Central Bank of The Gambia

Monetary Policy Committee

Press Release **December 08, 2022**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Wednesday, December 07, and Thursday, December 08, 2022. Below is a summary of the assessment and deliberations that informed the Committee's decision to increase the policy rate by 1 percentage point from 12 percent to 13 percent.

1. Global economic growth is decelerating, and the outlook remains uncertain. The ongoing war in Ukraine, aggressive monetary policy tightening response to the rising inflation, and tight financial conditions are dragging global growth. As a result, the International Monetary Fund (IMF) in its October 2022 World Economic Outlook (WEO) forecast global growth to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023.

2. Global inflation remains elevated. However, there are signs that price pressures may be moderating with indications of improving global supply conditions amid weak demand, tight monetary policy stance of central banks, and sustained decline in recent months of international prices of some key food commodities and crude oil. The IMF forecast global inflation to remain high this year at 8.8 percent in 2022, but to decelerate to 6.5 percent in 2023.

3. The Food and Agriculture Organization (FAO) Food Price Index, which tracks international prices of cereals, vegetable oils, dairy, meat, and sugar, registered a seventh consecutive monthly decline in October 2022. The Index declined by 14.9 percent from March to October 2022, although it is still 2.0 percent above the level it was a year ago. The international prices of rice, on the other hand, are trending upward following a brief decline in July. The FAO Rice Price Index increased by 3.3 percent from July to October 2022.

4. The prospects of the Gambian economy remain positive, despite global challenges. The Central Bank Composite Index of Economic Activity (CIEA) indicated that economic activity strengthened in the third quarter and the output gap is positive. Although the rise in the cost of living continues to hold back household consumption, public and private construction, agricultural output, and tourism are supporting growth resilience in 2022. As a result, the Bank forecast the economy to grow by 5.2 percent in 2022, unchanged from the August forecast. Risks to the growth outlook, however, remain significant, including the uncertain global economic and geopolitical environment.

5. The results from the Bank's Business Sentiment Survey revealed that sentiments of businesses have softened. The survey also revealed that inflation expectations remain elevated with most respondents expecting price pressures to persist into the first quarter of 2023.

6. The balance of payments position continues to be under pressure. The current account deficit is forecast to widen to 5.6 percent of GDP by the end of 2022, from a deficit of 4.5 percent of GDP in 2021. The deficit in the goods account is expected to narrow to 26.6 percent of GDP in 2022 from 29.8 percent of GDP in 2021, due to the slowdown in the growth of imports. However, private remittance inflows are expected to normalize after they peaked in 2021.

7. The gross international reserves of the Bank stood at US$400 million as at end-October 2022, adequate to cover more than 4 months of prospective imports of goods and services.

8. In the foreign exchange market, volume of transactions, which is an aggregate of sales and purchases of foreign currency, picked up by 0.3 percent (year-on-year) to US$2.5 billion in the 12-months to end-October 2022. Demand for foreign currency emanated mainly from imports of food, energy, and construction materials, while supply benefited from official inflows from development partners, private remittances, Central Bank interventions and recovery in tourism receipts. Supply conditions in the foreign currency market will improve with substantial inflows expected from tourism receipts, remittance inflows, and development partners. From March to October 2022, the dalasi depreciated against the US dollar by 2.0 percent. However, it appreciated against the Great Britain pound by 3.5 percent, the euro by 3.1 percent, and the CFA franc by 2.8 percent.

9. Government fiscal operation in the first nine months of 2022 resulted in a wider budget deficit compared to the same period a year ago, driven by the less-than-expected revenue performance. The budget deficit (including grants) widened to D4.4 billion (4.2 percent of GDP), from a deficit of D3.6 billion (3.5 percent of GDP) in the corresponding period in 2021. Total revenue and grants declined by 4.5 percent to D14.4 billion (13.7 percent of GDP), reflecting the drop in both tax and non-tax revenue. Total expenditure and net lending increased but at a slower pace of 0.5 percent to D18.8 billion (18.0 percent of GDP).

10. The stock of domestic debt increased to D38.6 billion at end-November 2022, from D37.2 billion in 2021. Consequently, the domestic debt-to-GDP ratio declined to 31.6 percent at end-November 2022 from 35.5 percent in 2021. Long-term treasury bonds accounted for more than half of the domestic debt but refinancing and interest rate risks remain elevated.

11. Yields on government securities continue to rise in response to the tight monetary policy stance of the Bank. The weighted average interest rate on treasury bills increased from 1.25 percent in November 2021 to 8.71 percent in November 2022.

12. The banking system continues to be stable with robust financial soundness indicators. The risk-weighted capital adequacy ratio (CAR) stood at 26.3 percent in September 2022, higher than the regulatory requirement of 10 percent. The liquidity ratio stood at 63.4 percent, also above the regulatory requirement of 10 percent. The industry's non-performing loan ratio remains low at 4.2 percent, and banks maintained an adequate level of provisioning.

13. Growth in monetary aggregates continues to decelerate. Annual money supply growth slowed to 12.2 percent in September 2022 relative to 20.9 percent in the same period a year ago, owing to the contraction in the net foreign assets (NFA) of both the Central Bank and commercial banks. Reserve money contracted by 6.0 percent in September 2022, compared to a growth of 24.0 percent a year ago. Despite the contraction, reserve money is still above the end-September target.

14. Inflationary pressures have remained elevated. Headline inflation decelerated marginally to 13.2 percent in October 2022 compared to 13.3 percent in September 2022. Food inflation increased to 18.0 percent in October from 16.5 percent in September 2022. Price indices of all items in the food basket increased except for meat, non-alcoholic beverages, and vegetables. Non-food inflation, on the other hand, moderated to 8.7 percent from 10.4 percent, over the same comparative period. All sub-components of non-food inflation declined except for housing, water, electricity, and other fuels.

15. Indications are that headline inflation will decelerate further to 12.98 percent in November 2022. The Bank's latest medium-term outlook suggests that price pressures will continue to ease, and inflation will peak earlier than anticipated in response to the tight monetary policy stance, the easing of global supply conditions, the continued decline in international commodity prices, and improved local food harvest. However, there are risks to this outlook, including global economic and political environment.

16. The Committee observed the following:

- The global economic environment is still challenging, characterized by weak growth prospects, high inflation, and tight financial conditions. Although there are encouraging signs of declining international prices of key commodities, the outlook remains highly unpredictable. Rising interest rates in advanced economies and the strong US dollar continue to exert depreciation pressure on exchange rates and raising external debt profiles in emerging markets and developing economies.
- In The Gambia, growth continues to pick up, despite strong headwinds. A robust recovery in tourism activity, public and private sector investments, and good agriculture harvest are expected to drive economic growth this year.
- Balance of payments challenges remain but prospects of a stronger recovery in tourism, support from development partners, and private remittance inflows will improve supply conditions in the foreign exchange market, and ease pressure on the exchange rate and external reserves of the Central Bank.
- Price pressures are forecast to stabilize next year, and inflation will return to its long-run trend, predicated on a continued decline in international prices of food and energy prices, improved local food harvest, and a prudent mix of monetary and fiscal policy. The risk to this outlook continues to be the global economic and geopolitical environment.
- Taking the above factors into consideration, the Committee is of the view that upside risks to inflation remain significant and further policy action is needed to anchor inflation expectations.

Decision

The Committee has, therefore, decided the following:

- Increase the Policy rate (MPR) by 1 percentage point to 13 percent.
- Maintain the required reserve (RR) at 13 percent.
- Maintain the interest rate on the standing deposit facility at 3 percent and the standing lending facility at 14 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, February 22, 2023. The meeting will be followed by the announcement of the policy decision on Thursday, February 23, 2023.