CENTRAL BANK OF LIBERIA

COMMUNIQUE NO. 9

December 8, 2021

Monetary Policy Meeting held by the Board of Governors on Wednesday 17th and Thursday 18th November 2021

The Board of Governors of the Central Bank of Liberia (CBL) held its fourth Monetary Policy Committee Meeting on the 17th of November 2021 to deliberate on the key global and domestic economic developments for the quarter ended September 2021. The MPC noted that the global economy is largely on course with recovery but with a slight downside risk of supply disruptions and uneven distribution of vaccinations for COVID-19 pandemic. The MPC also noted the rising trend in global inflation induced by the higher demand than supply and recent upswing in the price of crude oil.

On the domestic front, the Committee noted that the expected recovery in the Liberian economy remains on track with the projected growth rate of 3.6% and single-digit inflation forecast of 7.5% +/-2.0 percentage points, despite current high level of Non-Performing Loans (NPLs) in the financial sector.

Global Macroeconomic Developments

The Committee noted that the projected growth for the global economy lowered by 0.1 percentage point to 5.9% for 2021 based on the latest edition of the International Monetary Fund (IMF) World Economic Outlook (WEO) mainly on account of supply disruptions in advanced economies and worsening pandemic status in many low-income developing countries.

The Committee recognized the developments in global commodity prices during the quarter, noting the implications of the decline in the prices of important agricultural commodities for the Liberian economy. The rise in the prices of exportable commodities, including coffee, palm oil and cocoa beans in contrast to the decline in the price of rice (a major import commodity) presented a relatively favorable outcome for the Liberian economy. However, the decline in the price of rubber during the quarter negatively affected the performance of the external sector. In the metal, precious mineral and energy categories, except for the price of crude oil which rose, the prices of both iron ore and gold decreased during the quarter, reflecting further constraint for the domestic economy.

Global inflation is projected to rise to 4.3% in 2021, from the projection of 3.4% in July 2021. This projected rise is on account of combination of factors, including pandemic-induced supply-demand mismatches; rising commodity prices, especially crude oil; and policy-related developments in advanced economies (expiration of temporary tax cut in Germany and expiration of rent and mortgage moratorium in the US); and depreciation of the Liberian dollar, which partly explained the rising prices of imported goods. The forecast of inflation in advanced economies is estimated at 2.8% from the 1.6% recorded in July 2021; and in the euro area to 2.2% from the 0.9% projected in the July 2021 (WEO), while in Sub-Saharan Africa, inflation is projected to rise to 10.7%, from the 10.3% recorded in 2020.

Policy rates for selected advanced economies remained unchanged. The United States (US), the United Kingdom (UK) and European Union (EU) rates remained relatively stable in comparison to the previous assessment in August 2021. All West African Monetary Zone (WAMZ) countries, except Liberia, maintained their policy rates during quarter two 2021.

Domestic Macroeconomic Developments

The Committee noted that projected Real Gross Domestic Product (RGDP) growth remained unchanged at 3.6% for 2021 on account of positive sectoral performance in the first half of 2021. Sectoral growth projections of 2021 show that the mining & panning subsector is expected to grow by 4.6% (largely through gold production), while the agriculture & fisheries and forestry subsectors are projected to expand by 3.8% and 2.1%, respectively. Similarly, the manufacturing subsector remained on course with increased production of cements, beverages and other products to support the subsector's projected growth target of 3.5 %, while the services subsector, which is anticipated to recover from the effect of Covid-19 with the resumption of hospitality and other services, is forecast to expand by 3.4%.

Relative to the positive outlook, the Committee, however, remains cognizant of critical risks to the outlook of the Liberian economy, including slow recovery in the prices of some of the country's major export commodities and rising price of crude oil, which has implication for rising inflation risk.

The Committee noted that the average inflation rate for quarter three moderated to 6.9 %, from the 8.6 % recorded in the previous quarter. The moderation in inflation was mainly driven by the broad stability of the Liberian dollar induced by CBL's monetary policy stance and favorable inflows of foreign exchange remittances. The inflation forecast for quarter four is expected to remain favorable at 7.6% with the range of +/- 2.0 percentage points.

Despite broad stability of the Liberian dollar, developments in the external sector remain weak. The trade deficit as percentage of Gross Domestic Product (GDP) widened slightly from the deficit of 5.7% recorded in the preceding quarter to 5.9% mainly on account of the 7.6% rise in import payments, which outweighed the 13.5% rise in export receipts.

In terms of inflows, net inflows of remittances was US$53.7 million, which contributed significantly to the relative stability of the Liberian dollar during the quarter.

The Liberian dollar, on an end-of-period basis, strengthened slightly by 0.28% to L$170.93/US$1.00 relative to the L$171.42/US$1.00 reported in quarter two. Similarly, the trend in the period average exchange rate, reflected further appreciation of the Liberian dollar by 0.2% to L$171.54/US$1.00 from L$171.88/US$1.00 due to increased supply of United States dollars in the economy.

The Banking Sector

On the performance of the banking sector, overall, the sector remained adequately capitalized in quarter three. Growths in total loans and advances, capital, and deposits increased by 6.3%, 1.9%, and 1.7%, respectively, while total assets decreased by 1.5%.

The Capital Adequacy Ratio (CAR) reported for the banking sector in quarter three was 30.3%, reflecting a decline of 0.4 percentage point above the performance in quarter two.

Total loans and advances reported for the reviewed period showed that total credits extended by the banking system were L$74.6 billion. This accounted for 6.3% growth relative to quarter two. The Committee, however, observed that the sectoral allocation of loans and advances were mainly concentrated in five (5) sectors (trade, services, personal, construction and oil & gas), which accounted for 81.6% of total loans and advances. The Committee further noted the low concentration of loan portfolio to the agriculture and manufacturing subsectors.

The situation of Non-Performing Loans (NPLs) poses the most significant risk to the financial system, which is a cardinal concern of the Committee. Total NPLs increased by 2.1

percentage points to 24.3% (or L$19.23 billions) of the total loans. In terms of sectoral share, the top five sectors as reported above accounted for the largest share of NPLs.

Monetary Aggregates and Financial Markets

The Committee noted developments in monetary aggregates during quarter three. Broad money supply (M2) grew by 0.89% due to a 4.5% rise in narrow money (M1), while currency in circulation (CIC) was stable. Despite the stability in CIC, currency outside banks (CoB) grew by 2.5%.

In the financial markets, the Committee noted that despite the reissuance of GoL's-Bond valued at L$6.0 billion, there was no T-bill issued during the quarter. In the interbank market, swap transactions increased, totaling US$112.6 million from US$25.11million, while there were two Repo transactions during the review period, which amounted to US$2.0 million and L$250.0 million at 6% interest rate, respectively. This reflects a mixed performance in the financial markets during the period under review.

MPC Decisions

In conclusion, the Monetary Policy Committee noted the projected inflation rate of 7.6%, +/- 2.0 percentage points for quarter four, the exchange rate trend and the slight upward movement in inflation expectations in quarter one of 2022. However, the Committee remained concerned about the high level of NPLs, which poses significant risk to financial stability.

Considering these developments, the Committee resolved to maintain the current contractionary monetary policy stance in order to further tighten liquidity condition and contain the inflation expectation in quarter one of 2022 consistent with the projected 3.6 % growth target of the economy for 2021. Accordingly, the Committee decided:

1. To maintain the Monetary Policy Rate at 20.0% with an upper band of +500 basis point for standing credit facility (SCF) over the next quarter;

2. To maintain reserve requirement thresholds at 25.0 % for LD and 10.0 % for USD over the next quarter; and

3. To mandate Management to take the necessary steps to address the high NPL situation, including stringent enforcement of the existing CBL's regulations.

The Committee noted the critical importance of the ongoing currency reform in promoting financial and macroeconomic stability through the provision of adequate liquidity to support the projected growth of the economy, hence the need for managing the process through effective communication strategy and stakeholders' engagements.

Signed: ____

J. Aloysius Tarlue, Jr.

Executive Governor & Chairman of the MPC