CENTRAL BANK OF LIBERIA

COMMUNIQUE NO. 8

August 20, 2021

Monetary Policy Meeting held by the Board of Governors on Wednesday 18th and Friday 20th August 2021

The Board of Governors, acting in the capacity of the Monetary Policy Committee (MPC) of the Central Bank of Liberia (CBL), had its third seating on the 18th & 20th of August 2021; to review key global and domestic economic developments for the quarter ended June 2021. The Committee noted that since the last MPC meeting in May 2021, there has not been significant changes in global macroeconomic conditions and developments. The latest information affirms the strong growth recovery process following from the Covid-19 shock, driven mainly by continued policy support, mass vaccinations, and removal of restrictions on movements across several advanced countries.

On the domestic front, the Committee also reviewed the expected recovery in growth, inflation forecast of 8.5 %, +/-2 percentage points and the potential inherent risks in the domestic economy.

Global Macroeconomic Developments

The Monetary Policy Committee noted that growth projection for the global economy was unchanged at 6.0 % for 2021. However, according to the July International Monetary Fund (IMF) World Economic Outlook (WEO), there were offsetting revisions across regions, mainly advanced economies as well as emerging market and developing economies on account of divergence in policy shifts to contain the Covid-19 pandemic.

The Committee considered the developments in global commodity prices during the quarter noting that major agricultural commodities for the Liberian market recorded decline in their prices, including cocoa beans, round logs, rubber, and rice. In the metal and energy category, except for the price of gold which rose marginally, both iron ore and crude oil recorded significant price increases with implication for the domestic economy.

Global inflation is projected at 3.5 % in 2021, slightly above the 3.2 % recorded in 2020, which is on account of expected rise in commodity prices, especially oil. Inflation in advanced economies as noted by the Committee is expected to remain below target at 1.6 %, while in sub-

Saharan Africa, inflation is projected to moderate to 9.8 %, slightly below the 2020 average: although higher by 1.9 percentage point relative to earlier projections in January 2021 WEO.

During the deliberations, the Committee noted that policy rates in selected advanced economies were relatively unchanged, including the United States (US), the United Kingdom (UK) and European Union (EU). In the West African Monetary Zone (WAMZ), the Committee noted that except for Ghana, which lowered its policy rate, all other WAMZ countries maintained their rates during quarter two 2021.

Domestic Macroeconomic Developments

The Committee noted that Real gross domestic product (RGDP) growth, is projected at 3.6 % for 2021. The growth projections by sector show that the agriculture & fisheries sector is expected to grow by 3.8 %, forestry by 2.1 %, mining & panning by 4.6 % (mainly through gold production). The Committee also noted the 3.5 % projected growth for the manufacturing sector, while the services sector, which was worst hit in 2020 due to Covid-19, is expected to recover and expand by 3.4 % in 2021.

The Committee, however, noted that risk to this outlook still lingers and includes resurgence of the pandemic, especially in the economies of major trading partners and slow recovery in the prices of the country's major export commodities.

The Committee noted that the average inflation rate for quarter two moderated to 8.6 %, from 11.1 % recorded in the previous quarter, and that the moderation in inflation was mainly driven by the broad stability of the Liberian dollar, favorable inflows of remittances and the tight monetary policy stance of the Bank. The Committee noted that inflation forecast for quarter three is set at 8.5 % with a bandwidth of +/- 2 percentage points.

Relative to the external sector, the Monetary Policy Committee noted the significant worsening of the trade deficit to 5.5 % of GDP from the deficit of 1.7 % of GDP recorded in the preceding quarter and noted that this was reflective of the 21.2 % rise in import payments and the 25.1 % decline in export receipts during the quarter.

In terms of inflows, the Committee also noted the significant rise in workers net remittances by 10.6 percent to US$74.8 million in quarter two of 2021, from US$67.6 million recorded during the previous quarter, reflecting the improvement in financial conditions in major remitting countries.

In the foreign exchange market, the MPC noted the relative stability in the exchange rates, as the Liberian dollar on end-of-period basis, appreciated by 0.92 % to L$171.42/US$1.00 relative to L$173.01/US$1.00 in the previous quarter, while the period average exchange rate showed a marginal depreciation of 0.2 % to L$171.87/US$1.00 from L$171.53/US$1.00

The Committee noted that this slight depreciation in the exchange rate was mainly on account of the increase in fuel prices during the last two months of the quarter.

The Banking Sector

On the performance of the banking sector, overall, the sector was adequately capitalized during the assessment period. Growth in the total capital of banks amounted to L$31.70 billion. The reported capital reflects an increase by 3.9 % compared with March 31, 2021. However, the increase in capital during Q2 2021 is largely attributed to increase in unaudited net income reported by banks.

The consolidated Capital Adequacy Ratio (CAR) reported for the period under review was 30.7 %, indicating an increase of 1.4 percentage points above the 29.3 % in the previous quarter, and was 20.7 percentage points above the regulatory limit of 10%. Accordingly, all nine (9) banks reported CAR above 10 %. The CAR is projected to increase by 0.8 percentage points to 31.5 % as at the September 2021 Quarter.

Total loans and advances reported in the banking system amounted to L$74.57 billion. Quarter-on-quarter comparison showed a decrease of 3.5%. Loans and advances are expected to further decrease by 6.5 %. The decline in loans and advances was attributed to pay-off on few loans & overall decreases in new loans granted by banks.

The Committee noted that the sectoral allocation of loans and advances are mainly concentrated in five (5) sectors: trade, personal, services, construction and others. This sectoral concentration means that banks are only providing small portion of their loan portfolio to the productive sectors of the economy such as agriculture and manufacturing.

The Committee noted that Non-Performing Loans (NPLs) remain a systemic concern undermining the financial soundness of the banking system. Total Non-performing loans recorded for the reporting period accounted for 22.3 % (or L$16.83 billions) of the total loans. Six (6) of the nine (9) banks reported NPL ratio above the tolerable limit of 10 %, while three (3) banks were compliant.

While a large portion of the non-performing loans and advances are secured with tangible collaterals (i.e., real estate properties, land deeds, etc.), the loll in the real estate market and the perennial difficulties in foreclosure procedures continue to deprive the banking system of the much-needed funds and thus posing significant financial stability risks.

Monetary Aggregates and Financial Markets

On the performance of monetary aggregates, the Committee noted that the 5.6 % growth in broad money supply (M2) was mainly on account of 3.8 % expansion in narrow money (M1). However, the 1.8 % decline in currency in circulation (CIC) was mainly reflective of the rise in the demand for CBL bills. The MPC also noted that currency outside banks moderated by 2.9 % with potential implication for the stability in the exchange rate and the downward trend in inflation during the quarter.

In the financial markets, the Committee noted that there were no issuances of GOL securities. In the interbank market, however, US$25.1 million in swap transaction were carried out while repo transactions were made in both currencies amounting to US$5.0 million and L$250.0 million. The Committee also noted the improvement in CBL bills subscriptions with growth in total subscription by 4.1 % to L$11.4 billion from L$10.9 billion recorded in the previous quarter. It was however observed that subscriptions by retail investors fell by 17.3 % while commercial banks subscriptions rose by 4.5 %. The CBL bills remain one of the most viable and attractive investment options for both institutional investors and households, irrespective of the direction of the policy rate.

MPC Decisions

At the close of the meeting, the Monetary Policy Committee considered the inflation projection of 8.5 % with a band of +/- 2 percentage points for quarter three and the need to sustain single digit inflation and broad exchange rate stability in support of the projected growth of the economy. The Committee was concerned about the health of the banking sector given the high level of NPLs.

Considering these developments, the Committee decided to accommodate some level of ease in the tight policy stance, by lowering the policy rate by 500 basis points; to further strengthen liquidity condition, sustain the downward inflation trajectory and support the achievement of the 3.6 % growth forecast of the economy.

1. **Accordingly, the Monetary Policy Rate was lowered from 25% to 20% with an upper band of +500 basis point for standing credit facility over the next quarter.**

2. **The Committee decided to maintain the reserve requirement thresholds at 25 % for LD and 10 % for USD over the next quarter.**

The Committee further decided to implement strategies aimed at promoting the development and implementation of the following structural policies:

3. The CBL will request banks to continue the restructuring of delinquent credits that were current prior to the Covid-19 pandemic to facilitate flexible repayment terms for borrowers.

4. Directives for banks to undertake a more aggressive and sustainable debt recovery strategies and actions in pursuit of defaulting borrowers; and for banks to enhance their overall credit risk management processes.

5. The CBL will continue to work on measures to enhance the capacity and credibility of the existing Credit Reference System, through automation.

Thank you

Signed: ______________________

J. Aloysius Tarlue, Jr.
Executive Governor