Press Release

Monetary Policy Committee

1. The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Wednesday, February 28, 2018 to assess domestic and international economic developments and set the key policy interest rate. The following are highlights of the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

2. Prospects for the global growth have improved in 2017 and the momentum is expected to continue through 2018, driven largely by rebound in manufacturing, trade and investment. Global food prices are expected to remain subdued amid ample supply although oil prices continue to rise. The International Monetary Fund (IMF) revised upwards global economic growth for 2017 and 2018 to 3.7 percent and 3.9 percent respectively. Inflation remains subdued, with global inflation projected at 3.3 percent in 2018 compared to 3.2 percent in 2017.

Real Sector

3. In The Gambia, real GDP growth is projected at 3.0 percent in 2017, higher than 2.2 percent in 2016. Economic activity is projected to gather strength in 2018 with projected real GDP growth of 3.8 percent, underpinned by projected increase in agricultural production, construction and a strong performance of the tourism sector as well as improved business sentiments.

Exchange Market Developments

4. The foreign exchange market has stabilized. Volume of transactions in the domestic foreign exchange market in the year to end-January, 2018 stood at US$1.5 billion compared to US$1.48 billion in the corresponding period in 2017. Purchases, indicating supply totaled US$758.4 million compared to US$737.8 million a year ago. Sales, indicating demand, increased by 1.0 percent to US$744.27 million. The exchange rate of the dalasi is expected to remain stable with continued implementation of sound macroeconomic policies, renewed confidence and improved supply conditions.

Monetary Developments

5. Money supply (M2) grew by 20.9 percent in 2017, higher than 15.3 percent in 2016, reflecting significant improvement in the net foreign assets of the banking system. The net foreign assets of the banking system stood at D6.4 billion compared to D1.3 billion a year earlier. The net domestic assets, on the other hand, contracted by 1.4 percent to D21.6 billion, reflecting reduced borrowing by Government.

6. Reserve money, the Bank's operating target grew by 22.6 percent in the year to end-December 2017, lower than the 25.2 percent recorded a year earlier. Growth in reserve money was driven largely by the increase in the net foreign assets (NDA) of the Central Bank. Net foreign assets of the Central Bank increased from negative D530.5 million in 2016 to positive D2.8 billion in 2017. International reserves of the Bank stood at 4.5 months of imports of goods and services in February 2018.

Domestic Debt Developments

7. The Gambia's domestic debt is stabilizing somewhat, thanks to government's overall debt management strategy. Stock of domestic debt decreased from D28.7 billion or 66.3 percent of GDP in 2016 to D28.1 billion or 63.1 percent of GDP in 2017. Stock of Treasury and Sukuk Al Salaam bills contracted significantly by

13.6 percent to D15.5 billion in 2017. Government's position at the Central Bank was a net repayment of D1.7 billion in December 2017 from a new borrowing (net) of D2.2 billion at end-December 2016.

8. Yields on all Treasury bills and Sukuk Al Salaam bills declined, reflecting reduced borrowing by government. The 91-day, 182-day and 364-day yields fell from 13.67 percent, 16.25 percent and 17.71 percent in December 2016 to 5.03 percent, 5.52 percent and 6.73 percent respectively in December 2017.

Banking Sector Developments

9. The banking sector remains well capitalized, highly liquid and also profitable. Total assets of the industry expanded from D32.6 billion in December 2016 to D37.8 billion in December 2017. The risk weighted capital adequacy ratio stood at 33.6 percent as at end-December 2017, significantly higher than the statutory requirement of 10 percent. Liquidity ratio of the banking industry stood at 92.9 percent in December 2017, significantly higher than the requirement of 30 percent. Non-performing loans ratio was 7.8 percent as at end December 2017.

Price developments

10. Headline Inflation, measured by the National Consumer Price Index (NCPI) decelerated to 6.4 percent in January 2018 relative to 8.8 percent in the same period in 2017.

11. Food inflation decelerated to 6.2 percent in January 2018 from 10.1 percent in the corresponding period last year. Non-food inflation, on the other hand, increased marginally to 6.9 percent compared to 6.8 percent in the review period, due mainly to the increase in prices of clothing, textile and footwear.

Outlook

12. The Committee noted that economic growth prospects have improved with expectation of rebound in agriculture, construction, tourism and trade, and

improved business sentiments. The projected increase in agricultural production will further dampen food inflation.

13. The central bank financing of fiscal deficit was zero in 2017 and this translated to lower inflationary pressures.

14. The Committee noted that headline inflation and inflation expectations have been broadly trending downwards. The trend is expected to continue with continued fiscal consolidation, moderate prices of imported goods and the continued stability of the exchange rate. Given the above developments, headline inflation is expected to continue to trend towards the medium-term target of 5 percent.

15. However, there are risks to the outlook including rising global oil prices and high level of domestic debt.

16. Taking these factors in to consideration, the Committee judged that the risk to inflation outlook remains moderate and decided to leave the Monetary Policy Rate (MPR) unchanged at 15 percent. The Committee would continue to monitor risks and take the necessary policy action to drive inflation towards the medium term target.

Note: The next Monetary Policy Committee (MPC) meeting is scheduled for May 30, 2018 to be followed by announcement of policy decision on May 31, 2018.