CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

Press Release **February 28, 2019**

The Monetary Policy Committee (MPC) of the Central Bank of the Gambia met on Thursday **February 28, 2019** to assess domestic and international economic and financial developments, and to decide on the policy rate.

Global Economic Outlook

1. Global economic growth slowed in 2018 and the balance of risks remains titled to the downside, amid increasing trade tensions, tightening financial conditions and policy uncertainty. The International Monetary Fund (IMF) estimated global economic growth to have moderated to 3.7 percent in 2018 from 3.8 percent in 2017. Growth is projected to slow further to 3.5 percent in 2019. This reflects decline in growth for advanced economies together with temporary decline in emerging markets and developing economies.

2. Economic growth in advanced economies is projected to slow down to 2.0 percent in 2019 from 2.3 percent in 2018 and 2.4 percent in 2017. In emerging market and developing economies, activity is estimated to have grown by 4.6 percent in 2018 before moderating to 4.5 percent in 2019, due largely to the moderation of growth in China. Economic

activity in sub-Saharan Africa remains robust supported mainly by domestic policy adjustments, improved external environment, and favorable commodity prices. The region is projected to grow at an average of 3.5 percent in 2019 from 2.9 percent in 2018.

Domestic Economic Outlook

Real Sector

3. At the domestic front, economic activity continues to gather strength evidenced by increased activity in construction, tourism, distributive trade, and financial intermediation. Real GDP is estimated to have grown by 4.6 percent in 2017, higher than 0.4 percent in 2016. Growth is expected to remain solid in 2018 and 2019, on the back of continued implementation of sound macroeconomic policies and structural reforms.

External Sector

4. Preliminary balance of payments estimates for 2018 indicate that the current account deficit has narrowed compared to 2017, attributed largely to improvement in the services and current transfers. The current account deficit narrowed to US$69.7 million in 2018 compared to US$98.8 million in 2017. The services account balance surged to a surplus of US$106.9 million or by 73.7 percent in 2018 from US$61.6 million a year ago. Performance in the services account is attributed, in the main, to the increase in travel income reflecting strong tourist season. Similarly, current transfers which constitute largely of private remittance rose significantly during the review period.

5. The deficit in the goods account widened to US$354.4 million or 22.0 percent of GDP in 2018 from US$ 331.2 million or 21.5 percent of GDP in 2017. Exports rose to US$135.3 million or by 15.5 percent in 2018. Similarly, imports increased to US$519.4 million or by 11.9 percent, reflecting increase in economic activities.

6. The surplus in the capital and financial account improved to US$53.3 million in 2018 compared to a surplus of US$8.5 million in the same period a year ago. Gross international reserves are at 4.3 months of current imports of goods and services and it is projected at 4.0 months of next year's imports of goods and services.

Exchange rate developments

7. Volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency stood at US$2.0 billion in the year to end-December 2018, higher than US$1.3 billion in the same period last year. The strong performance reflects growing market confidence and improved supply conditions.

8. Purchases of foreign currency (indicating supply) increased markedly by 43.6 percent to US$975.8 million in the year to end-December 2018 from US$679.6 million in 2017. Similarly, sales of foreign currency, which indicates demand, increased significantly by 46.4 percent to US$979.7 million in the review period.

9. The exchange rate of the dalasi remains broadly stable. From January 2018 to January 2019, the dalasi appreciated against the pound sterling, Euro and CFA by 1.4 percent, 2.9 percent and 3.9 percent respectively but depreciated against the U.S. dollar by 4.2 percent.

Fiscal Operations

10. Preliminary data on government fiscal operations for 2018 indicate a budget deficit (including grants) of D3.9 billion (4.9 percent of GDP) in 2018 compared to a deficit of D3.7 billion (5.3 percent of GDP) in 2017. Overall budget balance (excluding grants), on the other hand, improved to a deficit of D5.8 billion (7.3 percent of GDP) compared to D9.3 billion (13.4 percent of GDP) in 2017.

11. Total revenue and grants stood at D10.7 billion (13.4 percent of GDP) in 2018, lower than D13.3 billion (19.2 percent of GDP) in 2017. Domestic revenue, comprising tax and non-tax revenues, rose by 13.7 percent to D8.8 billion or 11.0 percent of GDP.

12. Total expenditure and net lending declined by 14.0 percent to D14.6 billion (18.3 percent of GDP) in 2018 compared to D17.6 billion (24.5 percent of GDP) in 2017, reflecting mainly the marked drop in domestic interest payments by 34.5 percent.

Domestic Debt

13. The stock of domestic debt increased to D31.2 billion (40.5 percent of GDP) as at end-December 2018 from D29.7 billion (42.7 percent of GDP) in the corresponding period a year ago. Stock of Treasury and Sukuk-Al Salaam bills increased by 12.5 percent to D17.4 billion in 2018 from D15.5 billion in 2017.

14. Yields on all Treasury bills increased. The 91- day, 182-day, and 364-day Treasury bills rates increased from 5.03 percent, 5.52 percent, and 6.73 percent as at end-December 2017 to 5.06 percent, 7.04 percent, and 9.48 percent, respectively as at end-December 2018.

Banking Sector

15. According to the financial soundness indicators, the banking sector remains fundamentally sound. Total assets of the industry expanded by 15.3 percent to D43.6 billion as at end-December 2018. The asset quality has improved significantly with the non-performing loan ratio of 3.3 percent, lower than 7.2 percent a year ago.

16. Furthermore, the industry is well capitalized and highly liquid. The risk weighted capital adequacy ratio stood at 31.7 percent, significantly above the statutory requirement of 10 percent. Similarly, the liquidity ratio stood at 94.8 percent compared to the statutory requirement of 30 percent. Liquid assets to total asset ratio stood at 57.4 percent in December 2018, higher than 52.9 percent in December 2017.

Development in Monetary Aggregates

17. As at end-December 2018, money supply grew by 20.0 percent, lower than 20.9 percent recorded a year earlier. The net foreign assets of the banking system expanded to D10.4 billion or by 61.0 percent during the period. Similarly the net foreign assets of the Central Bank and commercial banks increased to D4.5 billion and D5.9 billion or by 62.0 percent and 60.3 percent respectively.

18. The net domestic assets of the banking system increased to D23.3 billion or by 7.8 percent. Claims on government, net, grew by 10.7 percent relative to a contraction of 5.3 percent a year ago. Private sector credit continued to expand at a robust pace. As at end-December 2018, it expanded significantly by 32.9 percent compared to a contraction of 1.2 percent a year ago.

19. As at end-December 2018, reserve money grew by 16.5 percent, lower than 22.6 percent recorded last year.

Price Developments

20. Inflation has been broadly subdued attributed largely to stable exchange rate. Headline inflation as measured by the National Consumer Price Index (NCPI) decelerated to 6.1 percent in January 2019 compared to 6.4 percent in the corresponding period in 2018.

21. Food inflation, which is the main driver of headline inflation, edged up to 6.2 percent in January 2019 compared to 6 .1 percent a year ago. All sub-components of food inflation decelerated with the exception of bread cereals, oils and fat, and fruits and nuts. Non-food inflation, on the other hand, decelerated to 5.9 percent from 6.9 percent during the review period.

The Committee observed that:

- The macroeconomic environment has improved;
- Inflation continued to trend downwards and it is projected to decelerate towards the Bank's medium term of 5 percent;
- According to the Business Sentiment Survey, inflation expectation is well-anchored;
- Exchange rate is stable supported by market confidence and improved supply conditions;
- Current account deficit is narrowing supported by private remittances and travel income from tourism;
- The Central Bank continues to maintain comfortable external reserve level;

- Banking system remains stable with adequate liquidity and high profitability.

Outlook for Inflation

22. The outlook for inflation is a further deceleration towards the Bank's medium term target of 5 percent. This is premised on the following:
    - The exchange rate of the dalasi is projected to remain broadly stable predicated on increased business confidence, and improved supply conditions;
    - The business sentiment survey shows that inflation expectations are well-anchored and confidence in the economy remains robust;
    - Global food prices are expected to remain moderate in the near to medium term.
23. However, there are risks to the inflation outlook including:
    - Rising global inflation;
    - The decline in local food production due to poor weather conditions;
    - High debt level remains a major risk to overall macroeconomic stability.

Decision

24. Taken the above factors into consideration, the Committee decided to reduce the policy rate by 100 basis points to 12.5 percent. The Committee will continue to closely monitor domestic and international economic developments and stands ready to act accordingly should economic conditions change.

25. The Committee has also taken additional measure by increasing the maintenance period for the reserve requirement from week to two weeks. The move is to give banks flexibility in liquidity management.

26. The Committee also decided to maintain the overnight deposit rate at 2.0 percent and the overnight lending rate at 1 percent above the Monetary Policy Rate.

Information Note

Date for the next MPC

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, May 29, 2019. The meeting will be followed by the announcement of the policy decision on Thursday, May 30, 2019.