CENTRAL BANK OF LIBERIA

COMMUNIQUE NO. 11

August 25, 2022

For the Monetary Policy Meeting held by the Board of Governors on Wednesday 17th August 2022

The Board of Governors of the Central Bank of Liberia (CBL) held its 11the Monetary Policy Committee (MPC) Meeting on the 17th of August 2022. During the meeting, the Board of Governors assess developments in global and domestic economies for the quarter ended June 2022 to inform its monetary policy decisions for the third quarter.

The Board of Governors observed moderation in the global economy, and the inflationary pressures building up in advanced economies, especially in the United States, Europe, the emerging market and developing economies. The Board noted that inflation projection for Sub-Saharan Africa was the highest. The Board observed the projected strong moderation in global growth by 2.9 percentage points to 3.2 percent for 2022 from the 6.1 percent recorded in 2021, owing to downturns in advanced economies, emerging market and developing economies. The Board also noted the rise in global consumer prices, especially in the United States and increasing trend in energy and food prices induced by the impact of the Russia-Ukraine war. The Board further noted the tightening of policy rates in advanced economies, including the United States, which is leading to capital outflows from emerging and developing economies.

Domestically, the Board noted that Real Gross Domestic Product (RGDP) of the Liberian economy for 2022 is expected to moderate to an estimated 3.7 percent, from 5.0 percent recorded in 2021. The Board noted that the banking sector was well capitalized and liquid, however, high non-performing loans (NPLs) far above the regulatory limit poses risk to the stability of the banking system. The Board acknowledged the limited activity in the interbank market as well as the growing confidence in the CBL bills. It also noted the single-digit inflation forecast of 7.0 percent +/-2.0 percentage points, despite the projected rise in currency in circulation for end-2022, which is expected to stay within the Bank's forecast limit.

Global Macroeconomic Developments

The Board noted the projected moderation in global growth to 3.2 percent in 2022, from the 6.1 percent growth recovery in 2021 on account of the lingering impact of COVID-19 and the ongoing Russia-Ukraine war, which has induced the rise of consumer prices in advanced economies, emerging market and developing economies as well as in Sub-Saharan Africa, including Liberia, mainly through supply side, commodity prices, trade, and financial linkages.

The Board noted developments in the prices of the country's main import and export commodities and the implications of the declines in the prices of the Country's export commodities, mainly iron ore, gold, rubber, and round logs. The Board expressed concern about the rise in global petroleum prices with the potential pass-through effect to domestic prices.

It was observed that global headline inflation for 2022 is projected to rise to 8.3 percent driven by a combination of factors, including supply-demand mismatches, rising commodity prices - affecting oil and gas more severely, and food prices. Inflation in advanced economies, as observed by the Board, is projected at 6.3 percent for 2022, from 3.1 percent in 2021, while in emerging market and developing economies, it is projected to rise to 9.5 percent, from 5.9 percent in previous year. However, in Sub-Saharan Africa, as noted by the Committee, inflation is projected to rise to 12.2 percent, from the 11.0 percent recorded in 2021.

Against the rising inflationary pressures, central banks in advanced economies, including the United States (US) and the European Union (EU) and the West African Monetary Zone (WAMZ) are increasing their policy rates with the aim of controlling inflation and dampening inflation expectation.

Domestic Macroeconomic Developments

During the deliberation, the Board noted the estimated 3.7 percent annual growth in Real GDP for 2022 considering the expected levels of positive sectoral performances in the first half of the year. Sectoral growth projections for 2022 show that the mining & panning subsector (through increased gold production) is expected to grow by 7.1 percent, while the agriculture & fisheries and forestry subsectors are projected to expand by 3.6 percent and 2.1 percent, respectively. Encouragingly, the manufacturing subsector (beverages, cement, and other products) and services subsector (trade, electricity, construction and hospitality) are expected to grow by 3.6 percent and 2.7 percent in 2022, respectively.

However, the Board recognized several risks to the macroeconomic outlook, including slow global growth, prolongation of the Ukraine-Russia conflict, capital reversal induced by attractive interest rate in advanced economies, rising prices of food and crude oil, and the lingering COVID-19 related uncertainty.

The Board observed the relative moderation of inflation in the domestic economy where average inflation moderated to 6.3 percent in quarter two, from the 7.9 percent recorded in the previous quarter due to the broad stability of the Liberian dollar driven by CBL's contractionary monetary policy; prudent fiscal discipline, and favorable inflows of remittances. However, the inflation forecast for quarter three, as noted by the Board, is projected at 7.0 percent with a bandwidth of +/- 2.0 percentage points.

The Board acknowledged improvement in the external sector with narrowing trade deficit to 1.8 percent of GDP in quarter two 2022, from 2.6 percent of GDP in quarter one 2022 on account of 18.2 percent rise in export receipts. This improvement helped to sustain the broad stability of the Liberian dollar.

The Board observed the favorable developments in remittances, as remittances terminated to mobile wallets increased by 13.5 percent to US$74.7 million from US$65.8 million in quarter one 2022. However, net worker remittances to bank accounts reduced by 13.8 percent to US$61.2 million from the US$76.3 million recorded in the previous quarter. The decline in remittance inflows to bank accounts was cushioned by the 13.5 percent increase in remittance terminated to mobile wallets during the quarter.

For the period under review, average exchange rate of the Liberian dollar recorded slight appreciation of 0.4 percent to L$151.8/US$1.00 in quarter two 2022 from 152.4/US1.00 in the previous quarter, while on end-of-period basis, the exchange rate remained broadly stable, despite the marginal depreciation by 0.1 percent.

The Banking Sector

The banking remained broadly stable and resilient. The data showed that except for capital, which declined by 11.3 percent, the sector recorded growths in total loans and advances, assets, and deposits by 2.5 percent, 5.8 percent, and 6.0 percent, respectively, compared with the previous quarter.

The Board took note of the 2.5 percent increase in total sectoral allocation of loans and advances to L$75.3 billion, from L$73.5 billion reported in quarter one of 2022, noting that credit concentration was in five (5) sectors (trade, personal, services, construction, and others), which accounted for 86.9 percent of total loans and advances compared to the 92.6 percent concentration in the previous quarter. It was also noted that of the total non-performing loans (NPLs) in the banking sector, these five sectors, accounted for 86.9 percent of total NPLs.

The Board observed that total non-performing loans (NPLs) declined by 1.2 percentage point to 22.6 percent compared to the 23.8 percent of total loans in the previous quarter, largely reflecting the 5.7 percentage points decline of NPLs in the five sectors. Despite the slight decline in NPLs during the quarter, NPLs remain a major risk to the stability of the financial system.

MP Decision

At the end of its deliberations, the Board noted the favorable performance of the Liberian economy, the 7.0 percent +/- 2.0 percentage points inflation forecast, the relative stability of the Liberian dollar, and the annual Real GDP growth projection for 2022, while acknowledging the elevated level of NPLs.

Based on the current global and domestic developments, the Board resolved to cut the current monetary policy rate for the next quarter. Specifically, the Board took the following decisions aimed at promoting and maintaining macroeconomic stability and sustainable economic development:

1. To cut the Monetary Policy Rate by 500 basis to 15.0 percent with an upper band of +250 basis points for standing credit facility (SCF) and -500 basis points for standing deposit facility (SDF) over the next quarter;

2. To maintain the reserve requirement thresholds at 25.0 percent for Liberian dollar and 10.0 percent for United States dollar over the next quarter;

3. To remove the CBL bills ceiling and allow for fix rate full allotment for banks and restrict the two weeks issuance to banks only;

4. To issue 1 and 3 months CBL bills for structural liquidity purposes; and

5. To exercise caution in ensuring that the ongoing currency reform is consistent with the inflation objective of the Bank.

The Board will continue to monitor developments in both the global and domestic economies and take the necessary steps within its mandate to promote price stability, safeguard financial stability, enhance macroeconomic stability.

Signed: ______________________________

J. Aloysius Tarlue, Jr.

Executive Governor & Chairman of the MPC