PRESS RELEASE **February 23, 2022**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Tuesday February 22, 2022, to review economic and financial developments in the domestic and world economy. Subsequently appropriate monetary policy decisions adjudged to be suitable under the current macroeconomic environment were taken. The following are highlights of the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. Recent global developments are adversely impacting on the global recovery as evidenced in the weaker than expected growth. Global growth is forecast to be slower than previously projected on the backdrop of the outbreak and spread of the Omicron variant, continued supply-chain disruptions, increasing energy prices, and the imminent commencement of monetary policy normalization by some major central banks.

2. In its January 2022 update of the World Economic Outlook (WEO), the International Monetary Fund (IMF) forecast global growth at 4.4 percent for 2021 down from 5.9 percent earlier projected in October 2021. The revision mainly reflects the slower-than-expected momentum in advanced economies due to supply disruptions in the United States, slowdowns in the housing sector in Emerging market economies and lower new investment

in real estate and an anticipated lower private consumption in developing economies.

3. Although the near-term growth prospects seem to be slightly stronger than earlier envisaged, these prospects are clouded with uncertainties such as the resurgence of the Covid-19 pandemic, driven by new and mutating strains of the coronavirus; persisting supply bottlenecks; high and rising inflationary pressures, and dwindling monetary and fiscal stimuli. The revision for global growth to moderate to 3.8 percent in 2023 is purely mechanical. It is anticipated that the shock dragging 2022 growth will disappear and global output in 2023 would be much more robust.

4. In advanced economies, growth in 2022 was downgraded to 3.9 percent from 4.5 percent forecast in October reflecting mainly the 1.2 percentage points downward revision in the United States attributed to adverse developments (supply disruptions, consumption softening, withdrawal of accommodative policy measures among others). Growth in Germany, Canada and UK were marked down by 0.8, 0.8 and 0.3 percentage points respectively.

5. In contrast, growth projection for this region was upgraded mirroring anticipated stronger rebound in most of the advanced economies due to progressive vaccination programmes. In Japan, for example, growth projection was marked up by 0.4 percentage points reflecting the anticipated improvement in external demand and continued fiscal support.

6. The emerging markets and developing economies region were not spared from the downward revisions. The region was slightly downgraded to 4.8 percent, 0.3 percentage points from the October forecast. The downward revision considered disruption in the housing sector in China and weakened

activities in Malaysia and Indonesia. Growth in 2023 is expected to pick up due largely to improvement in credit growth, investment, and consumption in India.

Real Sector Developments

7. The Gambia Bureau of Statistics estimated the real GDP for the economy in 2020 to have contracted by 0.2 percent relative to an expansion of 6.2 percent in 2019. The noticeable contraction in growth could be explained by the impact of the COVID-19 pandemic whose episodes the world is still witnessing.

8. The economy is forecast to rebound in 2021 aided by the policy measures adopted to mitigate the effects of the virus and subsequent relaxation of the pandemic measures. Consequently, the IMF in collaboration with their Gambian counterparts estimated growth to rebound to 4.9 percent in 2021 and 6.5 in 2022, predicated on anticipated vaccine roll out and a return to normal economic activity in 2022.

9. The quarterly business sentiment survey of the Bank indicated sustained confidence in overall business activity in Q1, 2022 relative Q4, 2021 attributed to higher sales and profitability. Most respondents opined that economic growth remained unchanged in Q4, 2021 relative to Q3, 2021 on account of unchanged business perception in the manufacturing, financial and insurance sectors during the review period. Majority of the surveyed businesses expect growth prospects to improve in the review quarter due to perceived improvement in manufacturing, financial, and trade sectors.

10. On prices, most respondents perceived inflation to edge up on account of increase in input prices due to supply constraints. Exchange rate pressures are also anticipated to persist for the quarter under review. However, they

are satisfied with the manner the Bank sets its short-term rates to curb inflation.

External sector developments

11. Provisional estimates of the balance of payments revealed deterioration in the current account balance. The current account deficit increased to US$94.1 million (4.6 percent of GDP) in 2021 from a deficit of US$86.6 million (4.6 percent of GDP) in 2020, reflecting shortfalls in income, service, and current transfers.

12. The goods account deficit narrowed by US$62.3 million to US$449.5 million (22.0 percent of GDP) during the review period. The improvement in the deficit was occasioned by decline in imports associated with structural bottlenecks at the port of Banjul.

13. Conversely, the deficit in the services account balance expanded significantly to US$13.9 million in 2021 from a deficit of US$3.5 million a year ago, attributed to decrease in travels due to the outbreak of the Omicron variant toward the end of 2021.

14. Gross official reserves at US$552.93 million (8.8 months of import cover) at end-December 2021 rose by US$182.68 million relative to its level at end-December 2020.

Foreign Exchange Market Developments

15. Activity volumes of foreign currency in the foreign exchange (FX) market in the year to end-December 2021 rose to US$2.53 billion compared to US$2.17 billion in the comparative period a year ago. Correspondingly, the sales and purchase of foreign currency represented by demand and supply increased by US$0.17 million and US$0.19million respectively.

16. Inflows of private remittances continued to be the main supply source of FX in the domestic FX market in 2021. Remittance inflows increased markedly to US$776.67 million in December 2021 from US$589.89 million in December 2020.

17. The exchange rate of the Dalasi remained stable and resilient in 2021 supported by sustained remittance inflows. In the twelve months ending December 2021, the Dalasi depreciated against the US Dollar and Pound Sterling by 3.3 percent and 0.2 percent, respectively while appreciating against the Euro by 2.3 percent.

Fiscal Operations

18. Provisional data on government fiscal operation in the year to end-December 2021 revealed a widened fiscal position of D4.0 billion (3.8 percent of GDP) compared to D3.4 billion (3.6 percent of GDP) in the corresponding period of 2020. The increase in the fiscal deficit is explained by the significant decrease in grants which more than off-set the decline in government expenditure.

19. Revenue and grants mobilized during the review period decreased to D17.7 billion (16.6 percent of GDP) from D20.3 billion (21.5 percent of GDP) a year ago attributed to significant a decline in grants disbursed.

20. In the twelve months ending December 2021, government adopted fiscal restraining measures that yielded a decline in total expenditure and net lending by 8.3 percent to D21.6 billion (20.4 percent of GDP) relative to D23.6 billion (25.1 percent of GDP) in the same period in 2020. Both decline in recurrent and capital expenditure by 5.5 percent and 15.6 percent occasioned the reduction in expenditure and net lending.

Banking Sector Developments

21. The banking system financial soundness indicators remained robust characterized by a strong capital base, high liquidity, and lower single digit non-performing loan ratio.

22. In the year to end-December 2021, total assets of the industry increased to D73.06 billion from D58.82 billion in the same period a year ago owing to increases in balances due from other banks, investments and loans and advances.

23. All banks were well capitalized adhering to the minimum capital requirement throughout the review period. In addition, the industry sustained high liquidity ratios quarter-on-quarter averaging 92.0 percent at end-December 2021 slightly below the 2020 ratio of 93.5 percent. Similarly, the risk weighted capital adequacy ratio declined to 26.6 percent in 2021 from 32.6 percent in 2020.

24. Asset quality improved mirroring improvement in the non-performing loan ratio. The ratio decreased by 1.2 percentage points to 5.2 percent at end-December 2021. The industry's capital and reserves exposure to foreign exchange activities declined to a long position of 0.37 percent in December 2021 from a long position of 4.6 percent in the corresponding period a year ago.

25. The Non-Bank financial sector is an important conduit for financial inclusion. It aids in the extension of financial services to those that are excluded in the conventional banking system. Mobile money financial services in particular are rapidly expanding the digital financial sphere in The Gambia.

26. Finance Companies (FCs) dominate the non-bank financial sector with robust financial indicators for the period under review. Assets of FCs at end-December 2021 stood at D2.39 billion compared to D2.01 billion same period a year earlier. The increase in assets size was largely driven by gross loans, cash, and bank balances. Capital increased by 31.0 percent to D378.13 million in December 2021 surpassing the minimum requirement of D50.0 million.

27. Mobile money financial services similarly grew in terms of customer base but declined in terms of transactions. Year-on-year, the value of cash-in and cash-out transactions decreased by 20.8 and 20.7 while number of account holders surged by 93.8 percent.

Domestic Debt Developments

28. The outstanding stock of domestic debt increased to D37.19 billion or by 7.1 percent at end-December 2021 compared to 4.3 growth in the same period a year ago. The increase in domestic debt was on account of an increase in bond issuance resulting from the implementation of the debt reprofiling strategy. Consequently, short-term securities contracted by 2.1 percent and by 5.3 percentage points as a share of domestic debt.

29. The yields in the domestic security market during the review period declined significantly due to the accommodative monetary stance of the Bank. The 91-day, 182-day and 364-day treasury bills decreased to 0.72 percent, 0.71 percent, and 1.55 percent in December 2021 from 2.75 percent, 5.03 percent, and 7.30 percent respectively in December 2020.

Monetary Developments

30. Growth in money supply in the twelve months ending December 2021 slowed to 19.5 percent slightly below the 22.0 percent growth in 2020. This

is attributed to moderate growth in the net foreign assets of the banking system whose growth significantly slowed to 19.0 percent in December 2021 relative to 45.0 percent in December 2020. Growth in the net domestic assets however expanded markedly by 13.0 percentage points to 20.0 percent for the review period.

31. Similarly, the increase in reserve money moderated to 13.6 percent at end-December 2021, from 33.9 percent recorded in the corresponding period a year earlier. The slow growth in both currency in circulation and reserves of deposit money banks contributed to the slow growth in reserve money.

Price developments

32. CPI inflation increased by 5.0 percentage points month-on-month to 7.6 percent in December 2021 and from 5.6 percent in December 2020. The acceleration in headline inflation was mainly driven by rise in food prices associated with supply constraints and domestic structural bottlenecks.

33. Food inflation inched up by 1.0 percentage points to 10.2 percent in December 2021 from 9.2 percent in September 2021 and 7.0 percent from the same period last year. oil and fats, sugar, jam, honey & sweets, and bread & cereals were the main driver of annual food inflation.

34. Similarly, non-food inflation also accelerated both on a quarterly and yearly basis. It rose to 4.9 in December 2021 relative to 4.8 percent in September 2021 and 4.4 percent in the corresponding period a year ago attributed to increases in prices of alcoholic beverages, tobacco & narcotics, health, housing, water, electricity, gas & other fuels.

35. The near-term forecast shows that a reduced consumer food basket will be the main driver of subdued inflationary pressure in the first quarter of 2022.

However, the risk to the food inflation outlook is the exchange rate pressures, rising global transportation costs, and volatile global commodities prices.

The Committee observed the following:

1. The Committee noted the downward revisions in the IMF growth projections for 2021, premised on the forecast downgrades in advanced economies and low-income developing countries, attributable to supply-chain disruptions and worsening pandemic dynamics. The downgrades are partially offset by the stronger near-term prospects among some commodity-exporting emerging markets and developing economies. Despite global growth prospect, risks to the outlook remained as uncertainties surrounding the efficacy COVID-19 vaccines on the emerging variants persist and, unequal access to vaccines and vaccine hesitancy has left many people susceptible.

2. The Committee noted that global economic recovery had impacted on domestic development as evident in some macroeconomic indicators. Real GDP growth for The Gambia is forecast at 4.9 percent in 2021, up from a contraction of 0.2 percent in 2020, premised on ease in COVID-19 restrictions and rebound in tourism. The Committee also noted the increase in food prices due to increases in annual food inflation resulting from cost push effects of the structural bottlenecks at the port.

3. The Committee noted with concern the rising trend in inflationary pressures from October 2021 mainly reflecting increase in global food and energy prices and the bottlenecks at the Banjul port. However, the near-term forecast suggests that inflationary pressures is expected to trend upward moderately in the first quarter in 2022 before slowing down thereafter. The

Committee noted the recent uptick in headline inflation and considered most of the causes are transitory given the gradual ease in supply bottlenecks as the global economy rebounds.

4. Furthermore, the Committee noted reserve money, the Bank's operating target decelerated by 20.0 percentage points to 13.6 percent in December 2021 and are of the view that increases in prices is not a monetary phenomenon but rather supply driven.

5. The Committee noted the significant increase in private sector credit from 0.8 percent in December 2020 to 20.7 percent in December 2021 and judged that such a development needs to be sustained to enhance the recovery process of the economy.

Decision

Taking 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).

The MPC will continue to closely monitor the situation and to take further necessary action as and when the situation requires.

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, May 25, 2022. The meeting will be followed by the announcement of the policy decision on Thursday, May 26, 2022.