Press Release **May 28, 2020**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Thursday May 28, 2020, amid heightened global economic uncertainty due to the outbreak of COVID-19. The Committee reviewed the disruptive effects of the crisis on The Gambian economy and decided on appropriate monetary policy response. The following are highlights of the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. The COVID-19 pandemic is having a devastating impact on the global economy. The socio-economic impact of the strict containment measures needed to curb the spread of the virus is enormous. These measures have disrupted economic activity, created massive uncertainty, and economies around the world are plunging into recession. Although countries have started to gradually and cautiously reopen economies, the risks remain elevated.
2. The International Monetary Fund (IMF) forecast the global economy to contract by 3.0 percent in 2020, largely reflecting a combination of demand and supply shocks due mainly to the pandemic. However, the forecast is underpinned by large scale uncertainty. In sub-Saharan Africa, the projected income losses due to the crisis are threatening to reverse the economic progress made in recent years. The region is expected to register a negative growth of 1.6 percent in 2020.

Real Sector Developments

3. The Gambia Bureau of Statistics (GBoS) has revised upwards the growth in 2018 by 0.4 percentage points to 7.0 percent, higher than 4.8 percent in 2017. The real GDP growth for 2019 is estimated at 6.3 percent, higher than an earlier projection of 6.0 percent. Growth in 2019 was supported largely by the increase in agricultural

production, construction, and the strong performance of the tourism sector as well as improved business sentiments.

4. Preliminary assessment shows that The Gambian economy will contract by 1.2 percent in 2020, reflecting the disruptive effect of the pandemic, particularly on tourism and related activities, trade, and private investment. However, in the light of current developments, the uncertainty around the forecast increases as the crisis protracts.

External sector developments

5. Preliminary balance of payments (BoP) estimates indicated that the current account balance worsened to a deficit of US$57.8 million (3.2 percent of GDP) in the first three months of 2020 from a surplus of US$4.05 million (0.23 percent of GDP) in the corresponding period of 2019, due mainly to the worsening of the goods account balance.

6. The goods account deficit is estimated at US$155.1 million (8.6 percent of GDP) in the first quarter of 2020, compared to a deficit of US$85.1 million (4.8 percent of GDP) in the same period in 2019. Export receipts increased by 39.9 percent to US$50.0 million during the period under review. Imports increased by 67.2 percent to US$209.4 million in 2020 from US$125.3 million in the same period in 2019.

7. The surplus in the services accounts stood at US$29.0 million in the first three months of 2020 compared to US$46.5 million in the same period last year, due largely to the decrease in income from personal travels.

8. The gross international reserves stood at US$265.61 million and it is projected at over 4 months of next year's imports of goods and services.

Foreign Exchange Market Developments

9. Recent data indicates that the foreign exchange market remains stable characterized by adequate foreign currency liquidity, and stable exchange rate. The supply conditions continue to be stable despite the COVID-19 crisis, supported

largely by large foreign inflows from official development assistance and private remittances. Latest data suggests that private remittance inflows remained strong as at end-April 2020.

10. The volume of transactions in the domestic foreign exchange market in the 12 months to end-April 2020 stood at US$2.08 billion compared to US$2.10 billion in the corresponding period in 2019. Purchases, indicating supply totaled US$1.03 billion compared to US$1.05 billion a year ago. Sales, indicating demand, decreased marginally by 0.95 percent to US$1.04 billion.

11. From December 2019 to April 2020, the dalasi depreciated against the US dollar by 0.1 percent but appreciated against the Great Britain pound by 4.8 percent and euro by 1.0 percent.

Fiscal Operations

12. Preliminary estimates of government fiscal operations indicate that overall deficit (including grants) worsened from D24.3 million (0.03 percent of GDP) in the first quarter of 2019 to a deficit of D341.6 million (0.4 percent of GDP) in the first quarter of 2020. The budget deficit excluding grants, however, improved to D0.5 billion (0.5 percent of GDP) in the first quarter of 2020 compared to D1.97 billion (2.3 percent of GDP) in the same period in 2019.

13. Revenue and grants in the first three months of 2020 decreased to D4.7 billion (4.8 percent of GDP) from D5.0 billion (5.7 percent of GDP) registered in the corresponding period in 2019. Domestic revenue, which comprises tax and non-tax revenue increased to D4.5 billion (4.6 percent of GDP) during the period under review from D3.0 billion (3.5 percent of GDP) the same period last year.

14. Total government expenditure and net lending increased slightly to D5.02 billion (5.1 percent of GDP), compared to D5.01 billion (5.7 percent of GDP) in 2019. Recurrent expenditure increased by 23.5 percent to D4.1 billion (4.1 percent of GDP) during the period under review. Capital expenditure, on the other hand,

decreased to D948.7 million (0.96 percent of GDP) in the first quarter of 2020 from D1.7 billion (1.95 percent of GDP) in the same period last year.

Domestic Debt Developments

15. The Gambia's domestic debt remains high. The stock of domestic debt increased to D33.6 billion or 33.2 percent of GDP as at end-April 2020 from D32.5 billion or 35.7 percent of GDP in the corresponding period in 2019. The stock of Treasury and Sukuk Al Salaam bills increased by 4.0 percent to D20.2 billion as at end-April 2020.

16. Yields on the 91-day and 182-day Treasury bills decreased to 3.96 percent and 6.71 percent in April 2020 from 4.73 percent and 6.85 percent in April 2019, respectively. Average yield on the 365-day Treasury bill, on the other hand, increased to 11.59 percent from 9.51 percent during the period under review.

Banking Sector Developments

17. The banking sector remains fundamentally sound with high level of capital and liquidity. Year-on-year, total assets of the industry expanded by 7.4 percent to D50.9 billion as at end-March 2020. The risk-weighted capital adequacy ratio stood at 33.2 percent as at end-March 2020, significantly 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 95.3 percent at end-March 2020, also significantly higher than the requirement of 30 percent. Non-performing loans ratio was 4.8 percent at end-March 2020.

Monetary Developments

18. Money supply (M2) growth slowed from 19.2 percent at end-March 2019 to 18.1 percent as at end-March 2020. The net foreign assets of the banking system stood at D15.7 billion compared to D12.8 billion a year earlier. Similarly, net domestic assets grew by 15.5 percent to D27.1 billion during the period under review.

19. Year-on-year, reserve money growth decelerated markedly from 23.3 percent in March 2019 to 13.0 percent in the year to end-March 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 remained largely subdued due to weak domestic demand, low global oil prices, and stable exchange rate. Headline inflation declined to 5.6 percent in April 2020 from 6.9 percent in April 2019, driven largely by the deceleration in non-food inflation.

21. The consumer price inflation of food and non-alcoholic beverages increased from 6.27 percent in April 2019 to 6.97 percent in April 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 3.3 percent in April 2020 from 8.7 percent in April 2019. Consumer price inflation for all the components of non-food inflation decreased except transportation and miscellaneous items.

The Committee noted the following:

- The global economic outlook in 2020 has deteriorated significantly and remains highly uncertain. Disruptions to economic activity, particularly trade and supply chains, and the collapse of tourism are having unprecedented toll on the global economy.

- The Committee observed the disruptive effect of the COVID-19 pandemic on the Gambian economy, especially on tourism and related activities as well as trade and investment.

- The Central Bank's quarterly Business Sentiment Survey indicated a significant shift in business sentiment since the last survey due to the impact of COVID-19 pandemic. Businesses project low economic activity in the remainder of 2020.
- The exchange rate of the Dalasi to remain stable in the near-term, given the comfortable level of international reserves of the Bank and the strong official inflows.

- The Committee noted that the outlook for inflation is favorable with both the headline inflation and core inflation trending downwards.

- The headline inflation decelerated markedly in April 2020, driven mainly by the decline in non-food inflation. The current rate of inflation is broadly in line with expectations.

- However, there are risks to the outlook, including:
  - There is substantial uncertainty about the trend of global food prices in the light of current developments given supply chain disruptions due to the COVID-19 pandemic.
  - In the absence of a vaccine, the uncertainty will increase.
  - The high level of public debt poses risk to overall macroeconomic stability.

Decision

Given above developments, the committee decided the following:

- Reduce the monetary policy rate by 2 percentage points to 10 percent to support the economy.
- Reduce the statutory required reserve ratio by 2 percentage points to 13 percent. This will release about D700 million liquidity to banks.
- Maintain the interest rate on the standing deposit facility at 3 percent and the interest rate on the standing lending facility at 1 percentage points above the monetary policy rate.

Banks are highly encouraged to translate these to increased lending to the private sector.

The Committee will continue to closely monitor the situation and stands ready to act accordingly.