CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

PRESS RELEASE **MAY 30, 2019**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Wednesday May 29, 2019 to assess domestic and international economic and financial developments and decide on the monetary policy rate. The following summarizes the deliberations on key economic indicators that informed the decision of the Committee.

Global Economic Developments

1. Since the last meeting of the Monetary Policy Committee (MPC), growth prospects of the world economy have deteriorated and uncertainties are persisting. Global trade continues to decline due to rising protectionism but financial conditions are easing on account of the accommodative monetary policy stance by most advanced economies. In the April 2019 World Economic Outlook, the International Monetary Fund (IMF) revised downwards global growth projection for 2019 to 3.3 percent compared to 3.6 percent in 2018 and 3.8 percent in 2017. Despite the rising uncertainties, global inflation remains subdued averaging 3.6 percent.

2. Economic growth in advanced economies is projected to decelerate to 1.8 percent in 2019 from 2.2 percent in 2018. In emerging market and developing economies, growth is expected to slow down to 4.4 percent in 2019 from 4.5 percent in 2018.

3. In sub-Sahara Africa, economic recovery continues but there are variations in growth performance and prospects of countries across the region. Although economic activity continues to be robust in non-resource rich countries, it remains

low in many resource-rich countries in the region. Real GDP growth for the region is projected to increase from 3 percent in 2018 to 3.5 percent in 2019, and expected to reach 4 percent over the medium term.

Domestic Economic Outlook

Real Sector

4. The Gambian economy has rebounded strongly in 2018 and the prospects are favorable, thanks to the implementation of sound macroeconomic policies and reforms. Indicators show that private investment has picked-up significantly with the return of confidence. The Gambia Bureau of Statistics (GBoS) estimated the economy to have grown by robust 6.5 percent in 2018 compared to 4.8 percent in 2017. This performance was broad-base, driven mainly by the services sector including tourism and trade, financial services and insurance, transport and telecommunication. Agricultural production recovered from a contraction of 4.4 percent in 2017 to grow by 0.9 percent in 2018. However, climatic factors such as delayed rain fall, flooding and long dry spells continue to significantly affect crop yields. Early economic indicators show that growth will remain robust in 2019.

External sector developments

5. The external position of The Gambia continues to improve, thanks to the support from our development partners, and increases in remittances, tourism and foreign direct investment. Preliminary balance of payments (BoP) estimates indicate that the current account balance registered a surplus of US$4.1 million (0.2 percent of GDP) in the first quarter of 2019 compared to a deficit of US$7.3 million (0.5 percent of GDP) in the corresponding quarter in 2018.

6. The surplus in the services account increased by 47.3 percent to US$46.5 million in the first quarter of 2019, compared to US$31.6 million in the corresponding period a year ago, explained largely by the successful tourism season.

7. The deficit in the goods account, however, widened to US$85.1 million (4.8 percent of GDP) in the first quarter of 2019 compared to US$72.0 million (4.5 percent of GDP) in the corresponding period in 2018. This is due to the increase in imports to US$125.3 million or by 23.8 percent from US$101.2 million in the same period in 2018. Exports also increased to US$35.8 million or by 45.3 percent during the period under review.

8. International reserves remains at 5 months of current imports of goods and services.

Exchange rate developments

9. The domestic foreign exchange market continues to function smoothly. Transaction volumes increased to US$2.1 billion in the year to end-March 2019 compared to US$1.7 billion in the corresponding period year ago. From January to March 2019, volume of transactions amounted to US$638.5 million compared to US$507.9 million in the fourth quarter of 2018, an increase of 25.7 percent.

10. In the year to end-March 2019, purchases of foreign currency, which indicates supply, increased to US$1.02 billion or by 18.1 percent from a year ago. Similarly, sales of foreign currency rose significantly by 20.0 percent to US$1.03 billion in the same period. From January to March 2019, purchases increased to US$320 million or by 28.3 percent, while sales expanded to US$318.0 million or by 23.2 percent from the previous quarter.

11. The exchange rate of the dalasi remains broadly stable. From April 2018 to April 2019, the dalasi appreciated against the pound sterling, euro and CFA by 2.3 percent, 2.6 percent and 0.9 percent, respectively. However, it depreciated against the U.S. dollar by 4.8 percent.

Fiscal Operations

12. Government fiscal operations for the first three months of 2019 showed that the budget deficit (including grants) narrowed to D0.8 billion (1.0 percent of GDP) from D1.0 billion (1.4 percent of GDP) recorded in the first quarter of 2018.

13. Revenue and grants mobilized during the quarter under review increased by 22.0 percent to D3.3 billion (4.2 percent of GDP) from D2.7 billion (3.9 percent of GDP) in same period last year. Domestic revenue, which comprises tax and non-tax revenues, stood at D2.8 billion (3.6 percent of GDP) in the first quarter of 2019, higher than D2.4 billion (3.4 percent of GDP) in the corresponding period a year ago.

14. Government expenditure and net lending for the first three months of 2019 increased by 11.2 percent to D4.1 billion (5.2 percent of GDP). Recurrent expenditure increased by 2.4 percent to D3.0 billion (3.8 percent of GDP) compared to D2.6 billion (3.7 percent of GDP) in the first quarter of 2018. Capital expenditure declined by 3.3 percent to D1.1 billion (1.4 percent of GDP), on account of the decrease in grants

Domestic Debt

15. In May 2019, stock of domestic debt increased to D31.8 billion (41.9 percent of GDP) from D31.2 billion (39.2 percent of GDP) in the corresponding period a year ago. Stock of Treasury and Sukuk-Al Salaam bills increased by 6.1 percent to D18.4 billion during the period under review from D17.4 billion a year ago.

16. The yields on the 91- day Treasury bills declined from 5.87 percent at end-April 2018 to 4.73 percent at end-April 2019. In contrast, the 182-day and 364-day Treasury bills rates increased from 5.93 percent and 9.23 percent to 6.85 percent and 9.51 percent, respectively.

Banking Sector

17. The financial sector remains well capitalized, highly liquid and profitable. As at end-March 2019, total assets of the banking industry expanded by robust 18.6 percent to D47.34 billion. Asset quality continues to improve. The ratio of non-performing loans

to gross loans declined to 2.9 percent from 7.9 percent a year ago, reflecting largely enhanced risk management in the industry and effective loan recovery measures.

18. The risk-weighted capital adequacy ratio stood at 28.7 percent, well above the minimum requirement of 10 percent. The ratio of liquid assets to total assets was 45.1 percent and the liquid assets to deposit ratio stood at 90.6 percent compared to the statutory requirement of 30 percent. Total deposits stood at D28.92 billion as at end-March 2019, higher than D24.3 billion in March 2018.

Development in Monetary Aggregates

19. Money supply growth moderated to 21.9 percent as at end-April 2019 from 28.4 percent a year ago, driven largely by the healthy net foreign asset position of both the Central Bank and commercial banks. The net foreign assets of the banking system increased from D8.3 billion in April 2018 to D13.9 billion during the period under review. The net foreign assets of the Central Bank and commercial banks increased from D3.3 billion and D5 billion to D6.8 billion and D7.1 billion, respectively.

20. The net domestic assets of the banking system increased but at a slower pace. As at end-April 2019, the net domestic assets of the banking system increased by 4.9 percent to D23.7 billion. Claims on government net, grew by 7.0 percent relative to a contraction of 2.1 percent a year ago. Private sector credit growth continues to be strong. As at end-April 2019, it expanded by 35.7 percent, higher than 13.8 percent a year ago.

21. Reserve money grew by 18.8 percent as at end-April 2019, lower than 26.4 percent recorded last year.

Business Sentiment Survey

22. According to the Bank's business sentiment survey, majority of respondents project stronger business activity for next quarter. The survey also shows that inflation expectations are well-anchored.

Price Developments

23. Headline inflation as measured by the national Consumer Price Index (NCPI) accelerated to 6.9 percent in April 2019 from 6.1 percent in April 2018, reflecting the marked increase in non-food inflation. Non-food inflation accelerated to 8.7 percent from 6.0 percent during the period under review. This is mainly as a result of the one-off increase in postal charges from D30 to D350, which led to the increase in the communication index by 60.2 percent.

24. Food inflation, on the other hand, decelerated to 6.3 percent in April 2019 from 6.4 percent in April 2018, reflecting the stability of the exchange rate and moderate global food prices. All subcomponents of food inflation decelerated with the exception of "Fish", "Milk, Cheese and eggs", and "oils and fat".

25. The Central Bank's core measure of inflation, which stripes out utility, energy and volatile food items decelerated to 6.0 percent in April 2019 from 6.6 percent in April 2018.

26. The Committee noted the following:
    - The overall macroeconomic environment continues to improve and the early economic indicators show that the growth outlook remains favourable. In addition, growing business confidence, and the rapid credit expansion to the private sector are supportive of the growth outlook;
    - The current account balance of the balance of payments has improved significantly and that has contributed to the stability of the dalasi in the foreign exchange m0arket;
    - The sudden acceleration in headline inflation was due to the one-off increase in postal charges from D30 to D350, which led to the marked increase in the communication sub-index by 60.2 percent;
    - This development is temporal and the effect will eventually dissipate as the underlying inflation remains subdued;
    - Domestic food prices continue to be stable.

- The overall budget deficit has narrowed in the first quarter of 2019 thanks mainly to the increase revenue and grants and the fiscal authorities are expected to stick to the path of fiscal consolidation;
- The Central Bank continues to maintain comfortable foreign exchange reserve level; and
- The fundamentals of the financial sector indicate that the banking industry remains well-capitalized, highly liquid and profitable.

Outlook for Inflation

- Since the last MPC, risks to domestic inflation have subsided.
- Global food prices are expected to remain moderate.
- The exchange rate of the dalasi is projected to remain broadly stable, supported by market confidence and improved supply conditions; and
- Inflation expectations remain well anchored;

27. However, there are risks to the outlook including:
    - The high debt level which remains a fundamental risk to macroeconomic stability; and
    - Low agricultural production due to poor weather conditions.

Decision

Taking above factors in to consideration, the Committee judged current monetary policy stance to be appropriate and decided to maintain the Monetary Policy Rate (MPR) at 12.5 percent.

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

The Committee will continue to closely monitor domestic and international economic developments and stands ready to act accordingly in the interim.

Information Note

Date for the next MPC

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, August 28, 2019. The meeting will be followed by the announcement of the policy decision on Thursday, August 29, 2019.