CENTRAL BANK OF LIBERIA
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For the Monetary Policy Committee Meeting held on Thursday, 16 January 2025

The Central Bank of Liberia's (CBL) Monetary Policy Committee (MPC) held its first meeting of 2025 on January 16, to assess macroeconomic developments in both the domestic and global economies for the last quarter of 2024. The results of the assessment were used to guide decisions on the Bank's policy stance, which will influence macroeconomic conditions in the first quarter of 2025.

Global Macroeconomic Developments

The world economy, as noted by the MPC, remained stable in the last quarter of 2024. Global growth moderated slightly to 3.2 percent in 2024, compared to the 3.3 percent growth recorded in 2023, reflecting the lingering supply chain disruption largely induced by geopolitical tensions. This stability, the Committee noted, is expected to continue in 2025 with growth projected to remain unchanged.

The Committee observed that high inflation rates prompted responses of tightening monetary policies across many regions in 2024, especially in advanced economies, leading to a moderation in consumer prices. Global headline inflation moderated to 5.8 percent in 2024, down from 6.7 percent in 2023. Consumer prices in both advanced economies and emerging markets and developing economies moderated to 2.6 percent and 7.9 percent in 2024, respectively. In Sub-Saharan Africa, the Committee noted that inflation peaked at 18.1 percent in 2024, mainly driven by food price pressures and other structural weaknesses in the agricultural subsector.

The Committee expressed optimism about further moderation in global headline inflation, which is projected at 4.3 percent in 2025. .However, while the projected moderation is very encouraging, the risks of escalating regional conflicts, prolonged monetary policy tightening, a resurgence of financial market volatility, adverse effects on sovereign debt markets, and a deeper growth slowdown in China, were major concerns noted by the committee. These risks could place unexpected pressure on consumer prices.

The Committee observed that the mixed movements in global commodity prices were relatively favorable for the Liberian economy in the fourth quarter of 2024. The MPC was satisfied with the reduction in global rice and fuel prices as well as the rise in the prices of export commodities such as gold, iron ore, rubber, and palm oil. However, the Committee noted that despite the favorable movements in global commodity prices, the trade deficit of the country widened during the quarter.

Domestic Macroeconomic Developments

The MPC noted a 1.7 percent moderation in the quarterly Real GDP (QRGDP) growth of the Liberian economy compared to the 5.3 percent recorded in the corresponding quarter in 2023 due to moderation in production and contractions in monetary conditions and consumption indices. The Committee acknowledged with optimism that economic activity is expected to strengthen in the coming quarters reflecting developments in construction and government-related activities.

The Committee's expectation for QRGDP in the first quarter of 2025 is low with the anticipated contraction arising from weak production and consumption, particularly in the first two months of the year, when businesses are expected to replenish stocks.

The Committee expressed concerns about the 8.7 percent rise in consumer prices during the last quarter of the year, up from 5.9 percent in the third quarter of 2024, and the projected increase to 10.3% +/-2.0 for first quarter of 2025. This development was noted to be mainly due to rising domestic food prices during the quarter. However, the Committee emphasized that this rise is temporary and is expected to revert to trend (single digit) in the quarters ahead.

The Banking Sector

The Committee noted that during the last quarter of the year, the banking sector was well capitalized and liquid. However, based on preliminary statistics, it was observed that except for capital, which rose by 0.5 percent, total assets (gross), total deposits and total loans and advances decreased by 3.4 percent, 3.3 percent, and 5.5 percent, respectively.

The MPC was satisfied with the estimated 2.1 percentage points decline in non-performing loans (NPLs) from 21.3 percent in the previous quarter. However, the Committee expressed concerns that despite the decline, the NPL level remains beyond the Bank's tolerable limit of 10.0 percent.

With regards to sectoral concentration, the Committee recognized that loans and advances are primarily concentrated in five (5) sectors: trade (26.0 percent); personal (14.9 percent); service (14.2 percent); oil & gas (8.4 percent); and construction (8.1 percent) of total loans and advances. The Committee pointed out that these five sectors recorded the highest share of NPLs. Despite these developments, the banking sector remained relatively stable during the quarter with the ratio of interest-bearing liabilities to assets recorded at 52.6 percent.

The Committee observed steady growth in credits to the private sector in both currencies. The Liberian dollar component of credit to private sector rose by 2.7 percent to L$6.0 billion from L$5.9 billion during third quarter of 2024. This increase was mainly due to growths of 4.8 percent, and 2.9 percent in credit advanced to agriculture, and services subsectors, respectively. Similarly, the Committee noted that the USD credit to private sector rose by 3.3 percent to US$509.8 million, from US$493.4 million recorded in the third quarter of 2024 largely driven by 57.3 percent and 40.4 percent growth in credits to manufacturing and agricultural subsectors, respectively.

Monetary Aggregates and Financial Markets Developments

During the deliberation, the Committee realized that monetary aggregates recorded slight declines in the fourth quarter of 2024. Broad money (M2) declined by 1.4 percent compared to the previous quarter mainly due to the decline in Net Domestic Assets (NDA) resulting from a fall in domestic credits during the quarter. The MPC also observed that the Liberian dollar currency in circulation (CIC) increased by 25.4 percent to estimated L$35.0 billion from L$27.9 billion mainly due to seasonal spending, especially during the end-of-year holiday festivities.

The Committee expressed concern that the growth in CiC could adversely impact macroeconomic stability and emphasized the need for monetary policy measures to be strengthened to manage the growth rate of CiC, particularly currency outside banks (CoB).

Financial markets activities, as noted by the Committee, were relatively slow, with an increase in undersubscription for the CBL bills. The Committee noted that the decline in the commercial banks' subscription for CBL bills was due to significant withdrawals by the public for festive celebrations.

The Committee highlighted that the government's payment of principals on treasury instruments and coupons to commercial banks supported financial markets operations during the quarter. The MPC also observed three (3) swap transactions totaling US$26.0 million and two (2) FX purchases totaling US$25.0 million in the interbank market. They expressed optimism that ongoing transactions in the interbank market are crucial for strengthening the transmission of monetary policy impulses.

Fiscal Developments

The Monetary Policy Committee noted that fiscal operations of the Government were marked by rising expenditure, resulting in net injections of L$13.2 billion Liberian dollars during the fourth quarter in support of the gradual dedollarization, along with US$37.4 million. Fiscal impulse, however, contracted to 3.0 percent of GDP from 1.7 percent of GDP in the previous quarter. The Committee was optimistic that the government's policy in the next quarter would stimulate aggregate demand, potentially increasing the output gap and mitigating the risk of exchange rate and inflation uncertainties.

External Sector and Exchange Rate Developments

During the deliberation, the MPC observed that the projected trade deficit expanded to US$67.1 million, from US$35.2 million reported in the third quarter of 2024. This projected widening of the deficit was driven by 9.1 percent growth in import payments, while merchandise export receipts grew by 1.0 percent. The Committee recognized a 2.1 percent reduction in the gross international reserves (GIR), explained by a contraction in SDR holdings and GoL demand deposits. Accordingly, the Gross International Reserves (GIR) in months of import cover (MIC) also fell to 2.8 months during the review quarter relative to the 3.1 months recorded in third quarter of 2024, due to the growth in import payments coupled with the reduction in the GIR.

The MPC was pleased with the exchange rates developments in the fourth quarter, noting that the Liberian dollar appreciated against the USD on both average and end-periods by 4.83 percent on average and 5.96 percent at the end of period, reaching L$185.47/US$1.00 and L$193.26/US$1.00, respectively. The Committee affirmed that this development was largely reflective of an increase in foreign exchange inflows coupled with the tight monetary policy stance of the CBL. The Committee remains confident that broad stability in the exchange rate will continue in the next quarter, anchored on effective liquidity management as the Bank maintains its monetary policy stance.

MPC Decisions

Following the deliberations on the economic assessment of the fourth quarter of 2024, the Committee expressed concern about the rise in consumer prices during the quarter and the projected rise in the inflation forecast for the first quarter of 2025.

The Committee noted that moderation in global headline inflation, resilient global growth and increases in the prices of gold, iron ore, palm oil, and rubber, coupled with the decline in the prices of rice and petroleum, and the rising net remittance inflows were favorable developments for the Liberian economy. The Committee also welcomed the quarterly growth outlook for the Liberian economy and acknowledged that the spike in the exchange rate is temporary.

Before adjourning the meeting in line with its mandate to safeguard the financial sector and support macroeconomic stability, the Committee decided on the following measures:

1. To maintain the Monetary Policy Rate (MPR) at 17.0 percent, consistent with the expectation of rising currency in banks;

2. To maintain the reserve requirement ratios at 25 percent and 10 percent for Liberian and US dollars, respectively; and
3. Reintroduce the corridor system, offering standing credit facility (SCF) at the upper band of MPR plus 2.5 percentage point and standing deposit facility (SDF) at the lower band of MPR minus 7.5 percentage points.

In conclusion, we would like to reassure the public that efforts to monitor global and domestic economic developments to ensure macroeconomic stability in accordance with our mandate and to implement policies that enhance, among others, the financial sector stability of the Liberian economy remain our sole objective.

Signed: ______________________

Henry F. Saamoi

Acting Executive Governor & Chairman of the MPC