CENTRAL BANK OF LIBERIA
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For the Monetary Policy Meeting held on Tuesday, 27th August 2024

The Monetary Policy Committee (MPC) of the Central Bank of Liberia (CBL) held its second MPC meeting on August 27th, 2024. The MPC assessed the macroeconomic condition of the domestic as well as the global economies for the 2nd quarter of 2024 to guide the policy decisions for the quarter ahead.

Global Macroeconomic Developments

The MPC acknowledged that the global economy remained resilient despite uneven growth among regions and headwind challenges ranging from supply-chain disruption, lingering pandemic effects, the Russia-Ukraine war that sparked the energy and food crisis, and a surge in inflation that triggered tight monetary policy globally. The MPC noted that projected global Real Gross Domestic Product (RGDP) is projected to grow at 3.2 percent from the 3.3 percent growth in 2023, noting that this moderation was mainly due to moderate consumption and negative net trade effect in the United States and automobile supply disruption in Japan. In the euro area, however, growth forecast was revised upward on account of improvement in services activity.

The MPC also acknowledged the robust revision of growth forecast for emerging markets and developing economies at 4.3 percent with significant regional disparities. China's growth, as noted by the Committee, was revised upward to 5.0 percent for 2024 due to a surge in exports amid lingering real estate and industrial challenges. Similarly, India's growth was revised upward to a projected 7.0 percent driven by vigorous domestic demand, especially in rural areas.

The MPC also noted that real GDP growth outlook for Sub-Saharan Africa is improving as growth is expected to rise to 3.7 percent in 2024, a 0.1 percentage point downward revision from earlier projection. This slight moderation, as noted by the Committee, was mainly due to weaker-than-expected performance in Nigeria. However, the region is still facing a funding squeeze and high debt obligations which have caused many countries to reduce essential public spending, including capital investments, and divert those funds to debt servicing. It also observed that growths in the West African Monetary Zone (WAMZ) member countries are expected to be robust in 2024 and above their 2023 levels

The MPC was impressed that global headline inflation continued its moderation from the peak of 8.7 percent in 2022 to 6.8 percent in 2023, and this downward trend is expected to continue in 2024 as inflation is projected at 5.9 percent. The Committee observed that the moderation in headline inflation was broadly in line with the expectation of tight monetary policy in advanced economies. However, inflation is still high in low-income countries due to pass-through to domestic prices emanating from food, fuel, and fertilizer costs. Notably, Sub-Sahara Africa inflation is expected to moderate but remain high at 15.3 percent from the 16.2 percent recorded in 2023, the Committee observed.

The Committee noted that developments in commodities prices were mixed. Except for round logs and rice prices that declined, the prices of the other selected agricultural commodities (cocoa bean, coffee, palm oil, rubber) rose. While in the metal & energy category, gold and crude oil prices rose but iron ore price declined compared to the first quarter in 2024.

Domestic Macroeconomic Developments

The quarterly growth of Real GDP was relatively weaker in quarter two of 2024. As noted by the Committee, the moderation was mainly on account of the weak fiscal impulse and contraction in output gap as reflected by the moderate economic activity recorded in the quarter. The MPC was optimistic that economic activity in quarter three will be strong as government strengthens its spending performance.

The MPC was impressed by the moderation in headline inflation to 7.4 percent from the 10.2 percent in quarter one 2024. The Committee noted that the moderation in consumer prices was mainly driven by weak demand and tight monetary policy. The Committee was satisfied with the forecast for quarter three of 2024 which shows that inflation is expected to continue its moderation to 6.5 percent with a symmetric band of +/- 2.0 percentage points.

The Banking Sector

The MPC noted that the banking industry, examined through its key balance sheet items, reported growth for the assessment period. The industry, as noted by the Committee, remained capitalized and liquid. Total loans and advances, total assets (gross), total deposits and total capital increased by 5.4%, 4.7%, 9.6% and 4.0%, respectively, in comparison with the first quarter of 2024. The Committee also acknowledged the 1.02 percentage point decline in non-performing loans (NPLs) but was concerned that the level of NPLs (17.8% of total loans) was still above the tolerable limit of 10.0%. The assessment, as noted by the MPC, showed that the banking system ratio of interest-bearing liabilities to assets was 51.0%, while its repricing gap was positive, suggesting that the banking system is less affected by interest rate risk.

The MPC observed the growth recorded in credits to the private sector in both currencies during quarter two 2024. It was noted that private sector credits in Liberian dollar only rose by 2.42 percent to L$5.7 billion (0.65% of GDP) from the L$5.6 billion (0.64% of GDP) recorded in quarter one 2024. The Committee noted that the growth in Liberian dollar credits was driven by 13.9 percent growth recorded in credits to manufacturing. Credits to the services, forestry and extractive sectors also expanded by 2.5 percent, 4.1 percent, and 9.3 percent, respectively, in quarter two 2024.

Similarly, the MPC noted that credits to private sector in USD expanded by 6.2 percent to US$482.3 million (10.58% of GDP), from the US$454.3 million (9.97) recorded in quarter one of 2024. It was noted that the expansion in US dollar credits was underpinned by growth in credit to agriculture by 23.6 percent, manufacturing by 18.2 percent and services by 5.2 percent. However, the sectors that recorded contraction in US dollar credits were forestry and the extractive sectors, contracting by 5.6 percent and 1.6 percent, respectively, the Committee noted.

However, the Committee was concerned that the US dollar component of credits to private sector was 94.0 percent while the Liberian dollar component accounted for 6.0 percent, constraining its de-dollarization objective.

Monetary Aggregates and Financial Markets Developments

The MPC observed that monetary aggregates for quarter two 2024 showed growths in broad money (M2) by 8.3 percent, narrow money (M1) by 9.6 percent and quasi money by 5.0 percent. Contrary to these expansions, currency in circulation (CIC) contracted by 2.0 percent to 27.7 billion on account of 0.2 percent decline in currency outside banks (COB) to L$25.2 billion and 17.0 percent decline in currency in banks to L$2.5 billion, which was a favorable outcome for the Committee.

Subscription to the CBL bills as noted by the MPC slightly declined during the quarter. Total issuance declined by 3.0 percent due to 3.1 percent decline in institutional subscriptions and 1.7% decline in retail investor subscriptions. The Committee was also concerned that transactions in the interbank market was weak, characterized by single SWAP and REPO valued at US$2.0 million and US$3.5 million, respectively.

Fiscal Developments

The government fiscal policy as noted by the MPC was contractionary in quarter two relative to the first quarter of 2024. The Fiscal Stance (FS) on average contracted to 1.6 percent of GDP from a relatively smaller contraction of 0.27 percent of GDP in quarter one 2024. It was also noted that the Fiscal Impulse (FI) improved slightly by 0.7 percentage point. However, on account of the contractionary FS, the FI remained in negative territory to 2.6 percent of GDP from the contraction of 3.3 percent of GDP recorded in the previous quarter of 2024.

External Sector and Exchange Rate Developments

During its deliberation, the MPC was concerned with the deterioration of the trade deficit to 5.0 percent of GDP due to 11.0 percent estimated growth in import payments despite the 19.4 percent increase in export receipts. It was observed by the Committee that the gross international reserves (GIR) declined by 6.4 percent to US$416.6 million on account of decline in foreign liquid assets, including Special Drawing Right (SDR) holdings. This development, as noted by the MPC, saw the GIR in months of import cover (MIC) reduce to 2.1 months during the review quarter relative to the 2.3 months recorded in quarter one of 2024.

The MPC observed that the Liberian dollar remained broadly stable both on end-period and period average. It was noted that on end-of-period basis, the Liberian dollar marginally depreciated by 0.8 percent to L$194.39/US$1.00 at end-June 2024 compared to the L$192.8/US$1.00 recorded at the end of March 2024. Similarly, on an average basis, the Liberian dollar depreciated by 1.5 percent to L$193.58/US$1.00, from L$190.77/US$1.00 in quarter one of 2024. The Committee expressed satisfaction that the depreciation rates were within the Bank's appetite.

MPC Decisions

At the end of the deliberations on quarter two 2024 economic assessment, the MPC took note of the resilience in global growth, the moderation in global headline inflation, the rise in gold, palm oil, and rubber prices. The Committee welcomed the quarterly growth estimates and was pleased with the moderation in domestic headline inflation and its projection. However, it was concerned that the expected rise in government expenditure in quarter three is a risk to the decline in inflation.

Thus, the MPC decided, in alignment with its mandate and in support of maintaining financial and macroeconomic stability, on the following:

1. To lower the Monetary Policy Rate (MPR) by 250 basis points to 17.5 percent, consistent with the moderation in inflationary pressures in the economy

2. To maintain the reserve requirement regulatory threshold for Liberian and US dollars, respectively, until the next quarter assessment.

In light of the above, the CBL reassures the public that it will continue to monitor developments in both the domestic and global economies. This will be done in accordance with its mandate to implement policies that ensure the stability of the Liberian economy.

Signed:______________________________

Henry F. Saamoi

Acting Executive Governor & Chairman of the MPC