PRESS RELEASE **NOVEMBER 28, 2019**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Thursday, November 28, 2019 to assess economic 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 decline in 2019 and there are significant risks to the outlook. In October 2019, the International Monetary Fund (IMF) revised downwards global growth projection for 2019 to 3.0 percent, lower than 3.6 percent in 2018. This is largely attributed to the significant slowdown in global trade, weak manufacturing output and investment, low business confidence, and geopolitical tensions. Growth is projected to pick up slightly to 3.4 percent in 2020.

2. Growth in advanced economies is projected to decelerate to 1.7 percent in 2019 from 2.3 percent in 2018. Growth in emerging markets and developing economies is also projected to moderate to 3.9 percent in 2019 compared to 4.5 percent in 2018 before increasing to 4.6 percent in 2020. In sub-Sahara Africa, growth is projected at 3.2 percent in 2019 and 3.6 percent in 2020.

Domestic Economic Outlook

Real Sector

3. The Gambian economy is estimated to have grown by robust 6.5 percent in 2018 compared to 4.8 percent in 2017, supported largely by the services sector including tourism and trade, financial services and insurance, as well as transport and telecommunication. Growth is projected to remain robust in 2019.

4. However, there are risks to the outlook, including the collapse of Thomas cook that may affect tourism and the impact of delayed rains on agricultural production.

External sector developments

5. Preliminary balance of payments (BoP) estimates indicate that the current account balance improved to a deficit of US$43.1 million (2.4 percent of GDP) in the first nine months of 2019 from a deficit of US$55.6 million (3.4 percent of GDP) in the corresponding period of 2018, due to the improvement in the services account and current transfers.

6. The goods account deficit is estimated at US$286.7 million (16.2 percent of GDP) in the first nine months of 2019, higher than the deficit of US$252.6 million (15.6 percent of GDP) in the corresponding period in 2018. Exports increased to US$107.4 million or by 17.19 percent during the period under review. The value of imports increased by 12.5 percent to US$409.02 million from US$363.7 million in the same period in 2018.

7. The surplus in the services account stood at US$74.4 million compared to US$52.2 million in the same period last year, due mainly to the increase in personal income from tourism.

8. Gross international reserves of the Bank is projected at 4 months of next year's imports of goods and services.

Exchange rate developments

9. The volume of transactions in the foreign exchange market increased to US$2.3 billion in the year to end-October 2019 compared to US$1.9 billion in the corresponding period of the previous year. Purchases of foreign currency (indicating supply) increased by 19.2 percent to US$1.1 billion during the period. Similarly, sales of foreign currency, which indicates demand, also increased significantly by 19.5 percent to US$1.1 billion in the review period.

10. The exchange rate of the dalasi remains broadly stable. From January to October 2019, the dalasi depreciated against the US dollar by 3.2 percent, pound sterling (1.2 percent), and CFA franc (0.7 percent). However, it appreciated against the euro by 0.2 percent. In real terms the dalasi appreciated against the US dollar by 3.1 percent.

Fiscal Operations

11. Preliminary estimates of government fiscal operations for the first nine months of 2019 showed that the budget deficit (including grants) narrowed to D2.3 billion (2.6 percent of GDP) compared to a deficit of D3.9 billion (4.9 percent of GDP) in the same period last year. The overall balance (excluding grants) also improved to D5.3 billion (6.0 percent of GDP) compared to a deficit of D6.9 billion (8.7 percent of GDP) a year ago.

12. Revenue and grants generated during the period under review amounted to D11.9 billion (13.6 percent of GDP) relative to D9.7 billion (12.2 percent of GDP) in the same period last year. Domestic revenue, which comprises of tax and non-tax revenues, stood at D8.9 billion (10.1 percent of GDP) in the nine months to end-September 2019, higher than D6.7 billion (8.4 percent of GDP) in the corresponding period a year ago.

13. Total government expenditure and net lending for the first nine months of 2019 totaled D14.2 billion (16.2 percent of GDP) compared to D13.6 billion (17.1 percent of GDP) in 2018.

Domestic Debt

14. As at end-October 2019, the stock of domestic debt increased to D33.0 billion (37.6 percent of GDP) from D31.1 billion (40.3 percent of GDP) in the corresponding period a year ago. The stock of Treasury and Sukuk-Al Salaam bills increased by 14.8 percent to D19.7 billion during the period under review.

15. The yields on the 91- day, 182-day, and 364-day Treasury bills declined from 4.97 percent, 6.83 percent, and 9.25 percent at end-October 2018 to 2.56 percent, 5.26 percent, and 7.57 percent respectively at end-October 2019.

Banking Sector

16. The banking system remains adequately capitalized, liquid and profitable. The risk-weighted capital adequacy ratio stood at 32.3 percent as end-September 2019, higher than the statutory requirement of 10 percent. All the banks were above the minimum capital requirement. The ratio of liquid assets to total assets of the industry stood at 61.2 percent compared to 60.2 percent in the same period last year. Liquid assets to deposit ratio was 95.2 percent, above the statutory requirement of 30 percent. The ratio of non-performing loans to total loans declined from 6.3 percent in September 2018 to 2.5 percent in September 2019.

17. Financial inclusion has emerged as a major policy priority for the Bank, and microfinance institutions continue to play an important role in this regard. The industry is growing both in terms of size and importance. As at end-September 2019, total assets of finance companies expanded by 4.4 percent to D1.4 billion compared to D1.2 billion in the same period last year. Total deposits mobilized increased by 24 percent to 1.0 billion during the period under review. Total loans extended increased by 31 percent to 282.9 million as at end-September 2019 from 215.1 million a year ago.

Development in Monetary Aggregates

18. Money supply growth moderated to 21.8 percent at end-September 2019 from 22.4 percent in the corresponding period a year ago. As at end-September 2019, the net domestic assets of the banking system increased to D25.0 billion, or by 9.9

percent. Net claims on government by the banking system declined to D22.8 billion, or by 9.5 percent compared to an increase of 14.5 percent last year.

19. The net foreign assets of the banking system increased to D14.1 billion as at end-September 2019 from D9.4 billion in September 2018. The net foreign assets of the Central Bank expanded by 90.7 percent to D7.2 billion at end-September 2019 from D3.8 billion in the corresponding period last year. Similarly, the net foreign assets of commercial banks grew by 22.8 percent to D6.9 billion during the review period.

20. Private sector credit grew by 28.6 percent as at end-September 2019, slightly lower than 29.3 percent growth recorded a year ago.

21. Reserve money grew by 18.6 percent as at end-September 2019 compared to 11.8 percent in the same period last year. Currency in circulation rose by 15.9 percent, higher than 14.8 percent recorded a year ago. Similarly, reserves of commercial banks registered a growth of 22.2 percent compared to 7.9 percent recorded in 2018.

Business Sentiment Survey

22. According to the Bank's quarterly Business Sentiment Survey, confidence in the economy remains strong and most respondents reported higher level of activity in the third quarter of 2019 than in the second quarter. Inflationary expectations also remain well-anchored with majority of respondents projecting lower inflation in the fourth quarter of 2019.

Price Developments

23. Inflation has started to decelerate, due to the deceleration in non-food consumer price inflation. Inflation expectations are well-anchored, and projection is that inflation will continue to decline in the near-term.

24. Headline inflation decelerated by 0.1 percentage point to 7.5 percent in October 2019 from 7.6 percent in September 2019, due to the decrease in major components of non-food inflation. However, it is above the 6.6 percent recorded in the same period last year.

25. Food inflation increased marginally by 0.1 percentage point to 7.3 percent in October 2019 compared to 7.2 percent in September 2019 and it is above the 6.4 percent recorded in October 2018. The main drivers of food inflation during the period include the price indices of bread cereals, vegetables, fish, and oils and fats.

26. Non-food inflation, on the other hand, decelerated to 8.0 percent in October 2019 compared to 8.3 percent in September 2019 but it is higher than 6.8 percent recorded last year. The price indices of all the sub-components decreased when compared to the previous month except for alcoholic beverages, health care, and communication.

27. **The Committee noted the following:**

- The potential impact on the economy of the shocks to agriculture due to weather-related factors, and the effect of the collapse of Thomas Cook on tourism.
- 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, and the medium-term outlook is that it will continue to trend downwards.
- The fundamentals of the banking sector remain strong, underpinned by adequate capital, high liquidity, low level of non-performing loans, robust credit expansion, and profitability.
- The level of international reserves of the Bank is at comfortable level.

Outlook for Inflation

28. 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.

29. Major risks to the outlook, however, continue to be the domestic food supply situation in the light of poor harvest, the impact of the shock to tourism as a result of the collapse of Thomas Cook and the uncertainty surrounding global food prices.

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

The Committee's Decision

31. Taken the above factors into consideration, the Committee decided to maintain the Policy rate at 12.5 percent. The Committee also decided to maintain the interest rate on the standing deposit facility at 2.5 percent and the standing lending facility at 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, February 26, 2020. The meeting will be followed by the announcement of the policy decision on Thursday, February 27, 2020.