PRESS RELEASE **AUGUST 27, 2020**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Thursday, August 27, 2020, to assess the economic and financial sector developments since the last meeting in May and take policy decisions, amid prolonged COVID-19 pandemic. The following are highlights of the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. The global economy continues to weaken, and the outlook remains uncertain. As the pandemic protracts, the adverse effects on the global economy appear to be more severe and longer-lasting than previously projected. In its June release of the World Economic Outlook, the International Monetary Fund (IMF) has revised downwards its global growth projection for 2020 by 1.9 percentage points to a contraction of 4.9 percent. The uncertainty has created a rise in precautionary savings that weakens private consumption and investment as firms delay capital expenditures.

2. Growth in advanced economies has been revised downwards by 1.9 percentage points to a contraction of 8.0 percent in 2020. Similarly, growth projection for emerging and developing economies was lowered by 2.0 percentage points to a contraction of 3.0 percent in 2020. In sub-Saharan Africa, growth is projected to contract by 3.2 percent in 2020, a reduction by 1.6 percentage points from April World Economic Outlook 2020.

Real Sector Developments

1. The Gambia Bureau of Statistics (GBoS) has estimated real GDP growth for 2019 at 6.2 percent, lower than 7.0 percent in 2018. Growth was supported largely by the increase in the services sector, construction, as well as improved business sentiments. Economic growth is projected at negative 1.2 percent in 2020, reflecting the impact of COVID 19 pandemic.

2. The Central Bank's Composite Index of Economic Activity (CIEA), which is a statistical measure of aggregate economic activity, shows a marked slowdown in economic activity in the second quarter of 2020, reflecting weaker demand. The indicators for both foreign and domestic demand weakened due to the impact of the pandemic.

3. According to the business sentiment survey conducted by the Bank in the second quarter of 2020, majority of respondents reported that risks to the outlook remain elevated across all sectors due to the COVID-19 pandemic. Majority of the firms also reported lower capital expenditure, sales and employment.

External sector developments

4. The preliminary balance of payments estimates for the first six months of 2020 indicate that the current account balance worsened to a deficit of US$62.9 million (3.5 percent of GDP) from a deficit of US$23.9 million (1.4 percent of GDP) in the corresponding period of 2019. This reflects wider trade deficit and a decline in the service account balance.

5. The goods account balance is estimated at a deficit of US$278.5 million (16.2 percent of GDP) in the first six months of 2020 compared to a deficit of US$194.4 million (11.0 percent of GDP) in the corresponding period in 2019. The widening of the deficit in the goods account mainly reflects the increase in imports and a fall in exports, especially re-exports in the second quarter of 2020.

6. From January to June 2020, imports amounted to US$336.4 million, higher than US$275.5 million in the same period in 2019. Exports decreased to US$52.1 million in the first six months of 2020 from US$70.1 million in the corresponding period of 2019.

7. The surplus in the services account declined to US$38.3 million, or by 31.5 percent in the first six months of 2020 from US$55.9 million in the same period a year ago.

8. The gross international reserves stood at US$306 million, equivalent to over 5 months of next year's imports of goods and services. Total foreign assets of the Bank amounted to US$325.4 million in August 2020.

Foreign Exchange Market Developments

9. The supply conditions in the foreign exchange market continue to be favourable and the dalasi remains stable, supported by the higher-than-expected increase in private remittances and the steady inflow of official transfers.

10. The volume of transactions in the foreign exchange market increased to US$2.14 billion in the 12-months to end-July 2020 from US$2.12 billion in the corresponding period of the previous year. Purchases of foreign currency (indicating supply) increased by 0.1 percent to US$1.06 billion during the period. Similarly, sales of foreign currency, which indicates demand, also increased by 1.5 percent to US$1.07 billion in the review period.

11. The exchange rate remains stable during the review period. The dalasi has benefited from the implementation of prudent policies, higher inflows of private remittances and official inflows from our development partners. Remittances totaled US$307 million from January to July 2020. This trend is expected to continue for the remainder of 2020.

12. From January to July 2020, the dalasi depreciated against the US dollar by 1.4 percent and euro by 4.6 percent but appreciated against the pound sterling by 1.1 percent).

Fiscal Operations

12. Preliminary estimates of government fiscal operations indicated that overall deficit (including grants) worsened from D0.6 billion (0.7 percent of GDP) in the first half of 2019 to a deficit of D1.6 billion (0.4 percent of GDP) in the first half of 2020. The budget deficit excluding grants, however, improved to D3.2 billion (3.2 percent of GDP) in the first half of 2020 compared to D3.5 billion (4.0 percent of GDP) in the same period in 2019.

13. Total revenue and grants stood at D9.2 billion (9.4 percent of GDP) in the first six months of 2020 compared to D9.1 billion (10.4 percent of GDP) in the same period last year. Tax revenue rose by 4.3 percent to D5.4 billion (5.5 percent of GDP) in the first half of 2020 from D5.2 billion (5.9 percent of GDP) in the corresponding period a year ago. Non-tax revenue also rose to D2.3 billion (2.3 percent of GDP) in the first six months of 2020 from D1.0 billion (1.2 percent of GDP) in the same period last year.

14. Government expenditure and net lending for the first six months of 2020 increased by 11 percent to D10.8 billion (11.0 percent of GDP) from D9.7 billion (11.1 percent of GDP) in the first half of 2019. Recurrent expenditure increased by 31.2 percent to D8.0 billion (8.1 percent of GDP) compared to D6.1 billion (7.0 percent of GDP) in the first half of 2019. Capital expenditure on the other hand, declined by 22.9 percent to D2.8 billion (2.9 percent of GDP).

Banking Sector Developments

15. The banking sector remains fundamentally sound with a high level of capital and liquidity. Year-on-year, total assets of the industry expanded by 7.0 percent to D51.8 billion as at end-June 2020. The risk-weighted capital adequacy ratio stood at 35.7 percent as at end-June 2020, higher than the statutory requirement of 10 percent. All the banks are above the minimum capital requirement. The liquidity ratio of the banking industry stood at 93.5 percent as at end-June 2020, also higher than the requirement of 30 percent. Non-performing loans ratio was 4.5 percent in June 2020.

16. The non-bank financial sector continues to play an important role in extending financial services to the low-income population. As at end-June 2020, total assets of the three finance companies expanded by 4.0 percent to D1.6 billion compared to D1.5 billion in March 2020. Total deposits mobilized increased by 5 percent to D1.2 billion during the period under review. Total loans extended increased by 0.06 percent to D309.7 million as at end-June 2020 from D309.5 million a year ago.

17. Mobile money financial services continue to grow both in terms of membership and transaction volumes. Total transactions measured by the deposits and withdrawals from Mobile Money Wallets increased by 34.0 percent from D40.5 million in March 2020 to D54.3 million in June 2020. Membership increased by 6 percent to over 36 thousand during the period under review.

Domestic Debt Developments

16. The outstanding domestic debt stock increased to D34.2 billion (33.2 percent of the GDP as at end-July 2020 from D33.1 billion (36.9 percent of the GDP) as at end December 2019. The stock of Treasury and Sukuk Al Salaam bills increased by 4.8 percent to D20.3 billion as at end-July 2020.

17. The yields on the 91- day, 182-day, and 364-day Treasury bills declined from 3.98 percent, 6.87 percent, and 8.77 percent at end-July 2019 to 1.89 percent, 5.55 percent, and 8.00 percent respectively in July 2020.

Monetary Developments

18. Money supply (M2) growth slowed to 16.4 percent at end-June 2020 from 24.4 percent as at end-June 2019. Year-on-year, the net foreign assets of the banking system increased by 27.4 percent to D17.3 billion. Similarly, net domestic assets grew by 10.4 percent to D27.1 billion during the period under review.

19. Reserve money growth decelerated markedly from 21.2 percent in March 2019 to 16.8 percent in the year to end-June 2020. Growth in reserve money was driven largely by the increase in the net foreign assets (NFA) of the Central Bank.

Price developments

20. Inflation decelerated markedly in July 2020, largely reflecting weak aggregate demand. Headline inflation declined to 4.8 percent in July 2020 from 7.3 percent in July 2019, driven by the deceleration in both food and non-food inflation.

21. The consumer price inflation of food and non-alcoholic beverages decreased from 6.7 percent in July 2019 to 5.2 percent in July 2020. The major drivers of food inflation during the period were Bread Cereals, Meat, Fish, Fruits, and non-alcoholic beverages.

22. Non-food inflation decelerated to 4.1 percent in July 2020 from 8.4 percent in July 2019. Consumer price inflation for all the components of non-food inflation decreased except transportation and miscellaneous items.

The Committee noted the following:

23. The global economic outlook in 2020 has deteriorated since the last MPC meeting and the outlook remains highly uncertain.
24. The global inflation is expected to remain subdued this year. However, the risks to global inflation include major disruptions to global supply chains that may put consumer prices under pressure.
25. The economic impact of the COVID-19 pandemic on the Gambian economy is immense. The COVID-19 pandemic resulted in immediate loss of income and elevated risks to the outlook.
26. The growth in domestic consumer prices has been slowing, registering the lowest level of annual inflation since 2012.
27. The continued economic slackness and the expected good harvest this year are projected to maintain the slow growth in both non-food and food prices.

Decision

Taken the above factors into consideration, the Committee decided to maintain the Policy rate at 10 percent. The Committee also decided to 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, November 25, 2020. The meeting will be followed by the announcement of the policy decision on Thursday, November 26, 2020.