CENTRAL BANK OF THE GAMBIA

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.72

November 27, 2019

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The Monetary Policy Committee (MPC) of The Central Bank of the Gambia (CBG) met on Wednesday, November 27, 2019, to assess recent economic developments. This was followed by a meeting to decide on the Monetary Policy Rate and a press conference on Thursday, November 28, 2019. Presentations and discussions of technical papers were held on the first day of the meetings. All nine (9) Committee Members were present.

Present were:

Name	Designation	Role
Mr. Bakary Jammeh	Honorable Governor	Chairman
Dr. Seeku A.K. Jaabi	First Deputy Governor	Member
Mr. Essa A.K. Drammeh	Second Deputy Governor	Member
Mr. Momodou Sissoho		Member
Mr. Baboucarr Jobe	Director, Macroeconomic Policy Analysis Unit, MOFEA	Member
Mr. Paul John Gaye		Member
Mr. Ebrima Wadda	Deputy Director, Economic Research Department	Member
Mr. Amadou S. Koora	Director, Financial Supervision Department	Member
Mr. Karamo Jawara	Director, Banking Department	Member
Mr. Sheriff Touray	Deputy Director, Economic Research Department	Secretary

Report Presenters

Name	Designation
Mr. Alieu Ceesay	Senior Economist, Economic Research Department
Mr. Khalilu Bah Senior	Senior Economist, Economic Research Department
Mr. Abdou Ceesay	Deputy Director, Foreign Department
Mr. Bademba Drammeh	Statistician, Economic Research Department
Mr. Saikou Jammeh	Economist, Economic Research Department
Mr. Mawiyatou Susso	Statistician, Economic Research Department
Mrs. Binta Beyai	Senior Economist, Banking Department
Mrs. Mariama Conateh Gaye	Senior Bank Examiner, Financial Supervision Department
Mr. Pa Lamin Sonko	Senior Microfinance Officer, Microfinance Department

In attendance were:

Name	Designation
Mr. Buah Saidy	Senior Advisor, Office of the Governor
Mr. Bai Senghor	Director, Microfinance Department
Mr. Lamin Bah	Senior Risk Officer, Risk Management Unit
Mr. Siaka Bah	Deputy Director, Microfinance Department
Mr. Omar Janneh	Deputy Director, Administration Department
Mrs. Rohey Khan	Director, Foreign Department
Mrs. Halima Singateh	Deputy Director, Financial Supervision Department
Mr. Mustapha Senghore	Principal Officer, Financial Supervision Department
Mr. Omar Sonko	Principal Auditor, Internal Audit Department
Mr. Amadou Barry	Senior Bank Examiner, Financial Supervision Department
Mrs. Fatou Sanyang	Banking Officer, Banking Department
Hama Jawo	Bank Examiner, Financial Supervision Department
Mr. Ebrima Ceesay	Communication Officer, Administration Department
Mrs. Mariam Bayo	Principal Accountant, Finance Department
Mr. Lamin Bettaye	Legal Officer, Legal Unit
Mr. Ousman Nicol	Senior Bank Examiner, Financial Supervision Department
Mr. Ebrima Jane	Officer, Foreign Department
Mrs. Mariama Ceesay	Statistical Assistant, Economic Research Department

Agenda for The Technical Meeting

1. The agenda of the meeting was adopted as presented.
    I. Adoption of the agenda
    II. Opening remarks by the Chairman
    III. Review of the minutes of the previous meeting and matters arising
    IV. Presentation and discussions of reports
    V. Lunch break
    VI. Presentation and discussion of reports

Review and Adoption of the Previous Meeting Minutes

The meeting agenda was adopted with no amendment.

Opening remarks by the Chairman

2. In his opening remarks, the Governor and Chairman of the MPC stressed the importance of the meeting given that the economy is being confronted with two major shocks. The collapse of Thomas Cook UK which affects tourism, and weather-related shocks to agriculture. In this regard, the decision to be taken by the Committee will be crucial to ensure that macroeconomic stability is maintained.

3. Following his opening remarks, members congratulated the Governor on the award of Honorary Fellowship conferred on him by the Chartered Institute of Bankers of Nigeria in recognition of his role in the promotion of sound financial system in The Gambia. In response, the Governor thanked members and stated that the award is a product of the collective hard work of the Bank's staff and encouraged that we continue to safeguard and consolidate the gains for sustainable economic development.

Review and Adoption of the Previous Meeting Minutes

4. The minutes of the previous meeting were reviewed and adopted after some amendments.

Presentation of Reports:

5. The Committee then proceeded to review and adopt the minutes of the previous meeting after some amendments. This was followed by presentations and discussions on World Economic Outlook (WEO), Banking Sector Developments, Financial Market Developments, and Balance of Payments Developments. The Committee also received and discussed reports on Exchange Rates Developments, Monetary Developments, Government Fiscal Operations, Business Sentiment Survey, Real Sector Developments, Inflation Developments, and a presentation on the assessment of Monetary Policy Stance.

Presentation on the World Economic Outlook

6. The report on the developments in World Economic Outlook indicated that 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 was 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, the Middle East, and emerging and developing Europe.

7. 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.

8. Growth in the emerging market and developing economies is projected to remain modest in 2019. Output growth is expected to moderate from 4.5 percent in 2018 to 3.9 percent in 2019 before rebounding to 4.6 percent in 2020. 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.

9. Consistent with the subdued inflation outlook, most central banks have eased monetary policy stance to support growth. In the United States, the Federal Reserve cut 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.

10. Global inflation continued to soften across the major advanced, and emerging market and developing economies due mainly to weak aggregate demand. Global inflation is expected to average at 3.4 percent in 2019, down from 3.6 percent in 2018. In sub-Saharan Africa, inflationary pressures have moderated. Annual average inflation is projected to decline from 8.0 percent in 2018 to 8.4 percent in 2019 and 8.5 percent in 2020.

11. The Committee noted the broad-based slowdown in the global economy and the significant risks to the outlook. The Committee also observed that central banks around the world reacted aggressively by easing monetary policy to avert deeper slowdown.

12. The Committee lamented that the global slowdown has ramifications for the Gambian economy given that tourism is a key contributor to the domestic economy. In this regard, the Committee recommended diversification of the source markets for tourist and introduce more products to remain competitive. It was, however, observed that the weak global demand and moderate energy prices continue to subdue global inflationary pressures which could lead to deceleration in domestic inflation. Notwithstanding, the rise in cereal prices in recent months, especially rice, has the potential to exert pressure on domestic food inflation, going forward.

13. The Committee tasked the Economic Research Department to provide more in-depth analysis on economic and financial developments in the sub-region.

Presentation on the Domestic Economic Outlook

Banking Sector Developments

14. The report on banking sector developments indicated that the financial sector remains well-capitalized, highly liquid, and profitable. All the banks were above the minimum capital requirement. The risk-weighted capital adequacy ratio stood at 32.3 percent as at end-September 2019, higher than the statutory requirement of 10 percent. The ratio of non-performing loans to total loans stood at 2.5 percent at end-September 2019, lower than 6.3 percent at end-September 2018, largely reflecting enhanced credit administration process and effective loan recovery measures.

15. Deposit liabilities increased markedly to D32.7 billion at end-September 2019 or 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, above the statutory requirement of 30 percent. Treasury bills accounted for 50.0 percent of total liquid assets.

16. The asset base of the industry expanded by 16.1 percent to D49.02 billion as at end-September 2019 from D42.2 billion 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 and investments in government securities grew by 15.0 percent during the period.

17. The Committee welcomed the continued stability of the banking system which is a result of prudent regulation and supervision. The MPC noted the improvements in key financial soundness indicators but cautioned that non-performing loans to the construction sector need to be closely monitored given that the real estate companies are not currently regulated.

18. The Committee re-echoed the need for the banking system to prioritize cybersecurity as the financial landscape is getting more complex. In addition, regulation and supervision should adjust in tandem with developments of the financial sector.

Microfinance Sector Developments

19. 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.

20. 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.

21. The Committee commended the Microfinance Department on their maiden presentation that provided more coverage and understanding of the financial system. The Committee further stated that financial inclusion has emerged as a major policy priority for the Bank. Against this backdrop, the Bank is collaborating with stakeholders to draw a national financial inclusion strategy with the objective of promoting access to finance, and microfinance institutions are major players in this regard. The strong performance of the sector is a demonstration of the growing confidence in the microfinance sub-sector.

22. The Committee, however, indicated that there is need to strengthen regulation and supervision of the sector, given that the asset base of some of the intuitions are larger than some small banks in the country. However, it was recommended that this should be done without compromising the basic tenets of microfinance. In this regard, the legal and regulatory framework should be reviewed to reflect the status quo. There should be uniformity in the financial system when it comes to the legal framework and there should be proportionality in regulation that balances risks and gains. The Committee, therefore, tasked the Financial Supervision and Microfinance Departments to collaborate to draw up a comprehensive program that will aim at strengthening regulation and supervisions of the non-bank deposit-taking financial instructions.

Money Market Developments

23. The presentation on Financial Market developments shows that The Gambia's domestic debt remains high. 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, 4.3 percent lower than D13.9 billion in October 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 create fiscal space, and reduce the refinancing risks of the domestic debt, in line with its debt management strategy.

24. Domestic debt service is projected to increase to D2.95 billion (25 percent domestic revenue and 3.4 percent of GDP) from D2.66 billion (30.3 percent domestic revenue and 3.5 percent of GDP). 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.

25. 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.

26. The Committee was informed that a provision has been made in the national budget for the redemption of the bonds maturing next year. However, there is a possibility for a rollover if conditions permit.

27. The Committee was also informed that 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 of maturities of one year or less, and streamlining the maturity structure is in line with the government's debt management strategy. The Committee commended the move and urged the Treasury Bills Committee and Banking Department of the Bank to work in close collaboration with the Ministry of Finance to ensure that it is successfully implemented.

28. The Committee also reechoed the need for broader reforms to stabilize the domestic debt. This is because the high level of domestic debt poses a risk to overall macroeconomic stability.

External Sector Developments

29. The report on 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 increase 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.

30. 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 increase 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.

31. 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.

32. The Committee observed that the effect of the Collapse of Thomas Cook UK is yet to be reflected in tourism arrival numbers. It was, however, noted that it was early to fully assess the impact of the shock which happened in September 2019.

33. The Committee also stated that the favorable current account position will help improve the stability of the exchange rate and by extension dampen inflationary pressures. However, the real appreciation of the exchange rate of the dalasi could negatively affect domestic exports, especially tourism.

Foreign Exchange Market Developments

34. 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.

35. 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.

36. Following the presentation of developments in the foreign exchange rate market, the Committee concluded that barring unforeseen shocks, the dalasi is expected to remain stable in the near-term on the back of favorable supply conditions and market confidence. This is predicated on robust remittance inflows, which is expected to exceed US$300 million in 2019, and a minimal impact of the collapse of Thomas Cook UK on tourism. However, inflows from groundnut exports are expected to fall due to poor harvest.

37. The Committee, however, noted that demand pressures on the exchange rate may emanate from the increase in food imports given the poor harvest, energy, and importation of construction materials to support the booming real estate sector.

Real Sector

38. 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.

39. Economic growth is projected to remain robust in 2019. However, there are significant risks to the growth outlook. The collapse of Thomas cook that may affect tourism and related activities. In addition, the impact of erratic rains on agricultural production. The cropping season in 2019 was characterized by the late start of rainfall and intermittent dry spells that affected crop performance.

40. The preliminary findings of the Mid-Season-Assessment conducted by the Ministry of Agriculture (MOA) revealed a marked decline in crop production. Both cereal and cash crop 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 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.

41. The Committee noted that the economy may not experience the full impact of the Thomas Cook UK shock going by recent data. The Committee, however, observed that the shock to agriculture due to poor weather conditions would have significant effect on output growth. It also has implications on the drive to reduce poverty given that a significant proportion of the rural folks rely on agriculture for food and income. The Committee maintained that monetary policy will remain supportive of the real sector as the economy emerges from the shocks.

Monetary Developments

42. The presentation on Monetary Developments indicated that money supply growth moderated 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.

43. The net foreign assets of the banking system increased to D14.1 billion as at end-September 2019, from D9.4 billion in 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.

44. 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.

45. 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.

46. The Committee noted the strong growth in money supply which was driven by the healthy net foreign asset position of both the Central bank and Commercial banks. The Committee also stated that strong credit expansion is in line with efforts to encourage commercial banks to lend to the private sector.

47. The Committee observed that reserve money growth was contained and in line with expectations. Reserve money growth is expected to remain controlled given that the Central Bank has ceased financing government deficit, which prior to 2017 was highly destabilizing. Going forward, the Committee expects this to help dampen inflationary pressures.

Government Fiscal Operations

48. 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.

49. 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.

50. 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) a 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.

51. The Committee commented that the improvement in fiscal position will help stabilize the public debt. The Committee re-echoed the need for comprehensive reforms to attain fiscal sustainability.

Business Sentiment Survey

52. According to the Bank's quarterly Business Sentiment Survey, confidence in the economy remains strong and most respondents reported a higher level of activity in the third quarter of 2019 than in the second quarter. Inflationary expectations also remain well-anchored with majority of respondents projecting lower inflation in the fourth quarter of 2019.

53. Commenting on the findings of the survey, the Committee stated that information about business expectations assists in the formulation of policy decisions as it provides useful indications about current and future economic activity. The findings suggest expectations of sustained economic performance, and moderate inflationary pressures. Given that expectations play important role in shaping economic behavior, it is prudent to project that inflation will remain stable in the near-term, barring unforeseen shocks.

Inflation Outlook

54. Inflation has started to decelerate, 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.

55. 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.

56. 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.

57. The Committee is of the view that headline inflation will continue to 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 and the uncertainty surrounding global food prices. Similarly, the high public debt poses a significant risk to the economy.

Agenda for Day-2 of the MPC Meeting

a. Welcome Remarks by Chairman
b. Summary Report by the First Deputy Governor
c. Deliberations
d. Decision
e. Press Conference by the Chairman

58. The Monetary Policy Committee (MPC) reconvened on Wednesday, November 28, 2019, to decide on the direction of monetary policy. The deliberations were followed by a press conference by the Governor and Chairman of the MPC.

59. In his opening remarks, the Chairman welcomed members and attendees to the meeting, followed by a summary of the presentations and discussions of the technical meeting by the first Deputy Governor.

Deliberations

60. The Committee observed that global growth in 2019 remains weak and the outlook characterized by rising policy uncertainties and sustained macroeconomic vulnerabilities. The weak global demand will have negative implications for the

Gambian economy through a potential decline in tourism and other exports. However, subdued global inflation implies lower imported prices. Nonetheless, the increase in cereal prices globally is a risk to the domestic inflation outlook.

61. In the domestic economy, there is increased optimism on the growth prospects. The Committee, however, noted the potential impact on the economy of the shocks to agriculture due to weather-related factors, and the effect of the collapse of Thomas Cook on tourism.

62. The continued improvement in the current account of the balance of payments due to the steady increase in remittance inflows and tourism receipts would support the stability of the exchange rate. This is further bolstered by the strong external reserve position of the Central Bank.

63. The overall budget deficit has narrowed in the first nine months of 2019, largely reflects the government's commitment to stick to the path of fiscal consolidation.

64. The financial soundness indicators (FSIs) indicated that the banking system remains stable, safe and sound, with adequate liquidity and high profitability.

65. The Committee concluded that inflation will trend downwards in the medium-term toward the Bank's target of 5.0 percent.

Decision

66. 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).

67. The next Monetary Policy Committee (MPC) 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.