CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

Press Release **May 31, 2022**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on May 30 and 31, 2022 amid challenging global economic environment. The Committee reviewed developments in the international and domestic economy, assessed emerging risks to inflation outlook and growth prospects and decided to increase the monetary policy rate by 1 percentage point to 11 percent. Below is a summary of assessment and key considerations that informed the decision of the Committee.

1. The global economic environment has changed remarkably since the last meeting of the Committee in February 2022. The intensification of global geopolitical tensions has further heightened uncertainties, dampened global growth prospects and pushed up inflation. In April 2022, the IMF revised downwards its global economic growth forecast, by 0.8 and 0.2 percentage points to 3.6 percent for 2022 and 2023, respectively.

2. Commodity prices, especially energy and food, have surged in recent months as consequence of the war and the lasting effects of the pandemic. The IMF Crude Oil Price Index is forecast to grow by 54.6 percent in 2022. The Food and Agriculture Organization (FAO) Food Price Index, which tracks global prices of meat, dairy, cereals, oils, and sugar increased by 29.8 percent in April 2022 from where it was a year ago. Global rice

prices that were generally subdued in 2021 have started picking up this year. The FAO Rice Price Index increased by 2.4 percent in April 2022, although it is still 4.6 percent below the level it was a year ago. The prices of sugar, edible oil, dairy, and wheat increased by 21.8 percent, 46.4 percent, 23.5 percent and 0.2 percent, respectively. As a result, the IMF projected global inflation to accelerate to 7.4 percent in 2022. This is expected to further fuel the rise in domestic prices going forward, putting more strains on the income of vulnerable households.

3. Interest rates in advanced economies are rising faster than anticipated as central banks in these countries react to record high inflation, triggering capital flow reversals and putting pressure on emerging market and developing country economies.

4. The Gambian economy continues to recover from the pandemic-induced slowdown in 2020 and the medium-term outlook is favorable. Recent data released by the Gambia Bureau of Statistics (GBoS) estimated real GDP growth of 4.3 percent in 2021 compared to 0.6 percent in 2020. Growth was supported by pickup in fishing and aquaculture, construction, and a moderate recovery in services. Notwithstanding the external shocks, the Bank's leading indicators point to stronger economic activity in 2022. CBG staff forecast higher real GDP growth of 4.7 percent in 2022, premised on strong fiscal activities related to the ongoing public infrastructure projects, continued recovery in tourism and private construction.

5. The downside risks to this outlook, however, are high and uncertain, including a protracted conflict in Ukraine, COVID-19 situation and the impact of weather conditions on agriculture. In addition, global economic uncertainties and lingering effects of the pandemic have somewhat

dented business confidence, as reflected in the Central Bank's latest Businesses Sentiment Survey.

6. The adverse external shocks are putting pressure on The Gambia's balance of payments. Recovery in tourism was slower than expected as external demand weakens and re-export trade yet to recover from the effect of the pandemic due to the adverse regional political developments. Exports of goods and services grew by 13.2 percent (year-on-year) but remain below the pre-pandemic level. Meanwhile, more robust domestic demand and higher commodity prices have pushed up imports by 26.5 percent (year-on-year). Income receipts and current transfers (net) also declined by 18.2 percent and 13.9 percent, respectively. A combination of these factors led to deterioration in the current account of the balance of payments from a deficit of 0.3 percent of GDP in the first quarter of 2021 to 2.3 percent of GDP in the first quarter of 2022.

7. In the foreign exchange market, activity volumes remain robust, and the dalasi continues to be stable. The volume of transactions, which is an aggregate of sales and purchases of foreign currency, grew by 9.6 percent (year-on-year) in April 2022. Demand for foreign currency was driven mainly by energy and food imports, telecommunication and construction sectors, while supply continues to be supported by inflows from private remittances and slight recovery in tourism receipts. From April 2021 to April 2022, the dalasi depreciated against the US dollar by 4.6 percent but appreciated against the euro and pound sterling by 3.9 percent and 1.8 percent, respectively.

8. Annual broad money growth decelerated by 21.0 percent in March 2022 from 25.7 percent in the corresponding period last year, reflecting a slowdown in the growth of the net foreign assets (NFA) of the banking system. Similarly, annual growth in reserve money, the Bank's operating target, declined markedly to 14 percent from a growth of 32.4 percent over the same period. Reserve money was above the target for the March quarter by 2.1 billion, reflecting the rise in the net domestic assets (NDA) of Central Bank. Private sector credit expanded by 10.9 percent in March 2022 compared to 8.4 percent a year ago. Strong credit growth was mainly aided by significant growth in construction, distributive trade, fishing, energy and financial institutions sectors.

9. The financial sector remains stable and resilient with robust liquidity and capital adequacy ratios. The risk-weighted capital adequacy ratio of banks stood at 25.5 percent, well above the minimum regulatory requirement of 10 percent. Liquidity ratio was 89.7 percent, also above the minimum regulatory requirement of 30 percent. All banks met the minimum capital and liquidity requirements. Non-performing loans (NPLs) were 4.6 percent of gross loans in March 2022, compared to 7.7 percent in December 2021. Banks have continued to make adequate provisions for the NPLs.

10. Fiscal policy was expansionary during the review period. Preliminary data shows government financing gap widened in the first quarter of 2022 compared to the same quarter in 2021. This is mainly attributed to the decline in revenue collected from taxes on international trade, non-tax revenue and a shortfall in budget support during the review period. Meanwhile, although within target, expenditure increased and was higher than what was observed in the same period in 2021. As a result, the fiscal

deficit widened to stand at 2.3 percent of GDP in first quarter 2022 against 1.0 percent of GDP in the same quarter in 2021.

11. Domestic debt remained relatively stable at 37.2 percent of GDP in the first quarter 2022. Short-term Treasury bills and Sukuk Al-Salam bills constituted 50 percent of total domestic debt stock, followed by the thirty-year bond at 24 percent, three-year bond at 19 percent, five-year bond at 6 percent while the seven-year bond accounted for only 1 percent of the total. Debt service as a percent of tax revenue declined to 2.7 percent in 2022 from 3.1 percent in 2021.

12. Inflationary pressures continued to persist with headline inflation accelerating from 8.2 percent in March 2022 to 11.7 percent in April 2022. The significant rise in headline inflation is driven primarily by the surge in food inflation, which picked up from 9.2 percent in March 2022 to 11.6 percent in April 2022. Seasonal effects of Ramadan also contributed to the rise in prices of some food items. Non-food inflation, on the other hand, moderated slightly to 7.3 percent from 7.5 percent during the same period. Inflation is forecast to remain elevated in the short-term premised on the rising global food prices, upward adjustments in energy prices, structural challenges at The Gambia port and some exchange rate passthrough. However, in the medium-term, price pressures are expected to ease, and inflation will return to its long-run trend.

13. The Committee observed the following:

- Global economy is experiencing unusually high uncertainty with significant risks that threaten to disrupt the post-pandemic recovery momentum around the world. Low-income countries, in particular, are bearing the brunt of the economic consequences of the conflict in Ukraine through sharp increase in the cost of living with rising concerns of increasing food insecurity amid supply chain constraints.

- Given the limited fiscal space created by the pandemic, debt vulnerabilities are expected to increase with limited policy room to maneuver. In addition, the tightening of global financial conditions due to the faster-than-expected monetary policy normalization in advanced economies would exert depreciation pressures on currencies and constrain financing conditions in developing economies.

- Prospect for the Gambian economy is positive. The recovery that started in 2021 is projected to be stronger in 2022, driven by improving domestic demand, recovery in tourism, steady private remittance inflows and public investment.

- However, downside risks to the growth outlook have increased since the Committee last met in February 2022. While the impact of the Omicron variant is assessed to be largely contained, the negative shocks from the conflict in Ukraine will be a significant drag on the economy. The resultant slowdown in external demand has the potential to disrupt the fragile recovery in tourism, and the rising prices have put strain on businesses and pushed up the cost of living of households.

- The Central Bank continues to maintain a strong level of foreign exchange reserve buffer. As of May 20, 2022, gross external reserves stood at US$468 million, adequate to cover over 6 months of prospective imports of goods and services.

- On exchange rates, the dalasi is stable, benefiting from steady inflow of private remittances, and recovery in tourism. Going forward, the exchange rate is expected to remain stable, but pressures will emerge from the impact of higher interest rates in advanced economies with the expectation of faster monetary policy normalization in those countries. The Committee is closely monitoring developments in both global and domestic financial markets.

- Capital and liquidity in The Gambia's financial system remains adequate and private sector credit growth continues to recover as intended, driven by construction and distributive trade. However, other essential sectors such as agriculture and tourism continue to receive minimal credit from the banking system.

- While economic recovery continues, the Committee realize an upsurge in general price level. Price pressures observed in 2021 have intensified and become more broad-based amid heightened global uncertainties, persisting supply shocks and lingering domestic structural bottlenecks. The Ukraine conflict has aggravated the already elevated global energy and food prices that are translating to higher domestic inflation.

- In addition, domestic factors such as bottlenecks at the port and slight exchange rate depreciation increase the cost of imports that are passed on to consumers. Underlying inflation indicators also signal buildup of price pressures in the near term. However, if long-term inflation expectations remain well-anchored, these pressures will dissipate with time and inflation will return to its long-run equilibrium. CBG staff forecast inflation to return to the 5 percent medium-term target by 2023 although the risks are uncertain and tilted on the upside, including protracted conflict in Ukraine and the COVID-19 situation globally.

Decision

Taking the above factors into consideration, the Monetary Policy Committee has decided the following:

- Increase the Monetary Policy Rate (MPR) by 1 percentage point to 11 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 1 percentage point over the MPR (12 percent).

The MPC will continue to closely monitor the impact of these policy measures and developments in the global and domestic economy and stands ready to act when necessary. The Bank will also continue using tools at its disposal, including active use of open market operations, while increasing collaboration with the fiscal authority to bring inflation under control.

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, August 24, 2022. The meeting will be followed by the announcement of the policy decision on Thursday, August 25, 2022.