CENTRAL BANK OF THE GAMBIA

PRESS RELEASE

MONETARY POLICY COMMITTEE

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Wednesday November 28, 2018 to review recent economic developments and decide on the monetary policy rate. The following summarizes the deliberations on key economic indicators that informed the Committee's decision.

Global Economic Outlook

1. Global economic growth remains on track, although risks to the outlook have shifted to the downside. In its October release of the World Economic Outlook, the International Monetary Fund (IMF) has revised downwards its growth projection for 2018 to 3.7 percent (the same level as in 2017) from 3.9 percent reported in its July update, as trade and investment moderate and financial conditions tighten.

2. In advanced economies, growth is projected at 2.4 percent in 2018, compared to 2.3 percent in 2017. 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 emerging and developing economies. Growth in emerging market

and developing economies is projected to remain unchanged at 6.5 percent in 2018 compared to 2017 before declining to 6.3 percent in 2019. 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.

3. Global inflation is projected to accelerate to an average of 3.5 percent in 2018, higher than 3.1 percent in 2017, driven largely by rising energy prices. Inflation pressures in sub-Saharan Africa have broadly softened, with annual inflation projected to ease to 8.6 percent in 2018, from 11 percent in 2017.

Domestic Economic Outlook

Real Sector

4. Economic recovery in the Gambia continues to gather strength evidenced by the rebound in tourism, construction activities, finance and insurance, trade, and telecommunication. The strong business confidence and prudent macroeconomic policies were also important contributors to growth during the period. 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 and the medium-term outlook is positive on the back of continued implementation of sound macroeconomic policies and structural reforms.

External Sector

5. Preliminary balance of payments estimates for the first nine months of 2018 indicate a wider current account deficit compared to the corresponding period of 2017, attributed largely to the sharp increase in imports which reflects increased economic activity.

6. 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 services account balance surged to a surplus of US$52.23 million or by 43.50 percent in the first nine months of 2018 from US$36.40 million in the same period last year. Performance in the services account is attributed, in the main, to the increase in travel income reflecting robust start to the tourism season. Similarly, current transfers rose to US$136.68 million or by 20.46 percent.

7. The deficit in the goods account widened to US$252.64 million or 16.47 percent of GDP in the first nine months of 2018 from US$ 205.51 million in the corresponding period of 2017, due to the increase in imports.

8. The surplus in the capital and financial account improved to US$ 40.15 million in the first nine months of 2018 from a deficit of US$ 13.55 million in the same period a year ago. Gross international reserves is projected at 4 months of next year's imports of goods and services.

Exchange rate developments

9. Activity in the foreign exchange market, measured by aggregate sales and purchases of foreign currency has picked up rapidly. In the year to end-October 2018, volume of transactions in the domestic foreign exchange market totaled US$1.9 billion, higher than US$1.2 billion in the same period last year. The strong performance reflects improved supply conditions.

10. Purchases of foreign currency increased markedly by 50.7 percent to US$965.4 million as at end-October 2018 from US$640.4 million in the corresponding period in 2017. Similarly, sales of foreign currency, which indicates demand, increased significantly by 68.4 percent to US$963.3 million in the review period from US$572.2 million in the same period of 2017.

11. The exchange rate of the dalasi remains stable. 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. In real effective exchange rate terms, however, the dalasi has appreciated. The exchange rate is expected to remain stable in the near to medium-term, predicated on the continued implementation of sound macroeconomic policies, improved supply conditions and confidence.

Government Fiscal Operations

12. Preliminary government fiscal operations for the nine months to end-September 2018 indicate total revenue and grants of D7.8 billion compared to D10.9 billion in the same period last year. Domestic revenue, comprising tax and non-tax revenues, rose by 16.0 percent to D6.7 billion.

13. Total expenditure and net lending declined to D10.7 billion or by 19.1 percent reflecting mainly the marked drop in interest payments by 20.4 percent.

14. The budget balance (excluding grants) narrowed to a deficit of D4.0 billion in the nine months to end-September 2018 compared to a deficit of D7.5 billion in the corresponding period a year ago.

Domestic Debt

15. The stock of 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. Stock of Treasury and Sukuk-Al Salaam bills increased by 0.96 percent to D17.14 billion during the period under review.

16. Yields on all Treasury bills increased. The 91- day, 182-day, and 364-day Treasury bills rates increased from 3.68 percent, 4.77 percent, and 6.34

percent in October 2017 to 4.97 percent, 6.83 percent, and 9.25 percent, respectively in October 2018.

17. As part of broader reforms of the monetary policy framework of the Bank, the Central Bank has started issuing its own bills for liquidity management beginning October 2018. In addition, the Bank has also introduced the interest rate corridor comprising overnight lending and deposit facilities.

Banking Sector

18. The banking sector remains fundamentally sound. The industry remains highly capitalize, liquid and profitable. The industry registered asset growth of 15.8 percent in the year to end-September 2018. The asset quality has also improved. 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.

19. The risk weighted capital adequacy ratio stood at 33.6 percent, significantly higher than the statutory requirement of 10 percent. Liquidity ratio was 98.48 percent in September 2018, also remains well above the requirement of 30 percent.

Development in Monetary Aggregates

20. As at end-September 2018, money supply grew by 22.4 percent, higher than 20.0 percent recorded a year earlier. The net foreign assets of the banking system expanded to D9.4 billion or by 33.1 percent during the period. The net foreign assets of the Central Bank and commercial banks increased to D3.8 billion and D5.6 billion or by 4.0 percent and 64.4 percent respectively.

21. The banking system's net domestic assets increased to D22.7 billion or by 18.4 percent following a contraction of 6.7 percent at end-September 2017. Claims on government, net, grew by 14.5 percent relative to a growth rate of 3.2 percent a year ago.

22. Private sector credit expanded by robust 28.2 percent at end-September 2018 compared to a contraction of 12.3 percent a year ago.

23. Reserve money growth slowed largely reflecting decline in the Bank's net claims on government. As at end-September 2018, reserve money grew by 11.8 percent, lower than 29.3 percent recorded last year. Central Bank financing of fiscal deficit remains zero in November 2018.

Price Movements

24. 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.

25. 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.

Inflation Outlook

26. 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.
   - The Bank's Business Sentiment Survey indicated that inflation expectations are well anchored with majority of respondents projecting subdued inflationary environment.
   - Pressures from global food prices are expected to remain mild.
   - Monetary and fiscal policies will remain prudent and well-coordinated.

27. 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.

Decision

Taking the above factors in to consideration, the Monetary Policy Committee has decided to keep the monetary policy rate unchanged at 13.5 percent.

The Committee also decided to maintain the overnight deposit rate at 2.0 percent.

Information Note

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.