PRESS RELEASE

MONETARY POLICY COMMITTEE

1. The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Wednesday May 30, 2018 to assess the performance, risks and outlook of the domestic and the global economy. The Committee decided on the key policy rate and the following are highlights of the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. Since the last MPC, the global economy continues to strengthen supported by increased trade flows and higher investment, accommodative monetary policy, and recovery in commodity prices. Strong economic growth in emerging market and developing economies and robust recovery in advanced economies are expected to continue in 2018. In sub-Saharan Africa, economic growth is expected to improve further against the backdrop of more supportive external environment, including stronger global growth, higher commodity prices, and improved market access. However, there are risks to the global economic outlook including, prospect for increased trade protectionism, rising volatility in asset markets, and geo-political tensions.

2. The International Monetary Fund (IMF) forecast the global economy to grow by 3.9 percent in2018 compared to 3.8 percent in 2017.Global inflation is projected to increase to 3.5 percent in 2018 from 3.2 percent in 2017 predicated on continued recovery in commodity prices and stronger global demand.

Domestic Economic Outlook

Real Sector

3. At the domestic front, economic recovery is gathering strength, supported by improved implementation of macroeconomic policies and business confidence. Real GDP is projected to grow by 5.4 percent in 2018 compared to 3.5 percent in 2017 predicated on rebound in agriculture~~,~~ and continued improvement in trade, tourism, and construction.

External Sector

4. Preliminary Balance of payments estimates for the first quarter of 2018 indicates an improved position compared to the corresponding period a year ago, thanks largely to the increase in current transfers.

5. The current account deficit narrowed to US$7.01 million (0.7 percent of GDP) in the first quarter of 2018 from US$29.45 million (2.7 percent of GDP) a year ago, reflecting marked increase in current transfers (mainly remittances) by 62.2 percent to US$60.71 million. However, the goods account balance worsened from a deficit of US$54.61 million (5.2 percent of GDP)in the first quarter of 2017 to a deficit of US$67.46 million (6.1 percent of GDP) in the first quarter of 2018, following sharp decline in exports and significant increase in imports.

6. The capital and financial account balance declined to a surplus of US$7.53 million in the first quarter of 2018 from a surplus of US$27.36 million in the same period a year ago. Against the backdrop of strong international support and improved domestic foreign exchange market conditions, gross international reserves is projected at 4 months of next year's imports of goods and services.

Exchange rate developments

7. In the year to end-March, 2018, volume of transactions in the domestic foreign exchange market totaled US$1.7 billion, higher than US$1.3 billion the same period last year, reflecting improved market conditions and confidence.

Purchases of foreign currency, indicating supply, increased markedly by 31.1 percent to US$863.7 million during the period under review. Similarly, sales of foreign currency, indicating demand, increased significantly by 31.2 percent to 652.0 million.

8. The exchange rate of the dalasi remains stable. From December 2017 to May 2018, the dalasi appreciated against all major international currencies traded in the domestic foreign exchange market. The Dalasi appreciated against the US Dollar by 1.2 percent, Pound Sterling by 1.0 percent, Euro by 2.4 percent and CFA franc by 1.3 percent.

Domestic Debt

9. The Gambia's domestic debt is stabilizing. Stock of domestic debt decreased from D29.3 billion or 62.2 percent of GDP in April 2017 to D28.8 billion or 55.8 percent of GDP in April 2018. Stock of Treasury and Sukuk Al Salaam bills contracted significantly by 13.5 percent to D16.1 billion during the period under review.

10. 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 9.37 percent, 11.29 percent and 12.88 percent in April 2017 to 5.87 percent, 5.99 percent and 9.23 percent respectively in April 2018.

Banking Sector

11. According to financial soundness indicators, the banking sector remains well capitalized, highly liquid and profitable. The risk weighted capital adequacy ratio stood at 31 percent as at end-March 2018, significantly higher than the statutory requirement of 10 percent. Liquidity ratio of the banking industry stood at 94.7 percent, also significantly higher than the requirement of 30 percent. Non-performing loans ratio dropped from 9.7 percent at end-March 2017 to 7.2 percent as at end-March 2018.Total assets of the industry expanded from D33.5 billion as at end-March 2017 to D39.8 billion as at end-March 2018.

Monetary developments

1. Money supply grew by 28.0 percent in March 2018, driven largely by the increase in net foreign assets (NFA) of the banking system from D1.5 billion in March 2017 to D8.0 billion in March 2018.Net domestic assets (NDA) of the banking system rose by 1.0 percent to D22.4 billion. Reserve money, the Bank's operating target, grew by 24.2 percent in March 2018 relative to 18.1 percent a year ago.

2. Private sector credit growth is recovering strongly following slowdown in government borrowing. Private sector credit grew by 6.2 percent in March 2018, the highest since 2014. On the other hand, the banking system's net claims on government contracted by 5.8 percent.

Inflation

3. Consumer price inflation as measured by the National Consumer Price Index (NCPI) declined from 8.7 percent in April 2017 to 6.6 percent in April 2018. Compared to March 2018, inflation edged up slightly by 0.1 percentage point driven by marginal increase in non-food inflation due mainly to temporal factors. However, Food inflation remains unchanged at 6.4 percent.

Inflation Outlook

4. The Committee observed that economic and business environment continue to improve, and recovery is gaining momentum, thanks to sound macroeconomic policies, strong international support and improved confidence.

5. With reduced government borrowing and decline in interest rates, private sector credit has started to recover.

6. The Committee observed that prices edged up slightly in the run-up to the month of Ramadan. The Committee judges this to be a temporary development and that the outlook remains a further deceleration in inflation towards the

Bank's medium term target of 5 percent, premised on continued stability of exchange rate on the back of prudent monetary and fiscal policies.

7. According to the forward looking business sentiment survey, all respondents indicated higher economic activity in the first quarter of 2018.

8. However, the Committee noted that there are risks to inflation outlook including rising global commodity prices, particularly energy and food. Furthermore, debt to GDP ratio of 130 percent poses major risk to the economy.

Decision

9. Taken the above factors into consideration, the Committee decided to reduce the Policy rate by 1.5 percentage points to 13.5 percent. This decision is to reinforce private sector credit growth particularly to small and medium size enterprises. The committee will continue to closely monitor domestic and international economic developments and stands ready to act accordingly should economic conditions change.

Information Note

Introduction of interest rate corridor

The Monetary Policy Committee (MPC) of CBG would like to announce the introduction of an overnight interest rate corridor effective August 30, 2018.The main purpose of the corridor is to limit the short term interest rate volatility around the key monetary policy interest rate. Excessive interest rate volatility is undesirable for the smooth implementation of monetary policy. Lower volatility increases the effectiveness of the monetary policy rate and strengthens the interest rate channel of the monetary transmission mechanism. In the interest rate corridor framework, standing lending and deposit facilities will be introduced.

Date for the next MPC

The next Monetary Policy Committee (MPC) meeting is scheduled for August 29, 2018. The meeting will be followed by the announcement of the policy decision on August 30, 2018.