CENTRAL BANK OF LIBERIA

COMMUNIQUE NO. 10

March 16, 2022

Monetary Policy Meeting held by the Board of Governors

The Board of Governors of the Central Bank of Liberia (CBL) held its first Monetary Policy Committee (MPC) Meeting held recently. The objective was to assess the performances of key global and domestic economic indicators for the quarter ended December 2021 to inform its monetary policy decisions for 1st quarter 2022.

The MPC noted the improvements in the global economy, amidst the inflationary pressures looming in Advanced economies, especially in the United States as well as emerging market and developing economies. The Committee observed the slight moderation in growth by 0.1 percentage point to 5.9 percent for 2021 from the 6.0 percent earlier projected for the year largely due to supply-demand mismatches, labor market slacks and structural bottlenecks. The MPC also noted the rising trend in energy prices induced by higher demand and recent upswing in the price of crude oil. The Committee further noted the slowdown in the Chinese real estate sector and manufacturing caused by the spread of COVID-19 in 2021.

Domestically, the Committee noted that the Real Gross Domestic Product (RGDP) of the Liberian economy recovered at an estimated 3.6 percent growth in 2021 compared to a 3.0 percent contraction recorded in 2020. It noted that the banking sector was well capitalized and liquid, but non-performing loans remained a risk to the stability of the sector. The Committee acknowledged the limited activity in the interbank market in contrast to the growing confidence in the CBL's monetary instruments. It also considered the single-digit inflation forecast of 7.4 percent +/-2.0 percentage points, despite growth in currency in circulation.

Global Macroeconomic Developments

The Committee noted the rebound in global growth at 5.9 percent in 2021, and the 4.4 percent growth projection for 2022 on account of the new variants of COVID-19 (Delta and Omicron variants), challenging fiscal and monetary support due to rising inflation and supply disruptions. Unlike the Advanced economies, the Committee observed that Emerging market and Developing economies (EMDEs) are still grappling with recovery, mainly on account of slower vaccination, limited policy responses and escalating effects of the pandemic.

The Committee noted the developments in the prices of the country's main import and export commodities and implications of the declines in the prices of export commodities, mainly iron ore, rubber, and round logs. It was concerned about the rise in global petroleum prices with its potential pass-through effect to domestic commodity prices. It further noted that the slight rise in the price of gold was critical for supporting economic growth as the key growth-driven sector.

Global headline inflation for 2021 was estimated at 3.8 percent due to a combination of factors, including supply-demand mismatches, rising commodity prices, and policy-related developments. Inflation in Advanced economies, as observed by the MPC, was estimated at 3.1 percent for 2021 and projected to rise to 3.9 percent in 2022, while in Emerging Market and Developing economies, it rose to an estimated 5.7 percent, reflecting higher prices in major economies. In Sub-Saharan Africa, inflation rose slightly to estimated 10.7 percent, from 10.3 percent in 2020. The Committee noted that the general outlook for inflation in 2022 is highly uncertain and the moderation to pre-pandemic path in 2022 hinges on addressing the supply-demand mismatches, labor market slacks and structural bottlenecks.

The MPC was cognizant of the unchanged policy rates in most Advanced economies like the United States (US), United Kingdom (UK) and European Union (EU). However, except for Ghana and Sierra Leone, all countries in the West African Monetary Zone (WAMZ) retained their policy rates relative to the developments in the 3rd quarter, 2021.

Domestic Macroeconomic Developments

During the deliberation, the Committee noted with satisfaction the estimated 3.6 percent growth in Real GDP in 2021 and was optimistic that the projected 4.7 percent growth in 2022 is achievable considering the expected levels of positive sectoral performances and policy interventions. Sectoral growth projections for 2022 show that the mining & panning subsector (through increased gold production) is expected to grow by 4.5 percent, while the agriculture & fisheries and forestry subsectors are projected to expand by 3.3 percent and 4.2 percent, respectively. Encouragingly, the manufacturing (through rising beverages, cement, and other products) and services (through trade, electricity, and hospitality) subsectors are expected to grow by 4.6 percent and 6.0 percent in 2022, respectively.

However, the Committee recognized the risks to this positive outlook, including slow recovery in the prices of some of the country's major export commodities, rising price of crude oil, and COVID-19 uncertainty.

The Committee observed the persistent moderation in inflationary pressure in the domestic economy as average inflation moderated to 5.1 percent in quarter four, from the 6.9 percent recorded in the 3rd quarter of 2021. The moderation in inflation reflected broad stability of the Liberian dollar driven by CBL's monetary policy stance, favorable inflows of foreign exchange remittances and other fiscal and structural factors. The inflation forecast, as noted by the Committee, is projected at 7.4 percent with a band of +/- 2.0 percentage points.

The MPC acknowledged the challenging external sector, despite the slight improvement in trade deficit due to reduced import payments and broad stability of the Liberian dollar. Trade deficit as a percentage of Gross Domestic Product (GDP) improved to 5.0 percent, from the 6.0 percent recorded in the previous quarter mainly on account of the 5.9 percent reduction in import payments, which outweighed the fall in export receipts during the quarter.

The Committee noted the favorable developments in remittances. Net inflows of remittances rose to US$107.0 million (3.2% of GDP), on account of 65.2 percent rise in inflows coupled with 10.1 percent decline in outflows; providing significant support to the relative exchange rate stability during the quarter.

The Committee noted the strong performance of the local currency largely supported by the inflows of remittances during the third quarter. On end-of-period and period average bases, the Liberian dollar appreciated by 15.0 percent and 12.7 percent to L$145.36/US$1.00 and 149.68/US1.00, respectively at end-December 2021.

The Banking Sector

The Committee noted that, on the overall, the banking sector remained viable and resilient. However, there were declines recorded in total loans and advances, assets, capital, and deposits by 16.1 percent, 11.5 percent, 12.7 percent, & 4.6 percent, respectively, compared with the previous quarter. It further observed the 1.1 percentage point decline in the sector's Capital Adequacy Ratio (CAR) to 29.2 percent, from the 30.3 percent reported in 3rdth quarter.

Total sectoral allocation of loans and advances decreased by 16.1 percent to L$66.5 billion in 4th quarter, from L$79.3 billion reported in 3rd quarter of 2021. Credit concentration in five (5) sectors (trade, personal, services, construction, and others) accounted for 84.0 percent of total loans and advances compared to the 81.6 percent concentration in the previous quarter, reflecting low lending to the agriculture and manufacturing subsectors.

The Committee noted that NPLs remained a risk to the stability of the financial system, despite the slight decline in the NPLs ratio during the period under review by 1.6 percentage points to 22.8 percent from the 24.4 percent recorded in the previous quarter.

Monetary Aggregates and Financial Markets

The Committee noted the growth in monetary aggregates relative to the 3rd quarter, 2021. Broad money supply (M2) grew by 6.5 percent due to 5.7 percent rise in narrow money (M1). Currency in circulation (CIC) and currency outside banks rose by 9.0 percent and 8.3 percent, respectively. Despite the rise in CIC, the Liberian dollar appreciated, and inflation moderated relative to the 3rd quarter due to strong monetary policy response by CBL.

The Committee noted the increasing confidence in the CBL monetary instruments as evidenced by a 23.7 percent increase in CBL bills. It, however, observed that the financial markets operations remained constrained by delay in the re-issuance of GoL's securities.

MPC Decisions

At the end of their deliberations, the MPC was optimistic about developments in the domestic economy as evidenced by an inflation forecast of 7.4 percent with a band of +/- 2.0 percentage points, the anticipated moderate pressure on the Liberian dollar in 1st quarter of 2022, and projected Real GDP growth of 4.7 percent for the year. However, the Committee was concerned about the rise in currency outside banks and the high level of NPLs, which pose macro-financial risks.

Considering these developments, the Committee resolved to maintain the current monetary policy stance aimed at further consolidating the current macroeconomic condition, containing inflation expectation, maintaining a stable exchange rate and supporting the achievement of the projected growth rate for 2022. Accordingly, the Committee decided:

1. To maintain the Monetary Policy Rate at 20.0 percent with an upper band of +500 basis points for standing credit facility (SCF) for the 1st quarter of 2022;

2. To maintain the Reserve Requirement Ratios at 25.0 percent for LD and 10.0 percent for USD for the 1st quarter of 2022; and

3. To continue the issuances of CBL monetary instruments to maintain monetary stability in the economy.

Signed: ______________________

J. Aloysius Tarlue, Jr.

Executive Governor & Chairman of the MPC