CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

01-Sep-18

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. This is the maiden publication of the report. 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. The membership comprises the Governor (Chairman), the two Deputy Governors, heads of relevant departments of the Bank and two persons appointed by the Minister of Finance and Economic Affairs. The MPC meets every quarter to review developments in 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 in a press release and a press conference.

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Executive Summary

The global economy continues to recover supported by increase in trade and investment as well as accommodative monetary policies in advanced economies. However, growth has become increasingly uneven especially among advanced economies. The risks to the growth outlook are also mounting including rising crude oil prices, escalating trade tensions, and tightening financial conditions.

The Gambia's economic recovery is now gaining traction as confidence resumes following the sharp growth slowdown in 2016. Growth is largely supported by robust growth in construction and services sector. Economic activity is expected to strengthen further in 2018 and 2019 on the back of continued implementation of sound macroeconomic policies, structural reforms and strong performance of the services sector and construction activities. This will be supported by the positive business and investor sentiments.

Inflation remains largely subdued attributed to the continued stability in the exchange rate and moderate global food prices. In addition, inflation expectations are well anchored. Forecast suggests that inflation will gradually decelerate to the Bank's medium term target of 5 percent. However, major risks to the outlook remain the rising crude oil prices and the domestic food supply situation which is largely dependent on the weather conditions.

1. Global Economic Outlook

The global economic growth continues to gather momentum but it is becoming increasingly uneven and the risks to the medium-term outlook are mounting. Global inflation is also accelerating largely reflecting rising crude oil prices.

Global growth

Growth outlook for the global economy has strengthened, supported by increase in trade and investment as well as accommodative monetary policies in advanced economies. The International Monetary Fund (IMF) forecast the global economy to grow by 3.9 percent in 2018 from 3.8 percent in 2017.However, growth is becoming increasingly uneven and the risks to the medium-term outlook are mounting, including rising crude oil prices, tightening financing conditions and the escalation of trade protectionism.

Recovery in advanced economies and the strong output growth in emerging market and developing economies are projected to continue in 2018 and 2019. Economic growth is expected to remain above trend at 2.4 percent in 2018 similar to 2017 before easing to 2.2 percent in 2019.

Recovery in Emerging Markets and Developing Economies continues to gather strength. Real GDP growth for the region is projected at 4.9 percent for 2018, higher than 4.8 percent for 2017, supported by easing domestic financial conditions, recovery in global demand and commodity prices. Risks to the near-term outlook for the region include the potential of capital reversal associated with higher yields in the United States and the dollar appreciation, and rising trade tensions.

In sub-Saharan Africa, the recovery is set to continue, supported by the rise in commodity prices and improved market access. Growth for the region is expected to increase from 2.8 percent in 2017 to 3.4 percent this year, rising further to 3.8 percent in 2019. The upward revision of the forecast reflects improved prospects for the Nigerian economy, which is set to expand by 2.1 percent in 2018 and 2.3 percent in 2019, higher than 0.8 percent in 2017. In addition, the South African economy is expected to recover in 2018 and into 2019 as confidence improves and private investment gradually strengthens.

Table 1: Global growth estimates

	Estimate	Projections		
	2016	2017	2018	2019
World Output	**3.2**	**3.7**	**3.9**	**3.9**
Advanced Economies	**1.7**	**2.4**	**2.4**	**2.2**
United States	1.5	2.3	2.9	2.7
Euro Zone	1.8	2.4	2.2	1.9
United Kingdom	1.8	1.7	1.4	1.5
Other Advanced Economies	2.3	2.7	2.8	2.7
Emerging and developing Economies	**4.4**	**4.7**	**4.9**	**5.1**
Emergingand Developing Asia	6.5	6.5	6.5	6.5
Sub-Saharan Africa	1.5	2.8	3.4	3.8
Gambia's Key Exporting Partners				
Korea Republic	2.9	3.1	3	3
Vietnam	6.2	7.4	7.6	7.3
Netherlands	2.1	3.1	3.2	2.4
Mauritania	2	3.6	3	4.6

Source: International Monetary Fund

Global Inflation

Global inflation is accelerating on the back of rising energy prices. World inflation averaged 3.1 percent in 2017 compared to 2.8 percent in 2016. Inflation is projected to rise further to 3.5 percent in 2018, before declining slightly to 3.4 percent in 2019.

Headline inflation in advanced economies is projected to accelerate to 2.0 percent in 2018 from 1.7 percent in 2017 and 1.5 percent in 2016. Core inflation in emerging and developing economies is projected at 4.6 percent in 2018, higher than 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 increased marginally, reflecting diminishing excess supply. Headline inflation decelerates in sub-Saharan Africa, reflecting the confluence of stable exchange rates and slowing food price inflation. In 2018, the forecast average inflation rate in sub-Saharan Africa declined to about 9.51 percent compared to 11.1 percent in 2017.

Interest rates

The Federal Reserve increased its target for the fed-funds rate from 1.75 percent to 2.0 percent on the back of strong job reports and solid economic activity growth.

The Bank of England has raised interest rates to 0.75 percent from 0.5 percent citing concern that the low unemployment rate risked re-igniting wage pressure. The European Central Bank held its benchmark refinancing rate at zero(0)percent in July 2018 and announced reduction in the pace of monthly net asset purchases to €15 billion from September to December 2018, and will then end. The deposit facility rate and the marginal lending facility rate were also left unchanged at -0.4 percent and 0.25 percent, respectively.

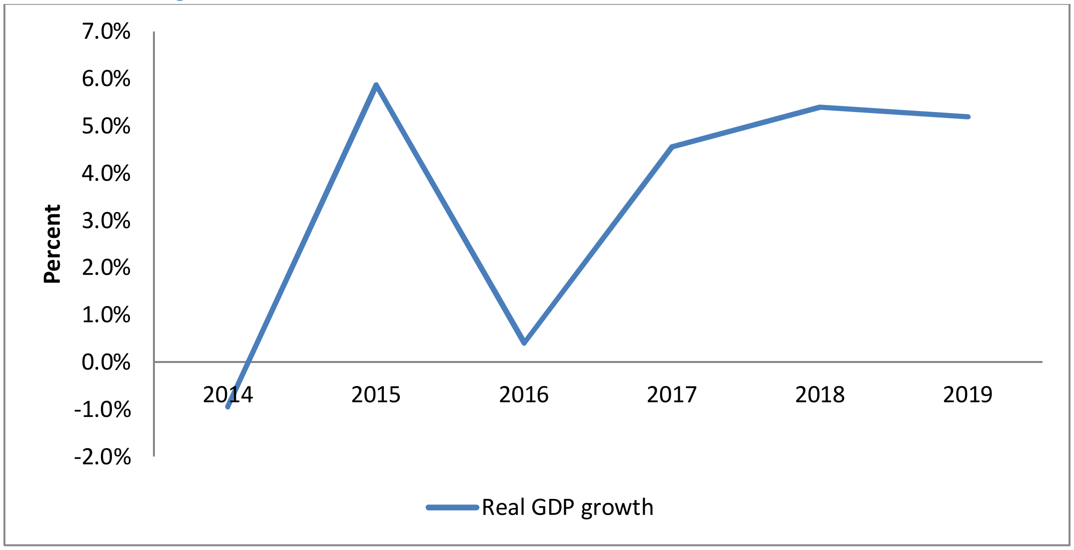
2. Domestic Economy

2.1 Real Sector Developments

Economic recovery in The Gambia is gathering strength following the sharp growth slowdown in 2016. The main drivers of growth were construction activities and the service sectors including wholesale and retail trade, tourism, finance and insurance, and telecommunication.

The Gambia Bureau of Statistics (GBoS) has rebased the Gross Domestic Product (GDP) from 2004 base year to 2013 to capture properly the dynamics of the economy. In addition, the estimation procedures and methodology for the compilation were revised. According to data from the Bureau, real GDP has been estimated to have grown by 4.6 percent in 2017 compared to 0.4 percent in 2016. This was driven largely by rebound in tourism and trade, financial services and insurance, coupled with the robust growth in construction, transport and telecommunication. In 2018, economic recovery is expected to strengthen further with real GDP projected at 5.4 percent on the back of continued implementation of sound macroeconomic policies, structural reforms and strong performance of the services sector and construction. In addition, the Central Bank of The Gambia's Composite Index of Economic Activity projects higher level of activity in 2018 and 2019.

Chart 1: Real GDP growth



Source: Gambia Bureau of Statistics and CBG staff estimates

Agricultural production, which accounted for 21.4 percent of GDP, contracted by 8.1 percent due mainly to erratic rainfall. The rainfall pattern during the cropping season was characterized by a mix of long dry spell and heavy flooding ~~towards~~ that affected crop yield.

The services sector remains the largest sector of the economy and contributed 57.7 percent to the total value of real GDP. The sector registered a growth rate of 10.6 percent in 2017, driven mainly by the significant growth in wholesale and retail trade, financial and insurance activities as well as information and communication.

The industrial sector accounted for 14 percent of GDP in 2017 and is the smallest among the sectors in terms of contribution. It registered a growth of 0.2 percent in 2017 following a contraction of 6.1 percent in 2016. The recovery in the sector from its slump in 2016 is mainly supported by the development in mining and quarrying, construction, water supply, sewage and waste management. Activity in the manufacturing sub-sector, on the other hand, is estimated to have contracted by 12 percent in 2017.

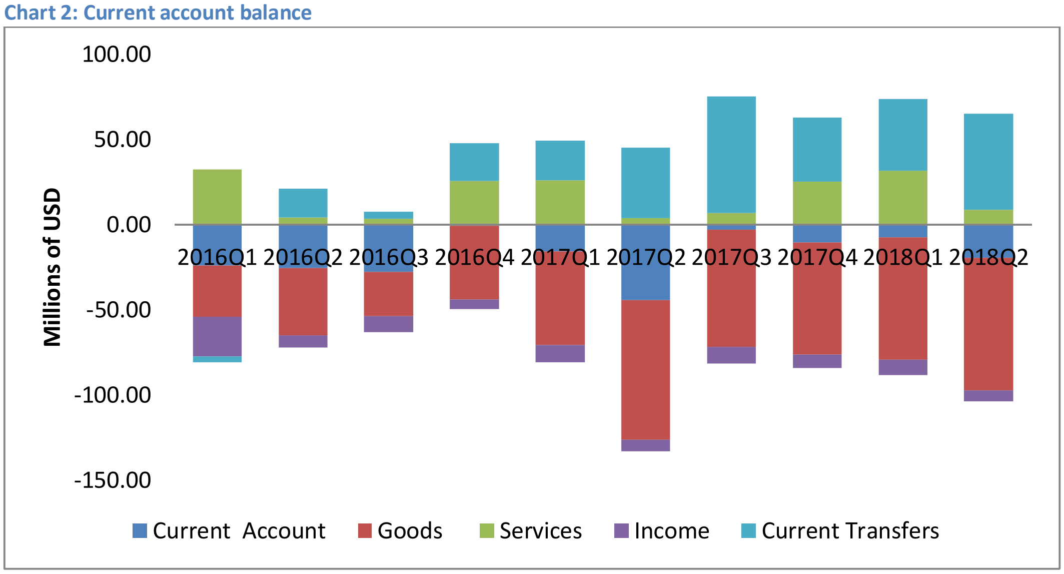
2.2 Balance of Payments

The balance of payments position is improving attributed largely to increase in current transfers and receipts from services.

Preliminary balance of payments estimates for the first six months of 2018 shows an improvement in the current account balance, thanks largely to the increase in current transfers and receipts from services. The current account deficit is estimated to have narrowed to US$26.69 million in the first half of 2018 from a deficit of US$60.02 million in the corresponding period of 2017.

The goods account balance is estimated at a deficit of US$150.00 million or 9.7percent of GDP in the first half of 2018 compared to US$136.81 million or 9.3 percent of GDP in the corresponding period in 2017, due to increase in imports which reflects rising economic activity. Total imports rose to US$ 213.97 million in the review period or by 9.20 percent from the same period in 2017. Total exports, on the other hand, increased toUS$54.89 million or by 8.45 percent in the first six months of 2018 from US$50.61 million in the corresponding period of 2017.

Chart 2: Current account balance



Source: CBG

The services account balance surged to US$40.52 million or by 36.98 percent in the first six months of 2018 on the back of increase in personal travel income by 20.57 percent in the review period reflecting marked growth in tourist arrivals. Current transfers rose to US$98.58 million in the first half of 2018 from US$64.72 million in the corresponding period of 2017. Of the components of current transfers, workers' remittances (net) amounted to US$89.14 million in the review period compared to a net inflow of US$70.83 million in the same period of 2017, representing an increase of 25.84 percent.

The capital and financial account balance, on the other hand, declined to US$12.75 million in the first half of 2018 from US$90.39 million in the corresponding period in 2017, mainly due to the decline in the surplus position of other investments. Other Investments surplus is estimated at US$7.68 million in the first half of 2018 compared to US$55.38 million in the corresponding period of 2017. Foreign direct investment (equity capital) is estimated at US$14.69 million comparedtoUS$6.67 million in the same period of 2017, reflecting growth in construction and real estate sub-sectors.

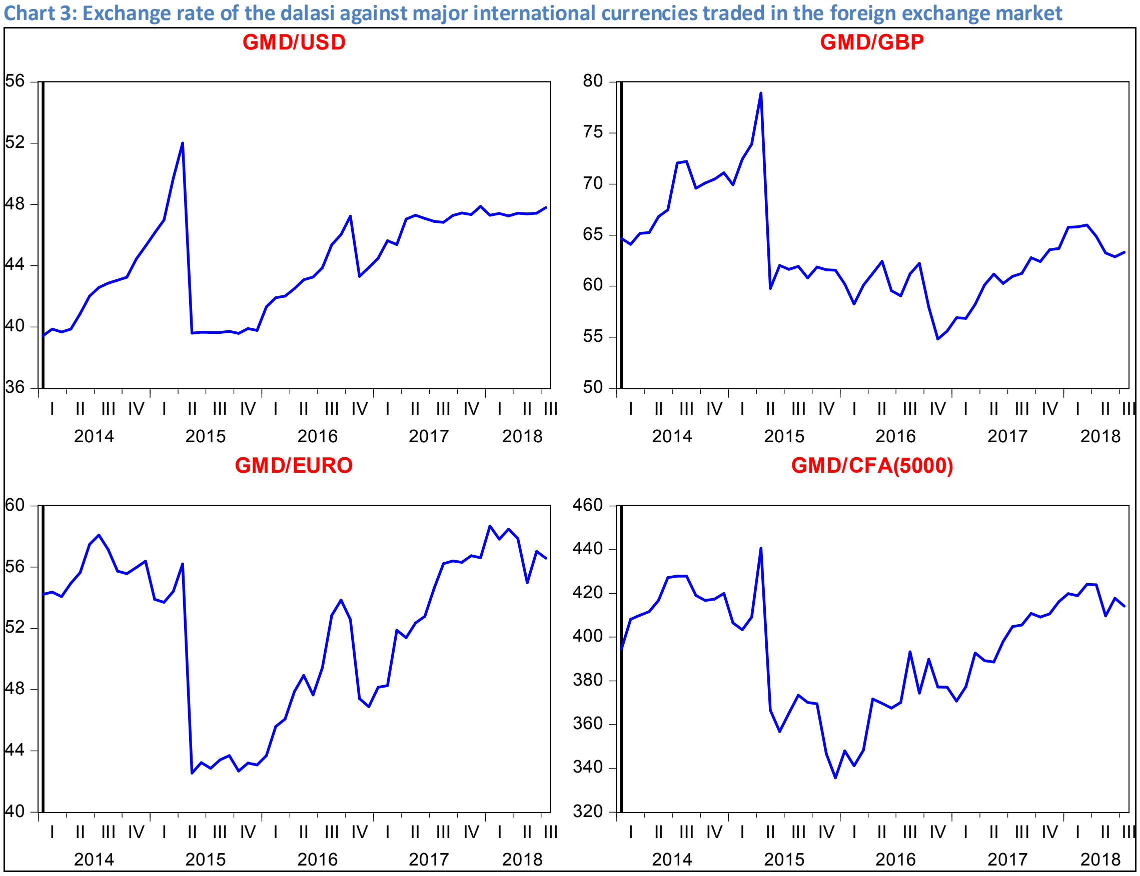
2.3 Exchange rate Developments

The exchange rate of the dalasi remains stable on the back of renewed confidence and improved market conditions.

Activity in the domestic foreign exchange market has increased. In the year to end-July 2018, volume of transactions totaled US$1.9 billion, higher than US$1.2 billion in the same period last year, reflecting improved market conditions and confidence. Aggregate purchases of foreign currency, indicating supply increased markedly to US$950.5 million or by 45.6 percent at end-July 2018 from US$652.7 million in the corresponding period in 2017. Similarly, sales of foreign currency, which indicates demand, increased significantly by 63.1 percent to US$949.0 million in the review period from US$581.8 million in the same period of 2017.

From December 2017 to August 2018, the dalasi appreciated against pound sterling and CFA franc by 1.9 percent and 1.2 percent respectively. On the other hand, the 4 dalasi depreciated marginally against the US dollar and euro by 1.1 percent and 0.1 percent respectively.

Chart 3: Exchange rate of the dalasi against major international currencies traded in the foreign exchange market



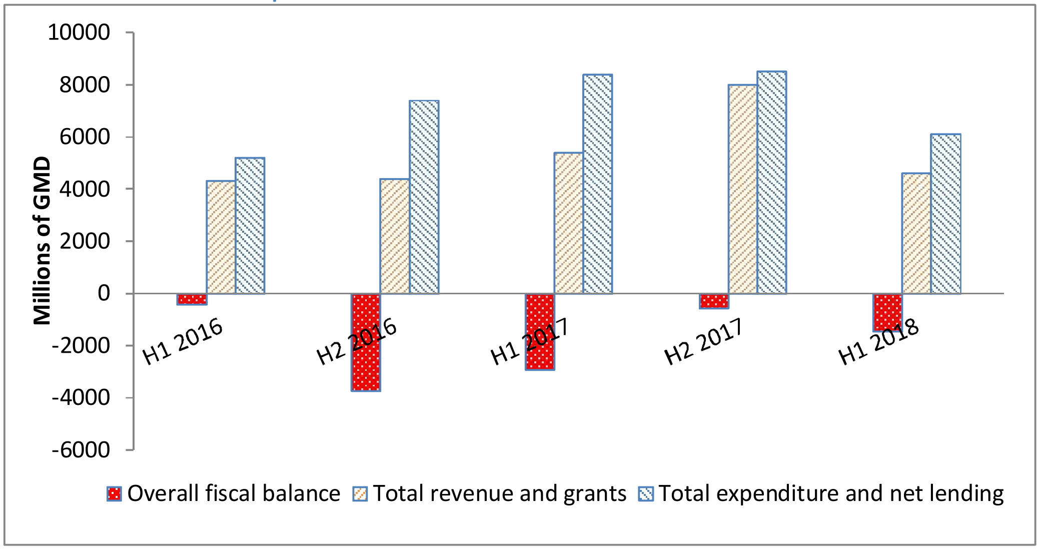
Source: CBG

2.4 Fiscal Development

Government fiscal operations in the first half of 2018 resulted to an improved position compared to a year ago, despite the significant decline in grant receipts. The overall balance improved as a result of higher domestic revenue mobilization through taxes, and decline in interest payments and capital expenditure.

The overall fiscal deficit stood at D1.5 billion (2.8 percent of GDP) in the first half of 2018, lower than D2.9 billion (6.1 percent of GDP) in the corresponding period of 2017. This represents 49.0 percent contraction, attributed to increased domestic revenue mobilization, lower domestic interest payments and reduced capital expenditure. The low interest rate environment in the money market has resulted to significantly lower domestic interest payments. However, other components of recurrent expenditure increased. The marked decline in capital expenditure is explained by the non-disbursement of grants in the second quarter of 2018.

Chart 4: Government fiscal operations



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

Revenue and Grants

Total revenue and grants mobilized in the first half of 2018 totaled D4.6 billion (8.8 percent of GDP), lower than D5.5 billion (11.6 percent of GDP) registered in the corresponding period a year ago, representing a decline of 15.8 percent. This is as a result of lower-than-expected grant disbursement. There was no grant disbursement in the second quarter of 2018. Domestic revenue, on the other hand, increased to D4.5 billion (8.6 percent of GDP) in the first half of 2018 from D4.0 billion (8.4 percent of GDP) in the first half of 2017, supported by improved tax revenue collection.

Tax revenue increased to D4.2 billion (8.1 percent of GDP) in the first half of 2018, compared to D3.5 billion in the corresponding period of 2017, or by 21.8 percent. Revenue from indirect taxes rose to D3.1 billion or by 28.4 percent. Of the components of indirect taxes, domestic tax on goods and services and international trade tax rose by 38.7 percent and 23.3 percent to D1.1 billion and D2.0 billion respectively. Similarly, direct tax revenue grew to D1.1 billion or by 7.0 percent. Of the components of direct tax, personal and corporate taxes grew by 9.5 percent and 9.2 percent to D435.6 million and D605.3 million respectively. In contrast, non–tax revenue declined to D0.3 billion, or by 44.4 percent during the period under review.

Expenditure and Net Lending

Expenditure and net lending declined to D6.1 billion (11.7 percent of GDP) in the first half of 2018 from D8.4 billion (17.7 percent of GDP) in the first half of 2017, consequent of the significant fall in interest payments and capital expenditure. Recurrent expenditure increased to D4.9 billion (9.3 percent of GDP) from D4.3 billion (9.1 percent of GDP) in the first half of 2017, driven by growth in other charges (goods and services, and subsidies and transfers) by 26.4 percent.

Interest payments, on the other hand, decreased by 19.4 percent due to the decline in domestic interest payments by 26.7 percent. In contrast, external interest payments increased from D107.1 million in the first half of 2017 to D179.6 million in the first half of 2018. Interest payments account for 18.4 percent of total expenditure and 24.9 percent of domestic revenue. Wages and Salaries rose by 9.2 percent to D1.2 billion in the first half of 2018 and accounted for 20.3 percent of total expenditure and 27.5 percent of domestic revenue.

Capital expenditure declined substantially to D1.3 billion (2.4 percent of GDP) or by 69.4 percent in the first half of 2018, from D4.1 billion (8.6 percent of GDP) in the first half of 2017. The drop in capital spending is due to the non-disbursement of grants in the second quarter of 2018.

Table 2: Overall Fiscal Balance

	1st half 2017	1st half 2018	Y-o-Y % Δ
Overall Fiscal Deficit	-691.45	-1485.91	114.9
% of GDP	-6.14	-2.84	
Basic Balance	-590.13	-771.57	30.7
% of GDP	-1.24	-1.47	
Primary Balance	803.07	351.49	-56.2
% of GDP	1.69	0.67	
Sources of financing	4438.7	2074.87	-53.3
Net domestic borrowing	793.84	899.69	13.3
Bank financing	584.76	678.39	16.0
Non-bank	357.71	475.55	32.9
Change in Arrears (-decrease)	-159.7	-254.25	59.2
Net external borrowing	3644.86	1175.18	-67.8

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

Table 3: Total revenue and grants

RECEIPTS (In Millions of GMD)	1st Half 2017	1st Half 2018	Y-o-Y % Δ
Total Revenue & Grants	5,485.07	4,621.18	-15.75
Percent of GDP	11.56	8.83	
Domestic Revenue	3,979.30	4,511.56	13.38
Percent of GDP	8.39	8.62	
Tax Revenue	3,470.56	4,228.47	21.84
Percent of GDP	7.32	8.08	
Direct Tax	1,063.93	1,138.29	6.99
Personal	397.72	435.60	
Corporate	554.07	605.28	9.24
Indirect Tax	2,406.63	3,090.18	28.40
Domestic Tax on gds & svs	795.55	1,103.63	38.73
Tax on Int'l. Trade	1,611.09	1,986.54	23.30
Duty	906.87	1,082.87	19.41
Sales tax on imports	694.47	890.93	28.29
Non-tax Revenue	508.74	283.10	-44.35
Percent of GDP	1.07	0.54	
Grants	1,505.77	109.62	-92.72
Percent of GDP	0.00	0.95	
Program	0.00	0.00	
Projects	1,505.77	109.62	-92.72

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

Table 4: Total government expenditure and net lending

PAYMENTS	1st Half 2017	1st Half 2018	Y-o-Y % Δ
Expenditure & NL	8399.3	6107.1	-27.3
Percent of GDP	17.7	11.7	
Current Expenditure	4328.1	4851.2	12.1
Percent of GDP	9.1	9.3	
Personnel Emoluments	1144.7	1465.1	28.0
o/w:wages & salaries	1135.5	1240.0	9.2
Other Charges	1790.2	2263.1	26.4
Interest Payments	1393.2	1123.1	-19.4
External	107.1	179.6	67.7
Domestic	1286.1	943.4	-26.6
Capital Expenditure	4071.3	1245.9	-69.4
Percent of GDP	8.6	2.4	
Externally Financed	3829.9	824.0	-78.5
Loans	2324.1	714.4	-69.3
Grants	1505.8	109.6	-92.7
GLF Capital	226.4	421.9	86.4
Net Lending	15.0	10.0	-33.3

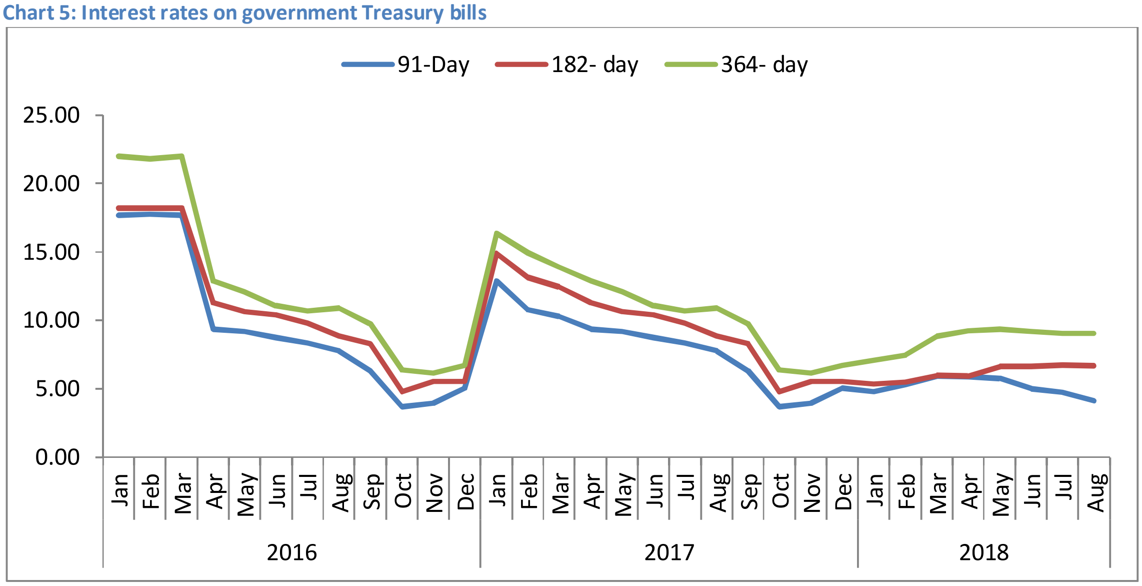
Source: Ministry of Finance and Economic Affairs, and CBG Staff Estimates

2.5 Domestic Debt

As at end-August 2018, the stock of domestic debt stood at D29.0 billion or 40 percent of GDP, unchanged from the same period in 2017. The overall portfolio is dominated by short term debt instruments, accounting for 56.4 percent of the stock of domestic debt. The stock of Treasury and Sukuk -Al Salaam bills contracted by 6.6percent to D16.71 billion during the period under review. The outstanding government bonds with maturities of 3 and 5 years totaled D2.46 billion or 8.4 percent of total domestic debt.

Yields on all Treasury bills and Sukuk Al Salaam bills declined, reflecting reduced borrowing by government in the Treasury bills market. The 91- day, 182-day and 364-day yields fell from 7.8percent, 8.9 percent, and 10.9 percent in August 2017 to 4.0percent, 6.7 percent, and 9.0percent, respectively in August 2018.

Chart 5: Interest rates on government Treasury bills

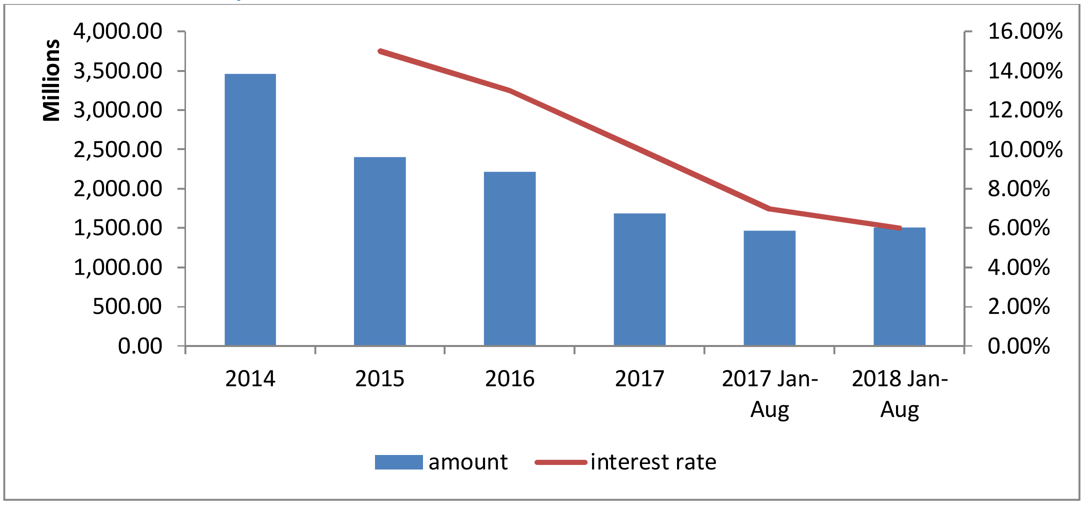


Source: CBG

2.6 Inter-bank placement

Interbank market trade volumes continue to decline with the interest rate mirroring the 3 months Treasury bill rate's movement. Transaction volume in August 2018 dropped to D1.51 billion from D1.69 billion over the same period in 2017, trading at almost half the rate of last year. The decline in interbank placements could be partly due to improved liquidity position of banks.

Chart 6: Interbank activity volume and interest rate



Source: CBG

2.7 Monetary developments

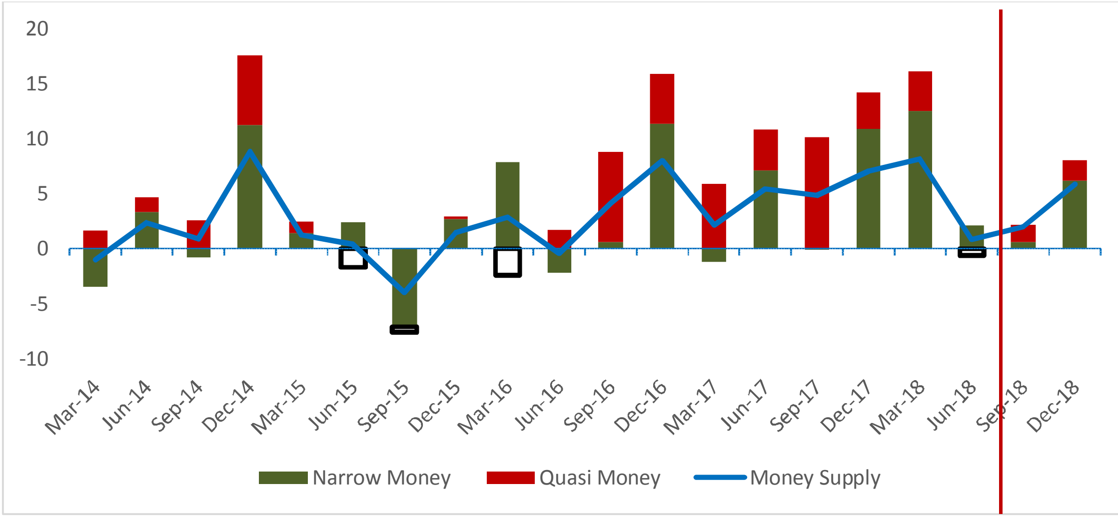
The pace of monetary expansion remains strong, supported largely by the significant growth in the net foreign assets of the banking system. In addition, private sector credit growth continues to recover after years of sustained negative growth.

Annual Money Supply Growth

Annual money supply growth was 22.4 percent in June 2018, lower than the 28.0 percent reported in the previous MPC meeting but higher than the 21.2 percent in the corresponding period a year earlier. Growth during the period was driven by the expansion in the net foreign assets of the Banking system. Stock of money supply reached D30.7 billion as at end-June, 2018 compared to D23.0 billion in June 2017.

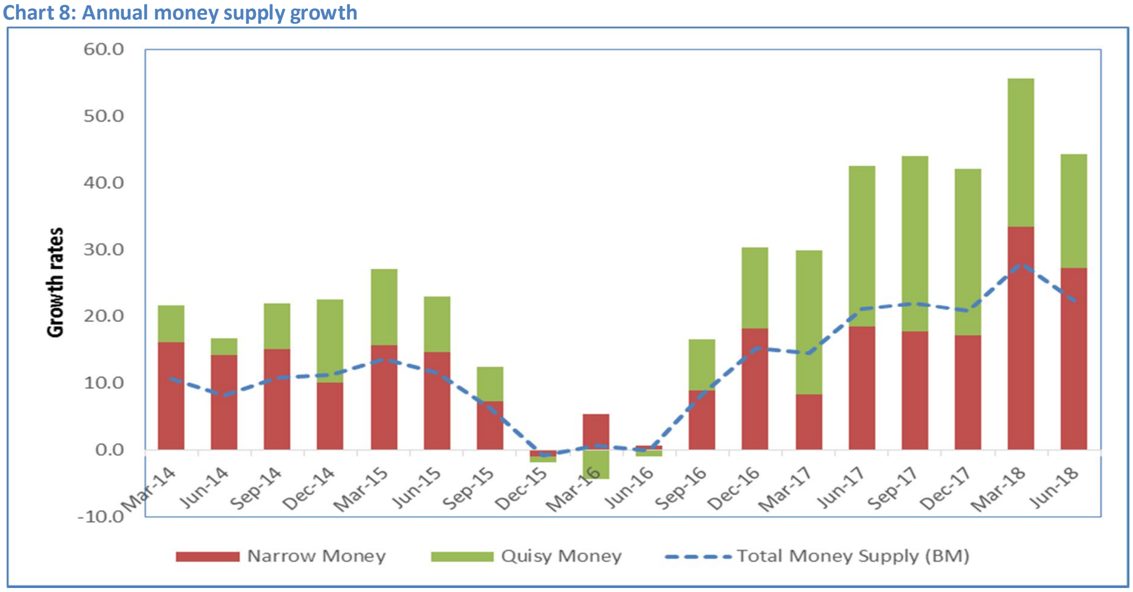
Quarter-on-quarter, money supply rose by 0.8 percent in the second quarter of 2018 compared to a growth rate of 12.8 percent in the corresponding period a year earlier. Growth in money supply during the quarter was due to the increase in the banking system's net foreign assets. Quarterly money supply growth is forecast to slow for the third quarter but expected to pick up again by the end of the year (Chart 6).

Chart 7: Quarterly money supply growth



Source: CBG

Chart 8: Annual money supply growth



Source: CBG staff estimates

Narrow money (M1) grew significantly by 27.2 percent compared to 18.5 percent growth rate in June, 2017. Chart 3 below shows that the strong growth in M1 was driven by the expansion in both demand deposits and currency outside banks by 39.5 percent and 10.2 percent respectively.

Similarly, quasi money which comprises of time and savings deposits grew steadily since 2017. It grew by 17.2 percent in June, 2018, lower than 24.2 percent in the corresponding period a year ago. Of the components of quasi money, savings deposits grew by 27.7 percent to D11.2 billion from year ago. In contrast, time deposits continued to contract since end-December, 2017. In June 2018, it contracted by 10.5 percent after registering a positive growth of 20.1 percent the same period last year.

Sources of Money Supply

The net foreign assets (NFA) of the banking system rose to D8.2 billion in June, 2018 from D1.7 billion or by 368.9 percent in the same period a year ago. Similarly, it also increased on a quarter-on quarter basis by 2.0 percent from D8.0 billion in March 2018.

Net foreign assets (NFA) of the Central Bank for the period ended June 2018 expanded by 709.3 percent to stand at D3.6 billion compared to negative D592.02 million in the corresponding period last year. The strong net foreign asset position could be explained by the increase in the foreign assets that outweighed the rise in foreign liabilities. Foreign assets of the Bank rose markedly to D7.9 billion or by 149.7 percent in June 2018 from D3.2 billion a year earlier. Foreign liabilities grew by 14.6 percent to D4.3 billion, thus resulting to a strong positive net position during the review period.

Similarly, the NFA of commercial banks grew by 95.4 percent to D4.6 billion in June 2018 compared to the same period last year. Year-on-year, foreign assets of deposit money banks increased by 4.1 percent to D5.2 billion from D4.9 billion in June 2017. The increase in foreign assets was due to the significant increase in holdings of foreign currency by 151.6 percent. Deposits at foreign banks and other foreign investments, on the other hand, contracted by 6.1 percent and 4.4 percent respectively. Similarly, foreign liabilities of banks contracted markedly to D629.05 million in June 2018 from 2.7 billion in June 2017 or by 76.3 percent.

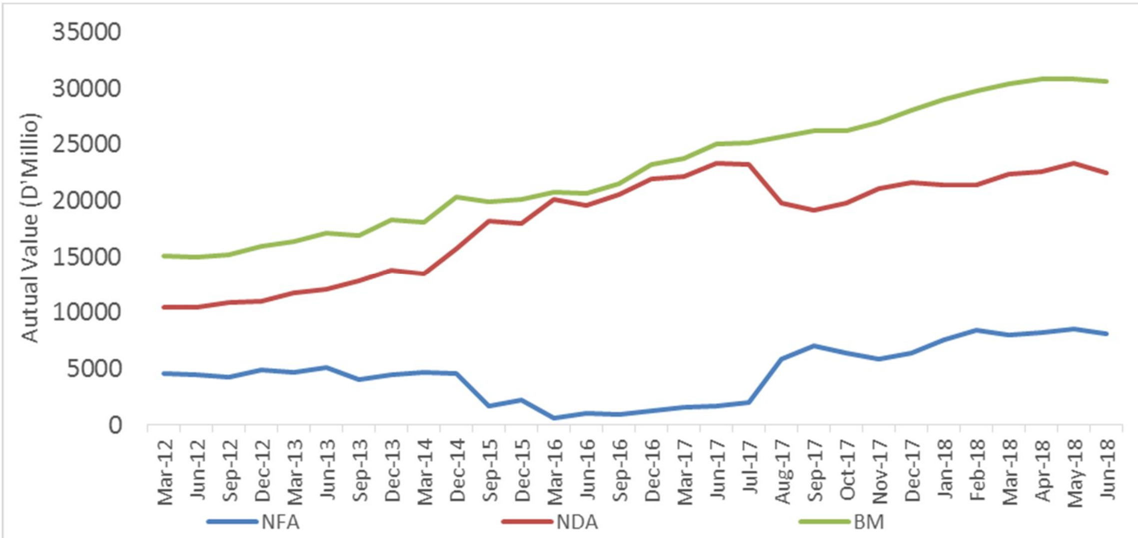
Net Domestic Assets (NDA)

The NDA of the banking system which in the past have been the main source of liquidity in the banking system contracted by 3.5 percent to D22.5 billion in June 2018 from D23.3 billion in the corresponding period a year earlier.

Total domestic credit contracted to D26.2 billion or by 1.7 percent in June 2018 from D26.6 billion in June 2017, due solely to the decline in government borrowing from the banking system. Net claims on government by the banking system contracted to

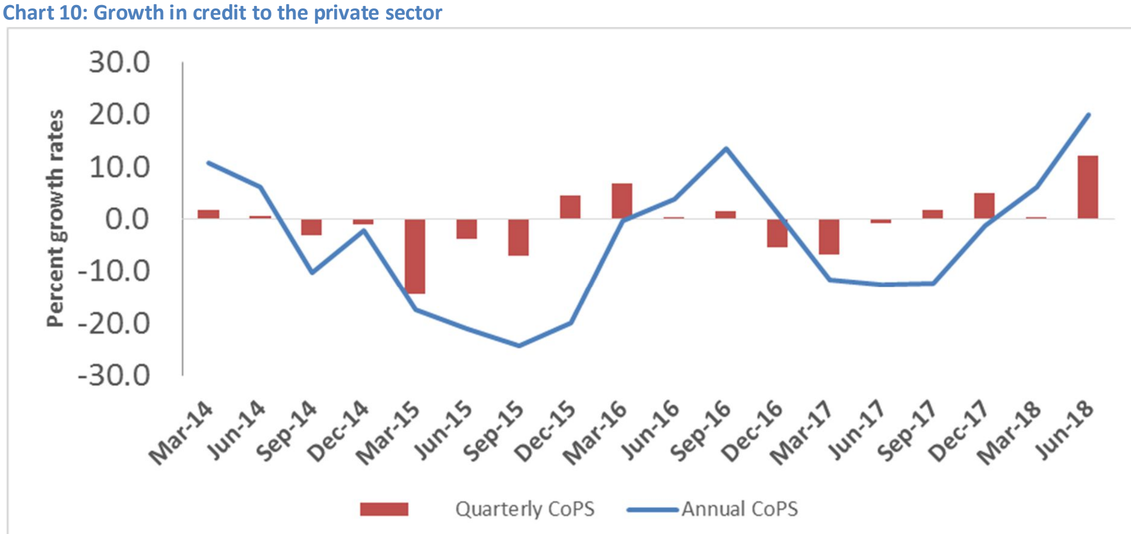
D19.8 billion or by 5.9 percent compared to D21.0 billion in June 2017, although, it still accounts for about 75.4 percent of total domestic credit.

Chart 9: Sources of money supply



Source: CBG

Chart 10: Growth in credit to the private sector



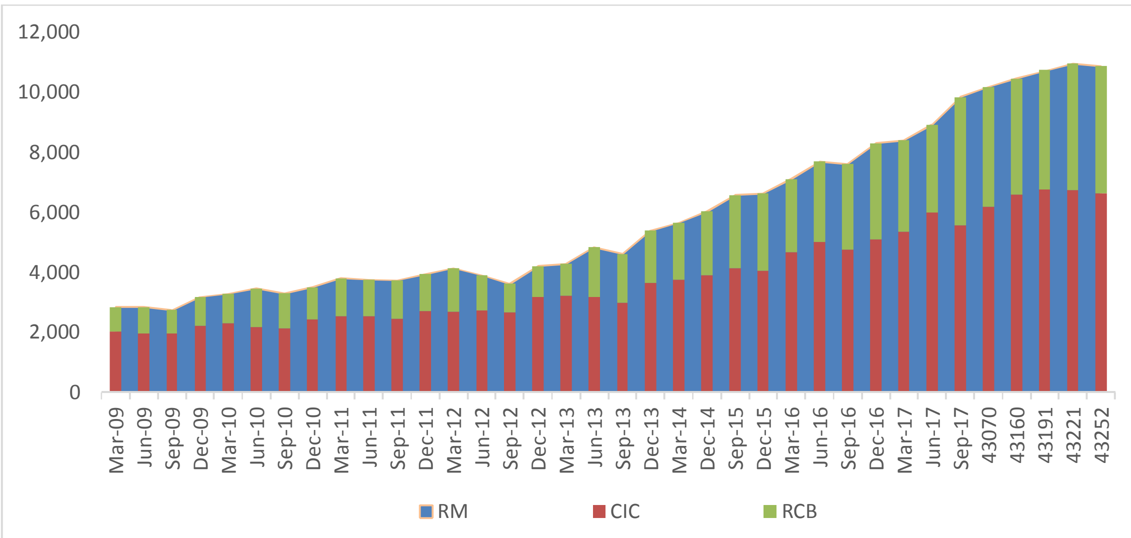
Source: CBG

Private sector credit has started to recover supported by the accommodative monetary policy stance that started in June 2017; the decline in government borrowing that freed more resources and the rebound in economic activity. Private sector credit rebounded with an annual growth rate of 20.0 percent in June 2018 after a contraction of 23.3 percent a year ago. Quarter-on-quarter, it grew by 12.1 percent in June 2018. Drivers of private sector credit growth include agriculture, distributive trade, tourism and construction sectors, which expanded by 20 percent, 10 percent, 174.5 percent and 85 percent respectively. Chart 6 shows continued recovery in private sector credit since the fourth quarter of 2017.

Growth in Monetary Base

Reserve money, the Central Bank's operating target grew by 21.9 percent as at end-June, 2018, higher than 16.1 percent recorded in the corresponding period year earlier. Quarter- on – quarter, it rose by 4.0 percent in the second quarter of 2018, lower than the 6.2 percent in June 2017.

Chart 11: Reserve money and components



Source: CBG

Both components of reserve money (currency in circulation and reserves of deposit money banks) registered strong growth during the period under review. Currency in circulation rose by 10.8 percent compared to 19.5 percent in June 2017. Similarly, reserves of commercial banks rose significantly by 44.4 percent, stronger than the growth rate of 9.8 percent recorded in June 2017.

2.8 Financial Soundness Indicators

The fundamentals of the financial system remain sound. According to the financial soundness indicators, the banking sector remains well capitalized, highly liquid and profitable.

Capital and Reserves

Capital and reserves of the banking industry at end- June 2018 stood at D5.4 billion from D5.3 billion in the previous quarter and D5.06 billion in June 2017, indicating a growth of 1.6 percent and 6.6 percent respectively. The growth was due to increase in reserves emanating from profitability.

The banking industry Capital Adequacy Ratio (CAR) was 32.44percent in June 2018, from 34.37 percent in June 2017, and significantly above the 10.0 percent prudential limit. The industry's Risk-Weighted Assets (RWA) to total assets increased from 39.6 percent (D14.12 billion) in June 2017 to 40.6 percent (D16.05 billion) in June 2018 due to the significant increase in banks total assets.

Asset Quality

The sector's gross loans and advances increased from D4.2 billion in June 2017 to D4.71 billion in June 2018. In March 2018 it was reported at D4.16 billion. The increase in the loans was explained by increased demand for credit from almost all the economic sectors.

The industry stock of non-performing loans stood at D277.08 million in June 2018, dropping from its level of D328.61 million in March 2018. In June 2017 it was D393.67 million. NPL ratio stood at 5.9 percent in June 2018.

Liquidity

The bank's liquidity ratio declined from 96.5 percent in June 2017 to 91.8 percent in June 2018. The drop in the ratio could be related to year- on- year decline in Treasury bill investment by D695.4 million from last year. Overall, the banks have recorded liquidity ratios above the 30 percent regulatory requirement.

Deposits had followed an upward trend throughout the first and second quarters of 2018 totaling D24.69 billion as at end June 2018. This represented a quarterly growth of 1.36 percent. With the exception of a slight drop in fixed deposits, all the other deposit categories recorded increases. This reflects economic recovery, improved confidence and strong efforts in the area of financial inclusion.

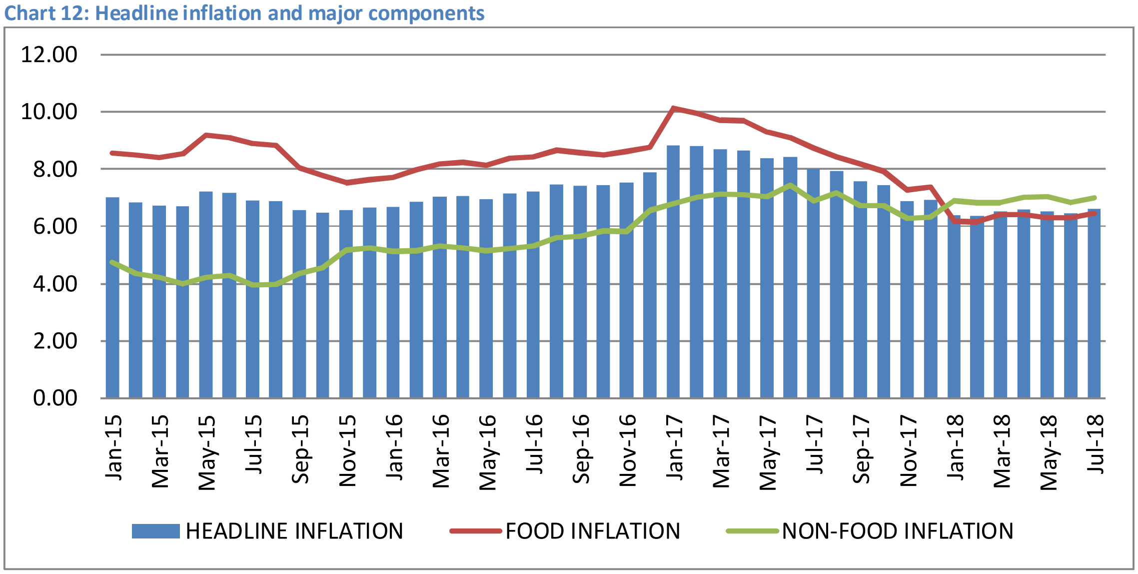
The loan to deposit ratio remained low at 19.1 percent during the second quarter of the year. This dropped from 21.19 percent from the previous quarter. A review of the banks utilization of the deposits against financing and investments would show that funds are mainly utilized in risk free T-Bills investments, though declining.

2.9 Inflation

Headline inflation is projected to remain largely subdued in 2018 and 2019 predicated on stable exchange rate and moderate global food prices.

Headline inflation decelerated significantly to 6.46 percent in June, 2018 from 8.43 percent in June, 2017, mirroring relative exchange rate stability and the moderation in imported food prices.

Chart 12: Headline inflation and major components

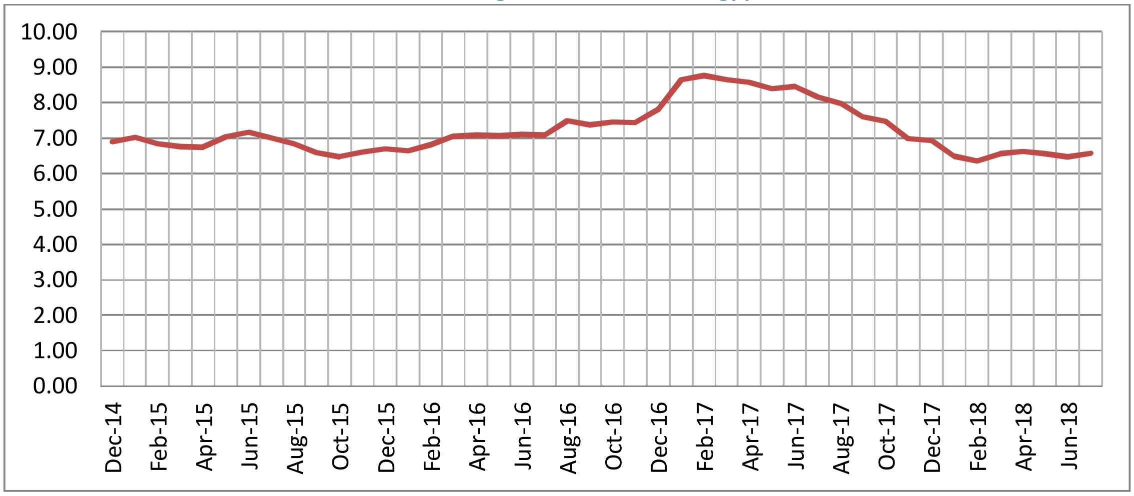


Source: Gambia Bureau of Statistics and CBG staff estimates

Food inflation declined to 6.31 percent at end-June 2018 from a high of 9.10 percent in the corresponding period in 2017, mainly reflecting the decline in prices of meat, fish, oil, and fats and other food products. Similarly, Non-food inflation moderated to 6.84 percent in the second quarter of 2018 from 7.44 percent in the corresponding period of 2017; mainly on account of decelerated consumer prices in Hotels, Cafés and Restaurants; and Clothing, textile and foot wear.

Core-2 inflation decelerates to 6.47 percent in the review period from 8.46 percent a year ago, pointing to the easing of underlying inflationary pressures.

Chart 13: Core Inflation – Headline inflation excluding volatile food and energy prices



Source: Gambia Bureau of Statistics and CBG staff estimates

2.10 Inflation Outlook

The Committee observed that economic growth has gained momentum on the back of sound macroeconomic policies, structural reforms, strong external support, and improved business confidence.

Additionally, the business sentiment survey indicated that inflation expectations are well anchored with majority of respondents projecting subdued inflationary environment.

Furthermore, the exchange rate is expected to remain stable supported by prudent fiscal and monetary policies.

Although international oil prices are rising, the continued decline in global food prices are expected to dampen the effects of the increase in oil prices on domestic inflation.

Against this backdrop, the Committee projected inflation to decelerate further towards the Bank's medium term target of 5 percent.

Major risk to the outlook is the domestic food supply situation which largely depends on weather conditions.

Decision of the MPC

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.

Annexes

Consumer Price Index (Y-o-Y % change)	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Overall Index	**8.0**	**7.9**	**7.6**	**7.4**	**6.9**	**6.9**	**6.4**	**6.4**	**6.5**	**6.6**	**6.5**	**6.5**	**6.6**
Food & Beverages	**8.7**	**8.3**	**8.1**	**7.9**	**7.2**	**7.3**	**6.1**	**6.1**	**6.4**	**6.3**	**6.2**	**6.2**	**6.4**
Food	8.7	8.4	8.2	7.9	7.3	7.4	6.2	6.2	6.4	6.4	6.3	6.3	6.5
Beverages	3.7	3.6	3.5	3.6	3.6	3.4	2.8	2.8	2.8	2.7	3.3	2.8	2.8
Non-Food	**6.9**	**7.2**	**6.7**	**6.7**	**6.3**	**6.3**	**6.9**	**6.8**	**6.8**	**7.0**	**7.0**	**6.8**	**7.0**
Alcoholic Beverages, Tobacco	1.9	1.9	1.9	1.9	1.7	1.2	1.2	1.1	0.8	1.0	1.3	1.8	1.6
Clothing, textile & Footwear	8.5	8.7	7.9	7.5	6.8	6.6	7.0	7.6	7.9	7.6	7.6	7.2	7.7
Housing, Water, Electricity, Gas & Fuels	5.0	5.2	5.1	5.5	5.5	5.1	5.5	5.8	5.8	5.9	5.8	5.9	6.0
Furnishing, Household Equipment, Etc	3.4	4.2	3.7	4.7	4.6	5.0	5.0	5.1	5.4	6.2	5.9	5.4	5.3
Health	1.9	2.0	2.0	1.9	1.7	1.7	2.4	2.0	2.0	2.2	2.3	2.0	2.2
Transport	4.3	4.1	3.2	3.0	2.5	2.8	2.7	2.0	1.9	2.3	2.4	2.3	2.5
Communication	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3
Recreation & Culture	3.1	8.7	8.5	10.5	10.3	11.3	11.3	11.1	11.1	11.8	11.2	12.2	11.9
Education	0.3	0.3	0.3	0.4	0.3	0.3	0.5	0.5	0.8	0.9	1.1	0.9	0.9
Hotels, Cafes & Restaurants	9.5	9.2	8.6	8.2	7.1	6.4	5.8	5.7	6.1	5.7	5.8	6.5	8.0
Miscellaneous goods& services	15.7	15.3	15.0	13.6	13.2	11.8	13.8	12.8	12.2	12.3	12.6	11.8	12.0

Consumer Price Index (Monthly % change)	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Overall Index	**0.4**	**0.6**	**0.4**	**0.5**	**0.3**	**0.8**	**0.7**	**0.5**	**0.5**	**0.5**	**0.4**	**0.5**	**0.5**
Food & Beverages	**0.5**	**0.5**	**0.5**	**0.4**	**0.3**	**0.7**	**0.6**	**0.5**	**0.6**	**0.6**	**0.5**	**0.6**	**0.6**
Food	0.5	0.5	0.5	0.4	0.3	0.7	0.6	0.5	0.6	0.6	0.4	0.6	0.6
Beverages	0.3	0.0	0.2	0.3	0.3	0.1	0.2	0.2	0.0	0.1	0.7	0.5	0.3
Non-Food	**0.3**	**0.8**	**0.3**	**0.7**	**0.5**	**1.0**	**0.9**	**0.5**	**0.4**	**0.5**	**0.4**	**0.5**	**0.4**
Alcoholic Beverages, Tobacco	0.3	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.3	0.3	0.4	0.1
Clothing, textile & Footwear	0.2	1.1	0.4	0.5	0.2	0.7	0.8	0.9	0.7	0.2	0.6	0.5	0.6
Housing, Water, Electricity, Gas & Fuels	0.3	0.4	0.3	0.5	0.3	0.3	0.7	0.7	0.5	0.5	0.9	0.4	0.4
Furnishing, Household Equipment, Etc	0.2	0.8	0.2	1.0	0.1	0.7	0.4	0.2	0.4	0.8	0.3	0.1	0.1
Health	0.0	0.3	0.0	0.2	0.3	0.1	0.8	0.0	0.1	0.3	0.1	0.0	0.2
Transport	0.2	0.2	-0.4	-0.1	0.0	0.5	0.6	0.0	0.1	0.5	0.4	0.2	0.4
Communication	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recreation & Culture	0.3	5.7	0.0	2.0	0.0	2.0	0.1	0.0	0.0	0.6	0.0	0.9	0.0
Education	0.0	0.0	0.0	0.1	0.0	0.0	0.3	0.0	0.3	0.1	0.1	0.0	0.0
Hotels, Cafes & Restaurants	0.3	0.4	0.1	0.3	0.3	0.6	0.6	0.5	0.7	0.5	0.8	0.9	1.8
Miscellaneous goods& services	0.6	0.7	0.7	0.2	1.8	1.6	2.4	0.8	0.4	0.8	0.4	0.7	0.8

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Headline Inflation	8.43	8.02	7.91	7.59	7.44	6.88	6.95	6.40	6.37	6.53	6.59	6.53	6.46	6.61
Core 1 Inflation*	8.47	7.61	7.81	7.28	7.27	6.31	7.03	5.84	6.33	6.69	6.65	6.48	6.38	6.76
Core 2 Inflation**	8.46	8.15	7.98	7.60	7.48	6.98	6.92	6.48	6.35	6.55	6.63	6.56	6.47	6.58

*Core1 excludes prices effects of energy and utility prices
**Core2 excludes energy and utility prices, and volatile food items