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The Monetary Policy Committee (MPC) of the Central Bank of The Gambia convened its quarterly review of economic and financial developments on Wednesday, March 03, 2021, and subsequently took appropriate policy decisions based on reports presented and the discussions during the meeting. The following are highlights of the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. The IMF, in its January 2021 World Economic Outlook (WEO) estimates a global contraction for 2020, at 3.5 percent, 0.9 percentage points higher than projected in the previous forecast. This reflects a stronger-than- expected momentum in the second half of 2020, as countries adjust to the pandemic through medical interventions, and various policy support measures across regions.

2. In the advanced economies, contraction in output in 2020 was revised to 4.9 percent from 5.8 percent. The revision reflects the impact of expansionary policy measures adopted to moderate the effects of the pandemic as well as the envisaged availability and rollout of vaccines. In 2021 and 2022, Advance economies are forecast to grow by 4.3 percent and 3.1 percent, respectively.

3. Economic performance of emerging markets and developing economies, including sub-Saharan Africa are forecast to rebound to 6.3 percent and 3.2 percent, respectively in 2021 from a projected contraction of 2.4 percent and 2.6 percent in 2020.

4. Outlook for the near term looks stronger than previously envisaged, with global economic growth projected at 5.5 percent in 2021 and 4.2 percent in 2022. This is premised on the hopes that the pandemic will be overcomed with the approval and launch of vaccines in most countries coupled with various monetary and fiscal support, particularly in advance economies.

Real Sector Developments

5. The Gambia Bureau of Statistics (GBoS) estimated real GDP growth for 2019 at 6.2 percent, 0.3 percentage points lower than the 2018 real growth. Growth was largely aided by good performance in the services sector, construction, as well as improved business sentiments. In 2020, the IMF, projected zero economic growth compare to an earlier estimated contraction of 1.8 percent, reflecting fiscal stimulus, relaxation of the restrictions and increase in agricultural production.

6. The Central Bank's Composite Index of Economic Activity (CIEA), which is a statistical measure of aggregate economic activity, revealed year-on-year contraction of economic activity by 4.6 percent in 2020. However, signs of recovery are beginning to show in quarter 4 of 2020 and the forecast horizon, due to eased restrictions and resumption of business activities in the last quarter of 2020.

7. Readings from the Bank's quarterly Business sentiment survey paints to a gloomy economic outlook, reflecting largely the impact of the outbreak of the new variant of COVID-19. Majority of respondents reported negative sentiments about the current and expected level of business activity in the next quarter. The survey also revealed heightened inflation expectations for Q1, 2021.

External sector developments

8. The preliminary balance of payments estimates for end-December 2020 revealed a worsened external sector position for the country. The current account balance deteriorated to a deficit of US$119.34 million (6.75 percent of GDP) in December 2020 from a deficit of US$36.60 million (2.07 percent of GDP) in December 2019, due to weakened goods and service account balances.

9. The deficit in the goods account is estimated to have widened to US$512.71 million (29.00 percent of GDP) in December 2020 from a deficit of US$379.01 million (21.27 percent of GDP) in the corresponding period in 2019. The continued deterioration of the deficit in the goods account mirrors import expenses for Covid-19 related medical materials and decline in exports.

10. For the twelve months ending December 2020, total imports (FOB) rose by 9.16 percent to US$582.78 million. Oils, food stuffs as well as electrical materials and other equipment accounted for the bulk of imported items during the period, constituting 35.63 percent, 18.01 percent and 7.05 percent, respectively. In contrast, exports (FOB) decreased to US$61.03 million from US$133.69 million on account of the decline in re-export trade.

11. The services account balance deteriorated to a deficit of US$4.78 million, or by 104.76 percent during the review period, from a surplus of US$100.33 million a year ago. The deterioration can be attributed to a decrease in personal travels associated with the collapse in the tourism sector due to the pandemic.

12. Gross official reserves reached US$383.21 million (6.4 months of imports) on February 12, 2021, increasing from UD$352.07 million in December 2020. Total foreign assets of the Bank amounted to US$364.36 million at end-November 2020.

Foreign Exchange Market Developments

13. In the fourth quarter of 2020, the foreign exchange market recorded an excess demand of $5.72 million of foreign currency indicative of a pick-up in economic activity during the period as fears of the COVID-19 was allayed by the production and roll out of the vaccine.

14. Volume of transactions in the foreign exchange market declined to US$2.17 billion as at end-December 2020 compared to US$2.20 billion in the corresponding period of 2019. Both purchases and sales indicating supply and demand of foreign currency, declined in the year to end-December 2020. Purchases fell by 2.2

percent to US$1.07 billion while sales dropped marginally by 0.05 percent to US$1.01 billion.

15. The exchange rate came under pressure during the year due to supply constraints associated with the COVID-19 Pandemic and the slowdown of remittances in the last quarter of 2020, resulting to a weakened Dalasi against the three major international currencies. Year-on-year the Dalasi depreciated against the Euro, Pound Sterling and US Dollar by 7.3 percent, 1.5 percent and 1.1 percent, respectively.

Fiscal Operations

16. The Preliminary data on the government fiscal operations for 2020 showed a deterioration in the fiscal position. Overall budget deficit (including grants) expanded to D4.2 billion (4.3 percent of GDP) in 2020 from a deficit of D2.7 billion (3.1 percent of GDP) in 2019. Similarly, budget deficit (excluding grants) rose to D13.4 billion (13.6 percent of GDP) in the review period relative to a deficit of D7.5 billion (8.6 percent of GDP) a year ago.

17. Total revenue and grants amounted to D22.6 billion (23 percent of GDP), and rose by 35.9 percent in the twelve months of 2020, compared to D16.6 billion (19.0 percent of GDP) in the preceding period of 2019. Both tax and non-tax revenue increased by 3.7 percent and 67.0 percent to D10.3 billion and D3.1 billion, respectively during the period.

18. Government expenditure and net lending in 2020 increased to D26.8 billion (27.3 percent of GDP) or by 38.7 percent from D19.3 billion (22.0 percent of GDP) in 2019. Both capital and recurrent expenditure bolstered the expansion in government expenditure and net lending. Capital expenditure increased by a significant margin of 63.6 percent to D10.6 billion (10.8 percent of GDP) while recurrent expenditure rose by 26.1 percent to D16.2 billion (16.5 percent of GDP).

Banking Sector Developments

19. The banking sector remains fundamentally sound with high levels of capital and liquidity. On an annaulised basis, total assets of the banking industry rose by 3.5 percent, to D58.8 billion in December 2020. The risk weighted capital adequacy ratio at 32.6 percent, higher than the statutory requirement of 10 percent, increased by 1.2 percentage points in December 2020.

20. All the banks are adequately capitalized with liquidity ratio of the industry at 94.4 percent in December 2020, 2.8 percent higher than the 2019 ratio and well above the 30 percent Statutory requirement. Non-performing loans ratio increased to 6.8 percent in December 2020, from 4.6 percent a year ago.

21. The non-bank financial sector continues to play a pivotal role in extending financial services to most of the unbanked and under-banked population of The Gambia. During the year, two Finance Companies (FCs) were granted licenses to operate as microfinance institutions (MFIs) bringing the number of MFIs to six (6). At end-December 2020, total assets of FCs grew by 29.0 percent to D505.16 billion. Year-on-year, total deposits mobilized rose to D1.5 billion in December 2020 from D1.1 billion a year earlier despite the challenges posed by the COVID-19 pandemic. Total loans however, contracted marginally by 3 percent to D335.73 million during the review period.

22. Mobile money financial services continue to grow in terms of registered customers and transaction volumes. Total transactions measured by the deposits and withdrawals from Mobile Money Wallets increased by 19.0 percent from D38.50 million in June 2020 to D45.9 million in September 2020.

Domestic Debt Developments

23. Total outstanding domestic debt stock as at end-December 2020 grew by 4.3 percent to D34.6 billion (32.4 percent of the GDP) from D33.1 billion (36.2 percent of the GDP) in the corresponding period in 2019. Growth in the stock of Treasury

bills and Sukuk Al Salaam slowed to 5.8 percent in 2020 compared to 11.5 percent in 2019.

24. Interest rates in the domestic money market during the review period increased. The yields on the 91- day, 182-day and 364-day Treasury bills rose to 3.64 percent, 7.27 percent and 8.44 percent in December 2020 from 2.06 percent, 5.14 percent and 7.47, respectively in 2019.

Monetary Developments

25. Growth in money supply (M2) toned-down to 22.0 percent at end-December 2020, from 27.1 percent at end-December 2019. The increase in both the net foreign assets (NFA) and net domestic assets (NDA) of the banking system moderated to 45.0 percent and 11.8 percent in 2020, from 61.3 percent and 7.2 percent in 2019, respectively.

26. Annual reserve money growth accelerated to 33.9 percent at end-December 2020, from 17.2 percent a year ago, reflecting the strong growth in Net Foreign Assets (NFA) of the Central Bank.

Price developments

27. Consumer price inflation accelerated in January 2021 on account of significant increase in oils and fats sub-component of food inflation. Headline inflation rose to 7.6 percent in January 2021, from 5.7 percent in December 2020 and by 0.2 percentage points from a year ago.

28. Food inflation increased to 9.1 percent in January 2021 from 8.1 percent in the corresponding period in 2020. The rise in food prices is explained by the increase in all the sub- components of the food basket except for a few.

29. Non-food inflation in contrast declined to 6.1 percent in January 2021, from 6.8 percent in the same period last year on account of a drop in the prices of housing, water, electricity and other fuels and communication services.

The Committee observed the following:

30. 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 as countries adjust to the pandemic through medication interventions and various policy support across regions. However, the emergence of the new COVID-19 variant has increased the uncertainties surrounding the pandemic. The recovery path is however, premised on the hopes that the pandemic will be overcome with the approval and launch of vaccines in most countries coupled with various monetary and fiscal support particularly in advance economies;

31. In the Gambia, the low number of reported cases in quarter 4 of 2020, the increase government spending, and the expansionary monetary policy stance induced the softening of the slowdown in economic growth. In 2021, projected growth of 6.0 percent is predicated on a return to normal economic activity with a rolling out of vaccines on the horizon. The forecast for 2021 is premised on recovery in the service sector through a rebound in accommodation and retail trade;

32. The Bank's Composite Index of Economic Activity (CIEA), which is a high frequency measure of the level of activity in the economy, shows that economic activity contracted in 2020 and is expected to recover in 2021. Furthermore, the slowdown in economic activity resulted in a significant decline in private sector credit. However, fiscal and monetary policy interventions to the pandemic have mitigated the impact of the crisis on the economy;

33. The Committee noted the widening current account deficit in December 2020 relative to the corresponding period in 2019, mainly reflecting the deteriorations in the goods and services account balances. However, with an encouraging level of gross international reserves, stable exchange rates, and anticipated budget support, is expected to narrow the deficit going-forward; and

34. In January 2021, the Committee observed a rise in inflation. The recent uptick in inflation is judged to be temporal mainly due to a one-off increase in education in quarter 4 of 2020. The near-term forecast suggests that underlying inflationary pressures are building up based on the anticipated pick-up in domestic demand as the COVID-19 vaccine is rolled out and the continued recovery in global food prices.

Decision

Taken 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).

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, May 26, 2021. The meeting will be followed by the announcement of the policy decision on Thursday, May 27, 2021