# CENTRAL BANK OF LIBERIA

## Communique No. 5 November 19, 2020

## Monetary Policy Decisions of the Board of Governors

### Global Macroeconomic Developments

- The uncertainty in the global economy has not dissipated due to COVID-19. Contraction in global economic growth is projected to moderate in quarter three of 2020 to 4.4 percent from the projection of negative 4.9 percent in quarter two, reflecting the upward push from better-than-expected performance in advanced economies and easing of lockdown measures in several economies. In 2021, global growth is projected to recover from contraction to strengthen at 5.4 percent.

- Global commodity prices generally improved in quarter three of 2020. Energy and non-energy commodities (excluding rice) prices in low-and-middle-income countries rose compared to quarter two. Global inflation for 2020 is projected to moderate at 3.2 percent, from the 3.5 percent recorded in 2019.

- Inflation in advanced economies and emerging market as well as developing economies is projected to moderate to 0.8 percent and 5.0 percent in 2020, respectively, from 1.4 percent and 5.1 percent in 2019, largely due to weak price pressures in sectors with historically persistent response to aggregate demand (i.e furnishing, housing excluding energy, recreation, restaurants, and hotels). On account of supply disruption, inflation in Sub-Saharan Africa (including the WAMZ) is projected to rise by 2.1 percentage points to 10.6 percent from 8.5 percent in 2019.

- Policy rates in advanced economies at the end of quarter three remained relatively stable at 0.25 percent and 0.10 percent in the United States (US) and United Kingdom (UK), respectively. The rate in the European Union (EU) remained unchanged at negative 0.50 percent during the review period.

- In the West African Monetary Zone (WAMZ), Nigeria eased its policy rate by 100 basis points to 11.5 percent. In The Gambia, the policy rate was maintained at 10.0 percent, while the rates in Ghana and Sierra Leone remained unchanged at 15.0 percent each, respectively. These developments suggest effort to broadly improve monetary conditions in the WAMZ region.

## Domestic Macroeconomic Developments

- Real gross domestic product (RGDP) is projected to remain in contraction in 2020 at negative 2.5 percent mainly on account of weak activity in the secondary and tertiary sectors. However, output gap in the third quarter moderated to negative 3.3 percent from negative 9.3 percent in quarter two as a result of improvement in consumption and production. Projections show that economic activity is expected to improve in quarter four, premised on the success of measures to control the anticipated effect of the second wave of COVID-19 which is evident in some advanced economies.

- On account of weak demand and tight monetary policy stance, year-on-year inflation for the quarter ended September 2020 moderated to 15.3 percent, from 18.0 percent recorded in quarter two of 2020. However, the end of period (September 2020) inflation rose to 14.03 percent from 13.14 percent recorded at end-June 2020. Core inflation (inflation excluding food and transport) also rose to 15.47 percent in quarter three from 13.20 percent in quarter two 2020.

- Developments in the external sector were characterized by low gross international reserves in months of imports cover below the ECOWAS threshold and deterioration in the merchandise trade balance to 6.43 percent of GDP from a deficit of 3.79 percent of GDP in the previous quarter. This deterioration was largely reflective of 25.15 percent rise in import payments and 10.0 percent decline in export receipts.

- Net inflow of worker remittances rose to US$49.4 million in quarter three of 2020, largely reflecting slight improvement in financial conditions of major remitting countries. Inflows of remittances rose by 3.3 percent to US$76.1 million. Similarly, outflows of remittances rose by 5.9 percent to US$26.8 million. However, the second wave of COVID-19 could slow down net inflow of remittances in quarter four due to anticipated economic slowdown in the advanced economies.

- Developments in the exchange rate were relatively favorable during the quarter. The Liberian dollar, in nominal and real terms (Year-on-Year) compared with the US dollar, appreciated by 4.5 percent and 13.3 percent, respectively, at end-September 2020. Similarly, the Liberian dollar on an end-of-period (EOP) basis appreciated by 0.54 percent to 198.6/US$1.00 from L$199.4/US$1.00 recorded in quarter two 2020. The appreciation of the Liberian dollar was mainly induced by tight monetary policy stance of the CBL and weak domestic demand.

- In the third quarter, the banking industry was generally in compliance with the capital adequacy ratio (CAR), liquidity ratio (LR) and other regulatory thresholds. CAR exceeded the 10.0 percent minimum requirement by 17.7 percentage points, and the liquidity ratio increased to 44.5 percent exceeding the threshold by 29.5 percentage points. However, non-performing loans reported for the quarter rose by 4.4 percentage points compared to the Non-Performing Loans (NPLs) recorded in quarter two of 2020.

- Despite the difficult credit environment associated with high NPLs which has been exacerbated by the impact of COVID-19, overall growth in credit to the private sector slightly improved mainly due to the resumption of many private businesses on account of the easing of lockdown measures.

- Broad money supply (M2) in quarter three grew by 6.1 percent to L$136.20 billion, largely on account of 7.5 percent increase in narrow money supply (M1). Similarly, currency-in-circulation (CIC) grew by 6.5 percent, mainly reflecting the rise in currency-outside-banks (CoB) by 8.2 percent to 20.83 billion, while currency-in-banks (CoB) declined by 15.4 percent to L$1.27 billion.

- Operations in the security markets showed 3.74 percent growth in the subscription of CBL bills in quarter three with significant increase in retail investments to L$129 million from L$29.56 million in quarter two. This development shows relative improvement of investors' confidence in the CBL's instruments.

**Board's Decisions**

Considering the developments in the global and domestic economies in quarter three, the projection of headline inflation in the bandwidth of about 14.7 +/-3 percent for quarter four, 2020 and the high volume of currency outside banks, the Board of Governors took the following decisions:

1. That the CBL maintains the monetary policy rate at 25.0 percent to counteract both current and medium-term inflationary pressure with the aim of protecting the purchasing power of economic agents;

2. Despite issuance of Directive #CBL/RSD/DIR/005/2020 Lifting of Moratorium on Rules on Asset Classification and Provisioning, that the CBL engages commercial banks to restructure loans (especially performing loans prior to COVID-19) in support of the economic recovery effort and promote financial stability;

3. That the CBL takes appropriate steps to strengthen the transmission effect of the policy rate through moral suasion by encouraging commercial banks to adjust their time and savings deposit rates as an incentive to attract more deposits and support the de-dollarization strategy;

4. That CBL heightens collaboration with other agencies of government and deepens engagement with the business community as part of a broader strategy to enhance confidence in the banking system; and

5. That CBL broadens consultation with the GoL on its existing treasury instruments and resumption of the issuance of its money market instruments in Liberian dollars for the development of the money and bond markets in the advancement of financial markets in Liberia.

**Signed:** ______________________

J. Aloysius Tarlue, Jr.

**Executive Governor & Chairman**