CENTRAL BANK OF LIBERIA
COMMUNIQUE NO. 16
October 31, 2023
For the Monetary Policy Committee Meeting held by the Board of Governors on Wednesday, October 25, 2023

The Board of Governors of the Central Bank of Liberia held its third Monetary Policy Committee (MPC) meeting of 2023 on October 25th. The Board, representing the MPC, evaluated the domestic economy and the implications of global economic developments on the Liberian economy. The Board's evaluation and assessment of the economy was based on the analyses and recommendations by the Monetary Policy Advisory Committee (MPAC) which informed the monetary policy decisions for the third quarter to guide economic activity in the fourth quarter of 2023.

Global Macroeconomic Developments

The Board noted that developments in the global economy are expected to be impacted by the Russia-Ukraine conflict, developments in China, climate change, and global consumer prices. Global growth is projected to decline slightly by 0.4 percentage point, from 3.4 percent in 2022, down to 3.0 percent in 2023. The Board observed that the rise in policy interest rates by monetary authorities in most advanced and emerging markets economies to contain inflationary pressures, together with supervisory and regulatory strengthening to address bank-specific risks, have further constrained the already fragile global economic condition and elicited new financial stability concerns. However, the Board welcomed the resulting projected moderation in global inflation to 7.0 percent in 2023, from 8.7 percent in 2022.

In response to global inflation and uncertainty, the Board also observed that most of the ECOWAS countries, including Nigeria, The Gambia, and the Central Bank of West African States (BCEAO) increased their policy rates.

The Board noted mixed movements in commodity prices during the quarter, with an increase in the global price of crude oil, while the prices of gold and iron ore fell compared to the previous quarter. In the agricultural commodity category, the Board was specifically concerned about the adverse effect on the trade dynamics of the country with the fall in the global prices of selective agricultural commodities (rubber, palm oil and round logs) and a rise in the price of rice.

Domestic Macroeconomic Developments

Based on the third quarter assessment, the Board observed that the cumulative growth for the three quarters (Q1 to Q3) was estimated at 4.4 percent. This development was mainly driven by activity in the secondary sector, through rise in cement and beverages, and the tertiary sector, through expansion in electricity coverage and government related services. However, the primary sector is projected to moderate, mainly on account of expected slowdown in mining and panning. In light of these developments, the Board was optimistic about the prospect of attaining the revised real gross domestic product (RGDP) growth projection of 4.6 percent for 2023.

The Board noted the moderation in the inflation rate for quarter three. Noting that, despite the challenging global environment, inflation was estimated to moderate by 0.4 percentage point to 10.9 percent in quarter three of 2023 from the 11.3 percent average rate recorded in the previous quarter. This development, as noted by the Board, was on account of prudent liquidity management by the CBL, supported by prudent fiscal management, despite the risk of pass-through effect of global commodity prices, especially fuel and food, on the domestic economy.

The Banking Sector

The Board noted that the banking sector remained capitalized and liquid during quarter three. Total loans and advances, total assets (gross), total deposits and total capital in the banking system increased during the quarter, despite the increase in the values of these aggregates due to exchange rate movement. However, the Board was concerned about the high level and trend of credit concentration mainly in five subsectors (trade, personal, services, construction, and other subsectors grouped under "others") compared to the manufacturing and agricultural subsectors, which owe strong potential for the growth and development of the Liberian economy.

The Board also noted the persistence of high non-performing loans (NPLs) in the banking system. The ratio of NPLs for the quarter under review was 16.7 percent, representing 0.62 percentage point increase from the previous quarter and 6.7 percentage points above the minimum regulatory threshold of 10.0 percent.

Monetary Aggregates and Financial Markets Developments

The third quarter assessment showed that broad money supply (M2) grew by 8.6 percent in quarter three mainly due to 7.5 percent and 11.0 percent growths in narrow money (M1) and quasi money, respectively. The Board was concerned about these increases in monetary aggregates and their relationship to the growth in currency in circulation (CIC), which was 12.0 percent for the quarter under review underpinned by 14.0 percent rise in currency outside banks (COB) and a contraction by 8.9 percent in currency in banks (CIB).

External Sector and Exchange Rate Developments

The Board observed the widening of the trade deficit during the quarter to 2.7 percent of GDP mainly on account of 14.3 percent decrease in merchandise exports compared to an 8.3 percent decline in imports payments. Gross International Reserves (GIR) remained flat at 3.1 months of imports cover compared to the previous quarter, which was slightly above the ECOWAS threshold of 3.0 months.

At the same time, net remittance inflows to the country during quarter three declined by 6.8 percent due to lower inflows. Remittance inflows through banks declined by 15.7 percent to US$80.2 million, from US$95.5 million in quarter one of 2023, while inflows terminating to mobile wallets fell by an estimated 4.5 percent to US$103.4 million, from the US$108.2 million in quarter two of 2023. Compared to outflow, total remittance outflow fell by 33.9 percent to US$14.3 million from US$21.7 million in quarter two of 2023.

Both the domestic and external developments explained the exchange rate dynamics in the economy during the period under review. The Liberian dollar depreciated by 3.6 percent from 11.1 percent and by 10.1 percent from 6.6 percent in the second quarter based on both end-of-period and period average estimates, respectively.

Conclusion

Based on the assessment of the conditions and developments in the Liberian economy at end-quarter three of 2023, the Board of Governors took note of the moderation in the global economy and the implications of falling prices, especially the main export commodities of the Liberian economy. Relative to RGDP growth, the Board welcomed the quarterly growth estimate, which demonstrates significant improvement in the analytical tool of the CBL but was concerned about the continual depreciation of the Liberian dollar. The Board also highlighted concerns about the level of NPLs, tightened global financial conditions, declining commodity prices and the Russia-Ukraine war as key risks to the domestic economic outlook.

Monetary Policy Committee Decisions

Consistent with its mandate, the Board took the following decisions aimed at maintaining and promoting macroeconomic and financial stability in the Liberia economy:

1. To maintain the Monetary Policy Rate (MPR) at 20.0 percent, which is above the projected inflation and depreciation rates until the next assessment for the fourth quarter, as a proactive response to inflationary pressures in the economy; and,

2. To maintain the reserve requirement ratio at 25.0% for Liberian dollar and 10.0% for US dollar as a liquidity management strategy to guard against pressures on the Liberian dollar.

In closing, the Bank reassures the public and the business community of its unwavering commitment to promote a stable macroeconomic environment in Liberia conducive for growth and development.

Signed: ______________________________

J. Aloysius Tarlue, Jr.
Executive Governor &
Chairman of the Monetary Policy Committee