CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

August 2019

The Central Bank of The Gambia (CBG) Monetary Policy Report provides summary of reports presented 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 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 the Bank's medium-term inflation objective of 5 percent. In addition, the MPC meets to set the monetary policy rate (MPR) to signal 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 (MPR). 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.

Contents

Executive Summary

The Monetary Policy Committee of the Central Bank of The Gambia met on August 28, 2019, to assess economic and financial sector developments in the first quarter of 2019 and the prospects for the remainder of 2019. The Committee met again on August 29, 2019, to decide on the direction of monetary policy. The meeting was followed by the announcement of the policy decision. The meeting was attended by all the nine (9) members of the Committee.

Since the May 2019 MPC meetings, global growth momentum has continued to moderate, largely due to escalating trade tensions between the United States and China, increased concern with regards to the resolution of Brexit, heightened geo-political tensions, and volatility in international oil prices. The heightened policy uncertainty continues to weigh on business confidence, investment, and trade growth. These developments also pose significant risks to the stability in the global financial markets.

Inflationary pressures in advanced economies remained relatively subdued as a result of low energy prices, weak demand on consumer durables, and sluggish wage growth. Inflation remains subdued in the Emerging Markets and Developing Economies as well. Financial conditions are easing with most central banks shifting to more accommodative monetary policy stance to aid growth given the low inflationary environment.

In The Gambia, economic activity remains strong and the prospects are high. The Central Bank's Composite Index of Economic Activity (CIEA) suggests that economic activity will strengthen further in 2019, supported mainly by the services sector including tourism and trade, financial services and insurance, as well as transport and telecommunication. However, there are significant risks to the growth outlook, including the effect of climatic factors such as delayed and inadequate rainfall on agriculture. The high level of public debt remains a risk to the overall macroeconomic stability. In 2018, the economy expanded by a robust 6.5 percent, higher than 4.8 percent in 2017.

The Central Bank continued to pursue accommodative monetary policy to support credit growth. However, the Monetary Policy Committee maintained the policy rate at 12.5 percent after some temporary factors caused inflation to accelerate.

The MPC noted the sudden acceleration in headline inflation to 6.9 percent and 7.5 percent in April and May 2019 respectively. This development was due to the sharp increase in postal charges in April, the effect of the Ramadan, and the recent increase in fuel prices. Inflation has since decelerated and stabilized at 7.3 percent in June and July 2019.

The current account deficit narrowed to US$25.8 million (1.5 percent of GDP) in the first half of 2019 compared to a deficit of US$26.7 million (1.7 percent of GDP) in the corresponding period in 2018. The improvement in the current account balance is attributed to the increase in foreign inflows related to the support from development partners, diaspora remittances, and tourism. The Central Bank continues to maintain adequate level of international reserves, which stood at US$210.37 million (equivalent to over 4 months of import cover) at the end of July 2019.

The improvement in the current account supported the stability of the foreign exchange market. Supply conditions improved, thanks to increased inflows from private remittances, higher receipts from tourism, and official inflows from development partners. From December 2018 to July 2019, the dalasi appreciated against the pound sterling and euro by 0.6 percent and 1.2 percent, respectively. However, it depreciated against the U.S. dollar by 0.9 percent and CFA franc by 1.2 percent.

Preliminary data on government fiscal operations for the first six months of 2019 indicate that overall budget deficit (including grants) of D0.2 billion (0.2 percent of GDP) compared to a deficit of D2.3 billion (2.9 percent of GDP) in the first half of 2018. This reflects improved revenue performance and decline in capital expenditure and interest payments.

The banking system remains fundamentally sound. The sector is well-capitalized, profitable, and highly liquid. The ratio of non-performing loans to gross loans declined to 2.3 percent at end-June 2019 from 2.7 percent a year ago, thanks to improved risk management in the industry, effective loan recovery measures, and smart regulation. Financial intermediation continues to increase with strong private credit growth.

In conclusion, the near-term growth outlook for The Gambian economy remains strong. However, risks to the near-term remain including climatic factors such as delayed and inadequate rainfall on agriculture. In the medium-term, growth projects hinges largely on comprehensive reform of the national budget to create enough fiscal space for development spending, reform of the state-owned enterprises, increased spending in agriculture to make it less reliant on rain, and strict implementation of the debt management strategy.

In view of the above developments, the Committee decided to maintain the Monetary Policy Rate at 12.5 percent. The Committee also decided to increase the interest rate on the standing deposit facility (SDF) by 500 basis points to 2.5 percent. The interest rate on the standing lending (SLF), however, was maintained at 13.5 percent, that is, MPR plus one percent. The Committee will continue to closely monitor domestic and international economic developments and stands ready to act accordingly as and when necessary.

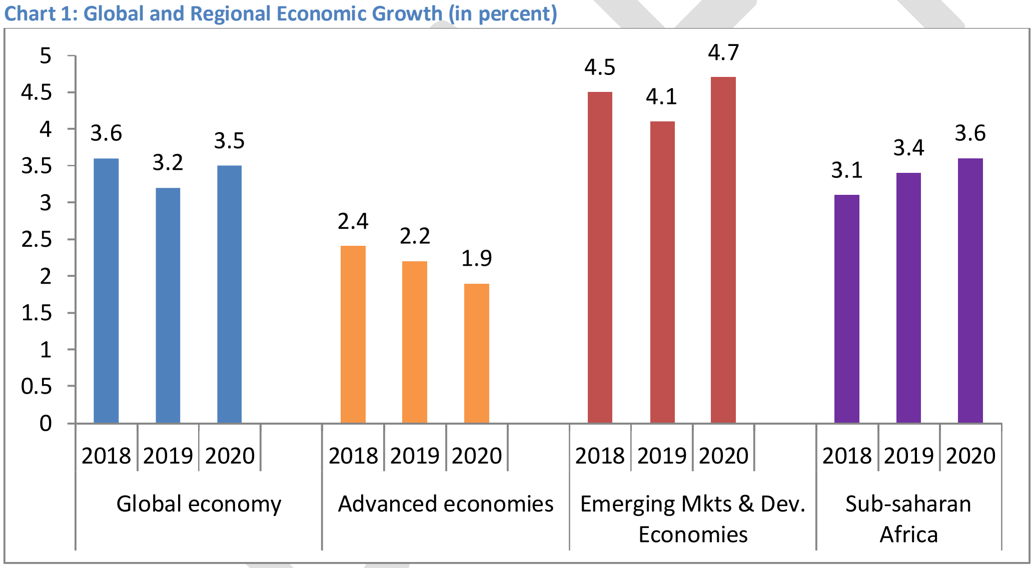
1. Global Economic Outlook

The global growth momentum has weakened and the risks are mounting. However, inflation remains broadly subdued and financial conditions have eased.

Global growth

The global economy has continued to soften on the back of heightened policy uncertainty especially related to the on-going trade tensions, increased concern with regards to the resolution of Brexit, heightened geo-political tensions, and volatility in international oil prices. The International Monetary Fund (IMF) in July 2019 revised downwards global growth projection for 2019 to 3.2 percent, 0.1 percentage points lower than the April 2019 projection of 3.3 percent. Although growth is expected to pick up to 3.5 percent in 2020, the risks to the outlook are largely tilted to the downside. The uncertainties continue to weigh on business confidence, investment, and trade.

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



Source: IMF World Economic Outlook, July 2019

For advanced economies, output growth is projected at 1.9 percent in 2019 and 1.7 percent in 2020, supported largely by the higher-than-expected growth in the United States. Economic growth significantly improved in the United States to 2.6 percent, 0.3 percentage points higher than projected in April, on the back of a robust exports and inventory accumulation. Growth in the European Union is projected to remain at 1.3 percent in 2019 and slightly higher to 1.6 percent in 2020 (0.1 percentage points higher than April projections).

Economic activity is expected to remain relatively subdued in the emerging market and developing economies, due largely to the slowdown in global trade. Real GDP growth for the region is forecast at 4.1 percent in 2019 before picking up to 4.7 percent in 2020. Trade and investment in the region are negatively affected by the ongoing trade tensions between United States and China. Output growth in China is projected to decline to 6.2 percent in 2019 from 6.4 percent in 2018. Activity growth in India is expected to remain strong at 7.0 percent in 2019 compared to 6.8 percent in 2018.

In sub-Sahara Africa, economic growth is projected at 3.4 percent in 2019 and 3.6 percent in 2020, supported mainly by strong growth in many non-resource rich countries. However, activity growth remains weak in the region's largest economies including Nigeria, South Africa, and Angola.

Table 1: Global growth estimates

			Projections		Difference from April 2019 Projections	
	2017	**2018**	**2019**	**2020**	**2019**	**2020**
World Output	3.8	3.6	3.2	3.5	-0.1	-0.1
Advanced Economies	2.4	2.2	1.9	1.7	0.1	0
United State	2.2	2.9	2.6	1.9	0.3	0
Euro Area	2.4	1.9	1.3	1.6	0	0.1
Japan	1.9	0.8	0.9	0.4	-0.1	-0.1
United Kingdom	1.8	1.4	1.3	1.4	0.1	0
Canada	3	1.9	1.5	1.9	0	0
Other Advanced Economies	2.9	2.6	2.1	2.4	-0.1	-0.1
Emerging Mkts & Dev. Economies	4.8	4.5	4.1	4.7	-0.3	-0.1
Commonwealth of Ind. States	2.2	2.7	1.7	2.4	-0.3	0.1
Emerging Mkts & Dev. Asia	6.6	6.4	6.2	6.2	-0.1	-0.1
Emerging Mkts & Dev. Europe	6.1	3.6	1	2.3	0.2	-0.5
Latin America & Caribbean	1.2	1	0.6	2.3	-0.8	-0.1
Middle East & North Africa	2.1	1.6	1	3	-0.5	-0.2
Sub-Saharan Africa	2.9	3.1	3.4	3.6	-0.1	-0.1

Source: IMF World Economic Outlook, July 2019

Global Interest Rates

Since June 2019, a number of Central Banks have signaled a shift in monetary policy stance, on the back of softening inflationary pressures and increasing downside risk to growth. In July 2019, the United States Federal Reserve cut interest rates for the first time in more than a decade amid uncertainty around global growth and low inflation. The European Central Banks warned to keep its interest rate at current level at least until mid-2020. Other Central Banks around the world communicated a cautious approach in view of the outlook.

Global Inflation

Global inflation estimated to average 3.6 percent in both 2019 and 2020. In advanced economies inflation has been well contained below 3 percent since 2009. Among emerging markets and developing economies, inflation has edged up slightly to from 4.8 percent in 2018 to 4.9 percent in 2019, and is projected to decline to 4.7 percent in 2020.

2. Domestic Economy

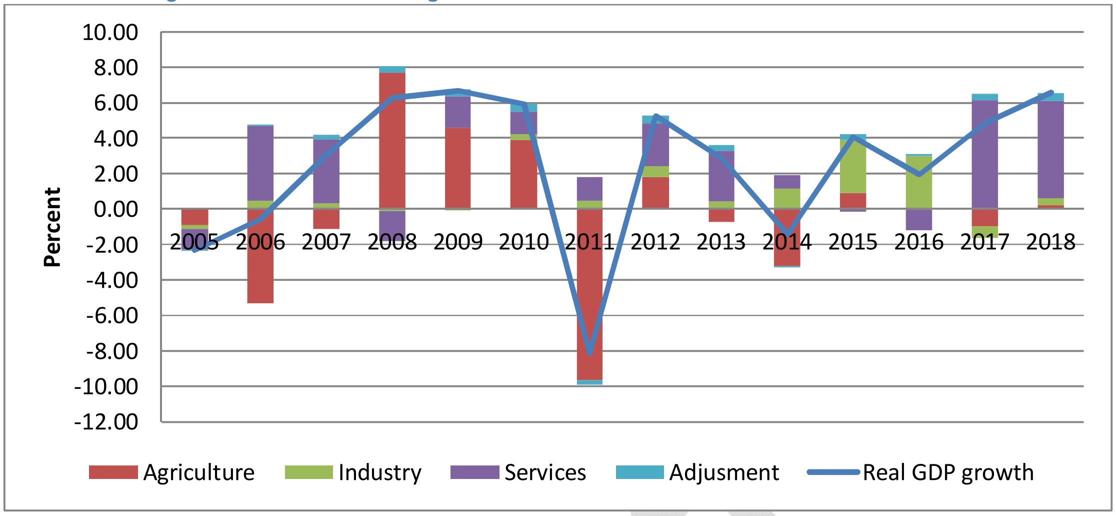
2.1 Real Sector Developments

In The Gambia, the economic outlook is positive, although the climatic factors such as late rains pose a major risk to agricultural production.

The Central Bank's Composite Index of Economic Activity (CIEA) suggests that economic activity remained robust in the first half of 2019 and points to stronger growth in the second half of the year. The Bank's quarterly Business Sentiment Survey also shows strong optimism among businesses with regards to the economic growth prospects. However, climate-related factors such as late rainfall may affect agricultural production.

According to the Gambia Bureau of Statistics (GBoS), real GDP growth stood at 6.5 percent in 2018 compared to 4.8 percent in 2017, driven mainly by the services sector including tourism and trade, financial services and insurance, as well as transport and telecommunication.

Chart 2: Percentage contribution to real GDP growth



Source: Gambia Bureau of Statistics and CBG staff estimates

2.2 Balance of Payments

The current account of the Balance of payments (BOP) continues to be supported by official inflows from development partners, and increases in diaspora remittances, and receipts from tourism.

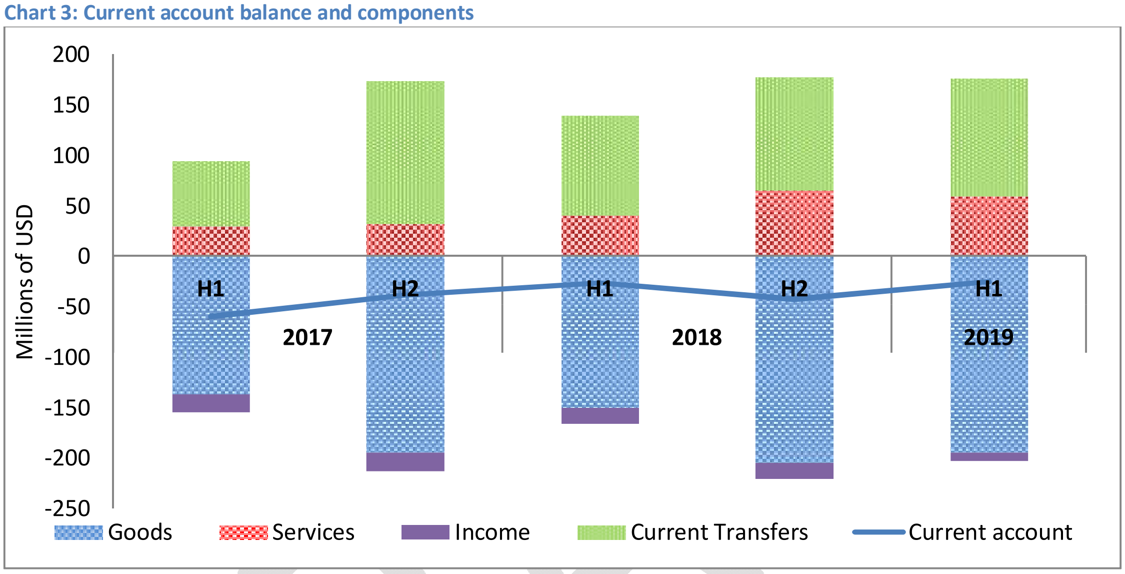
Preliminary balance of payments estimates indicate that the current account deficit narrowed to US$25.8 million (1.5 percent of GDP) in the first half of 2019 compared to a deficit of US$26.7 million (1.7 percent of GDP) in the corresponding quarter in 2018. The improvement in the current account balance is largely attributed to the increase in foreign inflows related to the support from development partners, diaspora remittances, and tourism.

The deficit in the goods account, however, widened to US$194.6 million (11.0 percent of GDP) in the first six months of 2019 compared to US$150.0 million (9.3 percent of GDP) in the corresponding period in 2018. Imports rose to US$277.7 million or by 29.8 percent in the first half of 2019 from US$214.0 million in the same period in 2018. Exports also increased by 35.6 percent to US$74.4 million during the period under review.

The services account balance, on the other hand, registered a surplus of US$59.7 million in the first six months of 2019, higher than a surplus of US$40.5 million a year ago, explained largely by the increase in tourist arrivals. The income account balance improved to a deficit of US$7.7 million compared to US$13.3 million in the corresponding period a year earlier.

Current transfers, which comprises mainly of general government inflows and diaspora remittances, registered a net inflow of US$116.7 million in the first half of 2019 compared to a net inflow of US$98.6 million in the same period of 2018, representing an increase of 18.4 percent.

Chart 3: Current account balance and components



Source: CBG

The capital and financial account balance registered a surplus of US$38.3 million in the first six months of 2019, higher than a surplus of US$12.8 million a year ago. The improvement is attributed largely to the increase in foreign direct investments, other investments, and change in reserve assets. Gross official reserves stood at US$197.7 million, equivalent to 4.9 months of prospective import of goods and services.

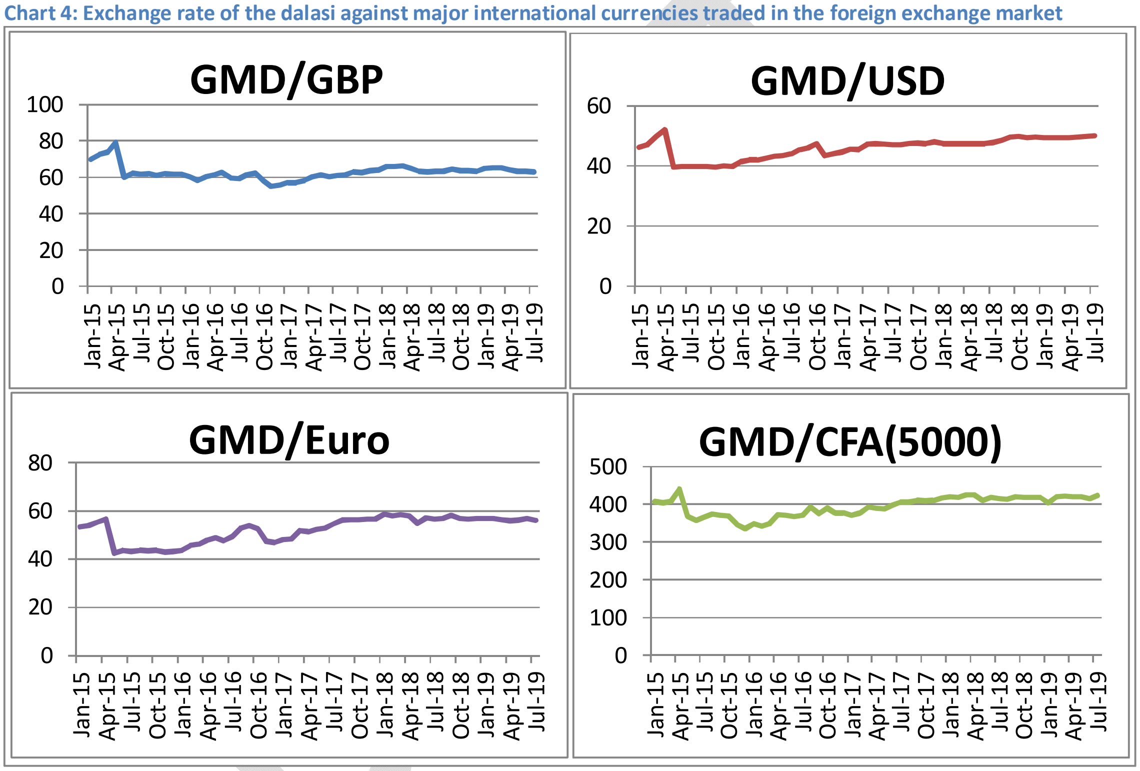
2.3 Exchange rate Developments

The improvement in the current account continued to support the stability of the exchange rate of the dalasi in the foreign exchange market.

The foreign exchange market continues to function smoothly, thanks to increased confidence and improved supply conditions. From January to July 2019, volume of transactions measured by the aggregate of purchases and sales of foreign currency increased by 14.0 percent to US$1.3 billion. During the period, purchases of foreign currency, which indicates supply, increased by 14.4 percent to US$666.7 million from US$508.5 million a year ago? Similarly, sales of foreign currency increased to US$662.6 million during the period compared to US$508.6 million last year.

The exchange rate of the dalasi continues to be supported by inflows from private remittances, higher receipts from tourism, and official inflows from development partners. From December 2018 to July 2019, the dalasi appreciated against the pound sterling and euro by 0.6 percent and 1.2 percent, respectively. However, it depreciated against the U.S. dollar by 0.9 percent and CFA franc by 1.2 percent.

Chart 4: Exchange rate of the dalasi against major international currencies traded in the foreign exchange market



Source: CBG

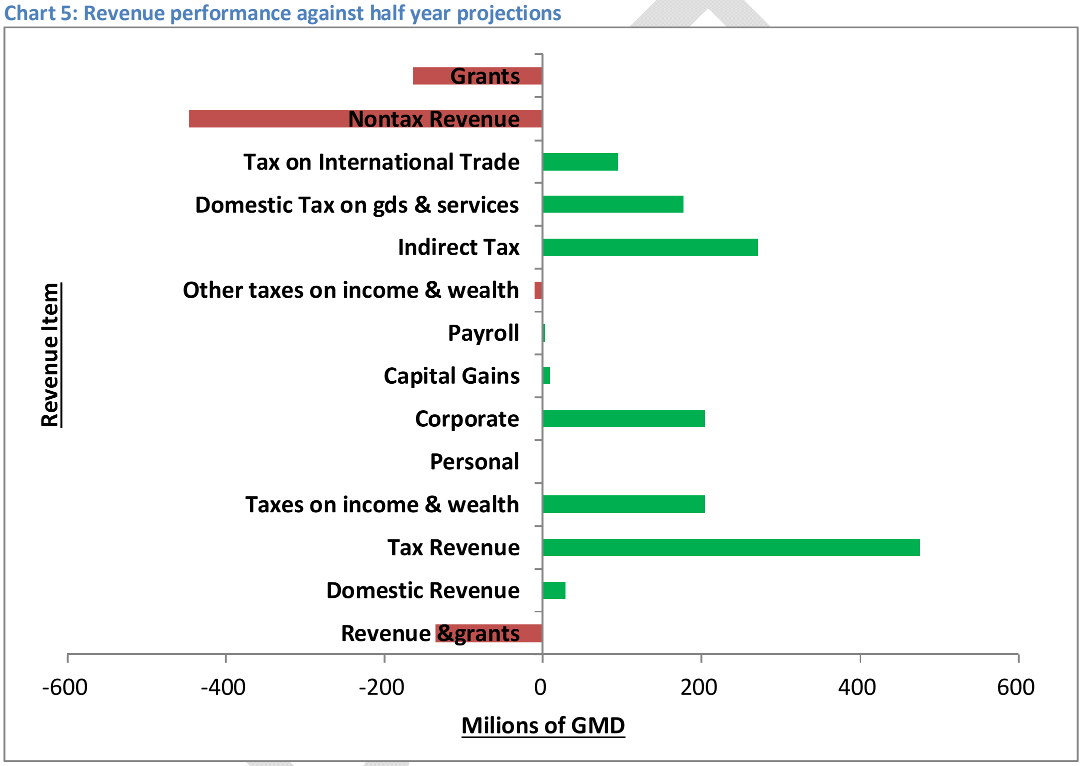
2.4 Fiscal Development

Government fiscal operations for the first half of 2019 resulted in a lower budget deficit compared to the corresponding period a year ago.

Preliminary data on government fiscal operations for the first six months of 2019 indicated that the budget deficit (including grants) narrowed to D0.19 billion (0.2 percent of GDP) in the first six months of 2019 compared to a deficit of D2.3 billion (2.8 percent of GDP) in the corresponding period a year ago. The budget deficit (excluding grants) also improved to a deficit of D3.1 billion (3.5 percent of GDP) in the first six months of 2019 compared to a deficit of D4.5 billion (5.7 percent of GDP) in the corresponding period of the previous year.

Total revenue and grants stood at D8.6 billion (9.8 percent of GDP) compared to D6.9 billion (8.6 percent of GDP) in the same period last year. Domestic revenue, comprising tax and non-tax revenues, rose by 23.9 percent to D5.7 billion (6.5 percent of GDP) from D4.6 billion (5.8 percent of GDP) a year ago. Tax revenue also rose by 23.7 percent to D5.2 billion (5.9 percent of GDP) in the first half of the year from D4.2 billion (5.3 percent of GDP) in the corresponding period year ago.

Chart 5: Revenue performance against half year projections



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

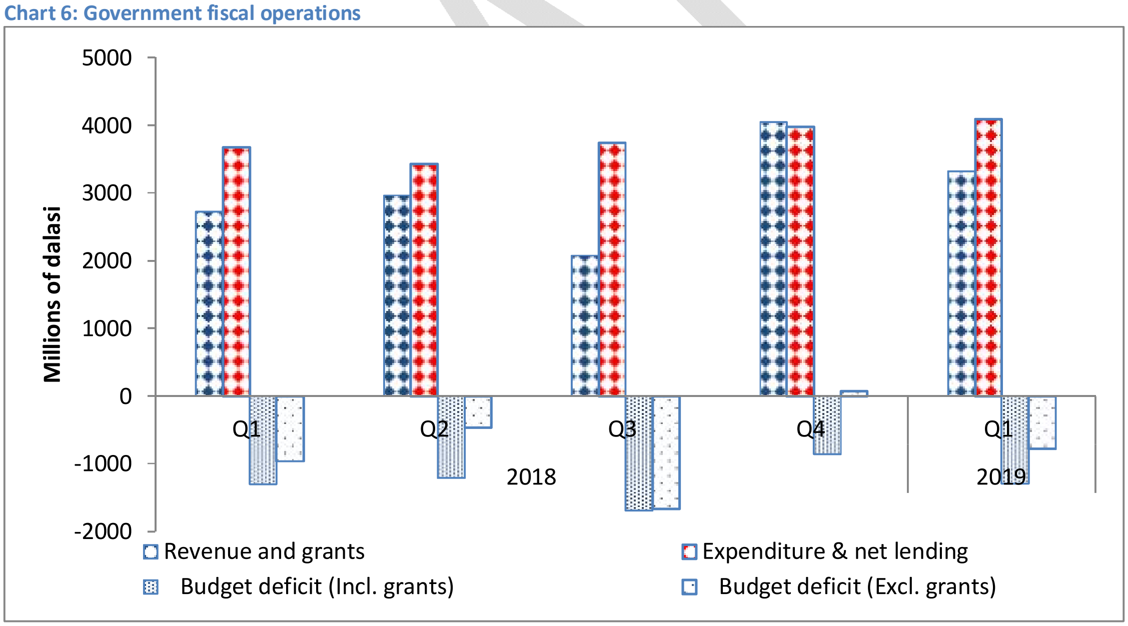
Government expenditure and net lending for the first six months of 2019 declined to D8.8 billion (10.0 percent of GDP) from D9.2 billion (11.5 percent of GDP) in the first six months of 2018. Recurrent expenditure increased by 16.0 percent to D5.8 billion (6.6 percent of GDP) compared to D5.0 billion (6.3 percent of GDP) in the first half of 2018. Recurrent expenditure accounted for 66.0 percent of total expenditure and net lending, and 102.0 percent of domestically generated revenue. Of the components of recurrent expenditure, wages and salaries, and other charges respectively increased by 35.2 percent and 10.2 percent to D2.0 billion and D2.6

billion in the first half of 2019. This implies that government spent up to 79.6 percent of domestic revenue generated in the first six months of 2019 on paying salaries and procuring goods and services.

Total interest payments increased by 3.5 percent to D1.3 billion in the first half of 2019 from D1.2 billion in the earlier year, due to the increase in domestic interest payments. From January to June 2019, domestic interest payments increased to D1.1 billion from D1.0 billion in the corresponding period a year ago, or by 4.3 percent. In contrast, external interest payments declined from D179.6 million in the first half of 2018 to D177.8 million in the first half of 2019. Interest payments accounted for 14.2 percent of total expenditure and 21.9 percent of domestic revenue.

Capital expenditure, on the other hand, declined by 27.9 percent to D3.0 billion (3.4 percent of GDP) from D4.1 billion (5.2 percent of GDP) in the same period last year. This decline is due to the lower-than-expected grant receipts.

Chart 6: Government fiscal operations



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

Table 2: Overall Fiscal Balance

	2017H1	2017H2	2018H1	2018H2	2019H1
Budget Balance (Inxcl. grants)	-4520.0	-4752.2	-4540.5	-4799.7	-3074.9
Percent of GDP	*-6.5*	*-6.8*	*-5.7*	*-6.0*	*-3.5*
Budget Balance (Excl. grants)	-3014.2	-653.3	-2291.1	-2396.5	-194.4
Percent of GDP	*-4.3*	*-0.9*	*-2.9*	*-3.0*	*-0.2*
Basic balance	-690.1	-2179.1	-711.8	-828.6	-502.6
Percent of GDP	*-1.0*	*-3.1*	*-0.9*	*-1.0*	*-0.6*
Basic Primary Balance	703.1	-191.7	496.2	440.0	747.8
Percent of GDP	*1.0*	*-0.3*	*0.6*	*0.6*	*0.9*

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

Table 3: Total revenue and grants

	2017H1	2017H2	2018H1	2018H2	2019H1
Revenue & grants	5385.1	7942.7	6866.6	7600.1	8601.9
Percent of GDP	7.8	11.4	8.6	9.5	9.8
Domestic Revenue	3879.3	3843.8	4617.3	5196.9	5721.4
Percent of GDP	*5.6*	*5.5*	*5.8*	*6.5*	*6.5*
Tax Revenue	3460.4	3638.9	4207.7	3895.9	5205.8
Percent of GDP	*5.0*	*5.2*	*5.3*	*4.9*	*5.9*
Taxes on income & wealth	1063.9	868.4	1142.6	870.8	1553.5
Personal	397.7	373.1	439.9	345.6	513.0
Corporate	554.1	440.4	605.3	464.0	918.0
Capital Gains	45.5	22.2	34.1	31.9	46.0
Payroll	46.1	7.5	37.8	5.7	47.3
Other taxes on income & wealth	20.6	25.1	25.5	23.6	29.4
Indirect Tax	2396.5	2770.5	3065.1	3025.1	3652.3
Domestic Tax on gds & services	795.5	907.3	1091.8	1031.8	1265.2
Tax on International Trade	1600.9	1863.2	1973.3	1993.3	2387.1
Nontax Revenue	418.9	205.0	409.6	1301.0	515.6
Percent of GDP	*0.6*	*0.3*	*0.5*	*1.6*	*0.6*
Grants	1505.8	4098.9	2249.3	2403.2	2880.5
Percent of GDP	*2.2*	*5.9*	*2.8*	*3.0*	*3.3*

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

Table 4: Total government expenditure and net lending

	2017H1	2017H2	2018H1	2018H2	2019H1
Expenditure and Net Lending	8399.3	8596.0	9157.8	9996.6	8796.4
Percent of GDP	*12.1*	*12.4*	*11.5*	*12.5*	*10.0*
Current Expenditure	4328.1	5458.0	5009.0	5601.5	5805.2
Percent of GDP	*6.2*	*7.9*	*6.3*	*7.0*	*6.6*
Personnel Emoluments	1144.7	1089.9	1468.1	1519.3	1984.5
Other Charges	1790.2	2380.7	2332.8	2813.6	2570.3
Interest	1393.2	1987.4	1208.1	1268.6	1250.4
Percent of GDP	*2.0*	*2.9*	*1.5*	*1.6*	*1.4*
External	107.1	134.1	179.6	239.9	177.8
Domestic	1286.1	1853.3	1028.4	1028.7	1072.6
Capital Expenditure	4056.2	3138.1	4138.8	4367.4	2991.2
Percent of GDP	*5.8*	*4.5*	*5.2*	*5.5*	*3.4*
Externally Financed	3829.9	2573.1	3828.6	3971.1	2572.4
Loans	2324.1	1483.9	1939.3	1985.6	1115.3
Grants	1505.8	1089.2	1889.3	1985.6	1457.0
GLF Capital	226.4	564.9	310.2	396.3	418.8
Net Lending	15.0	0.0	10.0	27.6	0.0

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

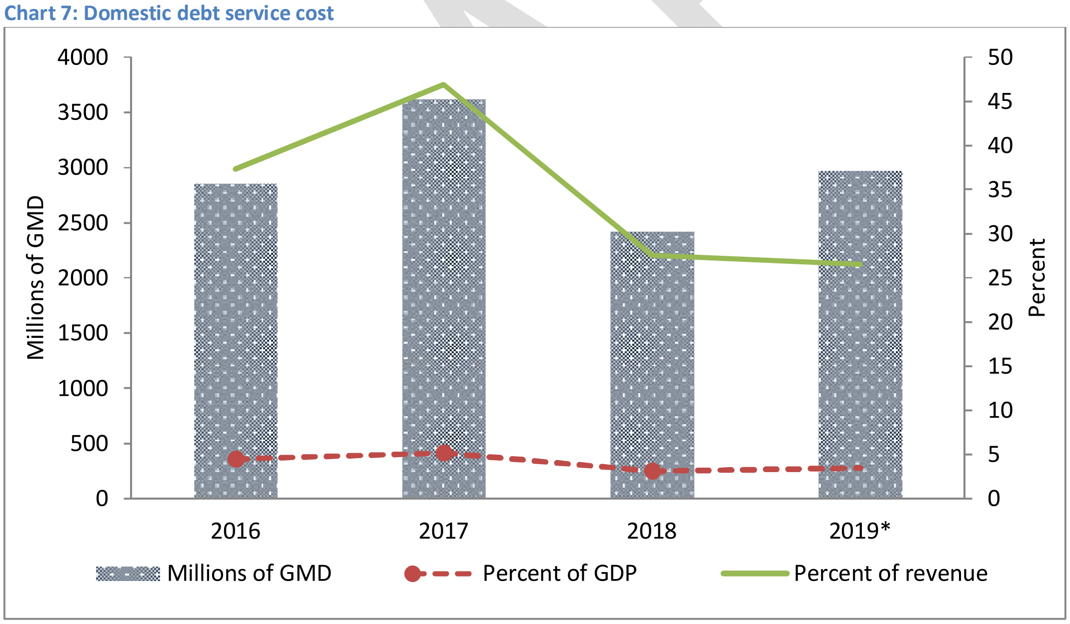
2.5 Domestic Debt

Outstanding stock of domestic debt has increased. However, the debt-to-GDP ratio has declined.

The stock of domestic debt increased to D32.5 billion (38.1 percent of GDP) in July 2019 from D31.2 billion (40.5 percent of GDP) in the corresponding period a year ago. The stock of Treasury and Sukuk-Al Salaam bills, which accounted for 58.3 percent of total debt, increased by 8.2 percent to D18.9 billion during the period under review from D17.4 billion a year ago. From January to July 2019, new borrowings by government amounted to D1.44 billion compared to D2.16 billion for the entire 2018 and a net repayment of D207.43 million in 2017.

From January to October 2019, domestic debt service amounted to D2.4 billion (20.5 percent of revenue) compared to D2.4 billion (27.6 percent of revenue) in the corresponding period a year ago. Domestic debt service payments are projected at D2.97 billion for 2019, equivalent to 3.5 percent of GDP and 26.5 percent of revenue.

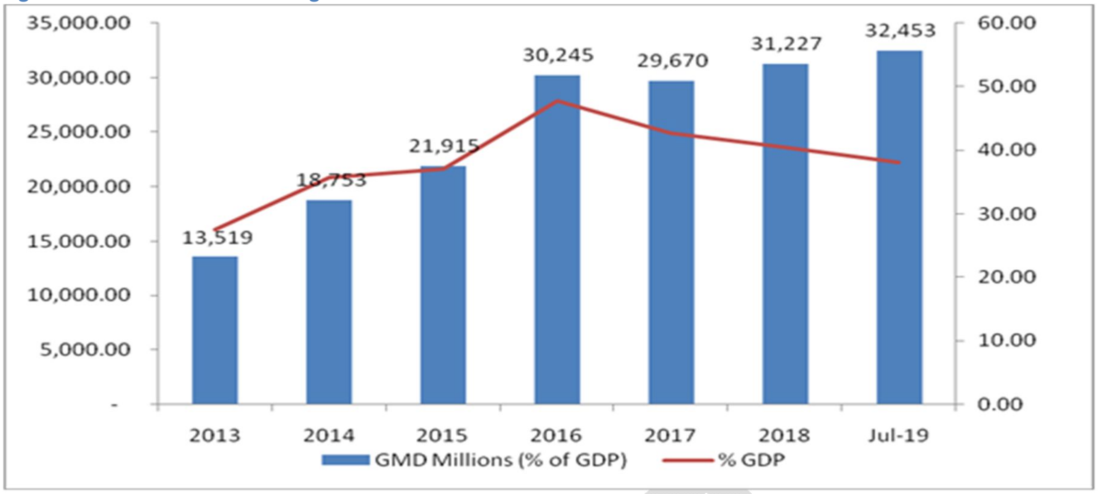
Chart 7: Domestic debt service cost



Source: CBG

During the seven months to end-July 2019, the yields on the 91- day, 182-day,and 364-day Treasury bills declined to 3.98 percent, 6.87 percent, and 8.77 percent respectively from 5.06 percent, 7.04 percent and 9.48 percent in the same period last year.

Figure 1: Evolution of outstanding domestic debt



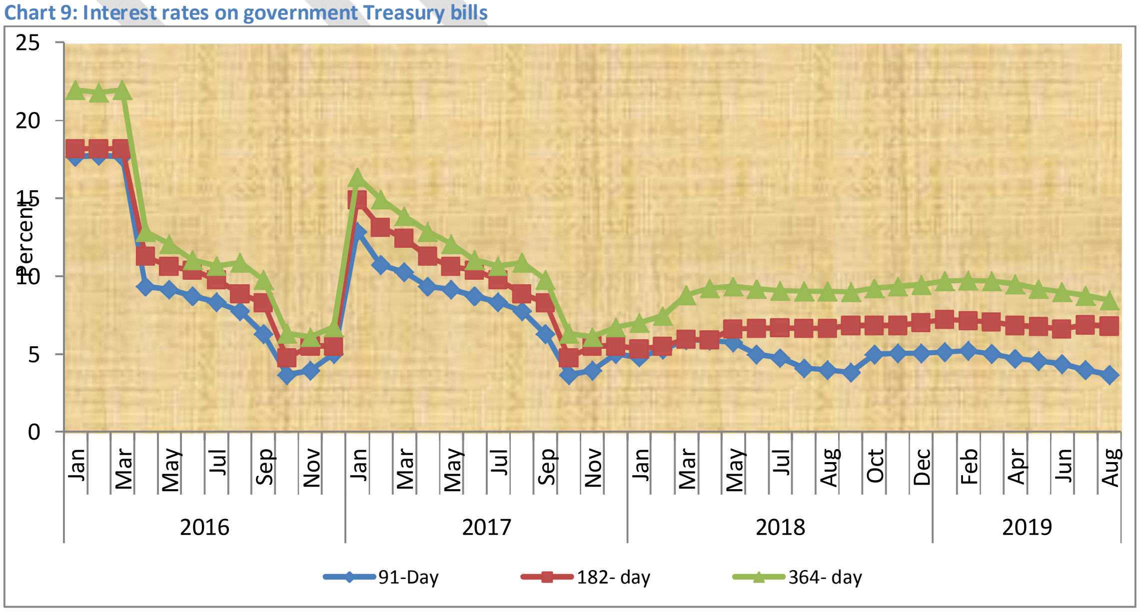
Source: CBG

Chart 8: Composition of domestic debt stock at face value (in millions of dalasi)

	2017	2018	Jul-19	% share of total
Treasury Bills	14,604.92	16,538.63	18,073.55	55.7
Sukuk-Al-Salam Bills	852.04	846.09	837.32	2.6
Sub-total	15,456.96	17,384.72	18,910.87	58.3
12% 3-Year par value Govt. Bond	1,403.70	1,403.70	1,403.70	4.3
10% 3-Year par value Govt. Bond	0	131.5	131.5	0.4
8% 3-Year par value Gov't. Bond	283	283	283	0.9
8% 3-Year Gov't. discount bond	420	518.5	518.5	1.6
10% 5-Year par value Gov't.Bond	120	120	120	0.4
5% -30 Year Gov't Bond	10,419.86	10,060.56	9,880.90	30.4
12%-7 year Nawec bond	1,565.98	1,325.06	1,204.60	3.7
Total domestic debt	**29,669.51**	**31,227.04**	**32,453.07**	**100.0**

Source: CBG

Chart 9: Interest rates on government Treasury bills

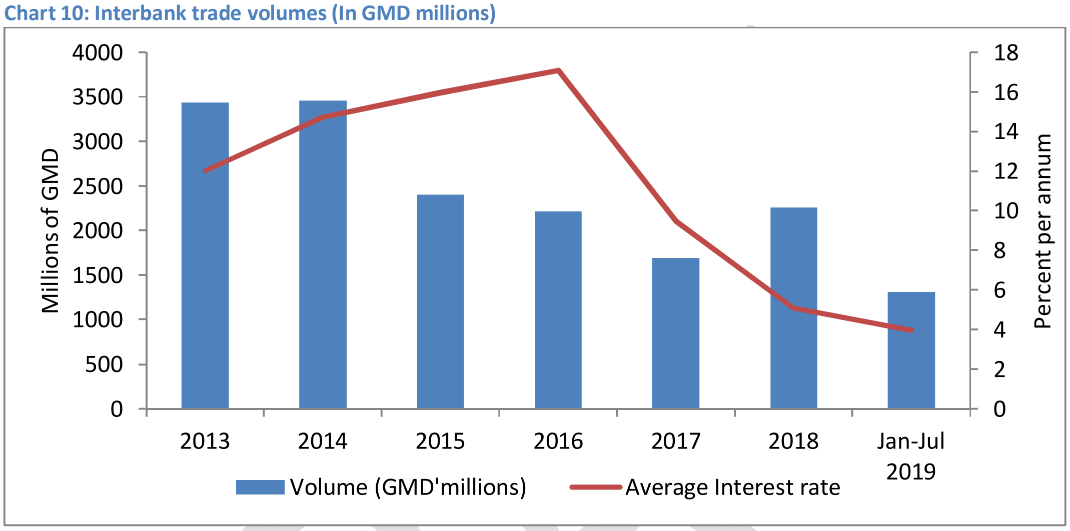


Source: CBG

2.6 Inter-bank placement

Inter-bank market trade volumes increased to D2.26 billion or by 33.9 percent in 2018. Commercial banks charge each other interest rates equivalent to the 3 months Treasury bills rate. From January to July 2019 volumes in the inter-bank trade declined to D1.3 billion from D1.5 billion in the same period last year. The decline in trade between banks in the inter-bank market could be partly due to improved liquidity positions of individual banks.

Chart 10: Interbank trade volumes (In GMD millions)



Source: CBG

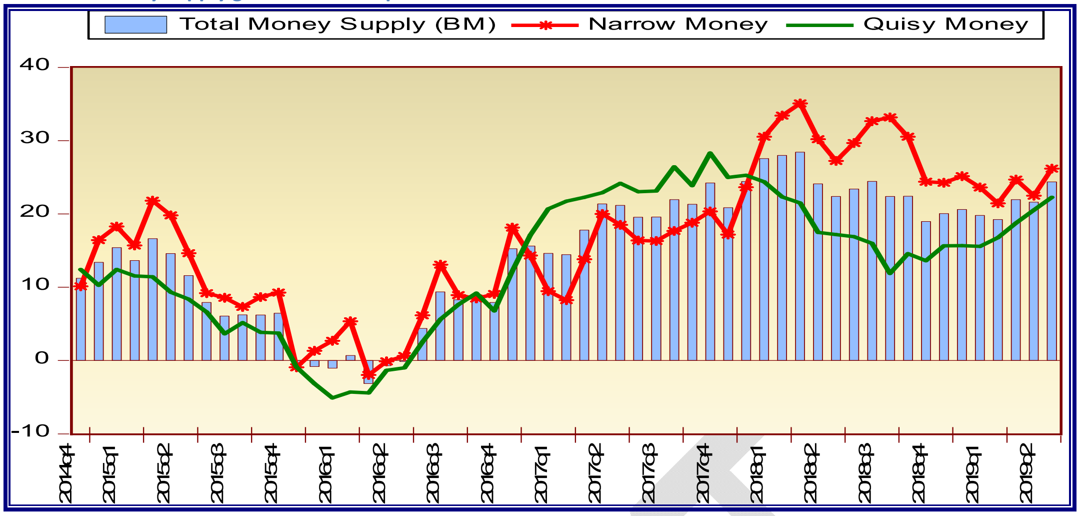
2.7 Monetary Developments

Money supply growth remains strong, driven largely by the increase in the net foreign assets of the banking system.

Annual Money Supply Growth

Money supply growth increased to 24.4 percent as at end-June 2019 from 22.4 percent a year ago, driven largely by the healthy net foreign asset position of both the Central Bank and commercial banks. Quarter-on-quarter, money supply grew by 5.2 percent in June 2019, slower than 7.4 percent observed in the previous quarter. It is projected to grow on average at 3.3 percent per quarter for the second half of 2019.

Chart 11: Money supply growth and components



Source: CBG

Table 5: Summary of developments in monetary aggregates

Key Monetary Aggregates									
Variable	Level GMD`millions		Annual % Changes					Quarterly % changes	
	Jun- 18	**Jun-19**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Mar-19**	**Jun-19**
NFA (Banking Sector)	8,169.1	*13,570.8*	*368.9*	*32.5*	*61.0*	*59.7*	*66.1*	*22.9*	*6.1*
NDA (Banking Sector)	22,490.6	*24,563.5*	*-3.5*	*18.7*	*7.8*	*4.8*	*9.2*	*0.5*	*4.7*
BROAD MONEY	30,659.7	*38,134.3*	*22.4*	*22.4*	*20.0*	*19.2*	*24.4*	*7.4*	*5.2*
Narrow Money	16,517.2	*20,842.9*	*27.2*	*33.2*	*24.2*	*21.4*	*26.2*	*10.0*	*6.1*
Quasi-money	14,142.5	*17,291.4*	*17.2*	*11.9*	*15.6*	*16.8*	*22.3*	*4.6*	*4.1*
Claims on Gov`t, net	19,756.4	*22,402.0*	*-5.9*	*14.5*	*10.7*	*9.9*	*13.4*	*0.9*	*4.1*
Claims on Public Entities	1,623.8	*1,220.7*	*-1.3*	*-2.0*	*-28.0*	*-24.8*	*-24.8*	*-4.8*	*-6.1*
Claims on Private Sector	4,813.6	*6,198.3*	*20.0*	*29.3*	*32.9*	*36.8*	*28.8*	*3.2*	*5.6*
Reserve Money	10,864.6	*13,168.7*	*21.9*	*11.8*	*16.5*	*23.3*	*21.2*	*8.7*	*2.2*

Source: CBG

Narrow money (M1), which comprises of currency outside banks and demand deposits, grew by 26.2 percent (year-on-year) at end-June 2019 compared to a growth rate of 27.2 percent at end-June 2018. Demand deposits and currency outside banks respectively increased by 30.3 percent and 19.0 percent. Quasi money, which comprises of time and savings deposits, grew by 22.3 percent at end-June 2019 compared to 17.2 percent a year ago. Savings deposits grew by 21.3 percent while time deposits grew 25.8 percent.

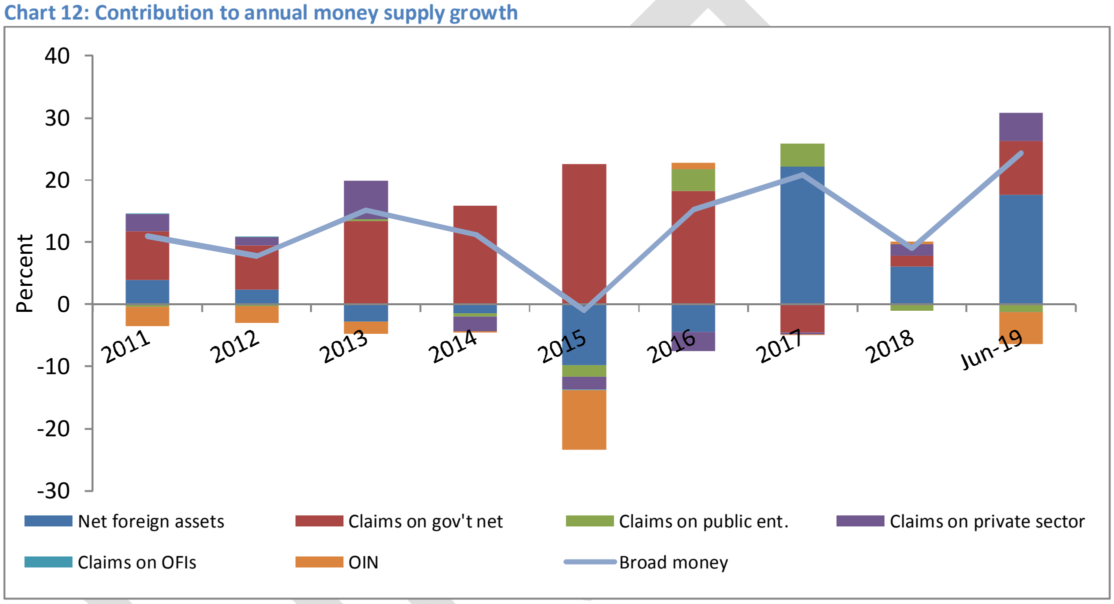
Sources of Money Supply

Net foreign assets (NFA) of the banking system rose by 66.1 percent to D13.6 billion as at end-June 2019 from D8.2 billion in the corresponding period a year ago. From

March to June 2019, net foreign assets grew by 6.1 percent, higher than 2.0 percent in the same period last year.

In the 12 months to end-June 2019, the net foreign assets of the Central Bank rose significantly by 85.0 percent to stand at D6.7 billion. The marked increase in foreign assets and the decline foreign liabilities resulted to the improvement in the net foreign asset position of the monetary authority. The Bank accumulated foreign assets amounting to D10.8 billion as at end-June 2019 compared to D7.9 billion in the same period last year, representing an increase of 35.7 percent. During the same period, foreign liabilities contracted by 5.4 percent to stand at D4.1 billion.

Chart 12: Contribution to annual money supply growth

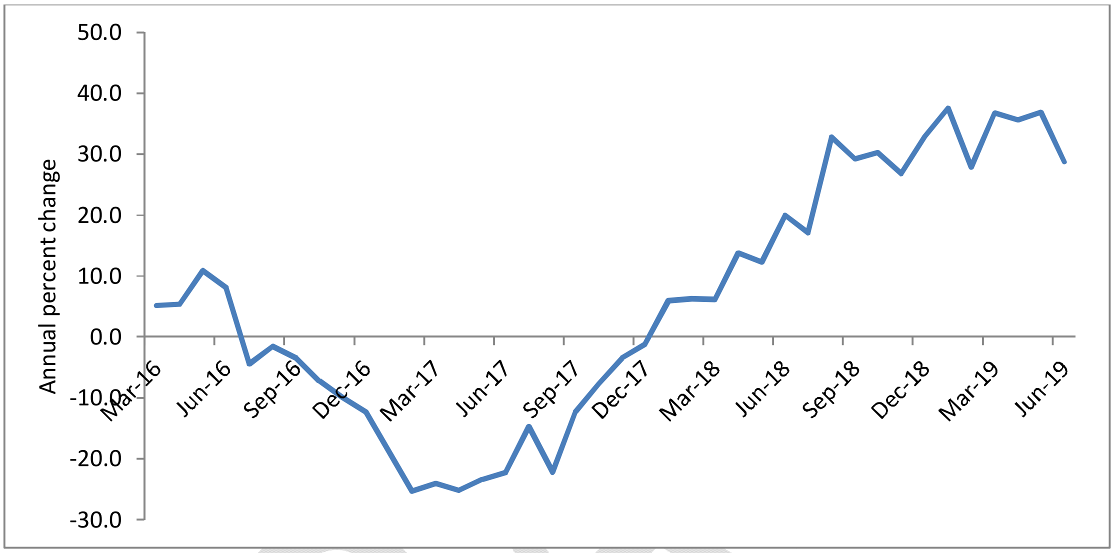


Source: CBG

Similarly, the net foreign assets of commercial banks grew strongly by 51.2 percent to stand at D6.9 billion at end-June 2019 from D4.6 billion a year ago. Foreign assets of banks rose to D7.8 billion as at end-June 2019 from D5.2 billion at the end of the preceding year, or by 50.4 percent. The annual increase in banks foreign assets was due to the significant increase in balances held with banks abroad by 36.2 percent and foreign investment by 134.3 percent. Foreign liabilities of banks also increased to D909.7 million at end-June 2019 from D629.1 million in the previous year or by 44.6 percent.

The net domestic assets (NDA) of the banking system stood at D24.6 billion as at end-June 2019 compared to 22.5 billion in the corresponding period a year ago, representing an increase of 9.2 percent. The banking system's net claims on government expanded to D22.4 billion or by13.4 percent and accounted for about 75.1 percent of total domestic credit. Private sector credit expanded by 28.8 percent at end-June 2019 compared to 20.0 percent a year ago. During the second quarter of 2019, private sector credit grew by 5.6 percent, higher than 3.2 percent in the first quarter of the same year.

Chart 13: Growth in credit to the Private Sector

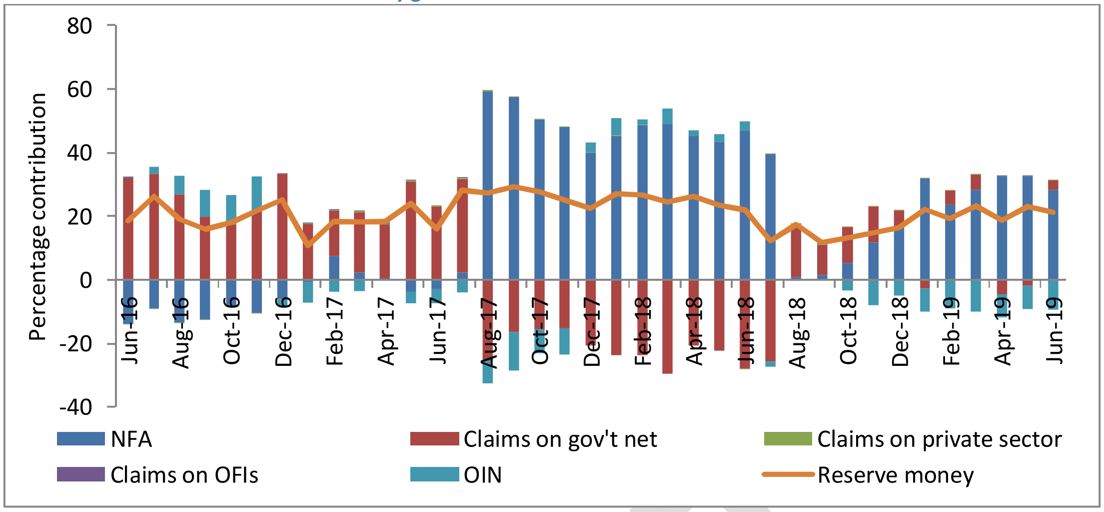


Source: CBG

Growth in Monetary Base

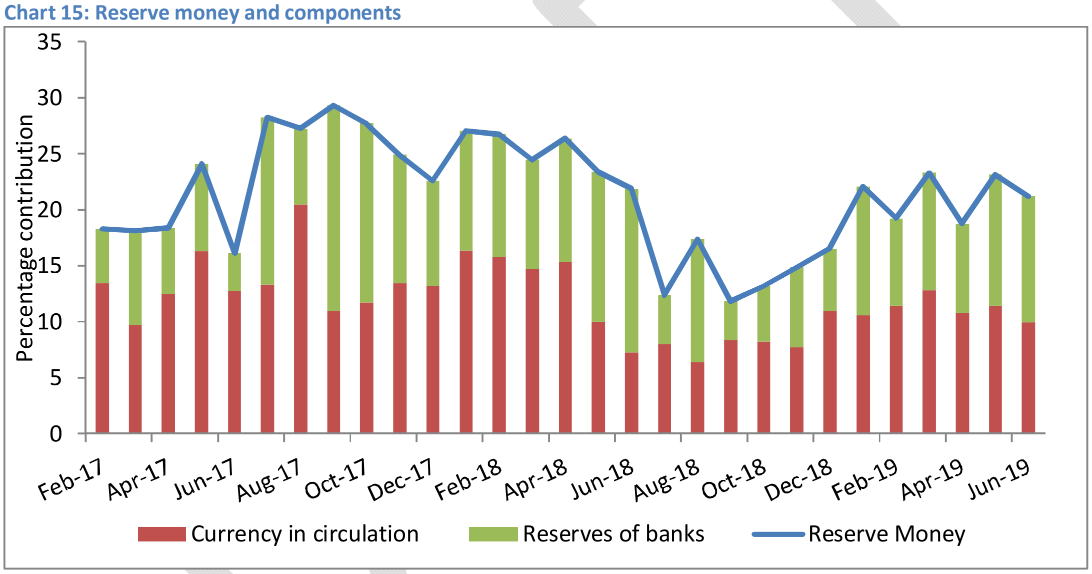
Annual reserve money growth remains strong. From June 2018 to June 2019, reserve money grew by 21.2 percent, slightly lower than 21.86 percent in the same period last year. The main source of reserve money growth is the net foreign assets of the Central Bank which has been growing at a robust pace. The net domestic assets of the Bank, on the other hand, have been contracting since the decision by the Bank to cease monetizing government deficit spending. The Bank's net foreign assets grew by 2.2 percent in the second quarter of 2019, lower than the 8.7 percent in the first quarter of 2019 and 4.0 percent in the corresponding period a year ago.

Chart 14: Sources of annual reserve money growth



Source: CBG

Chart 15: Reserve money and components



Source: CBG

Currency in circulation grew by 16.3 percent (year-on-year) at end-June 2019 compared to 10.8 percent a year ago. The reserves of commercial banks grew by 28.8 percent at end-June 2019, significantly lower than 44.4 percent in the corresponding period year ago. From March to June 2019, reserves of commercial banks rose by 10.1 percent, while currency in circulation contracted by 2.7 percent.

2.8 Financial Soundness Indicators

The banking system in The Gambia remains adequately capitalized and highly liquidity. The non-performing loan ratio has declined to low single digit.

Capital and Reserves

The risk-weighted capital adequacy ratio stood at 29.0 percent, well above the statutory minimum of 10 percent. All the twelve banks maintain minimum level of capital and reserve above the requirement.

Asset Quality

Total assets of the banking industry stood at D49.5 billion as at end-June 2019, registering a growth of D10.0 billion or 25.4 percent compared to end-June 2018. In the second quarter of 2019, total assets grew by D2.19 billion or 4.63 percent. The ratio of non-performing loans to gross loans declined to 2.3 percent at end-June 2019 from 7.6 percent a year ago, reflecting largely enhanced risk management in the industry and effective loan recovery measures.

Liquidity

The ratio of liquid assets to total assets was 57.9 percent at end-June 2019 compared to 56.6 percent a year ago. Liquid asset to deposit ratio stood at 95.6 percent compared to the statutory requirement of 30.0 percent. Total deposits stood at D31.0 billion as at end-June 2019, an increase of 25.7 percent from June 2018.

Market risk (sensitivity)

The foreign currency net open position is well within the required limit of 15.0 percent for a single currency and 25.0 percent for overall. As at end-June 2019, the net open position of the banking industry stood at a short position of 5.5 percent, compared to a short position of 0.1 percent at end-March 2019.

Earning

Half year profits after tax as at end-June 2019 stood at D444.6 million, representing a growth of D168.23 million or 58.0 percent from end-June 2018. On a quarterly basis, profits grew by D3.10 million or 1.4 percent in the second quarter of 2019. This is attributed to enhanced diversification of sources of income by banks through growth in financing activities, treasury bills investments, placements, and introduction of new products to the market.

Non-interest income stood at D849.0 million (42.0 percent of total income), a growth of 21.8 percent from end-June 2018. Interest income from loans and advances amounted to D417.1 million and accounted for 20.7 percent of total income. This represents an annual growth of D98.07 million or 30.7 percent. Income from investments in treasury bills amounted to D582.6 million (28.8 percent of total income), an annual increase of D78.2 million or 15.5 percent from end-June 2018. Return on asset (ROA) and return on equity (ROE) stood at 1.8 percent and 14.8 percent at the end of the review period from 1.1 and 8.6 percent respectively at end-June 2018.

2.9 Inflation

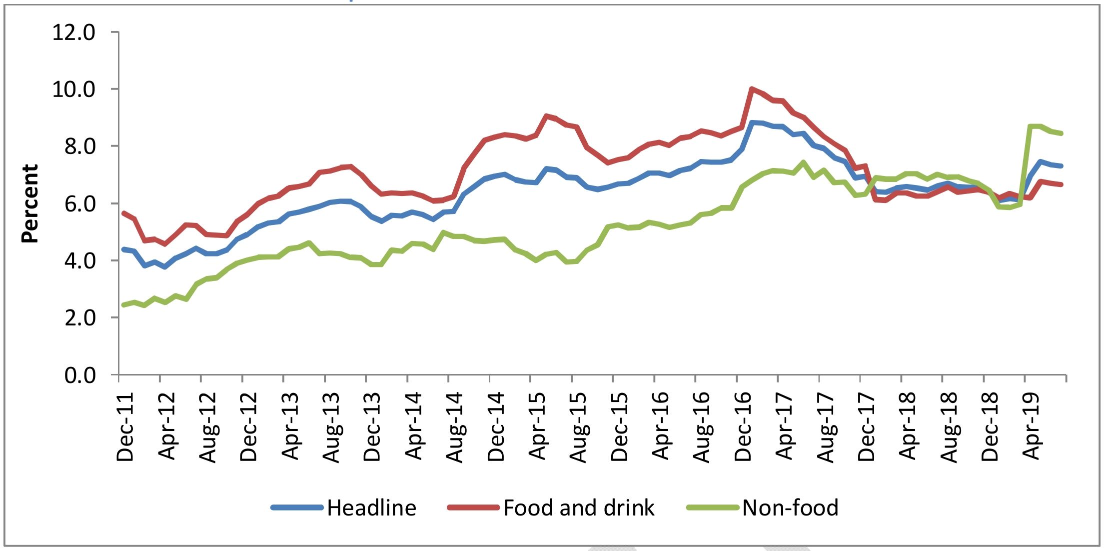
Consumer price inflation decelerated in July 2019 following the sharp increase in postal charges in April, the effect of high demand in Ramadan in May, and the recent increase in fuel prices.

Headline inflation has decelerated and stabilized at 7.3 percent in June and July 2019 from 7.5 percent in May 2019, following the sharp increase in postal charges in April, the effect of high demand in Ramadan in May, and the recent increase in fuel prices. However, when compared to the same period last year, inflation remains 0.7 percentage point higher in July 2019.

Food inflation, which is the main driver of headline inflation, stood at 6.7 percent in July 2019, unchanged from the previous month but higher than 6.4 percent a year ago. Major drivers of food inflation during the period were Bread Cereals, Meat, Fish, and Vegetables.

Non-food inflation, on the other hand, decelerated slightly to 8.4 percent in July 2019 from 8.5 percent in June 2019, but higher than 7.0 percent in July 2018. Key drivers of non-food inflation in July 2019 were Clothing and Footwear, Housing, Fuel and Lighting, Hotels and Restaurants, Furniture, and Alcoholic Beverages.

Chart 16: Headline inflation and components



Source: Gambia Bureau of Statistics and CBG staff estimates

Inflation Outlook

MPC assessed that price pressures have started to ease and the underlying inflation remains broadly subdued. This is expected to continue in the medium-term, premised on the continued stability of the exchange rate, well-anchored inflation expectations, and moderate global food prices.

Major risks to the inflation outlook, however, continue to be the domestic food supply situation in the light of delayed rainfall experienced this year.

2.10 Decision of the MPC

The Committee decided to maintain the Monetary Policy Rate at 12.5 percent and continue to closely monitor developments.

The Committee however, has decided to increase the interest rate on the standing deposit facility by 0.5 percentage point to 2.5 percent. The interest rate on the standing lending facility is maintained at 13.5 percent, that is, MPR plus one percent.

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, November 27, 2019. The meeting will be followed by the announcement of the policy decision on Thursday, November 28, 2019.

Annexes: Selected Indicators

National Accounts	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP growth(%)	6.3	6.7	5.9	-8.1	5.2	2.9	-1.4	4.1	1.9	4.8	6.5
Nominal GDP (mil. of GMD)	34659	38638	43231	41532	45389	49464	51309	58581	64390	70142	78623

Balance of payments	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q-18	Q4-18	Q1-19	Q2-19
Current account (mil. of USD)	-1.6	-43.6	32.4	-70.3	-2.7	-9.3	-46.6	-19.7	3.5	-29.8
Current account (% of GDP)	-0.1	-3.2	2.4	-5.1	-0.2	-0.6	-2.9	-1.2	0.2	-1.7
Trade balance (mil. Of USD)	-45.9	-86.5	-71.4	-130.4	-76.6	-84.5	-113.5	-112.0	-89.5	-113.8

Monthly Indicators	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Consumer Prices Index	206	207	208	209	210	211	212	213	214	217	219	220	221
Overall Index (y/y,%)	6.6	6.7	6.6	6.5	6.6	6.4	6.1	6.2	6.1	6.9	7.5	7.3	7.3
Food (y/y,%)	6.4	6.6	6.4	6.4	6.5	6.4	6.2	6.3	6.2	6.2	6.8	6.7	6.7
Non-food (y/y,%)	7.0	6.9	6.9	6.8	6.7	6.5	5.9	5.8	6.0	8.7	8.7	8.5	8.4
Exchange rate: GMD/USD (e-o-p)	47.81	48.54	49.47	49.67	49.31	49.48	49.29	49.4	49.42	49.28	49.5	49.8	49.94
Exchange rate depreciation(m/m,%)	1.1	1.5	1.9	0.4	-0.7	0.3	-0.4	0.2	0.0	-0.3	0.4	0.6	0.3
Exchange rate depreciation (y/y,%)	1.9	3.6	4.6	4.7	4.2	3.3	4.2	4.2	4.6	3.9	4.5	5.0	4.5
Money and credit													
Broad money (y/y,%)	23.4	24.4	22.4	22.4	19.0	20.0	20.6	19.8	19.2	21.9	21.6	24.4	22.3
Reserve money (y/y,%)	12.4	17.4	11.8	13.2	14.8	16.5	22.1	19.2	23.3	18.8	23.1	21.2	19.2
Private sector credit (y/y,%)	17.1	32.8	29.3	30.3	26.8	32.9	37.5	27.9	36.8	35.7	36.8	28.8	40.6
Interest rates													
Monetary policy rate	13.5	13.5	13.5	13.5	13.5	13.5	13.5	12.5	12.5	12.5	12.5	12.5	12.5
Standing lending facility	na	na	14.5	14.5	14.5	14.5	14.5	13.5	13.5	13.5	13.5	13.5	13.5
Standing deposit facility	na	na	2	2	2	2	2	2	2	2	2	2	2
Inter-bank	4.7	4.0	3.8	5.0	5.1	5.1	5.2	5.2	5.0	4.7	4.6	4.4	4.0
Av. 91-day T/bill rate	4.7	4.0	3.8	5.0	5.1	5.1	5.2	5.2	5.0	4.7	4.6	4.4	4.0
Av. 182-day T/bill rate	6.7	6.7	6.9	6.8	6.8	7.0	7.2	7.2	7.1	6.8	6.8	6.6	6.9
Av. 365-day T/ bill rate	9.1	9.0	9.0	9.3	9.4	9.5	9.7	9.8	9.7	9.5	9.2	9.0	8.7
Gross international reserves	160.1	157.6	155.3	153.6	157.3	157.1	195.5	187.0	196.8	201.7	201.1	197.6	210.4

National Consumer Price Index (y/y, % change)	Weight	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Overall Index	**100.0**	**6.6**	**6.7**	**6.6**	**6.5**	**6.6**	**6.4**	**6.1**	**6.2**	**6.1**	**6.9**	**7.5**	**7.3**	**7.3**
Food & drink	**54.7**	**6.4**	**6.6**	**6.4**	**6.4**	**6.5**	**6.4**	**6.2**	**6.3**	**6.2**	**6.2**	**6.8**	**6.7**	**6.7**
Food	53.2	6.5	6.6	6.4	6.5	6.5	6.4	6.3	6.4	6.3	6.3	6.8	6.8	6.7
Bread Cereals	12.8	7.3	7.5	7.8	7.3	7.4	7.7	7.5	7.5	7.6	7.6	7.6	8.1	7.5
Meat	13.4	8.0	8.0	7.4	7.6	7.4	7.0	6.8	7.3	6.4	6.5	7.0	6.2	6.4
Fish	3.7	8.7	8.4	8.5	8.1	8.1	8.4	8.2	9.0	9.0	9.0	9.5	9.4	9.4
Dairy products	2.4	5.9	5.7	6.5	6.4	6.3	6.7	6.6	6.6	6.1	6.6	7.3	6.5	6.3
Oils and fats	5.6	3.7	4.1	4.0	4.7	5.2	5.1	5.8	5.9	6.6	7.0	7.4	7.2	6.8
Fruits & nuts	2.1	9.2	9.5	9.7	9.8	10.0	10.1	9.4	8.0	8.2	8.5	7.7	7.7	8.0
Vegetables	7.3	4.6	4.9	4.0	4.0	4.6	4.2	3.7	3.9	4.1	4.5	5.1	5.7	6.3
Sugar & sweets	2.4	2.6	2.5	2.7	2.7	2.6	2.6	2.5	2.3	2.4	3.0	3.3	3.3	3.1
Other foods	3.6	4.6	5.1	5.5	5.7	5.4	5.0	4.0	3.5	3.9	4.2	4.6	4.9	5.4
Drink	1.5	2.8	3.0	2.9	2.8	2.7	2.7	2.5	2.6	2.6	3.2	3.1	3.1	2.9
Non-food	**45.3**	**7.0**	**6.9**	**6.9**	**6.8**	**6.7**	**6.5**	**5.9**	**5.8**	**6.0**	**8.7**	**8.7**	**8.5**	**8.4**
Alcoholic beverage	0.7	1.6	1.5	1.7	1.6	1.5	1.5	1.4	1.8	1.9	2.1	2.4	2.3	2.6
Clothing, footwear	11.2	7.7	7.6	7.5	7.4	7.8	8.0	7.9	7.6	7.7	8.4	8.5	8.1	7.8
Housing,water,energy	3.4	6.0	6.1	6.1	6.1	6.1	6.4	6.5	5.9	5.7	5.9	5.2	5.5	5.3
Furnishing	5.2	5.3	5.0	5.2	4.8	5.2	4.8	4.6	4.9	5.0	4.9	5.0	5.2	5.2
Health	1.2	2.2	2.0	2.1	2.0	1.7	1.9	1.1	1.3	1.3	1.1	1.2	1.3	1.2
Transport	4.4	2.5	2.2	3.2	4.0	4.4	4.1	3.2	3.5	3.6	3.4	3.1	2.8	2.4
Communication	2.9	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	60.2	60.3	60.5	60.5
Recreation	1.5	11.9	6.2	6.3	4.6	4.7	3.5	3.5	4.2	4.2	4.5	4.7	3.9	4.1
Newspapers&stationery	7.1	8.1	7.0	7.0	5.0	5.0	3.6	3.4	4.3	4.3	4.7	4.8	3.8	3.8
Education	1.5	0.9	0.9	0.9	0.8	0.8	0.8	0.5	0.5	0.2	0.3	0.2	0.3	0.4
Hospitality	0.4	8.0	8.2	9.0	9.5	9.1	9.5	9.4	9.4	9.4	9.7	9.3	9.1	8.1
Miscellaneous	5.9	12.0	12.6	12.3	13.1	11.6	11.4	9.1	8.5	9.0	8.5	8.6	8.6	8.7

National Consumer Price Index (m/m, % change)	Weight	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Overall Index	**100**	**0.5**	**0.7**	**0.3**	**0.5**	**0.3**	**0.7**	**0.4**	**0.6**	**0.5**	**1.3**	**0.9**	**0.4**	**0.5**
Food & drink	**54.7**	**0.6**	**0.7**	**0.4**	**0.4**	**0.3**	**0.6**	**0.4**	**0.6**	**0.5**	**0.5**	**1.0**	**0.5**	**0.6**
Food	53.2	0.6	0.7	0.4	0.4	0.3	0.6	0.4	0.6	0.5	0.6	1.0	0.5	0.6
Bread Cereals	12.8	0.9	0.8	0.4	0.5	0.4	0.8	0.4	0.7	0.6	0.9	0.7	0.9	0.3
Meat	13.4	0.5	0.8	0.2	0.5	0.1	0.7	0.5	0.8	0.1	0.9	0.8	0.2	0.6
Fish	3.7	0.8	0.4	1.0	0.3	0.3	1.0	0.4	1.1	1.0	1.3	0.9	0.6	0.8
Dairy products	2.4	0.7	0.3	0.8	0.1	0.2	0.9	0.4	0.3	0.6	0.8	0.9	0.3	0.5
Oils and fats	5.6	0.9	0.8	0.4	0.7	0.5	0.3	0.7	0.6	0.7	0.5	0.7	0.2	0.5
Fruits & nuts	2.1	0.6	0.6	1.0	0.4	0.4	0.7	0.3	0.2	0.4	1.2	0.9	0.8	0.9
Vegetables	7.3	0.4	0.5	0.1	0.2	0.5	0.5	0.3	0.4	0.5	0.5	0.8	0.9	1.0
Sugar & sweets	2.4	0.3	0.0	0.3	0.3	0.1	0.4	0.3	0.1	0.2	0.9	0.4	0.1	0.1
Other foods	3.6	0.0	0.6	0.4	0.3	0.5	0.3	0.2	0.3	0.6	0.4	0.5	0.6	0.6
Drink	1.5	0.3	0.1	0.1	0.2	0.2	0.2	0.0	0.3	0.0	0.6	0.7	0.5	0.1
Non-food	**45.3**	**0.4**	**0.7**	**0.3**	**0.5**	**0.4**	**0.8**	**0.4**	**0.5**	**0.5**	**3.1**	**0.4**	**0.3**	**0.4**
Alcoholic beverage	0.7	0.1	0.0	0.2	0.1	0.0	0.0	0.0	0.4	0.0	0.5	0.5	0.3	0.4
Clothing, footwear	11.2	0.6	1.0	0.3	0.5	0.6	0.8	0.7	0.7	0.8	0.8	0.7	0.2	0.4
Housing,water,energy	3.4	0.4	0.5	0.3	0.5	0.3	0.6	0.8	0.2	0.3	0.7	0.2	0.6	0.2
Furnishing	5.2	0.1	0.5	0.4	0.7	0.4	0.3	0.2	0.5	0.4	0.7	0.4	0.3	0.1
Health	1.2	0.2	0.1	0.1	0.0	0.0	0.3	0.0	0.2	0.0	0.1	0.1	0.2	0.1
Transport	4.4	0.4	0.0	0.6	0.7	0.4	0.1	-0.3	0.4	0.1	0.3	0.1	0.0	0.0
Communication	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	60.1	0.1	0.1	0.0
Recreation	1.5	0.0	0.3	0.1	0.4	0.1	0.8	0.1	0.7	0.0	0.9	0.2	0.3	0.2
Newspaper&stationery	7.1	0.0	0.3	0.0	0.4	0.0	1.0	0.0	0.8	0.0	1.0	0.1	0.2	0.0
Education	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.1	0.1
Hospitality	0.4	1.8	0.6	0.8	0.8	0.0	1.0	0.5	0.6	0.8	0.8	0.5	0.7	0.9
Miscellaneous	5.9	0.8	1.2	0.4	0.9	0.5	1.4	0.3	0.3	0.8	0.4	0.5	0.6	0.9

CBG core measures of inflation (y/y, %)	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Core 1 Inflation	6.8	6.7	6.5	6.5	6.6	6.2	5.7	6.3	6.1	7.7	8.0	7.2	7.3
Core 2 Inflation	6.6	6.6	6.6	6.5	6.5	6.4	6.1	6.2	6.1	6.9	7.4	7.3	7.3