial court for speedy debt recovery is intended to help improve the lending environment. We also want to serve notice to delinquent borrowers, some who deliberately choose to make mockery of the system, that the Central Bank is examining its authority under the law regarding the protection of the financial system to turn up the heat. So to the delinquent borrowers, and especially to those who think they can just beat the system, we say it is time to meet up with your obligations. To the banks, we say that more work needs to be done to improve the lending skills of credit officers in order to make sound and reasonable credit judgments. Steps should also be taken to better align both the quality and responsiveness of credit processes to the needs of the Liberian economy. For example, what seems to be an approach of simply requiring as short a loan repayment period as possible may in many cases not make good business sense. If risk management departments are strengthened, they will be able to adequately assess the earnings and cash flow potential of a borrower and recommend the appropriate maturity structure. This is where we should be going and what we expect to see in terms of concrete action by the banking sector.

In view of the scarcity of trained and experienced credit, operations and treasury

(Continued on page 10)

CBL'S GOVERNOR KEYNOTE ADDRESS AT THE LIBERIAN BANKERS ASSOCIATION DINNER

(Continued from page 9)

management staff in the sector, we are considering a proposal of a banking institute to be set up by the banks, with the support of the CBL. In addition, we are establishing a database of experienced professional bankers in Diaspora in order to assist banks to identify qualified Liberians for senior and middle management positions. We hope that the banks will tap into this information base of indigenous talent.

The CBL is concerned about the present high spread between deposit and lending rates in the sector and the term structure of deposit rates. Although lending rates have slightly declined in recent times for prime borrowers, reflecting growing competition in the industry, deposit rates remain very low and flat across various maturities. This situation has the potential to undermine savings mobilization for medium to long-term financing in the economy. Accordingly, we would encourage banks to begin offering better rates for longer term deposits to match medium term lending. The CBL intends to use treasury bills initially, other market instruments in due course, and possibly regulatory measures, where moral suasion fails, to encourage a normal yield curve.

We believe that there is a larger group of potential borrowers out there in the Liberian economy and will support any efforts by our development partners and the banking community to provide business development services to build their capacity to successfully manage bankable businesses. In this light, we are encouraged by the efforts of the International Finance Company to meet this need.

This brings us to the matter of enhancing the role of LEDFC as a provider of medium to longer-term capital. We have recently held discussions with the Chairperson of the Board of Directors of LEDFC and some officials of the Overseas Private Investment Company (OPIC) regarding the refocusing of the operations of LEDFC. Our view is that LEDFC can play a more meaningful role in the economy through a stronger partnership with the commercial banks. In this regard, we have requested for a new business plan which will enable LEDFC to work more aggressively with the commercial banks in providing medium to long-term financing to the economy at reasonable interest rates. We expect to receive the report from LEDFC shortly as promised.

In closing, let me say that we still have a lot of challenges ahead. In an era when everybody seems to be an expert on everything (monetary policy being no exception), it may serve us well to borrow from the wisdom of Alan Greenspan – former Chairman of the US Federal Reserve. In his book entitled "The Age of Turbulence", Chairman Greenspan admonishes that there is inherent conflict between the Fed's statutory long-term focus and the short-term needs of most politicians with constituents to please. Notwithstanding, he suggests that central banks should remain

(Continued on page 11)

FOREIGN EXCHANGE AUCTION

The foreign exchange sale auction is used by the CBL to help maintain broad stability of the exchange rate. Currently, the auction accounts for about 5.2 percent of average monthly import requirements in the Liberian economy.

CBL Foreign Exchange Sales Auction: US$ Offered, US$ Demanded & Excess Demand for US$ (In Millions US$)

Year	US$ Offered	US$ Demanded	Excess Demand for US$
2004	3.780	3.774	.006
2005	6.390	6.475	-0.085
2006	6.050	8.755	-2.705
2007	18.500	36.701	-18.201
2008	26.000	48.713	-22.713
2009*	24.460	52.791	-28.331

- *Figures for 2009 are from January to October.*

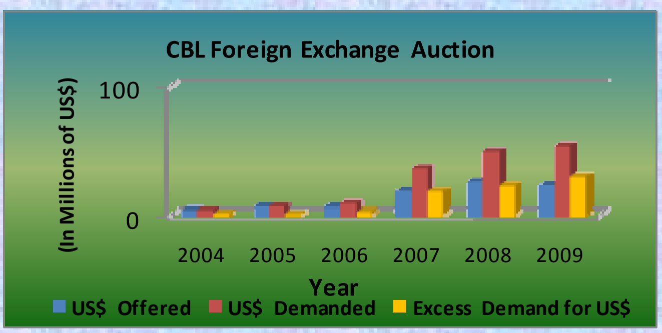
Source: Central Bank of Liberia

Since 2006, the amount of US dollars put in the auction has been increasing. In 2006, the CBL sold through the auction a total of US$6.1 million, US$18.5 million in 2007, US$26.0 million in 2008 and US$24.5 million from January-October, 2009. The increase in the amount of US dollars offered was driven by excess demand for US dollars at the auction as shown in the table above, which is a reflection of increased economic activities taking place in the country.

In 2007, the CBL opened a Special Window for the sale of foreign exchange, where additional allocation is made to the Forex Bureau Association as market condition dictates.

The CBL is making an effort to stabilize the exchange rate as evidenced by the increase in sale of US dollars through the auction.

The Bank does not fix or set the exchange rate; the rate of Liberian dollars to US dollar is determined by market condition. The CBL has constraints relative to the amount it has to offer for sale because it needs to build reserves; as reserves grow, it will have more flexibility to intervene in the market to smooth out exchange rate movements.



Features of the Foreign Exchange Auction

The auction is held on a weekly basis, every Wednesday at 10:00 a.m. at the Central Bank of Liberia and participation is open to commercial banks, the Forex Bureaux Association, businesses and members of the general public. Businesses and members of the general public wishing to participate in the weekly auction may submit their bids through the commercial banks where they are maintaining functional bank accounts.

CBL'S GOVERNOR KEYNOTE ADDRESS AT THE LIBERIAN BANKERS ASSOCIATION DINNER

(Continued from page 10)

focused on putting in place the monetary conditions needed for maximum sustainable long-term economic growth. Certainly, the Liberian people have my pledge that the CBL, under this administration, shall remain focused on those policy pursuits in the best long-term interest of the Liberian economy and people.

I thank you.

CENTRAL BANK OF LIBERIA GETS A NEW DEPUTY

Mr. Samuel W. Thompson
Deputy Governor, CBL

In August 2009, the President of Liberia, Her Excellency Madam Ellen Johnson Sirleaf nominated for confirmation by the Liberian Senate, Mr. Samuel W. Thompson as Deputy Governor of the CBL. Mr. Thompson, a career investment banker, brings to the CBL, a wealth of experience in public financial management and banking, both at home and abroad. Prior to his appointment, Deputy Governor Thompson was a member of the Board of Governors of the Central Bank of Liberia.

The CBL's new Deputy Governor holds a BA degree in Economics from the University of Liberia (1977), and a Master of Business Administration (MBA) degree in Finance, from Syracuse University, USA (1980).

CBL HOSTS PAYMENTS SYSTEM WORKSHOP

The West African Institute for Financial and Economic Management (WAIFEM), in collaboration with the African Capacity Building Foundation (ACBF), organized a 1-week Sub-Regional Course on Payments System Development for a Post-Conflict Economy in Monrovia, from November 23—27, 2009. The workshop was hosted by the CBL with training sessions held at its Training Center.

The workshop was designed to give participants an general understanding of payments system with a view to enhancing the capacity of central banks in monetary policy management; and showing how the payments system can be developed for improvement in the way financial transactions are conducted, which will help to make the financial system more efficient and stable.

There was a total of 22 senior/middle level officials of central banks, core economic ministries and other public and private institutions from Liberia and Sierra Leone. Six staff from the CBL attended the workshop.

CBL DEVELOPS A LIQUIDITY MONITORING FRAMEWORK: T-BILLS TO FOLLOW

A liquidity monitoring framework has been developed by the Bank's Research, Policy & Planning Department – in close coordination with its Supervision Department. This framework has provided the basis for the monthly calculation of liquidity within the banking system, which is important for the process of monetary policy decision making. Liquidity monitoring helps in determining the optimum level of money supply needed to facilitate economic transactions and ensure a stable and sound banking system. The next step is to transition to liquidity forecasting.

It is not enough to merely implement a technical process to measure and monitor liquidity risk; therefore, it is also important to put the monitoring process in a context that is specific to particular banking institution. Along these lines, this framework is being used to assess the specific liquidity condition of individual banks.

The liquidity monitoring is essential to the CBL current efforts at putting into place the mechanism for the introduction of a treasury-bill market to enhance monetary policy, the work of which has begun with development of an operational framework. In this connection, a T-bill Working Committee has been established.

CBL AND CBN SIGN A MEMORANDUM OF UNDERSTANDING

The Central Bank of Liberia (CBL) and the Central Bank of Nigeria (CBN) signed a Memorandum of Understanding (MoU) relating to the sharing of supervisory information and enhanced cooperation in the area of banking supervision on November 4, 2009. This is one of a number of actions taken by the CBL in recent time to enhance its supervisory oversight and help mitigate cross-border banking operations.

The signing ceremony took place during a one-day working visit by the Governor of the Central Bank of Nigeria, Hon. Sanusi Lamido Aminu Sanusi.

Dr. J. Mills Jones, Executive Governor, CBL and Hon. Sanusi Lamido Aminu Sanusi, Governor, CBN

According to the MoU, the two institutions agreed to exchange information relating to new applications for the establishment of cross-border branches, subsidiaries and representatives offices of banking organizations wishing to operate in either country; carry out duties and responsibilities to ensure that operations of cross-border activities of banking institutions are conducted in a prudent manner; ensure effective cross-border supervision of banking institutions on a consolidated basis and assist each other in performing such function; and support each other in building supervisory skills.