CENTRAL BANK OF THE GAMBIA

MINUTES OF THE MONETARY POLICY COMMITTEE

MEETING NO.74

December 2020

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.75

December 02-03, 2020

The Monetary Policy Committee (MPC) of The Central Bank of The Gambia (CBG) met on Wednesday, December 02, 2020, to assess recent economic developments. This was followed by a meeting to decide on the Monetary Policy stance and a press conference on Thursday, December 03, 2020.

Present were:

Name	Role
Mr. Buah Saidy	Chairman
Dr. Seeku Jaabi	Member
Mr. Essa A.K. Drammeh	Member
Mr. Momodou Sissoho	Member
Mr. Paul John Gaye	Member
Mr. Ebrima Wadda	Member
Mr. Amadou S. Koora	Member
Mr. Karamo Jawara	Member
Mr. Sheriff Touray	Secretary

Absent with Apology

Mr. Baboucarr Jobe, Permanent Secretary Ministry of Finance and Economic Affairs (MOFEA).

Report Presenters

Name	Designation
Mr. Alieu Ceesay	Senior Economist, Economic Research Department
Mr. Khalilu Bah	Senior Economist, Economic Research Department
Mr. Momodou Jallow	Economist, Economic Research Department
Mrs. Aji Adam Njie	Economist, Economic Research Department
Mr. Saikou Jammeh	Economist, Economic Research Department

Mr. Mawiyatou Susso	Economist, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Ansu Manneh	Assistant Statistician, Economic Research Dep't
Mrs. Binta Beyai	Senior Economist, Banking Department
Mr. Karamo Sawaneh	Bank Examiner, Financial Supervision Department
Mr. Ebrima Jain	Officer, Foreign Department
Mr. Alkali Barrow	Microfinance Officer, Microfinance Department

In attendance were:

Name	**Designation**
Mrs. Rohey Khan	Director, Foreign Department
Mr. Bai Senghore	Director, Micro Finance Department
Mr. Omar Janneh	Director, Administration and HR Department
Mr. Peter Prom	Director, Information Technology Department
Mr. Pa Alieu Sillah	Director, Insurance Department
Mr. Karafa Jorbarteh	Deputy Director, Foreign Department
Mrs. Halima Singhateh	Deputy Director, Financial Supervision Department
Mr. Saikou Touray	Deputy Director, Financial Supervision Department
Mr. Mustapha Senghore	Principal Bank Examiner, Financial Supervision
Mr. Lamin Bah	Senior Risk Officer, Risk Management Unit
Mrs. Arokey Lowe	Risk Officer, Risk Management Unit
Mr. Foday Joof	Risk Officer, Risk Management Unit
Mr. Lamin Jawara	Risk Officer, Risk Management Unit

Agenda for the Technical Meeting

1. The agenda of the meeting was adopted as presented.
    1. Adoption of the agenda
    2. Opening remarks by the Chairman
    3. Review of the minutes of the previous meeting and matters arising
    4. Presentation and discussions of reports
    5. Lunch and Prayer Break
    6. Presentation and discussion of reports

Opening remarks by the Chairman

1. The Governor and Chairman welcomed the members of the Committee to the last meeting of the year.

Review and Adoption of the Previous Meeting Minutes

1. The minutes of the previous meeting were reviewed and adopted after some amendments.

Presentation of Reports:

2. This was followed by presentations and discussions on developments in the World Economic Outlook (WEO) Regional Economic Outlook, Banking Sector, Financial Market, Balance of Payment, Foreign Exchange Market, Monetary Sector, Government Fiscal Operations, Business Sentiment Survey, Microfinance Sector, Real Sector, and Inflation. These were followed by assessment of current economic conditions, baseline forecast and alternative scenarios.

Global Macroeconomic Developments

3. The global economy showed signs of recovery suggesting a less severe economic downturn than previously anticipated. The somewhat pick-up in global economic activities was supported largely by the strong fiscal and monetary policies embarked on by countries since the onset of the pandemic coupled with the easing of containment measures in the third quarter of the year.

4. Recent updates by the International Monetary Fund (IMF) of the World Economic Outlook, indicates an upward revision in global growth estimates. The IMF upgrade global growth projection for 2020 by 0.5 percentage points to negative 4.4 percent. Consumer activities gather pace in the third quarter and labour market conditions improved. Moreover, global trade picks up thanks to the reopening of most economies. However, with the resurgence of the COVID -19, the recovery is expected to slow in the near-term.

5. Real GDP growth in the advanced economies is projected to contract by 5.8 percent in 2020, 2.1 percentage points higher than in the June 2020 WEO, reflecting better than anticipated growth in the region's economies particularly US and the euro area. Growth is projected to strengthen to 3.9 percent suggesting 2 percent below the 2019 level for the group.

6. Within the emerging markets and developing economies group, growth is estimated at a negative 3.3 percent in 2020. This is 0.2 percentage point weaker than the June 2020 WEO update. Growth prospects in the region remain precarious owing largely to the pandemic. Also, poor health care systems, and overreliance of external finance, including remittances have hindered growth prospects. Economic growth for the group is projected to rebound to 6.0 percent in 2021.

7. In sub-Saharan Africa (SSA), economic growth is expected to contract by 3.0 percent in 2020 from a robust growth of 3.2 percent in 2019. In 2021, growth is expected to rebound to 3.1 percent. Growth in the region continued to be mired largely by the pandemic. Furthermore, low commodity prices and overreliance on tourism and remittances are setbacks to durable growth. Real economic growth in most economies within the category of SSA is expected to contract in 2020 with few economics expected to be spared of a recession.

8. Global financial conditions continued to ease for advanced economies and emerging market economies. Central banks continued monetary easing keeping interest rates low and credit conditions supportive. Also, central banks purchase of assets expanded in the review period all geared towards supporting economic recovery.

9. Global inflation remained subdued amid low economic activity. Global inflation is projected to decelerate to 3.2 percent in 2020 from the 3.5 percent recorded in 2019. The weak aggregate demand outweighing the pick-up in commodity prices and medical supplies has helped explain the downward trend in global inflation. In 2021, global inflation is forecast to accelerate to 3.4 percent.

10. The Committee noted that the global economy has started showing signs of recovery. The discovery of vaccine is a promise that the worst has been avoided and that the fundamentals of the global economy are intact. However, the strength and speedy of recovery hinged not only on the discovery of a vaccine but also on country-specific response to the crisis and the approach to re-start their economies.

11. The Committee noted that the pandemic revealed weaknesses in the Gambian economy, hence the need for reforms to diversify dependence on rain-fed agriculture and tourism. These key growth drivers are highly susceptible to the changing climatic factors and external developments, respectively.

12. The Committee commented that the projected recovery in 2021 of the global economy would help re-start the tourism sector. However, the downside risks to output growth outlook have become more prominent with the resurgence of virus cases in advanced economies. Although world inflation remains subdued, the upward trend in global food prices and the recent pick-up in energy prices could exert upward pressure on domestic inflation going forward.

Domestic Macroeconomic Developments

Banking Sector Developments

13. The banking sector remains fundamentally sound, well capitalized and remained highly liquid. The risk-weighted capital adequacy ratio stood at 38.1percent as at end-September 2020, is significantly higher than the statutory requirement of 10 percent. All the banks are above the minimum capital requirement. The liquidity ratio of the banking industry stood at 95.5 percent at end-September 2020, also significantly higher than the requirement of 30 percent. The ratio of non-performing loans to gross loans stood at 6.5 percent at end-September 2020, higher than 4.5 percent in the previous quarter.

14. As at end-September 2020, total assets of the banking industry expanded by 9.6 percent to D56.82 billion from D51.85 billion in June 2020. Compared to the same period last year, it grew by D7.8 billion or 16.0 percent. This is attributed largely to the increase in investments in government securities by 7.0 percent and loans and advances by 11.3 percent.

15. Gross loans and advances extended by banks to major economic sectors stood at D7.22 billion (12.7 percent of total assets), showing a decrease of 1.7 percent compared to D7.35 billion in June. On the contrary, it increased year-on-year by 11.3 percent.

16. Deposit mobilization remains the major source of funding for banks. Total deposits of banks stood at D39.09 billion (68.8 percent of total liabilities) as at end-September 2020, higher than D35.82 billion in the previous quarter, indicating an increase in deposits by D3.27 billion or 9.1 percent. Year-on-year, total deposits increased by D6.49 billion or 19.9 percent.

17. Loan to deposit ratio stood at 18.6 percent as at end-September 2020, lower than 19.8 percent in the corresponding period last year. On the other hand, it increased marginally by 0.1 percentage point relative to the previous quarter.

18. The Committee observed that the financial soundness indicators show that the banking system remains resilient. Although the non-performing loan ratio has increased, the capital adequacy and the gearing ratios indicate signs of stability. There is adequate liquidity in the system and the sensitivity to risk at a comfortable level of 2.9 percent. Notwithstanding, the Committee advised that supervisors should continue to monitor the developments with keen interest.

19. The Committee expressed concern over the rising level of non-performing loans and declining profitability. It was, however, mentioned that the decline in income and profitability are expected during unusual times. Besides, the declining economic activity impacts negatively the cash flow of businesses and their ability to service their loans. In addition, loans to the construction sector are increasing but the facilities that are built are not earning returns to be able to

service the loans, especially in the tourism sector. Besides, the ratio of NPLs is still the lowest in the sub-region. It was also mentioned that the fall in return on equity and assets is attributable, in part, to the fact that assets are not fully utilized as banks are content with the low interest rates in the risk-free government securities due to the massive uncertainty.

20. The Committee also noted that the pace of credit expansion has slowed significantly due to the pandemic because banks have elevated their credit standards coupled with declining demand for credit from businesses. Although this is largely anticipated, it is still a concern given the objective of the Committee to support private sector credit expansion. Currently loan to deposit ratio is among the lowest in the sub-region.

Microfinance Sector Developments

21. The financial performance of all the Finance Companies experienced steady growth for the review period. Although in terms of profitability, it's challenging due to the COVID-19 pandemic. As at end-June 2020, all the three companies met the minimum capital requirement of D50 million. The combined capital stood at D275.51 million as at end-September 2020 compared to D273.29 million at end-September 2019, showing a slight increase of about 1 percent. Compared to the same period last year, capital rose significantly by 19.0 percent from D234.86 million at end-September 2019.

22. Total assets of the three Finance Companies increased remarkably by 10.0 percent to D1.76 billion as at end-September 2020 from D1.59 billion at end- June 2020. Year-on-year, total assets increased by 22.0 percent, driven by the increase in investments in treasury bills and cash balances with banks.

23. Total deposits significantly Increased despite the challenges posed by the pandemic. As at end–September total deposits of the finance industry grew by 10.0 percent to stand at D1.29 billion from D1.16 billion as at end-June 2020.

When compared to the corresponding period last year, it grew notably by 23.0 percent.

24. Total loans extended declined significantly by 12.0 percent to D273.59 million as at end-September 2020 from D309.69 million as at end-June 2020. Similarly, when compared to the same period last year, it contracted marginally by 3.0 percent. The average non-performing loan ratio rose from 14 percent as at end- June 2020 to stand at 18 percent as at end-September 2020 higher than prudential requirement of 5 percent.

25. The Committee tasked the Microfinance Department to closely monitor the rising non-performing loans of the Finance Companies.

Money Market Developments

26. Developments in the money market revealed that the stock of domestic debt remained at elevated levels. The outstanding domestic debt rose to D34.8 billion (35.4 percent of GDP) as at end-November 2020 from D33.13 billion (36.2 percent of GDP) as at end-December 2019, showing an increase of D1.68 billion. The increase in the debt stock was driven mainly by the issuance treasury bills. The stock of Treasury and Sukuk Al Salaam bills increased by 8.90 percent to stand at D20.2 billion in the year to end November 2020.

27. Yields across all treasury bills profiles declined. The 91-day, 182-day and 365-day treasury bills decreased to 0.84 percent, 1.18 percent, and 2.95 percent in November 2020 from 1.88 percent, 3.75 percent, and 7.54 percent in November 2019, respectively.

28. Interest expense on domestic debt is projected to reach D2.48 billion (18.8 percent of domestic revenue) in 2020 relative to D2.47 billion (20.9 percent of domestic revenue) expensed in 2019 and D2.06 billion (23.5 percent of domestic revenue) in 2018. The Actual interest cost from January to October 2020 is estimated at D2.42 billion relative to D2.13 billion paid in the same period in 2019.

29. The Committee noted that the bulk of banks' investments are in Treasury bills despite the decline in participation in the money market in recent weeks. It was stated that given the uncertainty, banks will continue to participate in the money market so long as the current level of interest rates continue to earn them enough to stay afloat. But if the real interest rates continue to be negative, banks may be forced to diversify their portfolios.

30. The Committee was informed that the Banking department has started implementing government's decision to increase borrowing given the low interest rates in anticipation of decline in external support (grants) in 2021.

31. The impending issuance of government bonds could bloat the already high domestic debt level with potential to reverse the low treasury bill interest rate and increase the exposure of the Bank to fiscal dominance. The Committee advised that the issuance of infrastructure bonds should be reconsidered if it is going to destabilize the money market. The government can use the ECF money instead for the earmarked infrastructure projects. The Banking department of the Bank was tasked to work with the relevant directorate at the MoFEA on the issuance of the bonds.

Balance of Payments Developments

32. The report on developments in the balance of payment estimates indicated that the current account worsened in the first nine months of 2020 due to the worsened position in both the goods and services accounts. The current account balance worsened to a deficit of US$118.39 million (6.5 percent of GDP) in the first nine months of 2020 from a deficit of US$35.87 million (2.01 percent of GDP) in the same period last year.

33. The goods account balance is estimated at US$404.90 million (16.18 percent of GDP) in the first nine months of 2020, relative to a deficit of US$286.50 million (12.0 percent of GDP) in the corresponding period of 2019. The widening of the deficit in the goods account mainly reflects a fall in total exports, as re-exports drop

significantly in the third quarter of 2020 due largely to the border closure. Imports on the other hand rose significantly by 22.1 percent to US$470.47 million in the first nine months of 2020 higher than US$406.81 million in the same period in 2019. In contrast, export receipts decreased to US$58.12 million in the first nine months of 2020 from US$103.34 million in the corresponding period of 2019.

34. The surplus in the services account declined for the period under review. It recorded US$38.30 million in the first nine months of 2020 compared to US$55.93 million for the same period last year. The decline in the services account balance reflect the decrease in air-chartered tourist arrivals by 54.5 percent in the first nine months of 2020 due pandemic travel restrictions in place.

35. The surplus in the capital and financial accounts declined to US$65.79 million in the third quarter of 2020 from a surplus of US$123.39 million in the corresponding period a year ago, reflecting the improvement in official transfers.

36. The gross international reserves during the reporting period stood at US$378 million, equivalent to over 6 months of next year's imports of goods and services.

37. The Committee noted that the importation of medical materials related to the COVID-19 coupled with the collapse of tourism and the decline in re-export trade worsened the current account position of the balance of payments. Going forward, the capital imports for the proposed OIC projects would further widen the current account deficit in 2021 unless tourism recovers.

38. The BoP Unit of the ERD was tasked to request for COVID-19 related imports from the relevant authorities to better capture them in the capital and financial accounts.

Foreign Market Developments

39. Report on the developments in the foreign exchange market showed that the exchange rate remained to be stable. The capital inflows from private remittances and official disbursement from developing partners, and the comfortable level of gross international reserves continued to support the exchange rate.

40. The volume of foreign currency transactions in the 12-months to end-November 2020 totaled US$2.20 billion compared to US$2.16 billion in the same period last year. Purchases of foreign currency (indicating supply) increased by 0.9 percent to US$1.09 billion during the period. Similarly, sales of foreign currency, which indicate demand, also increased by 2.8 percent to US$1.11 billion in the review period.

41. In the year to end-November 2020, the dalasi depreciated against the USD by 1.4 percent, Euro by 6.3 percent, and the pound sterling by 1.1 percent.

42. The Committee noted the relative stability of the exchange rate despite the ongoing crisis. The dalasi was supported by large private and official capital inflows. The Committee was informed that the improved coverage is in part responsible for the increase in remittance numbers.

Real Sector

43. Available data from the Gambia Bureau of Statistic (GBoS) estimated that real GDP of The Gambia grew by 6.2 percent in 2019 lower than the 7.0 growth registered in 2018. Growth was supported largely by the increase in the services sector and construction, as well as improved business sentiments.

44. Preliminary assessment of the Gambian economy by the IMF revealed that real economic growth is projected at zero growth in 2020, an upward revision compared to a contraction of 1.2 percent reflecting the impact of COVID 19

pandemic. However, growth is projected to rebound to 6.0 percent predicated on the return to normalcy and availability of a vaccine. Recent update in the third quarter of 2020 on the Bank's Composite Index of Economic Activity (CIEA) points to a weaker output gap suggesting low domestic and foreign demand due to continues disruption in economic activities associated with pandemic containment measures.

45. The Committee observed that weak economic activity reported in the second and third quarters of 2020 reflects the devastating impact the coronavirus pandemic. However, the expansionary monetary and fiscal policies cushioned the impact of the pandemic on the economy. With the marked slowdown in the number of reported coronavirus cases in the country, business activity recovered somewhat in the final quarter of the year but remained below the pre-crisis level. The Committee anticipated recovery in the tourism sector to begin in the second half of 2021.

46. The Committee expressed concern about the small amount of bank credit extended to agriculture compared to other sectors such as the distributive trade. It was stated that this is attributable factors including the maturity mismatch between the bank deposits which are mainly short-term in nature and the long-term financing needs of farmers. Some members asserted that the problem is not deficiency in funding but lack of proper implementation and management as the agriculture sector is a top recipient of externally financed projects.

Monetary Developments

47. Monetary developments reveal that broad money growth moderated marginally to 21.8 percent in September 2020 from 21.9 percent a year ago. Similarly, narrow money moderated to 21.5 percent from 23.7 percent a year ago. On the other hand, quasi money grew by 22.2 percent compared to 19.6 percent in the corresponding period last year. Total money supply stock reached D47.71 billion during the period compared to D39.16 billion in the same period last year.

48. Net Foreign Assets (NFA) of the banking system increased significantly from D14.1 billion at end-September 2019 to D21.3 billion as at end-September 2020 or by 51.0 percent. The NFA of the Central Bank for the period ended September 2020 expanded by a robust 64.0 percent to stand at D11.9 billion compared to D7.2 billion in the same period in 2019. Similarly, the NFA of commercial banks increased to D9.4 billion as at end-September 2020 from D6.9 billion recorded a year ago, or by 37.3 percent.

49. The net domestic asset (NDA) of the banking system expanded to D26.4 billion, showing a growth of 5.4 of percent relative to 9.9 percent recorded in the same period last year. The slowdown in the NDA is attributed to the decrease in government borrowing in the Banking sector. The banking system's net claims on government declined by 1.7 percent year-on-year and accounted for about 72.2 percent of total domestic credit. Private sector credit grew by 13.2 percent (year-on-year) as of end-September 2020, lower than 28.6 percent recorded a year ago in line with lower economic activities. Similarly, it contracted quarter-on-quarter by 0.5 percent as at end- September.

50. Annual reserve money grew by 32.3 percent at end-September 2020 compared to 18.6 percent in the corresponding period a year ago. Quarter-on-quarter, it strengthened by 12.2 percent in June 2020 compared to 18.6 percent in the second quarter of 2019. Both components of reserve money registered faster growth rates during the period under review. Currency in circulation rose by 30.7 percent, higher than 15.9 percent recorded a year ago. Similarly reserves of commercial banks registered an accelerated growth rate of 34.4 percent compared to 22.2 percent recorded a year ago.

51. The Committee noted that the strong reserve money growth is attributed mainly to the strong NFA position of the Central Bank which is less inflationary than monetization of government deficit. Similarly, the main driver of money supply was the NFA of the banking system. This implies that there is limited immediate threat to inflation from monetary aggregates. However, the trend in reserve

money growth, which is the Bank's operating target should be monitored to ensure it does not translate to inflation going forward.

52. The Committee observed the rate of growth of private sector credit has slowed during the pandemic period, in line with expectations.

Government Fiscal Operations

53. Preliminary estimates of government fiscal operations indicate that overall fiscal deficit (including grants) improved from D2.3 billion (2.6 percent of GDP) in the first nine of 2019 to a deficit of D2.2 billion (2.3 percent of GDP) in the first nine months of 2020. The budget deficit excluding grants, however, worsened to a deficit of D6.1 billion (6.2 percent of GDP) in the first nine months of 2020 compared to D5.5 billion (6.3 percent of GDP) in the same period in 2019.

54. The deficit in the basic balance increased to D1.1 billion (1.1 percent of GDP) in the first nine months of 2020 compared to a deficit of D0.8 billion (0.9 percent of GDP) in the corresponding period a year ago. The primary balance worsened from a surplus D1.4 billion (1.6 percent of GDP) in the first nine months of 2019 compared to a deficit of D0.2 billion (0.2 percent of GDP) in the first nine months of 2020.

55. Revenue and grants in the first nine months of 2020 increased to D14.2 billion (14.4 percent of GDP) from D12.3 billion (14.0 percent of GDP) in the same period last year. Domestic revenue, which comprises tax and nontax revenue rose significantly by 14.3 percent to D10.3 billion (10.5 percent of GDP) in the first nine months of 2020 from D9.0 billion (10.3 percent of GDP) registered a year ago.

56. Total government expenditure and net lending in the first nine months of 2020 increased by 12.7 percent to D16.4 billion (16.7 percent of GDP) from D14.5 billion (16.6 percent of GDP) in the first nine months of 2019. Recurrent expenditure increased by 29.9 percent to D12.0 billion (12.2 percent of GDP) compared to D9.3 billion (10.5 percent of GDP) in the first nine months of 2019, attributed

largely to the rise in other charges. On the other hand, capital expenditure decreased significantly by 17.4 percent to D4.4 billion (4.4 percent of GDP) in the first nine months of 2020 from D5.2 billion (4.9 percent of GDP) in the same period last year due to the fall in project grants.

57. The Committee commented that the social and public health spending embarked on by the government during the pandemic period put pressure on the budget despite the unexpected revenue performance. Although these measures cushioned the impact of the pandemic on the economy, it widened the budget deficit (excluding grants) on the other hand.

58. The Committee anticipates marked increase in government spending in 2021 due to the capital projects earmarked for the year in preparation for the OIC meeting to be held in The Gambia.

Business Sentiment Survey

59. The Bank's quarterly Business Sentiment Survey indicated that the sentiments of businesses remained unchanged from the previous MPC. Business confidence has eroded due to the pandemic and as a result there is broad-based pessimism for the prospects of the level of economic activity. The survey further revealed higher inflation expectation in the next quarter by most respondents.

60. The Bank's quarterly Business sentiment survey has shown that the pandemic eroded business confidence. However, with the marked slowdown in COVID-19 cases and the news of vaccine discovery, the sentiments of businesses have improved. Majority of businesses surveyed are optimistic about the prospects of the economy in the near-term. The survey further revealed higher inflation expectations for the next quarter.

61. The Committee welcomed the reversal of the negative business sentiments experienced in the second and third quarters of the year due to the pandemic.

The gradual return of business confidence amid marked slowdown in the COVID-19 cases is critical for recovery.

Inflation Outlook

62. Inflationary pressures remain soft, reflecting weak domestic demand, low global oil prices, and a stable exchange rate. Headline inflation declined to 5.6 percent in October 2020 from 7.5 percent in October 2019, driven largely by the deceleration in non-food inflation.

63. The consumer price inflation (CPI) of food and non-alcoholic beverages increased from 6.5 percent in October 2019 to 6.8 percent in October 2020, or by 0.3 percentage points. The major drivers of food inflation during the period were Bread Cereals, Meat, Fish, Fruits, and non-alcoholic beverages.

64. Non-food inflation decelerated to 4.3 percent in October 2020 from 8.0 percent in October 2019. Consumer price inflation for all the components of non-food inflation decreased except communications and newspapers, books, and stationery. The decline can be attributed to the low demand due to COVID-19 restrictions, which resulted in reduction in economic activity.
65. The Committee is of the view that the stable exchange rate, increase in local food production and the low global inflation would keep inflation largely subdued in the near term. The uptick in November was judged to be temporal and would return close to the medium-term objective of 5 percent in the near-term. However, the major risk to inflation continues to be the recent surge in global food prices.

Assessment of the Economic Outlook

66. The Bank's central forecasting model revealed a grimmer outlook in August MPC than projected in May 2020. The baseline forecast shows a GDP contraction of 1.1 percent in 2020 and 3.5 percent in 2021, as opposed to -2.4 percent and 2.3 percent growth projected in May, respectively. The staff now expects a deeper contraction and slower recovery.

67. The consumer price index (CPI) is projected to continue decelerating below the medium-term objective. But the deceleration is slower than in the May forecast. In particular, the staff closely monitors the trend in food prices. Further, the pandemic has elevated the level of uncertainty. If domestic and foreign supply chains are disrupted, this may result in a supply-driven inflation and present an undesirable trade-off for the monetary policy stance in the first half of 2021, as inflation may accelerate while the economy contracts.

68. The exchange rate of the dalasi is expected to remain stable, supported by significant capital inflows. However, depreciation pressures may emerge due to the fragile economy and weaker financial conditions relative to the rest of the world.

69. In the wake of the weak aggregate demand, decelerating inflation and increased economic and health uncertainties, the staff projects enough space for further loosening of monetary conditions through additional cuts in the key monetary policy rate (MPR) by 300bps before the year end. In the May forecast, the staff projected a reduction by 400bps by the first half of the next year. The policy rate normalization is projected to commence in the second half of 2021, conditional on the inflation developments and the speed of recovery in economic activity.

70. The staff also presented its broad assessment of the fiscal outlook and of public debt sustainability. The worsening economic outlook negatively impacts the financial position of the Government - lowering tax revenues, while supporting the low-income and vulnerable part of the population though increased expenditures. The fiscal space is shrinking over the forecast horizon, and without a fiscal adjustment or external support, the public debt will become unsustainable. It is projected to increase from 81.4 percent of GDP in 2019 to more than 93 percent by 2023.

71. The staff went further to construct several alternative scenarios to the baseline to illustrate the risk to the outlook. In the first scenario, the staff considered the possibility of a total loss of the 2021/2022 tourist season due to a second wave of the coronavirus, lack of effective vaccine (or its distribution among population) and extended international travel restrictions. This prolongs the recession through 2022 and disinflation, which requires the MPR at lower levels for an extended period. In the second scenario, the staff considered the possibility of food prices annually growing by 1 percentage point faster than in the baseline. This negatively affects the households' purchasing power, lowering aggregate demand and growth. The call for monetary accommodation remains unchanged in the near term. But the policy likely needs to normalize sooner with higher-than-expected inflation in 2021.

72. In the third scenario, the staff considered the implications of keeping the MPR unchanged at the August MPC meeting. This scenario will have only a minor impact on the baseline forecast. Besides faster inflation deceleration, the other impacts are negligible. Strategically, this wait-and-see scenario underestimates the risk of not acting early enough to build sufficient momentum before entering a major recession in the fourth quarter.

73. In the fourth scenario, the staff considered the implications of elevated capital inflows over the next three years. This will be through private remittances and official disbursements. The increased stability of the dalasi lowers inflationary pressures, and a higher disposable income of households provides a space for additional monetary accommodation and a boost to the economic recovery.

74. In the fifth scenario, the staff looked at the implications of a good crop season, which results in 3 percent growth in agricultural output. This positive demand shock balances out the risk considered in the scenario 2 of increasing imported food prices due to supply chain disruptions.

Agenda for Day-2 of the MPC Meeting

1. Welcome Remarks by Chairman
2. Summary Report by the First Deputy Governor
3. Deliberations
4. Decision
5. Press Conference by the Chairman

2. The Monetary Policy Committee (MPC) reconvened on Thursday, August 27, 2020 to decide on the direction of monetary policy. The deliberations were followed by a press conference by the Governor and Chairman of the MPC.

3. Following the welcoming remarks by the Chairman, a summary of the presentations and discussions of the technical meeting was done by the second Deputy Governor.

Summary deliberations

4. The prospects of the global economy remain highly uncertain due to the coronavirus pandemic and economies around the world have plunged into recession. As the pandemic protracts, the adverse effects on the global economy appear to be more severe and longer lasting than previously projected. The IMF has revised downwards its global growth projection for 2020 by 1.9 percentage points to a contraction of 4.9 percent. The projected recovery in 2021 is clouded by downside risks, including the possibility of a second wave of the outbreak if no medical solution is found.

5. The weak global economy continues to have adverse effects on the Gambian economy, especially tourism and related activities. In addition, as the crisis protracts the resilience of private remittance inflows will be tested, which have been supporting household consumption and the construction industry.

6. Already, the pandemic has reversed positive business sentiments. Business confidence has plummeted and most of the respondents in the Bank's Business Sentiment Survey are pessimistic about the prospects of the economy. The Bank's Composite Index of Economic Activity (CIEA) also indicated a major slowdown in the second quarter of 2020. Therefore, the preliminary assessment shows that the economy will contract by 1.2 percent in 2020, predicated on the return to normalcy in the second half of this year when containment measures are relaxed.

7. The exchange rate of the dalasi is forecast to be stable in the near-term, given the comfortable level of international reserves of the Bank and the strong capital inflows.

8. The Committee noted that the balance of risk to the inflation outlook is on the downside, driven largely by the weak demand, projected increase in local food harvest and low global oil prices. The output gap is projected to remain negative for 2020 and the weak aggregate demand would moderate inflationary pressures further. However, the upside risks include the substantial uncertainty around the trend of global food prices in the light of supply chain disruptions due to the COVID-19 pandemic. Other significant risks to the outlook include the expansionary stance of fiscal and monetary policies, especially when economic activity starts picking up.

Decision

Given the above developments, the committee decided the following:

- Maintain the monetary policy rate at 10 percent to allow full transmission of previous policy decisions.
- Maintain the statutory required reserve ratio at 13 percent.
- Maintain the interest rate on the standing deposit facility at 3 percent and the interest rate on the standing lending facility at 1 percentage points above the monetary policy rate.

- Continue to closely monitor the situation and act accordingly.

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, February 24, 2020. The meeting will be followed by the announcement of the policy decision on Thursday, February 25, 2020.