CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

Press release August 29, 2023

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia convened on August 28 and 29, 2023. The Committee made the decision to raise the Monetary Policy Rate by 1.0 percentage points to 17.0 percent. The decision is aimed at curbing the rising domestic inflation. The following is an overview of deliberations that informed the Committee's decision.

1. The global economic conditions have improved since the last MPC meeting in May of this year. Economic activity continues to recover although there remain significant uncertainties. Positive developments include the recovery of the global supply chain and the reassuring end to fears of a broader banking crisis following bank failures in the US and Europe early this year. However, there are still significant headwinds that continue to drag global economic activities. The high level of inflation is eroding purchasing power, compounded by the high cost of borrowing attributed to the tight monetary policy stance and the ongoing geopolitical tensions. Against this backdrop, the IMF in July 2023 upgraded its global economic growth forecast by 0.2 percentage points to 3.0 percent for 2023, which is still lower than the 3.5 percent recorded in 2022.

2. Global inflation continues to moderate, partly reflecting the aggressive interest rate hikes by central banks, but the pace of disinflation is slow. The easing of the general price level also reflects the improvement in the global supply chain that resulted in lower global energy and food prices.

A recent forecast by the IMF predicts a continued slowdown in global inflation, dropping from an average of 8.7 percent in 2022 to 6.7 percent in 2023 and further down to 5.2 percent in 2024.

3. However, international commodity prices rose in July after three months of decline. Crude oil prices saw the biggest monthly increase since January, which was attributed to the decision by OPEC to cut production levels. The IMF Average Crude Oil Price Index increased by 7.8 percent from June to July 2023. Despite this, the IMF projects crude oil prices to still fall by 24 percent this year.

4. Meanwhile, the price of food commodities also increased in the international market due to the suspension of the Black Sea Grain Initiative and India's ban on exporting non-Basmati white rice. International prices of rice, in particular, continued to surge, reaching the highest level in almost 12 years. The Food and Agriculture Organization (FAO) Food Price Index in July rose by 1.3 percent from the previous month. The FAO Rice Price Index went up on average by 2.8 percent from June to July 2023, which puts it 19.7 percent higher than the level it was in the same period last year.

5. The Gambian economy continues to exhibit remarkable resilience, supported by strong private demand, recovery in tourism, and public and private sector consumption and investments. The Bank's Composite Index of Economic Activity (CIEA) registered a growth of 3.5 and 5.2 percent in the first and second quarters of 2023, respectively, which indicates a robust level of economic activity. These factors have contributed to a positive economic outlook for 2023, with the Bank projecting real GDP growth to surpass 5.0 percent. This represents a 0.7 percentage point upward revision from the May forecast. However, the balance of risk to the growth outlook is tilted to the downside. Major risks

that could hinder the growth prospects include the high level of inflation, structural rigidities in the domestic economy, volatile global commodity prices, and the unstable global geopolitical environment.

6. The results from the Central Bank's latest Business Sentiment Survey revealed improving sentiments among businesses, as most participants anticipate a rise in economic activity over the next three months. The survey respondents expect consumer demand and sales to drive up business activity in the third quarter of this year. However, the near-term inflation expectations remain high, as survey respondents foresee a further rise in inflation in the next three months.

7. Provisional balance of payments estimates for the second half of 2023 indicate a wider current account balance of US$157.6 million (7.6 percent of GDP), compared to US$40.8 million (2.1 percent of GDP) recorded in the comparable period in 2022. The deficit in the goods account widened to US$488.7 million (23.6 percent of GDP) in the first six months of 2023, from US$ 282.6 million (282.6 percent of GDP) in the corresponding period a year ago. The widening of the deficit in the goods account is attributed largely to the increase in the value of electricity, food products, and fuel imports.

27. The foreign exchange market continues to function smoothly. Total turnover stood at US$1.3 billion from January to July 2023, constituting a decrease of 19.4 percent relative to US$1.6 billion registered in the corresponding period of 2022. Private remittance inflows, which have consistently served as the major source of foreign currency, reached US$388.8 million from January to June 2023, representing an increase of 49.5 percent from the same period a year ago.

8. The Gambian dalasi has remained relatively stable against major currencies, despite demand-driven fluctuations in the foreign exchange market. The pace of depreciation has decelerated. From January to July

2023, it appreciated slightly against the US dollar by 0.6 percent and the British pound by 1.0 percent, and depreciated against the euro by 0.8 percent, and CFA franc by 6.5 percent. The Central Bank's foreign exchange reserves, totaling US$406.0 million as at end-July 2023, are sufficient to cover over 4 months of prospective imports. Moreover, the stable remittance inflows, tourism receipts, and official inflows will continue to support the stability of the currency by providing foreign currency liquidity.

9. Provisional data on the execution of the budget for the period January to June 2023, indicated a slightly wider overall deficit (including grants) of D3.9 billion (3.2 percent of GDP), compared to D3.7 billion (3.1 percent of GDP) in the comparable period a year ago. Total revenue and grants collected during the period amounted to D12.8 billion (10.4 percent of GDP), higher than the amount generated in the same period last year by 20.8 percent. Total expenditure increased by 16.2 percent to stand at D16.7 billion (13.6 percent of GDP) during the period. The primary drivers of government expenditures were salaries, interest payments, other charges (goods and services, subsidies, and transfers), and capital expenditures.

10. The nominal value of government domestic debt stock increased by 6.5 percent from December 2022 to July 2023, reaching D40.6 billion, or 32.5 percent of GDP. The stock of government bonds accounted for 51.4 percent of the domestic debt stock in July 2023. Similarly, the combined stock of Treasury and Sukuk Al Salaam bills accounted for the remaining 48.5 percent.

11. Yields on government securities continue to rise in response to the government's borrowing needs, and liquidity conditions in the money market. The weighted average interest rate on treasury bills increased from 9.8 percent in December 2022 to 18.8 percent in July 2023.

12. There has been a noticeable uptick in activity in the interbank market this year. Between January and July 2023, total transactions reached D11.3 billion, surpassing the D10.5 billion recorded in 2022. Moreover, the average interest rate prevailing in the market has exhibited an upward trend, rising from 9.5 percent in December 2022 to 11.5 percent in July 2023.

13. Financial soundness indicators revealed robust banking industry performance in the second quarter of 2023, characterized by improved profitability and resilient fundamentals. The risk-weighted capital adequacy ratio stood at 24.6 percent in June 2023, higher than the 24.4 percent in March 2023 and the regulatory requirement of 10 percent. The liquidity ratio stood at 43.2 percent, slightly lower than the 44.6 percent recorded in March 2023, but well above the prudential regulatory limit of 30 percent. Cash and cash equivalents accounted for 56.9 percent of liquid assets, while treasury bills investment accounted for the remaining 42.7 percent. The industry's asset quality has improved, with the non-performing loans dropping from 4.4 percent of gross loans in March 2023 to 3.5 percent in June 2023.

14. Growth in monetary aggregates continues to decelerate, driven by the contraction in the net foreign assets of both the Central Bank and commercial banks. Annual money supply growth slowed to 4.2 percent in June 2023, relative to 16.2 percent a year ago. Growth in private sector credit grew to 32.3 percent in June 2023, compared with 21.3 percent growth in June 2022. Annual reserve money growth decelerated to 6.2 percent in June 2023, compared to a growth of 8.2 percent a year ago.

15. Inflation continues to accelerate, primarily driven by strong food prices and the adjustments in electricity and water tariffs that took effect in

April of this year. Headline inflation rose to 18.4 percent in July 2023, up from 17.8 percent in June 2023. The tariff adjustments have had an immediate impact on the consumer price index and the passthrough effect continues to push prices up. On the positive side, the stability of the exchange rate is putting a damper on the prices of imported goods and services.

16. Food inflation increased to 24.9 percent in June 2023, from 23.5 percent in June 2022. Bread and Cereals, Fish, Fruits, Vegetables, and imported food subcategories were among the key drivers of the uptick in food inflation. Non-food inflation declined marginally from 11.5 percent in June 2023 to 11.3 percent in July 2023, thanks largely to a decline in the transport price index.

17. The Committee observed the following:

- There are encouraging signs of improving global economic conditions, with a relatively brighter growth prospect and declining inflation. However, this outlook is still clouded by geopolitical uncertainties, and volatility in commodity prices, especially for food and energy. The easing of global supply chain bottlenecks may continue to dampen food and energy prices.

- On the domestic economy, the Committee projects the post-pandemic recovery momentum to continue, with a healthy real GDP growth of over 5.0 percent for 2023. Growth will continue to be supported by the recovery in tourism activity, public and private sector consumption, and investments, as well as better harvest expected this cropping season.

- The foreign exchange market remains relatively stable notwithstanding demand pressures. The Central Bank continues to maintain a comfortable level of external reserves. However, challenges in the balance of payments, as reflected in the continued increase in the current account deficit, necessitate our ongoing attention and focus.

- Domestic price pressures continue to a be critical concern. The headline inflation rate of 18.4 percent in July 2023 surpasses our tolerable level, and the outlook is unfavorable. In this regard, we remain steadfast in our commitment to bring it down to the medium-term target. We recognize the challenges posed by the complex global environment and domestic economic dynamics. Through prudent policy decisions and effective communication, we aim to navigate these challenges while ensuring the well-being of our economy and the financial system.

Policy Decisions

18. In light of these factors and our strong commitment to bringing down inflation to the desired target, the Monetary Policy Committee has taken the following decisions:

    1. **Monetary Policy Rate (MPR):** We have decided to increase the MPR by 1.0 percentage points to 17.0 percent.
    2. **Required Reserve (RR):** The required reserve of commercial banks will be maintained at 13.0 percent.
    3. **Standing Deposit Facility:** The interest rate on the standing deposit facility will remain unchanged at 3.0 percent, providing an avenue for banks to park excess reserves.
    4. **Standing Lending Facility:** The interest rate on the standing lending facility will increase to 18.0 percent, aligning with the adjusted MPR.

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, November 29, 2023**. The meeting will be followed by the policy decision announcement on **Thursday, November 30, 2023.**