CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

November 2018

The Central Bank of The Gambia Monetary Policy Report provides summary of reports presented at the Monetary Policy Committee Meeting. 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. 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 its medium-term inflation objective of 5 percent. In addition, the Monetary Policy Committee sets the monetary policy rate of the Bank to signal the policy stance.

Monetary Policy Committee

The Monetary Policy Committee (MPC) was established by CBG Act (2005) as the apex monetary policy decision making committee of the Bank. Membership comprises the Governor (Chairman), the two Deputy Governors, Directors of Economic Research Department, Financial Supervision department and Banking Department 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) to signal the policy stance of the Bank. The decision making process is by consensus. The Chairman communicates the decision of the Committee to the public in a press release and a press conference.

Contents

Executive Summary

The Monetary Policy Committee (MPC) met on the 28th and 29th of November, 2018 and decided on the direction of monetary policy after assessing recent developments in the global and domestic macroeconomic and financial environments, as well as the economic outlook for the rest of the year and first half of 2019. The meeting was attended by all 9 members of the Committee.

The global economic environment is characterized by subdued growth outlook, resurgence of inflationary pressures, increased fragilities in the financial markets, and weakening crude oil prices. In addition, there are increasing signs of capital flow reversal and moderate currency depreciations in emerging markets due largely to rising interest rates in advanced economies and strengthening US dollar.

On the domestic front, economic recovery is gaining momentum buoyed by robust growth in construction activity and services sector as well as positive business and investor confidence. The medium-term outlook for the economy is positive on the back of continued implementation of sound macroeconomic policies and structural reforms.

The domestic inflationary dynamics had remained benign, reflecting the combined influence of moderate prices of imported goods and stable exchange rate as well as prudent monetary policy stance. Headline inflation decelerated to 6.5 percent in October, 2018 from 7.4 percent a year ago, thanks to the decline in consumer food inflation. Forecast suggests that inflation will gradually decelerate to the Bank's medium term target of 5 percent. However, risks to the outlook remain, including strong U.S. dollar in the international market and the domestic food supply situation which is largely dependent on the weather conditions. In addition, the high level of public debt remains a major threat to the overall macroeconomic stability.

1. Global Economic Outlook

The outlook for the global economy has been downgraded as trade and investment moderates and financial conditions tighten with increasing signs of capital reversals in emerging and developing economies.

1.1. Global growth

Global economic growth forecast for 2018 has been downgraded by the International Monetary Fund (IMF) to 3.7 percent from the earlier projection of 3.9 percent amid escalating trade tensions resulting in widespread uncertainty and waning investor confidence. Growth softened in major advanced economies in the third quarter of 2018 and remained divergent in the emerging markets and developing economies attributed to a combination of country-specific factors.

In the advanced economies, growth is expected to remain unchanged at 2.4 per cent in 2018, 0.1 percentage points higher than 2017. Strong output growth of 2.9 percent in the United States is driving activity growth in the region. The U.S. expansionary fiscal stance, strong wage growth and continued inflow of capital are expected to provide the impetus for growth.

Growth prospect for the emerging markets and developing economies have weakened due largely to adverse external trade environment, country specific factors and tighter financial conditions. The IMF has revised downwards growth forecast for the region to 4.7 percent for 2018 from an earlier projection of 4.9 percent. The rising global interest rates combined with the strengthening of the U.S. dollar, have contributed to tighter financial conditions and moderated capital flows to the region.

In sub-Sahara Africa, economic recovery continues, supported by stronger external demand, higher commodity prices and improved access to capital. Economic growth in the region is projected at 3.1 percent in 2018, higher than 2.7 percent in 2017.

Table 1: Global growth estimates

	Estimate		Projections		Difference from July 2018 WEO Projection	
	2016	2017	2018	2019	2018	2019
World Output	**3.2**	**3.7**	**3.7**	**3.7**	**-0.2**	**-0.2**
Advanced Economies	**1.7**	**2.3**	**2.4**	**2.1**	**0**	**-0.1**
United States	1.5	2.2	2.9	2.5	0	-0.2
Euro Zone	1.8	2.4	2	1.9	-0.2	0
Germany	1.9	2.5	1.9	1.9	-0.3	-0.2
France	1.1	2.3	1.6	1.6	-0.2	-0.1
Italy	0.9	1.5	1.2	1	0	0
Japan	1	1.7	1.1	0.9	0.1	0
United Kingdom	1.8	1.7	1.4	1.5	0	0
Emerging & Developing Markets	**4.4**	**4.7**	**4.7**	**4.7**	**-0.2**	**-0.4**
Russia	–0.2	1.5	1.7	1.8	0	0.3
China	6.7	6.9	6.6	6.2	0	-0.2
India	7.1	6.7	7.3	7.4	0	-0.1
Brazil	–3.5	1	1.4	2.4	-0.4	-0.1
Sub-Saharan Africa	**1.5**	**2.7**	**3.1**	**3.8**	**-0.3**	**0**
Nigeria	–1.6	0.8	1.9	2.3	-0.2	0.4
South Africa	0.6	1.3	0.8	1.4	-0.7	-0.3
Senegal	6.7	7.1	7	7		

Source: World Economic Outlook update, October 2018

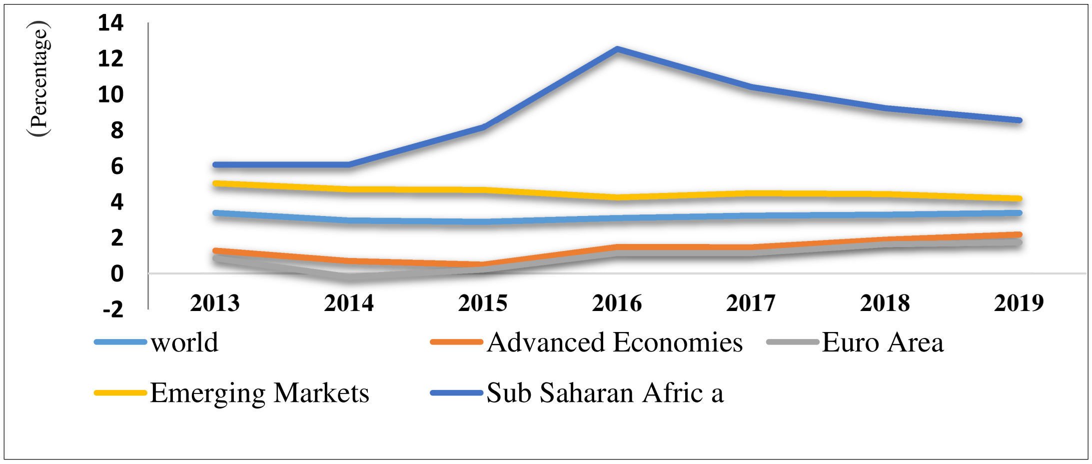
1.2. Global Inflation

Global inflation has been rising steadily but core inflation remains largely subdued. World inflation is projected to rise to 3.5 percent in 2018, higher than 3.1 percent in 2017 before decelerating to 3.4 percent in 2019.Headline inflation in advanced economies is expected to reach 2.0 percent in 2018 compared to 1.7 percent in 2017 and 1.5 percent in 2016.

Inflation in emerging and developing economies is expected accelerate to 5.0 percent in 2018 from 4.3 percent in 2017, reflecting pass-through effects from currency depreciation in some cases and second-round effects of higher fuel prices in others. Prices of agricultural commodities have also increased marginally, reflecting diminishing excess supply.

Inflation pressures have generally softened in sub-Saharan Africa. Annual inflation is projected to drop to 8.6 percent in 2018 and 8.5 percent in 2019, from 11 percent in 2017.

Chart 1: Global inflation



Source: World Economic Outlook update, October 2018

1.3. Global Interest Rates

There is monetary policy normalization in most advanced economies, with expectation of strong wage growth and declining unemployment. The United States Federal Reserve increased its benchmark federal funds rate to 2.00-2.25 percent at its September 2018 meeting. The Bank of England hiked its policy rate in August 2018, while the European Central Bank (ECB) has given indications to terminate asset purchase programme in December 2018. These developments are accentuating capital flow reversals from emerging and developing economies.

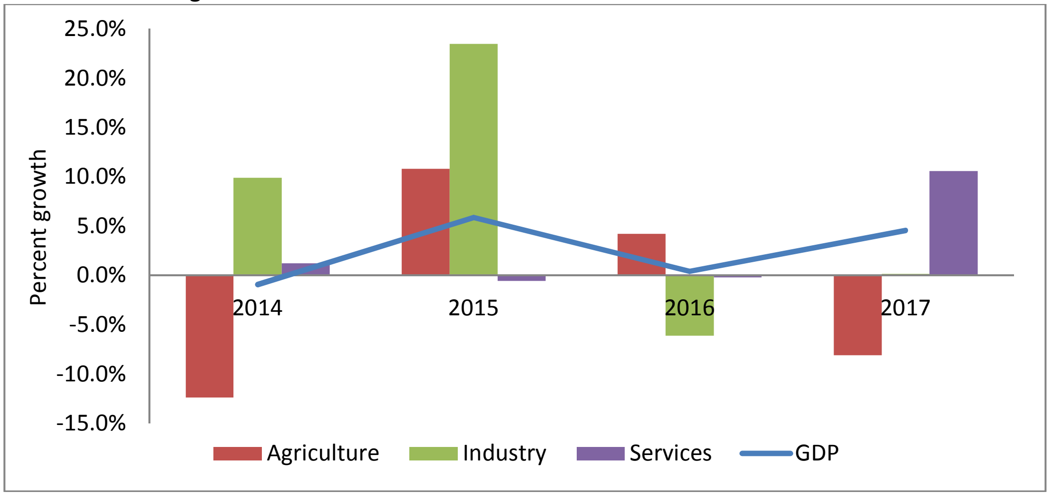
2. Domestic Economy

Improved business environment and reforms are sustaining the rapid economic recovery in the Gambia. The main drivers of growth are construction activities and the service sectors including wholesale and retail trade, tourism, finance and insurance, and telecommunication.

2.1. Real Sector Developments

The Gambia Bureau of Statistics (GBoS) estimated real GDP to have grown by 4.6 percent in 2017, higher than 0.4 percent in 2016. Growth is expected to remain robust in 2018 predicated on robust construction activities, trade and investment on the back of continued implementation of sound macroeconomic policies and structural reforms. In addition, the Central Bank of The Gambia's Composite Index of Economic Activity points to high level of activity in 2018 and 2019.

Chart 2: Real GDP growth



Gambia Bureau of Statistics and CBG staff estimates

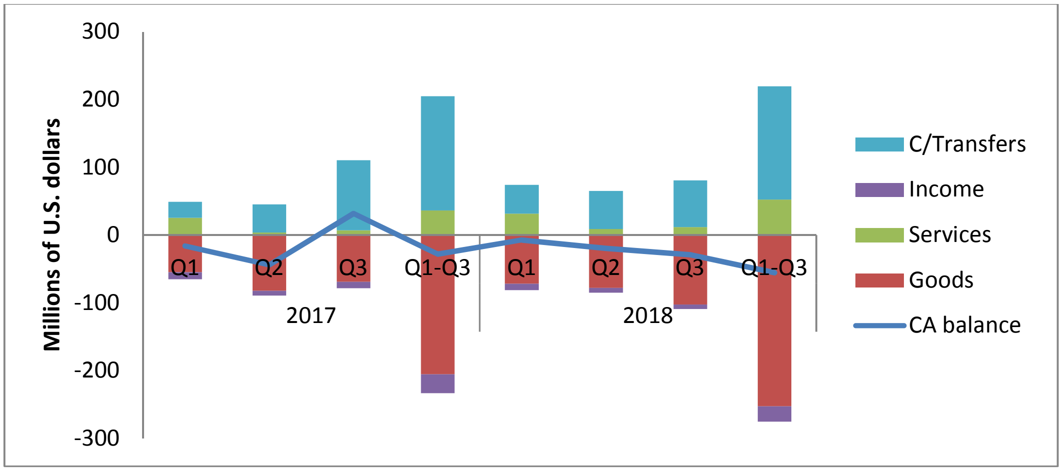
2.2. Balance of Payments

The current account deficit of the balance payments widened in the nine months to end-September 2018, attributed largely to the sharp increase in imports to finance increased economic activity.

Preliminary balance of payments estimates for the nine months to end-September 2018 indicate a wider current account deficit compared to the corresponding period of 2017, attributed largely to the sharp increase in imports as economic activity picks up.

The current account deficit is estimated to have widened to US$55.58 million in the first nine months of 2018 from a deficit of US$28.11million a year ago. The goods account balance registered a deficit of US$252.64 million (16.47 percent of GDP) compared to US$205.51 million (14.02 percent of GDP) in the corresponding period of 2017. Imports increased markedly during the period to US$363.69 million or by 24.4 percent compared to US$292.4 million in the nine months to end-September 2017. The marked increase in imports reflects higher level of economic activity. The major imports items for the period included oil and petroleum products, cement products and other construction related materials. Exports (FOB) increased to US$91.62million or by 20.97 percent in the first nine months of 2018 from US$75.73 million in the corresponding period of 2017. However, the increase in exports was not enough to offset the increase in imports, hence the deterioration of the goods account balance.

Chart 3: Current account balance



Source: CBG staff estimates

The services account balance surged to a surplus of US$52.2 million or by 43.5 percent in the first nine months of 2018 from US$36.4million in the same period last year. Similarly, current transfers (mainly workers' remittances) rose to US$136.68 million or by 20.46 percent.

The surplus in the capital and financial account improved to US$40.2 million in the first nine months of 2018 from a deficit of US$13.6 million in the same period a year ago. Gross international reserves are projected at 4 months of next year's imports of goods and services.

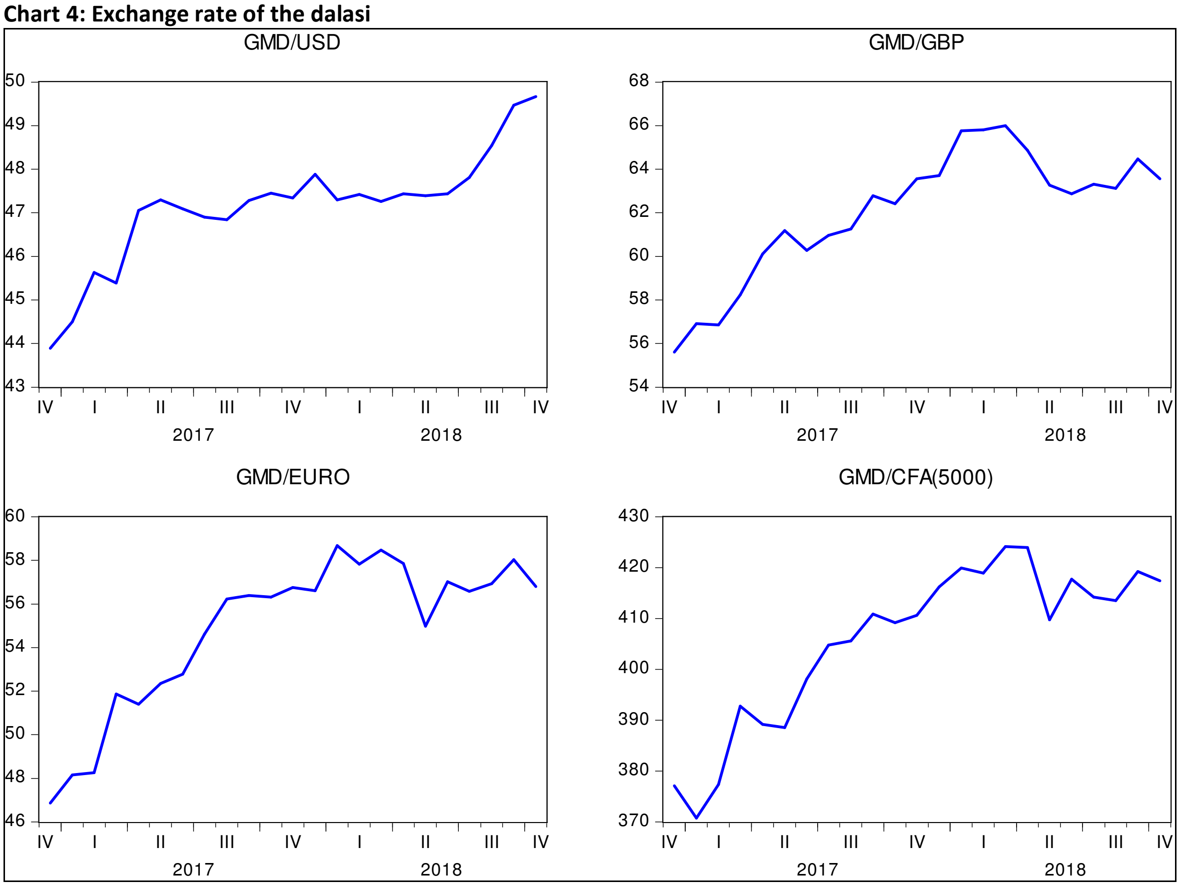
2.3. Exchange rate Developments

The foreign exchange market has stabilized evidenced by reduced volatility in transaction volumes and the sustained stability of the exchange rate of the dalasi on the back of improved market conditions and confidence.

The foreign exchange market is characterized by increased activity during the year buoyed by improved supply conditions and confidence as well the overall macroeconomic stability. Activity volume in the domestic foreign exchange market, measured by aggregate sales and purchases of foreign currency has picked up rapidly. From January to October 2018, volume of transactions totalled US$1.5 billion, higher than US$1.0 billion in the same period last year, representing an increase of 57.8 percent.

Purchase of foreign currency, which indicates supply, increased markedly by 56.6 percent to US$790.7 million in the 10 months to end-October 2018,from US$504.9 million in the corresponding period in 2017. Similarly, sale of foreign currency, which indicates demand, increased significantly by 59.0 percent to US$792.8 million in the review period from US$572.2 million in the same period of 2017.

Chart 4: Exchange rate of the dalasi



Source: CBG staff estimates

From December 2017 to October 2018, the dalasi appreciated against the pound sterling by 0.2 percent but depreciated against the U.S. dollar and Euro by 3.7 percent and 0.3 percent respectively. The exchange rate is projected to remain stable in the near to medium-term, predicated on the improved supply conditions and confidence. Although demand pressures are expected to emanate from increased imports to finance the robust economic activity, these will be offset by the projected improvement in supply conditions relating to robust tourist arrivals, increased private remittances and official inflows.

2.4. Fiscal Development

Government fiscal operations in the nine months to end-September 2018 resulted to an improved fiscal deficit excluding grants compared to a year ago.

2.4.1. Budget Balance

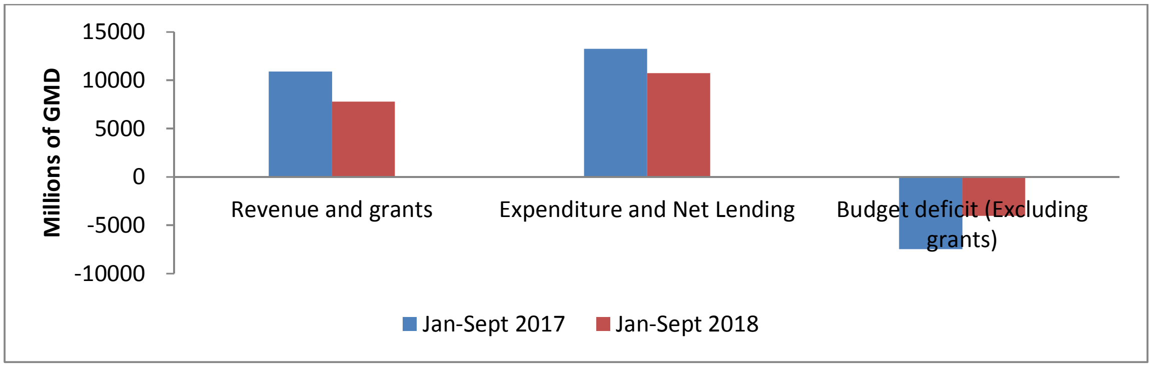
The overall fiscal deficit (excluding grants) narrowed to D4.0 billion in the first nine months of 2018 from D7.5 billion in the corresponding period of 2017. However, the overall fiscal deficit (including grants) widened to D2.9 billion in the first nine months of 2018, from D2.3 billion in the corresponding period of 2017.

2.4.2. Revenue and Grants

Total revenue and grants mobilized in the first nine months of 2018 totalled D7.8 billion, lower than D10.9 billion registered in the corresponding period a year ago, representing a decline of 28.6 percent. This is as a result of lower-than-expected grant disbursements in the second and third quarters of the year. As a result, grant receipts amounted to D1.1 billion, or 78.4 percent lower than a year ago. Domestic revenue, on the other hand, increased to D6.7 billion in the first nine months of 2018 from D5.8 billion in the first nine of 2017, supported by improved tax revenue collection.

Tax revenue increased to D6.1 billion in the nine months to end-September 2018, compared to D5.2 billion in the corresponding period of 2017, or by 17.0 percent. Tax on income and payroll increased to D1.6 billion or by 4.6 percent. Similarly, revenue from indirect taxes, which comprises of tax on goods and services and international trade rose by 21.9 percent to D4.6 billion during the period. Tax on goods and services increased by 27.9 percent to D1.6 billion while international trade taxes rose by 18.9 percent to D3.0 billion. Non– tax revenue declined to D0.6 billion, or by 6.7 percent during the period under review.

Chart 5: Summary of fiscal operations



Source: Ministry of Finance and Economic Affairs, and CBG staff estimates

2.4.3. Expenditure and Net Lending

Total expenditure and net lending declined to D10.7 billion in the nine months to end-September 2018 from D13.3 billion in the same period of 2017. The decline in expenditure and net lending was due mainly to the significant fall in domestic interest payments and capital expenditure. The marked decline in interest rates on government securities explains the lower interest payments on domestic debt. In addition, the shortfall in grants contributed to the decline in capital expenditure.

Recurrent expenditure, on the other hand, increased to D7.4 billion from D7.1 billion in the first nine months of 2017, driven by growth in wages and salaries, and other charges. Wages and salaries which constitute about 30 percent of recurrent expenditure and 20.7 percent of total expenditure outlay rose by 27.2 percent to stand at D2.2 billion. Other charges, which consist of expenditure on goods and services, and subsidies and transfers grew by 11.5 percent to D3.2 billion during the period under review. Other charges accounted for 43 percent of recurrent spending. Interest payments, on the other hand, decreased by 20.0 percent due to the decline in domestic interest payments by 25.8 percent to D1.7 billion. In contrast, external interest payments increased from D171.5 million to D263.1 million. Interest payments account for 18.5 percent of total expenditure outlay and 29.7 percent of domestic revenue.

Capital expenditure declined substantially to D3.3 billion or by 46.3 percent in the first nine months of 2018, from D6.1 billion in the same period of 2017. The marked shortfall in grant disbursements in the second and third quarters of the year led to the significant fall in government development expenditure. This is because about 80 percent of capital expenditure is financed from external sources.

Table 2: Total Revenue and Grants (Millions of GMD)

Receipts	Jan-Sept 2017	Jan-Sept 2018	y-o-y %growth
Revenue and grants	10,914.1	7,793.8	-28.6
Domestic Revenue	5,758.6	6,681.9	16.0
Tax Revenue	5,234.1	6,122.2	17.0
Taxes on income and wealth	1,483.2	1,550.9	4.6
Personal	564.5	599.4	6.2
Corporate	776.9	824.4	6.1
Capital Gains	59.8	47.9	-19.9
Payroll	49.3	41.8	-15.4
Other taxes	32.6	37.5	14.9
Domestic Tax on gds& services	1,235.5	1,579.9	27.9
Excise duties	1,045.2	1,226.4	17.3
Value Added Tax	653.4	890.5	36.3
Other taxes on production	46.2	56.3	21.8
Tax on International Trade	2,515.4	2,991.4	18.9
Nontax Revenue	524.4	559.7	6.7
Grants	5,155.6	1,111.9	-78.4

Source: Ministry of Finance and Economic Affairs, and CBG staff estimates

Table 3: Total Expenditure and Net Lending (Millions of GMD)

Payments	Jan-Sept 2017	Jan-Sept 2018	y-o-y %growth
Total Expenditure	13,254.9	10,720.1	-19.1
Current Expenditure	7,125.9	7,424.1	4.2
Gross Wages, Salaries & Allowances	1,743.0	2,217.5	27.2
Other Charges	2,888.7	3,220.6	11.5
Goods and services	1,550.1	1,643.0	6.0
Subsidies and transfers	1,338.7	1,577.6	17.8
Interest	2,494.1	1,986.0	-20.4
External	171.5	263.1	53.4
Domestic	2,322.6	1,722.9	-25.8
Capital Expenditure	6,114.0	3,286.0	-46.3
Externally Financed	5,630.9	2,585.9	-54.1
Loans	3,485.0	1,834.1	-47.4
Grants	2,145.9	751.9	-65.0
GLF Capital	483.1	700.1	44.9
Net Lending	15.0	10.0	-33.3

Source: Ministry of Finance and Economic Affairs, and CBG staff estimates

Table 4: Budget Balance (Millions of GMD)

Overall balance (commitment basis)	Jan-Sept 2017	Jan-Sept 2018	y-o-y %growth
Excluding grants	-7,496.3	-4,038.2	-46.1
Including grants	-2,340.8	-2,926.3	25.0
Basic balance	-1,865.4	-1,452.2	-22.1
Basic Primary Balance	628.7	533.8	-15.1

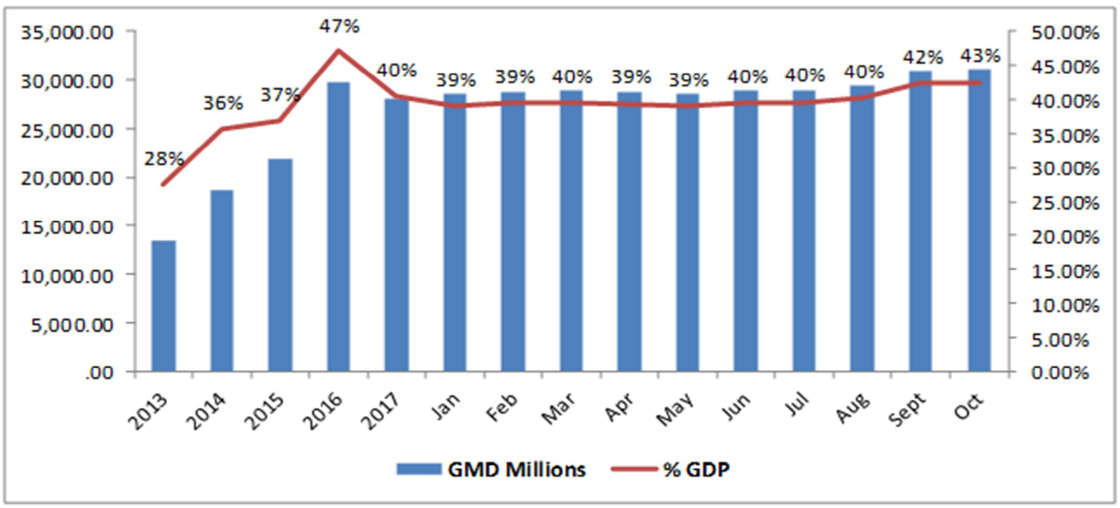
Source: Ministry of Finance and Economic Affairs, and CBG staff estimates

2.4.4. Domestic Debt

The stock of central government domestic debt increased slightly to D29.66 billion (42.7 percent of GDP) as at end-October 2018 from D29.14 billion (42.0 percent of GDP) in the corresponding period a year ago. Despite the introduction of Treasury bonds in August 2017, the debt portfolio is still dominated by short term instruments (58 percent of total debt) with maturities of not more than a year.

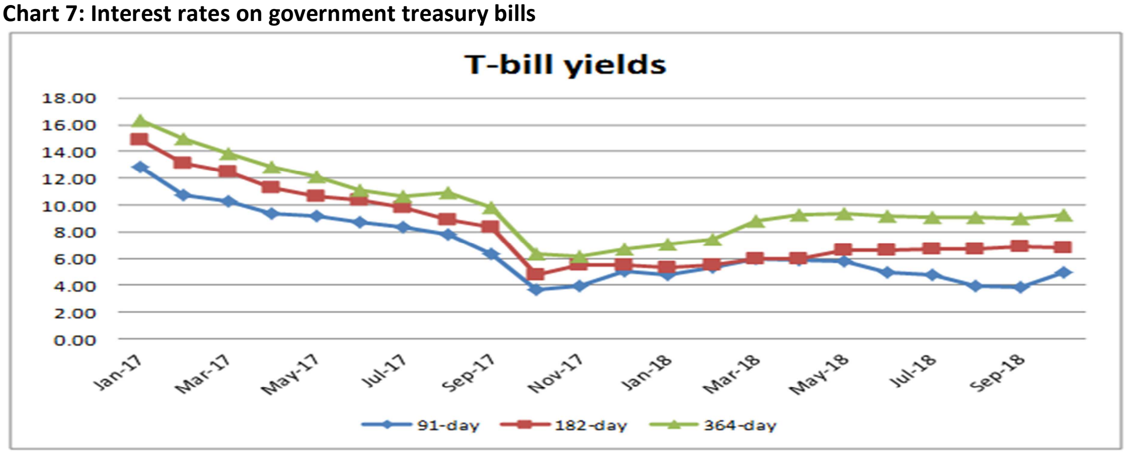
Yields on all Treasury bills profiles increased. The 91- day, 182-day, and 364-day Treasury bills rates increased from 3.68 percent, 4.77 percent, and 6.34 5 percent in October 2017 to 4.97 percent, 6.83 percent, and 9.25 percent, respectively in October 2018.

Chart 6: Evolution of domestic debt



Source: CBG staff estimates

Chart 7: Interest rates on government treasury bills

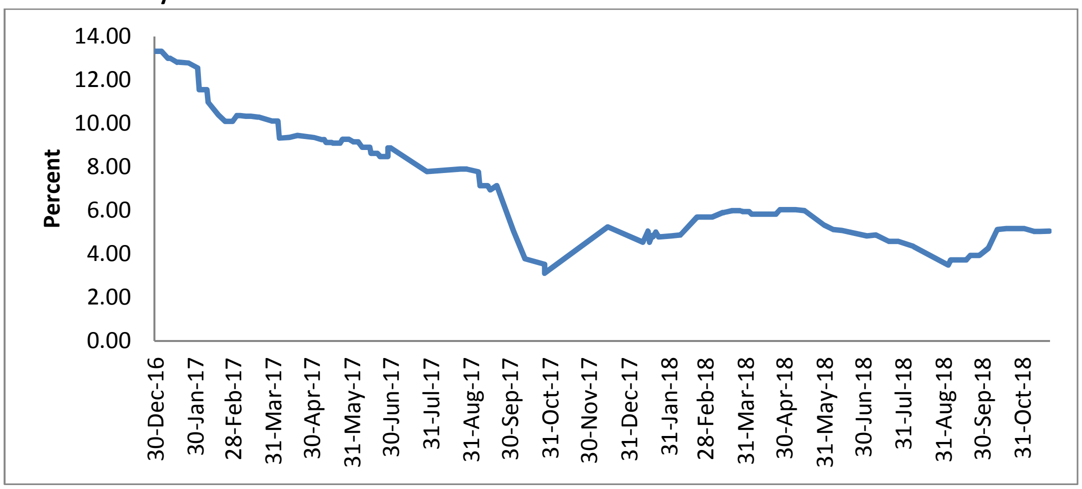


Source: CBG staff estimates

2.5. Inter-bank placement

Interbank transaction volumes from January to October 2018 totalled D2.0 billion at an average interest rate of 5.0 percent in 2018 compared to D1.7 billion at 8.9 percent in the same period in 2017. The decline in interest rates mirrors the drop in 3 months treasury bills rate.

Chart 8: Weekly interbank interest rates



Source: CBG staff estimates

2.6. Monetary developments

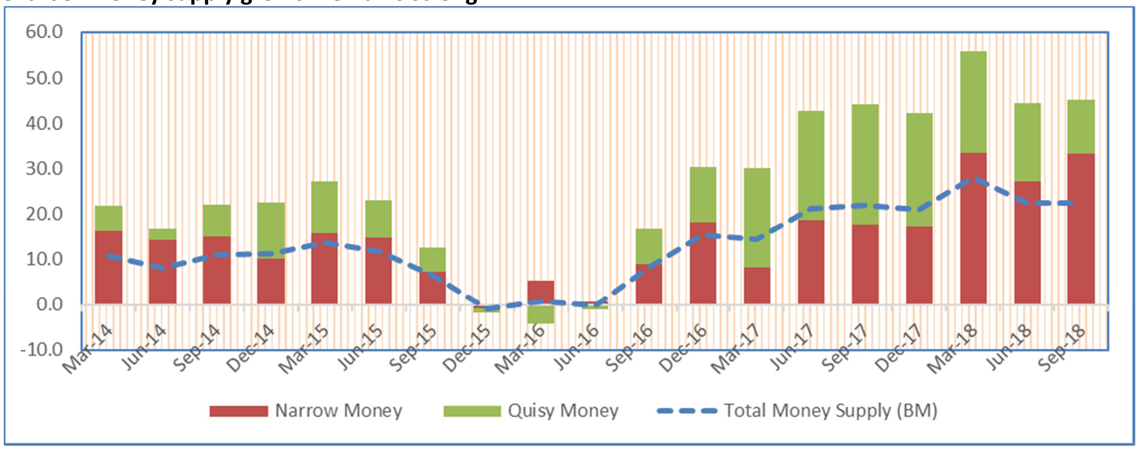
Money supply growth continues to be strong, supported by the accommodative monetary policy stance of the Bank, improved external sector and the rebound of confidence in the economy.

2.6.1. Annual Money Supply Growth

Annual money supply growth was 22.4 percent in September 2018, lower than the 28.0 percent reported at the previous MPC meeting but higher than the 21.2 percent in the corresponding period a year earlier. Money supply growth during the period was driven by the expansion in the net foreign assets of the Banking system.

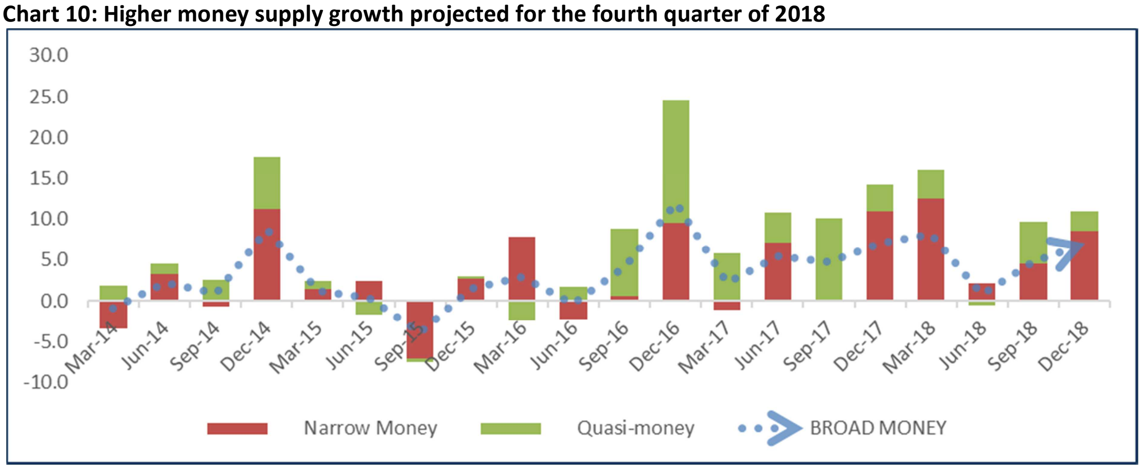
From June to September 2018, money supply grew by 4.8 percent, higher than the 0.8 percent growth rate recorded in the previous quarter. Both narrow money and quasi money picked up compared to the previous quarter.

Chart 9: Money supply growth remains strong



Source: CBG staff estimates

Chart 10: Higher money supply growth projected for the fourth quarter of 2018



Source: CBG staff estimates

Narrow money (M1) grew significantly by 33.2 percent to D17.3 billion compared to17.7 percent in September, 2017. The increase in M1 was driven by the expansion in both the demand deposits and currency with the public by 44.9 percent and 14.9 percent, respectively.

Quasi money (sum of time and savings deposits) grew at a slower pace than the corresponding period a year earlier as time deposits continued to contract. As at end-September 2018, quasi money grew by 11.9 percent, lower than 26.4 percent a year earlier. Of the components of quasi money, savings deposits grew by 21.09 percent to D11.7 billion compared to 29.1 percent year ago. In contrast, time deposits continued to contract since end-December, 2017, largely due to the low interest rates. As at end-September 2018, it contracted by 12.4 percent from a growth of 20.0 percent the same period last year.

2.6.2. Sources of Money Supply

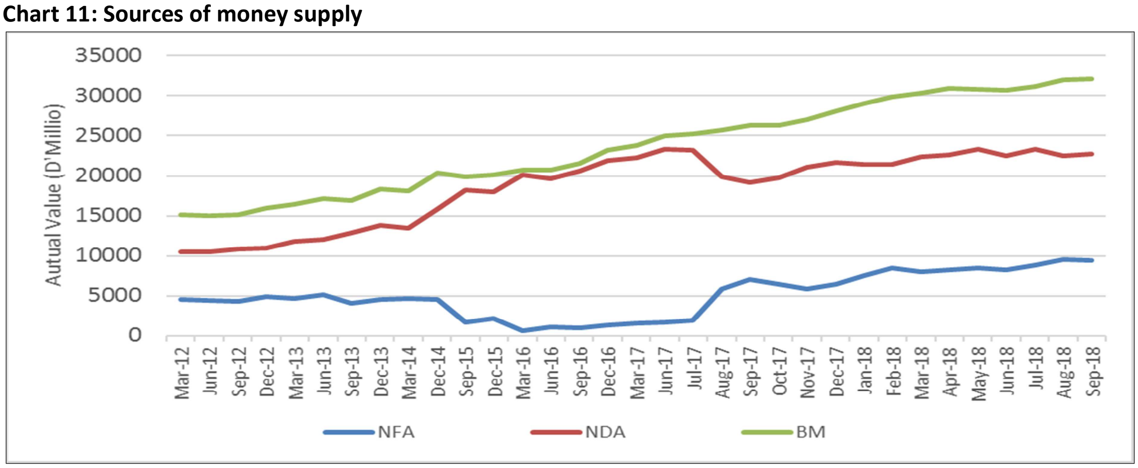
The net foreign assets

The net foreign assets (NFA) of the banking system rose to D9.4 billion as at end-September, 2018 from D7.1 billion or by 33.1 percent in the same period a year ago. The NFA of both the CBG and commercial banks increased.

In the year to end-September 2018, NFA of the Central Bank expanded by 4.0 percent to stand at D3.8 billion compared to D3.6 million in the corresponding period last year. The improved net foreign asset position could be explained by the decrease in the foreign liabilities that outweighed the decrease in foreign assets. Foreign assets of the Bank declined to D8.0 billion or by 1.4 percent in September 2018 from D8.1 billion a year earlier. Similarly, foreign liabilities decreased by 4.3 percent to D4.3 billion.

Similarly, the NFA of commercial banks grew by 64.3 percent to D4.6 billion, lower than 103.49 percent recorded in September 2017. Year-on-year, foreign assets of deposit money banks increased by 44.86 percent to D 5.6 billion from D4.5 billion in September 2017. The increase in foreign assets was due to the significant increase in holdings of foreign currency cash and deposits at foreign banks. Foreign investments, on the other hand, contracted by 19 percent. Foreign liabilities of commercial banks contracted to D967.77 million at end-September 2018 from 1.1 billion at end-September 2017

Chart 11: Sources of money supply



Source: CBG staff estimates

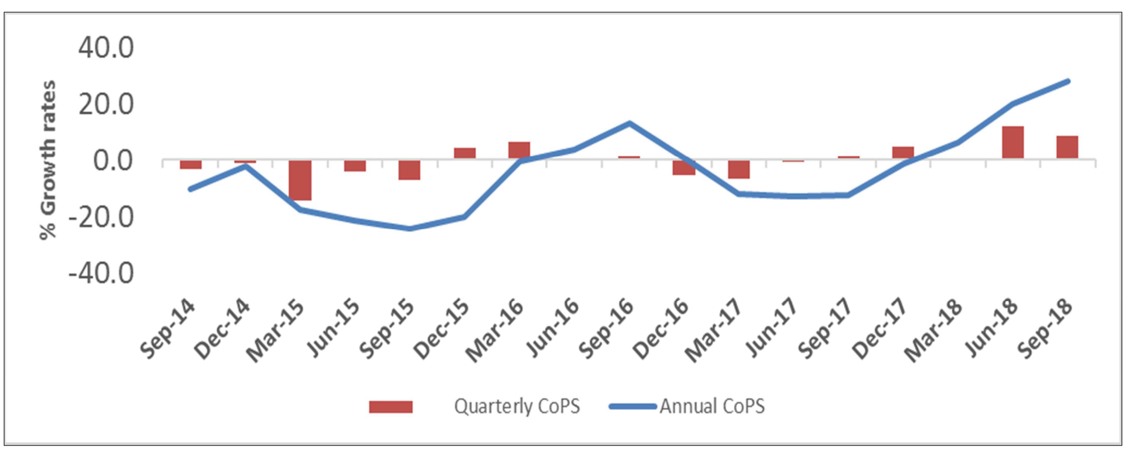
Net Domestic Assets (NDA)

In the year to end-September 2018, the NDA of the banking system grew by 18.44 percent to D22.7 billion following a contraction of 6.7 percent in the corresponding period of 2017. The increase in the net domestic assets attributed to the increase in government borrowing from the banking system. Net claims on government by the banking system increased to D20.8 billion or by 14.5 percent, higher than 3.2 percent a year earlier.

Central Bank's gross claims on government decreased by 5.2 percent as at end-September 2018 from a year ago. However, the Bank's net claims on government increased by 14.6 percent due solely in the decline in government deposit by 28 percent. This implies that there was no new lending to government during the year but the decline in total government deposits worsens their net position with the Bank.

Private sector credit continued its recovery supported by the easing of monetary policy stance that started in June 2017 as well as the increase in economic activity. Private sector credit grew by 28.2 percent as at end-September 2018 after a contraction of 12.3 percent a year ago. Quarter-on-quarter, it grew by 8.6 percent from June to September 2018 compared to a growth of 1.7 percent in the corresponding period a year earlier. Chart 6 shows continued recovery in private sector credit since the fourth quarter of 2017.

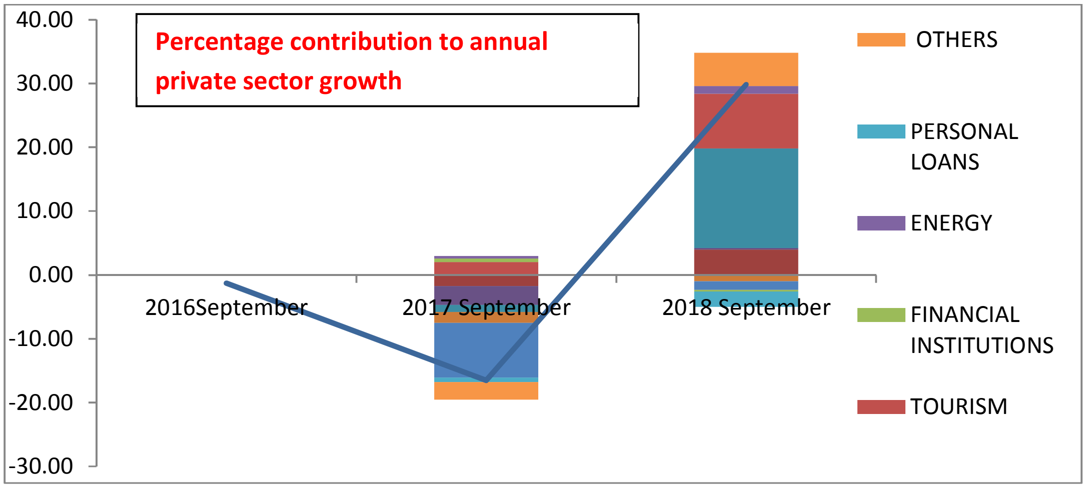
Chart 12: Strong recovery in private sector credit



Source: CBG staff estimates

Drivers of the expansion in private sector credit include the agriculture, tourism, building and construction, and energy sectors, which grew by 120 percent, 167 percent, 119 percent and 72 percent respectively. Chart 7 shows that building and construction was the largest contributor of credit growth, accounting for more than half of credit growth at end-September 2018.

Chart 13: Real estate boom driving credit growth

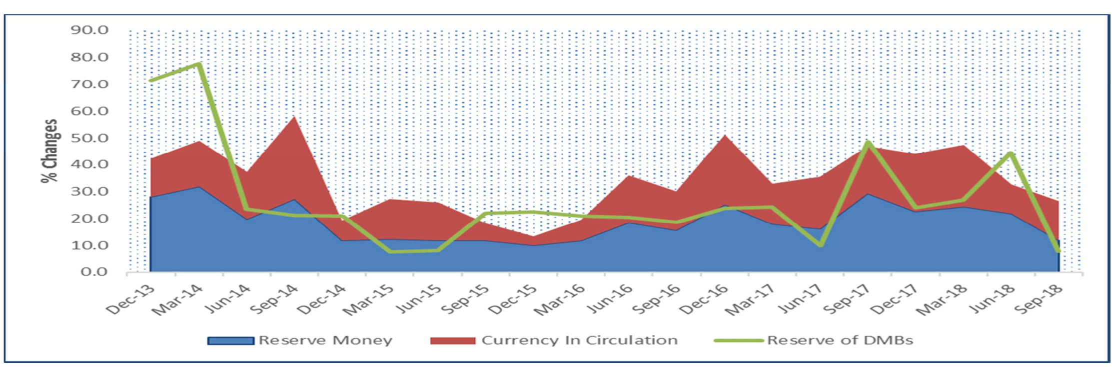


Source: CBG staff estimates

Growth in Monetary Base

Reserve money growth, the Central Bank's operating target, moderated to 11.8 percent as at end-September, 2018, lower than 29.3 percent recorded in the corresponding period a year earlier. The decline in reserve money growth is in line the Monetary Policy Committee's decision to keep inflation subdued. Quarter- on – quarter, it rose by just 1.2 percent in the third quarter of 2018, lower than the 10.3 percent in September 2017.

Chart 14: Annual reserve money growth declined in line with expectations



Source: CBG staff estimates

The slower growth in reserve money was as a result of the decline in the Bank's claims on government. Both components of reserve money registered slower growth during the period under review. Currency in circulation rose by 14.8 percent, lower than 17.6 percent a year ago. Similarly, reserves of commercial banks registered a decelerated growth rate of 7.9 percent compared to 45.3 percent recorded in a year ago.

Table 5: Monetary indicators

	Millions of GMD				Millions of GMD			y-o-y % change
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Sep-18
NET FOREIGN ASSETS	**1,544.5**	**1,742.1**	**7,059.2**	**6,463.5**	**8,010.3**	**8,169.1**	**9,353.1**	**32.5**
Central Bank	-514.0	-592.0	3,654.0	2,787.1	3,614.0	3,607.3	3,801.1	4.0
Commercial banks	2,058.6	2,334.1	3,405.1	3,676.4	4,396.4	4,561.9	5,552.0	63.0
NET DOMESTIC ASSETS	**22,213.4**	**23,307.3**	**19,201.0**	**21,648.1**	**22,395.2**	**22,490.6**	**22,786.3**	**18.7**
Claims on Gov't, net	20,783.8	21,002.8	18,168.0	19,274.5	19,581.7	19,756.4	20,809.7	14.5
Central Bank	9,018.2	9,529.5	6,349.1	7,236.4	6,553.2	7,039.5	7,273.8	14.6
Commercial banks	11,765.7	11,473.3	11,818.8	12,038.1	13,028.5	12,716.9	13,535.9	14.5
Claims on Public Entities	1,571.3	1,645.4	1,624.3	1,896.7	1,728.6	1,623.8	1,591.9	-2.0
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Commercial banks	1,571.3	1,645.4	1,624.3	1,896.7	1,728.6	1,623.8	1,591.9	-2.0
Claims on Private Sector	4,041.9	4,011.4	4,078.7	4,281.0	4,292.2	4,813.6	5,272.9	29.3
Central Bank	101.0	105.0	107.8	105.7	104.1	103.1	109.7	1.8
Commercial banks	3,940.9	3,906.4	3,970.9	4,175.3	4,188.1	4,710.5	5,163.2	30.0
Claims on Other Financial Inst.	4.9	4.9	4.9	4.9	4.9	4.9	4.9	0.0
Central Bank	4.9	4.9	4.9	4.9	4.9	4.9	4.9	0.0
Other items, net	-4,188.5	-3,357.2	-4,674.8	-3,809.1	-3,212.2	-3,708.1	-4,893.1	4.7
Central Bank	-216.7	-132.0	-280.0	33.2	171.9	109.8	-191.1	-31.7
Commercial banks	-3,971.8	-3,225.2	-4,394.7	-3,842.2	-3,384.1	-3,817.9	-4,701.9	7.0
BROAD MONEY	**23,757.9**	**25,049.4**	**26,260.2**	**28,111.5**	**30,405.6**	**30,659.7**	**32,139.4**	**22.4**
Narrow Money	12,123.9	12,982.0	12,966.0	14,378.3	16,175.7	16,517.2	17,266.3	33.2
Quasi-money	11,634.0	12,067.4	13,294.2	13,733.2	14,229.9	14,142.5	14,873.1	11.9
RESERVE MONEY	**8,393.3**	**8,915.5**	**9,835.8**	**10,167.3**	**10,448.1**	**10,864.6**	**10,998.4**	**11.8**

Source: CBG staff estimates

Table 6: Outstanding Private Sector Credit

	Millions of GMD				Millions of GMD			y-o-y % change
Sectors	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	
Agriculture	290.8	306.6	132.2	394.1	347.8	369.2	291.3	120.3
Fishing	0.5	2.7	3.8	4.1	3.9	3.9	4.0	5.6
Construction	523.1	465.4	515.5	554.2	667.1	862.5	1133.6	119.9
Transportation	398.2	379.5	378.9	343.0	335.7	250.6	338.9	-10.6
Distributive Trade	1370.3	1185.2	1310.8	1284.2	1073.1	1306.1	1259.8	-3.9
Tourism	112.0	166.0	203.3	217.7	336.3	455.6	543.2	167.2
Personal Loans	562.6	484.0	440.5	364.6	371.1	367.8	343.7	-22.0
Energy	34.9	61.7	66.9	80.8	102.2	127.8	114.9	71.9
Manufacturing					22.0	16.5	20.9	-
Financial Institution					114.8	117.2	133.8	-
Other	761.0	1004.7	919.0	941.2	801.7	791.7	964.6	5.0
Total	4053.4	4055.8	3970.8	4183.8	4175.7	4668.8	5148.6	29.7

Source: CBG staff estimates

2.7. Financial Soundness Indicators

The financial soundness indicators suggest that the banking industry remains strong and resilient.

Capital and Reserves

The banking industry remains fundamentally sound with the Capital Adequacy Ratio (CAR) well above the statutory requirement of 10 percent. Capital and reserves of the industry as at end- September 2018 stood at D5.53 billion, higher than D5.38 billion in the previous quarter and D5.07 billion in September 2017, indicating a growth of 2.6 percent and 9.1 percent respectively. The growth was due to increase in reserves emanating from profitability. The banking industry capital adequacy ratio is 33.6 percent in September 2018, significantly above the 10.0 percent prudential requirement.

Asset Quality

The industry registered asset growth of 15.8 percent in the year to end-September 2018. Asset quality has also improved with the decline in non-performing loans ratio to low single digit.

Outstanding loans and advances extended by banks rose from D4.12 billion in September 2017 to D5.23 billion in September 2018, reflecting increased demand for credit from almost all the economic sectors.

Non-performing loan ratio stood at 4.7 percent, lower than 5.9 percent reported at the previous MPC and 10.2 percent in the same period last year. The industry stock of non-performing loans stood at D248.25 million in September 2018, dropping from D277.02 million in June 2018. In September 2017 it was D419.06 million.

Liquidity

The liquidity ratio of banks stood at 98.48 percent in September 2018, higher the 30 percent regulatory requirement.

Deposits had followed an upward trend throughout the financial year. Total deposits increased to D26.33 billion or by 6.7 percent from end-June 2018. Compared to end-September 2017, deposits grew by 21.3 percent. The loan to deposit ratio increased slightly to 18.91 percent at end-September 2018 from 18.15 percent as at end-June 2018.

Earnings and Profitability

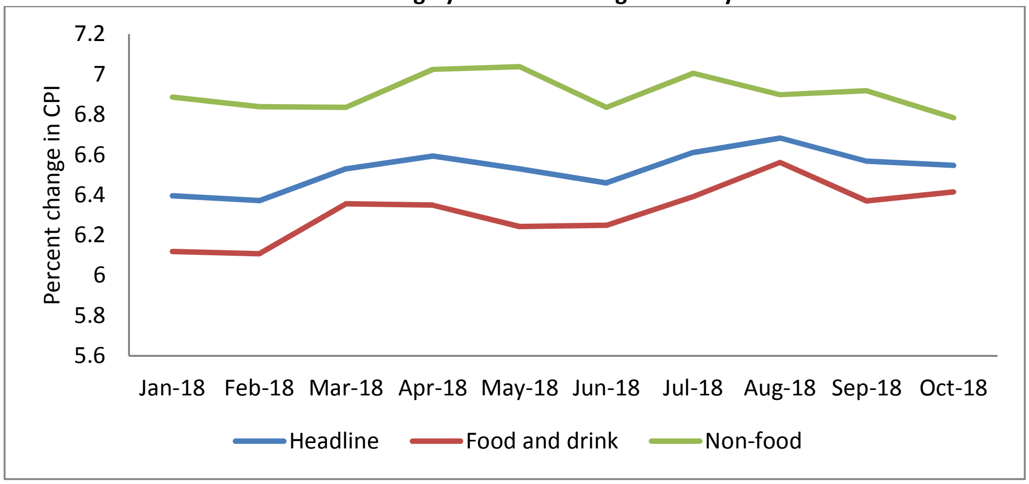
The banking industry's Return on Assets (ROA) and Return on Equity (ROE) continue to increase during the review. Analysis shows that investments in government securities as the primary sources of income has declined due to declining money market interest rates which is attributed to confluence of high excess liquidity and the drop in government borrowing. As a result, banks are engaged in increasing lending to the private sector and exploring other income generating sources. There was a strong growth in outstanding credit balances over the last reported position. Year to end-September 2018, the share of income from investments in government securities fell from 47.8 percent as at end-September 2017 to 29.9 percent in September 2018. Income from loans and advances as a proportion of total income, on the other hand, increased from 17.0 percent to 19.4 percent during the period.

2.8. Price developments

The domestic inflationary dynamics remains benign, reflecting the combined influence of moderate prices of imported goods and stable exchange rate as well as prudent monetary policy stance.

Headline inflation as measured by the National Consumer price Index (NCPI) remained largely subdued. According to the latest release from the Gambia Bureau of Statistics (GBOS), inflation decelerated to 6.5 percent in October, 2018 from 7.4 percent a year ago, thanks to the decline in consumer food inflation. Given the high import content of the Gambia's consumer basket, stability of the exchange rate and the moderate global food prices are major contributor to the low inflation environment. In addition, the marked improvement in monetary policy implementation helped boost confidence and anchored inflation expectations.

Chart 15: Headline inflation remains largely subdued throughout the year



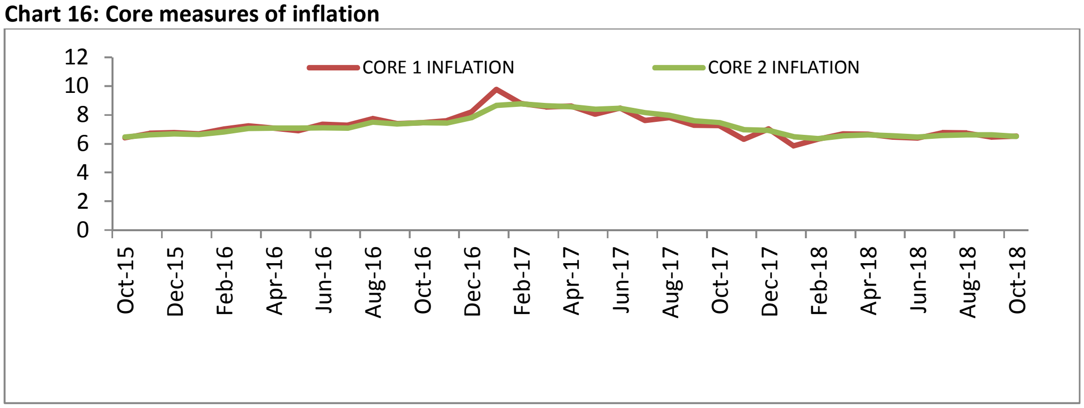
Source: Gambia Bureau of Statistics and CBG staff estimates

Food inflation, which is the main driver of headline inflation, decelerated to 6.5 percent in October 2018 from 7.9 percent last year. Price indices of all the components of the food basket declined with the exception of fruits and nuts.

Non-food inflation, on the other hand, edged up slightly to 6.8 percent from 6.7 percent during the review period. The marginal increase in non-food inflation is attributed largely to the rise in price indices of housing, fuel and lighting, hotels and restaurants, transportation, health, furniture, and education.

Underlying inflationary pressures have eased. Core 1 measure of inflation which excludes price effects of energy and utility items decelerated to 6.53 percent in October 2018 from 7.27 percent a year ago. Core 2 measures which further strips out prices of volatile food items also decelerated to 6.51 percent compared to 7.48 percent in the same period last year.

Chart 16: Core measures of inflation



Source: Gambia Bureau of Statistics and CBG staff estimates

2.8.1. Inflation Outlook

The outlook for inflation is a further deceleration towards the Bank's medium term target of 5 percent. This is premised on the following:

- The exchange rate of the dalasi is projected to remain broadly stable supported by improved confidence and supply conditions in the foreign exchange market. Although demand pressures will emanate from the anticipated increase in imports as economic activity picks up, the expectation of robust tourist season and healthy inflows from private remittances and officials inflows will ensure steady supply of foreign currency.
- The Bank's Business Sentiment Survey indicated that inflation expectations are well anchored with majority of respondents projecting subdued inflationary environment. The continued reform of monetary policy implementation is improving the credibility of the Bank and helping to anchor inflation expectations.
- Pressures from global food prices are expected to remain mild as improved supply conditions continue to suppress prices.

However, there are risks to the outlook:

- Global inflation is accelerating which may put upward pressure on prices of imported goods.
- The rising interest rates in advanced economies and stronger U.S. dollar in the international market.
- Increase in domestic energy prices may affect inflation expectations.

3. Monetary Policy Decision

Taken the above factors into consideration, the Committee decided to maintain the Policy rate at 13.5 percent. The committee will continue to closely monitor domestic and international economic developments and stands ready to act accordingly should economic conditions change.

4. Next Monetary Policy Committee Meeting

The Committee also decided to maintain the overnight deposit rate at 2.0 percent. The next Monetary Policy Committee (MPC) meeting is scheduled for February 27, 2019. The meeting will be followed by the announcement of the policy decision on February 28, 2019.

5. Annexes

Consumer Price Index (Y-o-Y % change)	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Overall Index	**7.4**	**6.9**	**6.9**	**6.4**	**6.4**	**6.5**	**6.6**	**6.5**	**6.5**	**6.6**	**6.7**	**6.6**	**6.5**
Food And Drink	7.9	7.2	7.3	6.1	6.1	6.4	6.3	6.2	6.2	6.4	6.6	6.4	6.4
Food	7.9	7.3	7.4	6.2	6.2	6.4	6.4	6.3	6.3	6.5	6.6	6.4	6.5
Non-Alcoholic Beverages	3.6	3.6	3.4	2.8	2.8	2.8	2.7	3.3	2.8	2.8	3.0	2.9	2.8
Non-Food Products & Services	6.7	6.3	6.3	6.9	6.8	6.8	7.0	7.0	6.8	7.0	6.9	6.9	6.8
Alcoholic Beverages, Tobacco & Narcotics	1.9	1.7	1.2	1.2	1.1	0.8	1.0	1.3	1.8	1.6	1.5	1.7	1.6
Clothing, Textile & Footwear	7.5	6.8	6.6	7.0	7.6	7.9	7.6	7.6	7.2	7.7	7.6	7.5	7.4
Housing, Water, Electricity, Gas & Fuels	5.5	5.5	5.1	5.5	5.8	5.8	5.9	5.8	5.9	6.0	6.1	6.1	6.1
Furnishing, Household Equipment	4.7	4.6	5.0	5.0	5.1	5.4	6.2	5.9	5.4	5.3	5.0	5.2	4.8
Health	1.9	1.7	1.7	2.4	2.0	2.0	2.2	2.3	2.0	2.2	2.0	2.1	2.0
Transport	3.0	2.5	2.8	2.7	2.0	1.9	2.3	2.4	2.3	2.5	2.2	3.2	4.0
Communication	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.1	0.1	0.1
Recreation & Culture	10.5	10.3	11.3	11.3	11.1	11.1	11.8	11.2	12.2	11.9	6.2	6.3	4.6
Education	0.4	0.3	0.3	0.5	0.5	0.8	0.9	1.1	0.9	0.9	0.9	0.9	0.8
Hotels, Cafes & Restaurants	8.2	7.1	6.4	5.8	5.7	6.1	5.7	5.8	6.5	8.0	8.2	9.0	9.5
Miscellaneous	13.6	13.2	11.8	13.8	12.8	12.2	12.3	12.6	11.8	12.0	12.6	12.3	13.1

Gambia Bureau of Statistics and CBG staff estimates

Consumer Price Index (Y-o-Y % change)	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Overall Index	**0.5**	**0.3**	**0.8**	**0.7**	**0.5**	**0.5**	**0.5**	**0.4**	**0.5**	**0.5**	**0.7**	**0.3**	**0.5**
Food and Drink	0.4	0.3	0.7	0.6	0.5	0.6	0.6	0.5	0.6	0.6	0.7	0.4	0.4
Food	0.4	0.3	0.7	0.6	0.5	0.6	0.6	0.4	0.6	0.6	0.7	0.4	0.4
Non-alcoholic beverages	0.3	0.3	0.1	0.2	0.2	0.0	0.1	0.7	0.5	0.3	0.1	0.1	0.2
Non-food products & services	0.7	0.5	1.0	0.9	0.5	0.4	0.5	0.4	0.5	0.4	0.7	0.3	0.5
Alcoholic beverages, tobacco and narcotics	0.1	0.1	0.0	0.1	0.0	0.0	0.3	0.3	0.4	0.1	0.0	0.2	0.1
Clothing, textile and footwear	0.5	0.2	0.7	0.8	0.9	0.7	0.2	0.6	0.5	0.6	1.0	0.3	0.5
Housing, water, electricity, gas & fuels	0.5	0.3	0.3	0.7	0.7	0.5	0.5	0.9	0.4	0.4	0.5	0.3	0.5
Furnishing, household equipment	1.0	0.1	0.7	0.4	0.2	0.4	0.8	0.3	0.1	0.1	0.5	0.4	0.7
Health	0.2	0.3	0.1	0.8	0.0	0.1	0.3	0.1	0.0	0.2	0.1	0.1	0.0
Transport	-0.1	0.0	0.5	0.6	0.0	0.1	0.5	0.4	0.2	0.4	0.0	0.6	0.7
Communication	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recreation & culture	2.0	0.0	2.0	0.1	0.0	0.0	0.6	0.0	0.9	0.0	0.3	0.1	0.4
Education	0.1	0.0	0.0	0.3	0.0	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Hotels, cafes & restaurants	0.3	0.3	0.6	0.6	0.5	0.7	0.5	0.8	0.9	1.8	0.6	0.8	0.8
Miscellaneous	0.2	1.8	1.6	2.4	0.8	0.4	0.8	0.4	0.7	0.8	1.2	0.4	0.9

Gambia Bureau of Statistics and CBG staff estimates

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Headline	7.44	6.88	6.95	6.4	6.37	6.53	6.59	6.53	6.46	6.61	6.68	6.57	6.5
Core2 Inflation	7.27	6.31	7.03	5.84	6.33	6.69	6.65	6.48	6.38	6.76	6.74	6.46	6.53
Core2 Inflation	7.48	6.98	6.92	6.48	6.35	6.63	6. 63	6.56	6.47	6.58	6.62	6.61	6.51

Gambia Bureau of Statistics and CBG staff estimates