

CENTRAL BANK OF THE GAMBIA



Monetary Policy Committee

September 1, 2016

Press Release

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on August 31, 2016 under the Chairmanship of the Governor of the Central Bank of The Gambia. The Committee evaluated global and domestic economic and financial developments, and the outlook for the remainder of 2016 before deciding on the stance of monetary policy.

Global Economic Developments

1. Since the last meeting of the Monetary Policy Committee (MPC), growth outlook for the global economy has worsened somewhat due primarily to uncertainty surrounding the Brexit. However, with gradual reduction in uncertainty, no economic barriers and financial market disruptions, the impact of the Brexit on the global economy is expected to be mild. Against this backdrop, the International Monetary Fund (IMF) lowered its global growth Projections modestly by 0.1 percentage points for 2016 and 2017 to 3.1 percent and 3.4 percent respectively.
2. Economic growth in advanced economies is projected at 1.8 percent in 2016, lower than 1.9 percent in 2015. Economic activity in the United States was lower than anticipated in the first quarter of 2016 due mainly to weak consumer spending, lower oil and gas investment, and strong US dollar. However, the impact of the Brexit on the US economy is expected to be moderate in the light of mainly lower long-term interest rates and gradual monetary policy normalization. Growth in the euro area in the first quarter of 2016 was higher than anticipated at 2.2 percent mirroring robust domestic demand. However,

given increased uncertainty relating to Brexit, growth in the region is expected to slow down to 1.6 percent in 2016.

3. In emerging market and developing economies, growth is forecast to remain unchanged at 4.1 percent and 4.6 percent for 2016 and 2017, influenced heavily by developments in China. Economic growth in China is projected at 6.7 percent and 6.2 percent for 2016 and 2017 respectively.
4. Growth forecast for sub-Saharan Africa has been revised down to 1.6 percent in 2016, lower than 3.3 percent in 2015, reflecting mainly worsening macroeconomic conditions in the region's largest economies.
5. Global inflation pressures remain low reinforced by the continuing low oil prices, but there have been upward price pressures in some emerging economies.
6. Prices of energy and non-energy commodities remain well below historical averages. The global oversupply and consequent low prices are expected to persist due to slow demand from China and the impact of Brexit. The FAO food price Index averaged 161.9 points in July 2016, an increase of 0.8 percent from June 2016.

The Domestic Economy

Real GDP

7. Provisional data from the Gambia Bureau of Statistics (GBOS), indicate that economic activity grew by 4.7 percent in 2015, higher than 0.9 percent in 2014, driven largely by recovery in agriculture, tourism, and construction sectors. Agricultural output was estimated to have recovered from a contraction of 7.1 percent in 2014 to grow at 7.0 percent in 2015. Industry value-added was estimated at 8.2 percent, higher than the 2.7 percent in 2014 attributed to the marked increase in the output of construction and electricity sub-sectors. However, output growth in the services sector declined to 3.3 percent in 2015

compared 6.0 percent in 2014, due mainly to the decline in output of hotels and restaurants.

Money and Banking Sector Developments

8. Money supply (M2) contracted by 0.2 percent in June 2016 compared to a growth of 11.9 percent in June 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 rose by 10.6 percent to D19.6 billion.
9. The banking system's net claims on government rose by 29.1 percent to D17.3 billion in June 2016. Similarly, banks' net claims on the private sector increased, albeit mildly by 3.9 percent to D4.6 billion.
10. Reserve money, the Central Bank's operating target, grew by 18.6 percent in the year to end-June 2016 from 19.7 percent a year earlier. Growth in reserve money was as a result of the 35.2 percent increase in the net domestic assets (NDA) of the Central Bank.

Banking Sector

11. The banking sector remains fundamentally strong and safe as indicated by the financial soundness indicators. The capital adequacy ratio for the industry averaged 38.5 percent in June 2016 compared to 37.9 percent a year ago.
12. Total assets increased to D29.6 billion (69.8 percent of GDP) or 0.7 percent reflecting mainly increase in investments by 2.3 percent. Gross loans and advances which accounted for 14.4 percent of industry's total assets, declined by 15.7 percent in June 2016 compared to the same period last year. Non-performing loans ratio stood at 7.6 percent in June 2016, down from 11.65 percent in June 2015.

- 13.** Deposit liabilities, accounting for 54 percent of industry's total liabilities, declined by 2.9 percent in June 2016 to D16.1 billion. The liquidity ratio averaged 88.7 percent, well above the required minimum of 30 percent.
- 14.** The industry recorded a net profit of D179.0 million in June 2016, higher than D129.0 million in the previous quarter. Return on assets (ROA) and return on equity (ROE) rose to 2.7 percent and 16.0 percent in June 2016 from 1.8 percent and 11.6 percent in the previous quarter.

Money Market Developments

- 15.** The domestic debt rose to D25.1 billion at end-June 2016 compared to D20.5 billion the same period last year. Outstanding stock of Treasury bills and Sukuk Al Salam (SAS) combined, which accounted for 61.4 percent of the debt, increased to D15.6 billion or 12.2 percent from last year.
- 16.** Yields on the 91 day and 182 day treasury bills declined to 17.15 percent and 17.83 percent in June 2016 from 17.28 percent and 18.44 percent in June 2015. In contrast, Yield on the 364 day bills, on the other hand, rose to 21.85 percent from 21.45 percent a year ago. Yields on the 91 day and 182 day SAS declined to 17.5 percent and 17.9 percent in June 2016 compared to 17.6 percent and 18.4 percent respectively in June 2015. Yield on 364 day SAS, on the other hand, rose to 21.90 percent from 20.54 percent in June 2015.

Government Fiscal Operations

- 17.** Preliminary data on government fiscal operations for the first half of 2016 shows that total revenue and grants amounted to D4.29 billion (10.1 percent of GDP), compared to the outturn of D4.35 billion (10.9 percent of GDP) in the corresponding period a year earlier. Domestic revenue, which comprises of tax and non-tax revenues, increased to D4.2 billion (9.8 percent of GDP) compared to D3.9 billion (9.8 percent of GDP) in the corresponding period a year

earlier. Tax revenue grew by 7.6 percent to D3.8 billion whilst non-tax revenue declined by 5.4 percent to D345.1 million.

18. Total expenditure and net lending for the first half of 2016 amounted to D5.8 billion (13.7 percent of GDP), higher than D5.5 billion (13.8 percent of GDP) in the first half of 2015. Recurrent expenditure stood at D5.2 billion (12.3 percent of GDP) or 33.3 percent over the outturn in the first half of 2015, attributed largely to the 33.0 percent and 59.3 percent increase in other charges and interest payments respectively.

19. The overall budget deficit (including grants) widened to D1.5 billion (3.6 percent of GDP) for the first half of 2016 compared to deficit of D1.2 billion (2.9 percent of GDP) in the corresponding period a year earlier. The budget deficit (excluding grants) was D1.7 billion (3.9 percent of GDP) from D1.6 billion (4.0 percent of GDP) in the same period last year.

External Sector

Exchange Rate Developments

20. The volume of transactions, as measured by aggregate purchases and sales, in the first half of 2016 totalled US\$459.41 million compared to US\$219.68 million the same period last year. Purchases, indicating supply, increased to US\$228.20 million from US\$112.3 million last year. Similarly, sales, indicating demand was US\$231.21 million in the first half of 2016 compared to US\$107.38 million a year ago. The dalasi depreciated against the US dollar by 7.0 percent, Pound Sterling (0.24 percent) and Euro (12.0 percent).

Balance of Payments Developments

21. Preliminary balance of payments estimates for the first half of 2016 indicate a deficit of US\$24.7 million from a surplus of US\$21.8 million in the same period last year.

22. The current account deficit narrowed to US\$58.1 million in June 2016 compared to US\$69.7 million a year ago, mainly on account of improved trade balance. Of the components of the trade deficit, the goods account deficit improved to US\$95.4 million in the first half of 2016 compared to US\$131.3 million in the corresponding period of 2015. The decline in imports by 22.5 percent to US\$160.9 million more than offset the contraction in exports by 3.8 percent to US\$55.9 million during the review period. The services account surplus fell to US\$9.5 million in the first half of 2016 from US\$18.0 million the same period last year reflecting mainly decline in income from transportation, communication, and insurance services. Current transfers amounted to US\$68.4 million compared to US\$78.3 million in the same period in 2015. Income account deficit widened to US\$31.1 million from US\$16.7 million in the first half of 2015 reflecting mainly higher external interest payments.

Business Sentiment Survey

23. Readings of the forward looking business sentiment survey indicated that a higher proportion (50 percent) of the respondents reported that economic activity was the same in quarter 2, 2016 compared to quarter 1, 2016. While only 14 percent of the respondents reported higher activities, 36 percent perceived that economic activity was weaker in quarter 2 2016 compared to quarter 1, 2016. Majority of the respondents (77 percent) expects inflation to be higher in quarter 3, 2016 compared to only 2.0 percent that expects inflation to be lower, indicating that inflation expectations remain elevated.

Inflation Outlook

24. Consumer price inflation, as measured by the national consumer price index, declined slightly to 7.1 percent in June 2016 from 7.2 percent a year earlier, due solely to the decline in food inflation. Consumer food inflation decreased to 8.4 percent in June 2016 from 9.1 percent last year, largely reflecting the marked

decrease in meat price inflation from 22.7 percent in June 2015 to 14.1 percent in June 2016. On the other hand, consumer price inflation of non-food products and services increased to 5.2 percent in June 2016 from 4.3 percent in June 2015.

Decision

25. The Committee noted that given the decline in headline inflation solely due to the deceleration in food inflation, tight monetary conditions and relative stability in the domestic foreign exchange market, the risk to inflation outlook remains moderate. Therefore the Committee considered the current stance of monetary Policy appropriate and decided to leave the policy rate unchanged at 23 percent. The Committee will continue to monitor the economy and, act accordingly should the situation change.