PRESS RELEASE **DECEMBER 03, 2020**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia held its quarterly review of economic and financial developments on Thursday, December 3, 2020, and took appropriate policy decisions. The following are highlights of the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. The global economy showed some signs of recovery in the third quarter of 2020, after a severe contraction in the second quarter on the back of profound monetary and fiscal policy response couple with easing of containment measures. In its October 2020 release of the World Economic Outlook, the International Monetary Fund (IMF) has revised upwards its global growth projection for 2020 by 0.5 percentage points to a contraction of 4.4 percent. However, with the resurgence of COVID -19, the recovery is expected to slow in the near-term.

2. Growth in advanced economies has been revised upward by 2.3 percentage points to a contraction of 5.8 percent in 2020. On the contrary, projections for emerging and developing economies were lowered by 2.0 percentage points to a contraction of 3.3 percent in 2020. Similarly, growth in Sub–Saharan Africa is projected to contract by 3.0 percent in 2020, a reduction by 0.2 percentage points from June 2020 World Economic Outlook.

Real Sector Developments

3. 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. 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 third quarter of 2020, due mainly to the restrictions that were imposed to curb the spread of the coronavirus.

4. The Bank's quarterly Business sentiment survey has shown that the pandemic eroded business confidence. However, with the marked slowdown in COVID-19 cases and the news of vaccine discovery, the sentiments of businesses have improved. Majority of businesses surveyed are optimistic about the prospects of the economy in the near-term. The survey further revealed higher inflation expectations for the next quarter.

External sector developments

5. The preliminary balance of payments estimates for the first nine months of 2020 indicated that the current account balance worsened to a deficit of US$118.39 million (6.53 percent of GDP) from a deficit of US$35.87 million (2.03 percent of GDP) in the corresponding period of 2019. This reflects a wider trade deficit and a decline in the service account balance.

6. The goods account balance is estimated at a deficit of US$404.90 million (22.35 percent of GDP) in the first nine months of 2020 compared to a deficit of US$286.50 million (16.18 percent of GDP) in the corresponding period in 2019. The widening of the deficit in the goods account mainly reflects the increase in imports of COVID -19 related materials and a fall in

exports, especially re-exports in the second quarter and some part of third quarter of 2020 due to border closure.

7. From January to September 2020, imports amounted to US$470.47 million, higher than US$406.81 million in the same period in 2019. Exports decreased to US$58.12 million in the three quarters of 2020 from US$103.34 million in the corresponding period of 2019.

8. The services account worsened to a deficit of US$4.17 million, or by 31.5 percent in the first nine months of 2020 from a surplus of US$68.91 million in the same period a year ago, on the back of a decrease in personal travels by 65.21 percent to US$38.33 million.

9. The gross international reserves stood at US$370.28 million equivalent to over 6 months of next year's imports of goods and services.

Foreign Exchange Market Developments

10. The volume of transactions in the foreign exchange market increased to US$2.14 billion in the12-months to end-October 2020, from US$2.2 billion in the corresponding period of the previous year. Purchases of foreign currency (indicating supply) increased by 0.93 percent to US$1.08 billion during the period. Similarly, sales of foreign currency, which indicates demand, also increased by 1.83 percent to US$1.09 billion in the review period.

11. The exchange rate remains stable during the review period. Capital inflows from private remittances and official disbursements from developing partners, and the comfortable level of gross international reserves continued to support the exchange rate. Remittances totaled $472.80 million from January to October 2020. This trend is expected to continue for the remainder of 2020.

12. From January to November 2020, the dalasi depreciated against the US dollar by 1.4 percent, euro by 6.3 percent and pound sterling by 1.1 percent.

Fiscal Operations

13. Preliminary estimates of government fiscal operations indicated that overall deficit (including grants) improved from D2.3 billion (2.6 percent of GDP) in the first nine months of 2019 to a deficit of D2.2 billion (2.6 percent of GDP) in the first nine months of 2020. The budget deficit excluding grants, however, worsened to a deficit of D6.1 billion (6.2 percent of GDP) in the first nine months of 2020 compared to D5.5 billion (6.3 percent of GDP) in the same period in 2019.

14. Total revenue and grants stood D14.2 billion (14.4 percent of GDP), in the first nine months of 2020 compared to D12.3 billion (14.0 percent of GDP) in the same period last year. Tax revenue rose by 1.6 percent to D7.7 billion (7.9 percent of GDP) in the first nine months of 2020 from D7.6 billion (8.7 percent of GDP) in the corresponding period a year ago. Non-tax revenue also increased by 82.9 percent to D2.6 billion (2.6 percent of GDP) in the first nine months of 2020, from D1.4 billion (1.6 percent of GDP) in the same period last year.

15. Government expenditure and net lending for the first nine months of 2020 increased by 12.7 percent to D16.4 billion (16.7 percent of GDP) from D14.5 billion (16.6 percent of GDP) in the first nine months of 2019. Recurrent expenditure increased by 29.9 percent to D12.0 billion (12.2 percent of GDP) compared to D9.3 billion (10.5 percent of GDP) in the first nine months of 2019. Capital expenditure on the other hand, declined by 17.4 percent to D4.4 billion (4.4 percent of GDP).

Banking Sector Developments

16. The banking sector remains fundamentally sound with a high level of capital and liquidity. Year-on-year, total assets of the industry expanded by 9.6 percent to D56.8 billion as at end-September 2020. The risk-weighted capital adequacy ratio stood at 38.1 percent as at end-September 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 95.5 percent as at end-September 2020, also higher than the requirement of 30 percent. Non-performing loans ratio increased to 6.5 percent in September 2020, from 4.5 percent at the end of the previous quarter.

17. The non-bank financial sector continues to play a pivotal role in extending financial services to the majority of the unbanked and under-banked. As at end-September 2020, total assets of the finance companies expanded by 10.0 percent to D1.76 billion compared to D1.6 billion in June 2020. Total deposits mobilized increased by 10 percent to D1.29 billion during the period under review. Total loans however, contracted marginally by 3 percent to D273.49 million as at end-September 2020 from D281.72 million a year ago.

18. 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 19.0 percent from D38.50 million in June 2020 to D45.9 million in September 2020.

Domestic Debt Developments

19. The outstanding domestic debt stock increased to D34.8 billion (35.3 percent of the GDP) as at end-November 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 8.90 percent to D20.2 billion as at end-November 2020.

20. The yields on the 91- day, 182-day, and 364-day Treasury bills declined from 1.88 percent, 3.72 percent, and 7.54 percent at end-November 2019 to 0.84 percent, 1.18 percent, and 2.95 percent respectively in November 2020.

Monetary Developments

21. Money supply (M2) growth moderated to 21.8 percent at end-September 2020 from 21.9 percent as at end-September 2019. Year-on-year, the net foreign assets of the banking system increased by 51.0 percent to D21.3 billion. Similarly, net domestic assets grew by 5.4 percent to D26.4 billion during the period under review.

22. Reserve money growth accelerated markedly to 32.3 percent in September 2020 from a growth of 18.6 percent recorded in the corresponding year. Growth in reserve money was driven largely by the increase in the net foreign assets (NFA) of the Central Bank.

Price developments

23. Inflation remained largely subdued due to weak domestic demand, moderate global oil prices, and stable exchange rate. Headline inflation declined to 5.6 percent in October 2020 from 7.5 percent in October 2019, driven largely by the deceleration in non-food inflation.

24. The consumer price inflation of food and non-alcoholic beverages decreased from 7.3 percent in October 2019 to 6.6 percent in October 2020. The major drivers of food inflation during the period were Bread Cereals, Meat, Fish, Fruits, and non-alcoholic beverages.

25. Non-food inflation decelerated to 4.3 percent in October 2020 from 8.0 percent in October 2019. Consumer price inflation for all the components of non-food inflation decreased except transportation and miscellaneous items.

The Committee observed the following:

26. The Committee noted that the global economy has shown promising signs of recovery in 2021 but there are uncertainties. The pace of recovery hinges not only on the discovery of vaccines but also on country specific responses to the pandemic and the strategies employed to re-start their economies;

27. Economic activity in The Gambia remains weak reflecting the effects of the pandemic, but a quicker recovery is anticipated in 2021 than projected in the last MPC meeting. The forecast for 2021 is predicated on rebound in agriculture, strong fiscal and monetary policy support, continued strong performance in the construction sector, and a partial recovery in tourism;

28. The Bank's Composite Index of Economic Activity (CIEA), which is a high frequency measure of the level of activity in the economy, shows that output contracted in the first three quarters of 2020 and this is expected to remain for the reminder of the year. In addition, the crisis has slowed the rapid expansion in private sector credit. However, fiscal and monetary policy response to the pandemic have mitigated the impact of the crisis on the economy;

29. The current account balance worsened in the three quarters of 2020 due largely to the unprecedented increase in the importation of health-related materials. However, the level of gross international reserves is at comfortable level and the exchange rate of the dalasi continues to be stable, supported by the large private remittances and official transfers; and

30. Inflation in the Gambia continues to be stable. The recent surge in inflation is judged to be temporal and would return close to the medium-term objective of 5 percent in the near-term. The outlook is predicated on the stable exchange rate, moderate global inflation, increase in local food production and the implementation of prudent monetary policy. However, the major risk to inflation continues to be the recent surge in global food prices.

Decision

Taken 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).

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for **Wednesday, February 24, 2020**. The meeting will be followed by the announcement of the policy decision on **Thursday, February 25, 2020.**