Monetary Policy Decisions of the Board of Governors

Global Macroeconomic Developments

- Prior to the Coronavirus (COVID-19) outbreak, global activity remained soft, but the manufacturing and services subsectors had begun improving. Financial conditions had also strengthened following moves by several central banks to increase monetary policy accommodation. With these developments, global growth was projected to strengthen to 3.4 percent in 2020, from 2.9 percent recorded for 2019.

- However, with the outbreak of the COVID-19, which began imposing havoc in late December 2019, firstly in China and then to the rest of the world, the dynamics of growth prospects have been drastically revised. The output loss of about US$9.0 trillion triggered by the pandemic and related containment measures, far exceeds the losses incurred during the global financial crisis. Risk aversion has increased in financial markets, commodity prices (mainly oil) have dropped, and business and consumer confidence have reversed, resulting to a downward revision of global growth to negative 3.0 percent for 2020.

Policy rates in advanced economies continue to decline, initially due to uncertainty over US-China trade war, and later as a result of the COVID-19. The United States (US) and United Kingdom (UK) interest rates at end March 2020 were 0.10 percent each, while that of the European Union (EU) was negative 0.50 percent. Most emerging markets interest rates also remained stable or eased at the end of Q1 2020. China policy rate remained at 4.05 percent just similar to the last quarter, while Brazil eased its policy rate from 4.25 percent to 3.75 percent.

Domestic Macroeconomic Developments

- Real gross domestic product (RGDP) contracted by 2.5 percent in 2019 on account of weak activity emanating from the non-mining subsectors of the economy, mainly services and manufacturing. With the already weak performance coming into 2020, activity is expected to be further dampened by the COVID-19 pandemic, weighing down on the services and manufacturing sub-sectors. The
weak performance of the economy was further shown by deterioration of the output gap to negative 5.0 percent from negative 4.3 percent in Q3 2019.

- Net inward worker remittance continued its rise in Q1 2020 consistent with the previous quarter. On account of the large slowdown in outward remittances, net inflows of remittance increased to US$43.4 million in Q1 from US$27.5 million recorded in Q4 2019. The estimated fall in outward remittances significantly helped to ease the pressure in the foreign exchange market as demand for FX was somehow lower. Albeit, this level of remittance inflow is expected to face severe downside risk due to the COVID-19 outbreak. Relatives abroad, mainly in the United States, Europe, Asia, among other countries, are being affected by the virus through lockdown and temporary unemployment.

- The Liberian dollar nominal exchange rate on at end March 2020 depreciated against the US dollar by 2.2 percent in Q1 2020 from LS$193.93/US$1.00 in Q4 2019. However, the period average nominal exchange rate appreciated by about 1 percent to LS$197.83/US$1.00 compared with the previous quarter period average of LS$199.78/US$1.00.

- The banking sector accounted for over 85.0 percent of the financial sector’s balance sheet size for Q1 2020. Most balance sheet items of the sector slightly rose compared to the previous quarter. Total loans & advances, assets, deposits and capital marginally expanded compared to Q4 of 2019, largely explained by the slight depreciation of the Liberian dollar. The industry Capital Adequacy Ratio (CAR) reported was 27.4 percent (2.0 and 17.4 percentage points above the CAR recorded for the previous quarter and the benchmark limit of 10.0 percent). Non-performing loans (NPLs) accounted for 19.7 percent (or LS$16.89 billion) of the total loans and rose by 2.3 percentage points relative to Q4 2019.

- During the quarter, the Liberian dollar component of credit to private sector rose by 3.2 percent to LS$74.8 billion, from the LS$72.5 billion recorded in Q4 of 2019, while United States dollar credits fell by 6.3 percent in Q1 2020 to US$359.48 million, from US$383.64 in Q4 2019. In real term, total credit to the private sector during Q1 fell by 5.4 percent. The decline in private sector credit was reflective of precautionary measures by banks on account of possible rise in nonperforming loans arising from slowdown in economic activity in the service sector.

- Annualized inflation for the quarter ended March 2020 declined to 23.7 percent, from the 25.8 percent recorded in the last quarter of 2019 due to weak demand in the economy induced by the
persistent liquidity squeeze and the CBL tight monetary policy stance. The end of period inflation was 21.7 percent.

Board’s Decisions:

Having considered global and domestic economic developments in the first quarter of 2020 largely taking into COVID-19, and the inflation projection for Q2 2020, the Board finds it prudent to maintain a tight monetary policy stance, but at a lower rate, while continuing to monitor macroeconomic and market conditions within the economy.

1. The Board hereby reduces the monetary policy rate by 500 basis points to 25.0 percent in line with the inflation projection for Q2, 2020. To this end, the CBL will seek to:
   a. support increased financial intermediation by banks;
   b. deepen sensitization for more public participation in the financial instruments, including CBL bills;
   c. maintain a positive rate of return on investment in the financial instruments and strengthen the store of value of holding Liberian dollars; and
   d. sustain monetary policy effort to bring inflation down being mindful of supporting the recovery of the economy.

The Board of Governors also decided to:

1. Continue the issuance of shorter tenor instruments (2 weeks, 1 and 3 months) at the adjusted policy rate;
2. Maintain the suspension of the Remittance Split Policy;
3. Continue the awareness campaign on wider use of electronic payments, including mobile money; and
4. Support Government’s stimulus initiative for businesses, including small and medium businesses, for speedy recovery of the economy.

Signed:  
J. Aloysius Tarlue, Jr.  
Executive Governor