CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

Press Release **May 9, 2017**

The Monetary Policy Committee (MPC) met on May 8, 2017 to assess domestic and international macroeconomic and financial developments, the outlook for the second half of 2017 and decide on the stance of monetary policy.

Global Economic Developments

The pace of global economic growth is picking up somewhat driven largely by buoyant financial markets, recovery in manufacturing and trade. The IMF World Economic Outlook (WEO) release of April 2017 projected global growth to increase from 3.1 percent in 2016 to 3.5 percent in 2017. However, the downside risks to global growth would stem principally from rising protectionism, tighter global financial conditions and deepening geopolitical tensions as well as structural challenges such as low productivity growth and high income inequality. Global inflation has increased lately as commodity prices, particularly energy, began to recover.

Growth in advanced economies is projected at 2.0 percent in 2017, up from 1.7 percent in 2016. Growth is expected to be supported largely by strong growth in United States and United Kingdom. Activity in emerging market and developing economies is projected to remain broadly stable at 4.5 percent in 2017 from 4.1 percent in 2016 and 4.8 percent in 2018. Growth in Sub-Saharan Africa is projected to expand by 2.6 percent, from 1.4 percent in 2016, reflecting largely recovery in Nigeria and South Africa as commodity and oil prices rebound.

The Domestic Economy

Real GDP

At the domestic front, economic activity slowed in 2016 owing to weak agricultural output, the limited availability of foreign exchange which impacted trade, the effect of the political impasse on tourism during the later part of the year and tight credit conditions. The Gambia Bureau of Statistics (GBoS) estimated real GDP growth at 2.2 percent in 2016, lower than the 4.3 percent in 2015. Agricultural output grew by 0.5 percent in 2016, lower than the growth of 7.0 percent in 2015 attributed mainly to poor cropping season. Industry value-added contracted by 3.1 percent in 2016 from 8.2 percent in 2015 owing to marked contraction in construction and manufacturing sub-sectors. However, Services value-added grew by 5.1 percent during the same period supported mainly by developments in whole sale and retail trade. Economic activity is expected to pick up slightly in 2017 premised on normal cropping season, recovery in trade and tourism, restoration of confidence and improved macroeconomic policies.

Money and Banking Sector Developments

Growth in key monetary aggregates picked up significantly in the year to end- March, 2017. Broad money (M2) grew by 14.4 percent in March, 2017 compared to 0.7 percent a year earlier partly reflecting the uptick in the net foreign assets (NFA) of the banking system coupled with strong growth in the monetary base. The net domestic assets (NDA) of the banking system rose by 10.2 percent to D22.2 billion.

Reserve money, the Central Bank's operating target, grew by 18.1 percent in the year to end-March 2017 from 11.9 percent a year earlier. This was solely as a result of the 10.2 percent increase in the NDA of the Central Bank.

The banking sector remains profitable and adequately capitalised. The industry risk-weighted capital adequacy ratio averaged 35.4 percent, a slight decline from 36.5 percent in March 2016. Total assets increased to D33.48 billion in the year to end-March 2017, or 13.9 percent from a year ago attributed primarily to 27.5 percent increase in balances due from other banks. Gross loans and advances which accounted for 12.1 percent of total assets, decreased by 21.4 percent to D4.1 billion. The ratio of non-performing loans to gross loans was 8.4 percent in March, 2017, lower than the 9.3 percent in December 2016.

The stock of domestic debt is largely short-term debt with average maturity period of less than one year and has significant rollover risks. Stock of domestic debt was D29.8 billion at end-March 2017 (68.1 percent of GDP) compared to D23.6 billion (54.6 percent of GDP) in March 2016. The outstanding stock of Treasury bills and Sukuk AL Salam (SAS) combined (61.7 percent of the debt), stood at D18.4 billion, or 21.7 percent from a year ago. Commitment by the government to the implementation of prudent fiscal policy is expected to stabilize the domestic debt in the medium term.

Yields on all the Government securities are trending down amid high level of excess liquidity in the system. The yield on the 91-day, 182-day and 364-day Treasury bills declined from 17.66 percent, 18.24 percent and 22.12 percent in March 2016 to 10.1 percent, 12.1 percent and 13.3 percent respectively in March 2017. Similarly, the yield on the 91-day, 182-day and 364-day SAS fell from17.54 percent, 18.27 percent and 22.13 percent in March 2016 to 10.4 percent, 12.7 percent and 13.9 percent respectively in March 2017.

Government Fiscal Operations

Preliminary data on government fiscal operations for the first two months of 2017 indicated that total revenue and grants amounted to D1.3 billion, slightly lower than the D1.4 billion outturn in the same period last year. Domestic revenue, comprising tax and non-tax revenue, decreased to D1.1 billion, or

15.6 percent from the same period of 2016.Total expenditure and net lending (including payment of arrears and outstanding commitments) decreased to D1.4 billion, or 10.2 percent over the corresponding period of 2016.

The budget balance (including grants) on commitment basis amounted to D75.5 million (0.2 percent of GDP) compared to D156.8 million (0.4 percent of GDP) in the same period in 2016.

External Sector

Exchange Rate Developments

In the year to end-April 2017, volume of transactions in the domestic foreign exchange market, as measured by aggregate sales and purchases, rose to US$1.2 billion, higher than the US$0.83 billion a year earlier. The Dalasi depreciated against the US dollar by 10.7 percent, Pound (1.9 percent) and Euro (7.4 percent).

Balance of Payments Developments

Provisional balance of payments estimates for the fourth quarter of 2016 indicate an overall deficit of US$3.5 million, lower than the deficit of US$7.8 million in the corresponding quarter of 2015. The current account deficit increased to US$36.0 million, compared to the deficit of US$16.5 million in the same quarter of 2015.Of the components of the current account, the goods account deficit increased from US$53.2 million in the fourth quarter of 2015 to US$63.5 million during the quarter under review.

The services account surplus decreased to US$7.4 million compared to US$17.3 million in the fourth quarter of 2015. Current transfers rose to US$33.7 million relative to the US$25.6 million in the fourth quarter of 2015 reflecting largely the increase in workers' remittances from US$24.3 million in the fourth quarter of 2015 to US$43.0 million in the quarter under review. The income account deficit widened to US$13.6 million compared to US$6.1 million in the same quarter in 2015. The capital and financial account recorded a deficit of US$0.5 million, lower than the US$16.2 million deficit registered in the fourth quarter of 2015.

Inflation Outlook

Consumer price inflation, measured by the National Consumer Price Index (NCPI), rose to 8.7 percent in March 2017 from 7.0 percent in March 2016. The increase in headline inflation was due to the marked increase in both food and non-food inflation. Food inflation rose from 8.2 percent in March 2016 to 9.5 percent in March 2017 reflecting mainly the increase in bread cereals, fish and nuts from 9.1 percent, 10.4 percent, and 4.4 percent in March 2016 to 11.0 percent, 12.1 percent and 7.4 percent in March 2017 respectively. Similarly, non-food inflation rose to 7.1 percent in March 2017 from 5.3 percent in March 2016 driven mainly by the increase in the prices of "clothing materials, garments and textiles" to 7.9 percent in March 2017 from 7.1 percent in March 2016.

Decision

The MPC expects inflation to moderate going forward predicated on the strong commitment by the fiscal authorities to return to sustainability, projected increase in inflows and restoration of confidence. This is expected to dampen inflationary pressures and stabilize the exchange rate. The MPC, therefore, decided to reduce the monetary policy rate from 23 percent to 20 percent. The Committee would continue to monitor developments in the economy and act appropriately should the economic conditions change.