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The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Wednesday, May 26 and Thursday May 27, 2021 to review economic and financial developments in the first quarter of 2021. The MPC Members subsequently took appropriate monetary policy decisions deemed to be suitable under the current macroeconomic environment. Below are the highlights of the discussions on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. Global economic growth is forecast to pick up in 2021 amid uncertainties surrounding the COVID-19 pandemic. In its April 2021 World Economic Outlook (WEO), the International Monetary Fund (IMF) revised upward global economic growth, by 0.5 percentage points to 6.0 percent for 2021. This robust growth outlook reflects additional policy supports particularly in advance economies and the approval and effective roll out of vaccines across countries. However, risks to this strong growth prospects remain high particularly, the uncertainties about the impact of the crisis and finding a 100 percent effective vaccine for the COVID-19 variants virus that have emerged in different countries.

2. Growth in advanced economies is estimated to rise to 5.1 percent in 2021 from a contraction of 4.7 percent in 2020, reflecting strong policy responses that continues to dampen the impact of the pandemic. Emerging markets

and developing economies excluding sub-Saharan Africa (SSA) is projected to grow at 6.7 percent in 2021, due largely to the effective containment measures, investment responses in some countries and stronger-than-expected recovery in 2020 after lockdowns were eased. Similarly, growth in sub-Saharan Africa is expected to strengthen to 3.4 percent in 2021, from a contraction of 1.9 percent in 2020.

Real Sector Developments

3. According to the Gambia Bureau of Statistics (GBoS), the Gambian economy is estimated to have contracted by 0.2 percent in 2020, 6.0 percentage points lower than the real growth in 2019. The contraction in real GDP growth in 2020 relative to the growth registered in 2019 is on account of the impact of the COVID-19 pandemic, the full economic effects of which are still unfolding. The low number of reported cases of COVID-19 in Q4, 2020 and Q1, 2021, increased government stimulus spending, and the easing of the monetary policy stance of the Central Bank impacted positively on the estimated growth rate.

4. The Central Bank's Composite Index of Economic Activity (CIEA), which is a statistical measure of aggregate economic activity, forecast the economy to grow by 4.1 percent in 2021 indicating recovery in economic activity that started in Q4, 2020 and is expected to continue in 2021 as some of the lockdown measures were relaxed to allow movements of persons, goods, and services.

5. In the first five months of 2021, the Bank's quarterly Business sentiment survey revealed low confidence on the performance and prospects of the economy. Although there is optimism for Q2, 2021 due to the emergence and roll out of vaccines in the country and across the globe, reopening of borders and resumption of flights, the overall business sentiment points to

low economic activity in Q1, 2021. The survey also showed the weakening of the Dalasi, heightened inflationary pressures amid expected low borrowing rates.

External sector developments

6. The preliminary balance of payments estimates indicated an improvement in the current account of the balance of payments during the period under review. The current account balance narrowed significantly to a deficit of US$8.76 million (0.48 percent of GDP) in QI, 2021 from a deficit of US$38.55 million (2.18 percent of GDP) in the same period in 2020, mirroring strong transfers (Remittances) and decrease in the deficit in the goods account balance (imports).

7. The goods account deficit is estimated to narrow to US$126.24 million (6.89 percent of GDP) in the first 3 months of 2021 compared to a deficit of US$155.13 million (8.79 percent of GDP) in the first 3 months of 2020. The reduction was due largely to decline in imports, by US$69.58 million, to US$139.80 million or by 33.2 percent in Q1, 2021 from US$209.38 million in Q1, 2020, reflecting a decline in COVID-19 related imports as the country continues to report low cases of infection. Exports (FOB) on the other hand declined significantly to US$13.56 million in the first three months of 2021 from US$54.25 million in the corresponding period of 2020.

8. In contrast, the surplus in the services account balance declined remarkably by 84.9 percent to US$1.96 million in the first 3 months of 2021, from a surplus of US$12.99 million in the same period a year ago on account of a 75.2 percent decrease in personal travels.

9. Gross official reserves (foreign assets of the Bank) on May 20, 2021, stood at US$387.46 million, equivalent to 6.5 months of prospective imports of goods and services.

Foreign Exchange Market Developments

10. Amid expansion in market turnover in the foreign exchange market, the Dalasi weakened significantly against key internationally traded currencies. Improved supply conditions of foreign currency were overshadowed by moderate excess demand as the economy showed signs of recovery.

11. In the twelve months to end-April 2021, volume of transactions in the foreign exchange market increased to US$2.29 billion, from US$2.08 billion in the corresponding period in 2020. Both purchases and sales, indicating supply and demand of foreign currency, respectively increased to US$1.16 billion and US$1.03 billion in April 2021 from US$1.04 billion and US$1.03 billion in April 2020, representing an excess demand of US$0.02 billion in the review period compared to an excess demand of $0.01 billion in the comparative period in 2020. Market intelligence revealed that most of the demand for the review period stemmed from the energy sector as well as import bills for basic commodities and telecommunications.

12. The exchange rate based on end period mid-market averages indicates that the Dalasi experienced modest pressure against major trading currencies during the review period. In the year to end-April 2021, the Dalasi depreciated against the US Dollar, Pound Sterling, Euro and CFA Franc by 0.1 percent, 9.5 percent, 8.7 percent, and 6.1 percent, respectively. The depreciation of the Dalasi during the period under review has been largely influenced by the international phenomenon of the Euro and Pound Sterling.

Fiscal Operations

13. Preliminary estimates of government's fiscal operations for the first three months of 2021 point to a worsened fiscal position. Overall budget deficit (including grants) in Q1, 2021 increased to D2.1 billion (2.1 percent of GDP)

compared to a deficit of D1.3 billion (1.4 percent of GDP) in the corresponding period a year ago. The expansion in the budget deficit (including grants) was attributed to a 21.8 percent contraction in revenue and grants.

14. Revenue and grants totaled D3.6 billion (3.6 percent of GDP) in Q1, 2021 declining by 21.8 percent from D4.6 billion (4.7 percent of GDP) in the same period a year earlier. Both domestic revenue and grants accounted for the decline in total revenue and grants during the review period.

15. Similarly, government expenditure and net lending in Q1, 2021 decreased by 4.6 percent to D5.6 billion (5.7 percent of GDP) from D5.9 billion (6.0 percent of GDP) in Q1, 2020. The contraction in expenditure and net lending was solely driven by recurrent expenditure which declined by 14.9 percent during the review period.

Banking Sector Developments

16. The banking sector remains well capitalized, highly profitable and liquid. On a yearly basis, total assets of the industry increased by 20.4 percent to D61.23 billion at end-March 2021 from D50.85 billion in the same period a year ago and by D2.4 billion at end-December 2020. Balances due from other banks and investment account securities induced the yearly expansion of the industry's total assets.

17. The risk weighted capital adequacy ratio declined by 1.4 percentage points to 31.8 percent, higher than the statutory requirement of 10 percent. The slight drop in the ratio was mainly influenced by the increase in risk weighted assets.

18. The banking sector remained highly liquid with a liquid asset ratio of 64.2 percent, representing excess liquidity of 34.2 percent over the minimum requirement of 30 percent. Treasury bills accounted for the high liquidity status during the period. Non-performing loan (NPL) ratio at 7.7 percent at end-March 2021 rose by 2.8 percentage points relative to a year ago and by 0.9 percentage point from the preceding quarter.

19. The non-bank financial sector including mobile financial services continue to play a pivotal role in the financial inclusion drive of the country by expanding access to financial services, a phenomenon that has contributed to the rapid expansion of the digital financial space.

20. During the review period, two (2) additional microfinance companies (YONNA Islamic Microfinance and Approved Services (APS) Islamic Microfinance) were granted licenses to operate as Finance Companies (FCs) bringing the total number of FCs to six (6). Total assets of the FC's stood at D2.09 billion at end-March 2021 compared to D1.53 billion at end-March 2020 and D2.0 billion at end-December 2020. The expansion was largely driven by gross loans and cash and bank balances, as well as the entry of one of the players. Similarly, total loans expanded significantly by D92.17 million to D401.68 million during the period.

21. The number of active users of mobile money services as well as value held in wallets of both customers and agents increased during the period by 73.0 percent and 17.0 percent, respectively. However, the total value of transactions for both cash-ins and cash-outs declined by 7.4 percent and 15.0 percent, respectively.

Domestic Debt Developments

22. The stock of domestic debt at D35.84 billion (35.34 percent of the GDP) in April 2021, rose by 6.4 percent from D33.67million (34.5 percent of GDP) in

the comparative period in 2020. The increase in domestic debt stock reflects mainly higher fiscal expenditure resulting partly from Tbills rollover cost, which accounts for 57.5 percent of the domestic debt.

23. Yields on government security during the period under review trended downward. The 91-day, 182-day and 364-day Treasury bills declined to 3.81 percent, 4.11 percent, and 4.97 percent respectively in April 2021 from 3.96 percent, 6.71 percent and 11.59 percent, respectively a year ago.

Monetary Developments

24. Money supply (M2) growth accelerated by 25.7 percent in March 2021 relative to 18.1 percent in March 2020 attributed to the increase in both the net foreign assets (NFA) and the net domestic assets (NDA) of the banking system. Both components of broad money (currency in circulation and savings deposits) markedly increased by 57.6 percent and 7.2 percent during the period under review. This noticeable growth in the components of broad money is indicative of some semblance of a gradual return to normalcy in economic activities and confidence in the domestic economy as both currency in circulation and savings deposits picked up significantly during the review period.

25. Year-on-year, reserve money growth expanded markedly to 32.4 percent at end-March 2021, compared to 13.0 percent growth at end-March 2020. The strong growth in reserve money is explained by the robust growth in both currency in circulation and reserves of deposit money banks during the review period.

Price developments

26. The near-term inflation forecast predicts underlying inflationary pressures building up since the beginning of 2021. Consequently, headline inflation is forecast to be above the medium-term target for the forecast period. Year-on-year, consumer price inflation (CPI) rose to 7.3 percent in April 2021 from 5.6 percent in the corresponding period a year ago. The increase in headline inflation is mainly driven by food prices due to increased domestic demand and global food prices associated with supply chain constraints. Month-on-month, headline inflation decelerated marginally by 0.1percentage point.

27. Consumer price inflation of food and non-alcoholic beverages accelerated by 1.5 percentage points, to 8.5 percent in April 2021, from 7.0 percent a year ago attributed to increases in most components of food inflation, notably oils and fats.

28. Similarly, non-food inflation increased to 6.1 percent in the review period, from 3.3 percent a year earlier. The spike in non-food inflation is explained by a rise in the prices of housing, water, electricity as well as other fuels and communication services.

The Committee observed the following:

1. The Committee noted the upward revisions in the IMF growth projections for 2021 based on the stronger than expected momentum during the second half of 2020, strong demand for products that support working from home and the release of pent-up demand for durable goods. Despite improvements in the growth forecast, risks to global outlook are tilted upward as uncertainties surrounding the COVID-19 pandemic on vaccines efficacy and roll out remained uncertain.

2. The Committee opined that global developments have impacted on domestic development as evident in some macroeconomic indicators. Real GDP growth for The Gambia is forecast at -0.2 percent for 2020, down from earlier projection of zero growth. The Committee noted the increase in food prices which are due to cost push effects of the structural bottlenecks at the port. Some of these structural issues are being addressed.

3. The Bank's Composite Index of Economic Activity (CIEA), which is a high frequency measure of the level of activity in the economy, estimated that economic activity contracted in 2020 reflecting weaker domestic and foreign demand. In 2021, the domestic economy is predicted to recover premised on rebound of economic activity in Q4, 2020 and Q1, 2021.

4. The Committee noted the rising trend in inflationary pressures for the first four months of 2021 mainly reflecting global increase in food prices and the one-off effect of increase in the education index in October 2020. The Committee does not consider the spike in headline inflation in April as a major cause for concern. The near-term forecast of inflation indicates deceleration in Consumer Price Inflation (CPI) in the forecast horizon.

Decision

Taking the above factors into consideration, the Committee has decided the following:

- Maintain the Policy rate (MPR) at 10 percent.
- Maintain the required reserve (RR) at 13 percent; and
- Maintain the interest rate on the standing deposit facility at 3.0 percent and the standing lending facility at 11.0 percent (MPR plus 1 percentage point).

The MPC will continue to closely monitor the situation and to take further necessary action as and when the situation requires.

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, August 25, 2021. The meeting will be followed by the announcement of the policy decision on Thursday, August 26, 2021.