CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

Press release February 27, 2024

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) convened on February 26 and 27, 2024. The Committee decided to maintain the Monetary Policy Rate at 17 percent. The decision is aimed at sustaining the declining trend in domestic inflation. The following is an overview of deliberations that informed the Committee's decision.

1. Prospects in the global economy have improved since the last MPC, thanks to the strength of the United States economy and some large emerging market economies, supported by both demand and supply factors. Sustained private and government spending in most economies combined with favorable supply developments contributed to the improvement. Against this backdrop, the International Monetary Fund (IMF), in its January World Economic Outlook (WEO) updates forecast global growth at 3.1 percent in 2024, the same level as the estimates for 2023. However, the projections for both 2023 and 2024 are still lower than the historical average of 3.8 percent. In addition, this outlook is shrouded with significant risks, including the impact of the ongoing geopolitical developments on international trade and commodity prices.

2. Global headline inflation continues to decelerate as moderating energy and food prices, along with monetary tightening continue to exert significant downward pressure on inflation in most regions. The IMF estimated global headline inflation for 2023 at 6.8 percent and revised the forecast for 2024 downwards by 0.2 percentage points to 5.8 percent. However, the pace of the disinflation process varies with advanced economies seeing a faster decline in headline inflation while emerging markets and developing economies are forecast to experience a slower deceleration in inflation.

3. International commodity prices continued to decline, driven by the fall in prices of food, metals, and copper that outweighed the surge in crude oil prices. The IMF All Commodity Prices Index fell by 0.3 percent in January 2024, from the level it was in December 2022, and by 12.9 percent from a year ago.

4. Furthermore, the FAO Food Price Index in January 2024 dropped by 1.2 percent from the December level and 10.4 percent from its corresponding level a year ago. This decrease in the index reflects ample supply, particularly grains, except for rice. International rice prices rose in January this year amid strong demand in preparation for Ramadan coupled with India's export ban. The FAO Rice Price Index increased by 1.2 percent from December to January and by 13.0 percent from a year ago. The World Bank forecast rice prices to increase by 6.0 percent in 2024, underpinned by trade restrictions, adverse weather conditions, and geopolitical uncertainties.

5. On the domestic front, the Gambian economy continues its resilience, registering a growth rate above the average for sub-Saharan Africa. Recent data from the Gambia Bureau of Statistics (GBoS) revealed a quarterly annualized real GDP growth of 4.8 percent, supported by agriculture and services sectors. In addition, the Bank's Composite Index of Economic Activity (CIEA) pointed to a robust activity level in the fourth quarter of 2023. As a result, CBG staff forecast economic growth at 5.4 percent for 2024, representing a 0.1 percentage point upward revision from the November 2023 forecast. Public and private consumption and investments are expected to sustain aggregate demand as well as recovery in tourism and stable inflows of remittances. However, this outlook is surrounded by significant headwinds, including the still elevated inflation, uncertainties surrounding global commodity prices, and structural holdups in the domestic economy.

6. The results from the Central Bank's latest Business Sentiment Survey revealed that sentiments about the prospects of the Gambian economy have improved.

Most of the businesses expressed optimism about the near-term growth outlook. Businesses also expect to hire more people with the expectation of increased production. However, near-term inflation expectations remain high, as survey respondents believe inflation will rise in the next three months. The effect of geopolitical developments, especially its impact on global supply chains, increase in domestic pump prices and depreciation pressures shaped the sentiments of businesses on the inflation outlook.

7. Preliminary balance of payments estimates show that the current account balance deteriorated in 2023, registering a deficit of US$204.1 million (7.0 percent of GDP), from a deficit of US$90.3 million (4.4 percent of GDP) in 2022. The goods account balance widened to a deficit of US$940.4 million (32.2 percent of GDP) in 2023, compared to a deficit of US$642.4 million (31.5 percent of GDP). The services account balance registered a surplus of US$204.2 million in 2023, higher than US$80.2 million, benefiting from the strong recovery in tourism activity.

8. The Central Bank continues to implement reforms to enhance the efficiency of the foreign exchange market. In December 2023, the Bank published a new foreign exchange policy and revised the foreign exchange bureau guidelines. These reforms were necessary to ensure transparency and the smooth functioning of the market.

9. The foreign exchange market remains vibrant with stable activity volumes. The cumulative volume of transactions in the domestic foreign exchange market in 2023 stood at US$2.0 billion, slightly lower than the US$2.5 billion in 2022. Total remittance inflows increased by 3.5 percent in 2023 to stand at US$737.1 million. The increase in private remittances and significant inflows from grants helped ease foreign currency supply conditions and considerably supported the stability of the dalasi during the review period.

10. The dalasi continues to be stable, depreciating only modestly year-on-year against major international trading currencies in 2023. It depreciated against

the US Dollar by 3.8 percent, Euro by 10.8 percent, GBP by 12.7 percent and CFA by 14.2 percent. CBG continues to hold comfortable levels of international reserves amounting to US$475.3 million in January 2024, which is sufficient to finance over 5 months of prospective imports of goods and services.

11. The preliminary estimates of government fiscal operations indicated that the overall deficit (including grants) narrowed from D6.9 billion (5.7 percent of GDP) in 2022 to D4.4 billion (3.1 percent of GDP) in 2023. However, the overall budget deficit (excluding grants) widened to D18.5 billion (12.9 percent of GDP) in 2023, from D15.3 billion (12.5 percent of GDP) a year ago. Total revenue and grants mobilized in 2023 amounted to D31.9 billion (22.2 percent of GDP), an increase of 39.4 percent compared to last year. The increase in the total revenue and grants mirrors the increase in both domestic revenue and grants. Total expenditure and net lending between 2022 and 2023 increased by 21.8 percent to stand at D36.3 billion (25.3 percent of GDP), from D29.8 billion (24.3 percent of GDP), driven by the increase in development expenditures that were largely externally financed.

12. The government's domestic debt rose by 8.4 percent to D41.3 billion (29.4 percent of GDP) in 2023, from D38.1 billion (31.7 percent of GDP) in 2022. This increase is explained mainly by the increased issuance of Treasury bills and medium-term government bonds to settle maturities and finance the budget. As a result, short-term debt accounted for 58.5 percent of the total domestic debt stock, while medium to long-term debt constituted 41.5 percent, indicating a substantial refinancing risk, as over half of the debt stock matures in less than 1 year.

13. Yields on short-term government securities continue to be influenced by liquidity conditions in the banking system and lower government appetite for borrowing. The weighted average yield rose from 12.7 percent in January 2023 to peak at 16.5 percent in May before sliding to 10.9 percent in September.

However, when compared to 2022, the weighted yield on government instruments increased from 4.8 percent to 11.2 percent in 2023.

14. Activity in the interbank market continues to be strong. The total volume of interbank transactions rose to D14.1 billion compared to D10.4 billion in 2022. The weighted average interest rate prevailing in the market increased from 4.2 percent in 2022 to 7.5 percent in 2023, following the three-month Treasury bills rate.

15. The banking industry remains strong and stable with healthy financial soundness indicators. The industry risk-weighted capital adequacy ratio stood at 28.6 percent in December 2023, compared to 24.4 percent reported in December 2022. All the banks were within the regulatory requirement of 10 percent. The banking sector liquidity ratio increased to 82.3 percent in December 2023, from 63.7 percent reported in December 2022.

16. Customer deposits, the main source of funding for banks, increased by 8.7 percent (year-on-year) to D58.7 billion in December 2023 and accounted for about 67.9 percent of total liabilities. The industry's asset quality continues to improve, with the non-performing loans declining from 4.6 percent of gross loans reported in December 2022 to 3.3 percent recorded in December 2023. While credit risks remain, the stress test results indicated a resilient banking industry.

17. Annual money supply grew by 9.3 percent in December 2023, higher than the 6.6 percent in September 2023 and 7.7 percent reported in the same period a year ago. Growth in annual reserve money continues to accelerate, increasing to 14.1 percent in December 2023, following a contraction of 0.9 percent recorded in the comparable period in 2022. Supply of credit to the private sector is slowing, reflecting partly the rising interest rates as the Central Bank tightens monetary policy to tame inflation. As of end-December 2023, credit to the private sector growth moderated to 12.2 percent, lower than the 25.4 percent recorded in December 2022.

18. Inflation declined for the second consecutive month, reflecting the impact of the moderating global commodity prices and domestic policy actions. In January 2024, headline inflation declined to 16.2 percent, down from 17.3 percent in December and from the peak of 18.5 percent in September 2023. The decline in inflation is mainly attributed to the decrease in food components of the CPI basket as food prices continue to ease globally, supported by a good cropping season. Going forward, should the easing of global commodity prices and domestic supply conditions improve, inflation is expected to fall within single digits by the end of 2024.

19. Food inflation decreased to 21.0 percent in December 2023, from 23.8 percent in October 2023 and 24.9 percent recorded in June 2023. The decline in food inflation was on account of a significant deceleration in the prices of bread and cereals, meat, and vegetables. Similarly, non-food inflation also declined to stand at 10.7 percent from 11.3 percent reported in December 2023, owing to a decrease in prices of textiles, energy, and transportation.

20. Furthermore, core inflation, which excludes volatile energy and food products declined markedly during the review period suggesting inflationary pressures are gradually dissipating.

21. The Committee observed the following:

- The Committee noted an improvement in the global economy, with both demand and supply factors driving the recovery. The continued decline in commodity prices, particularly food will support the deceleration in domestic inflation.

- The Committee observed the declining trend in global inflation, supported by the impact of the tight monetary policy stance of central banks and the moderating global commodity prices. However, the Committee expects monetary policy around the world to remain tight for long, to sustain the decline in inflation back to central banks' targets.

- On the domestic economy, the Committee anticipates the growth momentum to continue, with robust real GDP growth. The economy will continue to benefit from strong public and private consumption and investments, a rebound in tourism, and robust construction activities.

- The Committee observed the continued moderation in inflation, due partly to the combined effects of prudent monetary policy and sustained decline in global food and energy prices. The latest forecast suggests that headline inflation has peaked and will gradually return to a single-digit region sooner than expected. Notwithstanding, the Committee recognizes that the risks to the outlook remain significant and tilted to the upside.

- Moreover, the Committee is of the strong view that to sustain the declining trend in inflation, close policy coordination between fiscal and monetary policy is essential.

Policy Decisions

22. In view of the above, the Committee felt that it is premature to start easing monetary policy since inflation is yet to establish a sustained downward trajectory.
23. Accordingly, the Monetary Policy Committee has taken the following decisions:

    i. The Monetary Policy Rate (MPR) will be maintained at 17.0 percent.
    ii. Required Reserve (RR) ratio of commercial banks will be maintained at 13.0 percent.
    iii. The interest rate on the standing deposit facility will remain unchanged at 3.0 percent.
    iv. The interest rate on the standing lending facility will remain at 18.0 percent or MPR plus 1.0 percentage points.

The Committee will continue to monitor the cumulative effects of this and past policy actions on inflation and economic activity in determining the next policy direction.

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is slated for **Wednesday, May 22, 2024**. The meeting will be followed by the policy decision announcement on **Thursday, May 23, 2024.**