CENTRAL BANK OF LIBERIA
COMMUNIQUE NO. 7

May 21, 2021

Monetary Policy Decisions by the Board of Governors

The Monetary Policy Committee (MPC) of the Central Bank of Liberia (CBL) had its second meeting for the year 2021 on the 19th & 20th of May. The meeting highlighted key global and domestic economic developments in quarter one of 2021, considering the recovery in global output, inflation, and commodity prices. It also reviewed the expected growth in the domestic economy, the risks associated with the growth projection and the inflation forecast of 11.0 percent +/-2 percentage points for quarter two of 2021.

Global Macroeconomic Developments

1. The estimated improvement in the global economy contracted to 3.3 percent in 2020 compared to a projected growth of 6.0 percent for 2021 as forecast by the International Monetary Fund (IMF) World Economic Outlook (WEO) in its April 2021 edition. The growth projection is reflective of higher fiscal support in a few large economies and the anticipated effectiveness of the vaccine to contain the pandemic in the second half of 2020, and also the projected recovery in both emerging and developing market economies, especially tourism and commodity dependent economies on account of easing of travel restrictions and increases in global commodity prices.

2. The Committee noted the favorable developments in global commodity prices during the first quarter of 2021, including agricultural commodities (for example palm oil, cocoa bean, rubber, and rice) and non-agricultural commodities (for example, iron ore, crude oil, precious minerals, excluding gold).

3. Global inflation is projected to rise in 2021 to 3.5 percent, slightly above the 3.2 percent recorded in 2020 on account of expected rise in economic activity and the gradual improvement in commodity prices, especially oil. Inflation in advanced economies is projected to remain below monetary targets, forecast at 1.6 percent,

while in sub-Saharan Africa, inflation is projected to moderate to 9.8 percent, 1.0 percentage point below the 2020 average.

4. Global financing conditions remain stable due to accommodative monetary policy environment as evidenced by relative stability in the policy rates in selected advanced economies, including the United States (US), the United Kingdom (UK) and European Union (EU). This trend is expected to continue in the medium-term as the global recovery picks up. In the West African Monetary Zone (WAMZ), except for Sierra Leone, which lowered its policy rate, all other WAMZ countries maintained their policy rates in Q1 of 2021 relative to Q4 2020.

Domestic Macroeconomic Developments

5. Real GDP in 2021 is expected to rebound and record a growth rate of 3.6 percent, from negative 3.0 percent recorded in 2020. The projected improvement in RGDP is expected to emanate from growths in all sectors of the economy, including the agriculture & fisheries (3.4 percent), forestry (2.0 percent), mining & panning (4.6 percent- mainly through gold production), manufacturing (3.3 percent) and services (3.8 percent).

6. However, the downside risk to this growth outlook include slow containment of the pandemic, especially in the economies of major trading partners and slow recovery in the prices of the country's major export commodities.

7. The average inflation for quarter one of 2021 moderated to 11.1 percent, from 12.5 percent recorded in quarter four of 2020, largely due to the broad stability of the Liberian dollar, favorable inflows of remittances and the monetary policy stance of the CBL. Inflation forecast for quarter two is projected to moderate to 11.0 percent with a bandwidth of +/- 2 percentage points.

8. With respect to external sector developments, the deficit in the trade balance improved significantly to 1.7 percent of GDP from a deficit of 4.0 percent of GDP recorded in the previous quarter, reflecting the rise in export receipts by 33.0 percent during the quarter.

9. Worker remittances (net) rose to US$67.6 million in quarter one of 2021, from US$65.4 million recorded during the previous quarter, largely due to the relative improvement of the financial conditions in major remitting countries.

10. During the period under review, the Liberian dollar on average appreciated by 0.58 percent to L$171.53/US$1.00 relative to L$172.52/US$1.00 in the last quarter of 2020, while the end-of-period exchange rate showed a marginal depreciation of the Liberian dollar by 2.80 percent in December 2020. The development in the exchange rate was significantly driven by shortages of Liberian dollar (LD) banknotes in late December 2020 and exchange rate appreciation, accentuated by rising remittances and donor aid inflows.

11. The banking sector remained generally strong and viable. The Capital Adequacy Ratio (CAR) was 29.3 percent (19.3% above the minimum regulatory requirement), while the liquidity ratio was 47.6 percent (32.6 percentage points above the minimum regulatory requirement) . However, the 5.7 percentage points increase in non-performing loans (NPLs) to 26.9 percent poses a significant financial stability risk.

12. On the performance of monetary aggregates, the 6.5 percent broad money supply (M2) grew by 6.5 percent mainly on account of 11.3 percent expansion in narrow money (M1), while currency in circulation (CIC) declined by 4.5 percent mainly induced by demand for CBL securities. Consistent with trend, currency outside banks (COB) is expected to increase towards the July festive season with potential implication for inflation and exchange rate.

13. In the financial markets, there were no lending and repurchasing transactions. However, changes in swap transactions increased to 34 transactions from 4, with a total amount of US$194.0 million, from US$5.6 million in quarter four of 2020. Despite the non-issuance of T-bills by Government of Liberia (GoL) in quarter one of 2021, coupon payments of L$278.6 million was made by the GOL on the consolidated outstanding T-bills.

14. There was improvement in CBL bills subscriptions by 7.5 percent to L$10.9 billion from L$10.1 billion at end of the fourth quarter of 2020. Subscriptions by commercial banks and retail investors grew by 10.4 percent and 17.5 percent, respectively.

Board of Governors' Decisions

The Board of Governors expressed concerned about the rising level of Non-Performing Loans and the high level of Currency Outside Bank. The Board was also concerned about the inflation projection of 11.0 percent +/- 2 percentage points for the second quarter of 2021, and the expectation of rise in consumer spending, which has implication for inflationary pressure.

Following its deliberation, the Board decided to maintain the current tight policy stance, further strengthen liquidity management, moderate liquidity risk and sustain the downward inflation trajectory. In line with these policy objectives, the Board took the following decisions:

1. Maintain the current Monetary Policy Rate at 25% with an upper band of +500 basis point for standing credit facility for the third quarter of 2021;

2. Maintain the reserve requirement ratio at 25 percent for Liberian Dollar and 10 percent for United States Dollar for the third quarter of 2021;

3. Facilitate the reduction in NPLs through vigorous policies and strategies; and

4. Implement strategies aimed at addressing some of the structural constraints to support the achievement of price stability in both the short and medium-term.

Signed: ______________________

J. Aloysius Tarlue, Jr.
Executive Governor