

CBL EXECUTIVE GOVERNOR MILTON A. WEEKS
PRESENTATION ON THE STATE OF THE ECONOMY

21 December 2017

The Economy

The year 2017 has witnessed a semblance of a rebound of the economy from weak macroeconomic performance experienced in 2016, but pressure on the exchange rate and inflation has remained persistent.

The economy is projected to record a real GDP growth of 2.5 percent, up from a contraction of 1.6 percent reported in 2016. The projected growth is mainly driven by the mining and panning sector, through gold production. The sector is expected to register a growth of 28.8 percent, from negative 33.0 percent recorded in 2016.

The downside risk to growth in 2017 and over the medium term include: the continuous decline in the prices of the country's primary commodity exports (rubber and iron ore), especially when compared with 2013 (pre-Ebola) levels on the global market; the inaccessibility of some farm-to-market roads, and the infrastructural challenges such as, lack of storage facilities, and limited energy supply – that hinders the level of domestic food production and local manufacturing; and uncertainties surrounding the current elections period.

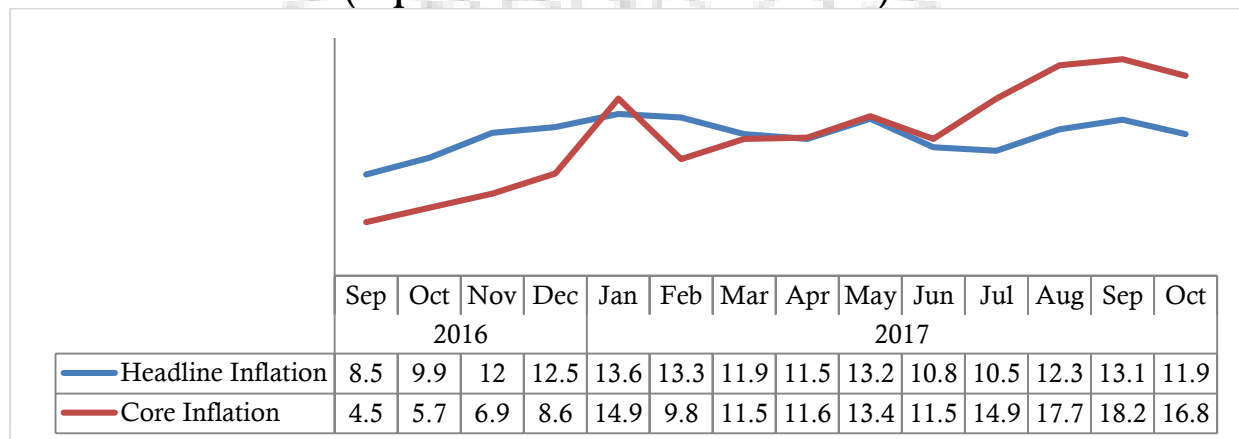
Current State of Inflation

Headline inflation reported at end-October 2017 was 11.9 percent, 2.0 percentage points higher than the 9.9 percent recorded during the same period in 2016. The growth in inflation was mainly driven by the depreciation of the Liberian dollar and the increase in the prices of petroleum products on the market.

Average year-on-year inflation at end-December, 2017 is estimated at 12.4 percent, while medium term inflation is projected in single digit. Key prospects

to attaining low levels of inflation over the medium term are hinged on the *stability of the Liberian dollar, the level of domestic food production, improved access to markets, the behaviour of international oil and food prices, Government tax policies on key commodities, and greater certainty in the political climate* during and after elections in order to boost investors' confidence.

**Chart 1: General and Core Inflations
(September 2016 - October 2017)**



Source: Central Bank of Liberia

Developments in the Exchange Rate

Given the nature of the economy, the demand for foreign exchange to facilitate imports remains a major and daunting source of pressure on the exchange rate as the share of imports vis-à-vis exports in the context of trade remains significantly high.

As at end-November 2017, the average exchange rate between the Liberian and US dollars depreciated by 24.0 percent to L\$123.57/US\$1.00, from L\$99.58/US\$1.00 recorded the same period a year ago. As I have mentioned, this level of depreciation was largely triggered by high demand for foreign exchange to service import payments and other ensuing factors including increased Liberian dollar expenditure by GoL and reduction in GoL US dollar expenditure as a result of low US dollar revenue receipts, among others.

For the first nine months in the year, relative to the same period in 2016, GoL Liberian dollar expenditure rose by 21.9 percent while its US dollar expenditure declined by 27.3 percent.

In the wake of these challenges, the CBL prudently stepped up its FX interventions through the Bank's regular FX auctions in order to mop up excess Liberian-dollar liquidity mainly from outside banks and to help smooth out volatility in the exchange rate. As at end-November 2017, the CBL had intervened in the FX market with US\$49.6 million compared with US\$24.5 million intervention during the same period in 2016.

This level of intervention is despite the CBL not being able to buy foreign exchange from the GOL as had been agreed and executed in previous years. Up to the end of 2016, the agreement the CBL had with the GOL was for the GOL to sell to the CBL on average US\$6.9 million per month. Under this arrangement, the CBL was to purchase from GOL on average over US\$83 million per annum. These purchases were primarily used to support the CBL's FX interventions in the market as well as to build up Liberia's foreign currency reserves offshore. In 2017, the GOL has only been able to sell US\$3.5 million the entire year to date due to the reduction in the foreign exchange receipts of the government. The CBL has only been able to achieve the level of FX intervention in the market by applying the 25% exchange for local currency of the personal inward remittances through the major money transfer operators. In the absence of this, the exchange rate crisis could have been much greater.

Developments in the External Sector

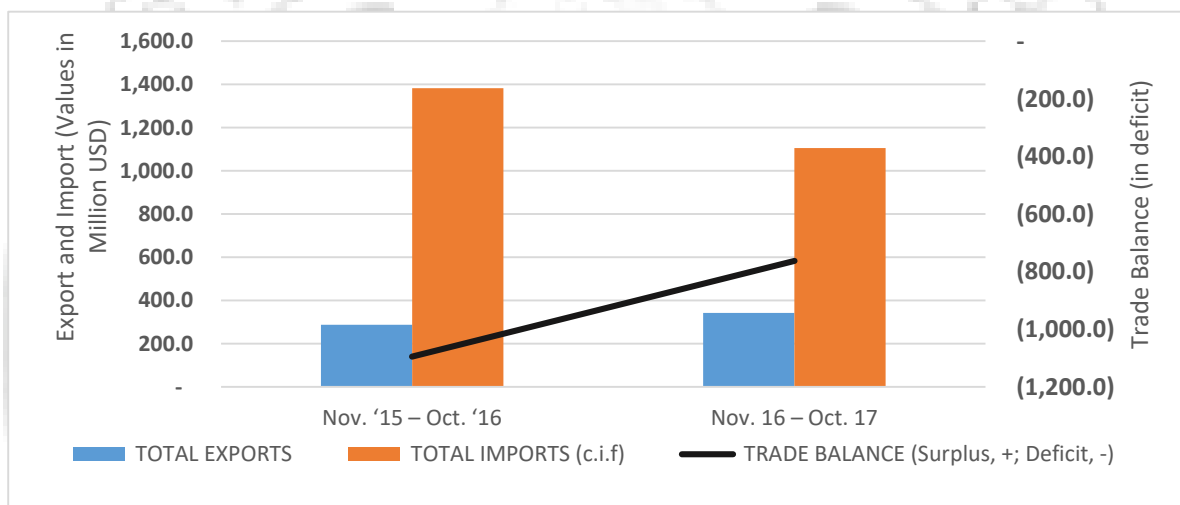
❖ Merchandise Trade

A year-on-year comparative analysis shows that merchandise export receipts for the 12-month period ended-October, 2017 (i.e. November, 2016 – October, 2017) increased by 19.3 percent to US\$343.1 million, from US\$287.5 million recorded during the corresponding period (November, 2015– October, 2016),

mainly explained by 56.7 percent increase in minerals export receipts (especially gold).

On the other hand, import (c.i.f¹) payments dipped during the period. Total merchandise import payments (c.i.f) during the first 10 months of 2017 fell by 20.0 percent to US\$1,105.89 million, from US\$1,382.08 million recorded during the corresponding period a year ago. (See Table 1)

Chart 2: Liberia’s Trade Performance
November, 2015 - October, 2016 & November, 2016 - October, 2017
(In Millions, US\$)



Source: Central Bank of Liberia

❖ Global Commodity Price Review

Comparative analysis of key commodities’ export and import prices (Iron ore, Rubber, Crude Oil and Rice) from October 2013 compared with October 2017 show that Iron ore and rubber prices have plummeted by 53.5% and 35.2%, respectively. Similar crude oil and rice declined by 47.9% and 10.3%, respectively. (See Table below)

¹ Cost, insurance & freight.

Table: Average Global Commodity Prices of Liberia’s Major Exports and Imports

Commodity	Categories	Unit	Oct-13	Oct-17
Iron Ore	Export	US\$/MT	133	62
Rubber*	Commodities	US\$/MT	2,530	1,640
Crude Oil	Import	US\$/barrel	105	55
Rice	Commodities	US\$/MT	439	394

Source: CBL staff Analysis (based on data accessed from www.indexmundi.com)

❖ Trend of Personal Remittances

For the 12-month period ended-October, 2017 (i.e. November, 2016 – October, 2017) as compared with the period ended October 2016 (i.e. November, 2015-October, 2016) the trend of personal remittances suggests a 70.9 percent decline in net inward personal remittances largely driven by substantial increase in outward personal remittances during the current period. (See Table below).

Table: Trend of Personal Remittances (In millions, US\$ unless otherwise indicated)

	Nov-15 – Oct- 16	Nov-16 – Oct- 17	Y-o-Y % Change	Oct-16	Oct-17
Inward Personal Remittance	588.46	545.78	-7.3	71.26	42.1
Outward Personal Remittance	257.04	449.41	74.8	15.11	42.06
Net Inward Personal Remittance	331.42	96.37	-70.92	56.15	-0.21

Source: Central Bank of Liberia

Conclusion and Recommendations

Despite challenges, the economy is on the path of a rebound; however, exchange rate and inflationary pressures persist in the wake of elections uncertainties, continuous high demand for FX to facilitate imports, infrastructural challenges, and other external factors, especially continued low trending in global commodity prices.

Hence, in its efforts to maintain price stability through broad exchange rate stability,

- ❖ The CBL will continue its periodic intervention in the FX market on a regular basis to enhance market predictability and help to meet the FX demand of importers and smaller Liberian businesses, despite the meager resources the Bank has at its disposal;
- ❖ The CBL will continue to work with the fiscal authorities through the Liquidity Working Group and other such fora to collaboratively address the liquidity challenges by identifying intervention strategies for positive impact;
- ❖ The CBL will continue its issuance of Money Market instruments such as Treasury bills on behalf of the government and its own CBL Notes in order to mop-up excess Liberian dollar liquidity from the economy to help smooth out volatility in the exchange rate;
- ❖ The CBL will continue its enforcement exercises to weed out illegal FX operators from the market;
- ❖ The CBL will continue its ongoing close collaboration with the security authorities to identify and interdict those criminal elements involved in illegal financial and economic activities that are detrimental to the country's economy.

The CBL also intends to recommend to the National Legislature the following:

- ❖ That the National Legislature, during the budget formulation process, should seek to ensure that a substantial portion (to be determined based on the size of the budget), of the budget be allocated to the productive sector of the economy, especially entrepreneurs or companies engaging into value added production. If this is done, it will help to boost exports receipts and reduce import payments, thus, improving the Country's trade balance. This, if sustained will lead to sustainable job creation and poverty reduction; and

- ❖ That legislation be considered that companies that are exporting raw materials (especially Liberia's primary export commodities) be required to add value to their productions prior to export.



ANNEXURE

Table 1: Liberia's Trade Performance (In Million, US\$)

	Nov. '15 – Oct. '16	Nov. 16 – Oct. 17	Sep. – Oct 2016	Sep. – Oct. 2017
TOTAL EXPORTS	287.5	343.1	53	61.5
Iron Ore	68.5	47.6	6.6	15.75
Rubber	58.8	60.4	9.5	12.5
Minerals*	129.3	202.6	30.6	27.24
Goods Procured in Ports**	11.3	12.7	3	3.5
Other Goods Exports	19.6	19.9	3.3	2.5
TOTAL IMPORTS (c.i.f)	1,382.10	1,105.90	204.2	175.6
Food-Related Imports	270.5	277.3	64.8	51.9
o/w Rice	85.9	131.7	37.8	13.4
Mineral, Fuel related Imports	385.7	261.2	44.4	21.5
o/w Petroleum Products	335.8	230.9	41.5	19.5
Machinery & Transport Equipment	356.1	238.3	41.1	46.5
Other Goods Imports	369.8	329.1	53.9	77.1
Trade Balance (Surplus, +; Deficit, -)	-1,094.60	-762.8	-151.2	-114.1

Source: Central Bank of Liberia

*Include Diamond & Gold; **Goods Procured in Ports by Carriers

Chart 3: Crude Oil Price & Annual Price Change (%)

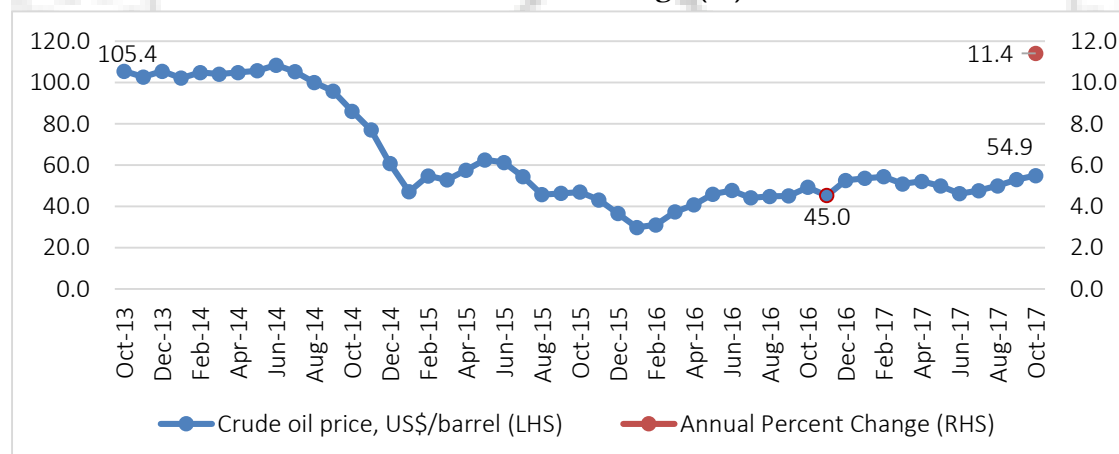


Chart 4: Rubber Price & Annual Price Change (%)

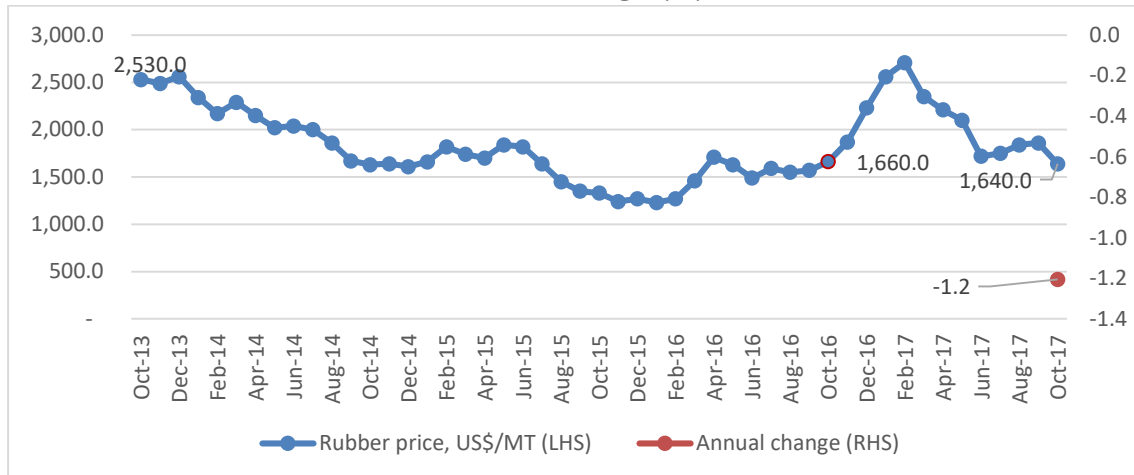


Chart 5: Iron Ore Price & Annual Price Change (%)

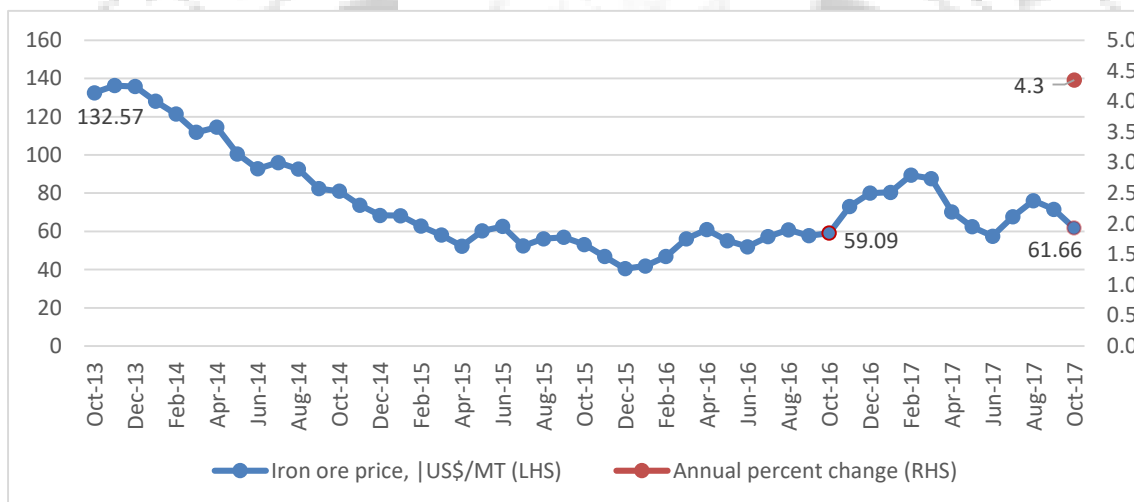
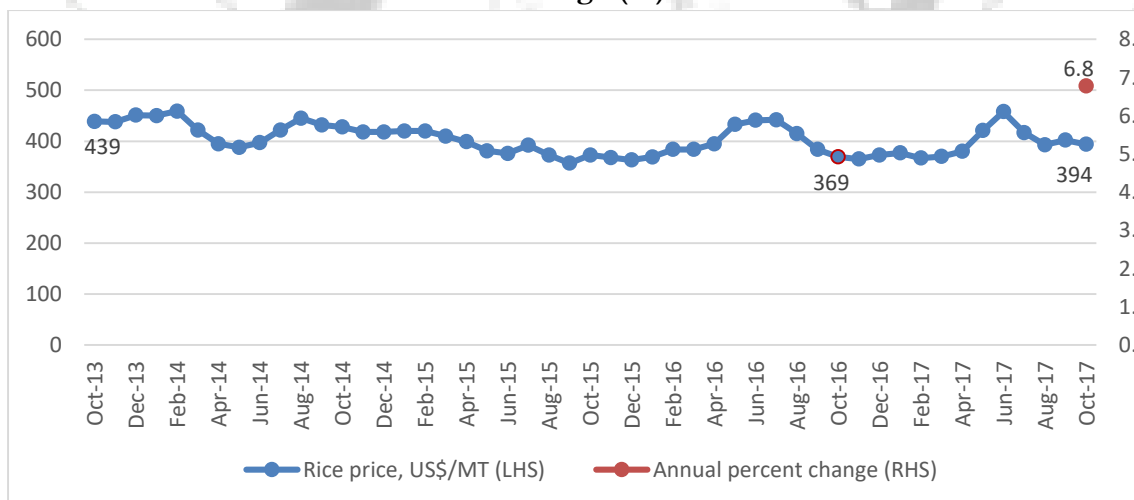


Chart 3: Rice Price & Annual Price Change (%)



Source: CBL staff Analysis (based on data accessed from www.indexmundi.com)