CENTRAL BANK OF THE GAMBIA

# Monetary Policy Report

November 2019

The Central Bank of The Gambia Monetary Policy Report provides summary of presentations at the Monetary Policy Committee (MPC) meetings. It entails recent macroeconomic developments that informed the decision of the Committee in setting the policy rate. The objective is to keep the public informed of the monetary policy process.

## 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 (MPC). The report is published at most two weeks after every MPC meeting. The objective is to keep the public informed of the decision-making process in fulfillment of the Bank's reporting obligation and 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 an 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 the Bank's medium-term inflation objective of 5 percent. In addition, the MPC meets to set the monetary policy rate (MPR) to signal the policy stance of the Bank.

#### Monetary Policy Committee

The Monetary Policy Committee (MPC) was established by the 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 three persons appointed by the Minister of Finance and Economic Affairs. The MPC meets every quarter to review developments in the international and domestic economy and set the monetary policy rate. This signals 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. The press release and the minutes of each meeting are posted on the Bank's website.

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## Executive Summary

The Monetary Policy Committee of the Central Bank of The Gambia met on November 27 and 28, 2019 and decided to maintain the monetary policy rate at 12.5 percent. The meeting was attended by all the members of the Committee.

Global growth remains weak amid a significant slowdown in trade, manufacturing and investment, as well as low business confidence, and geopolitical tensions. Other factors dragging global growth include rising political tensions in Europe and the uncertain Brexit negotiations. In October 2019, the International Monetary Fund (IMF) revised downwards global growth projection for 2019 to 3.0 percent, the lowest since the financial crisis in 2008. Consistent with the subdued inflationary environment, central banks across the world have reacted aggressively by easing monetary policy through interest rate cuts and asset purchases to avert a further dampening of economic growth. Growth is projected to pick up slightly to 3.4 percent in 2020 predicated on improvement in economic performance in some emerging markets.

In The Gambia, economic activity rebounded strongly in 2018 but experienced two significant shocks in 2019. The tourism sector was hit by the liquidation of a major travel and tour operator, Thomas Cook UK. The agriculture sector, which is a major contributor to GDP, has been affected by weather-related events in the past 3 consecutive years. The cropping season in 2019 was characterized by the late start of rainfall and intermittent dry spells that hampered crop performance and yields.

The MPC observed that headline inflation will trend downwards in the near-term, premised on the continued stability of the exchange rate and the well-anchored inflation expectations. Major risks to the outlook are the domestic food supply situation in the wake of poor local food harvest and the uncertainty surrounding global food prices. Given that tourism is a major foreign exchange earner, the collapse of Thomas Cook UK may exert depreciation pressures on the exchange rate and inflation. Similarly, high public debt poses a significant risk to the economy.

The external sector position continues to improve, thanks to the resilience of remittance inflows, and tourism. The current account deficit narrowed to 2.4 percent of GDP in the nine months to end-September 2019 from 3.4 of GDP in the same period in 2018. However, the deficit in the goods account widened during the period from 15.2 percent of GDP to 16.2 percent of GDP. The improvement in the current account continues to support the stability of the exchange rate of the dalasi.

Government fiscal operations for the first nine months of 2019 showed that the budget deficit (including grants) narrowed to 2.6 percent of GDP from 3.9 percent of GDP recorded in the corresponding period in 2018. This performance is on account of enhanced revenue mobilization, the marked decline in capital expenditure, and interest payments. However, the stock of domestic debt increased to D33.0 million as at end-October 2019 from D31.1 million in the corresponding period a year ago.

The Banking sector remains well-capitalized, profitable and highly liquid. All the banks maintain a capital level above the statutory requirement. The Central Bank continues to promote and support healthy credit growth. Private sector credit is growing at an annual average of 28 percent at end-September 2019. Despite the strong credit growth, the ratio of non-performing loans to gross loans declined to 2.5 percent at end-September 2019 from 6.3 percent a year ago. The improvement in the asset quality reflects enhanced regulation, improved risk management, and effective loan recovery measures.

In conclusion, the near-term out outlook for The Gambian economy is dented by the double shocks. Inflation is expected to remain largely subdued and the exchange rate to continue to be stable in 2019. Monetary policy will remain supportive of the real economy to minimize the impact of the shocks.

Given the above developments, the Committee judged the current monetary policy stance to be appropriate and decided to maintain the Monetary Policy Rate at 12.5 percent. The Committee also decided to maintain the overnight deposit rate at 2.5 percent and the overnight lending rate at 1 percentage points plus the MPR. The

Committee will continue to closely monitor domestic and international economic developments and stands ready to act accordingly as and when necessary.

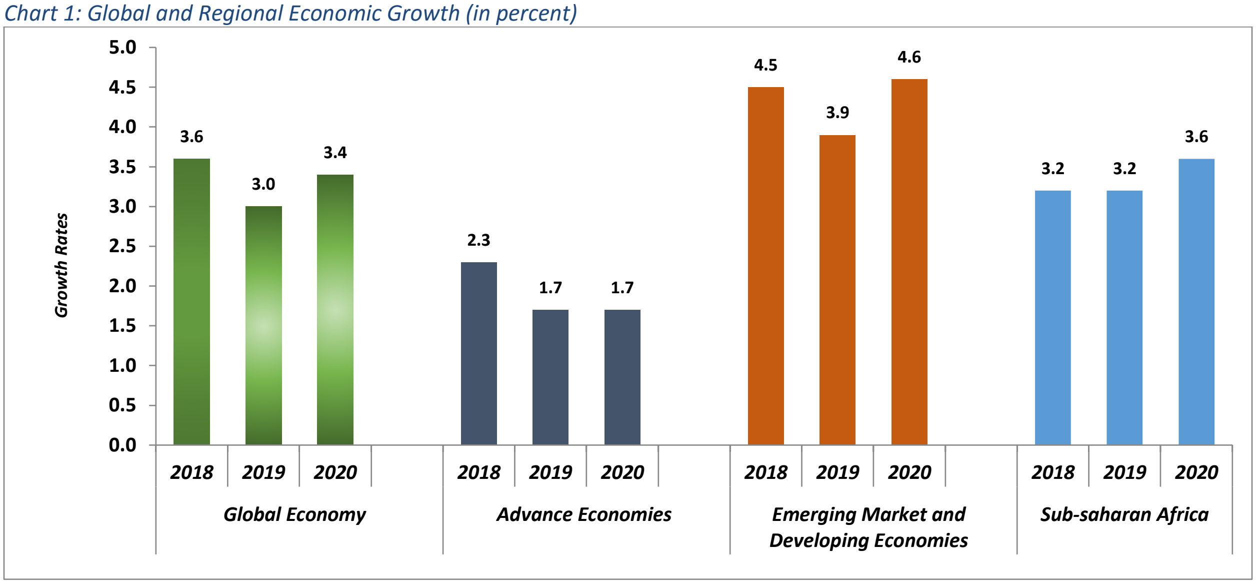
The next Monetary Policy Committee meeting is scheduled for Wednesday, February 26 and 27, 2020. The decision will be announced immediately through a press conference at the end of the meeting on Thursday.

## World Economic Outlook

*Global growth and inflation projections have been revised down. Trade tensions have been a major contributor to the current global downturn, triggering higher business uncertainty. Global inflation also remains subdued owing to weak demand and moderate commodity prices, including energy.*

Global economic growth remains weak and there are significant risks to the outlook. The weakening of economic activity was broad-based affecting both advanced economies and emerging markets and developing economies. In October 2019, the International Monetary Fund (IMF) revised downwards global growth projection for 2019 to 3.0 percent, lower than 3.6 percent in 2018. This is largely attributed to the significant slowdown in global trade, weak manufacturing output and investment, low business confidence, and geopolitical tensions. Growth is projected to pick up slightly to 3.4 percent in 2020 predicated on improvement in economic performance in some emerging markets in Latin America, the Middle East, and emerging and developing Europe.

*Chart 1: Global and Regional Economic Growth (in percent)*




*Source: IMF World Economic Outlook, October 2019*

Output growth in advanced economies continues to moderate towards its long-term potential. Economic growth for the region is projected to slow to 1.7 percent in 2019 and 2020, reflecting mainly trade-related uncertainty in the United States, weak exports in the euro area, Brexit related uncertainties in the United Kingdom, and other advanced economies in Asia's exposure to slowing growth in China and the spillovers from US-China trade tensions.

*Chart 2: Percent change global trade volume in goods and services*


*Source: IMF World Economic Outlook Database, October 2019*

Growth outlook in 2019 has been revised down across all large emerging market and developing economies, reflecting largely trade and domestic policy uncertainties. Output growth for the region is expected to moderate from 4.5 percent in 2018 to 3.9 percent in 2019. In 2020, growth is forecast to rebound to 4.6 percent but the downside risks to the outlook are elevated, including trade barriers and heightened geopolitical tensions.

In sub-Saharan Africa, growth is expected at 3.2 percent in 2019, the same as in 2018. It is forecast to rise to 3.6 percent in 2020. The slow output performance largely reflects higher volatile oil prices, weak agricultural production, and the impact of labor strikes and energy supply issues in some countries.

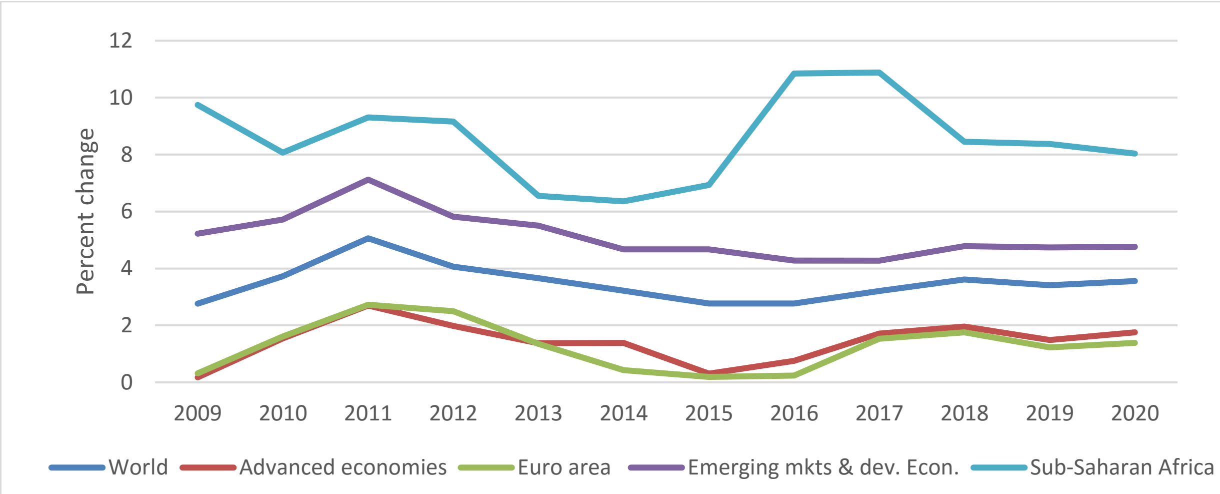
*Table 1: Global Growth Estimates*

| | | | Projections | | Difference from April 2019 Projections | |
|---|---|---|---|---|---|---|
| | 2017 | **2018** | **2019** | **2020** | **2019** | **2020** |
| World Output | 3.8 | 3.6 | 3 | 3.4 | -0.3 | -0.2 |
| Advanced Economies | 2.5 | 2.3 | 1.7 | 1.7 | -0.1 | 0 |
| United State | 2.4 | 2.9 | 2.4 | 2.1 | 0.1 | 0.2 |
| Euro Area | 2.5 | 1.9 | 1.2 | 1.4 | -0.1 | -0.1 |
| Japan | 1.9 | 0.8 | 0.9 | 0.5 | -0.1 | 0 |
| United Kingdom | 1.8 | 1.4 | 1.2 | 1.4 | 0 | 0 |
| Canada | 3 | 1.9 | 1.5 | 1.8 | 0 | -0.1 |
| Other Advanced Economies | 2.9 | 2.6 | 1.6 | 2 | -0.6 | -0.5 |
| Emerging Markets & Dev. Economies | 4.8 | 4.5 | 3.9 | 4.6 | -0.5 | -0.2 |
| Emerging and Developing Asia | 6.6 | 6.4 | 5.9 | 6 | -0.4 | -0.3 |
| Emerging and Developing Europe | 3.9 | 3.1 | 1.8 | 2.5 | 0.6 | 0.2 |
| Latin America and The Caribbean | 1.2 | 1 | 0.2 | 1.8 | -1.2 | -0.6 |
| Middle East and Central Asia | 2.3 | 1.9 | 0.9 | 2.9 | -0.9 | -0.4 |
| Sub-Saharan Africa | 3 | 3.2 | 3.2 | 3.6 | -0.3 | -0.1 |

*Source: IMF World Economic Outlook database, October 2019*

Global inflation continued to soften across the major advanced, and emerging market and developing economies due mainly to weak aggregate demand and moderate commodity prices, including energy prices. Average global inflation is expected at 3.4 percent for 2019, lower than 3.6 percent in 2018. In sub-Saharan Africa, inflationary pressures have moderated. Annual average inflation is projected to ease from 8.5 percent in 2018 to 8.4 percent in 2019, and 8.0 percent in 2020.

*Chart 3: Average consumer prices*




*Source: IMF, World Economic Outlook Database, October 2019*

Consistent with the subdued inflation outlook, most central banks have eased monetary policy stance to support growth. In the United States, the Federal Reserve cuts the key interest rate in July and September 2019 and put an end to its balance sheet reduction. The European Central Bank also reduced its deposit rate in September 2019 and announced a resumption of quantitative easing. Central banks in several emerging market and developing economies have also cut policy rates.

From April to October 2019, energy prices declined by 1.9 percent. Although crude oil prices rose by 4.4 percent during the period, the prices of both natural gas and coal declined. Crude oil is projected to trade at an average of $61.78 and $51.94 per barrel for 2019 and 2020. Food and beverage prices declined by 0.8 percent. On the other hand, metal prices picked up by 2.2 percent.

## Domestic Economy

### Real Sector

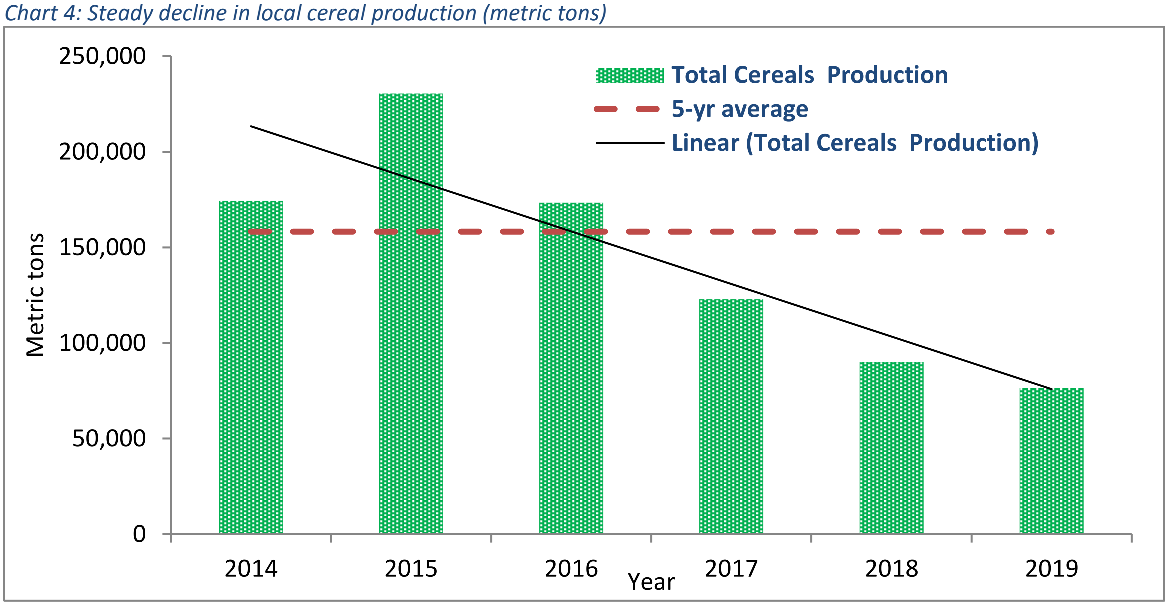
*The Gambian economy was hit by two major shocks that moderated the growth forecast for 2019. The collapse of Thomas Cook UK affected tourism and related activities, and the effect of poor weather on agricultural output.*

Real gross domestic product (GDP) is estimated to have grown by robust 6.5 percent in 2018 compared to 4.8 percent in 2017. The main drivers of growth were tourism and trade, financial services and insurance, as well as transport and telecommunication.

Economic growth is projected to remain robust in 2019. However, there are significant risks to the growth outlook. The collapse of Thomas Cook UK negatively affected tourism and related activities. The agriculture sector, which is a major contributor to GDP, has been affected by weather-related events in the past 3 consecutive years. The cropping season in 2019 was characterized by the late start of rainfall and intermittent dry spells that hampered crop performance and yields.

The preliminary findings of the Mid-Season-Assessment conducted by the Ministry of Agriculture (MOA) revealed a marked decline in crop production. The production of both cereal and cash crops fell below the 5-year average. This development will hurt economic growth and the balance of payment position through a decline in groundnut exports and the increase in imports to supplement the food supply. The survey estimated crop production to decline by 31.9 percent in 2019 compared to 2018, and 73.0 percent compared to the 5-year average.

*Chart 4: Steady decline in local cereal production (metric tons)*




*Source: Mid-Season-Assessment Report, Ministry of Agriculture, and CBG staff estimates*

*Table 2: Crop Production Series 2014 – 2019 and 5year average (tons)*

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | % change 2018-2019 | 5yr.Ave | % change 2019-5yr.ave |
|---|---|---|---|---|---|---|---|---|---|
| Early Millet | 59,115.0 | 55,902.0 | 54,663.0 | 39,874.0 | 27,705.3 | 24,934.8 | -10.0 | 47,451.9 | -47 |
| Late Millet | 17,701.0 | 37,906.0 | 17,798.0 | 12,135.0 | 9,099.2 | 8,007.3 | -12.0 | 18,927.8 | -58 |
| Sorghum | 20,289.0 | 26,891.0 | 20,458.0 | 18,846.0 | 15,072.2 | 6,821.9 | -54.7 | 20,311.3 | -66 |
| Maize | 30,290.0 | 38,520.0 | 31,005.0 | 21,441.0 | 18,069.6 | 15,901.3 | -12.0 | 27,865.1 | -43 |
| Rice | 46,672.0 | 69,794.0 | 48,778.0 | 29,967.0 | 26,412.8 | 20,714.4 | -21.6 | 44,324.8 | -53 |
| Findo | 397.0 | 1,464.0 | 686.0 | 554.0 | 555.8 | - | -100.0 | 731.4 | -100 |
| **Total Cereals** | **174,464.0** | **230,477.0** | **173,388.0** | **122,817.0** | **89,964.0** | **76,379.6** | **-15.1** | **158,222.0** | **-52** |
| Ground Nut | 80,652.0 | 89,634.0 | 71,082.0 | 57,625.0 | 22,170.1 | 18,179.5 | -18.0 | 64,232.6 | -72 |
| Sesame | 1,779.0 | 2,175.0 | 2,143.0 | 1,144.0 | 717.1 | - | -100.0 | 1,591.6 | -100 |
| Cowpea | - | - | 1,918.0 | 3,215.0 | 3,814.0 | - | -100.0 | 1,789.4 | -100 |
| **Total** | **82,431.0** | **91,809.0** | **75,143.0** | **61,984.0** | **26,701.2** | **18,179.5** | **-31.9** | **67,613.6** | **-73** |

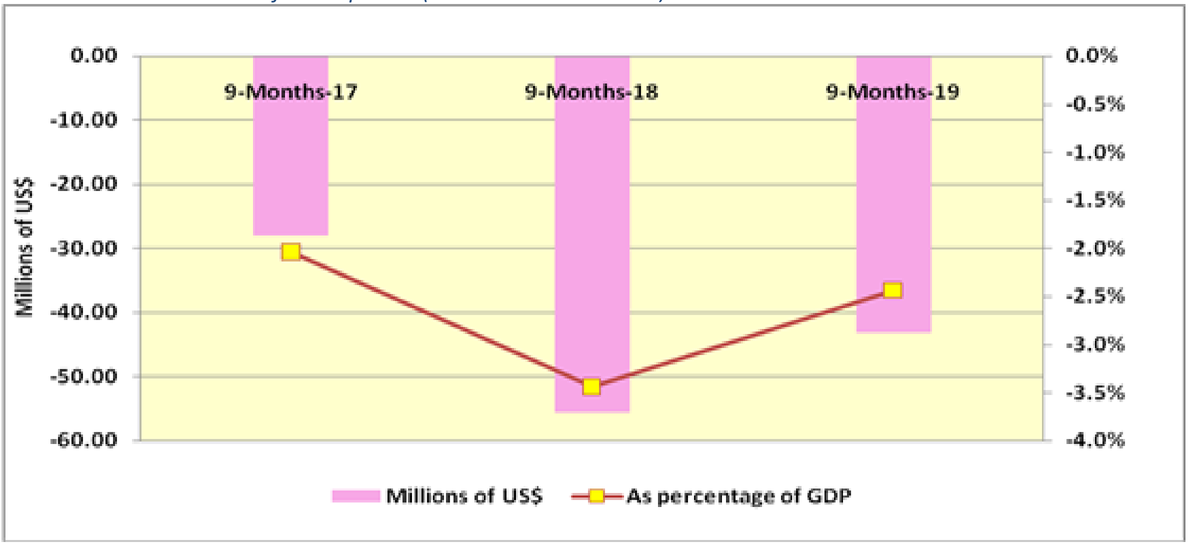
*Source: Mid-Season-Assessment Report, Ministry of Agriculture, and CBG staff estimates*

## Balance of Payments Developments

*The current account of the balance of payments has improved in the first nine months of 2019 despite the deterioration of the trade balance, supported largely by inflows from remittance and tourism.*

The balance of payments estimates indicated that the current account deficit narrowed to US$43.1million (2.4 percent of GDP) in the first nine months of 2019 from US$55.6 million (3.4 percent of GDP) in the corresponding period of 2018. The improvement is explained by the increases in the services account balance and current transfers. The surplus in the services account balance rose to US$74.4 million in the first nine months of 2019, or by 42.45 percent from US$52.2 million in the same period a year ago. This largely reflects the growth in air-chartered tourist arrivals by 22.6 percent during the period under review. Current transfers, which constitute mainly workers' remittances, amounted to US$ 182.5 million in the nine months to end-September 2019, higher than a net inflow of US$167.3 million in the same period of 2018, representing an increase of 9.12 percent.

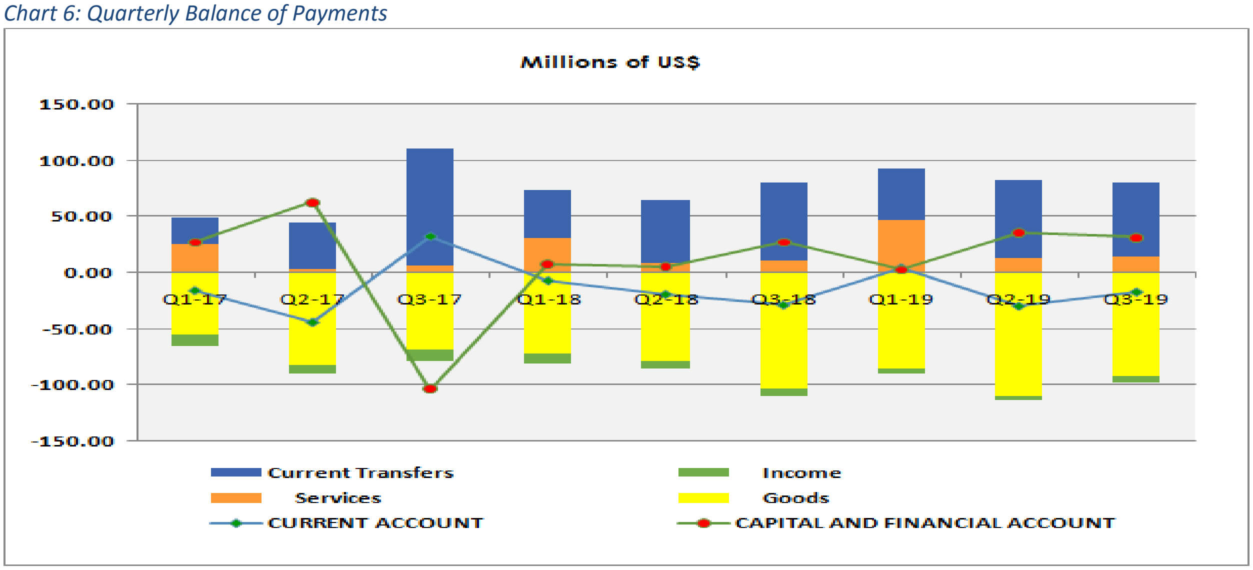
*Chart 5: Current Account Deficits Improved (9 Months-on- 9 Months)*




*Source: CBG*

The deficit in the goods account, on the other hand, worsened to US$286.7 million (16.2 percent of GDP) in the first nine months of 2019 compared to US$252.6 million (15.6 percent of GDP) in the corresponding period in 2018. The widening of the deficit in the goods account reflects the growth in imports. Although exports also increased, it was not enough to offset the increase in imports. From January to September 2019, imports (FOB) amounted to US$409.0 million, 12.5 percent higher than US$363.7 million recorded in the same period in 2018. Exports (FOB) also increased to US$107.4 million or by 17.2 percent in the first nine months of 2019 from US$91.6 million in the corresponding period of 2018.

*Chart 6: Quarterly Balance of Payments*



*Source: CBG*

The capital and financial account registered a higher surplus of US$ 69.6 million in the first nine months of 2019 compared to a surplus of US$40.2 million a year ago, reflecting the improvement in official transfers and accumulation of reserve assets. The financial account balance improved to a surplus of US$54.9 million from a surplus of US$28.22 million during the review period, mainly on account of the increase in foreign direct investment.

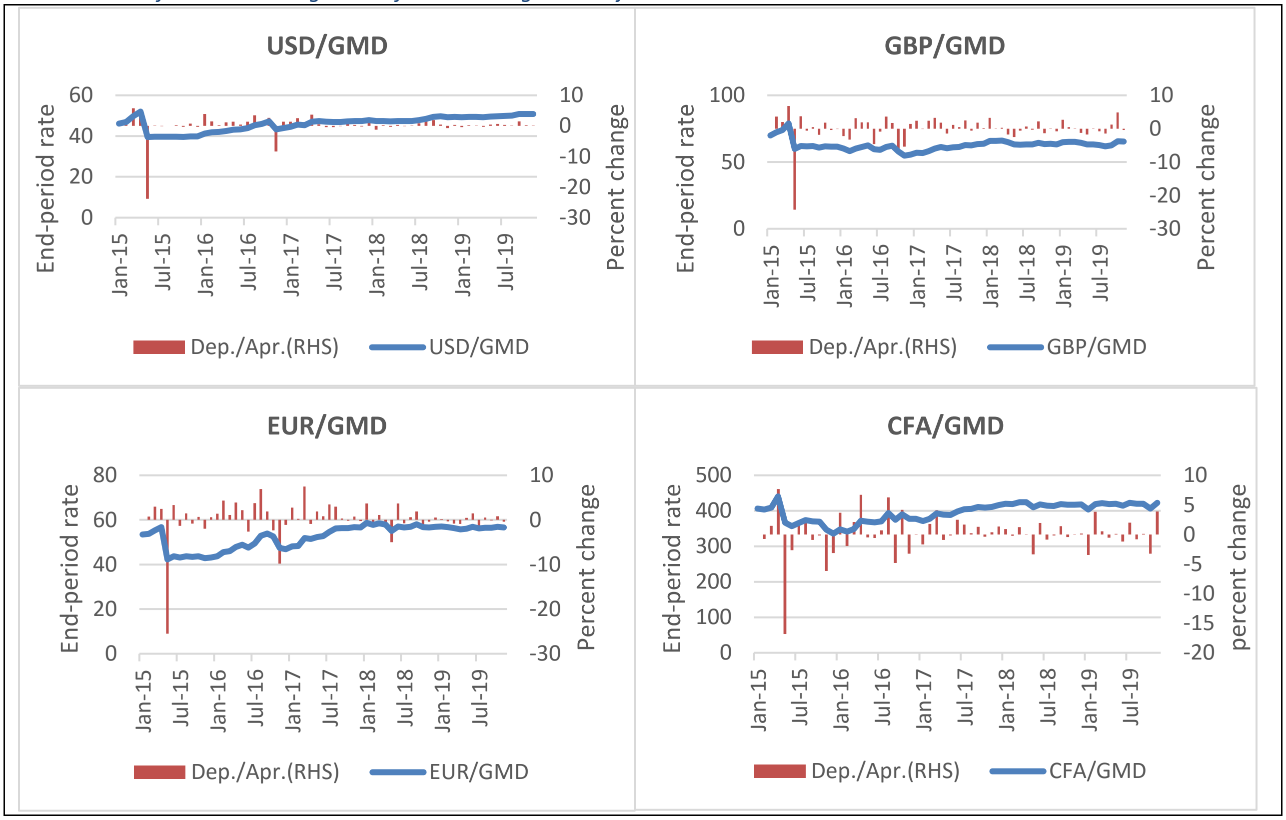
## Exchange Rate Developments

*The exchange rate of the dalasi is broadly stable, supported by improved current account position. However, demand pressures may emanate from the increase in food imports due to a poor harvest, energy, and construction materials to support the booming real estate sector.*

The volume of transactions in the foreign exchange market increased to US$2.3 billion in the year to end-October 2019 compared to US$1.9 billion in the corresponding period of the previous year. Purchases of foreign currency (indicating supply) increased by 19.2 percent to US$1.1 billion during the period. Similarly, sales of foreign currency, which indicates demand, also increased significantly by 19.5 percent to US$1.1 billion in the review period.

The exchange rate of the dalasi remains broadly stable. From January to October 2019, the dalasi depreciated against the US dollar by 3.2 percent, pound sterling (1.2 percent), and CFA franc (0.7 percent). However, it appreciated against the euro by 0.2 percent. In real terms, the dalasi appreciated against the US dollar by 3.1 percent.

*Chart 7: End-of-Period Exchange rate of the dalasi against major international currencies*




*Source: CBG*

The dalasi is expected to remain stable in the near-term on the back of favorable supply conditions and market confidence, barring unforeseen shocks. This is predicated on robust remittance inflows, which is expected to exceed US$300 million in 2019, and that the impact of the collapse of Thomas Cook UK on tourism will be minimal. However, inflows from groundnut exports are expected to fall due to the poor cropping season.

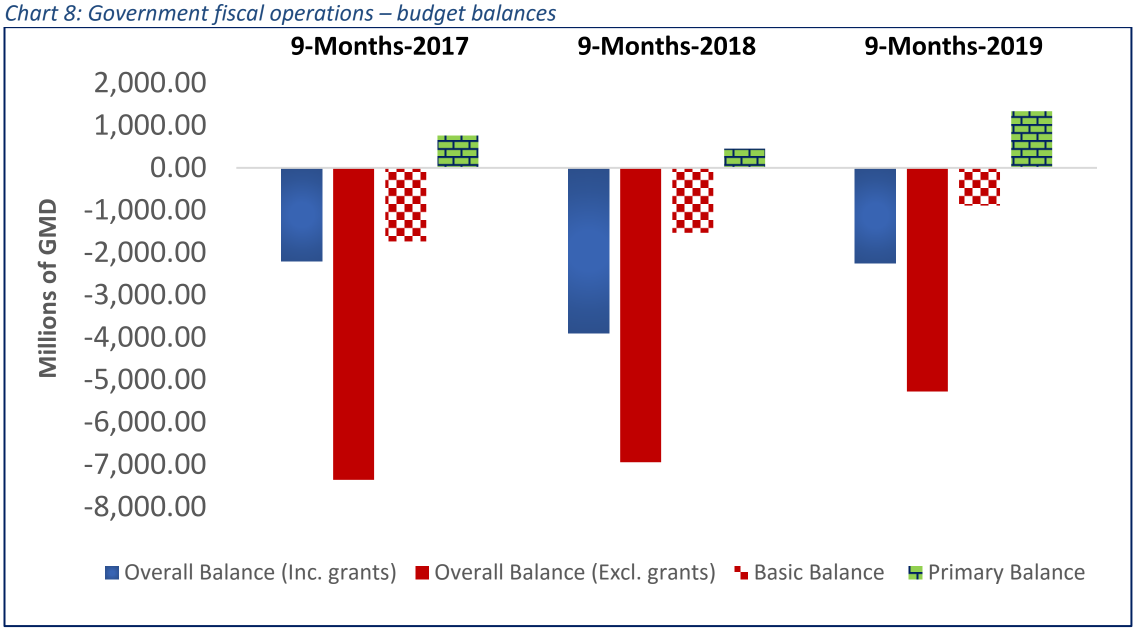
## Government Fiscal Operations

*The budget deficit has improved in the first nine months of 2019 compared to the same period in 2018, due to improved revenue collection and a decline in capital expenditure.*

Preliminary data on government fiscal operations for the first nine months of 2019 indicated that the budget deficit (including grants) narrowed to D2.3 billion (2.6 percent of GDP) compared to a deficit of D3.9 billion (4.9 percent of GDP) in the first nine months of 2018. The improvement is attributed to an increase in domestic revenue and a decrease in capital expenditure. The budget deficit (excluding grants) was D5.3

billion (6.0 percent 0f GDP), lower than D6.9 billion (8.7 percent of GDP) in the corresponding period a year ago.

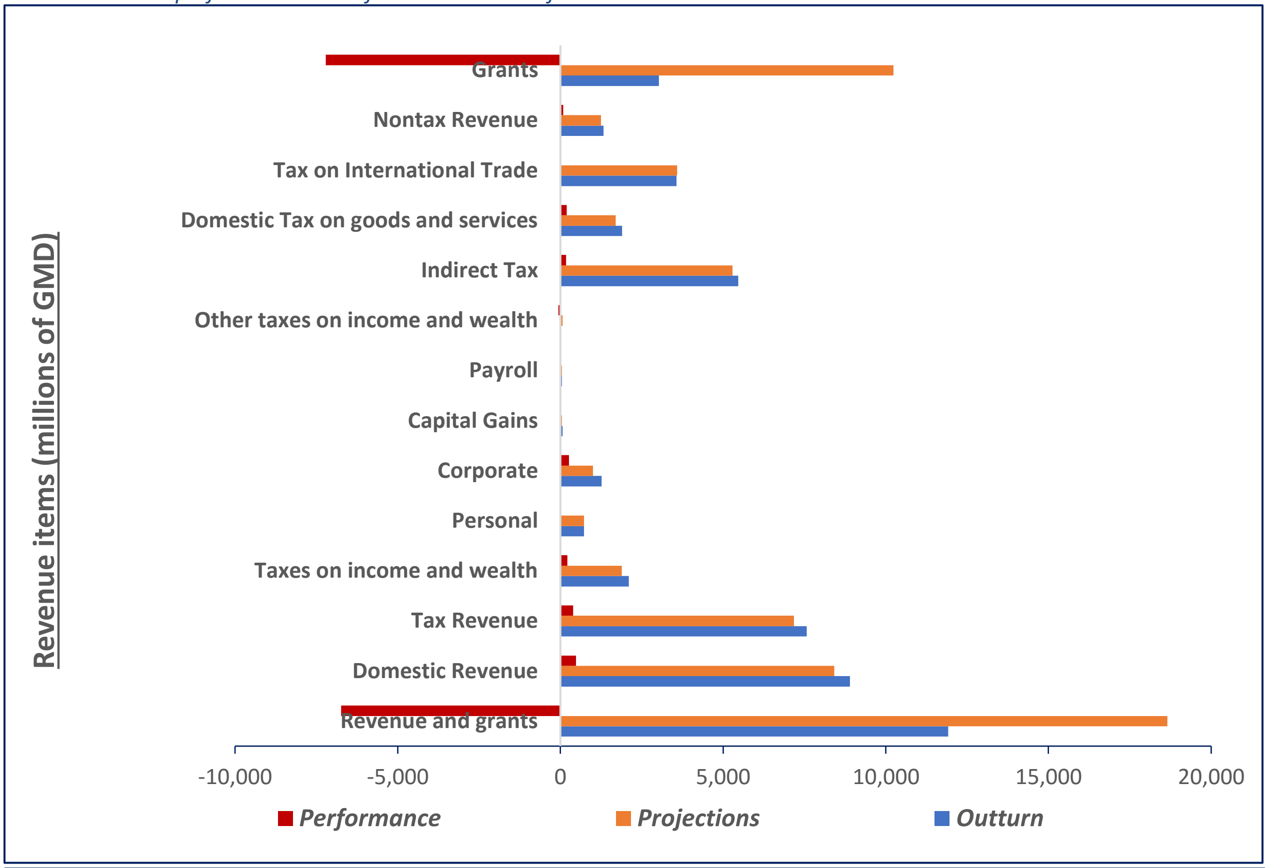
*Chart 8: Government fiscal operations – budget balances*




*Source: Ministry of Finance and Economic Affairs (MoFEA)*

Total revenue and grants mobilized during the period under review was D11.9 billion (13.6 percent of GDP), higher than D9.7 billion (12.2 percent of GDP) registered in the first nine months of 2018, or by 22.6 percent. However, it was lower than D18.7 billion projected for the period. Domestic revenue, which comprises tax and non-tax revenues, increased to D8.9 billion (10.1 percent of GDP) compared to D6.7 billion (8.4 percent of GDP) recorded a year ago. Domestic revenue collected during the period was higher than the projected amount by D474.6 million. Tax revenue increased to D7.6 billion (8.6 percent of GDP) from D6.1 billion (7.7 percent of GDP) in the corresponding period of 2018.

*Chart 9: Revenue performance in the first nine months of 2019*




*Source: Ministry of Finance and Economic Affairs (MoFEA)*

Total expenditure and net lending increased to D14.2 billion (16.2 percent of GDP) in the first nine months of 2019 from D13.6 billion (17.1 percent of GDP) in the first nine months of 2018. This is mainly attributed to the significant fall in capital expenditure by 17.0 percent. Recurrent expenditure, on the other hand, increased to D9.2 billion (10.5 percent of GDP) from D7.7 billion (9.6 percent of GDP) year ago. The increase in recurrent expenditure is due largely to the 34.0 percent increase in personnel emoluments (mainly wages and salaries) and the 12.4 percent growth in interest payments.

*Table 3:Budget balances*

| Budget Balance (In D'millions) | 9 Months 2017 | 9 Months 2018 | 9 Months 2019 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Budget Balance (Excl. grants) | -7,364.00 | -6,946.99 | -5,275.58 |
| *Percent of GDP* | *-10.50* | *-8.69* | *-6.02* |
| Budget Balance (Incl. grants) | -2,208.44 | -3,905.36 | -2,251.38 |
| *Percent of GDP* | *-3.15* | *-4.89* | *-2.56* |
| *Basic Balance* | -1,733.09 | -1,533.72 | -893.03 |
| *Percent of GDP* | *-2.47* | *-1.92* | *-1.02* |
| *Primary Balance* | 761.00 | 452.30 | 1,339.41 |
| *Percent of GDP* | *1.08* | *0.57* | *1.53* |

*Source: Ministry of Finance and Economic Affairs (MoFEA)*

*Table 4: Summary of total revenue and grants*

| RECEIPTS (Millions of GMD unless otherwise stated) | 9 Months 2017 | 9 Months 2018 | 9 Months 2019 |
|---|---|---|---|
| Revenue & Grants | 11,061.45 | 9,723.56 | 11,918.36 |
| *Percent of GDP* | *15.77* | *12.18* | *13.60* |
| Domestic Revenue | 5,905.89 | 6,681.92 | 8,894.16 |
| *Percent of GDP* | *8.42* | *8.37* | *10.14* |
| Tax Revenue | 5,250.59 | 6,122.22 | 7,567.47 |
| *Percent of GDP* | *7.49* | *7.67* | *8.64* |
| Direct Tax | 1,483.24 | 1,550.88 | 2,106.59 |
| Personal | 564.53 | 599.39 | 723.47 |
| Corporate | 776.94 | 824.38 | 1,262.24 |
| Indirect Tax | 3,767.35 | 4,571.34 | 5,460.88 |
| Domestic Tax on goods & services | 1,235.50 | 1,579.89 | 1,892.40 |
| Tax on Int'l. Trade | 2,531.85 | 2,991.44 | 3,568.48 |
| Duty | 1,435.81 | 1,616.27 | 1,919.38 |
| Sales tax on imports | 1,080.20 | 1,375.17 | 1,649.10 |
| Non-tax Revenue | 655.30 | 559.71 | 1,326.69 |
| *Percent of GDP* | *0.93* | *0.70* | *1.52* |
| *Grants* | 5,155.56 | 3,041.63 | 3,024.20 |
| *Percent of GDP* | *7.35* | *3.81* | *3.44* |

*Source: Ministry of Finance and Economic Affairs (MoFEA)*

*Table 5: Total expenditure and net lending*

| Payments (Millions of GMD unless otherwise stated) | 9 Months 2017 | 9 Months 2018 | 9 Months 2019 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Expenditure & NL | 13,254.89 | 13,628.92 | 14,169.75 |
| *Percent of GDP* | *18.90* | *17.07* | *16.16* |
| Current Expenditure | 7,125.85 | 7,663.73 | 9,221.31 |
| *Percent of GDP* | *10.16* | *9.60* | *10.51* |
| Personnel Emoluments | 1,743.01 | 2,226.28 | 2,936.88 |
| o/w: wages & salaries | 1,743.01 | 2,187.11 | 2,929.99 |
| Other Charges | 2,888.75 | 3,451.43 | 4,051.98 |
| Interest Payments | 2,494.10 | 1,986.02 | 2,232.45 |
| External | 171.54 | 263.14 | 257.94 |
| Domestic | 2,322.56 | 1,722.88 | 1,974.50 |
| Capital Expenditure | 6,114.04 | 5,955.19 | 4,948.45 |
| *Percent of GDP* | *8.72* | *7.46* | *5.65* |
| Externally Financed | 5,630.91 | 5,413.27 | 4,382.55 |
| Loans | 3,485.02 | 2,731.63 | 2,781.85 |
| Grants | 2,145.89 | 2,681.63 | 1,600.70 |
| GLF Capital | 483.13 | 541.92 | 565.71 |
| Net Lending | 15.00 | 10.00 | 0.00 |

*Source: Ministry of Finance and Economic Affairs (MoFEA)*

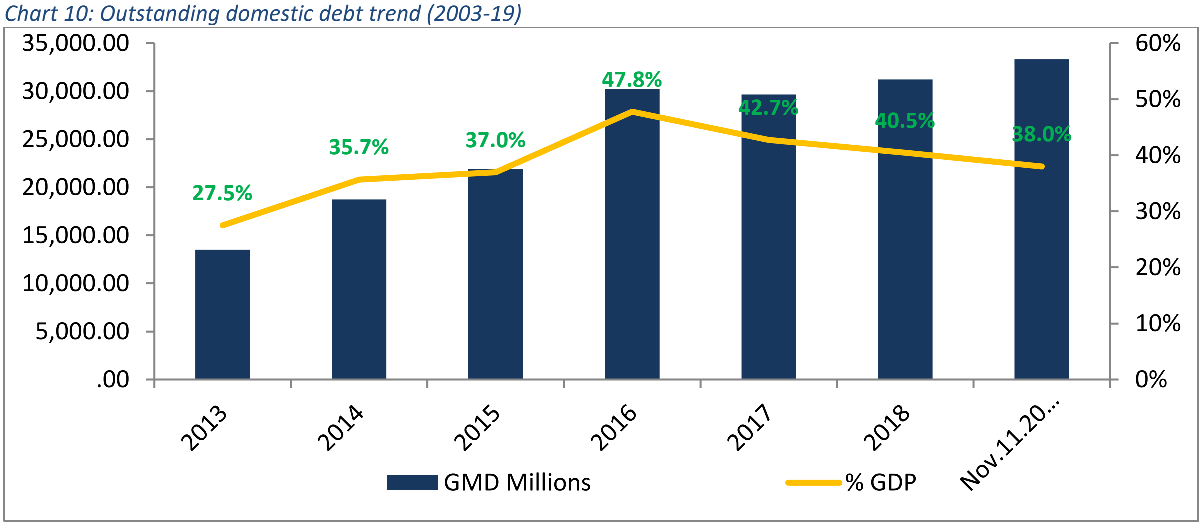
## Domestic Debt Developments

*The Gambia's domestic debt remains high, unsustainable and poses significant risk to macroeconomic stability. The short-term nature of the maturity structure of the debt presents rollover risk, and the debt service cost remains a burden on the national budget.*

As at end-October 2019, the stock of domestic debt increased to D33.0 billion (37.6 percent of GDP) from D31.1 billion (40.3 percent of GDP) in the corresponding period a year ago. The stock of Treasury and Sukuk-Al Salaam bills increased by 14.8 percent to D19.7 billion and accounted for 59.6 percent of the debt stock during the period under review. The stock of long-term Treasury bonds with maturities between 5 and 30 years stood at D13.3 billion at end-October 2019, 4.3 percent lower than D13.9 billion in the corresponding period in 2018, and represented 41.8 percent of the domestic debt stock. The increase in the issuance of long-term debt instruments is a deliberate policy by the government to reduce the refinancing risks of domestic debt, in line with its debt management strategy.

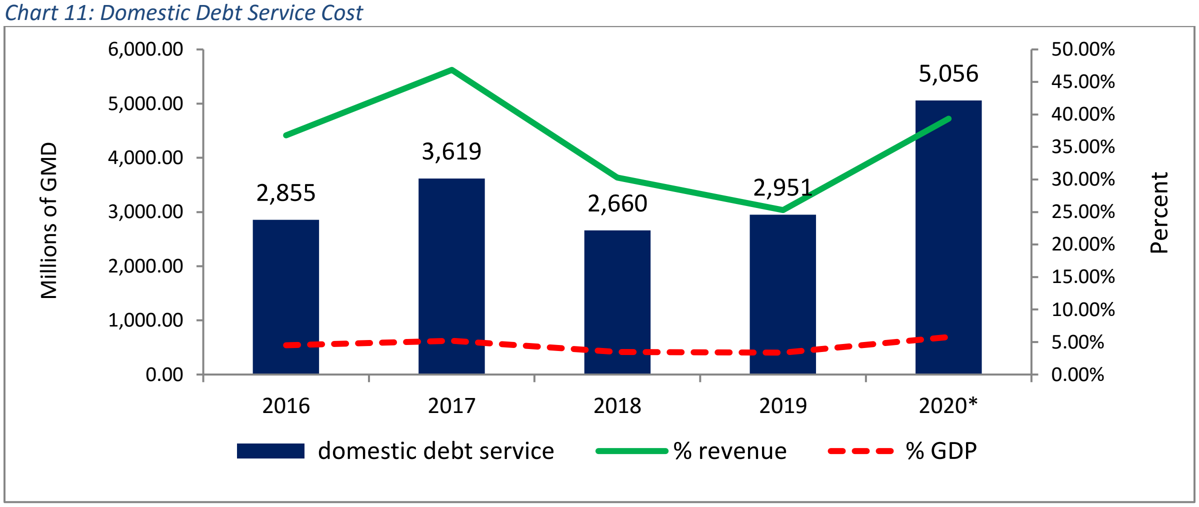
Domestic debt service is projected to increase to D2.95 billion (25 percent of domestic revenue and 3.4 percent of GDP) in 2019 from D2.66 billion (30.3 percent domestic revenue and 3.5 percent of GDP) in 2018. It is projected to increase further to D5.1 billion (39.3 percent of revenue) in 2020 when the 3-year bullet bonds issued in 2017 will mature. Domestic interest payments for the year is projected at D2.4 billion, equivalent to a fifth of domestic revenue relative to D2.06 billion (23.45 percent of revenue) in 2018. It is projected to be D2.30 billion (17.90 percent of revenue) next year, a drop of D50.56 million over the 2019 outturn.

*Chart 10: Outstanding domestic debt trend (2003-19)*




*Source: CBG*

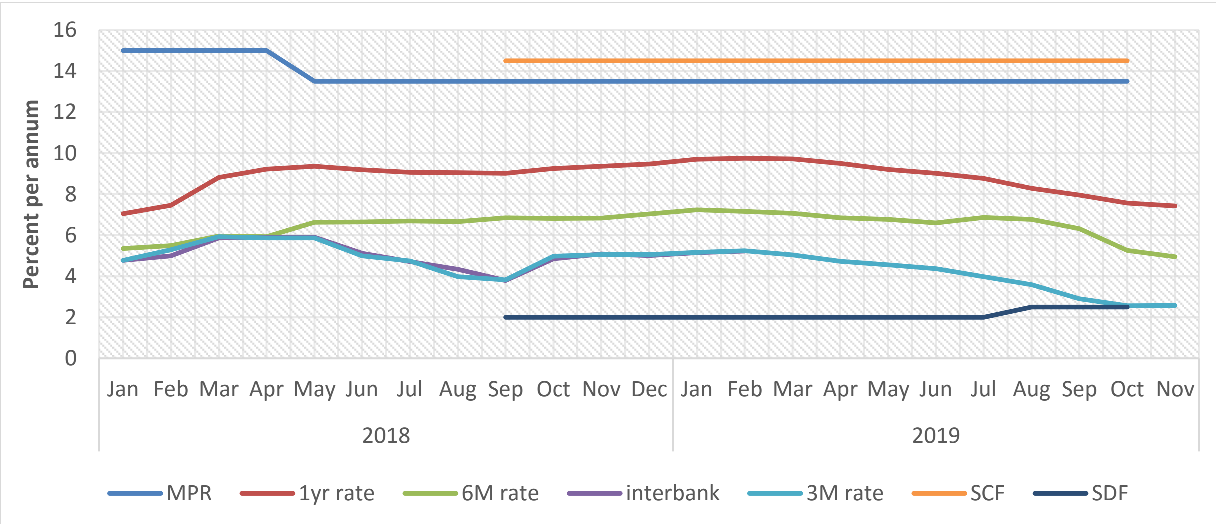
*Chart 11: Domestic Debt Service Cost*




*Source: CBG. Note: 2020 is a projection*

The yields on the 91- day, 182-day, and 364-day Treasury bills declined from 4.97 percent, 6.83 percent, and 9.25 percent at end-October 2018 to 2.56 percent, 5.26 percent, and 7.57 percent respectively at end-October 2019.

*Chart 12: Interest rates corridor*




*Source: CBG*

The government has resumed the issuance of more long-term debt instruments this year to reprofile the short-term domestic debt stock to reduce the refinancing risks. More than half of the existing domestic debt stock is maturities of one year or less. Streamlining the maturity structure is in line with the government's debt management strategy. There is a need for reforms to stabilize the domestic debt. This is because the high level of domestic debt poses a risk to overall macroeconomic stability and has implications for the effectiveness of monetary policy.

*Table 6: Composition of domestic debt ( millions of GMD)*

| Instruments | 2016 | 2017 | 2018 | Nov.11-19 | % change |
|---|---|---|---|---|---|
| | **Actual (millions of GMD)** | | | | |
| Treasury Bills | 17,133.47 | 14,604.92 | 16,538.63 | 18,700.75 | 13.1 |
| sukuk-Al-Salam Bills | 757.74 | 852.04 | 846.09 | 827.68 | (2.2) |
| Treasury Bonds | .00 | 2,226.70 | 2,456.70 | 2,956.82 | 20.4 |
| Nawec Bond | .00 | 1,565.98 | 1,325.06 | 1,144.37 | (13.6) |
| 5% -30 Year Gov't Bond | 10,779.17 | 10,419.86 | 10,060.56 | 9,701.25 | (3.6) |
| Total | 28,670.37 | 29,669.51 | 31,227.04 | 33,330.87 | 6.7 |
| | ***Percent of total debt*** | | | | |
| Treasury Bills | 59.76 | 49.23 | 52.96 | 56.11 | |
| sukuk-Al-Salam Bills | 2.64 | 2.87 | 2.71 | 2.48 | |
| Treasury Bonds | - | 7.51 | 7.87 | 8.87 | |
| Nawec Bond | - | 5.28 | 4.24 | 3.43 | |
| 5% -30 Year Gov't Bond | 37.60 | 35.12 | 32.22 | 29.11 | |

*Source: CBG*

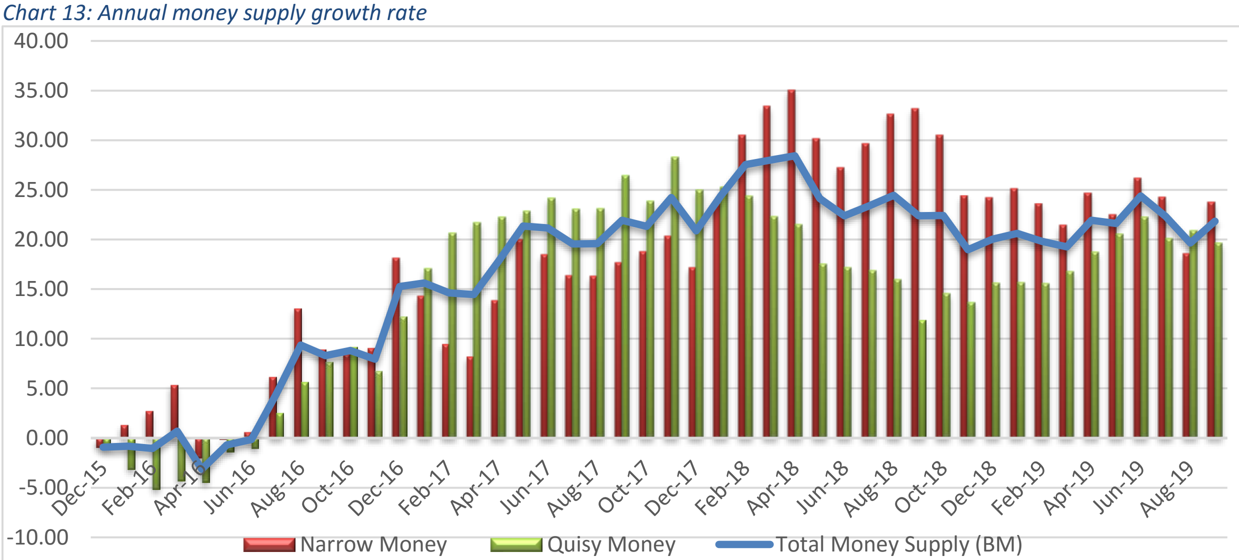
## Monetary Developments

*Money supply growth is strong, supported by the increase in net foreign assets. Private sector credit growth remains solid. The reserve money growth, on the other hand, is contained and in line with expectations.*

The presentation on Monetary Developments indicated that money supply growth declined to 21.8 percent at end-September 2019 compared to 22.4 percent in the corresponding period a year ago. The growth in the money supply was driven largely by the net foreign assets of the banking system.

The net foreign assets of the banking system increased to D14.1 billion as at end-September 2019 from D9.4 billion at end-September 2018. The net foreign assets of the Central Bank expanded by 90.7 percent to D7.2 billion at end-September 2019 from D3.8 billion in the corresponding period last year. Similarly, the net foreign assets of commercial banks grew by 22.8 percent to D6.9 billion during the review period.

*Chart 13: Annual money supply growth rate*




*Source: CBG*

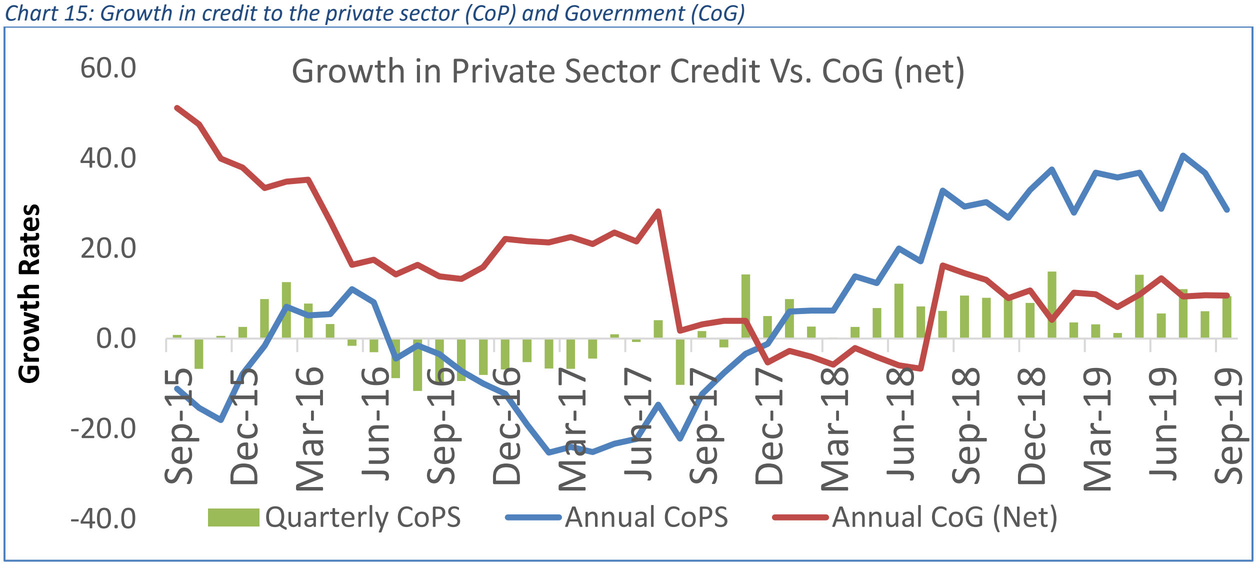
*Chart 14: Summary of monetary developments*

| Key Monetary Aggregates | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Variable | **Level (Millions)** | | **Annual % changes** | | | | | **Quarterly % Changes** | |
| | **Q3,2018** | **Q3,2019** | **18-Sep** | **18-Dec** | **19-Mar** | **19-Jun** | **19-Sep** | **19-Jun** | **19-Sep** |
| NFA (Banking Sector) | 9353.11 | 14122.54 | 32.5 | 61.0 | 59.7 | 66.1 | 51.0 | 6.1 | 4.1 |
| NDA (Banking Sector) | 22786.27 | 25038.24 | 18.7 | 7.8 | 4.8 | 9.2 | 9.9 | 4.7 | 1.9 |
| BROAD MONEY | 32139.38 | 39160.78 | 22.4 | 20.0 | 19.2 | 24.4 | 21.8 | 5.2 | 2.7 |
| Narrow Money | 17266.32 | 21366.60 | 33.2 | 24.2 | 21.4 | 26.2 | 23.7 | 6.1 | 2.5 |
| Quasi-money | 14873.06 | 17794.18 | 11.9 | 15.6 | 16.8 | 22.3 | 19.6 | 4.1 | 2.9 |
| Claims on Gov`t, net | 20809.68 | 22794.34 | 14.5 | 10.7 | 9.9 | 13.4 | 9.5 | 4.1 | 1.8 |
| Claims on Public Entities | 1591.85 | 1182.34 | -2.0 | -28.0 | -24.8 | -24.8 | -25.7 | -6.1 | -3.1 |
| Claims on Private Sector | 5272.92 | 6778.67 | 29.3 | 32.9 | 36.8 | 28.8 | 28.6 | 5.6 | 9.4 |
| Reserve Money | 10998.36 | 13041.68 | 11.8 | 16.5 | 23.3 | 21.2 | 18.6 | 2.2 | -1.0 |

*Source: CBG*

The net domestic assets of the banking system increased to D25.0 billion as at end-September 2019, or by 9.9 percent from a year ago. Net claims on government by the banking system declined to D22.8 billion, or by 9.5 percent compared to an increase of 14.5 percent last year. Private sector credit maintains strong performance after registering an annual growth of 28.6 percent as at end-September 2019, slightly lower than 29.3 percent growth recorded a year ago.

*Chart 15: Growth in credit to the private sector (CoP) and Government (CoG)*

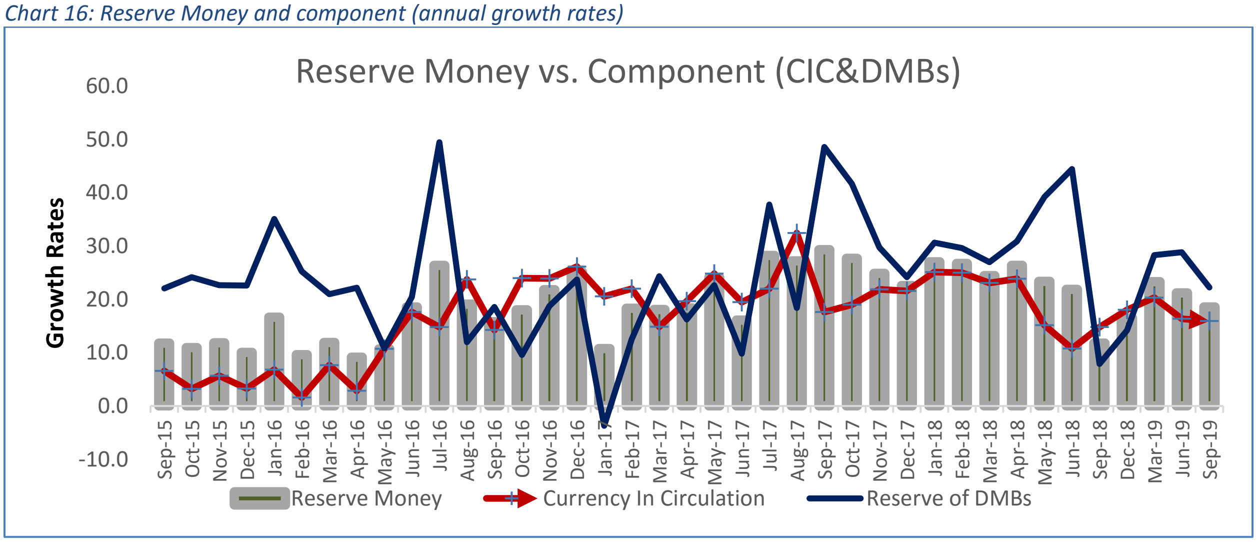



*Source: CBG*

Reserve money grew by 18.6 percent as at end-September 2019 compared to 11.8 percent in the same period last year. Currency in circulation rose by 15.9 percent, higher than 14.8 percent recorded a year ago. Similarly, reserves of commercial banks registered a growth of 22.2 percent compared to 7.9 percent recorded in 2018.

The reserve money growth was contained and in line with expectations. Reserve money growth is expected to remain below target given that the Central Bank has seized financing government deficit, which in the past has proven to be highly destabilizing.

*Chart 16: Reserve Money and component (annual growth rates)*




*Source: CBG*

## Financial Soundness Indicators

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

**Capital and Reserves**

The risk-weighted capital adequacy ratio stood at 32.3 percent as at end-September 2019, higher than the statutory requirement of 10 percent. All the banks were above the minimum capital requirement.

**Assets quality**

The asset base of the industry expanded by 16.1 percent to D49.02 billion as at end-September 2019 from D42.2 billion at end-September 2018. Compared to the previous quarter, total assets decreased slightly by 1.0 percent. Gross loans and advances grew by 24.0 percent to stand at D6.49 billion at end-September 2019 and investments in government securities grew by 15.0 percent. The ratio of non-performing loans to total loans, a measure of asset quality, declined from 6.3 percent at end-September 2018 to 2.5 percent in at end-September 2019.

**Liquidity**

Deposit liabilities increased markedly to D32.7 billion at end-September 2019 or by 24.0 percent from a year ago and accounted for 66.6 percent of the total balance sheet size. Compared to the previous quarter deposits increased by 5.2 percent. The ratio of liquid assets to total assets stood at 61.2 percent as at end-September 2019 compared to 60.2 percent in the same period last year. Liquid assets to deposit ratio was 95.2 percent during the period under review, above the statutory requirement of 30 percent. Treasury bills accounted for 50.0 percent of total liquid assets.

## Microfinance Sector Developments

In the maiden presentation on microfinance institutions, it was revealed that the sector is growing fast in terms of size, complexity, and importance. In this regard, the regulation and supervision of the institutions need to be strengthened. The sector is playing a significant role in the socio-economic development of the country by incorporating into the mainstream financial system citizens that otherwise would not have access to such services.

The microfinance sector in The Gambia comprises three tiers of institutions: The Finance Companies, Fiduciary Financial Institutions, and Savings and Credit Association. As at end-September 2019, the total assets of Finance Companies expanded by 4.4 percent to D1.4 billion compared to D1.2 billion in the same period last year. Total deposits mobilized increased by 24 percent to D1.0 billion during the period under review. Total loans extended increased by 31 percent to D282.9 million as at end-September 2019 from D215.1 million a year ago.

## Business Sentiment Survey

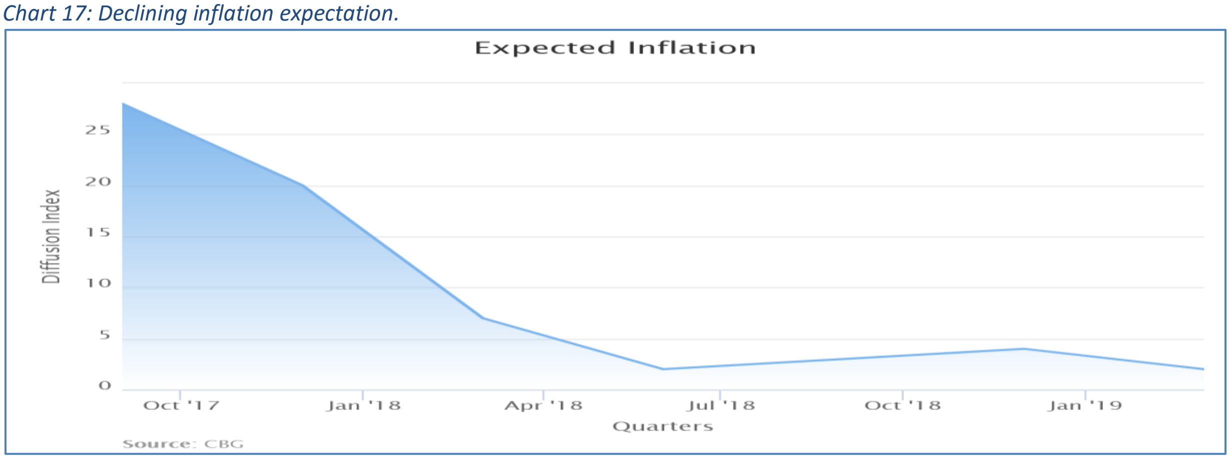
*The Bank's quarterly Business Sentiment Survey indicated that confidence in the economy remains strong and inflation expectations are well-anchored.*

The CBG quarterly Business Sentiment Survey for the second quarter of 2019 shows strong business optimism across sectors of the economy. The majority of respondents reported positive sentiments about the current and expected level of business activity. About 74 percent of the businesses surveyed reported a higher level of economic activity in the third quarter of 2019 compared to the second quarter of 2019.

On the prospects of economic activity in Q4, 2019, more respondents (72 percent) projected a higher level of economic activity compared to the third quarter of 2019. The positive sentiment cuts across all sectors of the economy surveyed led by the construction and distributive trade sectors.

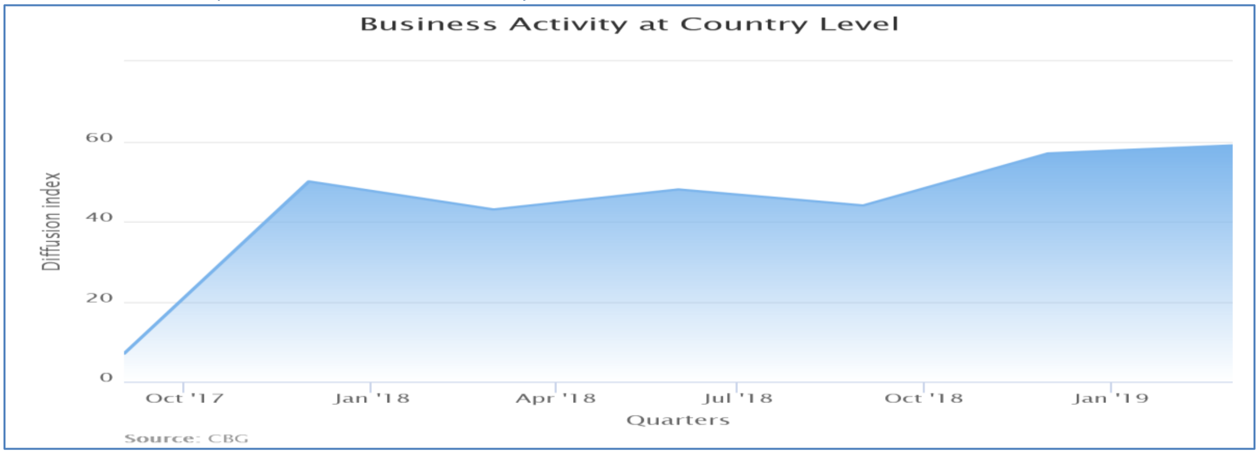
The survey also revealed that inflation expectation is well anchored with about 79 percent of respondents expecting inflation to remain at the current level or decelerate in the fourth quarter of 2019. Only 21 percent of respondents projected a higher level of inflation in the fourth quarter. The largest proportions of respondents who expected stable inflation are in the distributive trade and construction sectors. About 57 percent of respondents in the distributive trade sector and 60 percent in the construction sector anticipated inflation to remain stable in the third quarter of 2019.

*Chart 17: Declining inflation expectation.*




*Source: CBG Business Sentiment Survey*

*Chart 18: Businesses optimism about economic activity*




*Source: CBG Business Sentiment Survey*

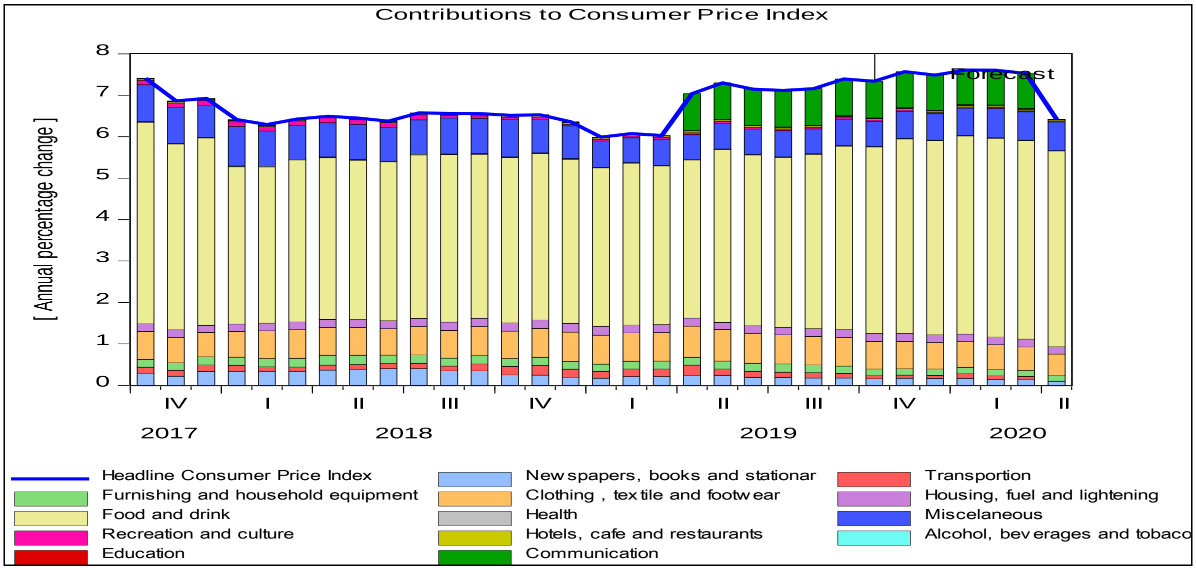
## Inflation Outlook

Inflation has started to decline, due to the deceleration in non-food consumer price inflation. Inflation expectations are well-anchored, and projection is that inflation will continue to decline in the near-term. Headline inflation decelerated by 0.1 percentage point to 7.5 percent in October 2019 from 7.6 percent in September 2019, due to the decrease in major components of non-food inflation. However, it is above the 6.6 percent recorded in the same period last year.

Food inflation increased marginally by 0.1 percentage point to 7.3 percent in October 2019 compared to 7.2 percent in September 2019 and it is above the 6.4 percent recorded in October 2018. The main drivers of food inflation during the period include the price indices of bread cereals, vegetables, fish, and oils and fats.

Non-food inflation, on the other hand, decelerated to 8.0 percent in October 2019 compared to 8.3 percent in September 2019 but it is higher than 6.8 percent recorded last year. The price indices of all the sub-components decreased when compared to the previous month except for alcoholic beverages, health care, and communication.

*Chart 19: Contributions to the consumer price index*




*Source: CBG*

It is the view of the MPC that headline inflation will trend downwards in the near-term, premised on the continued stability of the exchange rate and the well-anchored inflation expectations. Major risks to the outlook, however, continue to be the domestic food supply situation in the light of poor harvest, the impact of the shock to tourism as a result of the collapse of Thomas Cook UK and the uncertainty surrounding global food prices. Similarly, high public debt poses a significant risk to the economy.

## Decision

Taken the above factors into consideration, the Committee decided to maintain the policy rate at 12.5 percent. The Committee also decided to maintain the interest rate on the standing deposit facility at 2.5 percent and the standing lending facility at 13.5 percent (MPR plus 1 percentage point).

The next Monetary Policy Committee meeting is scheduled for Wednesday, February 26, 2020. The meeting will be followed by the announcement of the policy decision on Thursday, February 27, 2020.