CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

PRESS RELEASE **AUGUST 29, 2019**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Thursday, August 29, 2019, to assess recent economic developments and set the key policy rate. The following summarizes the deliberations on key economic indicators that informed the decision of the Committee.

Global Economic Developments

1. Global economic growth remains subdued amid heightened policy uncertainty that continues to dent business confidence, investment, and trade. The International Monetary Fund (IMF) has in July 2019 revised downwards global growth forecast to 3.2 percent in 2019, 0.1 percentage point lower than the April 2019 projection. Although growth is expected to pick up to 3.5 percent in 2020, the risks to the outlook are largely tilted to the downside. In particular, elevated trade tensions remain a major risk to the global economy.

2. For advanced economies, output growth is projected at 1.9 percent in 2019 and 1.7 percent in 2020. Economic activity is expected to remain relatively subdued in emerging market and developing economies, due largely to the slowdown in global trade. Real GDP growth for the region is forecast at 4.1 percent in 2019 before picking up to 4.7 percent in 2020.

3. In sub-Sahara Africa, economic growth is projected at 3.4 percent in 2019 and 3.6 percent in 2020, supported mainly by strong growth in many non-resource rich countries.

Domestic Economic Outlook

Real Sector

4. The Gambian economy remains strong and the prospects are favorable. The Central Bank's Composite Index of Economic Activity (CIEA) suggests that economic activity remained robust in the first half of 2019 and points to stronger growth in the second half of the year. According to the Gambia Bureau of Statistics (GBoS), real GDP growth stood at 6.5 percent in 2018 compared to 4.8 percent in 2017, driven mainly by the services sector including tourism and trade, financial services and insurance, transport and telecommunication.

External sector developments

5. Preliminary balance of payments (BoP) estimates indicate that the current account deficit narrowed to US$25.8 million (1.5 percent of GDP) in the first half of 2019 compared to a deficit of US$26.7 million (1.7 percent of GDP) in the corresponding quarter in 2018. The improvement in the current account balance is attributed to the increase in foreign inflows related to the support from development partners, diaspora remittances, and tourism.

6. The deficit in the goods account, however, widened to US$194.6 million (11.0 percent of GDP) in the first six months of 2019 compared to US$150.0 million (9.3 percent of GDP) in the corresponding period in 2018. Imports rose to US$277.7 million or by 29.8 percent in the first half of 2019 from US$214.0 million in the same period in 2018. Exports also increased by 35.6 percent to US$74.4 million during the period under review.

7. The services account balance, on the other hand, registered a surplus of US$59.7 million in the first six months of 2019, higher than a surplus of US$40.5 million a year ago, explained largely by the increase in tourist arrivals.

8. Gross international reserves is projected at 4 months of next year's imports of goods and services.

Exchange rate developments

9. The foreign exchange market continues to function smoothly. From January to July 2019, volume of transactions measured by the aggregate of purchases and sales of foreign currency increased by 14.0 percent to US1.3 billion. During the period, purchases of foreign currency, which indicates supply, increased to US$666.7 million, or by 14.4 percent. Similarly, sales of foreign currency rose by 13.6 percent to US$662.6 million in the same period.

10. The exchange rate of the dalasi remains broadly stable supported by market confidence, and increased inflows from private remittances, higher receipts from tourism, and official inflows from development partners. From December 2018 to July 2019, the dalasi appreciated against the pound sterling and euro by 0.6 percent and 1.2 percent, respectively. However, it depreciated against the U.S. dollar by 0.9 percent and CFA by 1.2 percent.

Government Fiscal Operations

11. Preliminary data on government fiscal operations for the first six months of 2019 indicated that total revenue and grants stood at D8.6 billion (9.8 percent of GDP) compared to D6.9 billion (8.6 percent of GDP) in the same period last year. Domestic revenue, comprising tax and non-tax revenues, rose by 23.9 percent to D5.7 billion (6.5 percent of GDP) from D4.6 billion (5.8 percent of GDP) a year ago. Tax revenue also rose by 23.7 percent to D5.2 billion (5.9 percent of GDP) in the first half of the year from D4.2 billion (5.3 percent of GDP) in the corresponding period year ago.

12. Total expenditure and net lending declined by 4.0 percent to D8.8 billion (10.0 percent of GDP) from D9.2 billion (11.5 percent of GDP) a year ago.

13. The budget deficit (including grants) narrowed to D0.19 billion (0.2 percent of GDP) in the first six months of 2019 compared to a deficit of D2.3 billion (2.8 percent of GDP) in the corresponding period a year ago. The budget deficit (excluding grants) also improved to a deficit of D3.1 billion (3.5 percent of GDP) in the first six months of 2019 compared to a deficit of D4.5 billion (5.7 percent of GDP) in the corresponding period a year ago.

Domestic Debt

14. The stock of domestic debt stood at D32.5 billion (38.1 percent of GDP) as at end-July 2019 compared to D31.2 billion (40.5 percent of GDP) in the corresponding period a year ago. Stock of Treasury and Sukuk-Al Salaam bills, which accounted for 58.3 percent of outstanding domestic debt, increased by 8.8 percent to D18.9 billion during the period under review.

15. From December 2018 to July 2019, the yields on the 91- day, 182-day,and 364-day Treasury bills declined to 3.98 percent, 6.87 percent, and 8.77 percent respectively from 5.06 percent, 7.04 percent and 9.48 percent in the same period last year.

Banking Sector

16. According to the financial soundness indicators, the banking sector remains adequately capitalized, highly liquid and profitable. The risk-weighted capital adequacy ratio stood at 29.0 percent, well above the statutory minimum of 10 percent. The ratio of liquid assets to total assets was 57.9 percent at end-June 2019 compared to 56.6 percent a year ago. Liquid asset to deposit ratio stood at 95.6 percent compared to the statutory requirement of 30 percent. Total deposits stood at D31.0 billion as at end-June 2019, an increase of 25.7 percent from June 2018.

17. As at end-June 2019, total assets of the banking industry increased by 25.4 percent to D47.5 billion. The ratio of non-performing loans to gross loans declined to 2.3 percent from 2.7 percent a year ago, largely reflecting enhanced credit administration processes and effective loan recovery measures.

Development in Monetary Aggregates

18. Money supply growth increased to 24.4 percent as at end-June 2019 from 22.4 percent a year ago, driven largely by the healthy net foreign asset position of both the Central Bank and commercial banks. Net foreign assets of the banking system rose to D13.6 billion as at end-June 2019, from D8.2 billion in the corresponding period a year ago, representing an increase of 66.1 percent. Net foreign assets of the Central Bank rose significantly by 85.0 percent to stand at D6.7 billion compared to D3.6 billion a year ago. Similarly, net foreign assets of commercial banks grew strongly by 51.2 percent at end-June 2019 to D6.9 billion from D4.6 billion a year ago.

19. The net domestic assets of the banking system also increased by 9.2 percent to D23.7 billion at end-June 2019. Claims on government net grew by 13.4 percent relative to a contraction of 5.9 percent a year ago. Private sector credit expanded by 28.8 percent, higher than 20.0 percent a year ago.

20. Reserve money growth decelerated to 21.2 percent as at end-June 2019 from 21.9 percent recorded last year.

Business Sentiment Survey

21. According to the Bank's quarterly Business Sentiment Survey, business optimism remains high with most respondents reporting a higher level of business activity in the second quarter of 2019 than in the preceding quarter. The survey also indicated that inflation expectations are well-anchored with most respondents projecting inflation to remain at the current level or decelerate in the next quarter.

Price Developments

22. Headline inflation has decelerated and stabilized at 7.3 percent in June and July 2019 from 7.5 percent in May 2019, following the sharp increase in postal charges in April, the effect of high demand in Ramadan in May and the recent increase in fuel prices. When compared to the same period last year, inflation remains 0.7 percentage point higher in July 2019.

23. Food inflation, which is the main driver of headline inflation, stood at 6.7 percent in July 2019, unchanged from the previous month but higher than 6.4 percent a year ago. Major drivers of food inflation during the period were Bread Cereals, Meat, Fish, and Vegetables.

24. Non-food inflation, on the other hand, decelerated slightly to 8.4 percent in July 2019 from 8.5 percent in June 2019, but higher than 7.0 percent in July 2018. Key drivers of non-food inflation in July 2019 were Clothing and Footwear, Housing, Fuel and Lighting, hotels and restaurants, Furniture, and Alcoholic Beverages.

Inflation outlook

25. The MPC assessed that price pressures have started to ease and the underlying inflation remains broadly subdued. This is expected to continue in the medium-term, premised on the continued stability of the exchange rate, well-anchored inflation expectations, and moderate global food prices.

26. Major risks to the inflation outlook, however, continue to be the domestic food supply situation in the light of delayed rainfall experienced this year.

The Committee observed the following:

27. The uncertainties in the global economy have increased and growth is projected to weaken in 2019 as trade tensions continue to escalate.

28. Global inflationary pressures moderated in the face of weak demand, subdued energy and food prices.

29. In The Gambia, there is increased optimism on the economic growth prospects. Economic activity is expected to strengthen in 2019, although climate-related factors such as late rainfall may affect agricultural production.

30. The deficit in the current account narrowed in the first half of the year compared to the corresponding period a year ago.

31. The improvement in the current account continued to support the stability of the exchange rate of the dalasi. The exchange rate remains broadly stable, supported by prudent monetary policy and inflows, particularly private remittances.

32. The increase in inflation experienced in April and May 2019 has reversed and the medium-term outlook remains broadly unchanged, suggesting that inflation will continue to trend downwards.

33. The fundamentals of the banking sector remains strong. The sector is adequately capitalized, highly liquid and profitable. Private sector credit continues to expand at a robust pace, supported by the low level of non-performing loans and the accommodative stance of monetary policy.

34. However, the major risk to the outlook remains the high level of public debt.

Decision

35. In view of the above, the Committee decided to maintain the Monetary Policy Rate (MPR) at 12.5 percent.

36. The Committee however, has decided to increase the interest rate on the standing deposit facility by 0.5 percentage point to 2.5 percent. The interest rate on the standing lending facility is maintained at 13.5 percent, that is, MPR plus one percent.

37. The Committee will continue to monitor developments in the economy and stands ready to act in the interim if economic conditions change.

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, November 27, 2019. The meeting will be followed by the announcement of the policy decision on Thursday, November 28, 2019.