CENTRAL BANK OF LIBERIA

POLICY STATEMENT 2013

I. INTRODUCTION

The Central Bank of Liberia (CBL) in maintaining macroeconomic stability and diversifying the economy, began advancing opportunities for credit for Liberian-owned businesses over the last year with the view to enhancing medium-to-long term affordable credit to various sectors of the economy. The CBL's mortgage and agriculture stimulus initiatives that were launched in 2012 created, for the first time in Liberia, a long-term mortgage program and provided needed financing to rehabilitate the agriculture sector. Moreover, an innovative program was launched in the area of microfinance to help Liberians at the bottom of the financial pyramid: petit traders, market women in both urban and rural areas, and small vendors. These initiatives are contributing towards the Government's goal of broad-based economic growth, with emphasis on improving the living standards of all Liberians. These strategic interventions by the CBL show commitment to long-term development of the Liberian private sector, thereby saying in more concrete terms to potential foreign investors that the country is a welcoming place for their investment. The challenge now is for the business community to turn this public-private partnership into a foundation for accelerating the Government's transformation agenda. This means, first and foremost, taking actions to restructure the economy, moving from being largely a consumer economy to being more oriented towards production. Only concerted action, over time, on the part of both the Government and the domestic private sector will bring about this desired change.

A stable macroeconomic environment will also be important for economic transformation. The monetary policy stance of broad exchange rate stability adopted by the CBL has helped in containing inflation in single digit around an average of 7.0 percent over the last 5 years. However, the continuation of a weak balance of payments position has the potential to put pressure on the exchange rate, with adverse implication for inflation.

II. RECENT ECONOMIC DEVELOPMENTS

The projected growth of the Liberian economy at 7.5 percent in 2013 is expected to be higher than that of sub-Saharan Africa (SSA), which is estimated to be 5.7 percent. This outlook is largely driven by expected improved activity in the mining, agricultural, and services sectors. However, the slow growth of the global economy, which has an adverse impact on external demand for Liberia's primary commodity exports, poses a risk to the growth projection for the Liberian economy. Inflation which averaged 6.9 percent in 2012 is expected to remain largely contained in single digit in 2013, owing mainly to stable prices of food and fuel on the global market, improved domestic food production, and improvements in the conditions of roads and ports.

Macroeconomic Challenges

Economic growth continues to be constrained mainly by poor infrastructure, including the high cost of electricity, which is three times the West African average; low access to credit, due in part to the high level of delinquent borrowers; and weak implementation of public investment projects. It is, therefore, important to sustain the efforts being made to accelerate the implementation of the Government's infrastructure program. The efforts of the CBL aimed at building a more inclusive financial sector should also receive support from other stakeholders, including the Government. Developing the appropriate fiscal space for resources to be used for public sector investment rather than consumption and improving the capacity for budget implementation are challenges to be addressed in the context of maintaining a stable macroeconomic environment. The narrow productive base, with the potential for the enclave sector to once again be the main source of growth, makes it difficult to deal with the high level of unemployment and poverty. The other challenges, especially for monetary policy, are the high dependence on imports, and the low level of value-added exports with attendant pressure on the exchange rate and the need for additional tools for managing liquidity.

III. KEY POLICY DECISIONS: 2012

In 2012, the Board of Governors took the following decisions:

1) Amended the Corporate Governance Regulation, intended to enhance corporate governance practices in the financial system, and to place greater responsibilities on the board of directors of financial institutions in the management of their institutions;
2) Amended the Regulation Concerning Audit of Financial Institutions and Publications of Financial Statements in order to promote adequate disclosure and transparency relative to financial information and also promote market discipline in the operations of commercial banks;
3) Amended the Prudential Regulation for Microfinance Deposit Taking Institutions so as to enhance the licensing requirements, corporate governance standards and conduct of business for microfinance institutions interested in taking deposits from the public;
4) Amended the Regulation for Non-Bank Financial Institutions. This regulation is intended to define the licensing and regulatory framework for non-bank financial institutions, including finance companies, mortgage finance companies and institutions interested in providing credit services only;
5) Amended Guidelines Concerning Management of Foreign Exchange Risk Exposure and Placement of Funds Abroad by Commercial Banks as a means of ensuring adequate foreign exchange liquidity in the banking industry;
6) Issued a Risk-Based Supervision Policy Framework. This policy framework sets out the CBL's risk-based approach to supervision of banking institutions and banking groups under its regulatory and supervisory jurisdiction;
7) Issued the Framework for the Establishment of Rural Community Finance Institutions so as to promote the establishment of rural finance institutions owned and managed by rural community members and also is to promote access to basic financial services; and

8) Commissioned the vetting of the deposit claims of seven failed banks, intended to bring to final closure the issue of the failed banks.

IV. POLICY DIRECTION FOR 2013

MONETARY POLICY

The focus of monetary policy in 2013 and over the medium-term will be on containing inflation by limiting volatility in the exchange rate while building up foreign exchange reserves to ensure adequate reserves coverage of about 3 months of imports, excluding UNMIL service and iron ore related imports. Reserves build-up also helps to support the value of the Liberian dollars that feeds into a stable macroeconomy where doing business is highly profitable. The CBL remains mindful of the need to grow and diversify the economy, which includes empowering Liberian entrepreneurs to play a more active role in the drive towards broad-based economic growth. In this vein, policies of the Bank will support the Government's efforts at job creation and poverty reduction through wealth creation. Also, the introduction of a Treasury bill program and issuance of CBL notes in Liberian dollars, as may be necessary, will be new instruments for liquidity management.

It is important to note the emerging public dialogue regarding the use of a foreign currency as legal tender. The starting point for serious work on this matter must be a political consensus on the way forward and the time frame for bringing the matter to a conclusion. Some of the basic decisions required are legislative and fiscal in nature. That said, the decision to move towards a single currency regime must be one that is carefully calibrated to ensure an orderly transition. As part of the drive towards dedollarization, the CBL will soon commence the reissuance of coins in the economy and later consider the introduction of higher denomination Liberian-dollar banknotes to support both small and large transactions.

V. THE FINANCIAL SYSTEM

The key policy objectives of the CBL relating to financial system reforms include the following:

A. Strengthening the Health of the Banking System: A healthy banking system is critical to economic growth and development. Such a system will lead to increased lending to the private sector, higher employment and protection of depositors' funds; all intended to raise the standard of living of the average Liberian.

(i) The year 2012 saw a significant improvement in the financial performance of the banking industry, with a number of banks recording net profits due largely to steps taken to streamline expenditures and control internal losses arising from fraud. There was also an increase in income from banking services. Notwithstanding this improvement, operating costs associated with poor infrastructure, particularly electricity, and relatively high non-performing loans (NPLs) still pose a serious challenge to the sector.

In light of the infrastructural constraints, the CBL, at the request of the commercial banks, in early January this year amended the Regulation on Banking Hours intended to rationalize banking hours at commercial bank branches as a means of controlling or streamlining costs, particularly running costs of private generators associated with the operations of some branches.

Meanwhile, the CBL will continue to pursue a multifaceted approach to improve the profitability of the banking sector, including supporting loan syndication among banks to finance large-volume transactions for better returns, engaging the fiscal authority to consider financing options involving the commercial banks for key public projects, and the roll-out of the T-bill program which will be an additional source for banks to invest some of their idle resources.

(ii) Addressing the Problem of Delinquent Facilities

Efforts will be stepped up to reduce the NPLs, beginning with the implementation of the CBL's decision to support the publication of the names of chronically delinquent borrowers who failed to take advantage of the dispensation given by the CBL to come to an agreement with individual commercial banks on a debt repayment arrangement. In addition, a directive has been issued prohibiting the banks from providing financial services for or on behalf of such delinquent borrowers, their shareholders and related companies, including opening and/or maintaining accounts, and making payments and/or transfers, until the issue of their delinquent status is resolved. Going forward, this directive will also apply to all borrowers that fall in such delinquent category. In addition, banks are required to exercise vigilance in ensuring that individuals or new companies fronting for such delinquent borrowers are not allowed to circumvent this directive. The CBL will work with the Liberia Bankers Association (LBA) to consider other options for handling bad assets in the banking system.

(iii) Strengthening the Credit Environment

In keeping with its goal to promote the development of the private sector, the CBL is taking further steps to improve the credit environment through the establishment of a collateral registry and a more robust credit reference system. A properly functioning and efficient credit reference system and collateral registry can play an important role in increasing access to credit, thereby creating the opportunity for banks to increase profits at a reasonable cost to the borrowers.

In this regard, the CBL has published the Collateral Registry Regulations intended to guide the operations and management of the registry, and support the work of the Commercial Court in expediting foreclosure and realization of collaterals. The Bank is working with the International Finance Corporation (IFC) to procure the IT infrastructure for the registry, and intends to have the registry operational by the end of the year. As an interim measure, the CBL will put in place a mechanism to begin the registration of collaterals pending the full operationalization of the web-based automated system.

The existing CBL Credit Reference System has been useful in monitoring delinquent borrowers and preventing their movement from one bank to another. The Bank will continue to explore the possibility of establishing a more robust credit reference system, while taking steps to improve the existing system.

A. Strengthening the Regulatory and Supervisory Framework

(i) Review of the existing regulatory and supervisory framework

In the wake of the recent past financial crisis, the Basel Committee for Banking Supervision took several steps to enhance and strengthen the Basel Core Principles for Effective Banking Supervision. The CBL will undertake a self-assessment of its compliance with the new BCP standards. The intention is to align its frameworks and practices with international standards, taking into consideration the specific circumstances of the Liberian and regional experiences.

(ii) Step toward improving the Bank's Supervisory Processes

During 2012, the CBL began the process of developing a stress testing framework as part of its efforts to strengthen the risk-based supervision framework, an additional tool for assessing the health of the banking system relative to various shocks in the financial system and the economy and the impact of such shocks on the profitability and capital of the banking system. Under the framework, potential shocks from the key risks in the banking system, which include credit, liquidity, interest rate and foreign exchange rate risks, have been taken into account. The framework will enable the CBL to be proactive in responding to potential systemic problem(s) in the banking sector on a timely basis.

(iii) Strengthening Internal Risk Management System and Corporate Governance

Effective corporate governance and risk management systems are important elements for promoting a safe and sound financial system. While there has been remarkable improvement in the operations of the banking industry over the years, recent assessment conducted by the CBL highlighted the need for further improvement in risk management and corporate governance practices, particularly effective board oversight. In 2013, the CBL will adopt a more stringent assessment of the performance of board of directors of each bank as well as individual board members. Board of Directors of institutions that do not measure up to their fiduciary and regulatory responsibilities will be held accountable, in keeping with the Corporate Governance Regulation.

Leveraging Technology to Expand Financial Services to Low Income and Underserved Population

Like in many countries, mobile money services can have a significant impact on promoting access to financial services in Liberia, particularly in the leeward counties. It is for this reason that the CBL has continued to take the necessary steps to promote wider use of mobile money services in the country. As at end-December, 2012, 13 of the 15 counties were reported to have access to mobile money services, with over 100 thousand transactions. This is an encouraging development, which the CBL believes need to be harnessed.

Considering the presence of various non-bank financial institutions, such as microfinance institutions, Village Savings & Loan Associations (VSLAs), Credit Unions, etc, in the rural part of the country, the CBL has taken a decision to extend the agent network of mobile money operations to include these institutions. The Bank will strengthen the capacity of these institutions to play an active role in providing mobile money services, particularly in places without formal financial services. Also, the Bank will work with other stakeholders to explore the possibility of wider use of mobile money services in places without banking services.

Expanding Access to Credit for Micro- and Small-Medium Enterprises (MSMEs)

The CBL will continue its initiatives of advancing financial inclusion through the expansion of access to credit for MSMEs throughout Liberia, a significant step towards restructuring the economy and vital to the goal of economic transformation as outlined in the country's Agenda for Transformation. The CBL, through its Loan Extension and Availability Facility (LEAF) will continue to ensure that community credit unions, VSLAs and the Liberia Marketing Association have access to credit on reasonable terms. The CBL will work with interested commercial banks on the establishment of one rural finance institution in each county. These institutions will be owned and managed by the community, with the intention of providing a broad range of banking services. The current SME Credit Stimulus Initiative for members of the Liberia Business Association (LIBA) is intended to enhance access to credit to Liberian-owned MSMEs. The CBL will explore options for increasing access to credit for procurement and short-term contract financing.

Enhancing Framework for Consumer Protection and Market Conduct

During the course of 2012, the CBL received several complaints from customers of banks, mainly relating to alleged lack of fairness and transparency in the banks' transactions with the public. The CBL made efforts to follow up on the resolution of these disputes. Meanwhile, steps are being taken to strengthen the Consumer Protection Unit at the CBL and develop a framework that will address the relevant issues of consumer protection and general market practices of financial institutions. The goal is to promote greater consumer confidence in the financial system.

Licensing Policy for Banks and Specialized Non-bank Financial Institutions

The CBL's licensing policy with regard to bank and specialized non-bank financial institutions will continue to be guided by specific needs of the financial sector and the economy, while taking into account the need to prevent market saturation given the current stage of development of the banking sector.

Insurance Sector Reform

In keeping with the insurance sector reform road map issued by the CBL in 2011, an assessment of the individual insurance companies operating in the country has been concluded. The findings of the assessment showed that 15 of the 24 companies have made significant strides in complying with the requirements of the road map, 9 of which are majority-owned by Liberians. In all, 13 of the 24 companies are majority-owned by Liberians.

With the level of progress indicated above, the CBL has taken the following decisions: (i) to reduce the current licensing fee from US$10,000 to US$5,000.00; (ii) to begin the licensing process effective April 15, 2013; and (iii) to publish an Official Gazette as of June 1, 2013, comprising the list of licensed insurance companies operating in Liberia.

Companies that are not in compliance with the requirements have been restricted from underwriting new businesses and given a period of 3 months from March 5, 2013 to June 4, 2013 to ensure full compliance or be subjected to supervisory sanctions. The CBL is also closely monitoring the companies in this category to ensure that they comply fully with this directive.

The CBL is expediting work on the draft Insurance Act, and the relevant regulations and guidelines to further strengthen the legal, regulatory and supervisory frameworks for the insurance sector. It is expected that the draft Insurance Act will be finalized and submitted to the relevant Government Authority within the second quarter of 2013.

Later in 2013, the CBL will issue the new capital requirements for insurance companies, which will be implemented in stages, beginning January 1, 2014, following consultation with the industry. However, a strong and vibrant insurance sector should also have the appropriate managerial capability and corporate governance structure. The industry has been advised that companies that do not measure up to standards will have to merge with existing companies or close down their operations.

VI CONCLUSION

In conclusion, it is important to note that the CBL remains committed to playing its role to help develop the economy. Ongoing plans by the CBL to encourage syndicated loans for banks to finance large infrastructure projects, the recent launching of the T-bills program will also help develop the money market, consideration by the CBL to provide additional resources for targeted lending, and the CBL’s goal of maintaining a stable exchange rate and low inflation would help improve infrastructure, attract foreign investment, and create jobs. This amounts to an economic strategy that contributes towards broad-based economic growth and development, benefitting all Liberians.