CENTRAL BANK OF LIBERIA

Communique No. 2 March 3, 2020

Monetary Policy Decisions of the Board of Governors

Global Macroeconomic Developments

- The global economy remained subdued due to a number of headwinds, ranging from trade policy uncertainty, geopolitical tensions, social unrest as well as weather-related disaster. These setbacks mainly reflected in weak manufacturing and trade activities in advanced economies in 2019. Notwithstanding these headwinds, some indications emerged in the second half of the year that saw global growth rebalancing as projection shows slight pickup in 2020.

- Monetary policy easing, through declining policy rates in several economies, should help global activity recover to 3.3 percent in 2020 from the 2.9 percent recorded at end-2019. However, key risk to this growth uptick is the Coronavirus disease, if not mitigated or eradicated could reverse the gains that were made especially in the last half of 2019 for which an upward trend was projected in the first quarter of 2020. Inflation, at end-2019 closed at 3.4 percent and is expected to rise to 3.6 percent in 2020.

Domestic Macroeconomic Developments

- In the wake of depressed global economic activity, Real GDP growth for Liberia contracted to negative 1.4 percent due to persistent underperformance in manufacturing, services and the forestry subsectors. The weak performance of the economy was further shown by deterioration of the output gap to negative 4.3 index points from negative 2.2 index points in quarter 3.

- Merchandise trade balance remained in deficit, despite improving slightly due to decline in import payments that outweighed the fall in export receipts in Q4. Imports fell by 20.6 percent, while exports declined by 14.0 percent, translating to a 25.8 percent improvement in the trade deficit. As a share of GDP, the trade deficit in Q4 fell to about 3.7 percent of 2019 GDP, from 5.0 percent in the previous quarter.

- Net inward worker remittance performed significantly, rising by 29.1 percent in Q4. Although there was a 7.3 percent decline in remittance inflows, the 20.5 percent fall in outflows outweighed the fall in inflows and translated into a net inflow of US$27.5 million, which helped to minimize the pressure on the exchange rate in the midst of non-foreign exchange intervention by the CBL.

- For the first time since Q3 2014, the Liberian dollar nominal exchange rate with respect to the US dollar, on average, appreciated by 2.3 percent to L$199.8/US$1.00 in Q4 2019, from L$204.4/US1.00 recorded for Q3 2019 while the end-of-period (EOP) nominal exchange rate strengthened by 11.3 percent compared with Q3 2019.

- During the quarter, the banking sector remained the dominant part of the financial sector, accounting for over 85.0 percent of the financial sector's balance sheet size. However, all the major balance sheet items of the banking sector declined during the quarter relative to the previous quarter. Loans and advances, assets, and deposits, as well as capital declined compared to Q3 of 2019, largely explained by the appreciation of the Liberian dollar against the U.S. dollar (the reporting currency). However, the consolidated Capital Adequacy Ratio (CAR) reported was 25.4 percent (15.4 percentage points above the benchmark limit of 10.0 percent) though total non-performing loans accounted for 17.2 percent (or L$14.561 billion) of the total loans with non-performing loans (NPLs) ratio increasing by 4.5 percentage points relative to the previous quarter.

- The security markets operations gained slight momentum in Q4 due to the rise in the monetary policy rate. Subscription for CBL bills rose to L$440.4 million from L$92.6 million in Q3. However, interest rate remained unchanged in the banking sector due to stickiness in the transmission mechanism of the interest rate.

- During the quarter, Liberian dollar private sector credit component rose marginally by 1.0 percent compared to the 1.7 percent decline in US dollar credits. Similarly, credit to the economy fell by 9.2 percent to L$83.4 billion, from the L$91.9 billion recorded for Q3. The drivers of the fall in credits were agriculture (1.3%), manufacturing (0.4%), construction (2.7%), oil and gas (1.9%) and trade (5.2%) sectors. As a share of GDP, total credit to the economy fell to 13.2 percent from 14.3 percent in Q3 while private sector credit as a share of GDP fell to 12.6 percent compared to 13.8 percent in Q3.

- Broad money supply (M2) during the quarter grew by 1.4 percent while Narrow money (M1) on the other hand fell slightly by 0.4 percent. Currency in circulation (CIC) rose to L$21.1 billion from L$20.5 billion recorded for Q3 on account of 7.9 percent growth in currency outside banks. This level of currency outside banks remains considerably high, above the single digit inflation (SDI) trend and suggests future pressure on the Liberian dollar exchange rate.

- Annualized inflation fell by 5.1 percentage points to 25.8 percent, from 30.9 percent in Q3 2019 on account of declines in market prices due to the appreciation of the Liberian dollar. In Quarter 4, Market price contribution stood at 23.4 percentage points, declining by 5.1 percentage points from the 28.5 percentage points contribution in Q3. Administered price contribution to inflation slightly rose to 2.37 percentage points from 2.36 percentage points in Q3. Although inflation declined during the reporting period, it remained above the West African Monetary Zone (WAMZ) tolerable limit by 15.8 percentage points. Major categories that contributed to the decline in overall inflation were clothing, textile and footwear, followed by food and drinks.

Board's Decisions:

Having considered the developments in the fourth quarter and given the level of inflation forecast for the quarter ahead, the Board finds it prudent to maintain the existing tight monetary stance and continue the monitoring of macroeconomic and market conditions within the economy.

1. The Board took the decision to maintain the monetary policy rate at 30 percent despite the downward inflation spiral to 23.6 percent as at end January 2020 on account of the following:
    a. To allow for more time to observe the movement in inflation;
    b. To allow for additional time horizon to strengthen market confidence in the financial instruments;
    c. To deepen sensitization for more public participation in the financial instruments;
    d. To adjust for expected global growth uncertainty;

e. To sustain the positive rate of return on investment in the financial instruments and maintain the store of value of holding Liberian dollars; and
f. To support monetary policy consistent with the lingering and forward-looking macroeconomic condition since the previous monetary policy announcement.

The Board of Governors also decided to:

2. Continue the issuance of shorter tenor instruments (2 weeks, 1 and 3 months) at the policy rate;
3. Continue the sensitization of CBL bills to increase retail investors' subscription;
4. Maintain the suspension of the Remittance Split Policy for the next quarter and
5. Continue the awareness campaign on electronic payments, including mobile money.

Signed: ______________________________

J. Aloysius Tarlue, Jr.
Executive Governor