



PRESS RELEASE

February 27, 2020

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Thursday, February 27, 2020 to assess economic and financial sector developments and decide on the monetary policy rate. The following summarizes the deliberations on key economic indicators that informed the decision of the Committee.

Global Economic Developments

1. Global economic growth is projected to pick up in 2020. In its January 2020 World Economic Outlook, the International Monetary Fund (IMF) revised downward global economic growth by 0.1 percentage point to 3.3 percent in 2020 compared to 2.9 percent in 2019. However, there are significant risks to the outlook, particularly the impact of the Coronavirus outbreak on the global economy.
2. Growth in advance economies is projected to slow to 1.6 percent in 2020, from 1.7 percent in 2019. Growth in emerging markets and developing economies is expected to recover to 4.4 percent in 2020 from 3.7 percent in 2019. In Sub-Saharan Africa, growth is projected at 3.5 percent in 2020 from 3.3 percent in 2019

Domestic Economic Outlook

Real Sector

3. The Gambian economy is estimated to have grown by 6.5 percent in 2018 driven largely by the services sector. Growth is projected at 6.0 percent in 2019 and 6.2 percent in 2020 due mainly to the strong growth in the services sector, in particular

tourism, trade, financial services and insurance, and telecommunication. Agricultural sector and construction are expected to contribute strongly to growth in 2020.

External sector developments

4. Preliminary balance of payments (BoP) estimates indicate that the current account balance improved to a deficit of US\$45.83 million (2.6 percent of GDP) in 2019 from a deficit of US\$69.67 million (4.3 percent of GDP) in the corresponding period of 2018, due to the improvement in the services and current transfers.
5. The goods account deficit is estimated at US\$381.0 million (21.6 percent of GDP) in 2019, compared to a deficit of US\$354.4 million (21.9 percent of GDP) in the same period in 2018. Export receipts increased by 2.2 percent to US\$138.3 million during the period under review. Imports increased by 3.7 percent to US\$538.6 million in 2019 from US\$519.4 million in the same period in 2018.
6. The surplus in the services account stood at US\$118.9 million compared to US\$106.1 million in December 2018, due largely to the increase in income from personal travels.
7. Gross Official reserves (foreign assets of the Central Bank) stood at US\$258.0 million in February 2020. International reserves is projected at 4.5 months of next year's imports goods and services.

Foreign Exchange Market Developments

8. Volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency stood at US\$2.12 billion in 2019 compared to US\$2.03 billion in 2018. The purchases of foreign currency (indicating supply) totaled US\$1.07 billion in 2019 compared to

US\$1.04 billion in 2018. Sales of foreign currency which indicates demand, also increased to USD1.05 billion, in 2019 from US\$1.02 billion in 2018.

9. The exchange rate of the dalasi remains broadly stable. The Dalasi appreciated against the US Dollar, Euro and Pound Sterling by 0.4 percent, 1.5 percent and 1.9 percent in February 2020 compared to December 2019. This is largely due to strong inflows from remittances, tourism and assistance from our development partners as well as strong economic policy implementation.

Fiscal Operations

10. Preliminary estimates of government fiscal operations for the year 2019 show an overall deficit (including grants) of D3.1 billion (3.6 percent of GDP) compared to a deficit of D4.8 billion (6.0 percent of GDP) recorded in 2018. The improvement was attributed to an increase in revenue and grants by 11.9 percent.
11. Revenue and grants in 2019 amounted to D16.6 billion (19.0 percent of GDP), higher than D14.9 billion (18.6 percent of GDP) registered in 2018. Domestic revenue which comprises tax and non-tax revenue, increased to D11.8 billion (13.5 percent of GDP) in 2019, from D10.2 billion (12.8 percent of GDP) in 2018, supported by improved tax collection.
12. Total government expenditure and net lending in 2019 increased to D19.8 billion (22.5 percent of GDP), compared to D19.7 billion (24.7 percent of GDP) in 2018.

Domestic Debt

13. The stock of domestic debt increased to 32.86 billion (32.4 percent of GDP) in February 2020 from 31.88 billion (35.5 percent of GDP) in December 2019. The stock of Treasury and

Sukuk-Al Salaam bills decreased by 1.4 percent to D19.1 billion during the period under review.

14. The yields on the 91- day, 182-day, and 364-day Treasury bills increased from 2.24 percent, 4.98 percent, and 7.39 percent at end-December 2019 to 3.96 percent, 5.20 percent, and 8.50 percent respectively in February 2020.

Banking Sector

15. The banking system remains adequately capitalized, liquid and profitable. The capital adequacy ratio of the industry stood at 31.45 percent in December 2019 higher than the statutory requirement of 10 percent. All the banks were above the minimum capital requirement. The ratio of liquid asset to total assets of the industry stood at 61.1 percent in December 2019 compared to 57.4 percent in the same period in 2019. The liquid asset to deposit ratio was 91.6 percent also higher than the statutory requirement of 30.0 percent. The ratio of non-performing loans to total loans was 4.55 percent in December 2019.

Development in Monetary Aggregates

16. Money supply grew by 27.1 percent to D42.9 billion in December 2019 compared to D33.7 billion in December 2018 driven by the significant growth in the net foreign assets (NFA) and net domestic assets (NDA) of the banking system. The Net Foreign Assets of the banking system rose to D16.8 billion as at end December 2019 from D10.4 billion in December 2018. Net foreign Assets of the Central Bank stood D8.5 billion in 2019 compared to D4.5 billion in the same period in 2018. Similarly, Net Foreign Assets of the commercial banks grew by 41.0 percent to D8.3 billion during the review period. The Net Domestic Assets of the banking system also rose to D26.1 billion or by 11.8 percent in December 2019.

17. Private sector credit continues to grow strongly. As at end-December 2019, private sector credit grew by 35.8 percent compared to a growth of 32.9 percent in December 2018.
18. Reserve money grew by 17.2 percent as at end-December 2019 higher than 16.5 percent recorded in the same period last year. Currency in circulation and reserves of commercial banks rose by 17.2 percent and 17.3 percent during the period under review.

Non-Bank Financial Institutions Sector

19. As at end-December 2019, all the three finance companies met the minimum capital requirement of D50 million. Total Capital of the finance companies increased by 9.9 percent to D244.09 million in December 2019 compared to December 2018. Total assets grew by 20 percent to D1.50 billion at end December 2019.

Business Sentiment Survey

20. According to the Banks's business sentiment survey, confidence remains high as most companies reported higher performance in the fourth quarter of 2019 compared to the preceding quarter. The optimism expressed by businesses could be attributed to the stability of the overall macroeconomic environment. Inflationary expectations also remain well-anchored with majority of respondents projecting lower inflation in the first quarter of 2020.

Price Developments

21. Rebased CPI data from the Gambia Bureau of Statistics show that both headline and core measures of inflation decelerated in January 2020 compared to December 2019.

22. Headline inflation decelerated to 7.4 percent in January 2020 after stabilizing at 7.7 percent in November and December 2019, due mainly to the deceleration in consumer price inflation of major components of non-food inflation. However, it is above the 6.08 percent recorded in the same period last year.

23. Food inflation increased to 7.92 percent in January 2020 from 6.19 percent in January 2019 due to the increase in bread cereals, meat, oil and fats.

24. Non-food inflation, on the other hand, decelerated to 6.77 percent in January 2020 compared to 7.73 percent in December 2019. The price indices of all the sub-components of services decreased with the exception of transportation, hotels and miscellaneous goods and services.

25. The Committee noted the following:

- The potential shocks to agriculture due to weather-related factors as a result of climate change,
- Risks to the global economy due to the outbreak of the Coronavirus in China;
- The improvement in the current account of the balance of payments continued to support the stability of the exchange rate of the dalasi.
- Inflation has started to decelerate in January, and the medium-term outlook is that it will continue to trend downwards.
- The banking industry remains safe and sound characterized by strong capital base, high and stable earnings, and low non-performing loans ratio.
- The level of international reserves of the Bank is comfortable.

Outlook for Inflation

The Committee is of the view that headline inflation will continue to trend downwards in the near-term, premised on the continued stability of the exchange rate and the well-anchored inflation expectations.

26. Major risks to the outlook, however, continue to be the domestic food supply situation in the light of poor harvest, impact of the outbreak of Coronavirus on food supply chains and the uncertainty surrounding global food prices.

27. Similarly, high public debt poses significant risk to the economy.

The Committee's Decision

28. Taken the above factors into consideration, the Committee decided to reduce the Policy rate by 0.5 percentage point to 12 percent. The Committee also decided to increase the interest rate on the standing deposit facility by 0.5 percentage point to 3 percent. The standing lending facility is also reduced to 13 percent from 13.5 percent (MPR plus 1 percentage point).

Information Note

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Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, May 27, 2020. The meeting will be followed by the announcement of the policy decision on Thursday, May 28, 2020.