

# CENTRAL BANK OF THE GAMBIA



## Monetary Policy Committee

Press Release

June 9, 2016

The Monetary Policy Committee (MPC) met on June 8, 2016 under the Chairmanship of the Governor, Central Bank of The Gambia, Mr. Amadou Colley, to assess domestic and international macroeconomic and financial developments, the outlook for the remainder of 2016 and decide on the stance of monetary policy.

### Global Economic Developments

- 1.0** Since the previous meeting of the MPC, global growth outlook appears to have softened somewhat. However, according to the International Monetary Fund (IMF), global economic growth is expected to strengthen gradually. Growth is projected at 3.2 percent in 2016 compared to 3.1 percent in 2015 supported by accommodative monetary policy, slowing rate of contraction in certain emerging market economies and reforms to promote economic growth in various countries.
- 2.0** Growth in advanced economies is projected at 1.9 percent in 2016, the same as in 2015. Economic activity in the United States expanded at a modest pace at the beginning of 2016 reflecting weaker consumer spending in January, additional drag from the oil and gas sector on investment and the lagged effect of stronger US Dollar on exports. Despite heightened uncertainty at the start of 2016, growth in

the euro area expanded by 0.6 percent in the first quarter over the previous quarter underpinned by expansionary monetary policy, low oil prices and past exchange rate depreciations.

- 3.0** Activity in emerging market economies is projected to remain broadly stable at 3.5 percent in 2016 and 3.3 percent in 2017. The outlook is, however, heavily influenced by developments in the Chinese economy. China's GDP growth is expected to slow from 6.9 percent in 2015 to 6.5 percent in 2016.
- 4.0** Growth in Sub-Saharan Africa is projected to expand by 3.0 per cent, slower than the 3.4 percent in 2015 reflecting decreased activity in nearly all the countries in the region, particularly Nigeria and South Africa.
- 5.0** Global inflation pressures remain benign reinforced by the continuing low oil prices, but there have been upward price pressures in some emerging economies.
- 6.0** Prices of energy and non-energy commodities remain well below historical averages. The global oversupply and consequent low prices are expected to persist in the short-term particularly following the lifting of sanctions against Iran. The FAO food price Index averaged 151.8 points in April 2016, an increase of 0.7 percent from March 2016, but almost 10 percent below the April 2015 level.

## **The Domestic Economy**

### **Real GDP**

- 7.0** On the domestic front, economic activity was stronger in 2015 relative to 2014 owing to the recovery of the agricultural sector, tourism and trade from the impact of drought and the spill over effects of the Ebola outbreak in the sub-region in 2014. According to the Gambia Bureau of Statistics (GBoS), the Gambian economy is estimated to have grown by 4.7 percent in 2015, higher than the 0.9 percent in 2014. Agricultural output rebounded from 7.1 percent contraction in 2014 to a growth of 7.0 percent in 2015. Industry value-added is estimated at 8.2 percent, significantly higher than the 2.7 percent in 2014 attributed to the increase in the output of construction, electricity and mining sub-sectors. However, Services value-added grew modestly by 3.3 percent, lower than the 6.0 percent in 2014.

### **Money and Banking Sector Developments**

- 8.0** Growth in key monetary aggregates slowed significantly in the year to end- March, 2016. Broad money (M2) grew by only 0.7 percent in March 2016 compared to 13.6 percent in March 2015 mainly reflecting the significant contraction in the net foreign assets (NFA) of the banking system. The net domestic assets (NDA) of the banking system, on the other hand, rose by 23.0 percent to D20.2 billion.
- 9.0** Reserve money, the Central Bank's operating target, grew by 11.9 percent in the year to end-March 2016 from 12.4 percent a year earlier. This was solely as a result of the 39.7 percent increase in the NDA of the Central Bank.

- 10.0** According to the financial soundness indicators, the banking sector remains safe and sound. The industry risk-weighted capital adequacy ratio averaged 36.5 percent in March 2016, higher than the required minimum of 10.0 percent. Total assets increased to D29.4 billion in the year to end-March, or 4.8 percent from a year ago attributed primarily to 13.0 percent increase in investments. Gross loans and advances which accounted for 17.5 percent of total assets, decreased by 15.8 percent to D5.2 billion. The ratio of non-performing loans to gross loans was 8.1 percent in March, 2016, higher than the 6.5 percent in December 2015.
- 11.0** Deposit liabilities declined slightly to D16.5 billion or 1.2 percent from year ago reflecting mainly the decline in time deposits. The liquidity ratio averaged 95.5 percent in March 2016 compared to 93.0 percent in December 2015 and higher than the statutory minimum requirement of 30.0 percent. The industry recorded a net profit of D129 million in the first quarter of 2016, lower than the D144.6 million in the previous quarter.
- 12.0** The domestic debt rose to D23.2 billion at end-March 2016 (54.7 percent of GDP) compared to D19.3 billion (48.3 percent of GDP) in March 2015. The outstanding stock of Treasury bills and Sukuk AL Salam (SAS) combined, (66.2 percent of the debt), decreased to D15.4 billion, or 2.2 percent from a year ago.
- 13.0** Yields on all the Government securities increased. The yield on the 91-day, 182-day and 364-day Treasury bills rose from 12.7 percent, 15.6 percent and 17.7 percent in March 2015 to 17.66 percent, 18.24 percent and 22.12 percent respectively in March 2016. Similarly, the yield on the 91-day, 182-day and 364-day SAS increased from 13.74 percent, 15.94 percent and 18.61 percent in March 2015 to 17.54 percent, 18.27 percent and 22.13 percent respectively in March 2016.

## **14.0 Government Fiscal Operations**

Preliminary data on government fiscal operations for the first quarter of 2016 indicated that total revenue and grants amounted to D2.20 billion, slightly higher than the D2.19 billion outturn in the same period last year. Domestic revenue, comprising tax and non-tax revenue, increased to D2.1 billion, or 5.0 percent from the first quarter of 2015. Total expenditure and net lending (including payment of arrears and outstanding commitments) decreased to D2.5 billion, or 3.0 percent over the corresponding quarter of 2015.

**15.0** The overall budget balance (excluding grants) on commitment basis, was D392.12 million (1.0 percent of GDP) compared to D580.20 million (1.5 percent of GDP) in March 2015. The budget balance (including grants) on commitment basis amounted to D244.4 million (0.6 percent of GDP) compared to D391.7 million (1.0 percent of GDP) in the same quarter in 2015.

## **External Sector**

### **Exchange Rate Developments**

**16.0** In the year to end-May 2016, volume of transactions in the domestic foreign exchange market, as measured by aggregate sales and purchases, rose to US\$0.81 billion, higher than the US\$0.63 billion a year earlier. The Dalasi depreciated against the US dollar by 8.8 percent, Pound (4.4 percent) and Euro (15.7 percent).

### **Balance of Payments Developments**

**17.0** Provisional balance of payments estimates for the first quarter of 2016 indicate an overall surplus of US\$13.7 million, lower than the surplus of US\$17.9 million in the corresponding quarter of 2015. The current account deficit narrowed to US\$6.3 million, compared to the deficit of US\$14.4 million in the same quarter of 2015. Of the components of the

current account, the goods account deficit narrowed from US\$59.8 million in the first quarter of 2015 to US\$44.4 million in the quarter under review. Although exports declined by 22.6 percent to US\$24.7 million, imports also decreased by the same magnitude to US\$69.2 million.

**18.0** The services account surplus increased to US\$16.8 million compared to US\$13.7 million in the first quarter of 2015. Current transfers rose slightly to US\$44.5 million relative to the US\$42.3 million in the first quarter of 2015 reflecting largely the slight increase in workers' remittances from US\$43.0 million in the first quarter of 2015 to US\$45.7 million in the quarter under review. The income account deficit widened to US\$23.1 million compared to US\$10.5 million in the same quarter in 2015. The capital and financial account recorded a surplus of US\$23.8 million, lower than the US\$34.6 million in the first quarter of 2015.

**19.0** Gross official reserves decreased to US\$62.24 million at end-March 2016, equivalent to 2.5 months of import cover, compared to US\$88.80 million, equivalent to 3.5 months of import cover in March 2015.

## **20.0 Inflation Outlook**

Consumer price inflation, measured by the National Consumer Price Index (NCPI), rose slightly to 7.1 percent in March 2016 compared to 6.5 percent in March 2015 attributed solely to the increase in non-food inflation. Food inflation, decelerated slightly from 8.4 percent in March 2015 to 8.18 percent in March 2016 reflecting mainly the decline in meat prices from 22.3 percent in March 2015 to 13.5 percent in March 2016. Non-food inflation, in contrast, rose to 5.3 percent in March 2016 from 4.2 percent in March 2015 driven mainly by the increase in the prices of "clothing materials, garments and textiles" which rose to 9.85 percent in March 2016 from 4.63 percent in March 2015. Central Bank of The Gambia's measure of core inflation, which excludes the prices of volatile food items, utilities and energy, rose to 7.1 percent in March 2016 compared to 6.8 percent in March 2015.

**21.0** Readings of the forward looking business sentiment survey indicate that inflation expectations remain elevated attributed in large part to the recent uptick in headline inflation. However, the MPC expects a downward trajectory of inflation going forward predicated on the confluence of subdued growth in money supply, broad stability of the exchange rate, the benign global inflation environment and soft commodity prices. The MPC, therefore, judges the current stance of monetary policy appropriate and decided to leave the policy rate unchanged at 23 percent. The Committee remains committed to its price stability mandate and would continue to monitor developments in the economy and take appropriate actions if necessary.