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The Monetary Policy Committee (MPC) of the Central Bank of The Gambia convened its quarterly review of economic and financial developments on Tuesday and Wednesday, September 7- 8, 2021, and subsequently took appropriate monetary policy decisions judged to be suitable in the current macroeconomic environment. Below are the key economic indicators that informed the decision of the Committee.

Global Economic Outlook

1. The global economic recovery continues albeit, with diverging trends across countries. Latest release by the International Monetary Fund (IMF), projected global output at 6.0 percent in 2021, unchanged from the April 2021 World Economic Outlook (WEO) forecast. This strong anticipated recovery, however, is not broad-based across economic regions, resulting in widening gap between rich and poor countries. Uncertainties about the impact of the Covid-19 pandemic and lack of a full grip on its spread continue to weigh on the prospects of the recovery.

2. Economic growth in advanced economies is projected at 5.6 percent in 2021 according to the IMF, reflecting a 0.5 percentage point upward revision relative to the April 2021 WEO forecast. Similarly, growth prospects for 2022 was adjusted upwards based on expected return to normalcy as vaccine roll-out continues coupled with additional fiscal support particularly in the US and better adaptation to Covid-19 restrictions in the UK.

3. Conversely, emerging markets and developing economies forecast for 2021 was revised downwards in the July 2021 WEO by 0.4 percentage points, on account of growth markdowns for emerging Asian economies. The IMF forecast economic activity in India to grow by 9.5 percent lower than the 12.5 percent projected in April 2021 as the more severe second wave clouded the recovery momentum.

4. In Sub-Saharan Africa, growth projection for 2021 remained unchanged at 3.4 percent but upgraded for the region's second biggest economy, South Africa on the back of strong positive surprises in the first quarter of the year, offset by downward revisions in other countries in the region. Growth prospects for 2022 was upgraded to 2.6 percent, 0.3 percentage point higher than the 2.3 percent earlier forecast in April 2021. The IMF cautioned that the prevailing worsening pandemic situation in the region is expected to weigh heavily on the region's recovery.

5. Global inflation elevated in 2021 in most economies. Inflation was projected to accelerate to 3.5 percent this year compared to 3.2 percent in 2020, reflecting several factors, including pick up in demand as Covid-19 pandemic restrictions eases. In Advance economies, inflation is estimated at 2.4 percent in 2021 relative to 0.7 percent in 2020. In Emerging Markets and Developing Economies, inflation was projected at 5.4 percent in 2021 compared to 5.1 percent in 2020.

6. In Sub-Saharan Africa, inflation is projected at 9.8 percent in 2021 relative to 10.8 percent last year. Currency depreciation in these economies was also a contributing factor to the increase in food prices. The current inflation trajectory was viewed to be transitory according to the IMF, and expected to return to pre-pandemic levels in most countries in 2022.

Real Sector Developments

7. The Gambia Bureau of Statistics (GBoS) estimated the Gambian economy to have contracted by 0.2 percent in 2020, lower than the 6.2 percent growth registered in 2019. The slight contraction in real GDP growth in 2020 was due to the negative impacts of the COVID-19 pandemic which were mitigated by government's policy measures. The pandemic continues to impact global economic activities leading to uncertain economic outlooks.

8. The Bank's quarterly Business Sentiment Survey revealed optimal economic recovery on account of COVID-19 vaccine roll out. Respondents reported expected improvement in economic activity during July and August 2021 relative to May 2021 and June 2021. However, the following quarter prospects were clouded with the effects of mutating variants, effective containment measures and political uncertainty about the fourth-coming elections. Perception on prices for the next three months indicated an increase in inflation due to the current trend of rising food and fuel prices. The Dalasi is expected to be stable underpinned by expected increase in diaspora remittances and gradual rebound in tourism.

External sector developments

9. The preliminary balance of payments estimates for the second quarter of 2021 indicated improvement in the current account balance. The deficit in the current account balance narrowed to US$5.56 million (0.30 percent of GDP) in the second quarter of 2021 from a deficit of US$41.13 million (2.33 percent of GDP) in the corresponding period of 2020, induced by strong remittances and donor inflows.

10. The goods account deficit widened to US$134.42 million (7.31percent of GDP) in the second quarter of 2021 compared to a deficit of US$122.38 million (6.92 percent of GDP) in the corresponding period in 2020, reflecting increase in imports which more than off-set the rise in exports.

11. On the other hand, the service account balance improved to a deficit of US$6.07 million in the second quarter of 2021 from a deficit of US$10.85 million in the same period a year ago, on account of an increase in personal travels.

12. Gross official reserves of the Bank stood at US$439.97 million on August 30, 2021, equivalent to 5.7 months of imports cover.

Foreign Exchange Market Developments

13. Volume of transactions in the foreign exchange (FX) market increased to US$2.4 billion in the twelve months to end-June 2021, from US$2.1 billion a year ago. Purchases of foreign currency (representing supply) grew by 14.6 percent to US$1.2 billion in the review period while sales (indicative of demand) similarly rose to US$1.2 billion or by 13.6 percent.

14. Diaspora remittances continued to be the main source of FX inflows in the domestic FX market during the review period. Total remittance inflows rose by 78.8 percent to $589.81 million in 2020 from $329.79 million in 2019. As at end-July 2021, remittance volume surged to $476.01 million, representing 80.7 percent of total remittance recorded in 2020.

15. The exchange rate of the dalasi remained stable during the period under review supported by increase remittance inflows. Year-on-year, the dalasi moderately depreciated against all the major trading currencies except for the US Dollar. It weakened against the Euro, the Pound Sterling and CFA Franc by 8.3 percent, 11.1 percent, and 8.1 percent respectively, but strengthened against the US Dollar by 0.6 percent.

Fiscal Operations

16. Preliminary estimates of government fiscal operation in the first half of 2021 revealed a widened fiscal position. Overall budget deficit (including grants) at end-June 2021 amounted to D2.9 billion (3.1 percent of GDP) compared to D2.6 billion (2.7 percent of GDP) in the corresponding period in 2020, attributed to a decline in revenue and grants that more than off-set the decline in expenditures and net lending.

17. Total revenue and grants mobilized in the first half of 2021 totaled D8.2 billion (8.7 percent of GDP), lower than the D8.7 billion (9.2 percent of GDP) registered in the corresponding period a year ago. The fall in revenue and grants was largely explained by the 23. 8 percent drop in project grants, due mainly to slower project implementation on account of the impact of the pandemic.

18. Similarly, government expenditure and net lending decreased during the review period. Expenditure and net lending in the first half of 2021 decreased slightly by 1.0 percent to D11.1 billion (11.8 percent of GDP) attributed to a decline in recurrent expenditure by 6.9 percent.

Banking Sector Developments

19. As at end-June 2021, the banking system capital position remained unpaired albeit a 28.3 percent declined due to dividend payments and increase in risk-weighted assets. Liquidity position remained significantly high at 94.1 percent while profitability dropped marginally during the review period.

20. Year-on-year, the industry's total assets at D64.01 billion in June 2021 grew by 23.5 percent compared to D51.85 billion in June 2020, attributed to increase in investments in government securities, cash, and bank balances.

21. The risk-weighted capital adequacy ratio (CAR) at 28.3 percent in June 2021 dropped by 6.96 percentage points from the same period a year ago on account of dividend payments and increase in the risk-weighted assets relative to equity levels.

22. The banks' liquid position remained strong with liquid assets to short-term liabilities and liquid assets to total assets at high positions of 94.05 percent and 64.38 percent respectively at end-June 2021 relative to 93.45 percent and 62.50 percent respectively at end-June 2020. Non-performing loans ratio year-on-year, expanded by 1.1 percentage points to 5.56 percent in June 2021 but improved by 2.2 percentage points quarter-on-quarter.

23. The UNCDF financial inclusion survey (Finscope Survey, 2019) showed that non-bank financial institutions provided 14.0 percent of formal finance to 19.0 percent of the financially included population compared to only 5.0 percent from deposit money banks.

24. As at end-June 2021, total assets of the microfinance companies grew by 39.0 percent to D2.2 billion in June 2021. The growth in total assets was driven by gross loans and investments in government securities.

25. Mobile money financial services continue to grow and support financial inclusion. The value of transactions increased to D110.7 million in June 2021 relative to D54.3 million same period last year. The value held in the wallets of both customers and agents increased during the period by D39.3 million and D43.2 million respectively, reflecting significant growths of 143.0 Percent and 173.0 percent respectively in cash-in and cash-out transactions during the review period.

Domestic Debt Market Developments

26. The outstanding domestic debt stock increased to D36.5 billion in the first eight months of 2021 relative to D33.5 billion in the comparative period in 2020. The moderate rate of growth in debt stock was in line with government's debt management strategy of reducing debt accumulation as well as smoothening and reprofiling the debt stock.

27. Security yields on the domestic debt market continue to trend down wards from a year ago in line with the expansionary monetary policy stance of the Bank. The yields on the 91-day, 182-day and 364-day treasury bills decreased to 2.28 percent, 2.25 percent, and 2.97 percent respectively at end-August 2021 from 3.57 percent, 5.50 percent and 8.52 percent respectively in the same period in 2020.

Monetary Developments

28. As at end-June 2021, growth in money supply rose by 27.5 percent compared to 16.4 percent at end-June 2020 relative to 16.4 percent a year ago, mainly on account of a significant increase in the Net Foreign Assets (NFA) of the banking system. The NFA of the banking system increased by 48.9 percent to D25.74 billion. Net domestic asset (NDA) of the banking system grew marginally by 13.8 percent in June 2021 relative to 10.4 percent in June 2020.

29. In the year to end-June 2021, reserve money increased by 31.1 percent to D20.2 billion from the preceding year growth of 16.8 percent. The expansion in reserve money was mainly driven by significant growth in the NFA of the Central Bank.

Price developments

30. The near-term forecast suggested that inflation peaked at 8.2 percent in July 2021 from 7.6 percent in January 2021. It is expected to slightly decelerate in the third quarter, with the possibility of a downward posture in the fourth quarter of 2021.

31. Consumer price inflation has been on an upward trend reflecting a pick-up in global food prices and domestic structural bottlenecks. Headline inflation peaked at 8.2 percent in July 2021 from 4.8 percent in the corresponding period a year ago, attributable to increase in food prices.

32. Consumer price inflation on Food and non-alcoholic beverages accelerated to 11.5 percent during the review period compared to 5.2 percent a year ago. The main drivers of food inflation were rice, vegetables, oils and fats, sugar, jam, honey & sweets, and other food products.

33. Non-food inflation also rose to 4.5 percent in July 2021, up by 0.3 percentage point the same period last year. Except for miscellaneous goods & services, Hotels, Cafes and restaurants, the remaining sub-components of non-food items contributed to the increase in non-food inflation.

The Committee observed the following:

1. The Committee noted the continued global economic recovery in the IMF growth projections for 2021, albeit diverging trends across countries. This positive projection was based on better access to Covid-19 vaccines and continued large fiscal policy support in advanced economies while emerging and developing economies having difficulties in both fronts. Despite improvements in the growth forecast, risks to global outlook are tilted upward as uncertainties surrounding the COVID-19 pandemic on vaccines efficacy amid new variants and roll-out and access remain uncertain.

2. The Committee opined that the anticipated recovery in the global economy has started impacting on domestic developments as evident in some macroeconomic indicators (tourism and exports). Real GDP growth for The Gambia is forecasted at 4.9 percent for 2021, up from the projection of -0.2 percent growth in 2020.

3. Global inflation elevated in 2021 in most economies. Inflation was projected to accelerate to 3.5 percent in 2021 compared to 3.2 percent in 2020, reflecting several factors, including pick-up in aggregate demand as Covid-19 pandemic eases, supply chain bottlenecks and base effects. The Committee noted the increase in food prices which were due to the surge in global food and oil prices as well as cost push effects of the structural bottlenecks at the ports. Some of these structural issues were being addressed.

4. The deficit in the current account balance narrowed in the second quarter of 2021 to $5.6 million from a deficit of $41.1 million in the corresponding period of 2020, induced by strong remittances and donor inflows.

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

6. The fundamentals of the banking sector remained strong albeit a marginal decline in capital and profitability, with high liquidity, and low non-performing loans.

7. The Committee noted the rising trend in inflationary pressures for the first seven months of 2021 mainly reflecting global increase in food prices and the one-off effect of increase in the education index in October 2020. The

near-term forecast of inflation indicated deceleration in Consumer Price Inflation (CPI) in the forecast horizon.

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, November 24, 2021. The meeting will be followed by the announcement of the policy decision on Thursday, November 25, 2021.