CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

Press release August 27, 2024

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) convened on August 26 and 27, 2024. After reviewing current domestic and global economic conditions and near-term outlook, the Committee decided to maintain the Monetary Policy Rate at 17 percent. The decision aims to sustain the declining inflation trend observed in the past four consecutive months. The following is an overview of deliberations that informed the Committee's decision.

1. Global economic activity gained momentum in the first half of 2024, driven by stronger trade. However, growth prospects remain modest and significant challenges persist that could impede the pace of recovery. In its July update of the World Economic Outlook report, the International Monetary Fund (IMF) maintained the growth forecast for 2024 at 3.2 percent, and slightly raised the 2025 forecast by 0.1 percentage point to 3.3 percent. However, the growing risk of trade fragmentation, escalating geopolitical tensions, and prolonged periods of elevated interest rates pose significant threats to the global economic outlook.

2. Global inflation continues to decline but the pace is slower than expected due to the sharp rise in services prices and volatility of commodity prices. The IMF projected global inflation to continue to decline and reach 5.9 percent in 2024, compared to 8.7 percent in 2023. Inflation is expected to drop to 4.4 percent in 2025.

3. However, there are significant risks to this outlook, including the escalating trade fragmentation and rising global uncertainties and their impact on the global supply chain and commodity prices. Moreover, the slow pace of disinflation process could compel central banks, especially in advanced economies, to keep interest rates high for an extended period. This has adverse implications on developing economies in terms of capital flows and exchange rate stability.

4. International commodity prices have risen this year after experiencing an average decline last year. This increase reflects tighter supply conditions, partly due to production cuts by OPEC countries and the ongoing geopolitical tensions in the Middle East. Nonetheless, commodity prices experienced a slight decline in July 2024 compared to June, with the IMF All Commodities Prices Index dropping marginally by 0.3 percent.

5. The international food prices eased in July 2024, as indicated by the FAO Food Price Index, which fell by 0.7 percent from June 2024 and by 3.1 percent from a year ago. This moderation was driven by a decrease in the cereal price index, which offset the increases in the indices for vegetable oil, meat and sugar.

6. Furthermore, the average international rice prices declined in July 2024 for the third consecutive month, largely influenced by sluggish demand and the expectations that India may amend its export restrictions on rice. The FAO Rice Price Index dropped by 2.4 percent from June 2024, reaching a 12-month low.

7. On the domestic front, the Gambian economy continues its strong performance in the second quarter of 2024, with encouraging signs in the fight against inflation. Recent data released by the Gambia Bureau of Statistics (GBoS) indicates that the Gambian economy grew by 4.8 percent in 2023, compared to the revised growth of 5.5 percent in 2022. Growth was mainly supported by a pickup in the services and industry sectors, reflecting the buoyant private and public construction activities.

8. On the outlook, the Bank's staff forecast economic growth at 5.7 percent in 2024, representing a 0.2 percentage point upward revision from the May 2024 forecast. Growth is anticipated to be supported by strong public and private investment spending, household consumption, and a rebound in tourism. However, significant risks continue to shroud this growth outlook including geoeconomic fragmentation, ongoing geopolitical tensions, volatility in commodity prices, and domestic climate-related risks.

9. The Central Bank's latest Business Sentiment Survey for the second quarter of 2024 indicated a slight improvement in business confidence. Most respondents expect economic activity to expand over the next three months. Despite this optimism, businesses remain concerned about inflation, with a significant portion of businesses surveyed expecting a further rise in inflationary pressures in the near term. Looking ahead, the continuous decline in inflation is expected to stabilize these expectations.

10. Preliminary balance of payments estimates indicate persistent external sector challenges during the review period. The current account balance deteriorated to a deficit of US$16.0 million (0.7 percent of GDP) in the second quarter of 2024, after recording a surplus of US$1.4 million (0.1 percent of GDP) in the first quarter of 2024. The goods account balance moderated somewhat to a deficit of US$244 million (11.2 percent of GDP), compared to the US$257.9 million (8.8 percent of GDP) reported in the first quarter of 2024, owing to a slight drop in imports.

11. The foreign exchange market continues to function smoothly. Total activity volumes, measured by aggregate purchases and sales of foreign currency, in the domestic foreign exchange market stood at US$563.0 million in the second quarter of 2024, compared to US$600.9 million reported in the first quarter of 2024. The decline in activity volumes is largely attributed to the lean period in tourism activities and the drop in remittance inflows. Total private remittance inflows, the largest source of foreign currency supply, slightly moderated by 1.6 percent in

the second quarter of 2024 to stand at US$200.9 million, compared to US$204.2 million registered in the first quarter of 2024.

12. The dalasi continues to be relatively stable, depreciating slightly against major traded currencies in the domestic foreign exchange market. From March 2024 to June 2024, the dalasi depreciated against the US dollar by 0.5 percent, the euro by 1.2 percent and British pound sterling by 1.2 percent and CFA franc by 3.9 percent.

13. Meanwhile, the Central Bank continues to hold comfortable levels of international reserves amounting to US$452.7 million in July 2024, which is sufficient to finance over 4.6 months of prospective imports of goods and services.

14. Preliminary estimates of government fiscal operations indicate an overall deficit, excluding grants, of D9.3 billion (6.5 percent of GDP) in the first half of 2024, compared to a deficit of D8.9 billion (6.2 percent of GDP) recorded in the corresponding period of 2023. Similarly, the overall budget deficit, including grants, amounted to D5.1 billion (3.9 percent of GDP) in the first half of 2024, higher than the D4.8 billion (3.3 percent of GDP) reported in the same period of 2023.

15. The stock of domestic debt increased to D42.1 billion (27 percent of GDP) in June 2024, from D41.3 billion (29.4 percent of GDP) in December 2023. Short-term government securities, with a maturity of one year or less, accounted for 47.5 percent of the total domestic debt stock.

16. Yields on short-term government securities increased in June 2024, largely reflecting government borrowing from the domestic market. The weighted average treasury bill rate increased from 6.1 percent in March 2024 to 10.4 percent in June 2024.

14. In June 2024, trade activity volumes in the interbank dalasi market reached D7.5 billion, compared to D10.6 billion reported in the same period of 2023. Similarly, total trade volumes in the foreign currency interbank market amounted to US$3.0 million compared to US$5.0 million recorded in 2023. The weighted average interest rate prevailing in the interbank market declined from 7.4 percent in 2023 to 5.2 percent in June 2024, following the three-month Treasury bills rate.

15. The banking industry continues to be stable, with healthy financial soundness indicators. The industry asset base expanded by 18.1 percent in June 2024 to stand at D96.2 billion, compared to the D88.6 billion reported in March 2024. Similarly, total customer deposits, which continue to be the main source of funding for banks, increased by 6.3 percent (quarter-on-quarter) to stand at D62.6 billion as of June 2024.

16. Overall, the industry remains adequately capitalized and liquid. The aggregate risk-weighted capital adequacy ratio stood at 24.1 percent in June 2024, which is slightly lower than the 27.9 percent reported in the previous quarter. The liquidity ratio was 77.2 percent in June 2024, compared to 78.3 percent reported in March 2024. The industry's non-performing loans increased to 10.2 percent in June, from 8.7 percent reported in March 2024.

17. Growth in monetary aggregates accelerated in the review period, owing to increased liquidity in the banking system. Annual money supply grew by 16.6 percent in June 2024, from 4.2 percent reported in the corresponding period in 2023. The acceleration in annual money supply mirrors the significant rebound in the net foreign assets of the banking industry. However, growth in annual reserve money moderated to 3.1 percent, from the 6.2 percent reported in the same period a year ago. Similarly, credit to the private sector moderated to 0.7 percent in June 2024, from 19.3 percent reported in March 2024, reflecting in part the tight monetary policy stance.

18. On domestic price developments, the disinflation process that started four months ago continues to consolidate. In July 2024, headline inflation declined to 9.7 percent, down from 14.9 percent in March 2024. The decline was broad-based, with a fall in both food and non-food inflation.

19. Food inflation decelerated to 13.0 percent in July 2024, from 14.4 percent in June 2024 and 20.3 percent in March 2024. The easing of food inflation reflects moderation in major components in the food basket, including a deceleration in the price indices of bread and cereals, fish, vegetables, and fruits and nuts. Non-food inflation stands at 5.5 percent in the review period, unchanged from June 2024 figure, but lower than the 8.7 percent reported in March 2024.

20. Further analysis shows that the central bank's core measure of inflation, which excludes volatile energy and food products, also decelerated during the review period. This suggests that underlying inflationary pressures in the domestic economy are easing. The inflation outlook remains encouraging, and the headline inflation is projected to decline closer to the Bank's target by the end of 2024, barring any further surprises in international commodity prices.

21. **The Committee observed:**

- The stronger growth prospects for the global economy, aided by robust international trade and improved supply conditions. The expected easing of export restrictions on rice by India is encouraging. Moreover, the stronger prospects in China and India, as well as the Euro area are expected to support trade and tourism-related activities in the domestic economy.

- Although global inflation continues to decelerate, the pace of disinflation has slowed. However, softer labour market conditions, expected declines in energy prices and continued restrictive monetary policy should help bring headline inflation back to target by the end of 2025. Nonetheless, the Committee cautioned that the rising geopolitical tensions pose significant uncertainties in global commodity prices and their potential adverse impact on domestic prices.

- In the domestic economy, the Committee noted the strong performance of the Gambian economy with this year's growth expected to average 5.7 percent. A rebound in tourism activity, public and private sector investments, and stable remittance inflows will continue to support economic growth.

- The disinflation process continues to deepen as headline inflation decelerated for the fourth consecutive month in July 2024. With the anticipated cooling of global commodity prices and better cropping season, inflation is forecast to continue declining towards the Central Bank's target of 5 percent. However, the Committee recognizes the significant risks surrounding the outlook and the presence of short-term price pressures, which calls for prudent policy calibration to sustain the declining inflation.

- Considering the significant risks surrounding the global economic environment and ongoing domestic supply-side challenges, domestic policies will stay the course to sustain the macroeconomic gains registered thus far.

Policy Decisions

22. In view of the above, the Committee concludes that monetary policy should stay the course to support the disinflation process.
23. Consequently, the Monetary Policy Committee has taken the following decisions:

- **i.** The Monetary Policy Rate (MPR) will be maintained at 17.0 percent.
- **ii.** The 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 developments in both the domestic and global economy in deciding its next policy steps.

Information Note

The MPC has, for the first time, published a meeting calendar, which will be available on the Bank's website from today. The calendar will provide predictability regarding the schedule of MPC meetings.

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for **Wednesday, November 27, 2024**. The meeting will be followed by the policy decision announcement on **Thursday, November 28, 2024.**