CENTRAL BANK OF LIBERIA
COMMUNIQUE NO. 14
May 29, 2023

For the Monetary Policy Meeting held by the Board of Governors on Thursday, 25th May 2023

The Central Bank of Liberia (CBL) held its second statutory Monetary Policy Committee (MPC) meeting for 2023 on the 25th of May 2023. During the Meeting, the Board of Governors of the CBL, representing the MPC, assessed the domestic economic conditions for Q1 2023, and the implications of the global macroeconomic developments on the country's economy, to inform its monetary policy decisions for the third quarter of 2023.

During their deliberations, the Board noted the projected moderation in global growth to 2.8 percent for 2023 from 3.4 percent in 2022, and the high inflationary pressures in advanced as well as emerging market and developing economies. The Board also noted the elevated level of inflation in Sub-Saharan Africa and the risks of declining commodity prices and the rising policy rates in several advanced economies as well as ECOWAS member states in response to the inflationary risk and potential impact of the Russia-Ukraine war on both the global and domestic economies.

The Board noted the improvement in Liberia's quarterly projected growth of Real Gross Domestic Product (RGDP) in quarter one of 2023 at 1.2 percent and the annual RGDP growth at 4.3 percent for 2023, from the estimated 4.8 percent recorded in 2022. The assessment for the quarter showed that the banking system remained capitalized and liquid, while non-performing loans (NPL) reduced, but remained above the tolerable limit of 10 percent. The Board noted the limited activity in the interbank market and non-issuance of Liberian dollar treasury bills by the GoL during the quarter. Despite the single-digit inflation, the Board was concerned about the slight uptake in inflation forecast to 8.7 percent +/-2.0 percentage points due to the tightening financial conditions in the global economy coupled with other existing structural constraints in the domestic economy.

Global Macroeconomic Developments

Global growth is projected to moderate at 2.8 percent for 2023, from the 3.4 percent estimated growth recorded in 2022 due to global uncertainties, including tightening financial conditions, elevated inflation, and ongoing effects of Russia-Ukraine war. The Board recognized the potential economic impact of the volatile global prices of Liberia's primary export commodities (i.e. iron ore, rubber, gold, palm oil, and round logs during the quarter in comparison to the corresponding quarter in 2022. However, the quarter-on-quarter decline in global crude oil prices is expected to ease the inflationary risk to domestic prices.

The Board noted that, despite the declines in global food and energy prices, global headline inflation for 2023 remained elevated at 7.0 percent, influenced by a combination of factors, including supply-demand gaps. In advanced economies, inflation is expected to moderate to 4.7 percent, while to slow down to 8.6 percent in emerging market and developing economies in 2023. In the Sub-Saharan Africa, inflation is anticipated to marginally slow to 14.0 percent in 2023, from the 14.5 percent recorded in 2022.

Interest rates in several advanced economies, including the United States, United Kingdom, Australia, and European Union were raised during the review quarter in response to inflationary risk. Similarly, most West African Monetary Zone (WAMZ) countries- Ghana, Nigeria, The Gambia, and Sierra Leone also raised their policy rates in anticipation of containing inflation. However, Liberia and the UEMOA countries, which constitute largely French-speaking West African states, kept their respective monetary policy rates unchanged during the quarter, suggesting lower or stable inflationary environment.

Domestic Macroeconomic Developments

Based on the latest assessment, the Liberian economy is projected to grow at 5.1 percent for quarter one of 2023 relative to the same period in 2022, mainly on account of stronger than anticipated performance in the mining sector, especially iron ore, rubber, and gold production. However, Real Gross Domestic Product (RGDP) is projected to moderately grow by 4.3 percent in 2023 against the estimated growth rate of 4.8 percent in 2022 on account of moderations in forestry subsectors, palm oil and others in the agriculture sub-sector as well as iron ore and others in the mining & panning sub-sector. Output in the secondary sector, which comprises the manufacturing subsector is projected to grow by 4.9 percent, as a result of anticipated growth in the production of beverages, despite projected moderation of growth in cement production. Similarly, growth in the services sector is expected to expand by 5.7 percent in 2023, reflecting expansion in government-related services, electricity & water, financial institutions, and other services.

Notwithstanding these developments, the Board was concerned about the implications of the prevailing global uncertainties on the domestic economy, even though it was comfortable with the 7.5 percent moderation in the average inflation for the first quarter of 2023, compared to the 9.3 percent reported in quarter four of 2022.

The Banking Sector

In the Banking sector, the Board noted growth in major indicators, as total loans & advances, total assets (gross), and deposits grew by 3.6 percent, 11.6 percent, and 9.9 percent, respectively, with a slight decline in total capital by 0.8 percent in quarter one of 2023 relative to the preceding quarter. The Board also noted the 1.4 percent percentage point decline in the consolidated Capital Adequacy Ratio (CAR) to 23.9 percent, which is still above the regulatory minimum of 10 percent, and the slight reduction in the level of non-performing loans (NPLs) to 16.2 percent of total loans from 16.6 percent in the fourth quarter of 2022.

Monetary Aggregates and Financial Markets Developments

The Board noted the growth in monetary aggregates, including the rise in broad money (M2) supply by 7.3 percent due to growths of 8.7 percent and 4.3 percent of narrow money (M1) and quasi money, respectively. The Board also observed the 3.7 percent moderation in currency outside banks during the review quarter induced the 2.1 percent decline in currency in circulation, noting the growth in currency in banks by 13.1 percent at end-March 2023, which helped in the moderation in headline inflation.

External Sector and Exchange Rate Developments

The Board noted the moderation in the trade deficit during the quarter to 4.5 percent of GDP compared to 6.9 percent of GDP in quarter four of 2022 on account of 16.0 percent growth in export receipts coupled with 11.0 percent decline in import payments.

For the quarter under review, remittance inflows through banks were stronger as the net remittance inflows increased by 33.1 percent to US$91.1 million, from US$68.5 million in quarter four of 2022. Inbound remittances terminating to mobile wallets grew by estimated 3.1 percent to US$94.5 million, from the US$91.6 million in the fourth quarter of 2022.

The Board noted the slight depreciation of the Liberian dollar against the United States dollar on both the end-period and period- average basis, although this rate of depreciation was within the 10 percent ECOWAS Convergence threshold, suggesting that the Liberian dollar remains one of the stable currencies in the sub-region.

MPC Decisions

At the end of its deliberations, the Board took note of the positive performance of the Liberian economy and generally favorable and stable macroeconomic environment. However, the Board remains concerned about the level of NPLs, anticipated decline in the prices of the country's major exports, global uncertainties, projected rise in consumer prices, tightened global financial conditions and the Russia-Ukraine war as key risks to the domestic economic outlook.

In keeping with the mandate of the Bank to promote macroeconomic and financial stability, the Board took the following decisions:

1. To raise the Monetary Policy Rate (MPR) by 250 basis points to 17.5 percent until its next assessment in the third quarter of 2023, as a preemptive action against potential build-up of inflationary pressures in the economy;

2. To maintain reserves requirement ratios for the Liberian Dollar and US dollar at 25.0 percent and 10.0 percent, respectively, over the next MPC period; and

3. To allow the 2-week issuance of CBL Bills exclusively to commercial banks, and the 1-month and 3-month CBL Bills to both commercial banks and retail investors to contract Liberian dollar currency outside the banking system.

The Board also re-emphasized the need for the CBL to continue to encourage secondary market transactions in support of liquidity management in the economy in order to reduce rediscounting of CBL bills by the Bank which is counterproductive to its monetary policy stance.

The Bank will continue to monitor the global and domestic developments, and respond as it deems necessary to contribute to the stability of the Liberian economy in keeping with mandate.

Signed: ______________________

J. Aloysius Tarlue, Jr.

Executive Governor & Chairman of the MPC