June 2021

The REGULATOR

Promoting financial inclusion, consumer protection and financial sector development

CBL Moves to Ease Liquidity Challenges

The REGULATOR is the official newsletter of the Central Bank of Liberia, produced by its Corporate Communications Unit, Central Bank of Liberia: Lynch & Ashmun Streets. Website: http//cbl.org.lr

In This Issue

FROM THE GOVERNOR'S DESK

Over the last few months, the Central Bank of Liberia (CBL) has been wrestling with the perennial issue of how to deal with the liquidity challenges that have plagued Liberia's financial system. It seems that there is now 'light at the end of the tunnel'.

With Legislative approval for the printing of L$48.733 billion over the next three years, the bulk of which is expected to arrive between 2021 and 2022, CBL is now poised to restore confidence in the banking system. Depositors will , unlike previously, be able to withdraw their money from commercial banks anytime they want to. This development will give depositors the much-needed confidence to deposit more of their money and reduce the volume of Liberian dollars outside the banking system. With the current policy measures, we are confident that the liquidity pressure within the banking system, especially for Liberian dollars, may very well be a thing of the past.

CBL is pursuing other complementary actions, in addition to the printing of new banknotes. These include the construction of cash hubs in rural areas. Not only will this meet the liquidity needs of the rural economy but will also serve as an incentive to attract commercial banks into areas where the cost of doing so had proven prohibitive. By constructing financial hubs in counties that do not have commercial banks, CBL is contributing in no small way to fostering financial inclusion. With more people entering the financial mainstream and accessing financial services, the prospect for growth of the rural economy can only improve.

As part of its efforts to ease liquidity pressure, CBL is tackling non-performing loans head-on. At its 19 May 2021 sitting, the CBL Monetary Policy Committee (MPC) resolved to pursue loan recovery more vigorously. CBL is also sparing no efforts in promoting a cashless Liberian economy through policy to enhance digital payments.

All of these, it is hoped, will, once and for all, help to restore confidence in the banking system.

Improving Financial Sector Stability

Liquidity crunch, lack of confidence and disproportionate amount of money outside the banking system; all these economic anomalies were addressed by the latest monetary policy decisions announced by the CBL Board of Governors (BoG), proxying for Monetary Policy Committee (MPC), during its 19 May 2021 meeting. During that meeting, the BoG, chaired by Executive Governor J. Aloysius Tarlue, Jr., decided to tackle the increasing rate of non-performing loans and, in so doing, simultaneously dealt with other interconnected problems in the banking system, i.e. the disproportionate amount of Liberian dollars outside the banking system.

The decision to print money will resolve the shortage of Liberian dollars in the short and medium terms

The problems of non-performing loans and the high rate of mutilated Liberian dollar notes are the main contributing factors for the persistent liquidity challenges in the banking sector and the major reasons for the low confidence in the banking system because, when there is a shortage of money in the banking system and depositors are unable to access their money, it is unlikely that they (depositors) will keep their money in banks, out of fear that they may not get it when they need to.

CBL Monetary Policy Committee in session on May 19, 2021, with Executive Governor J. Aloysius Tarlue, Jr. presiding

The decision to print new bank notes will help to address the shortage of Liberian dollars in the short and medium terms. Furthermore, with the rising and high level of non-performing loans beyond the tolerable limit, there is every reason to believe that there could be a re-occurrence of liquidity pressure, except a tangible strategy to reduce non-performing loans is formulated.

The BoG took note of the worsening trend in non-performing loans, which increased by 5.7 percentage points in just three months and stood at 26.9 percent at the end of February 2021, reflecting 16.9 percentage points above the tolerable limit. The BoG therefore resolved that 'enough is enough' and so decided to actively engage commercial banks to improve asset quality through better loan appraisals and aggressive loan recovery.

A full implementation of the decision to reverse the trend in non-performing loans will improve confidence in the financial sector, strengthen the current liquidity position of banks and make loans more accessible to a greater number of firms and individuals, thereby increasing the prospect of overall economic growth.

Such is the impact that tackling non-performing loans could have on liquidity, financial sector stability, and economic growth.

CBL Executive Governor Bags Two Regional Chairmanships

CBL Executive Governor J. Aloysius Tarlue

2021 to 2022 promises to be a very hectic year for the CBL Executive Governor, as he was elected Chairman of two regional economic bodies, concurrently serving one-year terms.

He was elected Chairman of the Committee of Governors of the Central Banks of ECOWAS member states at the 58th Meeting on 4-16 February 2021. Prior to that, Executive Governor Tarlue was elected Chairman of the West African Bureau of the Association of African Central Banks (AACB).

As the new Chairman of the Committee of Governors of the Central Banks of ECOWAS Member states, Executive Governor Tarlue succeeded Dr. Ernest K. Y. Addison, the Executive Governor of the Bank of Ghana, who served as Chairman from 2020 to 2021. In turning over the mantle of leadership of the Committee, Dr. Addison expressed his gratitude and appreciation to the Committee of Governors and to his predecessor, Professor Kelfala M. Kallon, the Governor of the Bank of Sierra Leone.

Executive Governor Tarlue's election as Chairman of the Committee of Governors of the Central Banks of ECOWAS member states comes off the heels of an earlier appointment as Chairman of the West African Regional Bureau of the Association of African Central Banks, which he was elected to in August 2020, a position he still holds and likely to hold until 2022.

The Committee of Governors of the Central Banks of ECOWAS member states, now chaired by Executive Governor Tarlue, is responsible for supervising the West African Monetary Agency (WAMA) and reports to the Convergence Council of ECOWAS Finance Ministers and central bank governors. Reports from the Convergence Council are forwarded to the Authority of Heads of State and Government.

As Chairman of the Committee of Governors of the Central Banks of ECOWAS member states, Executive Governor Tarlue chairs all meetings of the Committee of Governors of ECOWAS central banks. The Executive Governor, during his tenure, also serves as official spokesman for his colleagues on matters relating to WAMA that are brought to the attention of the Committee of Governors. He will be updated regularly on all economic and monetary affairs of WAMA and other multilateral institutions. Such updates will include the status of contemporary economic issues, including the ECOWAS Monetary Cooperation Program (EMCP), the status of surveillance missions across ECOWAS member states and macro-economic developments across member states, as well as their compliance with the macroeconomic convergence criteria, among others.

The Committee of Governors of the central banks of ECOWAS member states includes governors from the Banks of Cabo Verde, Ghana, Sierra Leone, BCEAO and the Central Banks of The Gambia, Guinea, and Nigeria.

BCEAO (Banque Centrale des Etats de l'Afrique de l'Ouest) includes the Central Banks of Guinea Bissau and French-speaking West African States, excluding Republic of Guinea.

Cash Hubs to Bring Banking Institutions to Rural Liberia

Since February 2021, CBL set for itself the task of tackling the perennial liquidity crunch head-on by constructing cash hubs where there are currently no commercial banks. There are at least five such counties. It is hoped that this will reduce the shortage of Liberian dollars in those counties.

CBL Executive Governor Tarlue (Center), with USAID-Liberia Mission Director Sara Walters (Left) and Bong County Superintendent Esther Walker (Right).

On 24 April 2021, CBL Executive Governor J. Aloysius Tarlue, Jr. took a team of USAID officials on a tour of the CBL Cash Hub that is currently under construction in Gbarnga, Bong County, to inspect progress thus far. The Bong County Cash Hub is expected to be completed on time and become operational by 26 July 2021.

When completed, the Bong County Cash Hub will contain a Banking Hall where tax payments can be made. It will then serve as a template to be replicated in counties that do not currently have commercial banks. When the cash hubs are completed, commercial banks will no longer have to move cash from one location to the other, something that will serve as an incentive for them to establish their presence in places where they are not currently located.

CBL Executive Governor J. Aloysius Tarlue, Jr. said: "The Cash Hub is good for Bong County and good for accessibility because of the central location of Bong County. It will attract banking institutions to rural areas". He said once the Bong County Cash Hub is completed, plans are afoot to construct four additional cash hubs.

Prior to the tour of the Gbarnga Cash Hub, the US Ambassador to Liberia Michael McCarthy, accompanied by officials from the American Embassy in Monrovia, made a courtesy call on CBL on 22 March 2021, at which time Executive Governor Tarlue highlighted the role USAID has played in hiring Kroll Associates to provide technical support in the procurement and delivery of LD4 Billion to CBL, which helped to address the Liberian dollar shortage in July of 2020.

It was during their visit to CBL that Executive Governor Tarlue briefed the Ambassador and his team on the importance of establishing cash hubs throughout Liberia as a means of bringing the CBL close to the People. During that meeting, Executive Governor Tarlue informed Ambassador McCarthy and his team that many counties are without a commercial bank and that, worse still, several of these counties have mining communities that require cash concentration.

Speaking on the flagging confidence within the banking system, the CBL Executive Governor provided assurances that the printing of a new family of Liberian dollar banknotes will once and for all help to instill public confidence in the banking system.

CBL Executive Governor J. Aloysius Tarlue, Jr. said: "The Cash Hub is good for Bong County and good for accessibility because of the central location of Bong County. It will attract banking institutions to rural areas."

Addressing Liberia's Liquidity Constraints: The Role of the CBL, Challenges, Prospects and the Way Forward

On 14 April 2021, Dr. Musa Dukuly, CBL Deputy Governor for Economic Policy, made a presentation at the Press Union of Liberia, on the reforms that the CBL is currently undertaking to tackle Liberia's liquidity challenges. Below are excerpts of that speech:

Dr. Musa Dukuly,

CBL Deputy Governor for Economic Policy

The Role of CBL

In the context of CBL's obligation to provide adequate liquidity in the economy, the roles of CBL have been expanded on account of the ratification of the amended and restated CBL Act of 2020, Part V, Sections 23 to 27, which empowers the Bank to have the sole authority to issue all Liberian dollar banknotes and coins, subject to Article 34 (d) of the Constitution. The aspects of payment system and development of the insurance sector are significantly captured in the amended Act. The Act has also heightened the monetary policy operational mandate of the Bank.

Apart from the conduct of monetary policy, CBL has several roles, including fiscal agent of government, management of foreign exchange reserve, promotion of balance of payments equilibrium, and financial sector stability, among others. A vital responsibility of the CBL is to perform the role of the lender of last resort to commercial banks.

Over the last three years, CBL has endeavored to increase the number of monetary policy instruments, including the introduction of government securities, the CBL Bills and standing deposit/ credit facilities, purposely to manage liquidity and contain inflationary pressure.

As of December 2020, the Liberian dollar currency in circulation was about L$23.9 billion, while currency outside the banks accounted for about L$22.5 billion. In March, the currency outside banks stood at about L$20.9 billion, declining by 7.1 percent because of policy action by the CBL to rebuild public confidence in the banking system.

Macroeconomic Developments

The stability of Liberia's macroeconomic environment has been affected by several shocks over the years, including Ebola in 2014, commodity price decline around 2014-2017, UNMIL departure in 2017, and, most recently, the health pandemic (COVID-19), a consequence of which the country's real GDP growth is now averaging less than 1.0 percent, double digit inflation looms, current account deficit remains high and over 90 percent of the currency in circulation is outside the banking sector. The uncertainty has translated into serious monetary policy challenges.

Challenges

The evolving economic dynamics require the CBL to be more forward-looking with its liquidity forecast and ensure timely intervention to reduce liquidity risks, but the CBL requires the full operational autonomy of monetary policy management to timely print and inject liquidity consistent with demand. The procedural processes from approval to procurement and delivery to get money into the economy do not favor an independently forward-looking central bank.

Such prolongation may ultimately constrain the financial system more broadly with significant implications for slowing activity in the real economy. The challenges surrounding liquidity, as a result of these shocks, are not only unique to Liberia.

Key among the challenges faced by the CBL are:

i. Limited foreign exchange sources with persistent demand for US dollar to facilitate import payments of essential commodities such as fuels and food.

ii. Low confidence in the banking sector, explained by macroeconomic uncertainty and difficulty of customers to access their deposits.

iii. Limited financial intermediaries, mainly in rural areas, to facilitate business activities, leading to delays for currency to return to the banks.

iv. Highly dollarized economy in a dual currency regime, which poses a challenge to monetary policy forecast and effectiveness.

v. Weak synergies between the CBL policy rate and other interest rates, as well as low level of saving mobilization. Most of the deposits in banks are kept for short term.

vi. Low financial intermediation in critical growth catalysts of the economy such as agriculture and manufacturing subsectors.

vii. High level of non-performing loans.

viii. Limited ability of the CBL to support the increasing number of mobile money subscribers wanting to cash out.

Prospects and the Way Forward

The prospects of CBL monetary policy operations are positive, premised on the granting of relative autonomy to the Bank and expectation of recovery in the economy, induced by efforts to contain the pandemic. CBL is working on several measures to handle the liquidity constraints on a more sustainable basis.

Depoliticization of the CBL. A strategic way forward is to depoliticize the operations of CBL for the healthy operation of monetary policy. The President of the Republic of Liberia committed to the independence of the CBL in his annual message of 2020 and remained resolute to his commitment.

Monetary Policy Instruments. In protecting the value of the Liberian dollar, CBL will continue to utilize its monetary policy instruments to contain inflation and prevent a rapid fall in the value of the Liberian dollar, as well as protecting its value.

To keep money in the banking sector, the use of an interest rate-based policy on CBL monetary policy instrument will continue as a way of encouraging the wider use of the Liberian dollar.

Digital Payment. To further address the lingering liquidity problem on commercial banks, we are collaborating with other agencies of Government to increase the use and acceptability of digital/electronic modes of payments.

Taking CBL Out of Monrovia. We have embarked on the process of taking CBL out of Monrovia through the establishment of financial hubs across the country to ease the challenges on commercial banks to move cash. This will help to reduce the costs of operations and encourage commercial banks to establish branches in most of the counties.

Financial Sector. We are reviewing strategies aimed at strengthening policies to enhance loan recovery and the issuance of secured loans to further reduce the structural liquidity problem. For the medium-term, CBL will endeavor to strengthen the rural community finance institutions (RCFIs) to support lending to smallholder farmers in the agricultural sector.

Printing of New Liberian Dollars Banknotes. CBL has now obtained joint legislative approval to accelerate work, in collaboration with relevant domestic stakeholders and international partners, to ensure a smooth, transparent, and credible process for the printing of L$48.733 billion.

Cultivating Digital Consciousness

- (Excerpts of a Paper by Mr. Jay Gbleh-bo Brown)

There are too many risks and disadvantages within a highly cash-based economy like the Liberian economy. A transition to a digitized economy can significantly reduce the chances for corruption, tax evasion, money laundering, and counterfeiting. Another benefit of financial digitization is the savings that will be made from the reduction on money spent on printing banknotes. The increasing use of cash transactions partly explains the current cash problems, which can significantly be resolved through financial digitization.

There are two hypotheses that can be put forward on why there is a scarcity of Liberian dollar banknotes. The first is what can be called the 'Collective Stance Hypothesis (HO1)" and the other is the "Manipulative Stance Hypothesis (HO2)".

HO1 is caused by the tendency of people to withdraw more cash from their accounts when prices increase. As this happens and people queue up, those in the queue tend to withdraw even more, or all, of their money in the banks out of the unpredictability that there may be money in the banks when they next go to queue up.

In the case of the HO2 hypothesis, some heavily cash-endowed people flood the money market with their huge Liberian dollar holdings, contributing to the depreciation of the local currency, or, alternatively, 'dry up' the existing Liberian dollar banknotes on the money market. For instance, with the use of L$2 billion (about US10 million), the exchange rate and the Liberian dollar availability can be affected in significant ways.

Fortunately, either the collective or manipulative or both scenarios can be prevented by cultivating 'digital consciousness, acceptability and affordability'. For this to be possible, there needs to be awareness about the monumental benefits of a digital revolution in Liberia.

Mr. Jay Gbleh-bo Brown,

Head of CBL 's Financial Sector Development Unit

In addition to the importance of awareness-raising for the success of financial digitization, there is another factor, which is the need to have the financial digitization cycle completed. Using the case of the government employee who receives a direct deposit into his/her account, it should be said that the financial digitization cycle is incomplete until the stores, schools, and landlords that the employee deals with can accept digital payments, without which the employee should reconsider his/her financial relations with them.

A word of caution will be in place however! Cybercriminals abound and they are very sophisticated. This then will require an assessment of Liberia's national cyber capability, which should make it capable of defending against cybercriminals.

About the Author. Mr. Jay Gbleh-bo Brown is a senior financial sector expert and economist and can be contacted at jayzonic2007@yahoo.com.

Money Matters Launched

The maiden edition of Money Matters, a CBL radio program was aired on 7 April 2021 on LBS 99.9 FM, with the aim to inform and educate the public on CBL monetary policy operations. It is intended to fill the information gap about CBL operations, and to drown out the gossip that is so often fueled by ignorance about CBL and its operations.

The maiden edition featured experts who discussed the most topical issue of the day - liquidity and the printing of a new family of Liberian dollar banknotes. They included Mr. Musa Kamara, Senior Technical Advisor to the Executive Governor; Mrs. Miatta Kuteh, Director of Payment Systems; Mr. Jefferson S. N. Kambo, Director of Research, Policy & Planning; and Mrs. Euphemia G. Swen-Monmia, Director for Financial Markets.

Panelists at the maiden Money Matters radio program agreed that there is a seasonal shortage of Liberian dollars in the banking system, caused mainly by Liberian dollar mutilation, inflation, and non-performing loans. Promoting digital payments and the issuance of monetary policy instruments were some of the remedies proffered by the panelists to ease the liquidity pressure, particularly during the festive seasons. It was also said that the printing of additional Liberian dollar banknotes in 2020 was designed to address the July 2020 liquidity problem within the banking system.

The second Money Matters radio program picked up where the first one ended - CBL's currency management activities. Mr. Musa Kamara and Mr. William Jlopleh, Director of CBL's Banking Department, provided insights on CBL's currency management operations.

It was stated that the printing of the LD48.733 billion will, once and for all, solve the seasonal liquidity challenge that Liberia continues to face and will instill confidence in Liberia's banking system.

CBL officials in studio at the maiden edition of Money Matters

The Money Matters Program of 5 May 2021 featured the directors of CBL's Regulation and Supervision, and the Research, Policy and Planning departments, namely: Mr. Jefferson S. N. Kambo and Fonzia Donzo. They focused on the role of CBL as the bankers' bank and its mandate to preserve price stability.

It was stated that the printing of the LD48.733 billion will, once and for all, solve the seasonal liquidity challenge that Liberia continues to face and will instill confidence in Liberia's banking system.

The 26 May 2021 edition featured Mrs. Miatta Kuteh and Mr. Jay Brown of the Payment System Department and Financial Sector Development Unit, respectively. They focused on financial inclusion, what it means and how it contributes to economic growth. That edition also explored financial digitization, with reference to mobile money and how it contributes to financial inclusion.

By popular demand, a subsequent edition of Money Matters, aired on 2 June 2021 focused on what is being done to achieve financial inclusion and the role of digital financial services in achieving financial inclusion.

Money Matters is aired on LBS 99.9 FM on the first and last Wednesdays of each month. It is produced by CBL's Corporate Communications Unit, in collaboration with the Liberia Broadcasting System (LBS).

At Board of Governors' Retreat, CBL Renews Commitment to Rebranding

At a three-day retreat convened in Harbel, Margibi County (March 26 – 28, 2021), the Board of Governors of the CBL renewed its commitment to rebrand the Bank and pursue policy objectives that would restore public trust and confidence in the banking system. The Board said the objective of the Bank can only be achieved when all staff work together as a team in a spirit of cooperation, dedication, and mutual respect. During the retreat, which was chaired by CBL Executive Governor and Chairman of the Board of Governors, Hon. J. Aloysius Tarlue, Jr., the Board adopted the Strategic Plan that would guide the operations of the CBL over the next three years (2021-2023), with specific focus on three pillars – Price and Financial System Stability; Payment System Integration and Digitization of the Economy; and Rebranding and Improving the Image of the CBL. Achieving the objectives, the Board noted, would require collaborative teamwork of both Management and Staff.

Executive Governor Tarlue (middle) flanked by CBL Board members and Deputy Governors Dukuly (left) and Pearson (right)

Presentations focused on the Amended and Restated CBL Act of 2020; the 2021 – 2023 Strategic Plan; an Overview of Risk Based Internal Audit; Corporate Governance; and CBL Operations, with emphasis on the Budget.

Deputy Governors Dukuly and Pearson (middle) flanked by senior staff at retreat

At the end of the retreat, Executive Governor Tarlue lauded members of the Board, senior staff and personnel for their efforts and lauded them to work together assiduously in achieving the objectives for which the policy measures were approved. "Let us make sure that we do not create a document that we will put on the shelve; let us have a document that we can work with. We don't expect to get a hundred-percent but let us make improvement; the Central Bank has a lot of work to do", the Governor noted.

Biometrics to Drive CBL Staff Productivity

Absenteeism has been substantially reduced at CBL, while punctuality is on the rise. Also, the CBL Human Resources Management Department (HRM) can now monitor the movements of all CBL staff, thanks to the installation of a new biometric system that has significantly contributed to the rise in productivity.

Use of the biometric system at CBL began in January 2021 on a trial basis, and by 1 April 2021 the biometric system replaced the attendance system that was previously used, with all staff now required to sign in to work using the system or face a pay cut for not doing so.

The biometric time and attendance system uses employee fingerprints to verify who is in and out of work each day. In addition to tracking attendance, the system also monitors the movement of staff on various floors, thereby determining when, where and at what time an employee was at a particular floor or office. This has been instrumental in minimizing loitering by staff members and ensures staff productivity.

HRM Director Cooper-Harding demonstrating how the biometric system works

An additional feature of the biometric system is that it can be linked to CBL's payroll and accounting systems, so that once staff have been found to be absent or loitering, the information can be forwarded to the payroll officer, who will then institute the appropriate measure.

CBL Human Resource Management (HRM) Director Maway T. Cooper-Harding said: "Having a Biometric Time and Attendance System installed at the CBL has helped us to track time attendance, generate timely and accurate attendance report, eliminate time theft, reduce paperwork, and increase payroll accuracy and productivity.

In addition to improving productivity at CBL, the biometric system saves CBL money, as well as reduce the time spent analyzing attendance records. "This is true because the use of manual attendance systems is too time-consuming and requires full-time monitoring, whereas a biometric attendance system saves employee time, reduces additional staffing costs, while at the same time providing an accurate data for the CBL payroll system, all of which can be effective in increasing productivity", the HRM Director observed.

She said the total expenses incurred annually due to total hours lost through absenteeism can be significant for an organization the size of CBL. That money, Director Cooper-Harding said, could be more productively spent on other corporate activities, including remuneration for employees who do overtime work.

An important feature of the biometric attendance system, the HRM Director added, is that it monitors staff attendance in real time through a server to which all the biometric machines are linked. "Employees are more likely to perform their duties when their attendance improves and when they are found to be at their places of work. Equally, when employees perform their duties, this is more likely to contribute to a rise in CBL's productivity than when they are found to be absent or loitering during working hours, all of which the newly adopted biometric attendance system prevents", she emphasized.

CENTRAL BANK OF LIBERIA

ESTABLISHED 1999