



## **Press Release**

**May 31, 2023**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Tuesday 30, and Wednesday 31, May 2023, and decided to increase the Monetary Policy Rate by 200 basis points to 16 percent. Below is a summary of the assessment and deliberations that informed the Committee's decision.

1. The global economic outlook remains uncertain, despite signs of gradual recovery this year. Consumer demand has held up in advanced economies and China to sustain global activity growth, but persistent and new headwinds continue to weigh on the recovery. In addition to the adverse effects of the existing shocks, the financial stress in advanced economies, triggered by high-interest rates, has emerged as a major risk to financial stability and growth. In view of this, the International Monetary Fund (IMF) in its April 2023 World Economic Outlook (WEO) downgraded its global growth forecast by 0.1 percentage points to 2.8 percent for 2023.
2. Global headline inflation continues to decelerate, reflecting declining fuel and energy prices and the impact of monetary tightening. However, underlying inflationary pressures remain strong, with core inflation in many countries still well above the pre-pandemic levels. This notwithstanding, the IMF forecast global inflation to decelerate from 8.7 percent in 2022 to 7.0 percent in 2023, before slowing further to 4.9 percent in 2024.

3. International commodity prices picked up in April, reflecting strong demand, uncertainties surrounding the extension of the black sea grain initiative, softer supply conditions for some commodities due to adverse weather conditions and rising input costs. From March to April 2023, the IMF Average Crude Oil Price Index increased by 5.6 percent mainly on account of OPEC's decision to cut production and higher demand in China. During the same period, the Food and Agriculture Organization (FAO) Food Price Index, which tracks monthly changes in the international prices of commonly traded food commodities, inched up by 0.6 percent, following twelve consecutive monthly declines. Similarly, the FAO Rice Price Index rose to 124.2 points, up by 2.4 percent from March to April 2023, and 17.6 percent higher than the level in April 2022.
4. The recovery momentum of the Gambian economy continued in 2022, despite headwinds. Recent data released by the Gambia Bureau of Statistics (GBoS) indicates that the Gambian economy grew by 4.9 percent in 2022, compared to the revised growth of 5.3 percent in 2021. For 2023, the outlook remains positive. The Central Bank Composite Index of Economic Activity (CIEA) indicated that economic activity was robust in the first quarter of 2023, supported by strong private demand, stable remittance inflows, a gradual recovery in tourism, and public investment expenditure. Against this backdrop, the Bank forecast the economy to continue to grow above four percent in 2023. The risks to the growth outlook, however, are skewed to the downside, including the volatile geopolitical environment, rising global economic fragmentation as well as some structural rigidities in the domestic economy.
5. The results from the Central Bank's latest Business Sentiment Survey revealed that the sentiments of businesses improved, and most of the respondents expect higher economic activity in the next three months. Respondents also expect business activity to rise in the third quarter to be driven by strong

consumer demand. However, inflation expectations remain high with most of the businesses surveyed expecting higher inflation in the next three months.

6. Preliminary data shows that balance of payments challenges remain. The current account deficit widened to 3.4 percent of GDP in the first quarter of 2023, from a deficit of 1.7 percent of GDP in the comparable period a year ago. The deficit in the goods account widened to 11.4 percent of GDP in the first quarter of 2023, from 7.8 percent of GDP in the first quarter of 2022, owing to higher import bills which more than offset the moderate growth in total exports.
7. The Bank's gross international reserves stood at US\$451.9 million as at end-April 2023, adequate to cover 4 months of prospective imports of goods and services. This coupled with stable remittance inflows is expected to help the domestic currency to remain stable in the near term.
8. In the foreign exchange market, volumes of transactions, which is an aggregate of sales and purchases of foreign currency, picked up by 12.8 percent (quarter-on-quarter) to US\$644.1 million in the first three months of 2023. The market continues to be demand-driven, mainly emanating from imports of food, telecommunications, construction materials, and energy. On the other hand, supply benefited from official inflows from development partners, private remittances, recovery in tourism receipts and cross-border trade receipts. From January to March 2023, the dalasi remained relatively stable, depreciating slightly against the US dollar by 1.5 percent, Euro by 2.2 percent, and CFA franc by 1.1 percent but appreciating marginally against the British Pound by 0.2 percent.
9. Government fiscal position improved in the reviewed period despite the challenging economic environment and the rising cost of borrowing.

Preliminary data indicated the budget deficit (including grants) contracted to D2.6 billion (2.5 percent of GDP) in the first quarter of 2023, from a deficit of D2.9 billion (2.7 percent of GDP) in the corresponding period in 2022. Total revenue and grants declined by 9.2 percent to D4.7 billion (4.5 percent of GDP), reflecting the drop in both grants and non-tax revenue. Total expenditure and net lending also decrease by 9.1 percent to stand at D7.3 billion (4.7 percent of GDP) in the first three months of 2023 compared to the same period in 2022.

10. The stock of domestic debt increased slightly by 1.7 percent, from D38.1 billion in 2022 to 38.8 billion in April 2023. This represents a decline in the debt-to-GDP ratio from 31.5 percent in 2022 to 27.6 percent in April 2023. In the year to end-April 2023, Treasury bills and Sukuk Al Salaam bills increased by 4.8 percent to D19.2 billion and accounted for 49.5 percent of outstanding domestic debt stock.
11. Yields on government securities have risen further following the five monetary policy rate hikes since the beginning of the monetary policy tightening cycle. The weighted average interest rate on treasury bills increased from 4.8 percent in December 2022 to 11.9 percent in April 2023.
12. The banking system remains safe and sound with stable financial soundness indicators. The risk-weighted capital adequacy ratio stood at 24.4 percent in March 2023, higher than the regulatory requirement of 10 percent. The liquidity ratio stood at 44.6 percent, also above the prudential regulatory limit of 30 percent. The industry's non-performing loan ratio remains low at 4.6 percent.
13. Growth in monetary aggregates continues to decelerate consistent with the tightening of the monetary policy stance that started in 2022. Annual money supply growth slowed to 3.4 percent in March 2023, relative to 27.2 percent in the same period a year ago, owing to the contraction in the net foreign assets

of the banking system and a moderating net domestic asset as fiscal policy consolidates. Reserve money growth decelerated to 1.2 percent in March 2023, compared to a growth of 14.0 percent a year ago.

14. Inflationary pressures continue to persist and have become more broad-based than previously anticipated. Headline inflation accelerated to 17.4 percent in April 2023 compared to 13.7 percent in December 2022. Food inflation increased to 22.1 percent in April 2023 from 17.5 percent in January 2023. Price indices of all items in the food basket increased except for meat, oils, and bread & cereals. Non-food inflation also accelerated to 12.3 percent, from 8.9 percent, over the same period in 2022. The notable increase in non-food inflation can primarily be attributed to the rise in hospitality and electricity prices.

15. Inflationary pressures are projected to persist as domestic and imported cost factors creep into consumer prices. Coupled with rising inflation expectations, CBG staff forecast headline inflation to peak towards the end of the year. If global inflation continues to decelerate and the full effect of monetary policy hits aggregate demand, headline inflation may return to the medium target faster than currently anticipated.

16. The Committee observed the following:

- The global economic environment remains in a difficult state, characterized by low growth prospects, elevated inflation, increased geoeconomic fragmentation and financial stability concerns. Although there are encouraging signs that international prices of key commodities will remain subdued, the outlook remains highly volatile and uncertain. The rising international prices of rice which is a staple food in The Gambia is of particular concern. The relatively strong US dollar and rising interest rates in advanced economies continue to exert depreciation pressures

on exchange rates, raising external debt profiles in emerging and developing economies.

- The Gambian economy remains resilient, with growth averaging just below the pre-pandemic levels. A gradual recovery in tourism activity, public and private sector investments, and stable remittance inflows will continue to support economic recovery.
- Despite balance of payments challenges, the foreign exchange market is expected to remain stable. Supply conditions will continue to be supported by inflows from tourism, support from development partners, recovery in cashew exports and private remittance inflows. These are expected to help cushion the domestic currency and provide an avenue to replenish the external reserves of the Central Bank.
- Price pressures are forecast to remain elevated this year, but headline inflation is projected to moderate towards the end of the year. However, if global inflation continues its downward trend and monetary policy is able to anchor inflation expectations, headline inflation may moderate and return to the medium-term target faster than currently anticipated.
- Taking the above factors into consideration, the Committee is of the view that the risk to the outlook for inflation is still tilted to the upside and inflation expectations remain elevated. Considering that real interest rates are still negative, there is still room for further policy action to tame the inflationary pressures going forward.

## **Decision**

The Committee has decided the following:

- Increase the Monetary Policy Rate (MPR) by 200 basis points to 16 percent;
- Maintain the required reserve (RR) at 13 percent; and
- Maintain the interest rate on the standing deposit facility at 3.0 percent and the standing lending facility will increase to 17.0 percent (MPR plus 1 percentage point).

## **Information Note**

### **Date for the next MPC meeting**

The next Monetary Policy Committee (MPC) meeting is slated for Wednesday, August 23, 2023. The meeting will be followed by the policy decision announcement on Thursday, August 24, 2023.