



CENTRAL BANK OF THE GAMBIA

MINUTES OF THE MONETARY POLICY COMMITTEE
MEETING NO.74

May 2020

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.72

May 27-28, 2020

The Monetary Policy Committee (MPC) of The Central Bank of The Gambia (CBG) met on Wednesday, May 26, 2020, to assess recent economic developments. This was followed by a meeting to decide on the Monetary Policy stance and a press conference on Thursday, May 27, 2020.

Present were:

Name	Role
Mr. Bakary Jammeh	Chairman
Dr. Seeku Jaabi	Member
Mr. Essa A.K. Drammeh	Member
Mr. Momodou Sissoho	Member
Mr. Paul John Gaye	Member
Mr. Ebrima Wadda	Member
Mr. Amadou S. Koorá	Member
Mr. Karamo Jawara	Member
Mr. Baboucarr Jobe	Member
Mr. Sheriff Touray	Secretary

Report Presenters

Name	Designation
Mr. Alieu Ceesay	Senior Economist, Economic Research Department
Mr. Khalilu Bah	Senior Economist, Economic Research Department
Mr. Karafa Jobarteh	Officer, Foreign Department
Mr. Bademba Drammeh	Statistician, Economic Research Department
Mr. Saikou Jammeh	Economist, Economic Research Department
Mrs. Fatou Sanyang	Senior Banking Officer, Banking Department
Mr. Hamar Jawo	Senior Bank Examiner, Financial Supervision Dep't.
Mr. Alargie Manneh	Senior Microfinance Officer, Microfinance Dep't.
Mr. Sheriff Touray	Deputy Director, Economic Research Department

Agenda for the Technical Meeting

1. The agenda of the meeting was adopted as presented.
 1. Adoption of the agenda
 2. Opening remarks by the Chairman
 3. Review of the minutes of the previous meeting and matters arising
 4. Presentation and discussions of reports
 5. Lunch break
 6. Presentation and discussion of reports

Opening remarks by the Chairman

1. The Governor and Chairman of the MPC welcomed the members of the Committee. He stated that the world is confronted with unprecedented health and economic crisis due to the COVID-19 pandemic. According to him, the crisis is like no other and it is crippling economies all over the world, and policymakers reacting with decisive policy measures to minimize the impact on lives and livelihoods. He, therefore, emphasized the importance of the meeting.

Review and Adoption of the Previous Meeting Minutes

2. The minutes of the previous meeting were reviewed and adopted after some amendments.

Presentation of Reports:

3. This was followed by presentations and discussions on developments in the World Economic Outlook (WEO), Banking Sector, Financial Market, Balance of Payment, Foreign Exchange Market, Monetary Sector, Government Fiscal Operations, Business Sentiment Survey, Microfinance Sector, Real Sector, and Inflation. These were followed by a special presentation on the Macro-Fiscal Impact of COVID-19 pandemic on The Gambian economy.

Presentation on Global Macroeconomic Developments

4. The COVID-19 pandemic is having a destructive impact on the global economy. The strict containment measures are having a debilitating effect on economic activity. As the crisis protracts with no immediate medical solution in sight, the uncertainty surrounding the outlook of the global economy increases.
5. The International Monetary Fund (IMF) provided a preliminary assessment of the impact of the coronavirus outbreak on the global economy in its April 2020 release of the World Economic Outlook. The institution forecasts the global economy to contract by 3.0 percent in 2020, reflecting, in the main, a combination of large demand and supply shocks engendered by the epidemic. However, there is massive uncertainty around the forecast, and risks could elevate further depending on how the pandemic unfolds. Without a vaccine or effective treatment, the pandemic will become persistent and the impact could turn out to be stronger and longer-lasting.
6. Economic growth in the advanced economies is projected to contract by 6.1 percent in 2020, the deepest recession in decades. Most countries in the region are expected to register negative real GDP growth rates, including the United States, the United Kingdom, Japan, Canada, and the Euro Area. Output growth for the group is forecast to rebound to 4.5 percent in 2021, predicated on the pandemic fading by the second half of 2020, which will allow containment measures to be relaxed.
7. Growth for emerging markets and developing economies is estimated at a negative 1.0 percent in 2020. Severe external demand shock, dramatic tightening in global financial conditions, and a sharp decline in commodity prices are having a severe impact on economic activity in countries in the region. Economic growth for the group is projected to rebound to 6.6 percent in 2021 depending on how the crisis unravels.

8. In sub-Saharan Africa, economic growth is expected to decline from 3.1 percent in 2019 to negative 1.6 percent in 2020. The main factors affecting growth include the disruption of production and reduction in demand, spillovers from the collapse of global growth and tighter financial conditions as well as the plunge in commodity prices. It is expected that most countries in the region will register negative GDP per capita growth.
9. Global financial conditions have tightened abruptly due to the pandemic and central banks have responded by easing monetary policy through conventional monetary policy rate cuts and expanding asset purchase programs.
10. Global inflation is forecast to moderate to an average of 3.0 percent in 2020 from an estimated 3.6 percent in 2019. Consumer price inflation softened across the major advanced and emerging market and developing economies due mainly to weak demand, which impacted commodity prices especially energy prices.
11. The Committee noted the devastating effect of the COVID-19 pandemic on the global economy. Disruptions to economic activity, particularly trade and supply chains, and international travel restrictions are having an unprecedented effect on economies around the world. The social and economic consequences are dire, especially for low-income countries. The Committee also observed the widespread response from monetary and fiscal authorities to weather the impact of the crisis and to avoid permanent damage to their economies. Overall, the medium-term outlook of the global economy is gloomy, clouded by heightened uncertainty.
12. The Committee noted that the sub-Saharan region has made significant progress in recent years in terms of economic development and poverty reduction. However, the pandemic is threatening to reverse those gains in a significant way. The Committee is concerned that the region would face large income losses due to the crisis. Many governments have ramped up health and social

spending to be able to cope with the outbreak and to minimize the impact of the containment measures on the poor and vulnerable.

13. The Committee observed that the pandemic hits virtually all sectors of the Gambian economy, especially tourism, remittances, and trade. These are major channels through which the developments in the global economy would affect the Gambian economy. The low oil prices and the subdued global inflation will help dampen inflations.
14. In the medium-term, adjusting to the new normal would require diversifying the economy by investing in agriculture to promote local food production and strengthen the health sector. This is because tourism will not be the same again.
15. The Committee tasked ERD to broaden the analysis to include developments in the sub-region.

Presentation on the Domestic Macroeconomic Developments

Banking Sector Developments

16. The banking sector remains fundamentally sound with a high level of capital and liquidity. 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. The ratio of non-performing loans to gross loans stood at 4.8 percent at end-March 2020, slightly higher than 4.6 percent in December 2019.
17. Total assets of the banking industry expanded by 0.1 percent to D50.88 billion as at end-March 2020 from D50.85 billion in December 2019. Compared to the same period last year, it also grew by D3.5 billion or 7.4 percent. This is attributed largely to the increase in investments in government securities by 13.7 percent and loans and advances by 23.4 percent.

18. Gross loans and advances extended by banks to major economic sectors stood at D7.1 billion, a decline of 4.0 percent compared to D7.35 billion in December 2019. However, this represents an increase of 24.0 percent when compared to the stock in the corresponding period a year ago.
19. Deposit mobilization remains the major source of funding for banks. Total deposits of banks stood at D34.8 billion (68.4 percent of total liabilities) as at end-March 2020, lower than D35.8 billion at end-December 2019. Year-on-year, total deposit levels increased by D5.8 billion or 20.2 percent.
20. Loan to deposit ratio stood at 20.4 percent as at end-March 2020, higher than 19.7 percent a year ago. However, this represents a slight decrease of 0.6 percentage points relative to the previous quarter.
21. The Committee welcomed the stability of the banking system in face of ongoing crisis, evidenced by the solid financial soundness indicators. The industry entered the crisis on a strong footing in terms of capital, profitability, and liquidity, as well as a record low non-performing loans.
22. The MPC, however, stressed the need for a strategy to regulate the proliferation of real estate agencies, given the exposure of the banks to the industry. The Committee also reiterated that banks should diversify their portfolios by increasing lending to the private sector.

Microfinance Sector Developments

23. The financial performance of all the Finance Companies improved in the first quarter of 2020. As at end-March 2020, all the three companies met the minimum capital requirement of D50 million. The combined capital stood at D270.7 million compared to D245.2 million at end-December 2019 and D229.9 million in March 2019.

24. Total assets of the three Finance Companies increased by 33.9 percent to D1.54 billion as at end-March 2020 from D1.15 billion at end-December 2019. Year-on-year, total assets increased by 25.2 percent, driven largely by the increase in investments in Treasury Bills and deposits with banks.
25. Total loans extended contracted by 9.5 percent to D309.5 million as at end-March 2020 from D342.1 million as at end-December 2019. Year-on-year, total loans grew by 44.7 percent. The average non-performing loan ratio was 4.3 percent as at end-March 2020, higher than 2.5 percent in the previous quarter.
26. Total deposits mobilized grew by 0.9 percent to D1.12 billion as at end-March 2020 from D1.11 billion as at end-December 2019. When compared to the same period in 2019, total deposits increased by 16.2 percent.
27. The Committee was informed that several Saving and Credit Associations (SACAs) are dormant because of poor business models and management challenges. The Committee tasked the Microfinance Department to continue to work with relevant stakeholders to devise ways to ensure that the active entities remain operational and revive the dormant ones.
28. The Committee reiterated the importance of microfinance as a key access point for financial inclusion, especially for the rural folks. The Microfinance Department was tasked to strengthen monitoring developments in the sector during the crisis.

Money Market Developments

29. The report on money market developments indicated that the domestic debt stock remains high. The outstanding 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.

30. 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. The 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.
31. Interest expense on domestic debt amounted to D2.5 billion (20.9 percent of domestic revenue) in 2019 relative to D2.1 billion (23.5 percent of revenue) in 2018. In 2020 is projected at D2.4 billion (18.9 percent of revenue). The actual interest cost for the first quarter of 2020 was D952.1 million, lower than D907.56 million paid in the same period in 2019.
32. The Committee noted the increase in short-term interest rates on government securities as the government increased borrowing. However, the increase in budget support and the expected external debt relief would free resources for the government and potentially reduce the need to increase borrowing in the domestic money market. This may reduce pressure on short-term yields.
33. The Committee stated that it is about time a plan is put in place to roll over the bonds maturing in August 2020. This is to minimize the impact of domestic debt servicing on the budget.
34. The Committee stated that the decline in interbank activity reflects abundant liquidity in the banking system.
35. The Committee was informed that the guideline of the interest rate corridor has been revised. The 25 percent limit on the standing lending facility was removed and a collateral requirement introduced. Commercial banks can now borrow any amount if covered by the collateral.

External Sector Developments

36. The report on developments in the balance of payment estimates indicated that the current account worsened in the first quarter of 2020 due to the marked deterioration of the goods account balance. 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\$4.1 million (0.2 percent of GDP) in the corresponding period of 2019. The deterioration in the current account balance is explained largely by the one-time increase in the importation of maritime goods such as ships, boats and floating structures, and mineral fuels and oils.
37. 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.
38. 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.
39. The capital and financial account in the first quarter of 2020 registered a higher surplus of US\$ 23.7 million in quarter one of 2020 compared to a surplus of US\$28.72 million in the corresponding period a year ago.
40. 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.
41. The Committee noted that the deterioration of the current account was due largely to the one-time increase in the importation of maritime goods. The effect is temporary and should dissipate in the following quarter.

42. However, the Committee lamented that the disruptive effect of the pandemic, particularly on tourism and related activities, and re-export trade would negatively impact the balance of payments and may exert pressure on the exchange rate. The impact, however, would be mitigated by the marked increase in official inflows related to support received by the government to fight COVID-19.

Foreign Exchange Market Developments

43. Report on the developments in the foreign exchange market shows that the foreign exchange market remains stable with adequate foreign currency liquidity, and a 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.

44. The volume of transactions in the 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.

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46. The Committee attributed the relative stability of the exchange rate to the large foreign currency inflows related to foreign development assistance and private remittances. In light of current developments, the outlook of the exchange rate is predicated largely on the magnitude of the adverse impact of the crisis on the

balance of payment. The collapse of tourism coupled with the decline in re-export trade would affect supply conditions in the market.

Real Sector

47. The Gambia Bureau of Statistics (GBoS) has revised upwards the real GDP 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 construction activities and the services sector, including tourism, retail trade, information, and communication as well as financial services.
48. Preliminary assessment shows that The Gambian economy will contract by 1.2 percent in 2020, reflecting the debilitating 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. The output gap is projected to be negative in 2020. The Bank's Composite Index of Economic Activity (CIEA) showed that economic activity slowed significantly in the first quarter of 2020.
49. Tourist arrivals decreased by 11.3 percent in the first quarter of 2020 compared to 7.7 percent in the same period last year, due to restrictions on international travels. The total number of visitors in March 2020 was 13,343, a contraction of 48.3 percent from March 2019. The future of the industry is highly uncertain as the pandemic persists.
50. The Committee noted that the COVID-19 pandemic is adversely impacting the Gambian economy. Tourism and related activities have come to a standstill and trade has been disrupted. These are some of the major drivers of economic activities in The Gambia. As a result, the Committee expects the economy to contract in 2020 with the possibility of a slight recovery in 2021 depending on how early the pandemic is put under control.

51. The Committee also stated that the crisis has revealed the vulnerability of the economy, and hence the need for economic diversification.

52. The MPC lamented that the negative output gap points to a low inflationary environment in 2020. However, a major risk to the inflation outlook remains a shock to agriculture due to poor weather conditions.

Monetary Developments

53. Broad money growth slowed down to 18.1 percent in March 2020 from 19.2 percent in March 2019. Narrow money and quasi money grew by 20.7 percent and 15.2 percent respectively during the period. Total money supply stock reached D42.8 billion during the period compared to D36.3 billion in the same period last year.

54. Net Foreign Assets (NFA) of the banking system rose to D15.7 billion as at end-March 2020 from D12.8 billion or by 23.1 percent a year ago. The NFA of the Central Bank for the period ended March 2020 grew by 30.5 percent to stand at D8.6 billion compared to D6.6 billion in the same period in 2019. The NFA of commercial banks grew by 15.1 percent at end-March 2020 to D7.2 billion from D6.2 billion a year ago.

55. The NDA of the banking system increased to D27.1 billion, representing an increase of 15.5 percent relative to the same period last year. The banking system's net claims on government accounted for about 72.9 percent of total domestic credit. Year-on-year, it grew by 8.3 percent in March 2020, lower than 9.9 percent in the corresponding period in 2019. Private sector credit growth slowed but remained robust. Year-on-year, it grew by 25.3 percent at end-March 2020, lower than 36.8 percent a year ago. When compared to the previous quarter, private sector credit contracted by 4.8 percent, reflecting the impact of COVID-19 pandemic which continues to affect economic activities.

56. Annual reserve money growth slowed to 13.0 percent at end-March 2020 from 23.3 percent in the corresponding period a year ago. Compared to the previous quarter reserve money grew by 4.9 percent, lower than 6.5 percent in the previous quarter. Similarly, growth in the components of reserve money slowed. Currency in circulation rose by 13.5 percent (year-on-year) and reserves of commercial banks grew by 12.4 percent.
57. The Committee noted the marked slowdown in the growth of money supply and reserve money, which are consistent with the contraction in economic activity. The moderate money growth is expected to be a damper on domestic inflation.
58. The Committee also observed the slowdown in credit expansion, evidenced by the lower private sector credit growth in line with expectations.

Government Fiscal Operations

59. 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.
60. 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 nontax 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.
61. 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 the quarter of 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.

62. The Committee lamented that the immediate fiscal impact of the COVID-19 outbreak would be large. There will be significant revenue losses and a sharp rise in emergency spending on health care, logistics, and social spending. This will increase the level of public debt which is already high. However, emergency support from development partners will somewhat mitigate the impact on public finance and debt.

63. The Committee supported a strong fiscal response to the crisis to avoid lasting damage to the economy but recognized that there are consequences of increasing the level of public debt. In this regard, expenditures should be well-targeted and seek for more external support.

Business Sentiment Survey

64. The Bank's quarterly Business Sentiment Survey indicated that the sentiments of businesses have changed since the last MPC meeting, influenced largely by the COVID-19 outbreak. Business confidence has plummeted and there is broad-based pessimism across sectors for the prospects of the level of economic activity. Inflation expectation is heightened as more respondents expect inflation to rise.

65. The Committee noted that the results of the survey are broadly in line with the prevailing macroeconomic environment.

Inflation Outlook

66. Inflationary pressures remain largely muted reflecting 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.

67. 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 nonalcoholic beverages.
68. 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.
69. The Committee is of the view that the medium-term outlook for inflation is moderate with both the food and non-food inflation trending down. However, there are risks to the outlook, including the substantial uncertainty about the trend of global food prices in the light of current developments. Global supply chain disruptions due to the COVID-19 pandemic could push food prices up. The more persistent the crisis the larger the uncertainty.

Macro-Fiscal Impact of COVID-19 on the Gambian Economy

70. This presentation assessed the impact of the coronavirus pandemic on the Gambian economy using a New Keynesian Semi-structural model. The assessment revealed that substantial fiscal spending is necessary to weather the effect of the crisis on the economy. However, this will be at the expense of increased public debt to unsustainable levels, if there is no external assistance in the form of budget support. To keep the debt sustainable, the government would require additional budget support of 2 percent of GDP each year in 2020 and 2021. In a worst-case scenario, additional support of about 6 percent and 15 percent of GDP would be required to maintain the level of public debt around 80 percent of GDP in 2020 and 2021.

71. In an optimistic scenario, the model predicted that the real GDP growth will slow to 2.3 percent in 2020 and 2.4 percent in 2021 compared to 5.4 percent and 5.0 percent respectively in the baseline scenario. Growth is projected to rebound to 7.6 percent in 2021. Under this scenario, the GDP growth will decline temporarily but the economy will regain the losses by 2023.
72. Key assumptions under the optimistic scenario is that a vaccine or an effective treatment for the virus becomes available in the second half of 2020. The impact of this would be a collapse of tourism in the fourth quarter of 2020 and the first quarter of 2021, but a recovery in late 2021 after temporarily erasing 20 percent of GDP. Remittance inflow would decline by 30 percent based on the World Bank's prediction of the impact of the crisis on remittance inflows to sub-Saharan Africa. Another key assumption is that the level of fiscal spending would be maintained as planned in the budget for the year. With declining economic activity and revenues, the public debt will explode to an unsustainable level, assuming no debt forgiveness.
73. Under the pessimistic scenario, the crisis will inflict longer-lasting damage to the Gambian economy, with a deep recession in 2020 and 2021. The potential GDP growth will slow to 3 percent and it will take several years for the economy to recover to the pre-crisis level of growth. The real GDP growth of negative 1.2 percent and 9.6 percent for 2020 and 2021, respectively. A moderate recovery of 1.4 percent and 3.6 percent is anticipated in 2022 and 2023, respectively.
74. A key assumption in the pessimistic scenario is that international travel and tourism will be permanently impacted by the crisis if no medical solution is found for the virus; remittances will temporarily decline by 30 percent but recovers in 2021; and in the face declining revenues, the government decided to pursue a contractionary fiscal policy to maintain the level of public debt at current.

Agenda for Day-2 of the MPC Meeting

1. Welcome Remarks by Chairman
2. Summary Report by the First Deputy Governor
3. Deliberations
4. Decision
5. Press Conference by the Chairman

75. The Monetary Policy Committee (MPC) reconvened on Wednesday, November 28, 2019, to decide on the direction of monetary policy. The deliberations were followed by a press conference by the Governor and Chairman of the MPC.

76. Following the welcoming remarks by the Chairman, a summary of the presentations and discussions of the technical meeting was done by the second Deputy Governor.

Summary deliberations

77. The prospects of the global economy remain highly uncertain due to the coronavirus pandemic. It has triggered a severe recession and is causing enormous damage to life and livelihood. The social and economic costs of the restrictions and lockdown measures are enormous. Although some form of recovery is projected in 2021, the downside risks and uncertainty remain elevated given the possibility of a second wave of the outbreak if no medical solution is found.

78. Disruptions to economic activity, particularly trade and supply chains, and the collapse of tourism are having adverse effects on the Gambian economy. Tourism and related activities have come to a standstill, trade and investment have been disrupted and private remittance inflows severely impacted. These are major drivers of economic activities in The Gambia.

79. There is also a significant shift in business sentiment since the last quarter due to the impact of the COVID-19 pandemic. Businesses project low economic activity in the remainder of 2020. The Bank's Composite Index of Economic Activity (CIEA) already points to a major slowdown in the first quarter of 2020.
80. Therefore, the preliminary assessment shows that the economy will contract by 1.2 percent in 2020, predicated on the crisis start easing in the second half of this year, and containment measures are relaxed. In light of current developments, the uncertainty around the forecast increases as the crisis protracts. There will be a longer-lasting impact if the crisis persists.
81. The exchange rate of the dalasi is forecast to stable in the near-term, given the comfortable level of international reserves of the Bank and the strong official inflows. The decline in imports will also reduce the demand for foreign currency. The risk to the outlook is lasting damage to major sources of foreign currency including tourism and remittances.
82. The Committee noted that the balance of risk to the inflation outlook is on the downside, driven largely by the weak demand and low global oil prices. Both headline inflation and core inflation trending downwards. The projected negative output gap for 2020 will moderate inflationary pressures emanating from aggregate demand. Therefore, inflation is expected to continue a downward trajectory in the medium-term. However, the risks include the substantial uncertainty around the trend of global food prices in the light of supply chain disruptions due to the COVID-19 pandemic. In the absence of a vaccine, the uncertainty will increase. The cost of the expansionary fiscal and monetary policy responses to the crisis is pressure on prices especially when the economic activity starts picking up. The high level of public debt poses a risk to overall macroeconomic stability.

83. The financial soundness indicators (FSIs) indicated that the banking system remains stable, safe, and sound, with adequate liquidity and high profitability.

Decision

Given the 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.