CENTRAL BANK OF THE GAMBIA

MINUTES OF THE MONETARY POLICY COMMITTEE

MEETING NO.77

March 2021

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March 03-04, 2021

The Monetary Policy Committee (MPC) of The Central Bank of The Gambia (CBG) met on Wednesday, March 03, 2021, to assess recent economic developments. This was followed by a meeting to decide on the Monetary Policy stance and a press conference on Thursday, March 04, 2021.

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. Baboucarr Jobe	Member
Ms. Isatou Mendy	Secretary

Report Presenters

Name	Designation
Mr. Abdou Ceesay	Deputy Director, Foreign Department
Mr. Khalilu Bah	Senior Economist, Economic Research Department
Mr. Alieu Ceesay	Senior Economist, Economic Research Department
Mrs. Aji Adam Njie	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Ms. Ancha Ceesay	Bank Examiner, Financial Supervision Department
Ms. Fatou Sanyang	Banking Officer, Banking Department

Mr. Bademba Drammeh	Statistician, Economic Research Department
Mr. Saikou B. Jammeh	Economist, Economic Research Department
Mr. Alfusainey Touray	Economist, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Alkali Barrow	Microfinance Officer, Microfinance Department

In attendance were:

Name	**Designation**
Ms. Rohey Khan	Director, Foreign Department
Mr. Omar Janneh	Director, Administration and Human Resource Department
Mr. Karafa Jobarteh	Deputy Director, Foreign Department
Ms. Halima Singhateh	Deputy Director, Financial Supervision Department
Mr. Saikou Touray	Deputy Director, Risk Management Unit
Mr. Mustapha Senghore	Principal Bank Examiner, Financial Supervision Department
Mr. Mawiyatou Susso	Statistician, Economic Research Department
Ms. Mariama Ceesay	Assistant Statistician, Economic Research Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department
Mr. Foday Joof	Risk Officer, Risk Management Unit
Mr. Ousman Saidykhan	Officer, Foreign Department

Agenda for the Technical Meeting-Day 1

1. The agenda of the meeting was adopted as presented.

   I. Adoption of the agenda

   II. Opening remarks by the Chairman

   III. Review of the minutes of the previous meeting and matters arising

   IV. Presentation and discussions of reports

   V. Lunch and Prayer Break

   VI. Presentation and discussion of reports continues.

Opening remarks by the Chairman

2. The Governor and Chairman of the MPC, opened the meeting with prayers. He then proceeded to welcome Committee members and all present to the maiden meeting of 2021. He enjoined MPC members to have an open mind on the presentations, deliberate on the issues thoroughly and make decisions accordingly.

Review and Adoption of the Minutes of the Previous Meeting

3. The minutes of the previous meeting were reviewed and adopted after few amendments. However, for the interest of time, the Committee agreed that going forward, the minutes should be completed a week after each meeting and then circulated to members for their review and comments.

4. The Governor and Chairman of the MPC also urged all and sundry to continue to work hard to produce timely and efficient work output for the Bank.

Presentation of Reports:

5. The meeting proceeded with the presentation and discussion of reports on the World Economic Outlook (WEO), the Banking Sector, Financial Market, Balance of Payments, Foreign Exchange Market, Monetary Sector, Government Fiscal Operations, Business Sentiment Survey, Microfinance Sector, Real Sector, and Inflation. These were followed by macroeconomic forecast assessing current economic conditions, baseline, and alternative scenarios.

Global Macroeconomic Developments

6. The global economic growth for 2020 was revised upward mirroring the stronger than expected momentum during the second half of the year as countries adjust to the pandemic through medical interventions, and various policy support across regions.

7. In the January 2021 WEO, the IMF revised its 2020 global growth projections by 0.9 percentage points to -3.5 percent. The upward revision factored in pick-up on economic activity resulting from rebound in trade due to border reopenings,

positive effect of vaccines production coupled with policy interventions to support growth. Despite the resurgence of the second wave and the variant COVID-19 strain, the outlook for the near term appears to be stronger than previously envisaged. Global economic growth is projected at 5.5 percent in 2021 and 4.2 percent in 2022. This reflects renewed hopes in overcoming the pandemic through medical innovations.

8. In advanced economies, real GDP is projected to contract by 4.9 percent in 2020, 0.9 percentage points lower than in the October 2020 WEO, reflecting expansionary policy measures adopted to mitigate the impact of the pandemic. Growth is expected to be strong in 2021 and 2022 with levels projected to rise to 4.3 percent and 3.1 percent, respectively.

9. In emerging markets and developing economies, growth is forecast to contract by a narrower 0.3 percentage points to 2.4 percent in 2020. The region is projected to traverse diverging recovery paths depending on the severity of the pandemic's disruptions to economic activity and the effectiveness of the policy measures. Growth is expected to rebound to 6.3 percent in 2021 and 5.0 percent in 2022.

10. In sub-Saharan Africa, growth is expected to strengthen to 3.2 percent in 2021, from a contraction of 2.6 percent in 2020. In 2021 and 2022, growth is forecast to rebound to 3.2 percent and 3.9 percent, respectively. Economies of this region were hard hit by the pandemic largely due to lack of diversification, reliance on commodity exports whose prices have fallen and poor health systems that need a quick fix to handle the crisis.

11. Financial conditions have generally continued to ease from the first half of 2020 for advanced economies and for most emerging markets and developing economies. The aggressive policy counter measures (interest rates cut, new relending facilities, large scale asset purchase, flexible average inflation target of 2 percent over time etc) by the monetary authorities played a vital role in supporting sentiment and preventing further amplification of the COVID-19 shock through the financial system.

12. Consistent with the subdued demand, global inflation on average is estimated to decelerate to 3.2 percent in 2020, compared to 3.5 percent in 2019. Despite increases in the prices of medical suppliers and commodity prices from their April 2020 levels, the effects of weak aggregate demand appeared to have dampened the impact of supply interruptions. Global inflation in 2021 is projected to increase slightly but still expected to remain below the pre-pandemic level.

13. The Committee noted the rate cuts, asset price purchases and subdued global inflationary pressures which give reasons for renewed hope for a turnaround in global activity. This optimism the Committee also noted depends on the roll-out of the vaccine which must be borne in mind. The accommodative policy measures adopted to support the economy the Committee warned, could be inflationary in the near-term.

14. The Committee observed that the resilience of some economies in SSA was attributed to economic measures adopted and the level of economic diversification. Technology was also seen as an important tool that helped to prevent economic contraction in some of these economies.

15. The Committee noted that apart from the policy measures thus so far adopted, the production and roll out of the vaccine in all countries of the world would play a greater part in the recovery process. Lack of coordinated leadership to push policies in advance economies contributed to the slow pace in the recovery process. It is therefore expected that the global recovery would be well coordinated by the new administration in the US.

16. The Committee noted the anticipated recovery in the tourism sector in the first half of 2021 but also opined that the economy needs to be diversified to withstand economic and markets turbulence as evident in some economies during this health pandemic. The need to plan on how to emerge from the crises was also emphasized.

17. The meeting was informed that Government was working closely with the banks to support the efforts of businesses/suppliers in providing basic commodities at reasonable prices to the public. Government would secure credit guaranties from banks to provide letters of credit to businesses. Port expansion is also another area that the Government was working on to increase berthing channels to reduce the waiting time for ships to dock and thus lessen additional cost on imports. All these intended actions by government are expected to foster an economic rebound in 2021.

18. The Committee expressed concerns over challenges in terms of entrepreneurial capacity in developing business plans, producing attractive bank statements for financial assistance and other collaterals that the banks would require for credit extension to businesses.

Domestic Macroeconomic Developments

Banking Sector Developments

19. The banking sector remained stable, well capitalized, and profitable. The risk-weighted capital adequacy ratio stood at 32.6 percent, higher than the 10.0 percent statutory requirement, increasing by 1.2 percentage points at end-December 2020. All the banks are adequately capitalized with liquidity ratio of the industry at 94.4 percent in December 2020, 2.8 percentage points 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 partly due to the impacts of COVID-19 pandemic.

20. Total assets of the banking industry stood at D58.8 billion at end-December 2020 relative to D50.9 billion in the corresponding period in 2019. The annual increase in the asset portfolio of banks was induced by an increase in their treasury bills investments, by 13.0 percent and loans and advances by 2.5 percent, which represented 19.1 percent and 12.6 percent of the industry's assets.

21. The banking industry continued to rely heavily on deposit mobilization as their major source of funding. Despite the COVID-19 pandemic, total deposits of the industry rose to D42.2 billion or by 20.5 percent in December 2020 from D35.0 billion in December 2019.

22. Commenting on what to be done to engender growth, the Committee suggested a revisit of the traditional areas (agriculture and services) that bring growth. The Committee also proposed that banks should be willing to take risk in expanding and developing the agriculture sector. Although there are opportunities opened for the agricultural sector, the Committee is of the view that there needs to be a policy on commercial agriculture to guide the functioning and growth of the sector. Work is on-going to have financial intermediation strengthened through providing incentives for banks to lend.

23. The Committee noted the low level of private sector credit and attributed it partly to the lack of proper business plan and financial statements that is hindering banks' credit to businesses. It was therefore suggested that banks should assist potential businesses on how to develop business plans and financial statements to innovate ways and means of funding SMEs in a safe and sound manner.

24. Commenting on the financial soundness indicators, particularly on loan to deposit ratio and the high concentration of loans to a few sectors, the Committee judged that what constitutes Loans and Advances is broad and vague and therefore should be disaggregated.

25. The Committee noted the deficiencies in loan provisioning by banks and requested this to be regularize and for FSD to enforce the adherence to guidelines of the Bank.

26. Commenting on the queries raised on the Banks' responsibility in assisting growth in private sector credit, reforms to diversify banks' investment portfolio, policy on overhead costs of CEOs of banks and instituting a business window in banks to

assist businesses in their business plans and financial statements, the Committee opined that the Central Bank cannot micro-manage the operation of banks. Doing so could result to negative impact on the credit operations and profitability of the financial institutions. Banks have short-term funds which are mainly short-term deposits and thus lending such on long-term could lead to maturity mismatch. It is only with the establishment of a Capital Market that would enable long-term funding for development.

27. The Committee however opined that a well-functioning Capital Market would require adequate capacity from the participating businesses in terms of credible and regular reporting of financials. In addition, a sound Capital Market relies heavily on timely, efficient, and accurate financial reporting, failure of which can impact on the valuation of company share prices. Now that the enactment process of the Capital Market bill is at an advanced stage, the implementation modalities detailing the roles and functions of the market should be put in place.

28. The Committee raised concerns about classification issues on investment account securities from the banks. It was noted that all categories of investments are lumped without disaggregation. This becomes difficult to ascertain what amount of these investments constitute bonds or T-bills.

29. The Committee opined that the laws of the Bank need to be revisited and strengthen to accommodate new developments in the financial system. A well-functioning National Credit Reference Bureau would be able to minimize the NPLs of banks since defaulters would be disallowed to secure credit from other financial institutions due to their credit history. The meeting was informed that Government is exploring with the Ministry of Justice the possibility to have specialized commercial courts that would fast-track the loan recovery process of banks.

30. The Committee further discussed that there is a significant difference between Loans (utilized for business growth and diversification into new products) and, Overdrafts used for short-term liquidity requirements. The Financial Supervision

Department was therefore requested to provide in their next report, a breakdown separating Loans and Overdrafts.

Microfinance Sector Developments

31. Microfinance institutions continue to play a crucial role in the financial inclusion drive for the rural folks in the country, especially women groups. The Non-bank Finance Institution (NBFI) Act of 2016 laid the ground for growth in the non-bank financial sector and broadened the scope of the Microfinance Department. The industry continued to grow both in size and numbers as evident in the growth of its assets, capital, deposits, and profits.

32. Capital requirement of D50.0 million was met by all the Finance Companies (FCs) during the review period. Capital increased by D106.6 million to D350.6 million in December 2020. Total assets of the three FCs on a yearly basis expanded by 33.6 percent to D2.0 billion in December 2020, reflecting an increase in investments in Treasury bills, cash holdings and bank balances. Quarter-on-quarter, assets grew by 13.9 percent from D1.8 billion in September 2020.

33. The industry profits expanded slightly by 2.2 percent to stand at D17.60 million at end-December 2020 from D17.22 million at end December 2019. On a quarterly basis, profits of the industry grew markedly by 21.0 percent from D14.5 billion at end-September 2020. Despite the challenges of the COVID-19 pandemic, deposits mobilized by the FCs rose to D1.5 billion or by 31.1 percent in December 2020. Majority of these deposits were mobilized by one of the FCs mirroring its dominance in the industry.

34. At D350.2 million in December 2020, total loans disbursed to clients of the FCs grew by 2.3 percent from D273.5 million in the corresponding period a year ago. When compared with September 2020, loans rose significantly by 28.1 percent or by D76.8 million in December 2020.

35. Year-on-year, the ratio of non-performing loan ratio increased noticeably to 11 percent in December 2020 from 4.0 percent in the corresponding period in 2019 but lower than the 18.0 percent recorded in the third quarter of 2020.

36. The Committee observed financial dominance of one Microfinance Institution (MFI) in the non-bank financial sector and enquired if there is a provision in the laws of the Bank that allows a big and domineering player to be up scaled to a bank. In response, the Committee was informed that no such law exists. It was noted that due to the operations of MFIs, (i.e., group-based lending), forcing any dominant player to up-scale to a bank could result to failure in meeting its business objectives. Therefore, the Central Bank should not interfere with the business models of MFIs. However, each must be appropriately regulated and supervised.

37. The Committee noted the importance of developing the Gamswitch payments system platform to benefit from digitalized payments system which is real time with less human intervention. The meeting was informed that the World Bank was approached for assistance to diagnose the problem of the digital devices for their effective and efficient functioning. Funds are available from IDA allocation for this project. Meanwhile, it was stressed that financial literacy is also crucial to drive this process of promoting digitalized payments.

38. The Committee viewed the registration of another finance company, as a milestone in the drive for financial inclusion and observed growth in terms of membership and sizes of these finance companies. In contrast, credit union membership declined, and Microfinance Department was tasked to conduct a survey to determine the causes of decline in membership of the credit unions.

39. The Committee commented on the high interest rate charges on loans by MFIs deterring growth in the industry. This however was refuted and argued that it is the time frame of the loan appraisal process that have issues and not the interests charged per se. Customers are not appraised appropriately based on their needs and ability to repay the loan.

40. The Committee charged the Microfinance Department to produce a report on the challenges the credit unions and VISACAs are facing in order to help boost their operations.

41. The Committee further tasked the Microfinance Department to closely monitor the rising non-performing loans of the FCs.

Money Market Developments

42. In the money market, stock of domestic debt continued to grow at high levels. Total outstanding debt at D34.6 billion (34.1 percent of the GDP) in December 2020 grew by 4.3 percent from D33.1 billion (36.2 percent of the GDP) in December 2019. The expansion in domestic debt was induced by rise in short-term debts which constituted 85.0 percent of total domestic debt. Stock of Treasury and Sukuk-Al Salaam bills rose by 5.8 percent to D20.5 billion as at end-December 2020.

43. The yields in all the profiles rose during the review period. The 91- day, 182-day and 364-day Treasury bills increased to 3.64 percent, 7.27 percent, and 8.44 percent in December 2020 from 2.18 percent, 5.14 percent and 7.50 percent, respectively in December 2019.

44. In the year to end-December 2020, interest payments accrued on domestic debt, stood at D2.4 billion (17.6 percent of domestic revenue), compared to D2.5 billion (20.95 percent of domestic revenue) in the same period of 2019. Interest payments for 2021 is projected at D2.7billion, D0.7 billion higher than the amount paid in 2020.

45. The Committee acknowledged the rise in domestic debt but was comforted with the current government borrowing plan that is reassuring in terms of what is to be raised from the market. This gives room for predictability in terms of the government's borrowing needs, the path rates would take and thus reduction in the volatility of the rates.

46. The Committee noted that the acquisition of funds from development partners for infrastructure projects rather than from the budget would be a quick way of restructuring and reducing debt from the domestic market.

Balance of Payments Developments

47. Developments in the balance of payments revealed that in the twelve months ending December 2020, the current account balance widened to a deficit of US$119.34 million (6.75 percent of GDP) from a deficit of US$36.60 million (2.07 percent of GDP) in the corresponding period in 2019, attributed to the deterioration in both the goods and services account balances.

48. The goods account is estimated to have expanded to a deficit of 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) a year earlier. The significant increase in the deficit of the goods account mainly reflected the importation of Covid-19 medical and related materials during the period. Decline in total exports (re-export) by US$72.7 million in December 2020 caused by border closure also contributed to the worsening deficit in the goods account balance. Conversely, total imports (FOB) surged to US$582.78 million in December 2020, US$48.9 million higher than the amount recorded in the same period a year ago. Oils, food stuff, electrical machinery and other equipment accounted for the bulk of imported goods during the period.

49. Similarly, the services account balance at end-December 2020 also deteriorated to a deficit of US$4.78 million from a surplus of US$100.33 million in the same period a year ago. This is occasioned by the decrease in personal travels by 70.63 percent to US$40.74 million mirroring the collapse in the tourism sector, evident by the decline in air-chartered tourist arrivals by 62.16 percent in the twelve months of 2020.

50. The capital and financial account registered a higher surplus of US$270.03 million in the twelve months of 2020 compared to a surplus of US$60.08 million a year ago, reflecting improvements in official inflows.

51. As at end-February 2021, gross international reserves stood at US$393.3 million equivalent to 6.6 months of imports of goods and services of the country.

52. The Committee noted that the worsening current account balance reflected the impact of the COVID-19 pandemic on the external sector. Importation of COVID-19 related materials, decline in re-export trade and flop in tourism accounted for the deterioration in the current account balance during the review period. This situation is somewhat not worrisome as the deficit is not financed from borrowing but rather from reserves and official inflows. Although reserves are at encouraging levels, the Committee cautioned that vigilance must be paid to it to maintain confidence and stability in the financial system.

53. The Committee was optimistic that not all is lost as there were signs of recovery in economic activity and trade in the last quarter of 2020 due to ease in lockdown restrictions and vaccine roll out.

Foreign Market Developments

54. Activity in the foreign exchange market signaled stability in the domestic currency induced by low economic activity. Inflows from remittances, donor assistance and comforting international reserves levels also support the stability of the Dalasi.

55. Transaction volumes in the foreign exchange market in the twelve months to end-December 2020 declined by $61.5 million or by 10.2 percent from $604.8 million in December 2019. Both purchases and sales (indicative of supply and demand) of foreign currency decreased to $268.8 million and $274.5 million in December 2020 from $299.9 million and $304.9 million respectively in the corresponding period of 2019.

56. Remittances grew by 78.8 percent to stand at $589.8 million during the review period. However, on a quarterly basis, it decelerated slightly in the fourth quarter of 2020 by 0.7 percent from $170.0 million in the third quarter of 2020.

57. During the review period, the Dalasi weakened against the three major international currencies, depreciating by 1.6 percent, 2.8 percent, and 6.7 percent respectively for the US Dollars, Pound Sterling and Euro. It also weakened against the CFA Franc (5000) by 3.6 percent.

58. The Committee noted the substantial increase in remittances during the review period attributed mainly to the unavailability of the informal channel of transfer of funds due to travel restrictions and lockdowns and increase registration of Money Transfer Operators (MTOs). The Committee opined that the upsurge in remittances increased government revenue through the payment of taxes and support households through increase income and spending.

59. With strive in financial technology, the Committee urged the Bank to start sensitizing the foreign exchange bureaus on the ongoing expansion of the use of mobile money and its implications on their operations and survival in the near-term.

60. The Foreign Department was tasked to tabulate the remittance data as a ratio of exports in a series form to help the country in gauging its status in the debt sustainability analysis. If the ratio is greater than 25 over three consecutive years, the country's status in terms of threshold changes. Efforts are also initiated to disaggregate remittance data to enhance analysis and policy decision making.

Real Sector

61. Data from The Gambia Bureau of Statistic (GBoS) indicated that the Gambian economy has grown by 6.2 percent in 2019, 0.8 percentage points lower than the

real growth registered in the preceding year. The service sector, construction and improved business conditions supported real GDP growth in 2019.

62. In its updated forecast in January 2021, the IMF projected the Gambian economy to register zero growth in 2020 up from a contraction of 1.8 percent in the October WEO. The downhill decline in economic growth in 2020 relative to a year ago was caused by the COVID-19 pandemic which continues to impact economic activities around the globe. Policy interventions and low number of reported COVID-19 cases in the fourth quarter of 2020 contributed to the softening of economic downturn. Growth in 2021 is expected to rebound to pre-pandemic level of 4.9 percent predicated on a return to normal economic activity in the last quarter of 2020.

63. The Bank's Composite Index of Economic Activity (CIEA) forecast revealed growth contraction of 4.6 percent (year-on-year) in quarter four 2020 relative to same quarter in 2019. However, with eased restrictions and resumption of business activity in quarter four of 2020, signs of recovery from quarter four of 2020 to the forecast horizon are beginning to kick in.

64. The Committee noted that recovery in the first quarter of 2021 is far fetch since it is off-season for the tourism sector and with the new wave of the virus in our destination markets, recovery would be expected in the second and third quarters of 2021.

65. The Committee was informed that the growth estimates was based on information received from relevant institutions. In addition, disbursements for the 2021 road infrastructure projects as well as acquisition of fertilizer for the agricultural sector were also factored in the growth projections. The Committee however, advised that caution should be taken with the estimates since there are hitches such as end of the tourism season that would not impact on the near-term forecast.

66. The Committee noted and welcomed the developments with the National Food Security Processing and Marketing Corporation (NFSPMC) formerly known as Gambia Groundnut Corporation (GGC) which Government is trying to revive. A study was commissioned to assess the viability of the Corporation coupled with exploring its possible partnership with investors in crop purchasing and refurbishing of production lines of the Corporation. The Committee expressed concerns about the capacity constraints that the Corporation needs to attend to in order to make itself viable and relevant. The way forward for the NFSPMC the Committee suggests, is to wait for the outcome of the report on how to reposition the Corporation through a new business model, build capacity through secondment and recruitment before partnering with investors to drive its business goals.

Monetary Developments

67. Developments in the monetary sector indicated that annual broad money growth slowed to 22.0 percent at end-December 2020 compared to 27.1 percent in December 2019. Growth in broad money is explained by expansion in quasi money as the expansion in narrow money moderated during the period. Quasi money grew by 23.9 percent in December 2020 up from a 17.6 percent growth in the preceding year while narrow money growth decelerated to 20.4 percent in the review period from 35.4 percent a year earlier. At end-December 2020, the stock of broad money supply stood at D52.3 billion relative to D42.9 billion in the corresponding period in 2019.

68. The Net Foreign Assets (NFA) of the banking system increased to D24.3 billion as at end-December 2020 from D16.8 billion a year ago. The expansion in the NFA of the banking system was driven by increases in both the NFA of the Central Bank and deposit money banks which grew by 62.6 percent and 26.9 percent in December 2020 from D8.5 billion and D8.3 billion respectively in December 2019.

69. Similarly, the Net Domestic Assets (NDA) increased marginally by 7.2 percent to D28.0 billion in December 2020 attributed solely to increase in domestic credit.

Domestic credit rose to D33.3 billion or by 5.0 percent during the review period, from D31.7 billion in December 2019. The surge in domestic credit was induced by government deficit financing during the review period as credit to the private sector grew slightly, by 0.8 percent, from 35.8 percent growth registered a year earlier. The weak performance in private sector credit is associated with low economic activity caused by the COVID-19 pandemic. Signs of recovery in the fourth quarter of 2020 have seen pick-up in private sector credit by 1.5 percent.

70. Year-on-year, reserve money expanded by 33.2 percent at end-December 2020 compared to 17.2 percent in the same period in 2019. On a quarterly basis, base money grew by 7.8 percent in the final quarter of 2020, 4.4 percentage points lower than the growth rate registered in the preceding quarter. The annual growth in base money is occasioned by marked increases in both currency in circulation and reserves of deposit money banks, which expanded by 28.9 percent and 41.9 percent respectively in the review period.

71. The Committee noted the expected decline in private sector credit during the review period attributed mainly to the impact of Coronavirus pandemic that has affected economies worldwide. The Committee expressed optimism that private sector credit would pick-up as economic activity is anticipated to rebound in 2021.

72. The Committee expressed concerns on government's increased appetite for borrowing in the domestic debt market as evidenced by the increase in net claims on government. Although low yields for government securities is a disincentive for deposit money banks to lend to government, the options/avenues to invest are however limited and much riskier than government securities.

Government Fiscal Operations

73. The Preliminary data on the government fiscal operations for the twelve months ending December 2020 showed a worsened government fiscal position. The

overall budget deficit (including and excluding grants) widened to D4.2 billion (4.3 percent of GDP) and D13.4 billion (13.6 percent of GDP) in December 2020 from a deficit of D2.7 billion (3.1 percent of GDP) and D7.5 billion (8.6 percent of GDP) respectively in the corresponding period a year ago. The increase in the budget deficit was attributed to both increases in current and capital expenditure which grew by 26.1 percent and 63.6 percent, respectively.

74. The basic balance deficit, which excludes grants and externally financed capital spending deteriorated to D4.5 billion (4.6 percent of GDP) in the review period compared to a deficit of D2.0 billion (2.3 percent of GDP) a year ago. The surplus in the primary balance (overall balance excluding grants, external financing, and interest payments) of D0.8 billion (0.9 percent of GDP) in 2019, shrunk to a deficit of D1.6 billion (1.6 percent of GDP) in 2020.

75. Total revenue and grants at D22.6 billion (23 percent of GDP) in December 2020 grew by 35.9 percent, relative to D16.6 billion (19.0 percent of GDP) in the same period last year. Domestic revenue, comprising tax and non-tax revenues, rose by 13.9 percent to D13.4 billion (13.7 percent of GDP) in the twelve months of 2020, from D11.8 billion (13.5 percent of GDP) a year ago. Both tax and no-tax revenues contributed to the increase in domestic revenue but the growth in the latter out-paced the former during the review period. However, domestic revenue mobilized during the period fell short of the projected amount by D0.2 billion.

76. In the twelve months ending December 2020, government expenditure and net lending increased by 38.7 percent to D26.8 billion (27.3 percent of GDP), from D19.3 billion (22.0 percent of GDP) in the corresponding period in 2019. The growth of 38.7 percent in expenditure and net lending was mainly driven by the capital expenditure which grew significantly by 63.6 percent in the review period, while recurrent expenditure rose by 26.1 percent from a year earlier. Capital expenditure accounted for 39.6 percent of total expenditure and net lending, and 78.9 percent of domestically generated revenue during the period.

77. The Committee commended government for redirecting expenditure to capital expenditure for productive growth and noted that other investments that are in the pipeline such as the diaspora bond and the infrastructure bond which are developmental would boost the economy.

78. The Committee requested the Ministry of Finance and Economic Affairs (MoFEA) to provide them with collection of data from the Senegambia toll bridge to gauge the viability of toll bridge projects in the country.

79. The Committee commended the dividends paid by some SOEs due to the transformation on those SOEs and expects same from NFSPMC after receipt of a comprehensive report from the consultant that would help the oversight Ministry to act.

Business Sentiment Survey

80. Readings from the Bank's quarterly Business sentiment survey paints 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.

81. The survey revealed low business confidence due to low economic performance in the fourth quarter of 2020 attributed to the COVID-19 pandemic which continues to affect the macroeconomic environment. Sentiments for the subsequent quarter (Q1, 2021) is also on the downside as the emergence of the new variant virus is dampening business prospects.

82. The Committee observed that with the interdependence of economies, domestic economic recovery would be contingent on the strength of the global economy recovery and as such, the pessimistic business sentiments which are temporal would wane based on positive news from the global economy such as the rolling out of the vaccine.

83. The Meeting was informed that some dosages of the COVAX vaccine have arrived in the country and the government intends to have 60.0 percent of the population vaccinated.

Inflation Outlook

84. Inflationary pressures in January 2021 remained elevated, reflecting heightened food and non-food prices as well as global commodity prices. Headline inflation spiked to 7.6 percent in January 2021, from 5.7 percent recorded in December 2020 and 7.4 percent in the corresponding period a year ago, reflecting the increase in both food and non-food prices. Food and Non-food inflation accelerated to 9.1 percent and 6.1 percent in January 2021, from 7.0 percent and 4.4 percent in December 2020. However, food prices remained the main contributor to the yearly growth in headline inflation.

85. Year- on- year, food inflation accelerated by 1.0 percentage points to 9.1 percent in January 2021 from 8.1 percent a year ago. The rise in food prices is explained by the increase in all the sub-components of the food basket except for vegetables, roots and tubers, meat, milk, cheese and eggs and bread and cereals. The good harvest in the last cropping season somewhat mitigated the impact of the persistent rise in global food prices.

86. Non-food inflation on an annualized basis decelerated to 6.1 percent in January 2021 from 6.8 percent in the same period last year. The yearly consumer price for most of the non-food items (clothing and footwear, housing, water, electricity and other fuels, health, communication, recreation and culture and hotels, cafes, and restaurants) declined. The noticeable increase in one of the non-food items was the education index which surged due to schools reopening after the long break.

87. The Committee noted the surge in global food prices (caused by the interruption in the supply chain due to Covid-19 worldwide lockdown) that contributed to

imported inflation but however also requested for an explanation of other domestic factors that contributed to rise in prices. In response, the Committee was informed that structural bottlenecks at the port are contributing to the surge in prices. Therefore, accelerating the process of making the ports efficient would cut down on other charges that drive prices up.

Assessment of the Economic Outlook

88. The macroeconomic forecasting model of the Bank predicts brighter prospects for 2021 premised on return to normalcy through the successful roll out of the COVID-19 vaccine across countries. According to the baseline forecast, The Gambian economy is projected to grow by 3.5 percent on the backdrop of expected recovery in tourism and improvement in global demand due to the roll out of the Covid-19 vaccine. Domestic inflation is projected to be within the medium-term target of 5 percent over the forecast horizon.

89. Current economic conditions revealed an improved output growth of 0.1 percent relative to a contraction of 1.9 percent in the November forecast mainly on account of pick-up in economic activity due to relaxation of restrictions and anticipated roll out of the COVID-19 vaccine in the final quarter of 2020. Furthermore, the CIEA updates revealed slower economic contraction of about 4.2 percent in quarter four of 2020 relative to the deeper contraction of about 4.8 percent estimated in the subsequent quarter. The output gap widened from about -4.0 percent in quarter three of 2020 to about -5.5 percent in quarter four of 2020 on account of both weaker domestic and foreign aggregate demand. Overall, growth remained weak in 2020.

90. The cyclical adjusted fiscal impulse improved from -1.8 percent in the third quarter of 2020 to below 0.5 percent in the fourth quarter mirroring contractionary fiscal policy stance of government.

91. Monetary and financial conditions remained accommodative in 2020, supporting the economic recovery process. In quarter four, 2020, monetary conditions were further loosened compared to the third quarter. Money market interest rates continued their downward trend in the fourth quarter due mainly to system wide growth in liquidity in the banking sector. The exchange rate strengthened further in the fourth quarter on account of stronger remittances and budget support inflows.

92. In the fourth quarter of 2020, headline inflation reached 5.7 percent compared to 5.2 percent in the preceding quarter induced by substantial rise in education prices and hike in commodity prices induced by supply constraints associated with COVID-19 pandemic. Inflation expectations, persistence and supply shocks also played a part in accelerating market CPI in quarter four.

93. In March 2021, the baseline forecast the economy to grow by 3.5 percent in 2021, up from a 2.9 percent growth forecast in November 2020. The positive turn around in growth prospects is attributed to expected recovery of tourism sector and COVID-19 vaccine roll out.

94. Consumer price CPI picked up sharply in January 2021 to 7.6 percent, attributed to both increases in food and non-food inflation by 10.2 percent and 2.3 percent respectively. The near-term forecast suggests that inflationary pressures are building up and may persist through the first half of this year. Headline inflation (Seasonally adjusted) is projected to temporarily decelerate in February to 6.7 percent but to pick up thereafter in the first quarter away from the implicit target of 5 percent, premised on the expected recovery in economic activities and the surge in global commodity prices.

95. Several scenario analyses were conducted to gauge monetary policy direction and risk to the outlook by members of the MPC. The first scenario looked at slower inflow of remittances and its impact on GDP, inflation, exchange rate and monetary policy reaction. With slower remittance inflows, output would weaken

to 2.5 percent compared to baseline growth of 3.5 percent. Inflation would decline below its implicit target of 5.0 percent signaling loosening monetary stance and weaken local currency. Output would decline to 2.7 percent in scenario two that looked at the postponement of the OIC Summit in 2022 with other variables taking the same path as in scenario one. Like scenario one, the third scenario which is maintaining the Monetary Policy Rate (MPR) has same growth implications which translates into lower inflation, Dalasi depreciation and accommodative monetary policy.

96. The risk to the short-term economic outlook was judged to be balanced. The partial recovery of tourism due to vaccine roll out seems to brighten the economic outlook but the slowdown in remittances, postponement of the OIC summit and holding the MPR at current level may negatively impact the economy.

Agenda for Day-2 of the MPC Meeting

I. Welcome Remarks by Chairman
II. Summary Report by the First Deputy Governor
III. Deliberations
IV. Decision
V. Press Conference by the Chairman

1. The Monetary Policy Committee (MPC) reconvened on Thursday, March 04, 2021 to deliberate and decide on the direction of monetary policy. This was followed by a press conference by the Governor and Chairman of the MPC.

2. After the opening statement by the Governor and Chairman of the MPC, the First Deputy Governor gave a summary of the previous day's presentations and discussions of the technical reports.

Summary deliberations

3. The world economic outlook looks stronger than previously anticipated. An upward revisions of growth projections by the IMF in January 2021, pointed to a much brighter picture for the global and regional economies growth in 2020. Economic growth is forecast to be less contractionary than earlier projected. Prospects for 2021 looks promising but is still shrouded by the uncertainties about the overcoming of the pandemic in the midst of the new variant virus, the efficiency of the vaccine roll out and its efficacy as well as public acceptance of the vaccine.

4. The banking sector remained stable, vibrant, and profitable evident on high liquidity ratios, large deposit base that continued to serve as cheaper funds for banks. No cause for concern on the financial status of the banking industry.

5. In the non-bank financial sector, the credit union instrument of the microfinance sub-sector is performing very well. Furthermore, the sector recorded the highest loan/deposit ratio compared to deposit money banks signifying the sector's contribution to growth of the real economy.

6. The current account balance of the balance of payments weakened during the review period mainly on account of deterioration in both the goods and service account balances. Despite the widened deficit, remittances on the other hand increased. Work is on-going on the disaggregation of workers' remittances into consumption and investment.

7. Monetary policy was expansionary during the period to cater for the impact of the health pandemic. Most of the monetary aggregates expanded except for private sector credit which declined significantly to 0.8 percent in December 2020 from 35.8 percent in the corresponding period in 2019.

8. Volume of transactions in the inter-bank foreign exchange market increased indicating vibrant activity in the forex market. Participation in the foreign exchange market is still dominated by the deposit money banks holding 86.0 percent of market share. There are forty (40) registered money transfer operators (MTOs), with APS leading the market in terms of volumes of money transfer. The Dalasi is expected to be relatively stable partly due to sluggish economic activity coming from the construction sector and lack of shipment of foreign currency.

9. Government fiscal position in the review period deteriorated. Overall budget deficit (including and excluding grants) widened relative to the comparative period a year ago. However, increase in capital expenditure for productive growth coupled with the declining interest payments are consolations for the fiscal authorities.

10. The business community remained pessimistic due to low economic activity and the fear of second wave of the pandemic on business activities.

11. Agriculture as the backbone of the Gambian economy should be viewed in totality and accorded development projects across the board. Development in the sector should be inclusive and broad based i.e., from production, value addition to storage and distribution.

12. Risk to inflation outlook is tilted upwards as general price levels remained elevated over the short to medium term. This scenario is predicated on the expected pick up in domestic demand as the covid-19 vaccine roll out, the uptick in global food and oil prices and the expansionary fiscal policy path due to the election year. However, the continuous stability of the exchange rate and prudent monetary policy may dampen price pressures.

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, May 26, 2021. The meeting will be followed by the announcement of the policy decision on Thursday, May 27, 2021.