CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

February 2018

Preface

The Central Bank of The Gambia Monetary Policy Report summarizes developments in key macroeconomic sectors that informed the decision of the Monetary Policy Committee. The objective is to keep the public informed of the decision making process in fulfillment of the Bank's reporting obligation and also to improve the accountability and transparency of the conduct of monetary policy.

Monetary Policy in The Gambia

The mandate of the Central Bank of The Gambia (CBG) is to achieve and maintain price and financial sector stability as well as create enabling environment for sustainable economic growth. The Bank continues to operate a monetary targeting framework. Targets for key monetary aggregates are set in line with its medium-term inflation objective of 5 percent. In addition, the Monetary Policy Committee sets the monetary policy rate of the Bank to signal the policy stance.

Monetary Policy Committee

The Monetary Policy Committee (MPC) was established by CBG Act (2005) as the apex monetary policy decision making committee of the Bank. The membership comprises the Governor (Chairman), the two Deputy Governors, heads of Banking, Financial Supervision and Economic Research departments of the Bank, and two persons appointed by the Minister of Finance and Economic Affairs. The MPC meets every quarter to review developments in international and domestic economy and set the monetary policy rate (MPR) to signal the policy stance of the Bank. The decision making process is by consensus. The Chairman communicates the decision of the Committee in a press release and a press conference.

Contents

Executive Summary

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on February27 and 28, 2019. The Committee assessed economic and financial sector developments in 2018 and the prospects for 2019 to decide on the direction of monetary policy. The meeting was attended by all the members of the Committee.

The global economy has lost momentum amid slowdown in global trade, investment and manufacturing, coupled with high policy uncertainty and risks in financial markets. As a result, growth among advanced economies is forecast to decline in 2019 with subdued outlook for emerging market and developing economies due to the slowing external demand, rising borrowing costs, and persistent policy uncertainties. Economic activity in sub-Saharan Africa, however, remains robust supported mainly by domestic policy adjustments, improved external environment, and favorable commodity prices.

In the Gambia, the macroeconomic environment has improved significantly over the past two years. Economic growth continues to gather strength supported by the increased activity in construction, and services sector, including communication, tourism and distributive trade. Financial intermediation has also picked up significantly reflecting Central Bank's accommodative monetary policy stance. Economic activity is expected to strengthen further on the back of continued implementation of sound macroeconomic policies, structural reforms, and strong performance of the services sector and construction activities. Political stability and the improved macroeconomic conditions would help strengthen investment activity further. Public sector infrastructure developments are also expected to pick up significantly. However, the high level of public debt remains a risk to the overall macroeconomic stability.

Inflation continues to decelerate, attributed largely to stable exchange rate and moderate global food prices. Forecast suggests that inflation will continue to decelerate towards the Bank's medium term target of 5 percent. However, major risks to the outlook remain the rising global inflation and the domestic food supply situation.

Despite the short-fall in official inflows related to budget and balance of payments support, the current account of the balance of payments has improved significantly in 2018 relative to 2017, thanks to the marked increase in private remittances and travel income reflecting strong tourist arrivals. The goods account balance, on the other hand, worsened due to the marked increase in imports. Gross international reserves remains at comfortable level, projected at over 4 months of next year' simports of goods and services. The improvement in the external sector coupled with increased market confidence remains major contributing factors to the stability of the exchange rate.

The financial sector remains well-capitalized, profitable and highly liquid. The asset quality has improved remarkably with the non-performing loan ratio of 3.3 percent as at end-December 2019. Financial intermediation continues to increase with strong private credit growth. The CBG is committed to strengthening banking supervision to ensure the sector remains safe and sound.

In conclusion, the outlook for the Gambian economy remains positive, supported by strong business optimism and improved macroeconomic policies. The momentum in economic growth is expected to continue and the external position to improve further. The Central Bank will continue to promote healthy credit growth to support the growth in private sector without compromising the stability of the financial sector.

In view of the declining inflation and the commitment to continue supporting private sector growth, the MPC decided to reduce the Monetary Policy Rate (MPR) by 100 basis points to 12.5 percent. The interest rate on the overnight deposit and lending facilities were kept unchanged at 2 percent and a margin of 1 percentage points above the policy rate, respectively. The Committee also increased the reserve maintenance period to 2 weeks in order to give commercial banks the flexibility in liquidity management.

1. Global Economic Outlook

The global economy has lost momentum and the risks to the medium-term outlook are mounting as global trade, investment and manufacturing softened and financial conditions tightened. The fragile growth outlook in euro area and the projected slowdown in China are major contributing factors to gloomy outlook.

Global growth

Global economic growth weakened in 2018 compared to 2017 and balance of risks has titled to the downside, amid escalating trade tensions, tightening financial conditions and policy uncertainty. The International Monetary Fund (IMF) estimated global economic growth to have moderated to 3.7 percent in 2018 from 3.8 percent in 2017. Growth is projected to moderate further to 3.5 percent in 2019, predicated on the declining growth prospects for advanced economies, and the emerging markets and developing economies, particularly China. In the medium term, climate change, high level of public and private debt, and rising inequality represent major risks to the global economy.

In advanced economies, economic growth is projected to slow from an estimated 2.3 percent in 2018 to 2.0 percent in 2019 and 1.7 percent in 2020, due largely to downward revisions for the euro area. Economic growth in the euro area is set to moderate from 1.8 percent in 2018 to 1.6 percent in 2019 and 1.7 percent in 2020. Growth rates have been marked down for many economies within the region, explained partly by the soft private consumption, weak industrial production, and subdued domestic and foreign demand. In Italy, borrowing costs remain high as sovereign yields stay elevated while the negative impact of street protests and industrial action in France are contributing factors. In addition, the prolonged uncertainty about the Brexit outcome negatively affects growth in the United Kingdom. In the United Sates, growth is expected to decline to 2.5 percent in 2019 and soften further to 1.8 percent in 2020 with the unwinding of fiscal stimulus.

For the emerging markets and developing economies, growth is expected to slow down to 4.5 percent in 2019, from 4.6 percent in 2018, before improving to 4.9 percent in 2020. The projected slowdown in the region is predicted largely on weaker growth forecasts for China driven by the trade tensions combined with the financial regulatory tightening. Economic growth in India, on the other hand, is poised to pick up in 2019, benefiting from lower oil prices and a slower pace of monetary tightening than previously expected.

Economic activity in sub-Saharan Africa remains robust supported mainly by domestic policy adjustments, improved external environment, and favorable commodity prices. According to the IMF, about one-third of countries in the region are expected to grow above 5 percent in 2019 and 2020. This excludes major economies such as Nigeria, South Africa and Angola where recovery remains weak. The region is projected to grow at an average of 3.5 percent in 2019, from 2.9 percent in 2018, before accelerating to 3.6 percent in 2020.

Table 1: Global growth estimates

	Actual		Projection	
	2017	2018	2019	2020
World Output	3.8	3.7	3.5	3.6
Advanced Economies	2.4	2.3	2	1.7
United States	2.2	2.9	2.5	1.8
Euro Area	2.4	1.8	1.6	1.7
Germany	2.5	1.5	1.3	1.6
France	2.3	1.5	1.5	1.6
Italy	1.6	1	0.6	0.9
Spain	3	2.5	2.2	1.9
Japan	1.9	0.9	1.1	0.5
United Kingdom	1.8	1.4	1.5	1.6
Canada	3	2.1	1.9	1.9
Other Advanced Economies	2.8	2.8	2.5	2.5
Emerging Market and Developing Economies	4.7	4.6	4.5	4.9
Commonwealth of Independent States	2.1	2.4	2.2	2.3
Emerging and Developing Asia	6.5	6.5	6.3	6.4
China	6.9	6.6	6.2	6.2
India	6.7	7.3	7.5	7.7
Emerging and Developing Europe	6	3.8	0.7	2.4
Sub-Saharan Africa	2.9	2.9	3.5	3.6
Nigeria	0.8	1.9	2	2.2
South Africa	1.3	0.8	1.4	1.7

Source: International Monetary Fund

Global Inflation

According to the IMF January 2019 edition of the World Economic Outlook, global inflation remains elevated on average at 3.8 percent in 2018 from 3.2 percent in 2017 and 2.8 percent in 2016.

In advanced economies inflation largely remains contained at 2.0percent in 2018, higher than 1.7percent in 2017. Among emerging markets and developing economies, inflation has slightly edged up to 5.0 percent from 4.3 percent in 2017. Nonetheless, inflation pressures are easing within the region with the drop in oil prices; it is expected to average 4.6 percent in 2019. Headline inflation decelerates in sub-Saharan Africa, reflecting the confluence of stable exchange rates and moderate food price inflation. In 2018, average inflation rate in the sub-region decelerated to about 8.6 percent compared to 11.0 percent in 2017.

Interest rates

Financial conditions in advanced economies have tightened. In the United States, the Federal Reserve raised the target range for the federal funds rate to 2.25–2.50 percent in December 2018 and signaled gradual increase in 2019 and 2020. The European Central Bank (ECB) ended its net asset purchases but left the policy rate unchanged at 0.75 percent in December 2018 on the basis of increased weight on UK financial market due to Brexit uncertainty, softer near-term outlook, and increased downside risk to global growth. The ECB confirms that monetary policy would remain accommodative with no increase in policy rates expected until at least the summer of 2019.

Central banks in many emerging market economies raised policy rates amid concerns over the earlier oil price increase, closing output gap and pass through from currency depreciation. By contrast, central banks in China and India maintained their policy rates and acted to ease domestic funding conditions.

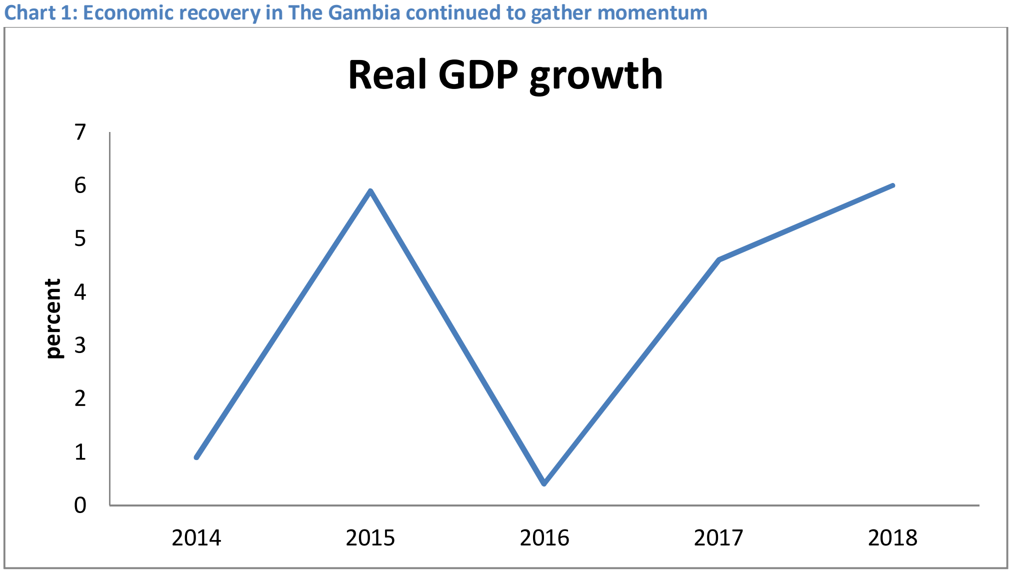
2. Domestic Economy

2.1 Real Sector Developments

The macroeconomic environment in The Gambia has improved significantly over the past two years characterized by solid economic growth and subdued inflation.

Although the Gambia Bureau of Statistics (GBoS) is yet to release preliminary GDP estimates for 2018, early indicators show that the economy has expanded at a robust pace of over 6 percent in 2018 compared to 4.6 percent in 2017 and 0.4 percent in 2016. The recovery process is underpinned by resurgence of business confidence, on the back of improved political environment and macroeconomic management. The main drivers of growth include the rebound in tourism and trade, financial services and insurance, as well as robust growth in construction, transport and telecommunication. Economic growth is expected to remain strong in 2019 premised on the increase in public infrastructure development projects, strong business confidence coupled with the accommodative monetary policy stance of the Central Bank, and favorable inflation outlook.

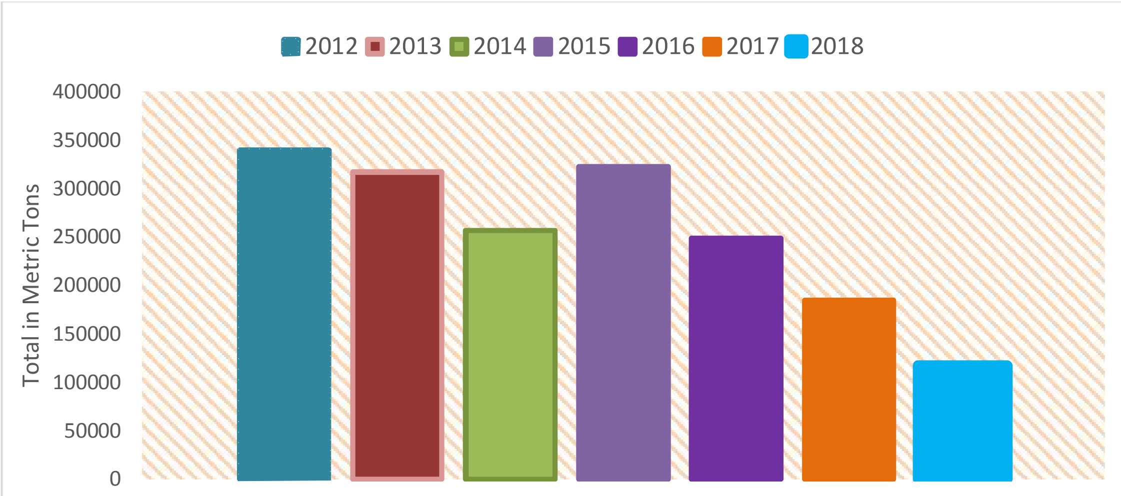
Chart 1: Economic recovery in The Gambia continued to gather momentum



Source: Gambia Bureau of Statistics and CBG staff estimates

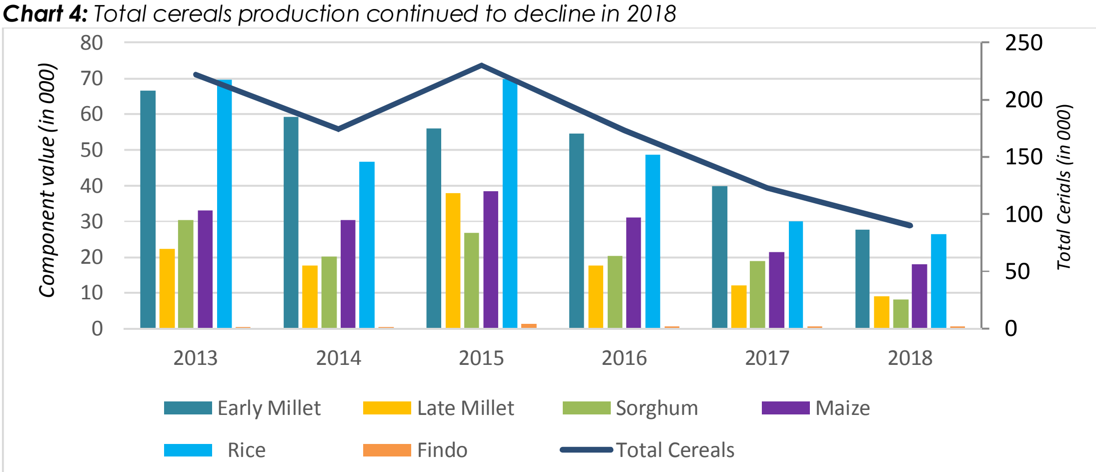
However, agricultural production continued to be affected by erratic weather conditions. A survey report by the Ministry of Agriculture (MoA) revealed that crop production declined markedly in the 2018 cropping season due to late start of rains, flooding and long dry spell in some periods, as well as pest infestation. As a result, production of major crops (cereals and cash crops) showed significant decline in yield by 36.9 percent to 116,665 metric tons in 2018 compared to 184,801 metric tons in 2017. Total cereal production is estimated to have declined to 89,964 metric tons or by 27 percent compared to 2017 cropping season and by 51 percent compared to the five-year average. Chart 4 shows that rice, the country's main staple food, and other cereals all recorded significant drop in the past 7 years.

Chart 3: *Total Crop production declined markedly in 2018*



Source: *Ministry of Agriculture—Department of Planning*

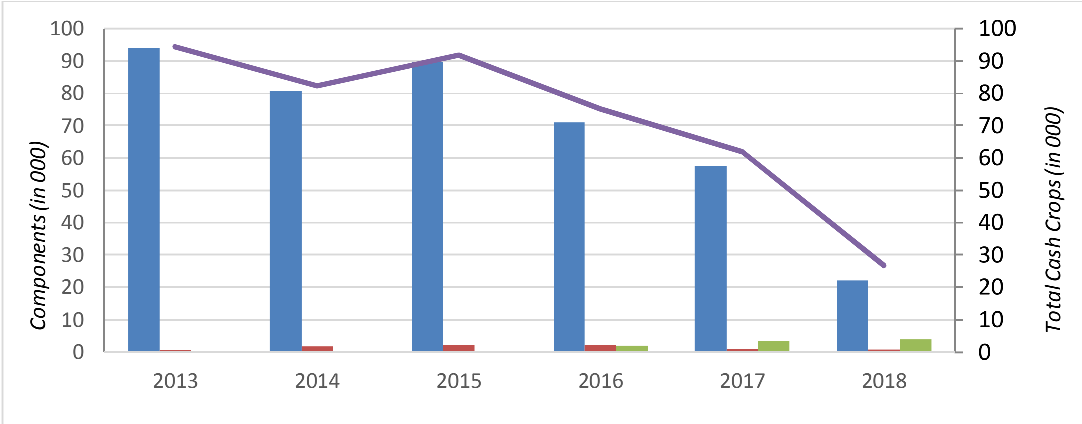
Chart 4: *Total cereals production continued to decline in 2018*



Source: *Ministry of Agriculture*

Similarly, cash crop production is estimated to have declined by 56.9 percent in 2018 to 26,701 metric tons when compared to the 2017 cropping season. The drop in cash crop production has important ramification for the balance payment through the goods account balance. Groundnut, the country's major export commodity, has in past decade endured substantial decline both in terms of the quality of the nuts and quantity produced. This has put significant dent on the already low export base.

Chart 5: *Cash crop production crashed in the 2018 cropping season*



Source: *Ministry of Agriculture*

2.2 Balance of Payments

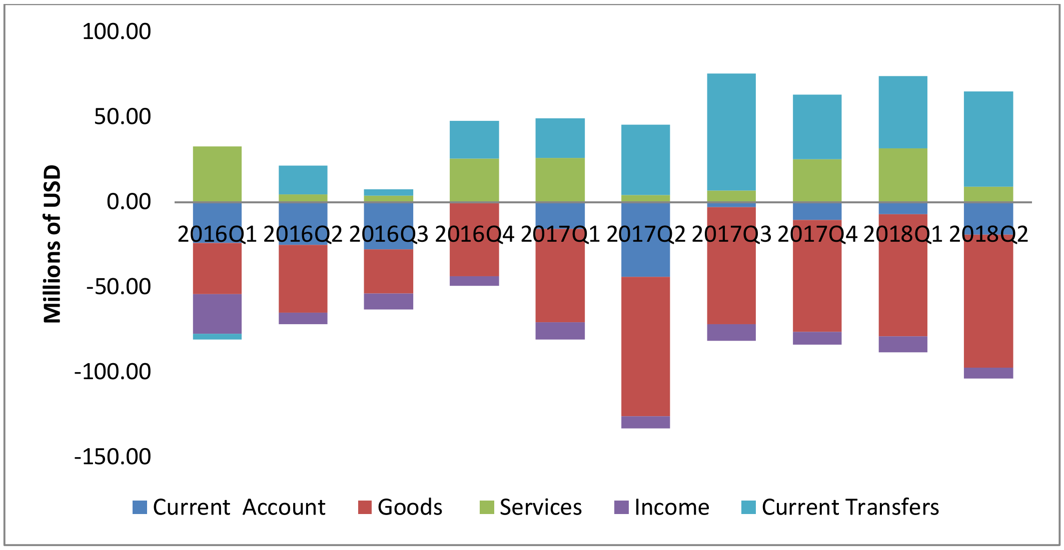
Despite the marked increase in imports to support the rebound in economic activity, the current account deficit narrowed, due largely to increase in current transfers and travel income.

Preliminary balance of payments estimates for 2018 indicate that the current account deficit narrowed compared to 2017, attributed largely to improvement in the services and current transfers. The current account deficit narrowed to US$69.7 million in 2018 compared to US$98.8 million in 2017. The services account balance surged to a surplus of US$106.9 million or by 73.7 percent in 2018 from US$61.6 million a year ago. Performance in the services account is attributed, in the main, to the increase in travel income reflecting strong tourist arrivals, and current transfers which constitute largely of private remittance flows. Official inflows related to budget support and projects from development partners also increased during the year.

The deficit in the goods account widened to US$354.4 million or 22.0 percent of GDP in 2018 from US$331.2 million or 21.5 percent of GDP in 2017. Exports rose to US$135.3 million or by 15.5 percent in 2018, thanks to the increase in re-export trade. Similarly, imports increased to US$519.4 million or by 11.9 percent, reflecting increase in economic activities.

The surplus in the capital and financial account improved to US$53.3 million in 2018 compared to a surplus of US$8.5 million in the same period a year ago. Gross international reserves are at 4.3 months of current imports of goods and services and it is projected at 4.0 months of next year's imports of goods and services.

Chart 2: Current account balance



Source: CBG

2.3 Exchange rate Developments

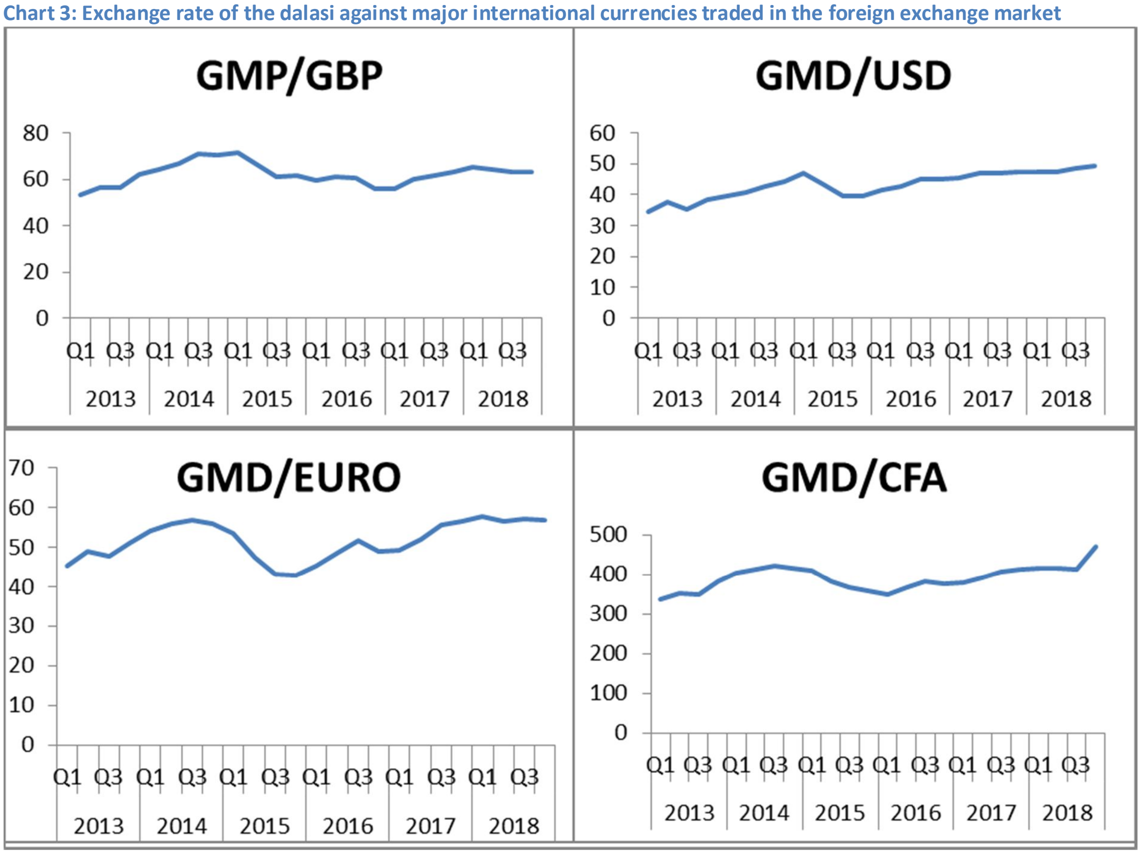
The exchange rate of the dalasi has been stable since 2017 supported by improved current account position and renewed confidence.

Volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency stood atUS$2.0 billion in the year to end-December 2018, higher than US$1.3 billion in the same period last year. The strong performance reflects growing market confidence and improved supply conditions related largely to increased private remittance and robust tourism season.

Purchases of foreign currency (indicating supply) increased markedly by43.6 percent to US$975.8 million in the year to end-December 2018 fromUS$679.6 million in 2017. Similarly, sales of foreign currency, which indicates demand, increased significantly by 46.4 percent to US$979.7 million in their view period.

The exchange rate of the dalasi remains broadly stable. From January2018 to January 2019, the dalasi appreciated against the pound sterling, euro and CFA by 1.4 percent, 2.9 percent and 3.9 percent respectively but depreciated against the U.S. dollar by 4.2 percent.

Chart 3: Exchange rate of the dalasi against major international currencies traded in the foreign exchange market



Source: CBG

2.4 Fiscal Development

Government fiscal operations for year ended2018 resulted in a wider fiscal deficit compared to a year ago due to the decline in grant receipts, the lower-than-expected domestic revenue performance and expenditure overruns.

Preliminary data on government fiscal operations for 2018 indicate a budget deficit (including grants) of D3.9 billion (4.9 percent of GDP) in 2018 compared to a deficit of D3.7 billion (5.3 percent of GDP) in 2017. Overall budget balance (excluding grants), on the other hand, improved to a deficit of D5.8 billion (7.3 percent of GDP) compared to D9.3 billion (13.4 percent of GDP) in 2017.

Total revenue and grants stood at D10.7 billion (13.4 percent of GDP) in 2018, lower than D13.3 billion (19.2 percent of GDP) in 2017. Domestic revenue, comprising tax and non-tax revenues, rose by 13.7 percent to D8.8 billion or 11.0 percent of GDP. However, when compared to the projections for the year, domestic revenue underperformed by D0.9 billion.

Tax revenue increased from D7.1 billion (10.2 percent of GDP) in 2017 to D8.1 billion (11.1 percent of GDP), or by 14.2 percent but fell below projections by D0.6 billion. Direct and indirect taxes increased by 4.2 percent to D2.0 billion and 17.9 percent to D6.1 billion in 2018, respectively. Corporate tax, international trade, duty taxes and sales tax on imports increased by 7.5 percent, 14.5percent, 5.6 percent and 26.3 percent respectively during the review period. Furthermore, non-tax revenue increased by 8.4 percent to D0.7 billion.

Total expenditure and net lending declined by 14.0 percent to D14.6 billion (18.3 percent of GDP) in 2018 compared to D17.6 billion (24.5 percent of GDP) in 2017, reflecting mainly the marked drop in domestic interest payments by 34.5 percent.

Recurrent expenditure, on the other hand, increased by 6.1 percent to D10.4 billion (13 percent of GDP) in 2018 compared to D9.8 billion (20.6 percent of GDP) a year ago. Overall interest payments decreased by 26.7 percent due mainly to a 34.5 percent decline in domestic interest payments. However, external interest payments surged by 73.9 percent when compared to the prior period.

Capital expenditure decreased significantly to D4.2 billion (5.3 percent of GDP) or by 41.6 percent in 2018, from D7.2 billion (15.2 percent of GDP) in 2017. This huge decline in development expenditure was mainly attributed to a 45.4 percent decline in external financing.

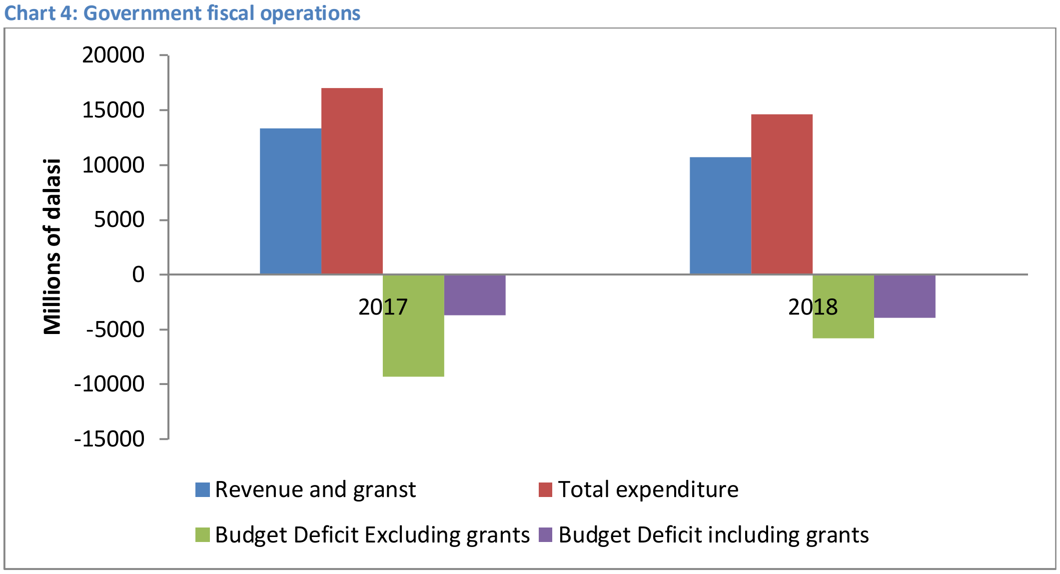
Fiscal Outlook for 2019

The 2019 budget is anchored on limiting the net domestic borrowing to 1.3 percent of GDP. However, overall fiscal deficit is projected to increase to 3.4 billion (4 percent of GDP) in 2019 from D0.9 billion (1.8 percent of the old GDP) budgeted in 2018.Revenue performance is projected to increase markedly in 2019 through a number of tax measures highlighted in the budget. Total Revenue and Grants for

2019 is estimated at D25.3 billion (28.8 percent of GDP), a projected growth rate of 28 percent from D19.8 billion (25.3 percent of the old GDP) budgeted in 2018.

Total expenditure and net lending is projected at D28.7 billion (32.8 percent of GDP) in 2019 from D20.8 billion in 2018, representing an increase of 38.4 percent—the bulk of which is budgeted for current expenditure. Expenditure on personnel emoluments is projected to increase from D2.8 billion in 2018 to D4.1 billion in 2019, mainly due to the 50 percent salary increment for civil servants. Similarly, expenditure on interest payments is estimated to increase to D2.7 billion (3.1 percent of GDP) in 2019 compared to D2.3 billion (4.4 percent of the old GDP) in 2018. Additionally, development expenditure is also projected to increase by 44 percent to D16 billion (18 percent of GDP) in 2019 compared to D11.1 billion (21 percent of the old GDP) in 2018.

Chart 4: Government fiscal operations



Source: Ministry of Finance and Economic Affairs, and CBG Staff Estimates

Table 2: Overall Fiscal Balance

	Overall Balance (excluding grants)	Overall Balance (including grants)	Basic Balance	Primary Balance
2017 Q1-Q4	-9272.18	-3667.53	-2869.20	511.44
% GDP	*-19.54*	*-7.73*	*-6.05*	*1.08*
2018 Q1-Q4	-5838.28	-3934.52	-2344.80	131.83
% GDP	*-7.31*	*-4.93*	*-2.94*	*0.17*
2018Q4	-1656.51	-864.61	-811.98	-321.37
% GDP	*-2.08*	*-1.08*	*-1.02*	*-0.40*

Source: Ministry of Finance and Economic Affairs, and CBG Staff Estimates

Table 3: Total revenue and grants

RECEIPTS (In Millions of GMD)	2017	2018	2017/18	2018 Projections	Above(+)/Below (-) Projection
Total Revenue & Grants	13,327.81	10,683.67	-19.84	19,844.86	-9,161.19
Percent of GDP	28.08	13.38	-52.35		
Domestic Revenue	7,723.16	8,779.91	13.68	9,632.76	-852.85
% GDP	16.27	11.00			
Tax Revenue	7,099.26	8,103.52	14.15	8,659.21	-555.69
% GDP	14.96	10.15	-32.14		
Direct Tax	1,932.29	2,013.33	4.19		
Personal	770.78	785.47	1.91		
Corporate	994.52	1,069.24	7.51		
Indirect Tax	5,166.97	6,090.19	17.87		
Tax on gds&svs	1,702.87	2,123.67	24.71		
Tax on Int'l. Trade	3,464.10	3,966.52	14.50		
Duty	1,980.48	2,092.24	5.64		
Sales tax on imports	1,483.61	1,874.28	26.33		
Non-tax Revenue	623.90	676.39	8.41	973.55	-297.16
% GDP	1.31	0.85			
Grants	5,604.65	1,903.76	-66.03		
% GDP	10.58	1.96			
Program	3,009.67	645.60	-78.55		
Projects	2,594.98	1,258.16			

Source: Ministry of Finance and Economic Affairs, and CBG Staff Estimates

Table 4: Total government expenditure and net lending

PAYMENTS	Q1-Q4 Outturn 2017	Q1-Q4 Outturn 2018	y-o-y % change	Q1-Q4 2018 Projections	Performance below(-) above(+)
Expenditure & NL	16,995.34	14,618.19	-13.99	20766.83	-6148.64
% GDP	35.81	18.31			
Current Expenditure	9,786.03	10,381.50	6.08		
% GDP	20.62	13.00			
Personnel Emoluments	2,234.55	2,818.83	26.15		
o/w: wages & salaries	2,234.55	2,818.83	26.15		
Other Charges	4,170.84	5,086.04	21.94		
Interest Payments	3,380.64	2,476.63	-26.74	2289.16	187.47
External	241.23	419.55	73.92	420.66	-1.11
Domestic	3,139.41	2,057.08	-34.48	1868.50	188.58
Capital Expenditure	7,194.31	4,199.07	-41.63		
% GDP	15.16	5.26			
Externally Financed	6,402.99	3,493.48	-45.44		
Loans	3,808.01	2,235.32			
Grants	2,594.98	1,258.16			
GLF Capital	791.32	705.59			
Net Lending	15.00	37.62			

Source: Ministry of Finance and Economic Affairs, and CBG Staff Estimates

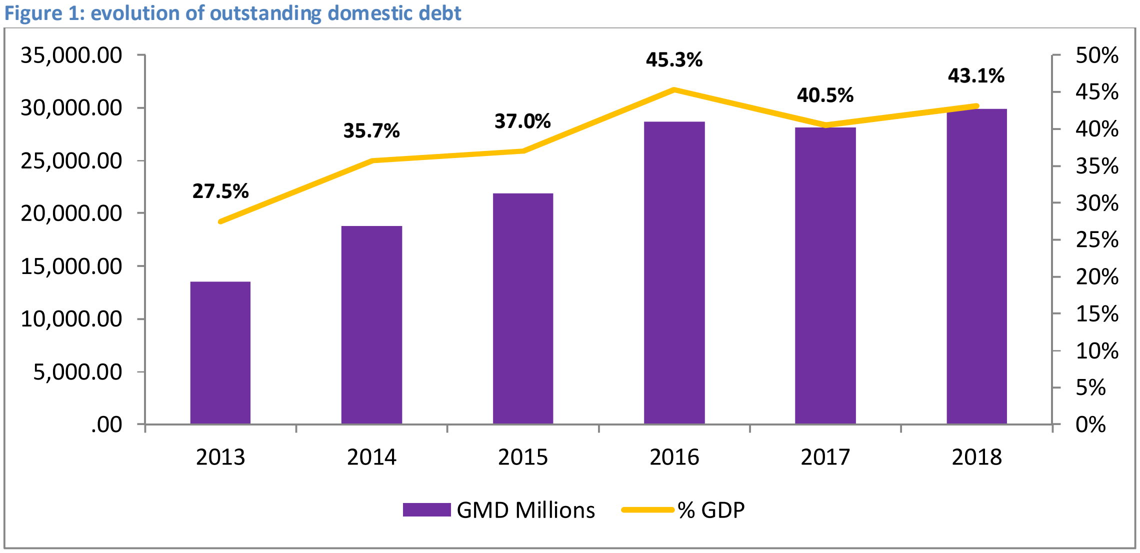
2.5 Domestic Debt

The level of domestic debt remains elevated. The stock of domestic debt increased to D31.2 billion (40.5 percent of GDP) as at end-December 2018 from D29.7 billion (42.7 percent of GDP) in the corresponding period a year ago. Stock of Treasury bills and Sukuk-Al Salaam bills combined increased by 12.5 percent to D17.4 billion in 2018 from D15.5 billion in 2017.

Domestic debt service for 2018 amounted to D2.66 billion (30.29 percent of revenue) compared to D3.62 billion (46.86 percent of revenue) in 2017.With the assumption of a stable borrowing pattern and yields, 2019 debt service is projected to be about D2.75 billion. This corresponds to 23.50 percent of revenue and 3.13percent of GDP. Actual debt service for the first quarter of 2019 amounted to D850.62 million (27.87 percent of revenue).

Domestic interest expense for 2018 was D2.06 billion or 23.45 percent of domestic revenue relative to D3.14 billion (40.65 percent of revenue) in 2017.It is projected to be about D2.15 billion (18.36 percent of revenue) in 2019, an increase of D86.42 million over the 2018 level. Actual interest cost for the first quarter of 2019 consumes a fifth of the revenue (D610.73 million) although it was slightly lower than the D686.31 million in the same period in 2018.

Figure 1: evolution of outstanding domestic debt



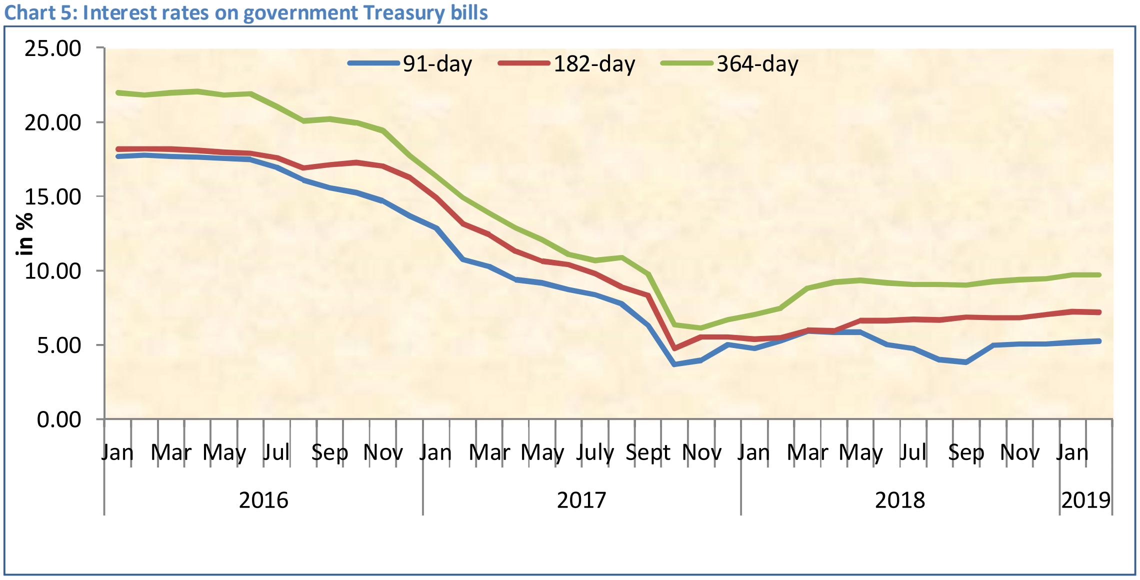
Source: CBG

Composition of domestic debt stock at face value (in millions of dalasi)				
	2016	**2017**	**2018**	**Jan-19**
Treasury Bills	17,133.47	14,604.92	16,538.63	16,771.77
sukuk-Al-Salam Bills	757.74	852.04	846.09	828.15
12% 3-Year par value Govt. Bond	.00	1,403.70	1,403.70	1,403.70
10% 3-Year par value Govt. Bond	.00	.00	131.50	131.50
8% 3-Year par value Gov't. Bond	.00	283.00	283.00	283.00
8% 3-Year Gov't. discount bond	.00	420.00	518.50	518.50
10% 5-Year par value Gov't.Bond	.00	120.00	120.00	120.00
5% -30 Year Gov't Bond	10,779.17	10,419.86	10,060.56	10,060.56
12%-7 year Nawec bond (adjuster)	.00	1,565.98	1,325.06	1,325.06

Source: CBG

Yields on all Treasury bills increased. The 91- day, 182-day, and 364-day Treasury bills rates increased from 5.03 percent, 5.52 percent, and 6.73 percent as at end-December 2017 to 5.06 percent, 7.04 percent, and 9.48 percent, respectively as at end-December 2018.

Chart 5: Interest rates on government Treasury bills

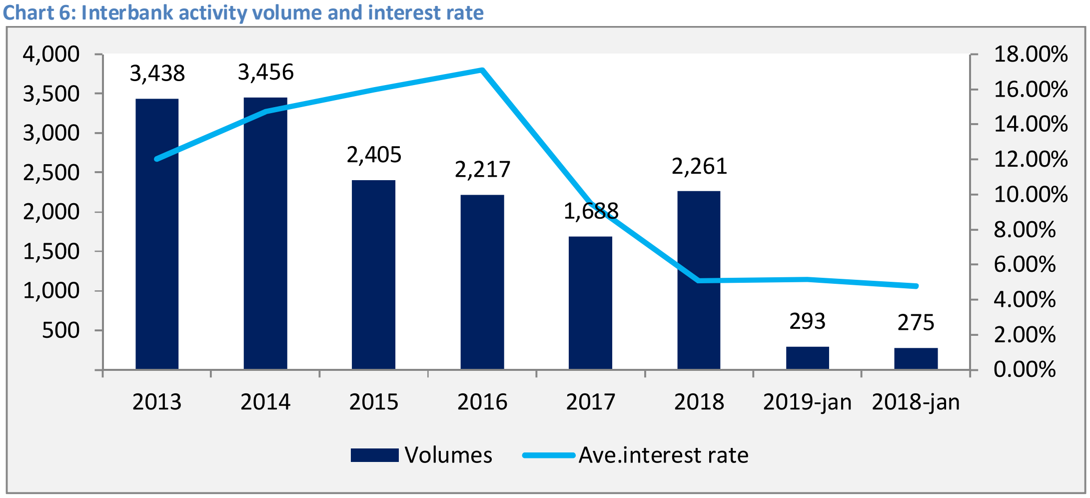


Source: CBG

2.6 Inter-bank placement

In the year end-December 2018, trading volume in increased by 33.9 percent to D2.3 billion from D1.7 billion over the same period in 2017. Average interest rate charged is pegged to the interest rate on 3 months government securities.

Chart 6: Interbank activity volume and interest rate



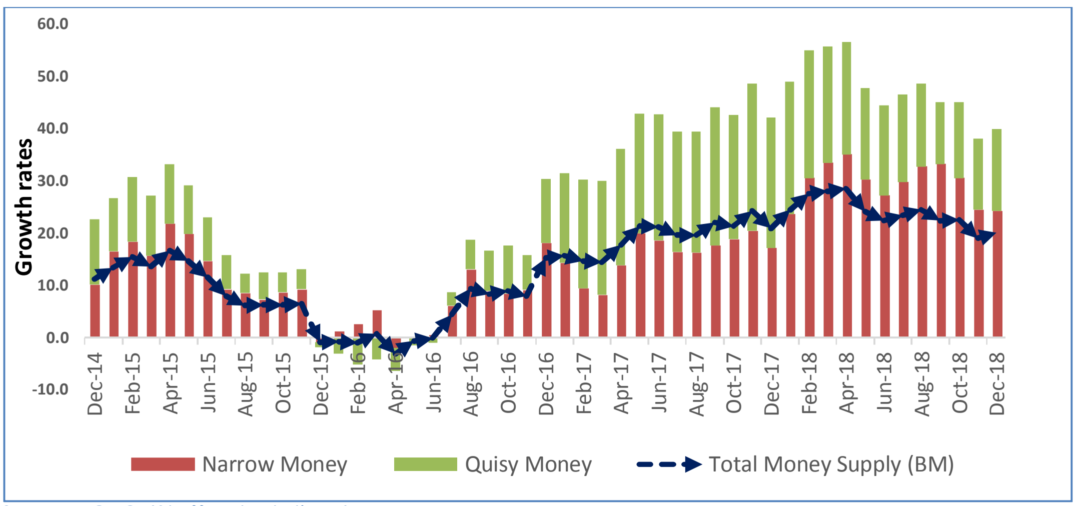
Source: CBG

2.7 Monetary developments

The pace of monetary expansion remains strong, supported largely by the significant growth in the net foreign assets of the banking system. In addition, private sector credit growth continues to recover at robust pace after years of contraction.

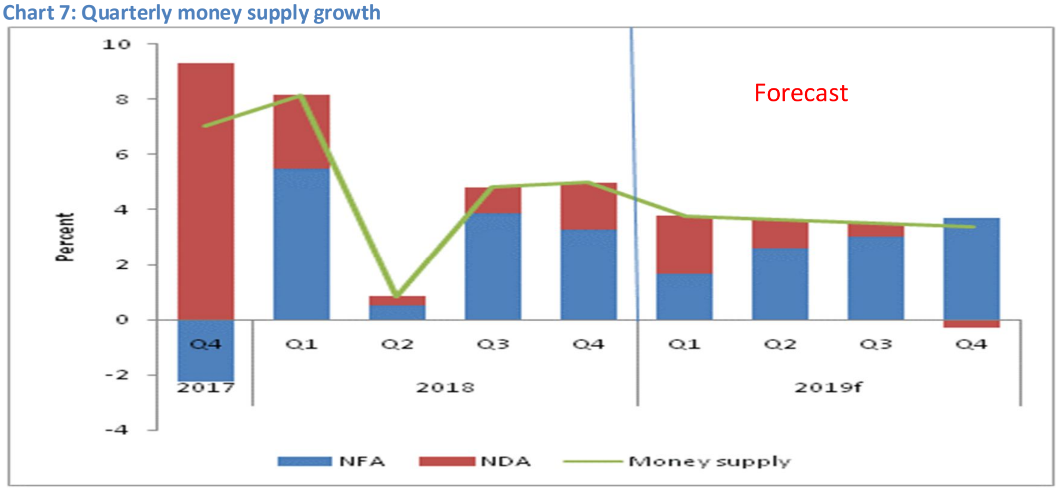
Annual Money Supply Growth

Growth in broad money continues to be strong with an average annual growth rate of about 23.0 percent, driven largely by the net foreign assets of the banking system. As at end-December 2018, money supply grew by 20.0 percent, lower than 20.9 percent recorded a year earlier. Total money supply stock reached D33.7 billion as at end-December, 2018 compared to D28.1billion in the same period last year.



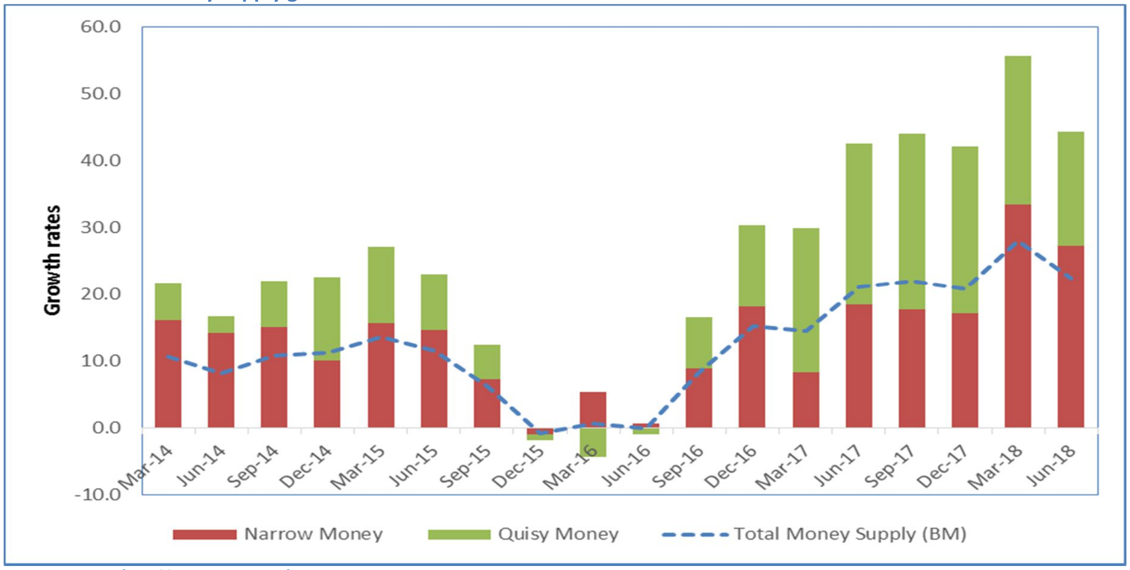
***Source**: CBG (Staff calculations)*

Chart 7: Quarterly money supply growth



Source: CBG

Chart 8: Annual money supply growth



Source: CBG (Staff calculations)

Narrow money (M1) grew significantly by 24.2 percent as at end-December 2018 compared to 17.2 percent a year ago. The strong growth in M1 was driven by the increase in both demand deposits and currency outside banks by 29.7 percent and 15.8 percent, respectively.

Quasi money, which comprises of time and savings deposits, grew by 15.6 percent at end-December 2018, lower than 25.0 percent a year ago. Of the components of quasi money, savings deposits grew by17.6 percent and time deposits rebounded from the negative growth a year ago to grow by 9.1 percent.

Sources of Money Supply

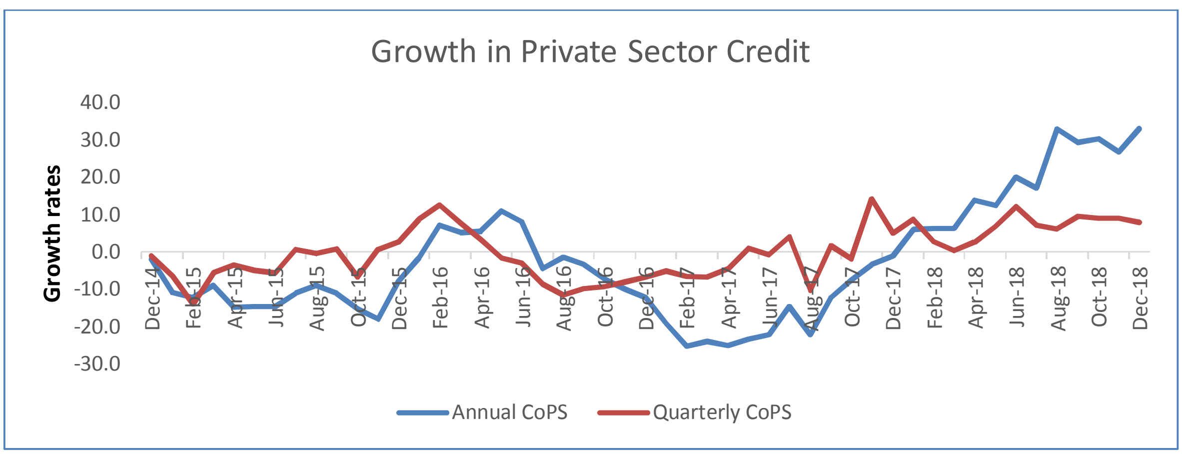
Net Foreign Assets (NFA) of the banking system rose to D10.4 billion as at end-December, 2018 from D6.5 billion or by 61.0 percent a year ago. The NFA of the central bank rose by 62.0 percent to D4.5 billion as at end-December 2018 compared to D2.8 million in the same period in 2017. The improvement is attributed mainly to the accumulation of foreign assets which increased to D8.7 billion or by 19.8 percent during the period. Foreign liabilities, on the other hand, contracted to D4.2 billion or by 6.6 percent during the period under review.

The NFA of commercial banks increased to D5.9 billion or by 60.3 percent as at end-December 2018, lower than 100 percent a year ago. Foreign assets of banks rose to D6.5 billion as at end December 2018 from D4.4 billion a year ago. The rise in foreign assets of banks is explained by the56.3 percent, 46.3 percent and 22.5 percent increase in holdings of foreign currency, deposits at foreign banks and foreign investment. In contrast, foreign liabilities of banks contracted to D571.0 million from D752.7 million in the previous year or by 24.1 percent during the period.

Net Domestic Assets (NDA)

As at end December 2018, the banking system accumulated net domestic assets of D23.3 billion, representing an increase of 7.8 percent, compared to a contraction of 1.4 percent in the corresponding period a year ago. The banking system's net claims on government expanded to D21.3 billion or by 10.7 percent and accounted for about 75.1 percent of total domestic credit. Private sector credit continues to grow strongly with robust 32.9 percent growth rate at end-December 2018 compared to a contraction of 1.2 percent a year ago. Quarter-on-quarter, it grew by 7.9 percent in in the fourth quarter of 2018. The increase in private sector credit is supported by the accommodative monetary policy stance of the Bank.

***Chart** 6: Growth in credit to the Private Sector*

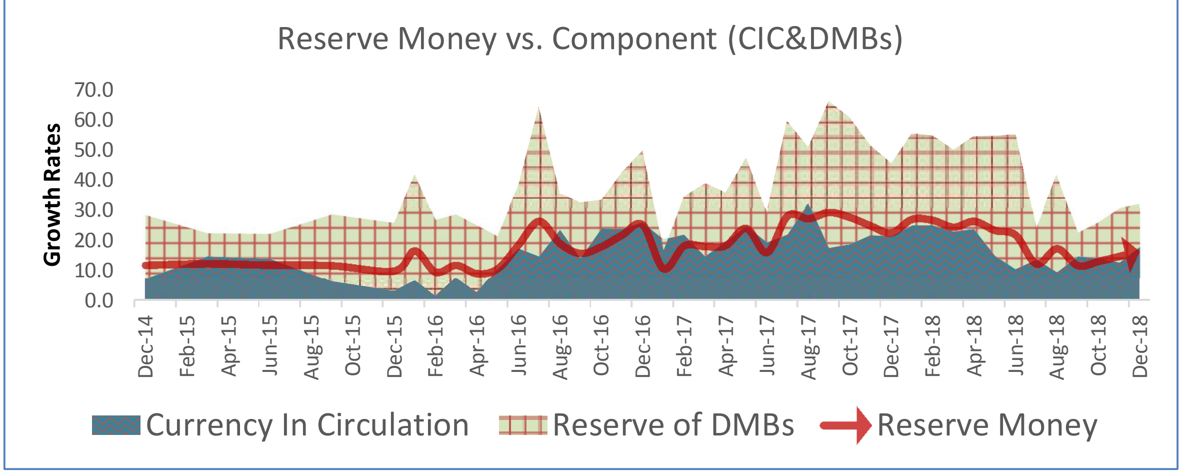


***Source**: CBG (Staff calculations)*

Growth in Monetary Base

Reserve money, the Banks' operating target grew by 16.5 percent as at end-December, 2018, lower than 22.6 percent in the same period last year. However, quarter-on-quarter it grew by 7.7 percent in the fourth quarter of 2018, higher than 1.2 percent in third quarter of 2018.

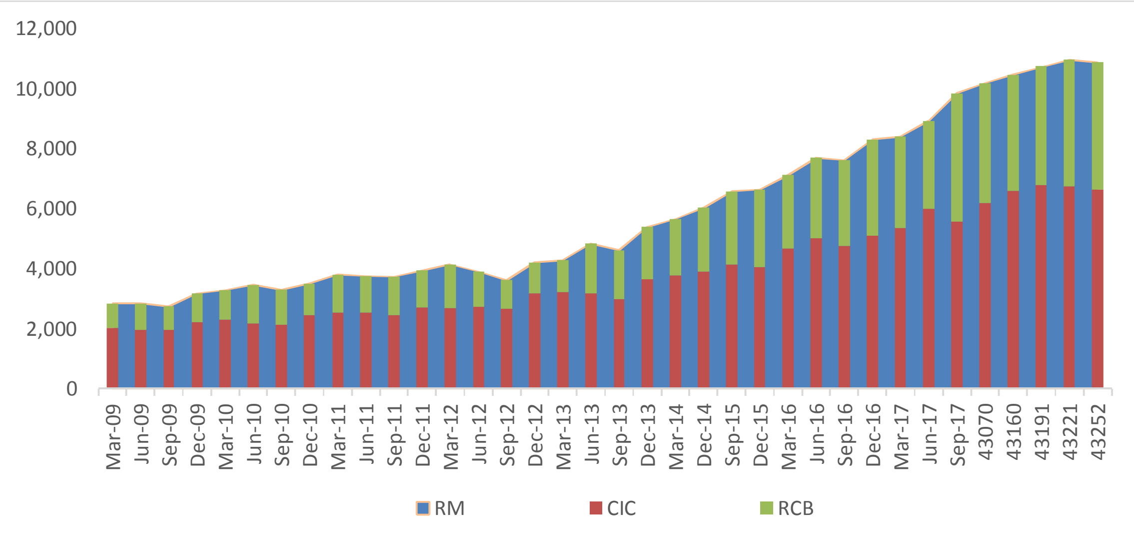
Chart 7: Reserve Money and components (Annual Growth Rate)



Source: *CBG (Staff calculations)*

Of the components of reserve money, currency in circulation rose by 18.1 percent and reserves of commercial banks grew by 14.2 percent for the period under review.

Chart 9: Reserve money and components



Source: CBG

2.8 Financial Soundness Indicators

The banking system in The Gambia remains stable with adequate liquidity and capital, and high profitability.

Capital and Reserves

Capital and reserves of the banking industry at end-December 2018 stood at D5.86 billion from D5.22 billion in the year ago. The risk weighted capital adequacy ratio stood at 31.7 percent, significantly above the statutory requirement of 10 percent.

Asset Quality

Total assets of the industry expanded to D43.6 billion, or by 15.3 percent as at end-December 2018. The asset quality has improved significantly with the non-performing loan ratio of 3.3 percent, lower than 7.2 percent a year ago.

Liquidity

Similarly, the liquidity ratio stood at 94.8 percent compared to the statutory requirement of 30 percent. Liquid assets to total asset ratio stood at 57.4 percent in December 2018, higher than 52.9 percent in December 2017.

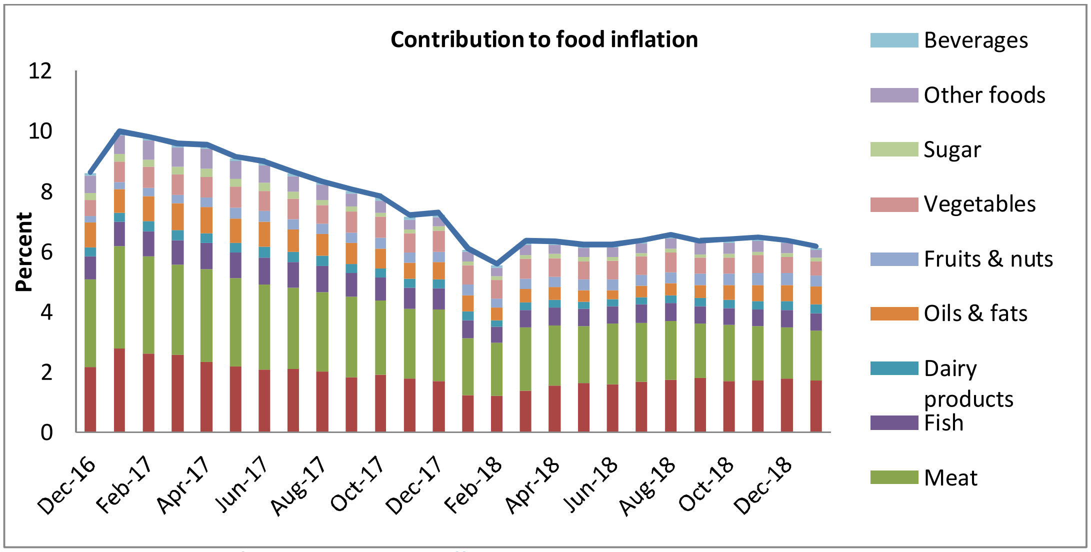
2.9 Inflation

Consumer price inflation is on a declining trend. Headline inflation is projected to remain largely subdued 2019 predicated on stable exchange rate and moderate global food prices.

Headline inflation, measured as the change in the National Consumer Price Index (NCPI), decelerated to 6.1 percent in January 2019 compared to 6.4 percent in the corresponding period in 2018. The stability of the exchange rate and moderate prices of imported goods are the major determining factors of the declining trend in inflation.

Food price inflation edged up to 6.2 percent in January 2019 compared to 6 .1 percent a year ago, attributed largely to the increase in Bread Cereal sub-component which accounts for about 23 percent of the food basket. Bread Cereals, oils and Fat, and Fruits and Nuts sub-components accelerated to 7.5 percent, 5.8 percent and 9.4 percent compared to 5.3 percent, 5.2 percent and 9.0

percent a year ago. All other sub-components of food inflation decelerated during the review period.



Source: Gambia Bureau of Statistics and CBG staff estimates

Non-food inflation, on the other hand, decelerated to 5.9 percent from 6.9 percent during the review period. The decline in non-food inflation is attributed to the deceleration in Furnishing and Household Equipment, Health and Recreation.

2.10 Inflation Outlook

The Monetary Policy Committee observed that the outlook for inflation is a further deceleration towards the Bank's medium term target of 5 percent. This is premised on the following:

- The exchange rate of the dalasi is projected to remain broadly stable predicated on improved market confidence and supply conditions;
- The business sentiment survey shows that inflation expectations are well-anchored and confidence in the economy remains robust;
- Global food prices are expected to remain moderate in the near to medium term.
- Current account deficit is narrowing supported by private remittances and travel income from tourism. This will help strengthen the stability of the exchange rate;
- The Central Bank continues to maintain comfortable external reserve level;
- Banking system remains stable with adequate liquidity and high profitability.
- Overall the macroeconomic environment has improved

However, there are risks to the outlook including:

- Rising global inflation;
- The decline in local food production due to poor weather conditions;
- High debt level remains a major risk to overall macroeconomic stability.

Decision of the MPC

Taken above factors into consideration, the Committee decided to reduce the policy rate by 100 basis points to 12.5 percent. The Committee will continue to closely monitor developments and stands ready to act accordingly should economic conditions change.

The Committee has also taken additional measure by increasing the maintenance period for the reserve requirement of banks from week to two weeks. The move is to give banks flexibility in liquidity management.

The Committee also decided to maintain the overnight deposit rate at 2.0 percent and the overnight lending rate at 1 percent above the Monetary Policy Rate.

Date for the next MPC

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, May 29, 2019. The meeting will be followed by the announcement of the policy decision on Thursday, May 30, 2019.

Annexes

Consumer Price Index (y-o-y % change)	Weight	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Overall Index	**100.0**	**6.4**	**6.4**	**6.5**	**6.6**	**6.5**	**6.5**	**6.6**	**6.7**	**6.6**	**6.5**	**6.6**	**6.4**	**6.1**
Food & Drink	**54.7**	**6.1**	**6.1**	**6.4**	**6.3**	**6.2**	**6.2**	**6.4**	**6.6**	**6.4**	**6.4**	**6.5**	**6.4**	**6.2**
Food	53.2	6.2	6.2	6.4	6.4	6.3	6.3	6.5	6.6	6.4	6.5	6.5	6.4	6.3
Bread Cereals	12.8	5.3	5.8	5.9	6.7	7.0	6.8	7.3	7.5	7.8	7.3	7.4	7.7	7.5
Meat	13.4	7.8	7.7	8.6	8.2	7.7	8.3	8.0	8.0	7.4	7.6	7.4	7.0	6.8
Fish	3.7	8.8	7.9	8.4	8.6	8.5	8.4	8.7	8.4	8.5	8.1	8.1	8.4	8.2
Dairy products	2.4	6.8	5.4	6.2	6.1	5.7	5.8	5.9	5.7	6.5	6.4	6.3	6.7	6.6
Oils and fats	5.6	5.2	4.8	4.2	4.1	3.6	3.0	3.7	4.1	4.0	4.7	5.2	5.1	5.8
Fruits & nuts	2.1	9.0	9.2	8.9	8.7	9.2	9.0	9.2	9.5	9.7	9.8	10.0	10.1	9.4
Vegetables	7.3	4.8	4.7	4.8	4.7	4.6	4.7	4.6	4.9	4.0	4.0	4.6	4.2	3.7
Sugar	2.4	3.4	3.2	3.0	3.1	3.0	2.5	2.6	2.5	2.7	2.7	2.6	2.6	2.5
Other foods	3.6	4.6	5.1	5.1	4.7	4.6	4.8	4.6	5.1	5.5	5.7	5.4	5.0	4.0
Drink	1.5	2.8	2.8	2.8	2.7	3.3	2.8	2.8	3.0	2.9	2.8	2.7	2.7	2.5
Non-food	**45.3**	**6.9**	**6.8**	**6.8**	**7.0**	**7.0**	**6.8**	**7.0**	**6.9**	**6.9**	**6.8**	**6.7**	**6.5**	**5.9**
Alcoholic beverages	0.7	1.2	1.1	0.8	1.0	1.3	1.8	1.6	1.5	1.7	1.6	1.5	1.5	1.4
Clothing	11.2	7.0	7.6	7.9	7.6	7.6	7.2	7.7	7.6	7.5	7.4	7.8	8.0	7.9
Housing, water &energy	3.4	5.5	5.8	5.8	5.9	5.8	5.9	6.0	6.1	6.1	6.1	6.1	6.4	6.5
Furnishing	5.2	5.0	5.1	5.4	6.2	5.9	5.4	5.3	5.0	5.2	4.8	5.2	4.8	4.6
Health	1.2	2.4	2.0	2.0	2.2	2.3	2.0	2.2	2.0	2.1	2.0	1.7	1.9	1.1
Transport	4.4	2.7	2.0	1.9	2.3	2.4	2.3	2.5	2.2	3.2	4.0	4.4	4.1	3.2
Communication	2.9	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Recreation	1.5	11.3	11.1	11.1	11.8	11.2	12.2	11.9	6.2	6.3	4.6	4.7	3.5	3.5
Newspapers	7.1	6.9	6.9	6.9	7.5	7.5	8.1	8.1	7.0	7.0	5.0	5.0	3.6	3.4
Education	1.5	0.5	0.5	0.8	0.9	1.1	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.5
Hospitality	0.4	5.8	5.7	6.1	5.7	5.8	6.5	8.0	8.2	9.0	9.5	9.1	9.5	9.4
Miscellaneous	5.9	13.8	12.8	12.2	12.3	12.6	11.8	12.0	12.6	12.3	13.1	11.6	11.4	9.1

Source: Gambia Bureau of Statistics and CBG staff estimates

National Consumer Price Index (m-o-m % change)	Weight	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Overall Index	**100.0**	**0.7**	**0.5**	**0.5**	**0.5**	**0.4**	**0.5**	**0.5**	**0.7**	**0.3**	**0.5**	**0.3**	**0.7**	**0.4**
Food & Drink	**54.7**	**0.6**	**0.5**	**0.6**	**0.6**	**0.5**	**0.6**	**0.6**	**0.7**	**0.4**	**0.4**	**0.3**	**0.6**	**0.4**
Food	53.2	0.6	0.5	0.6	0.6	0.4	0.6	0.6	0.7	0.4	0.4	0.3	0.6	0.4
Bread Cereals	12.8	0.6	0.6	0.5	0.8	0.7	0.4	0.9	0.8	0.4	0.5	0.4	0.8	0.4
Meat	13.4	0.6	0.4	1.0	0.7	0.4	0.9	0.5	0.8	0.2	0.5	0.1	0.7	0.5
Fish	3.7	0.6	0.4	1.0	1.3	0.4	0.7	0.8	0.4	1.0	0.3	0.3	1.0	0.4
Dairy products	2.4	0.5	0.4	1.0	0.4	0.2	1.1	0.7	0.3	0.8	0.1	0.2	0.9	0.4
Oils and fats	5.6	0.0	0.6	0.1	0.2	0.3	0.4	0.9	0.8	0.4	0.7	0.5	0.3	0.7
Fruits & nuts	2.1	1.0	1.5	0.2	0.9	1.6	0.8	0.6	0.6	1.0	0.4	0.4	0.7	0.3
Vegetables	7.3	0.8	0.2	0.2	0.1	0.2	0.3	0.4	0.5	0.1	0.2	0.5	0.5	0.3
Sugar	2.4	0.4	0.2	0.1	0.3	0.1	0.1	0.3	0.0	0.3	0.3	0.1	0.4	0.3
Other foods	3.6	1.2	0.7	0.2	0.1	0.2	0.3	0.0	0.6	0.4	0.3	0.5	0.3	0.2
Drink	1.5	0.2	0.2	0.0	0.1	0.7	0.5	0.3	0.1	0.1	0.2	0.2	0.2	0.0
Non-food	**45.3**	**0.9**	**0.5**	**0.4**	**0.5**	**0.4**	**0.5**	**0.4**	**0.7**	**0.3**	**0.5**	**0.4**	**0.8**	**0.4**
Alcoholic beverages	0.7	0.1	0.0	0.0	0.3	0.3	0.4	0.1	0.0	0.2	0.1	0.0	0.0	0.0
Clothing	11.2	0.8	0.9	0.7	0.2	0.6	0.5	0.6	1.0	0.3	0.5	0.6	0.8	0.7
Housing, water &energy	3.4	0.7	0.7	0.5	0.5	0.9	0.4	0.4	0.5	0.3	0.5	0.3	0.6	0.8
Furnishing	5.2	0.4	0.2	0.4	0.8	0.3	0.1	0.1	0.5	0.4	0.7	0.4	0.3	0.2
Health	1.2	0.8	0.0	0.1	0.3	0.1	0.0	0.2	0.1	0.1	0.0	0.0	0.3	0.0
Transport	4.4	0.6	0.0	0.1	0.5	0.4	0.2	0.4	0.0	0.6	0.7	0.4	0.1	-0.3
Communication	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recreation	1.5	0.1	0.0	0.0	0.6	0.0	0.9	0.0	0.3	0.1	0.4	0.1	0.8	0.1
Newspapers	7.1	0.1	0.0	0.0	0.6	0.0	1.1	0.0	0.3	0.0	0.4	0.0	1.0	0.0
Education	1.5	0.3	0.0	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hospitality	0.4	0.6	0.5	0.7	0.5	0.8	0.9	1.8	0.6	0.8	0.8	0.0	1.0	0.5
Miscellaneous	5.9	2.4	0.8	0.4	0.8	0.4	0.7	0.8	1.2	0.4	0.9	0.5	1.4	0.3

Source: Gambia Bureau of Statistics and CBG staff estimates

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Headline Inflation	8.43	8.02	7.91	7.59	7.44	6.88	6.95	6.40	6.37	6.53	6.59	6.53	6.46	6.61
Core 1 Inflation*	8.47	7.61	7.81	7.28	7.27	6.31	7.03	5.84	6.33	6.69	6.65	6.48	6.38	6.76
Core 2 Inflation**	8.46	8.15	7.98	7.60	7.48	6.98	6.92	6.48	6.35	6.55	6.63	6.56	6.47	6.58

Source: Gambia Bureau of Statistics and CBG staff estimates

*Core1 excludes prices effects of energy and utility prices

**Core2 excludes energy and utility prices, and volatile food items