PRESS RELEASE **November 25, 2021**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia held its quarterly review of economic and financial developments on Wednesday, November 24, 2021 and subsequently took appropriate monetary policy decisions judged to be suitable under the current macroeconomic environment. Below are the highlights of deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. The recovery in the global economy continues amid a resurging pandemic that poses exceptional policy challenges. Despite the ongoing vaccinations, there are still risks to the recovery characterised by unequal access to vaccines, vaccine hesitancy, and higher infectiousness leaving many people still vulnerable to the pandemic.

2. The International Monetary Fund (IMF) in its October 2021 World Economic Outlook (WEO) projected global output to grow by 5.9 percent in 2021, a downward revision of 0.1 percentage point relative to July 2021 WEO forecast. This downward revision reflects the downgrades in the forecasts of the advanced economies and low-income developing countries due in part to supply disruptions, worsening pandemic dynamics and low vaccine rollout. The global economic performance in 2022 predicated on broad

access to vaccines in 2021, is projected at 4.9 percent, unchanged from the July 2021 forecast.

3. Growth in advanced economies was downgraded by 0.4 percentage point to 5.2 percent for 2021, reflecting the downward revisions in the United States, Germany, Japan, and the United Kingdom. However, the growth momentum for 2022 are expected to strengthen across advanced economies as vaccinations progresses.

4. In contrast, growth forecast for emerging markets and developing economies for 2021 was revised upwards in the October 2021 WEO by 0.1 percentage point to stand at 6.4 percent, mirroring upgrades across most regions due partly to the positive outlook for some commodity exporters which offsets the drags from pandemic developments within the region.

Real Sector Developments

5. According to the Gambia Bureau of Statistics (GBoS), the Gambian economy contracted by 0.2 percent in 2020, lower than the 6.2 percent growth registered in 2019. The significant decline in real GDP growth in 2020 was due largely to the impact of the global COVID-19 pandemic whose effects are still felt around the world.

6. In 2021, the economy has been estimated to recover on account of eased restrictions on economic activities, anticipated recovery in tourism, trade, and the continuous support of fiscal and monetary policies. Consequently, the IMF and the Gambian authorities forecast real GDP growth of 4.9 percent in 2021.

7. The Bank's quarterly Business Sentiment Survey revealed a sustained optimistic business sentiment in Q3, 2021, and enthusiasm for quarter four on account of COVID-19 vaccine roll out. A large percentage of business leaders were of the view that the business environment would improve. There were however concerns relating to the political uncertainty regarding the upcoming Presidential elections and supply chain constraints. Perception on prices for the next three months indicated an elevated inflation expectation, attributable to expected higher international food and fuel prices. The Dalasi was expected to remain stable underpinned by increased diaspora remittances, high international reserve level and gradual recovery in tourism.

External sector developments

8. The preliminary balance of payments estimates for the nine months of 2021 showed improvement in the current account balance. The deficit in the current account balance narrowed to US$31.91 million (1.76 percent of GDP) in the nine months of 2021 from a deficit of US$87.88 million (4.97 percent of GDP) in the corresponding period of 2020, due to improvement in the goods account balance and strong remittance inflows.

9. The deficit in the goods account balance improved to US$399.95 million (21.75 percent of GDP) in the review period compared to a deficit of US$403.95 million (22.85 percent of GDP) in the same period in 2020. The improvement reflects a fall in imports mirroring low economic activities in the first quarter of 2021.

10. In contrast, the services account balance deteriorated to a deficit of US$13.47 million in the nine months to end-September 2021, from a deficit

of US$4.98 million in the comparative period in 2020, owing to decrease in personal travels by 15.96 percent.

11. Gross official reserves of the Bank stood at US$525.92 million as of November 11, 2021, equivalent to 6.6 months of prospective imports of goods and services.

Foreign Exchange Market Developments

12. Transaction Volumes in the foreign exchange (FX) market increased to US$2.49 billion in the twelve months to end-September 2021, from US$2.24 billion a year ago. Both purchases and sales of foreign currency (representing supply and demand) rose by 12.0 percent and 10.7 percent to US$1.24 billion and US$1.25 billion, respectively.

13. Private remittances continued to be the main source of FX inflows in the domestic FX market during the review period. Total volumes of remittance inflows from January to October 2021 outperformed the whole of 2020 remittance inflows by 11.4 percent to stand at US$657.22 million.

14. Rates traded in the FX market remained stable during the review period due largely to the strong remittance inflows recorded. On an annual basis, the Dalasi marginally weakened against the major traded currencies except for the US Dollar. It depreciated against the Euro, the Pound Sterling, and CFA Franc by 2.8 percent, 6.8 percent, and 6.6 percent respectively, but appreciated against the US Dollar by 1.0 percent as at end-September 2021.

Fiscal Operations

15. Estimates of government fiscal operations in the nine months ending September 2021 showed an expanded fiscal deficit position. Overall budget deficit (including grants) for the period under review revealed an overall deficit of D4.1 billion (4.3 percent of GDP) relative to a deficit of D1.3 billion (1.4 percent of GDP) in the same period last year.

16. Total revenue and grants collected in the nine months ending September 2021 amounted to D11.8 billion (12.6 percent of GDP), compared to D15.5 billion (16.5 percent of GDP) recorded in the same period a year ago. The decline in government revenue receipts is mainly explained by a significant drop in grants receipts.

17. Likewise, government expenditure and net lending also decreased during the review period, to D15.9 billion (16.9 percent of GDP), from D16.8 billion a year ago, on account of decline in recurrent and capital expenditures by 6.1 percent and 4.5 percent respectively.

Banking Sector Developments

18. The banking system capital and reserves position during the review period remained healthy owing to increase profitability. Liquidity position remained robust amidst declining yields in the treasury bills market.

19. Year-on-year, the industry's total assets grew significantly by 18.9 percent to D67.54 billion at end-September 2021 compared to D56.82 billion in the same period last year. This was driven mainly by the increase in the balances due from other banks and a slight increase in loans and advances.

20. All banks were well capitalised and met the minimum capital requirement of D200,000,000. The industry remained highly liquid with an average liquidity ratio of 91.5 percent. However, the risk weighted capital adequacy ratio (CAR) declined by 4.4 percentage points to 30.3 percent while the liquid asset ratio also decreased by 4.0 percentage points in September 2021. Conversely, the non-performing loan ratio year-on-year narrowed slightly by 0.9 percentage points to 5.7 percent.

21. Growth in the non-bank financial sector demonstrated the important role the sector is playing in the financial inclusion drive of the Bank. At end-September 2021, total assets of the Finance Companies (FCs) grew by 6.0 percent to D2.36 billion on account of growth in both gross loans and fixed assets, which expanded by 17 percent and 27 percent, respectively quarter-on-quarter.

22. Similarly, mobile money financial services continued to expand in terms of uptake and usage. The value of cash-in transactions as at end-September 2021 recorded D58.70 million or 28 percent annual growth. The value held in the wallets of both customers and agents increased year-on-year by 129.0 percent and 136.0 percent, respectively, reflecting significant growth in cash-in and cash-out transactions during the review period.

Domestic Debt Developments

23. Total outstanding domestic debt stock rose by D2.77 billion to D37.32 billion in the year to end-October 2021, compared to D34.55 billion in the corresponding period in 2020. The modest growth in the debt stock was driven partly by widened fiscal deficit financed through bond issuances as well as the government's ongoing debt management strategy of reprofiling the debt stock to create fiscal space.

24. Consequently, significant progress has been realized in terms of reprofiling the debt stock as evident in the following: at end-October 2021, the short-term, medium-term, and long-term debt securities accounted for 52.6 percent, 23.3 percent, and 24.1 percent of the outstanding domestic debt relative to 59.3 percent, 13.6 percent, and 27.0 percent, respectively in the same period last year.

25. Security yields in the domestic money market continued to trend downwards. The yields on the 91-day and 364-day Treasury bills declined to 0.99 percent and 3.25 percent in October 2021 from 1.05 percent and 4.00 percent respectively in October 2020, whilst the yield on the 182-day Treasury bill increased to 2.07 percent in October 2021 from 1.51 percent in October 2020. The 3-year bond yield also dropped from 10.28 percent in July 2020 to 8.94 percent in June 2021 likewise the 5-year bond declined from 10.0 percent in October 2020 to 6.0 percent in October 2021.

Monetary Developments

26. At end-September 2021, money supply grew by 22.1 percent, slightly higher than 21.8 percent growth observed in the corresponding period in 2020. Quarter-on-quarter, money supply grew by 11.4 percent in Q3, 2021 from 8.3 percent in the preceding quarter. Net foreign assets of the banking system surged by 22.5 percent, to D26.1 billion in the review period. Similarly, net domestic assets grew by 21.7 percent to D32.1 billion in the same period.

27. In the year to end-September 2021, reserve money growth moderated to 24.0 percent to stand at D21.4 billion relative to 32.3 percent growth in the corresponding period last year. The slow growth in reserve money was on account of moderated expansion in the NFA of the Central Bank.

Price developments

28. Headline inflation rose to 7.3 percent at end-October 2021, from 7.0 percent at end-September 2021 and 5.6 percent a year ago. The increase in the consumer price inflation reflects the trend in the global food prices and domestic structural issues.

29. Consumer price inflation on Food and non-alcoholic beverages accelerated to 8.97 percent in October 2021 from 6.83 percent a year ago. The main drivers of food inflation included; oil and fats, meat, Bread & Cereals, and fish.

30. Similarly, non-food inflation also increased to 5.7 percent in October 2021, from 4.3 percent in the same period last year. The surge in non-food inflation was due to an increase in the prices of all the components of non-food baskets except furnishings and household equipment. The principal contributors were transport, miscellaneous goods and services, clothing and footwear, and house, water, electricity, gas, and other fuels.

The Committee observed the following:

1. The Committee noted the downward revisions in the IMF growth projections for 2021, premised on the forecast downgrades in advanced economies and low-income developing countries, attributable to supply chains disruptions and worsening pandemic dynamics. The downgrades are partially offset by the stronger near-term prospects among some commodity-exporting emerging markets and developing economies. Despite global growth prospect, risks to global outlook remained as uncertainties surrounding the COVID-19 pandemic on vaccines efficacy, unequal access to vaccines and vaccine hesitancy has left many people susceptible.

2. The Committee noted that global economic recovery had impacted on domestic development as evident in some macroeconomic indicators. Real GDP growth for The Gambia is forecast at 4.9 percent in 2021, up from a contraction of 0.2 percent in 2020, premised on ease in COVID-19 restrictions and rebound in tourism. The Committee also noted the increase in food prices due to increases in annual food inflation resulting from cost push effects of the structural bottlenecks at the port.

3. The Committee noted the rising trend in inflationary pressures in October 2021 mainly reflecting increase in global food prices and the bottle necks at the Banjul port. However, the near-term forecast suggests that inflationary pressures would slow down in November 2021 before it slightly increases in December 2021. The Committee does not consider the increase in headline inflation in October as a major cause for concern as some of the effects of inflation are transitory.

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, February 23, 2022. The meeting will be followed by the announcement of the policy decision on Thursday, February 24, 2022.