CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

May 2019

The Central Bank of The Gambia 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.

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Executive Summary

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on May 29, 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 May 30, 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 six (6) members of the Committee.

The last MPC meeting was held amid growing uncertainties in the global economy. Global output growth has slowed and prospects have deteriorated as trade continues to decline due to rising protectionism. Investment has slowed and manufacturing output remains weak. Although financial conditions have begun to ease on account of the accommodative monetary policy stance in most advanced economies, financial vulnerabilities from high debt remain, especially in emerging market and developing countries. Other factors dragging global growth include rising political tensions in Europe and the uncertain Brexit negotiations. Despite heightened policy uncertainties, global inflation remains subdued and interest rates are expected to decline or remain low in 2019.

In The Gambia, economic activity has rebounded strongly in 2018 and the prospects are bright, thanks to the implementation of sound macroeconomic policies and reforms. Indicators show that private investment has picked up significantly with the return of confidence and political stability. Central Bank's accommodative monetary policy stance continues to support credit growth. In 2018, the economy expanded by a robust 6.5 percent, higher than 4.8 percent in 2017. This performance was broad-based, driven mainly by the services sector including tourism and trade, financial services and insurance, transport, and telecommunication. Agricultural production recovered somewhat in 2018 but it continues to be hampered by climatic factors such as delayed rainfall, flooding and long dry spells.

Going forward, early economic indicators point to stronger growth in 2019, well above the average for sub-Saharan Africa. This is premised on the strong performance of the services sector. Private investment will remain supported by growing business confidence, rapid credit expansion, political stability, and improved macroeconomic conditions. However, a major risk to the outlook continues be low agricultural production due to poor weather conditions. In addition, the high level of public debt remains a risk to the overall macroeconomic stability.

The MPC observed sudden acceleration in headline inflation to 6.9 percent in April 2019, due to the one-off increase in postal charges from D30 to D350, which led to the marked increase in the communication sub-index by 60.2 percent. The effect of this development on inflation is expected to be temporal and it will eventually dissipate as the underlying inflation remains muted. Food inflation, on the other hand, remains stable, reflecting moderate global food prices and a stable exchange rate.

The external position of The Gambia continues to improve, thanks to the support from our development partners, and increases in remittances, tourism, and foreign direct investment. The current account balance of the balance of payments has improved significantly to a surplus of 0.2 percent of GDP in the first three months of 2019 compared to a deficit of 0.5 percent of GDP in the corresponding quarter in 2018. Gross international reserves remain at a comfortable level, projected at over 5 months of imports of goods and services. The improvement in the external sector has contributed to the stability of the dalasi in the foreign exchange market.

Government fiscal operations for the first three months of 2019 showed that the budget deficit (including grants) narrowed to 1.0 percent of GDP from 1.4 percent of GDP recorded in the first quarter of 2018. This performance is on account of enhanced revenue mobilization. However, stock of domestic debt increased to 41.9 percent of GDP as at end-May 2019 from 39.2 percent of GDP in the corresponding period a year ago.

According to the financial soundness indicators, the banking system in the Gambia remains fundamentally sound. The sector is well-capitalized, profitable and highly liquid. The asset quality has improved remarkably with the non-performing loan ratio of 2.6 percent at end-march 2019. The enhanced regulation culminated into improved risk management in the industry and effective loan recovery measures. Financial intermediation continues to increase with strong private credit growth.

In conclusion, the near-term out outlook for The Gambian economy remains solid. The growth momentum that started two years ago is expected to continue through to 2019. Inflation is expected to remain largely subdued and exchange rate to continue to be stable in 2019.

In view of 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 2.0 percent and the overnight lending rate at 1 percentage points above the MPR. 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 economy weakened in 2018 and the growth outlook for 2019 has been revised downwards. International trade and investment have been weaker than previously anticipated, and economic activity has been softer in advanced economies and in some large emerging market and developing economies. Although financial conditions are expected to moderate somewhat, financial vulnerabilities from high debt remain, especially in emerging market and developing countries.

Global growth

The International Monetary Fund (IMF) in April 2019 revised downwards global growth projection for 2019 to 3.3 percent compared to 3.6 percent in 2018 and 3.8 percent in 2017. This is predicated on weaker international trade as trade tensions escalate, and the slowdown in investment growth and manufacturing output due to the waning business confidence and rising policy uncertainty. Economic activity has been softer in advanced economies, especially in the Euro area and in some large emerging market and developing economies, including China. Financial conditions are expected to moderate somewhat as advanced economies pursue more accommodative monetary policy stance. However, financial vulnerabilities related to high debt, especially in emerging market and developing countries are holding countries back from achieving their potential.

Economic growth in advanced economies is projected to decelerate to 1.8 percent in 2019 from 2.2 percent in 2018, due, in the main, to the fading US fiscal stimulus and the downward revision of growth prospects in some individual countries in the euro area, particularly Germany, Italy, France, Japan, and the United Kingdom. Output growth in the Euro Area is projected to decelerate from 1.8 percent in 2018 to 1.3 percent in 2019 before recovering slightly to 1.5 percent in 2020. This was as a result of weakening consumer and business sentiments, delay in auto fuel emission standard in Germany, elevated sovereign spread and weakening investment in Italy, prolonged street protest in France and growing concerns over the outcome of Brexit negotiations. In the United States, economic growth momentum remains robust. However, real GDP growth for the world's largest economy for 2019 and 2020 has been revised down from 2.9 percent in 2018 to 2.3 percent and 1.9 percent, respectively. This is on account of the federal government shutdown coupled with the fading fiscal stimulus and tighter policy stance experienced sometime during the year.

In emerging market and developing economies, growth is expected to slow down to 4.4 percent in 2019 from 4.5 percent in 2018. Growth prospects for China have changed albeit slightly due to domestic policies adjustment to mitigate the negative impact of the trade tensions. The second largest economy in the world is projected to grow by 6.3 percent in 2019, lower than 6.4 percent in 2018. Activity growth in India remains strong projected at 7.3 percent in 2019 compared to 7.1 percent in 2018.

In sub-Sahara Africa, economic recovery continues but there are variations in growth performance and prospects of countries across the region. Although economic activity continues to be robust in non-resource-rich countries, it remains low in many resource-rich countries in the region. The real GDP growth for the region is projected to increase from 3 percent in 2018 to 3.5 percent in 2019 and expected to reach 4 percent over the medium term. Prospects remain weak for the region's largest economies such as Nigeria, South Africa, and Angola.

Table 1: Global growth estimates

	Estimates		Projections		Difference from January 2019 WEO		Difference from October 2018 WEO	
	2017	2018	2019	2020	2019	2020	2019	2020
World Out Put	**3.8**	**3.6**	**3.3**	**3.6**	**-0.2**	**0.0**	**-0.4**	**-0.1**
Advanced Economies	**2.4**	**2.2**	**1.8**	**1.7**	**-0.2**	**0.0**	**-0.3**	**0.0**
United State	2.2	2.9	2.3	1.9	-0.2	0.1	-0.2	0.1
Euro Area	2.4	1.8	1.3	1.5	-0.3	-0.2	-0.6	-0.2
Germany	2.5	1.5	0.8	1.4	-0.5	-0.2	-1.1	-0.2
France	2.2	1.5	1.3	1.4	-0.2	-0.2	-0.3	-0.2
Italy	1.6	0.9	0.1	0.9	-0.5	0.0	-0.9	0.0
Spain	3.0	2.5	2.1	1.9	-0.1	0.0	-0.1	0.0
Japan	1.9	0.8	1.0	0.5	-0.1	0.0	0.1	0.2
United Kingdom	1.8	1.4	1.2	1.4	-0.3	-0.2	-0.3	-0.1
Canada	3.0	1.8	1.5	1.9	-0.4	0.0	-0.5	0.1
Others Advanced Economies	2.9	2.6	2.2	2.5	-0.3	0.0	-0.3	0.0
Emerging Markets & Developing Economies	**4.8**	**4.5**	4.4	4.8	**-0.1**	**-0.1**	**-0.3**	**-0.1**
Common Wealth of Independent States	**2.4**	**2.8**	2.2	2.3	0.0	0.0	-0.2	-0.1
Russia	1.6	2.3	1.6	1.7	0.0	0.0	-0.2	-0.1
Excluding Russia	4.1	3.9	3.5	3.7	-0.2	0.0	-0.1	0.0
Emerging Markets & Developing Asia	6.6	6.4	6.3	6.3	0.0	-0.1	0.0	-0.1
China	6.8	6.6	6.3	6.1	0.1	-0.1	0.1	-0.1
India	7.2	7.1	7.3	7.5	-0.2	-0.2	-0.1	-0.2
ASIAN-5	5.4	5.2	5.1	5.2	0.0	0.0	-0.1	0.0
Emerging Markets & Developing Europe	6.0	3.6	0.8	2.8	0.1	0.4	-1.2	0.0
Latin American and the Caribian	**1.2**	**1.0**	1.4	2.4	-0.6	-0.1	-0.8	-0.3
Brazil	1.1	1.1	2.1	2.5	-0.5	0.3	-0.3	0.2
Mexico	2.1	2.0	1.6	1.9	-0.5	-0.3	-0.9	-0.8
Middle East and North Africa	2.2	1.8	1.5	3.2	-0.9	0.2	-1.2	0.2
Saudi Arabia	-0.7	2.2	1.8	2.1	0.0	0.0	-0.6	0.2
Sub-Saharan Africa	2.9	3.0	3.5	3.7	0.0	0.1	-0.3	-0.2
Nigeria	0.8	1.9	2.1	2.5	0.1	0.3	-0.2	0.0
South Africa	1.4	0.8	1.2	1.5	-0.2	-0.2	-0.2	-0.2

Source: International Monetary Fund

Financial Market Conditions

To the end of 2018, the world economy witnessed the tightening of financial conditions. Markets sentiments were negatively impacted by factors such as moderating global growth, uncertainty surrounding Brexit, and monetary policy tightening in the United States. In 2019, however, market conditions have started to loosen slightly, reflecting a shift to a more accommodative monetary policy stance by major central Banks around the world.

Among advanced economies, the Federal Reserve Bank earlier this year signaled a pause in interest rate hike for the year in favor of flexible approach towards its policy normalization. The European Central Bank also announced in 2018 postponement in the rise of policy rate at least till the end of 2019 while central bank of the United Kingdom and Japan also took a moderate view on the outlook.

Among emerging markets and developing economies, financial conditions have improved in early 2019. In 2018, central banks across the region elevated policy rates in fear of upsurge in inflation as oil prices rose in 2018. However, such conditions were eased by the liquidity support to banks in China among others.

Global Inflation

Global inflation averaged 3.6 percent in 2018 and it is projected to remain at that level through 2019 to 2020. In advanced economies, inflation remains contained below 3 percent since 2009. Among Emerging Markets and Developing Economies, inflation has slightly edged up close to 5 percent in 2018 and 2019 and is projected to remain the same in 2020.

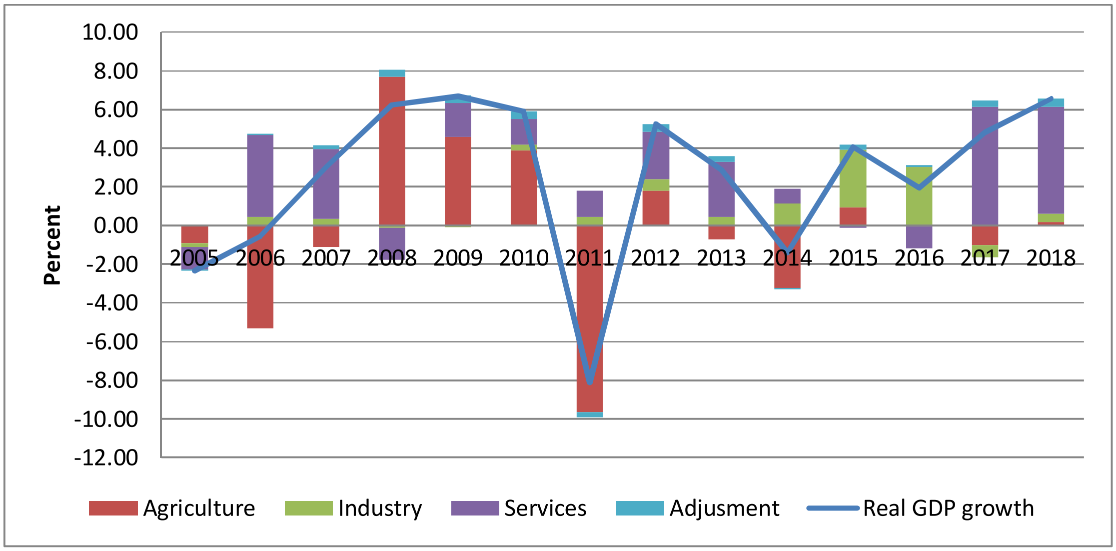
2. Domestic Economy

2.1 Real Sector Developments

In The Gambia, economic activity has rebounded in 2018 and the outlook is promising, supported largely by the services sector including tourism and trade, financial services and insurance, transport, and telecommunication.

In 2018, the economy expanded by a robust 6.5 percent, higher than 4.8 percent in 2017. This performance was broad-based, driven mainly by the services sector including tourism and trade, financial services and insurance, transport, and telecommunication. Agricultural production recovered somewhat in 2018 but it continues to be hampered by climatic factors such as delayed rainfall, flooding, and long dry spells. Private investment has picked-up amid improvement in macroeconomic management and the return of confidence and political stability. Central Bank's accommodative monetary policy stance continues to support credit growth. Early economic indicators show that growth will remain robust in 2019.

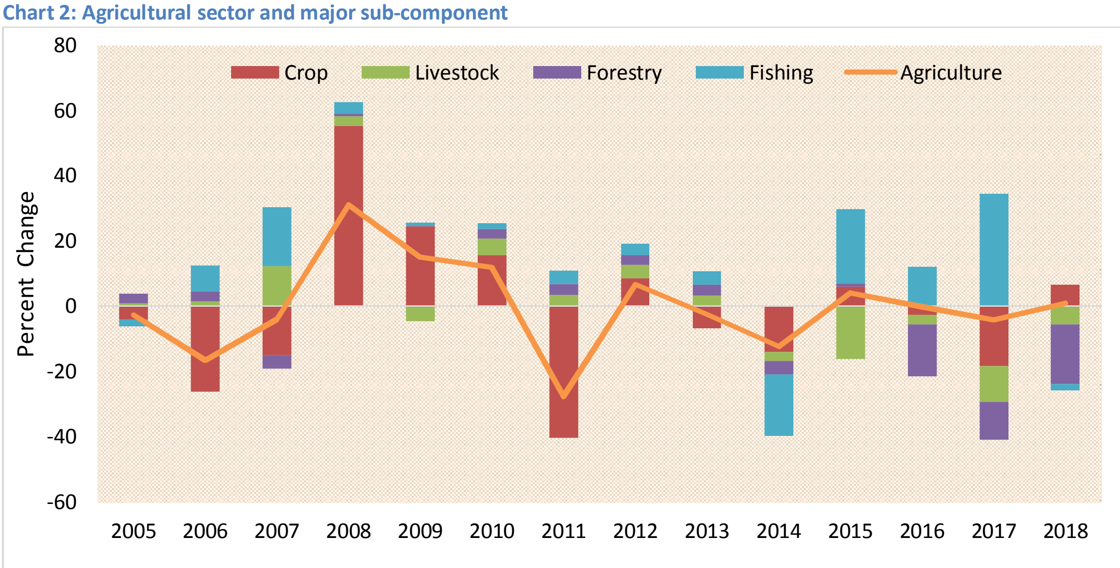
Chart 1: Percentage contribution to real GDP growth



Source: Gambia Bureau of Statistics and CBG staff estimates

Agricultural production recovered from a contraction of 4.4 percent in 2017 to grow by 0.9 percent in 2018. However, climatic factors such as delayed rainfall, flooding and long dry spells continue to significantly affect crop yields. Crop production grew by 6.6 percent in real terms in 2018 compared to a contraction of 6.6 percent in 2018. On the other hand, livestock production, forestry and logging, and fishing and aquaculture contracted by 5.6 percent, 18.2 percent, and 2.1 percent in 2018, respectively.

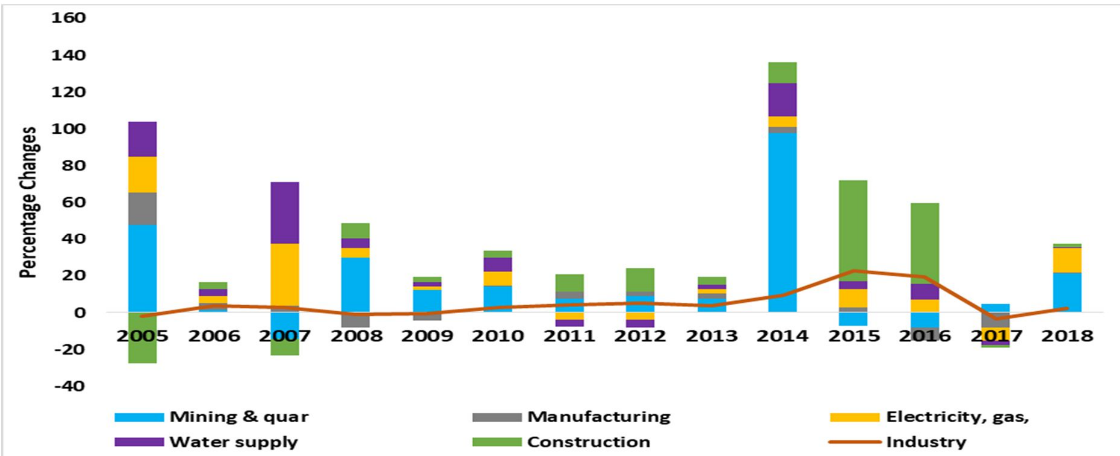
Chart 2: Agricultural sector and major sub-component



Source: Gambia Bureau of Statistics and CBG staff estimates

In 2018, the industry sector grew by 2.5 percent after a contraction of 3.5 percent in 2017. This recovery is mainly supported by growth in mining and quarrying, electricity and gas supply and the construction sub-sector which were estimated to have grown by 21.6 percent, 13.3 percent, and 1.8 percent, respectively. Manufacturing output also recovered from a contraction of 7.9 percent in 2018 to grow by 0.3 percent in 2019.

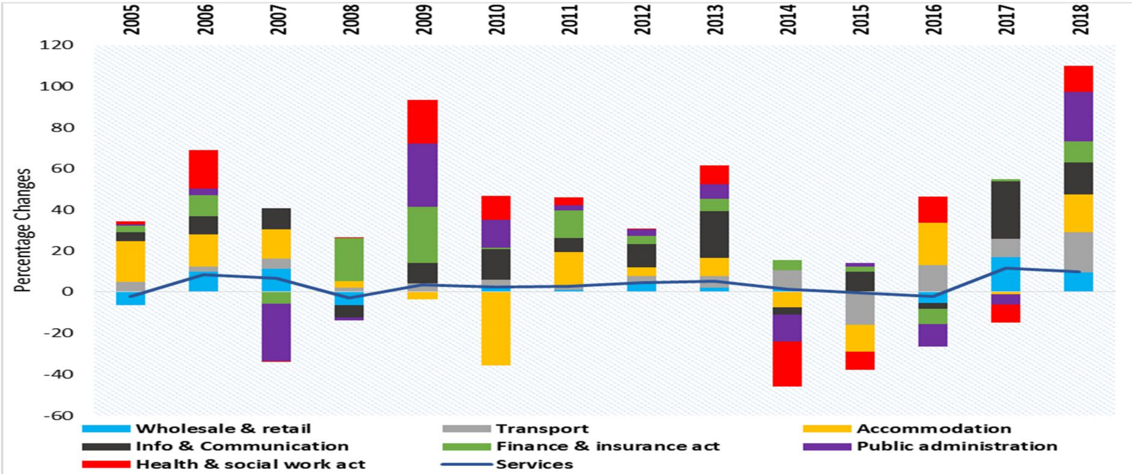
Chart 3: Industry sector and major sub-component



Source: Gambia Bureau of Statistics and CBG staff estimates

The services sector has been the main driver of economic growth in The Gambia. The sector is estimated to have grown by 9.9 percent in 2018 compared to 11.7 percent in 2017, supported by the growth in transportation, accommodations, public administration, health, wholesale and retail trade, financial and insurance activities and information and communication.

Chart 4: Services sector and major sub-component



Source: Gambia Bureau of Statistics and CBG staff estimates

2.2 Balance of Payments

The external position continues to improve, thanks to the support from development partners, and increases in remittances, and tourism.

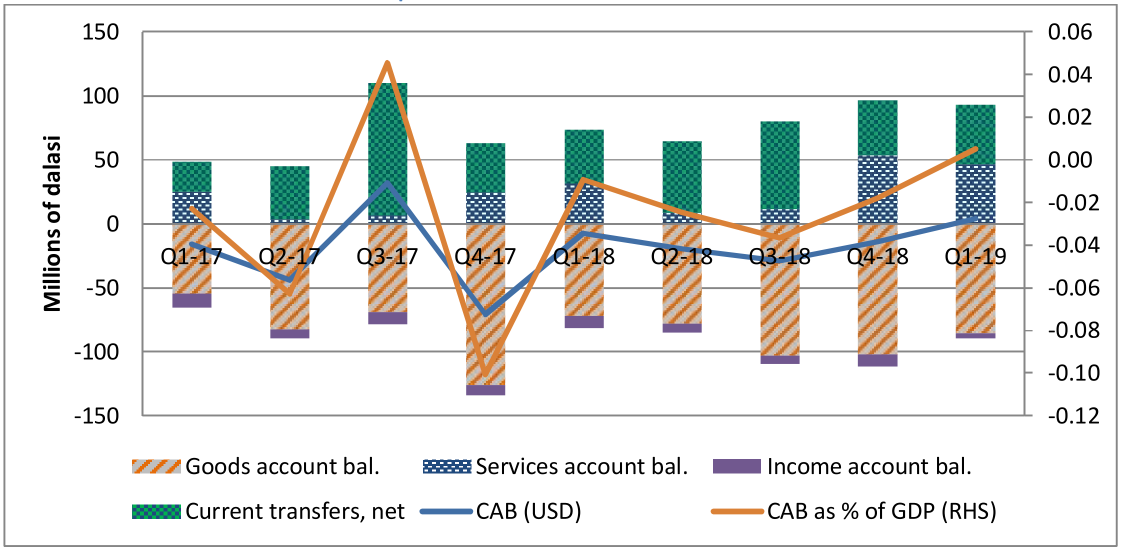
Preliminary balance of payments (BoP) estimates indicate that the current account balance registered a surplus of US$4.1 million (0.2 percent of GDP) in the first quarter of 2019 compared to a deficit of US$7.3 million (0.5 percent of GDP) in the corresponding quarter in 2018. The deficit in the goods account was offset by the improvements in the services and income accounts.

The deficit in the goods account widened to US$85.1 million (4.8 percent of GDP) in the first quarter of 2019 compared to US$72.0 million (4.5 percent of GDP) in the corresponding period in 2018. This is due to the increase in imports to US$125.3 million or by 23.8 percent from US$101.2 million in the same period in 2018. Exports also increased to US$35.8 million or by 45.3 percent during the period under review.

The surplus in the services account increased by 47.3 percent to US$46.5 million in the first quarter of 2019, compared to US$31.6 million in the corresponding period a year ago, explained largely by the successful tourism season. The income account improved to a deficit of US$3.90 million compared to US$9.1 million in the corresponding period a year earlier.

Current transfers, mainly workers' remittances (net), over the review period amounted to US$ 46.55 million compared to a net inflow of US$42.26 million in the same period of 2018, representing an increase of 10.15 percent.

Chart 5: Current account balance and components



Source: CBG

The financial account balance deteriorated to a deficit of US$4.20 million in the first three months of 2019 from a surplus of US$5.21 million in the corresponding period a year ago. Other investments and change in reserve assets, which are components of financial account, registered higher surpluses of US$28.01 million and US$39.38 million in the review period from US$14.97 million and US$17.10 million, respectively.

2.3 Exchange rate Developments

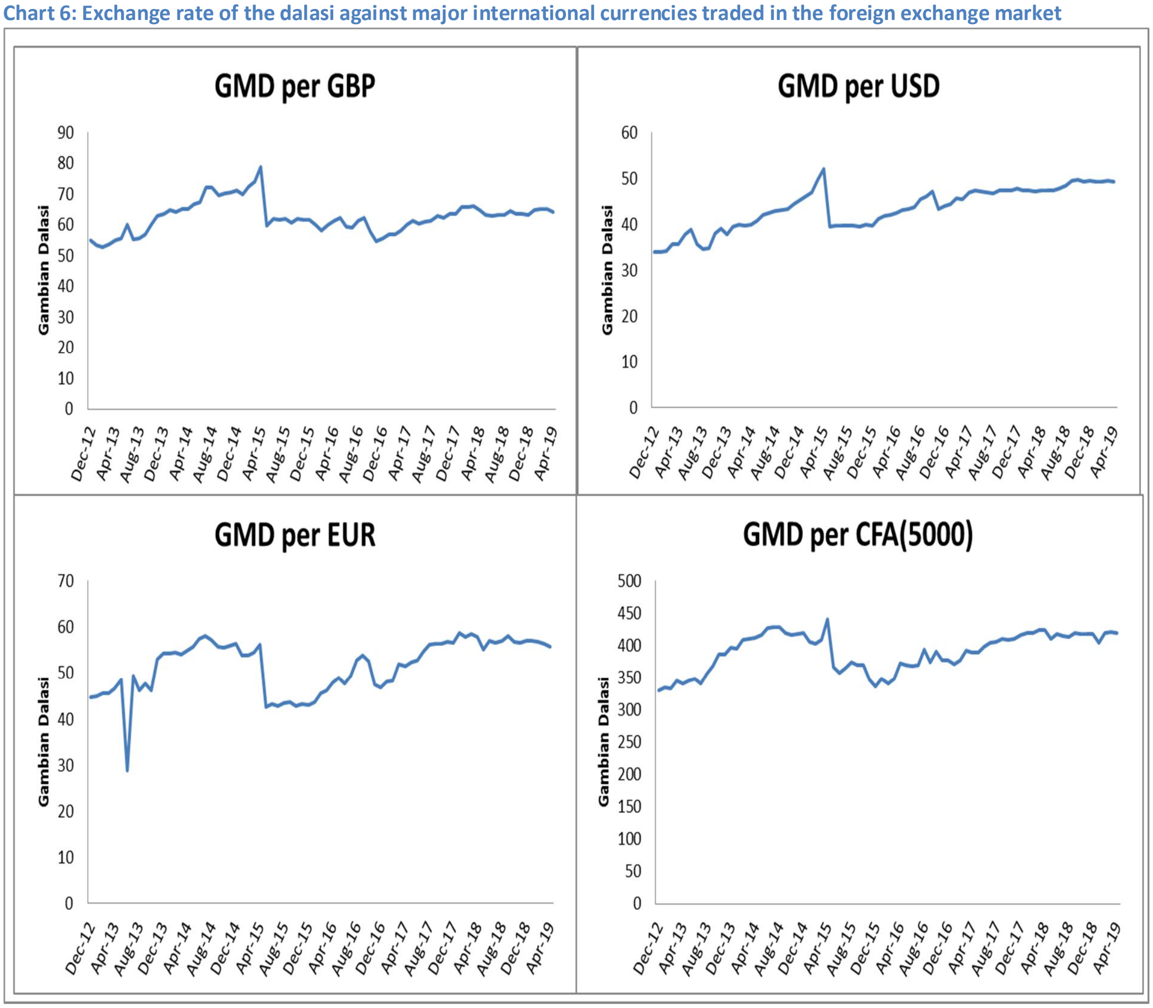
The domestic foreign exchange market continues to function smoothly. The exchange rate of the dalasi remains stable, supported by improved current account position and renewed confidence.

Transaction volumes in the foreign exchange market, measured by aggregate purchases and sales of foreign currency increased to US$2.1 billion in the year to end-March 2019 compared to US$1.7 billion in the corresponding period year ago. From January to March 2019, the volume of transactions amounted to US$638.5 million compared to US$507.9 million in the fourth quarter of 2018, an increase of 25.7 percent.

In the year to end-March 2019, purchases of foreign currency, which indicates supply, increased to US$1.02 billion or by 18.1 percent from a year ago. Similarly, sales of foreign currency rose significantly by 20.0 percent to US$1.03 billion in the same period. From January to March 2019, purchases increased to US$320 million or by 28.3 percent, while sales expanded to US$318.0 million or by 23.2 percent from the previous quarter.

The exchange rate of the dalasi remains broadly stable. From April 2018 to April 2019, the dalasi appreciated against the pound sterling, euro, and CFA by 2.3 percent, 2.6 percent, and 0.9 percent, respectively. However, it depreciated against the U.S. dollar by 4.8 percent.

Chart 6: 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 three months of 2019 resulted in a lower budget deficit compared to the corresponding period a year ago, reflecting improved revenue performance.

Preliminary data on government fiscal operations for the first three months of 2019 showed that the budget deficit (including grants) narrowed to D0.8 billion (1.0 percent of GDP) from D1.0 billion (1.4 percent of GDP) recorded in the first quarter of 2018. The budget deficit (excluding grants), on the other hand, widened slightly to D1.29 billion (1.6 percent of GDP) in the first quarter of 2019 compared to D1.28 billion (1.8 percent of GDP) in the first quarter of 2018.

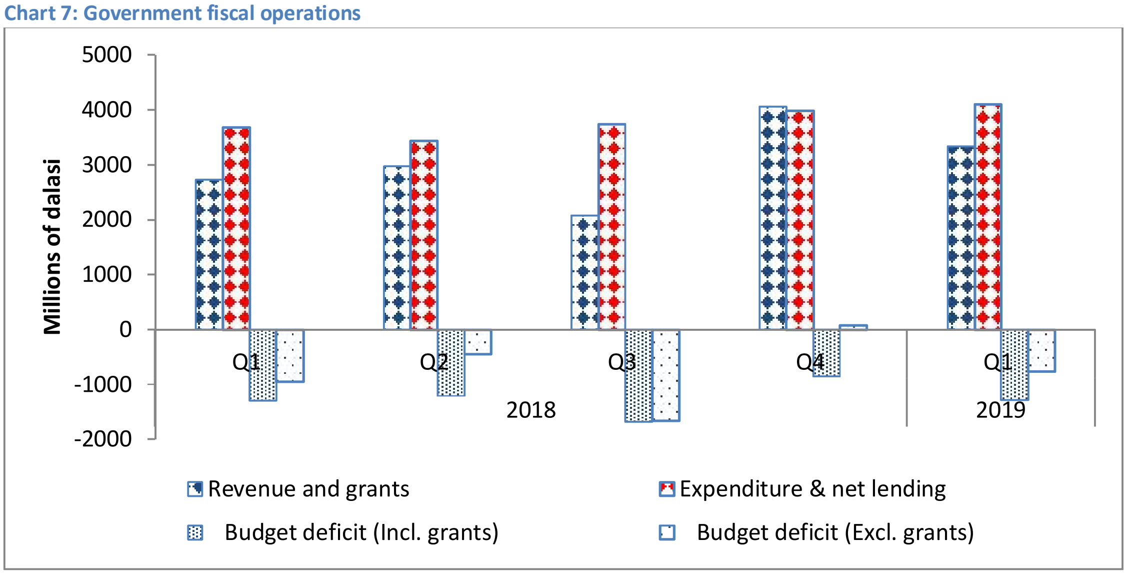
Revenue and grants mobilized during the quarter under review increased by 22.0 percent to D3.3 billion (4.2 percent of GDP) from D2.7 billion (3.9 percent of GDP) in the same period last year. Domestic revenue, which comprises tax and non-tax revenues, stood at D2.8 billion (3.6 percent of GDP) in the first quarter of 2019, higher than D2.4 billion (3.4 percent of GDP) in the corresponding period a year ago.

Tax revenue collected in the first three months of 2019 amounted to D2.5 billion (3.2 percent of GDP), higher than D2.1 billion (3.0 percent of GDP) in the corresponding period a year ago. All components of tax revenue increased during the period under review. Revenue from direct taxes increased by 32.0 percent to D0.8 billion while indirect taxes increased by 12.5 percent to D1.7 billion. In contrast, non-tax revenue declined by 72.7 percent to D0.3 billion from D1.1 billion in the fourth quarter of 2018.

Government expenditure and net lending for the first three months of 2019 increased by 11.2 percent to D4.1 billion (5.2 percent of GDP) from D3.7 billion (5.3 percent of GDP) in the first quarter of 2018. Recurrent expenditure, which accounted for 74 percent of government total expenditure, increased by 2.4 percent to D3.0 billion (3.8 percent of GDP) compared to D2.6 billion (3.7 percent of GDP) in the first quarter of 2018. Of the components of recurrent expenditure, wages and salaries, and other charges increase by 35.3 percent and 24.1 percent to D1.0 billion and D1.3 billion in the first quarter of 2019, respectively. This implies that government spent up to 83 percent of domestic revenue collected in the first quarter of 2019 on paying salaries, and procuring goods and services. Both domestic and external interest payments declined during the period. Domestic interest payments declined to D604.2 billion or by 5.5 percent, due to lower money market interest rates. External interest payments also fell by 28.0 percent to D73.4 million during the period.

Capital expenditure, on the other hand, declined by 3.3 percent to D1.08 billion (1.6 percent of GDP) from D1.12 billion (1.4 percent of GDP) in the same period last year. This decline is due to the lower-than-expected grant receipts.

Chart 7: Government fiscal operations



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

Table 2: Overall Fiscal Balance

	2018				2019
Overall balance	Q1 Outturn	Q2 Outturn	Q3 Outturn	Q4 Outturn	Q1 Outturn
Budget deficit (excl. grants)	-1291.7	-1208.9	-1682.0	-851.2	-1282.3
Percent of GDP	*-1.8*	*-1.7*	*-2.4*	*-1.2*	*-1.6*
Budget deficit (incl. grants)	-956.1	-455.3	-1659.5	72.7	-766.5
Percent of GDP	*-1.4*	*-0.6*	*-2.4*	*0.1*	*-1.0*
Basic balance	-290.0	-421.8	-821.9	-6.7	-384.7
Percent of GDP	*-0.4*	*-0.6*	*-1.2*	*0.0*	*-0.5*
Basic Primary Balance	451.3	44.9	-43.9	483.9	292.8
Percent of GDP	*0.6*	*0.1*	*-0.1*	*0.7*	*0.4*

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

Table 3: Total revenue and grants

	2018				2019
	Q1 Outturn	Q2 Outturn	Q3 Outturn	Q4 Outturn	Q1 Outturn
Revenue and grants	2730.5	2976.1	2087.2	4056.2	3331.5
Percent of GDP	*3.9*	*4.2*	*3.0*	*5.8*	*4.2*
Domestic Revenue	2394.9	2222.4	2064.6	3132.3	2815.7
Percent of GDP	*3.4*	*3.2*	*2.9*	*4.5*	*3.6*
Tax Revenue	2121.7	2086.0	1914.5	1981.3	2501.5
Percent of GDP	*3.0*	*3.0*	*2.7*	*2.8*	*3.2*
Taxes on income and wealth	590.8	551.7	408.3	462.5	779.8
Personal	218.7	221.1	159.5	186.1	277.9
Corporate	315.7	289.5	219.1	244.9	427.9
Capital Gains	13.2	20.9	13.7	18.1	20.0
Payroll	30.1	7.7	4.0	1.7	38.9
Other taxes on income & wealth	13.0	12.5	12.0	11.7	15.1
Indirect Tax	1530.8	1534.3	1506.2	1518.9	1721.7
Domestic Tax on gds & services	548.4	543.4	488.1	543.8	561.5
Tax on International Trade	982.4	990.9	1018.2	975.1	1160.2
Nontax Revenue	273.3	136.4	150.1	1151.0	314.2
Grants	335.6	753.7	22.6	923.9	515.8

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

Table 4: Total government expenditure and net lending

	2018				2019
	Q1 Outturn	Q2 Outturn	Q3 Outturn	Q4 Outturn	Q1 Outturn
Expenditure & net lending	3686.6	3431.3	3746.6	3983.5	4098.0
Percent of GDP	*5.3*	*4.9*	*5.3*	*5.7*	*5.2*
Current Expenditure	2559.5	2449.5	2654.7	2946.8	3017.7
Percent of GDP	*3.6*	*3.5*	*3.8*	*4.2*	*3.8*
Personnel Emoluments	749.2	719.0	758.1	761.2	1013.5
Other Charges	1069.0	1263.7	1118.6	1695.0	1326.7
Interest	741.3	466.7	777.9	490.6	677.5
External	101.9	77.8	83.5	156.4	73.3
Domestic	639.5	389.0	694.5	334.2	604.2
Capital Expenditure	1117.1	981.9	1091.9	1009.1	1080.2
Percent of GDP	*1.6*	*1.4*	*1.6*	*1.4*	*1.4*
Externally Financed	1001.7	787.1	860.1	844.5	897.5
Loans	666.1	393.4	837.6	338.2	381.8
Grants	335.6	393.7	22.6	506.3	515.8
GLF Capital	115.4	194.8	231.8	164.6	182.7
Net Lending	10.0	0.0	0.0	27.6	0.0

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

2.5 Domestic Debt

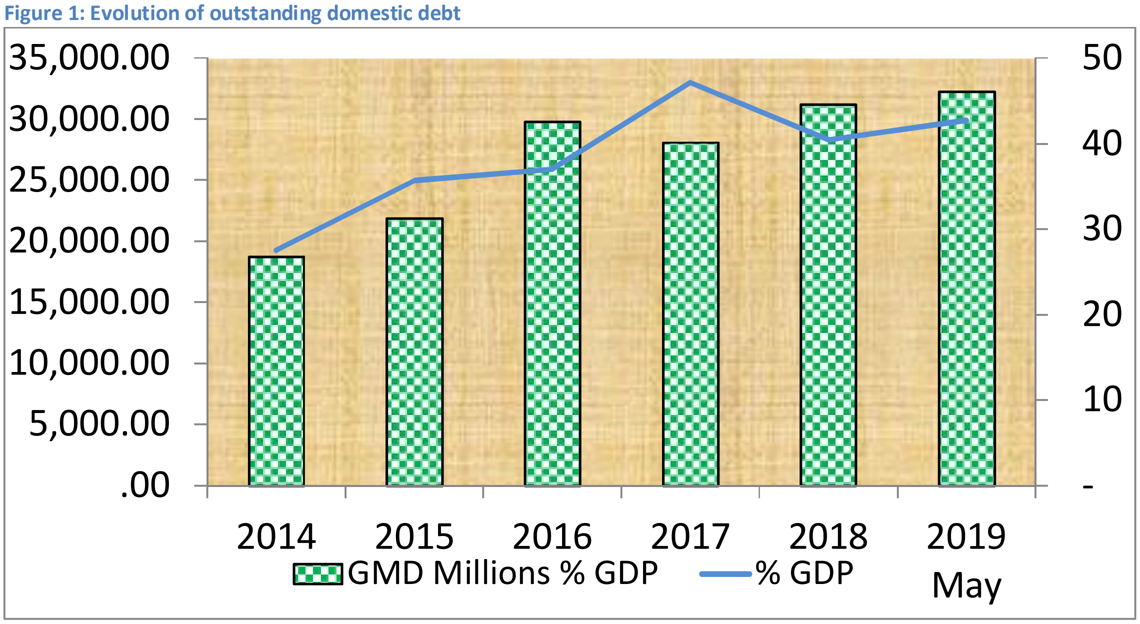
The level domestic debt remains elevated. The rebasing of the GDP improved the debt-to-GDP ratio but vulnerabilities remain as debt service still accounts for a significant proportion of government revenue.

In May 2019, stock of domestic debt increased to D31.8 billion (41.9 percent of GDP) from D31.2 billion (39.2 percent of GDP) in the corresponding period a year ago. The pick-up reflects primarily increased treasury bills issuances to finance fiscal operations. The stock of Treasury and Sukuk-Al Salaam bills increased by 6.1 percent to D18.4 billion during the period under review from D17.4 billion a year ago.

From January to June 2019, domestic debt service amounted to D1.54 billion (13.18 percent of revenue) compared to D1.38 billion (15.67 percent of revenue) in the corresponding period a year ago. Domestic debt service payments are projected at D2.96 billion for 2019 (25.35 percent of revenue and 3.48 percent of GDP).

Domestic interest expense for 2018 was D2.06 billion or 23.45 percent of domestic revenue relative to D3.14 billion (40.65 percent of revenue) in 2017. It is projected at D2.36 billion (20.22 percent of government revenues) in 2019. Interest cost for the first half of 2019 stood at D1.23 billion, slightly lower than the D1.08 billion paid in the same period in 2018, due to the lower interest rate environment.

Figure 1: Evolution of outstanding domestic debt



Source: CBG

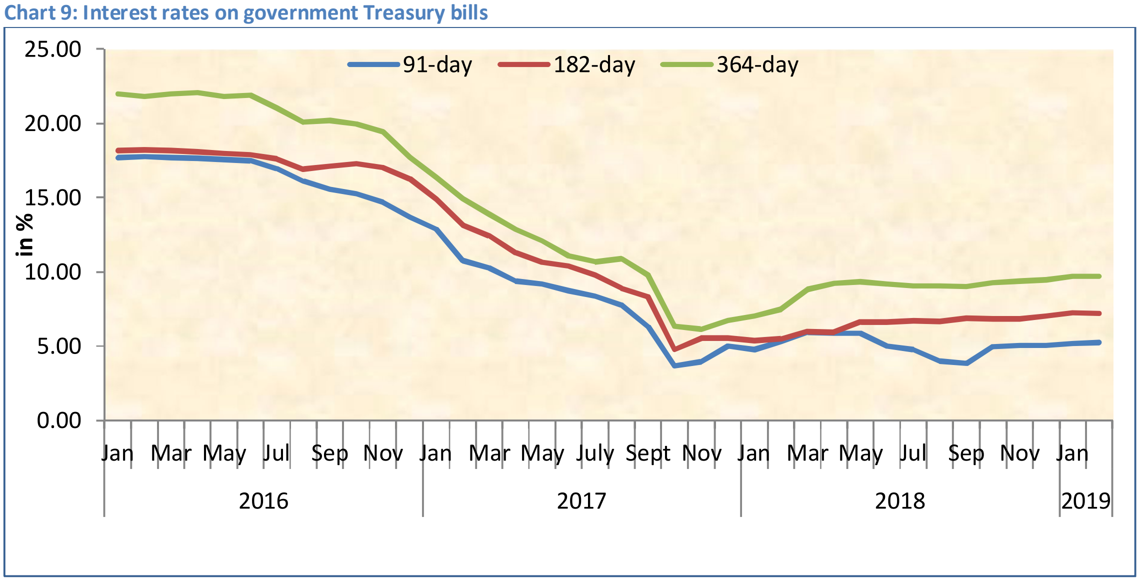
Chart 8: Composition of domestic debt stock at face value (in millions of dalasi)

	2016	2017	2018	19-May	Percent increase from 2018
Treasury Bills	17,133.47	14,604.92	16,538.63	17,367.73	5.0
sukuk-Al-Salam Bills	757.74	852.04	846.09	808.54	-4.4
12% 3-Year par value Govt. Bond	0	1,403.70	1,403.70	1,403.70	0.0
10% 3-Year par value Govt. Bond	0	0	131.5	131.5	0.0
8% 3-Year par value Gov't. Bond	0	283	283	283	0.0
8% 3-Year Gov't. discount bond	0	420	518.5	518.5	0.0
10% 5-Year par value Gov't.Bond	0	120	120	120	0.0
5% -30 Year Gov't Bond	10,779.17	10,419.86	10,060.56	9,880.90	-1.8
12% 7- year Nawec bond	0	1,565.98	1,325.06	1,264.83	-4.5
Total	**28,670.37**	**29,669.51**	**31,227.04**	**31,778.70**	1.8

Source: CBG

The 91- day and 364-day Treasury bills rate, respectively declined from 5.32 percent and 9.32 percent at end-May 2018 to 4.54 percent and 9.12 percent at end-May 2019. On the other hand, the 182-day Treasury bills rates increased from 6.61 percent at end-May 2018 to 6.78 percent at end-May 2019.

Chart 9: Interest rates on government Treasury bills

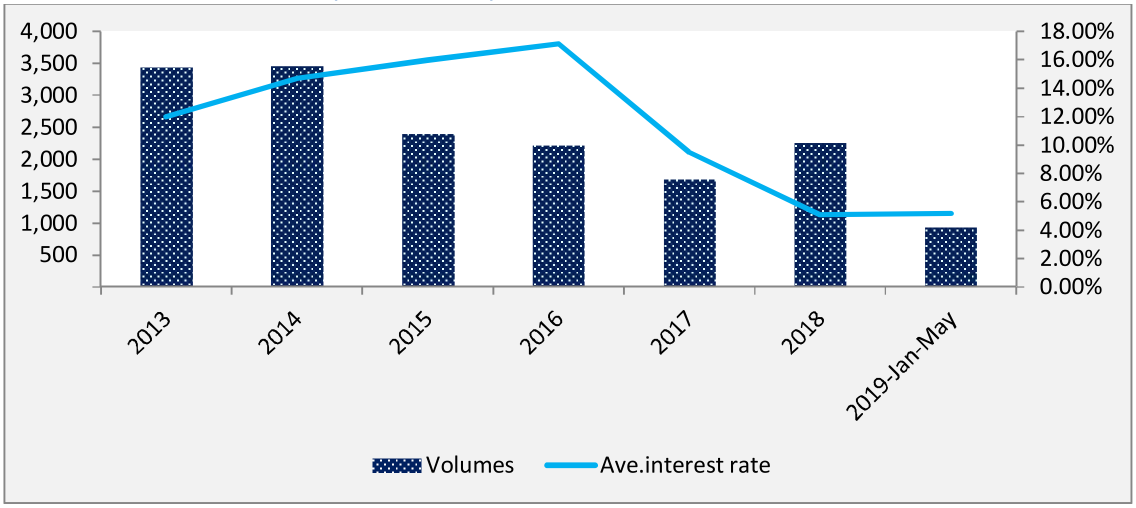


Source: CBG

2.6 Inter-bank placement

Interbank market trade volumes grew by 33.9 percent in 2018 to D2.26 billion with the rate tracing the 3 month Treasury bill rate movement which nearly halved from 2017.

Chart 10: Interbank trade volumes (In GMD millions)



Source: CBG

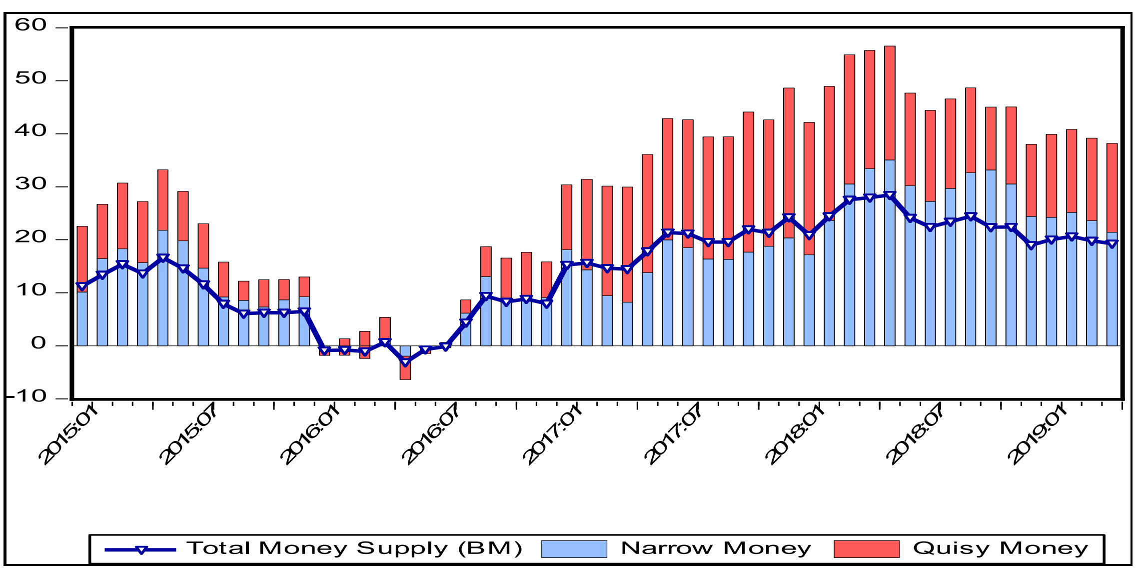
2.7 Monetary Developments

Money supply growth moderated in March 2019. Private sector credit growth, on the other hand, remains strong.

Annual Money Supply Growth

Annual money supply growth moderated to 19.2 percent in March 2019 compared to 28.0 percent a year ago. Total money supply stock reached D36.3 billion as at end-March, 2019 compared to D30.4 billion in the same period last year. Growth in money supply is supported largely by the healthy net foreign asset position of both the Central Bank and commercial banks.

Chart 11: Money supply growth and components



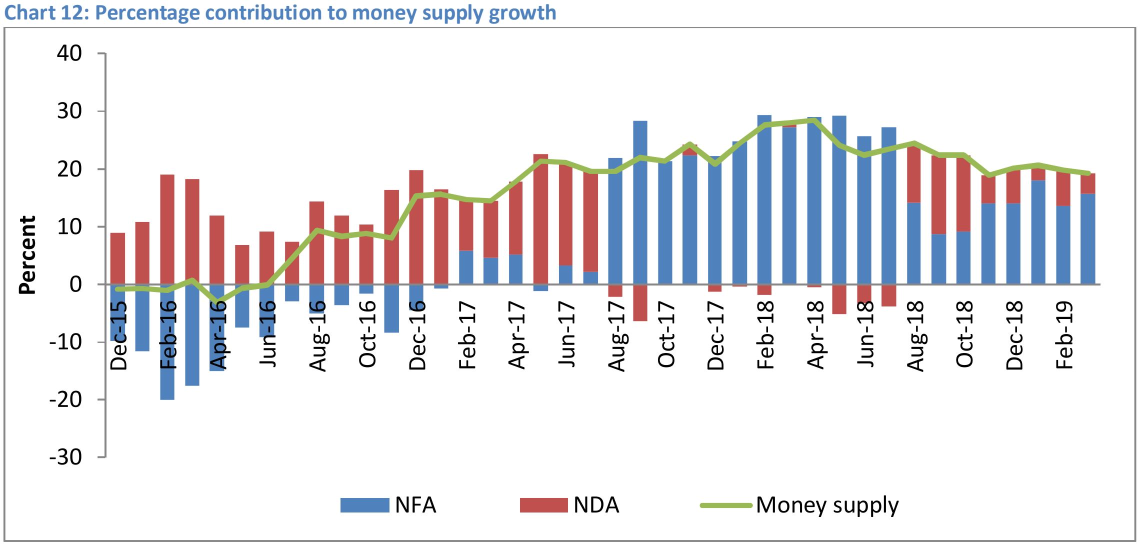
Source: CBG

Of the components of money supply, narrow money (M1) grew by 21.4 percent at end-March 2019, lower than 33.4 percent at end-March 2018. The strong growth in M1 was driven by the increase in both demand deposits and currency outside banks by 22.4 percent and 19.9 percent, respectively. Quasi money, which comprises of time and savings deposits, grew by 16.8 percent at end-March 2019 compared to 22.3 percent a year ago. Savings deposits grew by 17.9 percent while time deposits grew 12.6 percent.

Sources of Money Supply

Net Foreign Assets (NFA) of the banking system increased to D12.8 billion as at end-March, 2019 from D8.0 billion or by 59.7 percent a year ago. From December to March 2019, NFA increased by 22.9 percent. Net Foreign Assets of the Central Bank rose by a robust 81.9 percent to D6.6 billion from D3.6 billion a year ago. The improvement in the net foreign assets position is attributed to the marked increase in the Bank's foreign assets and a decline in foreign liabilities. Foreign assets of the Bank increased to D10.6 billion or by 31.9 percent during the period under review. Foreign liabilities of the Bank, on the other hand, contracted by 8.8 percent to stand at D4.1 billion during the review period.

Chart 12: Percentage contribution to money supply growth

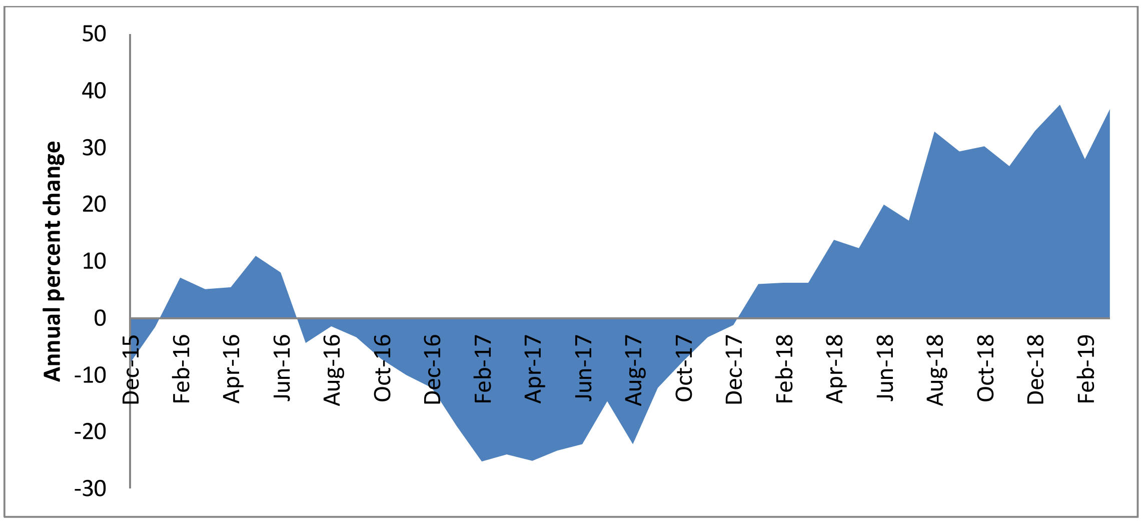


Source: CBG

NFA of commercial banks also grew strongly by 41.4 percent at end-March 2019 to D6.2 billion from D4.4 billion a year ago. Foreign assets of banks rose to D7.1 billion as at end-March 2019 from D5.1 billion a year ago or by 37.2 percent. The annual increase in banks' foreign assets was due to the significant increase in balances held with banks abroad by 14.8 percent and foreign investment by 94.1 percent. Foreign liabilities of banks increased to D836.2 million at end-March 2019 from D743.0 million a year ago or by 12.5 percent.

The net domestic assets (NDA) of the banking system stood at D23.5 billion as at end-March 2019 compared to 22.4 billion in the corresponding period a year ago, representing an increase of 4.8 percent. The banking system's net claims on government expanded to D21.5 billion or by 9.9 percent and accounted for about 74.8 percent of total domestic credit. Private sector credit expanded by 36.8 percent in March 2019 compared to 6.2 percent a year ago. From December 2018 to March 2019, private sector credit grew by 3.2 percent, lower than 7.9 percent in the previous quarter. Credit expansion is supported by the accommodative monetary policy stance of the Bank.

Chart 13: Growth in credit to the Private Sector

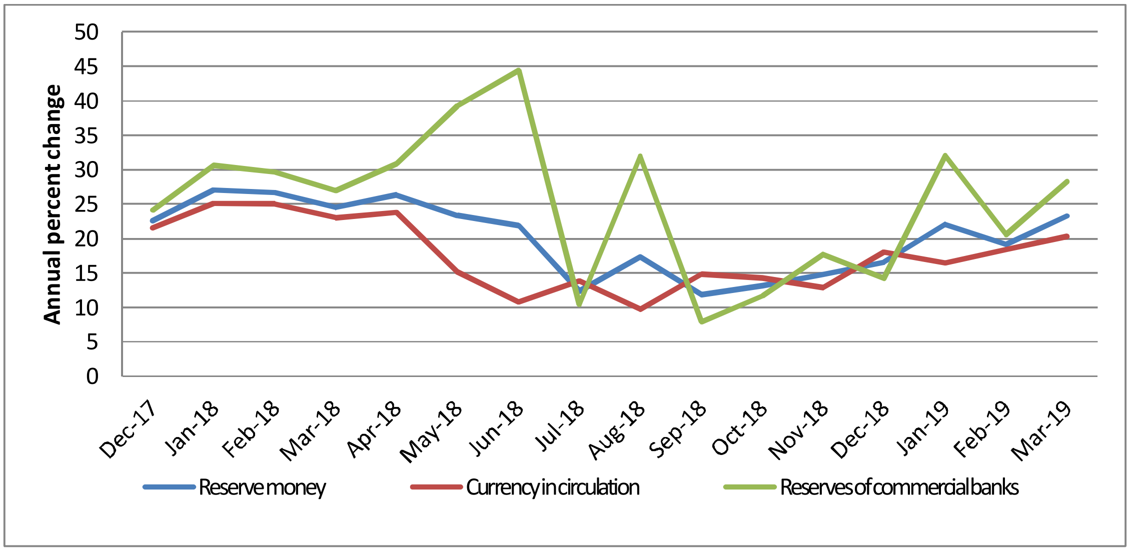


Source: CBG

Growth in Monetary Base

Reserve money, the Banks' operating target grew by 23.3 percent at end-March 2019, slightly lower than 24.5 percent in the same period last year. It grew by 8.7 percent in the first three months of 2019, higher than 7.7 percent in the fourth quarter of 2018 and 2.8 percent in the corresponding period a year ago.

Chart 14: Reserve money and components



Source: CBG

Of the components of reserve money, currency in circulation rose by 20.3 percent (year-on-year) and reserves of commercial banks grew by 28.3 percent. From December 2018 to March 2019, currency in circulation and reserve of commercial banks grew by 8.4 percent and 9.2 percent, respectively.

2.8 Financial Soundness Indicators

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

Capital and Reserves

Commercial banks in The Gambia remain well capitalized. All twelve banks remain above the minimum capital and reserve requirement. The risk-weighted capital adequacy ratio stood 28.7 percent, higher than the 10 percent minimum requirement.

Asset Quality

The asset base of the banking industry expanded by 8.4 percent to stand at D47.34 billion as at end-march 2019. Investments in Treasury bills, and loans and advances, respectively accounted for 28.6 percent and 12.1 percent of total assets. The quality of asset also continues to improve. The ratio of non-performing loans to gross loans declined to 2.9 percent from 7.9 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 45.1 percent and the liquid assets to deposit ratio stood at 90.6 percent compared to the statutory requirement of 30 percent. Total deposits stood at D28.92 billion as at end-March 2019, higher than D24.3 billion in March 2018.

Market risk (sensitivity)

The net open position of the industry stood at negative 0.11 percent. When compared to end-December 2018, the exposure declined by 5.49 percent from 5.6 percent, signifying lowered risk. It is also within the required limit of 15 percent for a single currency and 25 percent for overall.

Earning

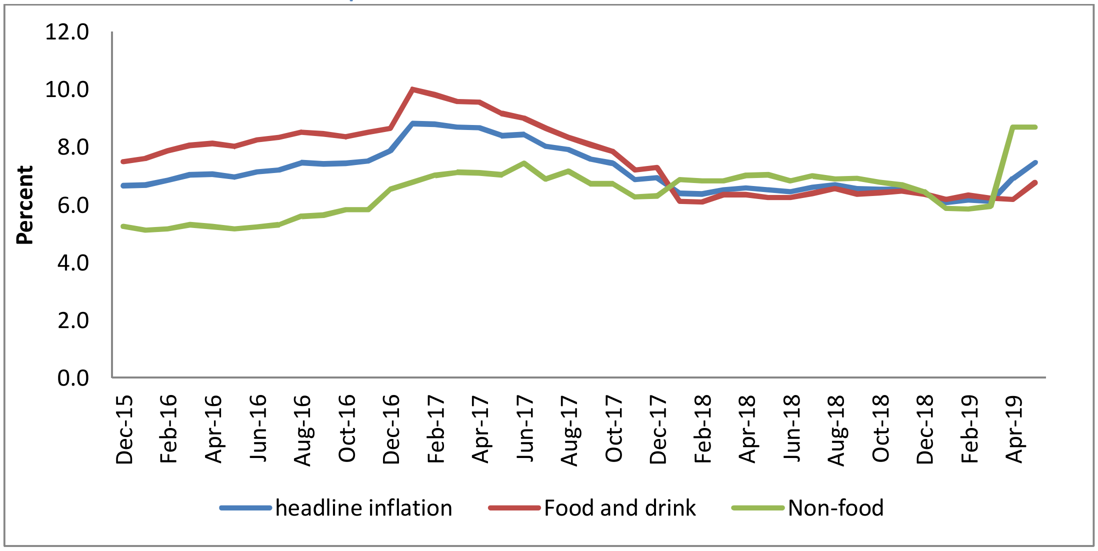
At the end of the first quarter, the industry registers a profit of D220.74 million. Income from investments on government bills stood at D279.59 million and accounted for 28.41 percent of total income. Interest income from loans and advances was D195.49 million and constituted 19.87 percent of total income. Non-interest income stood at D433.28 million or 44.04 percent of total income as at end-March 2019. Return on assets (ROA) and return on equity (ROE) respectively increased to 1.9 percent and 14.7 percent, indicating an improvement from 1.3 percent and 9.4 percent in March 2018 and 1.62 percent, and 11.34 percent at end-December 2018.

2.9 Inflation

Consumer price inflation accelerated in April 2019 due to the one-off increase in the postal charges. However, the underlying inflation decelerated.

Headline inflation as measured by the national Consumer Price Index (NCPI) accelerated to 6.9 percent in April 2019 from 6.1 percent in April 2018, reflecting the marked increase in non-food inflation. Non-food inflation accelerated to 8.7 percent from 6.0 percent during the period under review. This is mainly as a result of the one-off increase in postal charges from D30 to D350, which led to an increase in the communication index by 60.2 percent. The Central Bank's core measure of inflation, which stripes out utility, energy and volatile food items decelerated to 6.0 percent in April 2019 from 6.6 percent in April 2018.

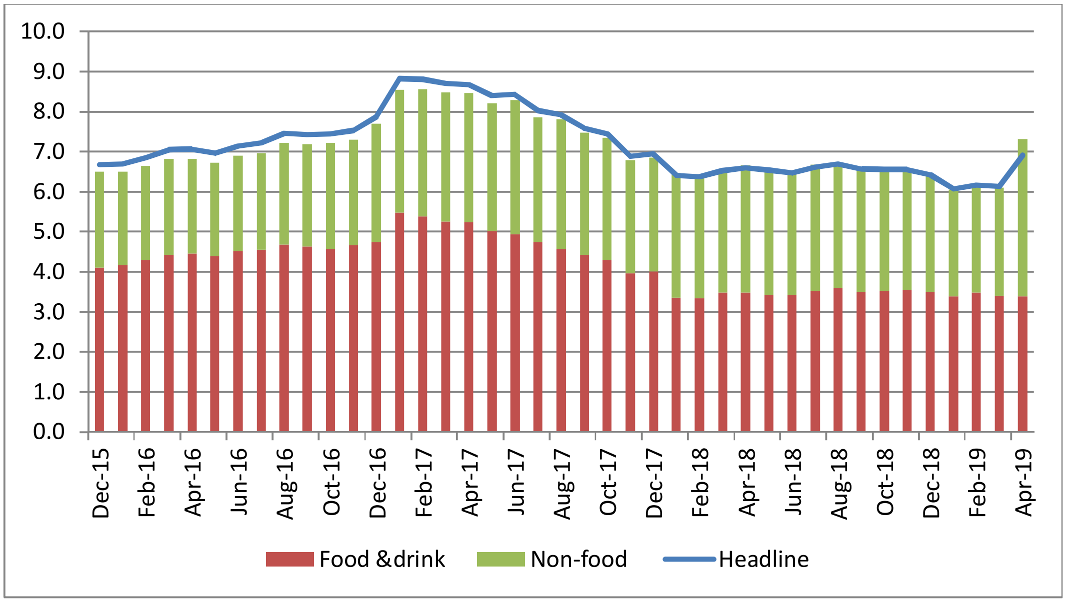
Chart 15: Headline inflation and components



Source: Gambia Bureau of Statistics and CBG staff estimates

Food inflation, on the other hand, decelerated to 6.3 percent in April 2019 from 6.4 percent in April 2018, reflecting the stability of the exchange rate and moderate global food prices. All subcomponents of food inflation decelerated with the exception of "Fish", "Milk, Cheese and eggs", and "oils and fat".

Chart 16: Contributions to food inflation



Source: Gambia Bureau of Statistics and CBG staff estimates

2.10 Inflation Outlook

The Committee noted the following:

- The overall macroeconomic environment continues to improve and the early economic indicators show that the growth outlook remains favorable. In addition, growing business confidence, and the rapid credit expansion to the private sector are supportive of the growth outlook;
- The current account balance of the balance of payments has improved significantly and that has contributed to the stability of the dalasi in the foreign exchange market;
- The sudden acceleration in headline inflation was due to the one-off increase in postal charges from D30 to D350, which led to the marked increase in the communication sub-index by 60.2 percent;
- This development is temporal and the effect will eventually dissipate as the underlying inflation remains subdued;
- The overall budget deficit has narrowed in the first quarter of 2019 thanks mainly to the increase in revenue and grants and the fiscal authorities are expected to stick to the path of fiscal consolidation;
- The Central Bank continues to maintain a comfortable foreign exchange reserve level;

- The fundamentals of the financial sector indicate that the banking industry remains well-capitalized, highly liquid, and profitable;
- The Committee judged that risks to the inflation outlook are on the downside and that inflation expectations will remain well anchored;
- However, the noted risks to the outlook in the short-term include temporary shock emanating from the Ramadan; and
- High level of domestic debt and low agricultural production, due to poor weather conditions remain risks to the medium-term outlook.

Decision of the MPC

The Committee, therefore, 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 2.0 percent and the overnight lending rate at 1 percentage points above the Monetary Policy Rate.

The Committee will continue to closely monitor domestic and international economic developments and stands ready to act accordingly in the interim.

Date for the next MPC meeting

The next Monetary Policy Committee meeting is scheduled for Wednesday, August 28, 2019. The meeting will be followed by the announcement of the policy decision on Thursday, August 29, 2019.

Annexes

Consumer price index (year-on-year percent change)

Consumer Price Index (y-o-y % change)	Weight	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Overall Index	100	6.6	6.5	6.5	6.6	6.7	6.6	6.5	6.6	6.4	6.1	6.2	6.1	6.9
Food & Drink	54.7	6.3	6.2	6.2	6.4	6.6	6.4	6.4	6.5	6.4	6.2	6.3	6.2	6.2
Food	53.2	6.4	6.3	6.3	6.5	6.6	6.4	6.5	6.5	6.4	6.3	6.4	6.3	6.3
Bread Cereals	12.8	6.7	7	6.8	7.3	7.5	7.8	7.3	7.4	7.7	7.5	7.5	7.6	7.6
Meat	13.4	8.2	7.7	8.3	8	8	7.4	7.6	7.4	7	6.8	7.3	6.4	6.5
Fish	3.7	8.6	8.5	8.4	8.7	8.4	8.5	8.1	8.1	8.4	8.2	9.0	9.0	9.0
Dairy products	2.4	6.1	5.7	5.8	5.9	5.7	6.5	6.4	6.3	6.7	6.6	6.6	6.1	6.6
Oils and fats	5.6	4.1	3.6	3	3.7	4.1	4	4.7	5.2	5.1	5.8	5.9	6.6	7.0
Fruits & nuts	2.1	8.7	9.2	9	9.2	9.5	9.7	9.8	10	10.1	9.4	8.0	8.2	8.5
Vegetables	7.3	4.7	4.6	4.7	4.6	4.9	4	4	4.6	4.2	3.7	3.9	4.1	4.5
Sugar	2.4	3.1	3	2.5	2.6	2.5	2.7	2.7	2.6	2.6	2.5	2.3	2.4	3.0
Other foods	3.6	4.7	4.6	4.8	4.6	5.1	5.5	5.7	5.4	5	4	3.5	3.9	4.2
Drink	1.5	2.7	3.3	2.8	2.8	3	2.9	2.8	2.7	2.7	2.5	2.6	2.6	3.2
Non-food	45.3	7	7	6.8	7	6.9	6.9	6.8	6.7	6.5	5.9	5.8	6.0	8.7
Alcoholic beverages	0.7	1	1.3	1.8	1.6	1.5	1.7	1.6	1.5	1.5	1.4	1.8	1.9	2.1
Clothing	11.2	7.6	7.6	7.2	7.7	7.6	7.5	7.4	7.8	8	7.9	7.6	7.7	8.4
Housing, water &energy	3.4	5.9	5.8	5.9	6	6.1	6.1	6.1	6.1	6.4	6.5	5.9	5.7	5.9
Furnishing	5.2	6.2	5.9	5.4	5.3	5	5.2	4.8	5.2	4.8	4.6	4.9	5.0	4.9
Health	1.2	2.2	2.3	2	2.2	2	2.1	2	1.7	1.9	1.1	1.3	1.3	1.1
Transport	4.4	2.3	2.4	2.3	2.5	2.2	3.2	4	4.4	4.1	3.2	3.5	3.6	3.4
Communication	2.9	0.4	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	60.2
Recreation	1.5	11.8	11.2	12.2	11.9	6.2	6.3	4.6	4.7	3.5	3.5	4.2	4.2	4.5
Newspapers	7.1	7.5	7.5	8.1	8.1	7	7	5	5	3.6	3.4	4.3	4.3	4.7
Education	1.5	0.9	1.1	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.5	0.5	0.2	0.3
Hospitality	0.4	5.7	5.8	6.5	8	8.2	9	9.5	9.1	9.5	9.4	9.4	9.4	9.7
Miscellaneous	5.9	12.3	12.6	11.8	12	12.6	12.3	13.1	11.6	11.4	9.1	8.5	9.0	8.5

Source: Gambia Bureau of Statistics and CBG staff estimates

Consumer price index (month-on-month percent change)

National Consumer Price Index (m-o-m % change)	Weight	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Overall Index	100	0.5	0.4	0.5	0.5	0.7	0.3	0.5	0.3	0.7	0.4	0.6	0.5	1.3
Food & Drink	54.7	0.6	0.5	0.6	0.6	0.7	0.4	0.4	0.3	0.6	0.4	0.6	0.5	0.5
Food	53.2	0.6	0.4	0.6	0.6	0.7	0.4	0.4	0.3	0.6	0.4	0.6	0.5	0.6
Bread Cereals	12.8	0.8	0.7	0.4	0.9	0.8	0.4	0.5	0.4	0.8	0.4	0.7	0.6	0.9
Meat	13.4	0.7	0.4	0.9	0.5	0.8	0.2	0.5	0.1	0.7	0.5	0.8	0.1	0.9
Fish	3.7	1.3	0.4	0.7	0.8	0.4	1	0.3	0.3	1	0.4	1.1	1.0	1.3
Dairy products	2.4	0.4	0.2	1.1	0.7	0.3	0.8	0.1	0.2	0.9	0.4	0.3	0.6	0.8
Oils and fats	5.6	0.2	0.3	0.4	0.9	0.8	0.4	0.7	0.5	0.3	0.7	0.6	0.7	0.5
Fruits & nuts	2.1	0.9	1.6	0.8	0.6	0.6	1	0.4	0.4	0.7	0.3	0.2	0.4	1.2
Vegetables	7.3	0.1	0.2	0.3	0.4	0.5	0.1	0.2	0.5	0.5	0.3	0.4	0.5	0.5
Sugar	2.4	0.3	0.1	0.1	0.3	0	0.3	0.3	0.1	0.4	0.3	0.1	0.2	0.9
Other foods	3.6	0.1	0.2	0.3	0	0.6	0.4	0.3	0.5	0.3	0.2	0.3	0.6	0.4
Drink	1.5	0.1	0.7	0.5	0.3	0.1	0.1	0.2	0.2	0.2	0	0.3	0.0	0.6
Non-food	45.3	0.5	0.4	0.5	0.4	0.7	0.3	0.5	0.4	0.8	0.4	0.5	0.5	3.1
Alcoholic beverages	0.7	0.3	0.3	0.4	0.1	0	0.2	0.1	0	0	0	0.4	0.0	0.5
Clothing	11.2	0.2	0.6	0.5	0.6	1	0.3	0.5	0.6	0.8	0.7	0.7	0.8	0.8
Housing, water &energy	3.4	0.5	0.9	0.4	0.4	0.5	0.3	0.5	0.3	0.6	0.8	0.2	0.3	0.7
Furnishing	5.2	0.8	0.3	0.1	0.1	0.5	0.4	0.7	0.4	0.3	0.2	0.5	0.4	0.7
Health	1.2	0.3	0.1	0	0.2	0.1	0.1	0	0	0.3	0	0.2	0.0	0.1
Transport	4.4	0.5	0.4	0.2	0.4	0	0.6	0.7	0.4	0.1	-0.3	0.4	0.1	0.3
Communication	2.9	0	0	0	0	0	0	0	0	0	0	0.0	0.0	60.1
Recreation	1.5	0.6	0	0.9	0	0.3	0.1	0.4	0.1	0.8	0.1	0.7	0.0	0.9
Newspapers	7.1	0.6	0	1.1	0	0.3	0	0.4	0	1	0	0.8	0.0	1.0
Education	1.5	0.1	0.1	0	0	0	0	0	0	0	0	0.0	0.0	0.2
Hospitality	0.4	0.5	0.8	0.9	1.8	0.6	0.8	0.8	0	1	0.5	0.6	0.8	0.8
Miscellaneous	5.9	0.8	0.4	0.7	0.8	1.2	0.4	0.9	0.5	1.4	0.3	0.3	0.8	0.4

Source: Gambia Bureau of Statistics and CBG staff estimates

Central Bank of The Gambia core measures of inflation (year-on-year percent change)

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Headline Inflation	1.0	1.3	6.5	6.6	6.7	6.6	6.5	6.6	6.4	6.2	6.2	6.1	6.0
Core 1 Inflation	6.7	6.5	6.4	6.8	6.7	6.5	6.5	6.6	6.2	6.0	6.2	6.1	6.0
Core 2 Inflation	6.6	6.6	6.5	6.6	6.6	6.6	6.5	6.5	6.4	6.2	6.2	6.1	6.1

Source: Gambia Bureau of Statistics and CBG staff estimates

*Core1 excludes prices effects of energy and utility prices

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