PRESS RELEASE

MONETARY POLICY COMMITTEE

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Wednesday August 29, 2018 to review recent economic developments. The Committee decided on the monetary policy rate and the following summarizes the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. Since the last meeting of the Monetary Policy Committee (MPC), growth outlook for the global economy has strengthened, supported by increase in trade and investment. The International Monetary Fund (IMF) forecast the global economy to grow by 3.9 percent in 2018 from 3.8 percent in 2017.Global inflation is projected to increase to 3.5 percent in 2018, on the back of mainly increasing energy prices. However, global growth is becoming increasingly uneven and the risks to the medium-term outlook are mounting, including rising crude oil prices, tightening financing conditions and the escalation of trade protectionism.

2. Recovery in advanced economies and the strong output growth in emerging market and developing economies are projected to continue in 2018 and 2019. In sub-Saharan Africa, the recovery is set to continue, supported by the rise in commodity prices and improved market access.

For the region, growth is expected to increase from 2.8 percent in 2017 to 3.4 percent this year before rising further to 3.8 percent in 2019.

Domestic Economic Outlook

Real Sector

3. The Gambia Bureau of Statistics (GBoS) has rebased the Gross Domestic Product (GDP) from 2004 base year to 2013 to capture properly the dynamics of the economy. According to data from the Bureau, real GDP has been estimated to have grown by 4.6 percent in 2017 compared to 0.4 percent in 2016 and also higher than the sub-Saharan Africa average growth rate of 2.8 percent. This was driven largely by rebound in tourism and trade, financial services and insurance, coupled with the robust growth in construction, transport and telecommunication. Agricultural production, on the other hand, contracted by 8.1 percent due mainly to erratic rainfall. In 2018, economic recovery is expected to strengthen further with real GDP growth projected at 5.4 percent on the back of continued implementation of sound macroeconomic policies, structural reforms and strong performance of the services sector and construction.

External Sector

4. Preliminary Balance of payments estimates for the first six months of 2018 indicates an improved current account position compared to the corresponding period of 2017, thanks largely to the increase in current transfers and improved services receipt.

5. The current account deficit is estimated to have narrowed to US$26.69 million (1.8 percent of GDP) in the first half of 2018 from a deficit of US$60.02 million (3.9 percent of GDP) a year ago, reflecting the increase in current transfers (mainly remittances) and receipts from services. The

services account balance surged to US$40.52 million or by 36.98 percent in the first six months of 2018 from US$29.58 million in the same period last year. Similarly, current transfers rose to US$98.58 million or by 52.31 percent in the first half of 2018 from US$64.72million in the corresponding period of 2017.

6. The deficit in the goods account widened to US$150.00 million or 9.7 percent of GDP in the first half of 2018 from US$136.81 million or 9.3 percent of GDP in the corresponding period of 2017, due to the increase in imports which reflects rising economic activities.

7. The surplus in the capital and financial account declined to US$12.75 million in the first half of 2018 from US$27.36 million in the same period a year ago. Gross international reserves are projected at 4 months of next year's imports of goods and services.

Exchange rate developments

8. In the year to end-July 2018, volume of transactions in the domestic foreign exchange market totaled US$1.9billion, higher than US$1.2 billion in the same period last year, reflecting improved market conditions and confidence. Purchases of foreign currency, indicating supply, increased markedly by 45.6 percent to US$950.5 million as at end-July 2018 from US$652.7 million in the corresponding period in 2017. Similarly, sales of foreign currency, which indicates demand, increased significantly by 63.1 percent to US$949.0 million in the review period from US$581.8 million in the same period of 2017.

9. The exchange rate of the dalasi remains stable. From December 2017 to August 2018, the dalasi appreciated against pound sterling and CFA franc by 1.9 percent and 1.2 percent respectively. On the other hand, the

dalasi depreciated marginally against the US dollar and euro by 1.1 percent and 0.1 percent respectively.

Domestic Debt

10. The stock of domestic debt remain the same at D29.0 billion (40 percent of GDP) compared to the same period in 2017. Stock of Treasury and Sukuk -Al Salaam bills contracted by 6.6percent to D16.71 billion during the period under review.

11. Yields on all Treasury bills and Sukuk Al Salaam bills declined, reflecting reduced borrowing by government in the Treasury bills market. The 91-day, 182-day and 364-day yields fell from 7.8percent, 8.9 percent, and 10.9 percent in August 2017 to 4.0percent, 6.7 percent, and 9.0percent, respectively in August 2018.

Banking Sector

12. According to the financial soundness indicators, the banking sector remains well capitalized, highly liquid and profitable. The risk weighted capital adequacy ratio stood at 32.44percent in June 2018, significantly higher than the statutory requirement of 10 percent. During the period, the liquidity ratio of the banking industry stood at 91.8 percent, also significantly higher than the requirement of 30 percent. Non-performing loans ratio dropped from 7.9 percent at end-March 2018 to 5.9 percent at end-June 2018.Total assets of the industry grew by 10.9 percent to D39.56 billion at end-June 2018 from D35.66 billion a year ago.

Monetary developments

13. Money supply grew by 22.4 percent at end-June, 2018, driven largely by the increase in net foreign assets (NFA) of the banking system.NFA of the banking system rose to D8.2 billion at end-June, 2018 from D1.7 billion in

the previous year. The net domestic assets (NDA), on the other hand, of the banking system contracted by 3.5 percent to D22.5 billion. Reserve money, the Bank's operating target, grew by 21.9 percent at end-June, 2018 relative to 24.5 percent in the earlier quarter.

14 . Private sector credit growth is recovering strongly following the marked decline in interest rates. Private sector credit rebounded with an annual growth rate of 20.0 percent in June 2018 after a contraction of 23.3 percent a year ago. The banking system net claims on government contracted to D19.8 billion or by 5.9 percent from D21.0 billion in June 2017.

Inflation

15 . Consumer price inflation as measured by the National Consumer Price Index (NCPI) declined from 8.0 percent in July 2017 to 6.6 percent in July 2018, driven by the decline in both food and non-food inflation. Food and non-food declined to 6.5 percent and 7.0 percent respectively in July 2018 from 8.8 percent and 6.9 percent in July 2017.

Inflation Outlook

16 . The Committee observed that economic growth has gained momentum on the back of sound macroeconomic policies, structural reforms, strong external support, and improved business confidence.

17 . Additionally, the business sentiment survey indicated that inflation expectations are well anchored with majority of respondents projecting subdued inflationary environment.

18 . Furthermore, the exchange rate is expected to remain stable supported by prudent fiscal and monetary policies.

19 . Although international oil prices are rising, the continued decline in global food prices are expected to dampen the effects of the increase in oil prices on domestic inflation.

20 . Against this backdrop, the Committee projected inflation to decelerate further towards the Bank's medium term target of 5 percent.

Decision

Taken the above factors into consideration, the Committee decided to maintain the Policy rate at 13.5 percent. The committee will continue to closely monitor domestic and international economic developments and stands ready to act accordingly should economic conditions change.

<u>Information Note</u>

Interest Rate Corridor

The Monetary Policy Committee is pleased to announce the introduction of interest rate corridor effective September 03, 2018. The interest rate on the overnight deposit facility is set at 2 percent per annum and the interest rate on the lending facility is 1 percent above the monetary policy rate.

Date for the next MPC

The next Monetary Policy Committee (MPC) meeting is scheduled for November 28, 2018. The meeting will be followed by the announcement of the policy decision on November 29, 2018.