



CENTRAL BANK OF LIBERIA



Communique No. 4 August 25, 2020

Monetary Policy Decisions of the Board of Governors

Global Macroeconomic Developments

- The slowdown in global economic activity in the second quarter of 2020 continued as a result of the adverse effects of the coronavirus, including tight financial conditions, supply chain disruptions and weak resource mobilization. These factors further accentuated revision in global growth projection from negative 3.0 percent to negative 4.9 percent in 2020. Average inflation for 2020 is now projected at 0.4 percent and 1.2 percent in advanced economies and emerging market economies, respectively.
- Policy rates in advanced economies at end June 2020 were stable at 0.25 percent and 0.10 percent in the United States (US) and United Kingdom (UK) respectively, while that of the European Union (EU) was negative 0.50 percent, the same as the first quarter of 2020.
- Rates in some West African economies eased, while others were relatively stable. Policy rates in The Gambia and Nigeria eased by 200 basis points to 10.0 percent, and 100 basis points to 12.5 percent, respectively; while Ghana and Sierra Leone maintained their rates at 14.5 percent and 15.0 percent, respectively.

Domestic Macroeconomic Developments

- The global economic slowdown partly resulted to pass-through constraints on the domestic economy, which is expected to contract by 2.5 percent in 2020 mainly due to weak activity in the secondary and tertiary sectors. The output gap shows deterioration in the second quarter, reflecting weak production and tight monetary conditions. However, the economy is expected to improve moderately

in the last quarter of the year, premised on gradual rebound in the economy and moderate inflation.

- Unadjusted annualized inflation for the quarter ended June 2020 moderated to 18.0 percent, from 23.7 percent recorded in quarter one of 2020, largely due to weak demand and the tight monetary policy stance of the Central Bank of Liberia (CBL). The end of period (June 2020) inflation fell by 8.6 percentage points to 13.1 percent, from 21.7 percent recorded at end-March 2020. Core inflation also moderated to 8.4 percent in the second quarter. Projection for the third quarter puts headline inflation at about 17.0 percent on anticipation of low oil prices and broad exchange rate stability.
- During the second quarter of 2020, the current account deficit expanded to 7.3 percent of GDP from 5.3 percent of GDP in the previous quarter, due mainly to widened trade deficit of US\$139.1 million emanating from 4.8 percent rise in import payments and 17.6 percent decline in export receipts.
- Net remittance inflow rose to US\$48.4 million in quarter two of 2020, largely reflecting relative improvement in financial conditions as a result of the reopening of some major countries. Going beyond the third quarter, net remittance inflow is expected to increase as more countries re-open their economies.
- In the second quarter, the Liberian dollar, in terms of end-of-period (EOP) nominal exchange rate, remained relatively stable with reference to the first quarter of 2020. The relative stability in the exchange rate was due to subdued demand and the use of monetary policy instruments to manage Liberian dollar liquidity.

- The banking industry was sound and stable in second quarter. The consolidated Capital Adequacy Ratio (CAR) was above the 10.0 percent minimum requirement and the consolidated liquidity ratio was above the 15 percent minimum requirement for second quarter.
- However, macroeconomic constraints, arising from the pandemic, negatively affected the banking system due to the closure of businesses and increased cash demand on the banks from economic agents.
- Loans & advances and capital decreased by 1.7 percent and 0.3 percent, respectively, while assets and deposits increased by 2.0 percent and 1.3 percent, respectively, compared with the first quarter of 2020. Total Non-performing loans (NPLs) reported for the quarter accounted for 19.6 percent of the total loans, as NPLs ratio increased marginally by 0.2 percentage points quarter-on-quarter.
- In the second quarter broad money supply (M2) grew by 5.4 percent to L\$124.7 billion, largely on account of 2.6 percent increase in narrow money supply (M1). However, movement of currency in circulation (CIC) in the second quarter marginally declined to L\$20.8 billion, from the L\$20.9 billion recorded in the first quarter of 2020 due to 0.5 percent decline in currency outside banks (CoB).
- Operations in the securities markets showed significant expansion in the second quarter with the increase in subscriptions for CBL bills from the first quarter, mainly reflecting participation of institutional investors. However, retail investment in the instruments remains marginally low at 0.03 percent.

Board of Governors' Decisions:

Having considered the dynamics in global and domestic economic developments in the second quarter as well as the projection of headline inflation of about 17.0 percent for the third quarter of 2020, the Board finds it prudent to implement the following:

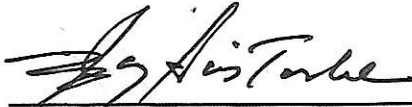
1. Maintains the monetary policy rate at 25.0 percent in line with the inflation projection for the third quarter and to:
 - a. provide a positive real return on investment in Liberian dollar and help to strengthen value of Liberian dollar liquidity;
 - b. help counteract anticipated inflationary pressure from the forward-looking lag effect of the Independence Day Festive spending by the public and demand for foreign exchange to replenish stocks going into the fourth quarter of the year.
2. Maintains the suspension of the Standing Deposit Facility and Remittance Split Policy; and limits commercial bank's purchases of CBL Bill to 1-month and 3-months tenors for effective sterilization; and
3. Enhances the communication strategy and financial literacy education.

The Board of Governors also agreed:

4. To leverage on external resources from multilateral partners to facilitate anchor borrowing schemes to key growth catalysts of the economy, including agriculture, manufacturing and small, medium enterprises (SMEs).

5. To strengthen policy coordination with the Fiscal Authority for effective liquidity forecasting and management to sustain the downward trend in inflation; and
6. To remain focus on achieving price stability as its primary objective, while contributing to ensuring and promoting a stable financial system and sustainable economic growth and development.

Signed: _____



J. Alóysius Tarlue, Jr.
Executive Governor