CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

August 2024

Preface

The Central Bank of The Gambia Monetary Policy Report summarizes developments and outlook for key economic sectors that informed the decision of the Monetary Policy Committee (MPC). The objective is to keep the public informed of the MPC decision as part of the accountability and transparency obligation in the conduct of monetary policy.

Monetary Policy in The Gambia

The mandate of the Central Bank of The Gambia (CBG) is to achieve and maintain price and financial sector stability as well as create an enabling environment for sustainable economic growth. The Bank continues to operate a monetary targeting framework. Targets for key monetary aggregates are set in line with the Bank's medium-term inflation objective of 5 percent. In addition, the MPC meets to set the monetary policy rate (MPR) to signal the policy stance of the Bank.

Monetary Policy Committee

The Monetary Policy Committee (MPC) was established by the CBG Act 2005 (amended 2018 Act) as the apex monetary policy decision-making body of the Bank. The membership comprises the Governor (Chairman), the two Deputy Governors, heads of Banking, Financial Supervision, and Economic Research Departments of the Bank, and three persons from outside the Bank appointed by the Minister of Finance and Economic Affairs. The MPC meets every quarter to review developments and near-term outlook in the international and domestic economy and set the monetary policy rate. This signals the policy stance of the Bank. The decision-making process is by consensus. The Chairman communicates the decision of the Committee in a press statement and a press conference. The press release and the minutes of each meeting are posted on the Bank's website for wider access by the public.

Contents

List of Figures

List of Tables

Executive Summary

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on August 26 and 27, 2024 amid a challenging global economic environment. The Committee reviewed developments and near-term economic outlook in the international and domestic economy and decided to maintain the monetary policy rate at 17 percent.

On international developments, as global economic activity continued to strengthen, driven by an uptick in trade, the IMF forecast global economic growth at 3.2 percent in 2024. Global trade is recovering and is expected to reach 2.5 percent in 2024, following a 1.9 percent contraction in 2023, and projected to record 3.4 percent in 2025-26. Meanwhile, the global disinflation momentum has slowed, due mainly to high service prices, delaying monetary policy normalisation in major advanced economies.

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. In addition, 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. 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.

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 deficit of US$1.4 million (0.1 percent of GDP) in the first quarter of 2024. 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. The dalasi continues to be relatively stable, depreciating slightly against major traded currencies in the domestic foreign exchange market.

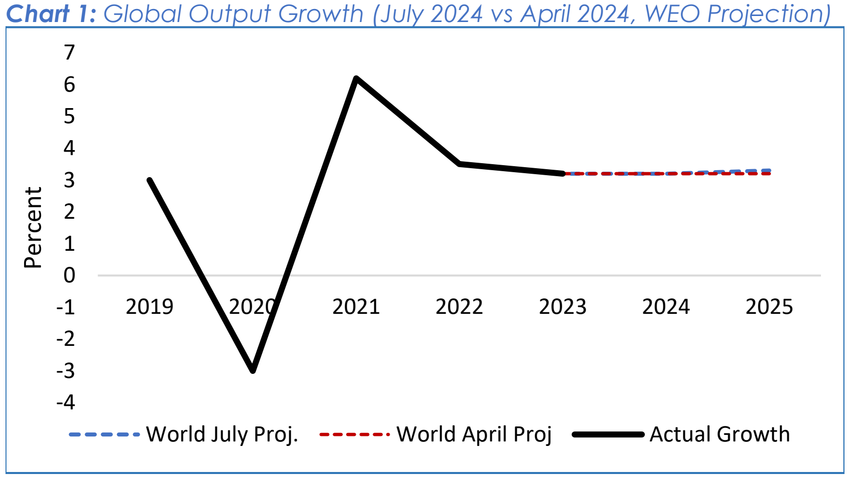
The banking industry continues to be stable, with healthy financial soundness indicators. The industry asset base expanded by 18.1 percent in June 2024 to stand at D96.2 billion, compared to the D88.6 billion reported in March 2024. The industry's non-performing loans increased to 10.2 percent in June, from 8.7 percent reported in March 2024.

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. 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. The inflation outlook remains encouraging, and 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.

World Economic Outlook

Global economic activity is projected to remain moderate in 2024, as it navigates high inflation, despite financial conditions projected to remain broadly accommodative. Global trade is expected to expand by 2.5 percent in 2024, following a 1.9 percent contraction in 2023. Meanwhile, global disinflation momentum has slowed, due mainly to high service prices, delaying monetary policy normalisation in major economies. The IMF in July 2024 forecast growth to remain steady at 3.2 percent in line with the projections in April. The IMF, however, upgraded its growth forecast for 2025 by 0.1 percentage points to 3.3 percent. In advanced economies, growth is projected to rise, from 1.6 percent in 2023 to 1.7 percent in 2024, and then to 1.8 percent in 2025. The forecast for both years aligns with projections in April WEO 2024.

Chart 1: *Global Output Growth (July 2024 vs April 2024, WEO Projection)*



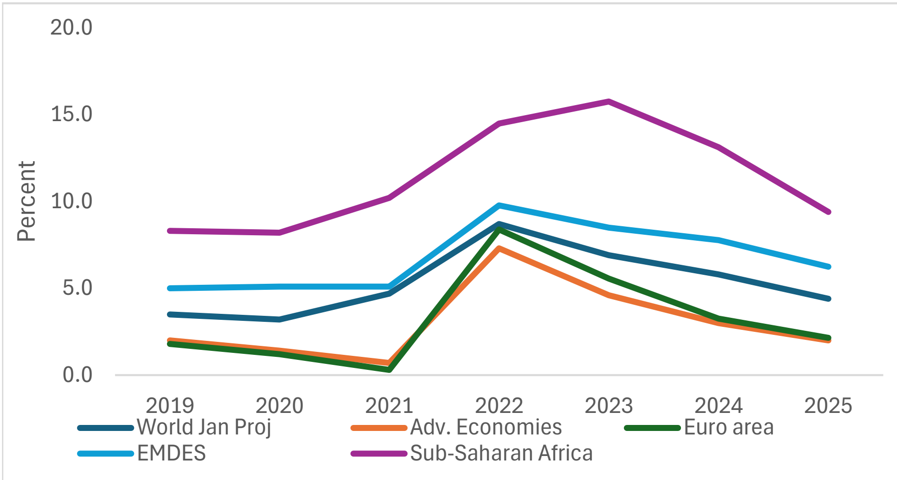
Source*: IMF, World Economic Outlook, July 2024, CBG staff calculations*

In emerging markets and developing economies, the growth forecast has been revised upward compared to the April 2024 projections, from 4.2 percent relative to 4.3 percent. The upward revision was influenced by stronger activity in Asia, particularly in China and India. Developments in China and India continued to dominate the prospects for emerging Asia as the rebound in private consumption and robust exports in the first quarter continued to support economic activity. In Sub-Saharan Africa, growth projection for 2024 was revised downward by 0.1 percentage point, primarily due to a 0.2 percentage point reduction in Nigeria's growth outlook, following weaker-than-expected activity in the first quarter of the year.

The risks posed to the near-term perspective lean more towards the downside. The ongoing challenges to disinflation could compel central banks to maintain higher borrowing costs for an extended period. This may jeopardize overall growth and exert additional upward pressure on the U.S. dollar. Such pressure could have negative spillover effects on emerging and developing economies. Additionally, heightened uncertainty in trade policy, now at its elevated level, could result in additional trade restrictions, potentially disrupting global trade. Disruptions in international trade could amplify near-term inflation risks by driving up the costs of imported goods throughout the supply chain, slowing the disinflation process.

The pace of disinflation has slowed, with persistent price pressures continuing into early 2024. While disinflation in goods prices seems to have stabilized in advanced economies, service price inflation remains high in both advanced and emerging markets. Revised forecasts indicate that disinflation will progress more slowly in 2024 and 2025, due to more persistent service price inflation and higher commodity prices.

Chart 2: *Global Inflation and forecast*



Source*: IMF, World Economic Outlook, July 2024, CBG staff calculations*

Nonetheless, the gradual cooling of labor markets, expected declines in energy prices and continued restrictive monetary policy should help bring headline inflation back to target by the end of 2025.

The slow pace of disinflation toward central banks' targets has delayed monetary easing in some major economies. The Federal Reserve maintained its policy rate for the second consecutive meeting due to concerns about the level of inflation compared to the Bank's medium-term target of 2 percent. In contrast, the Bank of England and the European Central Bank both lowered their policy rate by 25 percent in their latest monetary policy meetings.

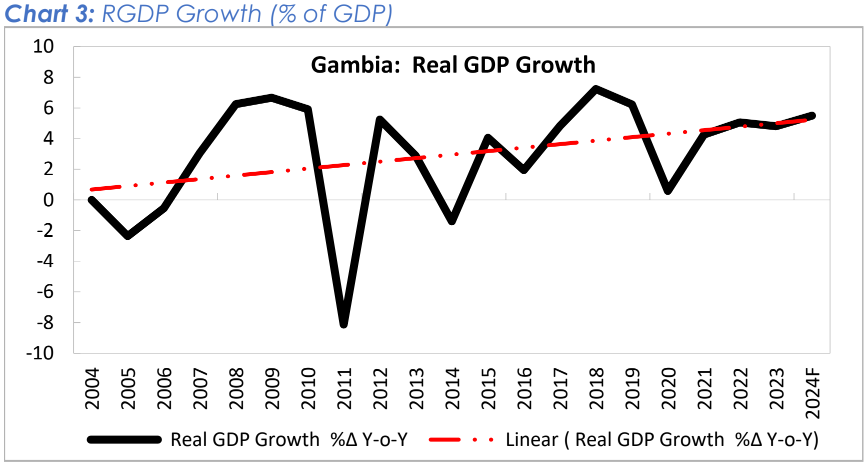
In the commodities market, prices have generally risen this year after experiencing an average decline last year. While commodity prices are expected to decrease slightly over the forecast period, they are projected to stay well above 2015-19 levels. Oil prices have been particularly volatile this year, driven by heightened geopolitical tensions and production cuts by OPEC+. Food on the other hand, fell for the second consecutive month in July. The IMF All Commodity Prices Index decline a minuscule by 0.3 percent in July, from the level it was June 2024.

The Domestic Economy

Real Sector

Preliminary data released by the Gambia Bureau of Statistics (GBoS) indicated that The Gambian economy grew by 4.8 percent in 2023, lower than the revised growth of 5.5 percent registered in 2022 and below the Staff forecast of 5.3 percent for 2023. Despite the moderate growth, the near-term prospects remain encouraging. The Bank's activity indicator, the Composite Index of Economic Activity (CIEA) suggested stronger economic activity in the first half of 2024 compared to the same period in 2023. This performance was supported by robust public expenditure, stable inflows of remittances which go to finance private consumption and investment as well as near-full recovery in tourism.

Chart 3: *RGDP Growth (% of GDP)*



Source*: GBoS, CBG staff calculations*

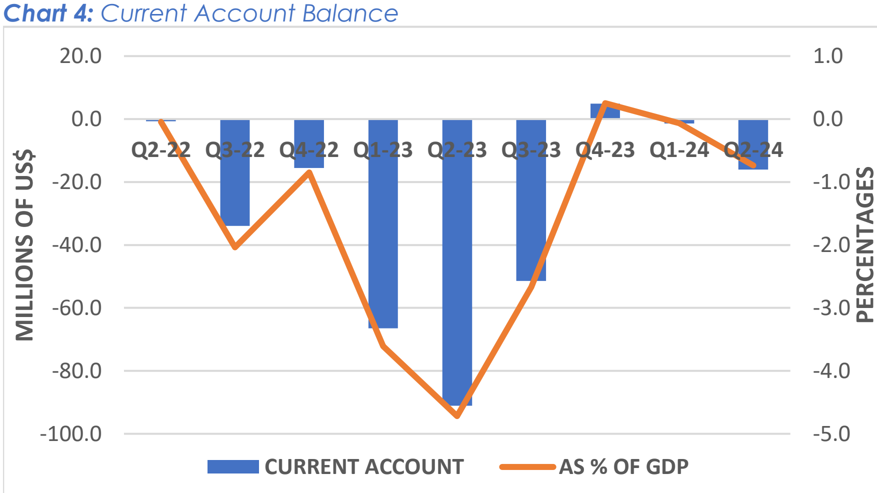
In terms of sectoral contributions, the services sector remains the largest sector in the economy, accounting for over 50 percent of the GDP. The contribution of agriculture, the second-largest sector, continues to decline, reflecting a combination of factors, including significant climate-related challenges. Similarly, the industry sector has been on an upward trajectory, driven by strong performances in the construction sub-sector and the growth of small-scale manufacturing.

On the demand side, growth is predominantly driven by domestic absorption, comprising private and public consumption, and investment. Due to the substantial reliance on imports and a notable decline in exports over the years, the contribution of foreign demand to economic growth has been negative. This indicates a considerable erosion of the country's competitiveness in international trade over time.

Balance of Payments

Preliminary balance of payments estimates show that the current account balance deteriorated to a deficit of US$16.04 million (0.7 percent of GDP) in second quarter of 2024, compared to a deficit of US$1.4 million (0.06 percent of GDP) in the second quarter of 2024. However, when comparing the first half of 2024 to the corresponding period in 2023, the current account deficit showed improvement, supported by substantial grant inflows. The deficit narrowed to US$17.4 million (0.8 percent of GDP) in the first half of 2024, from a deficit of US$157.6 million (25.3 percent of GDP) in the corresponding year.

Chart 4: *Current Account Balance*



Source*: CBG staff calculations*

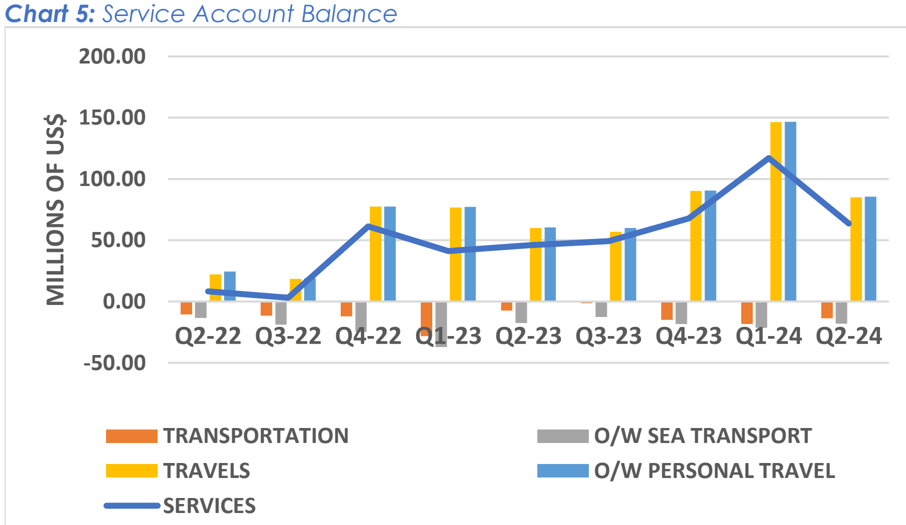
Quarter-on-quarter, the deficits in the goods account moderated to US$244.1million (11.2 percent of GDP) in the second quarter of 2024, from a deficit of US$257.9 million (11.8 percent of GDP) in the preceding quarter. This is explained by the decrease in imports (FOB), mainly resulting from the importation of mineral fuel, fertilizer and food. Total imports (FOB) amounted to US$317.8 million (14.6 percent of GDP) in the second quarter of 2024, compared to US$346. million (15.9 percent of GDP) in the preceding quarter of 2024. Exports (FOB) moderated to US$73.7 million (3.4 percent of GDP) in the review period, from US$88.1 million (4.0 percent of GDP) in the first quarter of 2024.

Chart 5: Goods Account

Source*: CBG staff calculations*

Following a near collapse during the pandemic period, tourism activity is rebounding with arrival numbers approaching pre-pandemic levels. Quarter on quarter, the services account balance is estimated to have registered a surplus of US$63.5.1 million in the second quarter of 2024, from US$117.1

Chart 5: *Service Account Balance*



Source*: CBG staff calculations*

million in the previous quarter. The preliminary projections indicate a better 2024 tourism season for 2024.

Personal transfers, mainly workers' remittances (net), moderated to US$137.0 million in the second quarter of 2024, from US$139.4 million in the preceding quarter of 2024. There was no official program grant inflow in the second quarter of 2024, like the first quarter of 2024.

The capital accounts in the second quarter of 2024 moderate to a surplus of US$29.0 million, from a surplus of US$34.0 million in the preceding quarter. This can be attributed to a decline in the substantial amount of project funds disbursed during the quarter.

Financial account balances deteriorated to a deficit of US$59.6 million in the review quarter of 2024, compared to a deficit of US$106.9 million in the preceding quarter of 2024, reflecting a growth in resident investment during the quarter under review. Of the components of financial accounts, direct investments registered a deficit of US$62.3 million, from a deficit of US$48.1 million in the previous quarter. The change in reserve assets recorded a decrease in liability of US$5.8 million, while other investments registered a surplus of US$8.6 in the review quarter. The gross official reserves at end-July 2024 stood at US$452.72 million (4.9 months of prospective gross imports of goods and services.

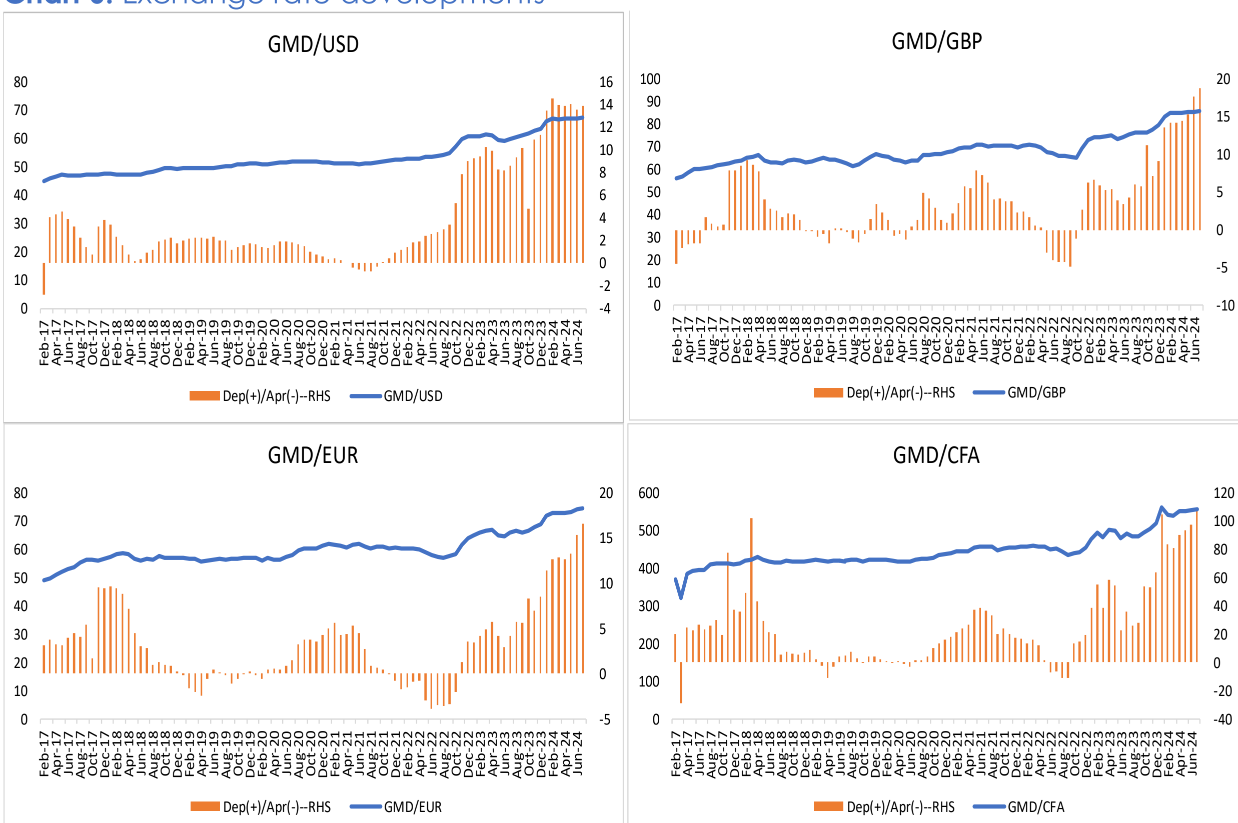
Exchange Rate Developments

The volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency, contracted by 11.1 percent in the twelve months to end- June 2024 to US$2.0 billion, from US$2.3 billion a year ago. The supply of foreign currency for the same period totaled US$1.0 billion, whilst demand recorded US$1.0 billion. The decrease in market activity in the second quarter could be partly attributed to seasonal variations in tourism receipts and a slight drop in private remittances. Demand for foreign currency during the period largely stemmed from the food, energy, telecommunications, and construction sectors.

The quarterly exchange rate movement indicated that the local currency, Dalasi, depreciated moderately against all major trading currencies in the second quarter of 2024. From March to June 2024, the dalasi weakened against the US dollar by 0.5 percent, the euro by 1.2 percent and British pound sterling by 1.2 percent. It also lost ground against the CFA franc by 3.9 percent.

The US dollar remains the most traded foreign currency in the domestic interbank market, accounting for 68.3 of total market transactions, closely followed by the euro with 23.0 percent, while the pound sterling accounted for 7.7 percent. The CFA franc and other currencies combined accounted for the remaining 1.0 percent.

Chart 6: Exchange rate developments

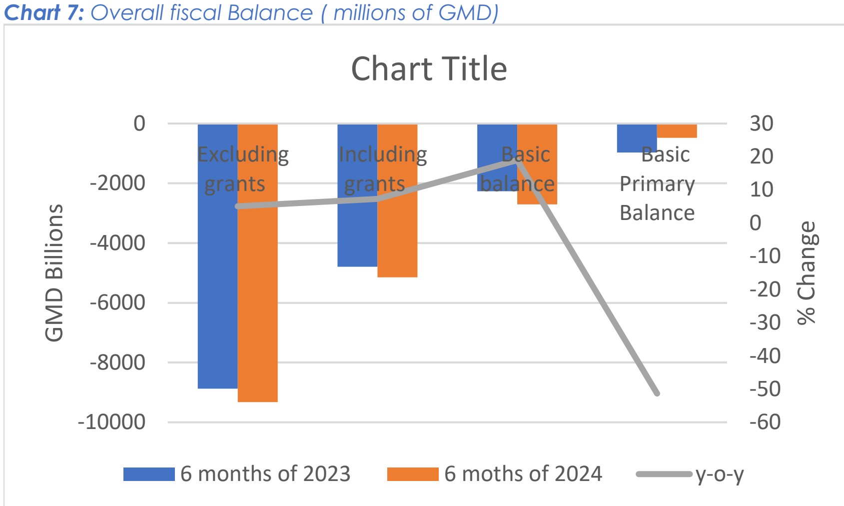


***Source**: CBG staff calculations*

Government Fiscal Operations

Preliminary estimates of government operations indicated an increase in the overall deficit, including grants, in the second quarter of 2024 compared to the same period year ago. During the review period, the basic balance deficit improved to D1.1 billion (0.8 percent of GDP), from D1.3 billion (0.9 percent of GDP) in the corresponding period in the previous year.

Chart 7: *Overall fiscal Balance (millions of GMD)*

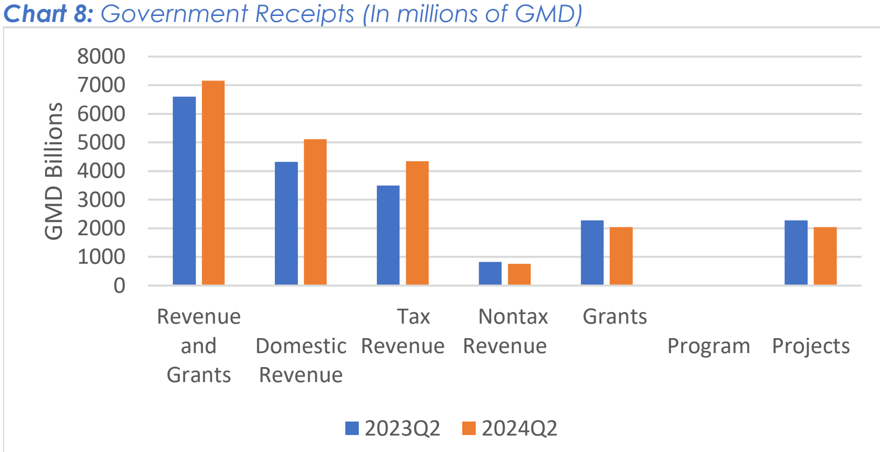


Source*: MoFEA& CBG staff calculations*

Similarly, the primary balance also improved to D0.1 billion (0.1 percent of GDP) compared to 0.9 billion (percent of GDP) in the same period in 2023. Following a temporary drop in the first quarter of 2024 due to ECF on-lending facility, central bank financing has picked up in the second quarter of the year on account of overdrafts in the Treasury Main Account.

Revenue performance continues to strengthen, thanks to improvements in tax administration. Key reforms such as the introduction of a single window platform, digital weighbridge and broadening of the taxbase have not only facilitated smoother revenue collection processes but have also substantially reduced obstacles in the clearance

Chart 8: *Government Receipts (In millions of GMD)*

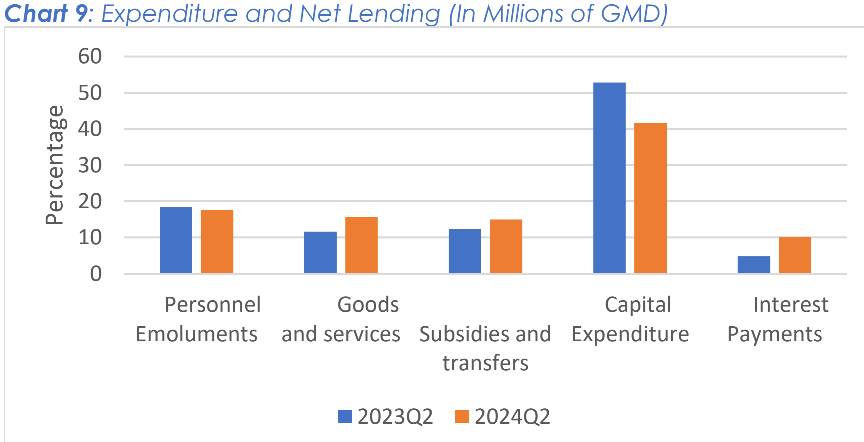


Source*: MoFEA& CBG staff calculations* and shipment of goods. In addition, the automation of aspects of tax processes has enhanced efficiency in administration and revenue collections.

Total revenue and grants mobilized in the second quarter of 2024 surged to D7.2 billion, (4.9 percent of GDP), marking a substantial 8.4 percent rise from the corresponding period last year. For the components of total revenue and grants, domestic revenue consisting of tax and non-tax revenues rose by 18.3 percent to D5.1 billion (3.6 percent of GDP). Tax revenue rose by 24.5 percent to D4.3 billion (3.3 percent GDP), attributed by an increase in indirect and direct taxes. In contrast, revenue generated from non-tax revenue and grants dwindled in the review period.

Government expenditure and net lending for the second quarter of 2024 increased by 6.2 percent to D9.9 billion (6.9 percent of GDP), from D9.3 billion (6.4 percent of GDP) in the same period in 2023. This increase in government expenditure and net lending was mainly on account of the surge in recurrent expenditure, which accounted for the largest share of total government expenditure during the period. Recurrent expenditure increased by 31.5 percent to D5.7 billion (4.0 percent of GDP) in the second quarter of 2024. All the components of recurrent expenditure surged in the review period. Other charges, which are composed of goods and services, subsidies and transfers, increased by 36.2 percent and personal emoluments increased by 1.1 percent. Interest payments on external and domestic debt rose to 13.2 percent and 172.1 percent, respectively.

***Chart 9**: Expenditure and Net Lending (In Millions of GMD)*



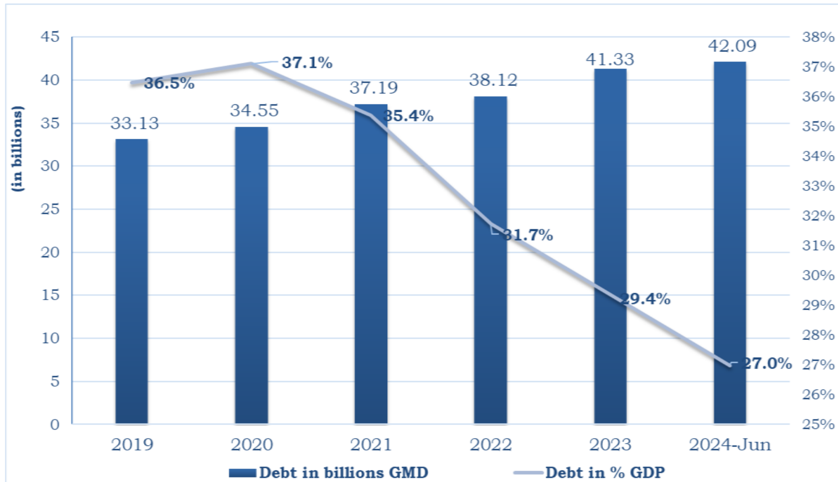
***Source**: MoFEA& CBG staff calculations*

Capital expenditure, on the other hand, declined by 16.3 percent to D4.1 billion (2.6 percent of GDP) in the second quarter of 2024. Of the components of capital expenditure, GLF capital significantly declined by 64.0 percent, but the externally financed activities slightly increased by 0.6 percent during the reviewed period.

Domestic Debt

Domestic debt experienced a sharp increase, reaching D42.1 billion, primarily driven by the increased issuance of treasury bills and medium-term government bonds, which were used to settle maturing securities and finance the government budget. The share of treasury bills and Sukuk Al-Salam bills with maturities of three, six and twelve months, remained significant with accounting for 47.5 percent of total domestic stock. Treasury bonds, however, experienced substantial growth in recent years and accounted for 52.5 percent in the first six months of the year, compared to 47.8 percent in 2023. This indicates a shift towards medium and long-term financing. The trend is consistent with the medium-term debt management strategy of the government. Domestic debt is projected to remain elevated as fiscal deficit widens, amid rising expenditures that do not match the revenue generation.

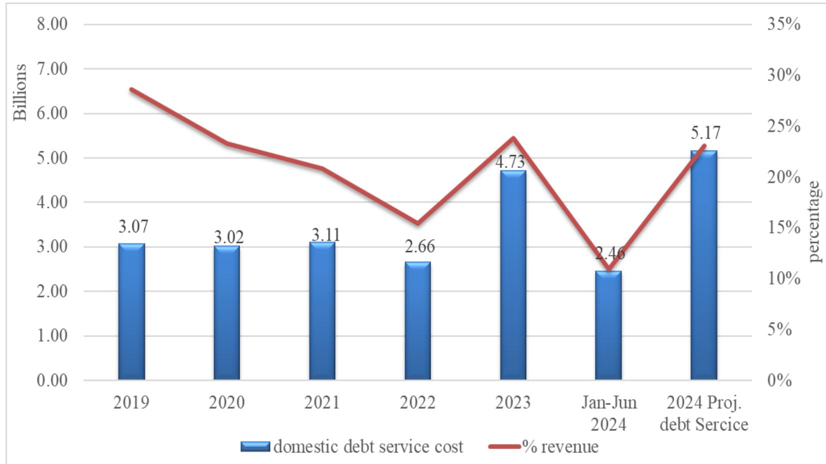
Chart 10:*Domestic Debt Stock and its Distribution*



Source*: CBG staff calculations*

Debt service, which is a function of both the principal and interest payment, is projected to rise in 2024, due to maturity of a 3-year bond and IMF repayment schedules. Actual domestic debt service from January - June 2024 was D2.5 billion, relative to D1.4 billion recorded in the same period in 2023.

Chart 11: *Domestic debt service*



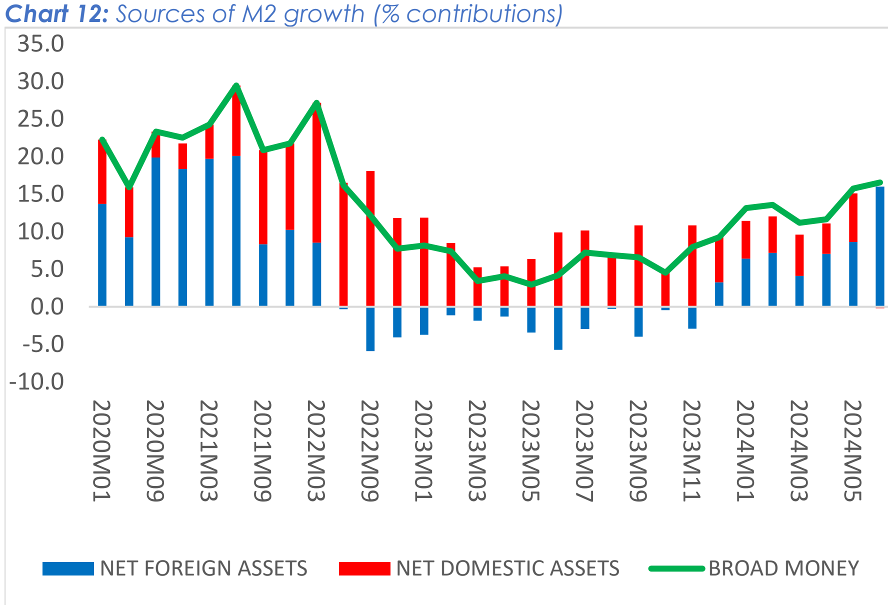
***Source**: CBG staff calculations*

Treasury bills yield on 91-day, 182-day and 364-day decreased respectively from 9.5 percent, 10.1 percent, and 16.2 percent in June 2023, to 6.3 percent, 4.5 percent, and 8.5 percent in June 2024. Inter-Bank placements decreased to D7.5 billion, compared to D10.7 billion recorded in the same period last year.

Monetary Aggregates

Broad money growth increased to 4.7 percent in the quarter ending June 2024, from a moderate growth of 2.1 percent at the end of March 2024. This acceleration was primarily driven by a robust recovery in the net foreign assets (NFA) of depository corporations, reflecting improved foreign currency liquidity conditions. Disbursement of donor funds, continued recovery in tourism receipts and increase in private remittances continued to be the main sources of foreign currency. This has enabled other depository corporations (ODCs) to accumulate foreign assets, and for the Central Bank to slow down on external reserves drawdown, thus facilitating the rebuilding of its net foreign assets. Conversely, credit expansion in the economy slowed significantly, leading to a contraction in the net domestic assets (NDA) of depository corporations. Both government and private sector credit growth declined in June compared to the previous year.

Chart 12: *Sources of M2 growth (% contributions)*



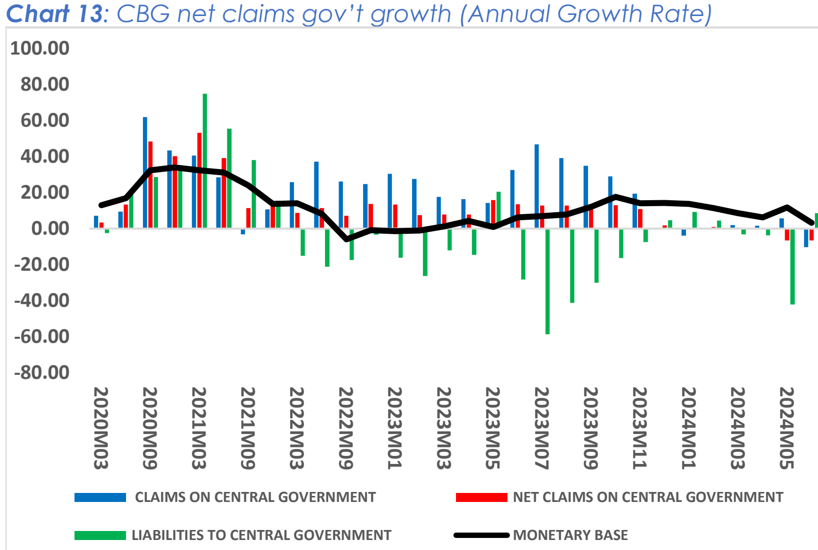
***Source**: CBG staff calculations*

The NFA of the depository corporations (DC) grew by 12.6 percent in the June quarter following a contraction of 0.4 percent in the March 2024 quarter. This growth can be attributed to the significant increase in the net foreign asset position of the Central Bank during the quarter. The Central Bank's NFA surged at a significant pace of 41.8 percent (year-on-year) to stand at D16.4 billion, from a contraction of 23.4 percent in the same period last year. This can be explained by the marked increase in the claims on non-residents by 27.0 percent as of end-June 2024.

The NDA, of the banking sector had accumulated D45.8 billion in net domestic assets as at end-June 2024, a marginal contraction of 0.3 percent (year-on-year). The contraction in NDA reflects the decrease in the growth of net claims on central government and on the private sector. Both net claims on central government contribution to the NDA growth and the private sector contribution decreased during the review quarter compared to the same period last year.

Reserve money (RM), the Bank's operating target, declined to 3.1 percent (year-on-year), lower than the growth of 6.2 percent recorded the previous year. Furthermore, the NDA represented 31.6 percent of RM and contributed negative 17.7 percentage points to RM growth, reflecting year-on-year contraction of 6.6 percent in CBG net claims on central government from a growth of 13.6 a year ago. RM contracted by 1.0 percent, from an expansion of 1.0 percent (quarter-on-quarter). The growth in the CBG's claims against the government contracted by negative 6.6 percent in June 2024 (year-on-year), compared to 13.6 percent in the comparable period a year ago.

***Chart 13**: CBG net claims gov't growth (Annual Growth Rate)*



***Source**: CBG staff calculations*

Banking Sector

The banking sector remains stable and resilient with robust liquidity and capital adequacy ratios. The risk-weighted capital adequacy ratio of banks stood at 24.1 percent and the liquidity ratio was 76.6 percent at end-June 2024. All the banks met the minimum capital and liquidity requirements of 10 percent and 30 percent, respectively. However, the non-performing loans (NPLs) increased to 10.2 percent of gross loans in June 20224, higher than 8.7 percent in the previous quarter and 3.5 percent in June 2023. The banking industry's capital and reserve increased to D9.8 billion, mainly attributed to strong profit reported by the industry. However, the industry's earnings continued to improve. The industry registered an increase in net income of 3.4 percent (year-on-year) to stand at D509.6 million. Return on assets (ROA) decreased slightly, from 2.6 percent in June 2024 to 1.8 percent in June 2023, similarly ROE decreased to 16.7 percent in June 2024 from 23.5 percent in June 2023 as the industry continues to manage the upward trend in non-interest expense and the shock caused by two of the banks.

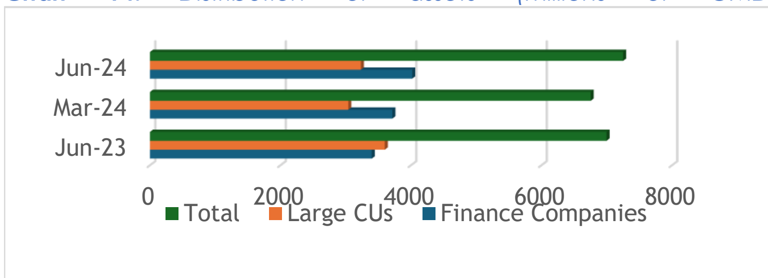
The banking industry recorded a liquidity ratio of 76.6 per cent, a drop from 78.3 per cent in June 2023. The industry Net Open Position as of June 2024 increased to a long position of 2.78 per cent overall compared to a short position of 1.1 percent a year ago. In contrast, the industry's asset base expanded by 20.0 percent (year-on-year), from D80.2 billion in the June quarter of 2023, to D96.2 billion in review period, benefiting largely from a rise in the balances due from other banks, holding of government securities and other assets. During the quarter under review, the gross loans and advances extended by commercial banks witnessed a decline of 4.7 percent. As a result, the loan-to-deposit ratio also decreased from 18.6 percent to 17.0 percent. Similarly, there was a decrease in the loan-to-GDP ratio for quarter on quarter and year on year. The total customer deposits grew by 19.0 percent year-on-year to D62.2 billion, from D52.2 billion in June 2023, signifying a key source of funding for banks. As a result, deposit-to-GDP ratio declined by 10.6 percent during the review period.

Non-Bank Financial Sector

The non-bank deposit-taking financial institutions sector is experiencing steady growth, driven by contributions from both Finance Companies and Credit Unions. While Finance Companies currently dominate the sector, Credit Unions are expanding at a faster rate. The Total Assets of Finance Companies (FCs) increased by 8 percent, reaching GMD 4,018.56 million at end-June 2024, from GMD 3,714.53 million at end-March 2024, primarily driven by an increase in gross loans and investments, and cash and bank balances. Similarly, the total assets of the Credit Unions (CU) increased 4 percent to GMD 3,232.41 million in the review period from GMD 3,099.39 million in the prior quarter, dominated by an increase in cash and bank balance.

Total deposits of Finance Companies (FCs) saw a more significant growth, increasing by 12 percent to GMD 2,852.29 million at end-June 2024, from GMD 2,549.97 million at end-March 2024. The same trend is seen in the credit unions as their total deposits surged by 8 percent to GMD 2,531.22 million in the review quarter from GMD 2,353.77 million in the prior quarter. The Finance Companies' gross loans and advances is relatively stable during the review period signally increasing by 1.4 percent compared to the previous quarter. The largest portion of the loans (59 percent) is directed towards SMEs, indicating a strong focus on supporting small and medium-sized businesses, which are often crucial for economic growth and employment. This is closely followed by personal loans, construction, transportation and agriculture. A similar direction is observed with the credit unions with an increase of 2 percent quarter on quarter.

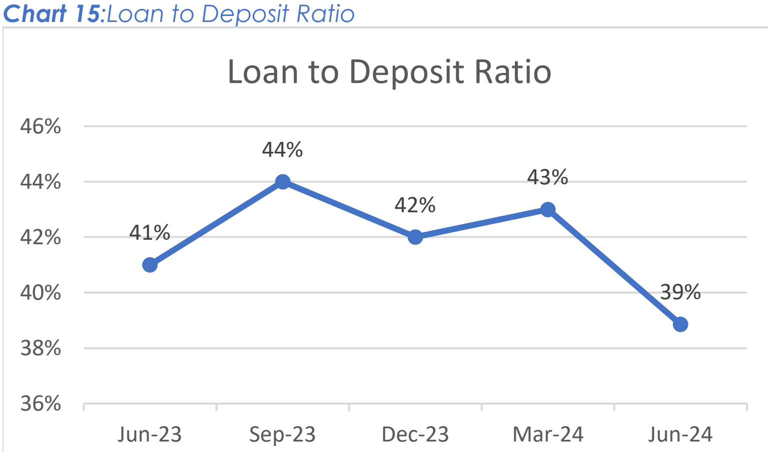
Chart 14: *Distribution of assets (millions of GMD)*



Source: *CBG staff calculations*

The risk-weighted capital adequacy ratio of Finance companies stood at 35 percent at end-June 2024, higher than the regulatory benchmark of 20 percent. The loan to deposit ratio is trending downward in the review quarter compared to the previous quarter and corresponding period a year ago. The liquidity ratio rose to 81 percent in the review period and was significantly above the 30 percent prudential requirement. In terms of asset quality, the non-performing loans of the FCs remained high at 11 percent of gross loans as at end-June 2024. The Financial Soundness Indicators for the credit unions indicate that the industry is within the key indicators benchmark.

Chart 15:*Loan to Deposit Ratio*

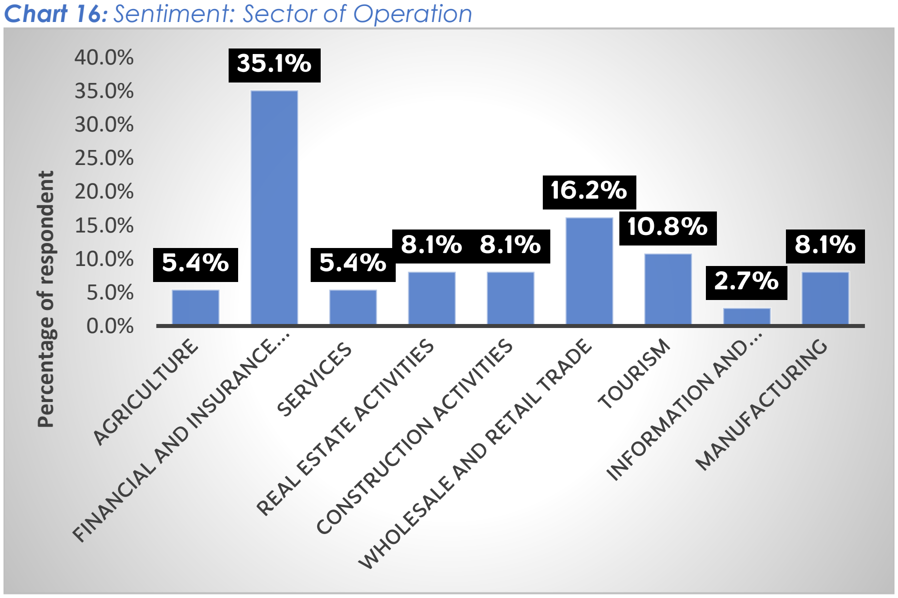


Source: *CBG staff calculations*

Business Sentiment Survey

The August 2024 Private Business Sentiment Survey (PBSS) reveals a mixed yet cautiously optimistic outlook among businesses. Production sentiment remains positive, with the Diffusion Index for production levels holding steady at 0.4 through the second and third quarters of 2024. This reflects ongoing optimism, particularly within the financial sector, highlighting its significant role in shaping overall business sentiment, despite economic challenges. Capital expenditure has seen an increase, with the Diffusion Index of Capital Expenditure (DICE) rising to 0.5, driven by expectations of production growth and proactive cost management strategies, despite challenges such as high input costs, a depreciating exchange rate, inflationary pressures, and seasonal environmental factors. The Diffusion Index of Employment (DIE) for the second quarter of 2024 indicates no new hiring, suggesting a cautious approach to staffing, due to limited resources, high costs, and a focus on maintenance, the lack of new products or services, the rise of e-business, and the high cost of the exchange rate further diminish the need for new hires. Collectively, these factors suggest a restrained approach to employment growth.

***Chart 16:** Sentiment: Sector of Operation*



***Source**: CBG staff calculations*

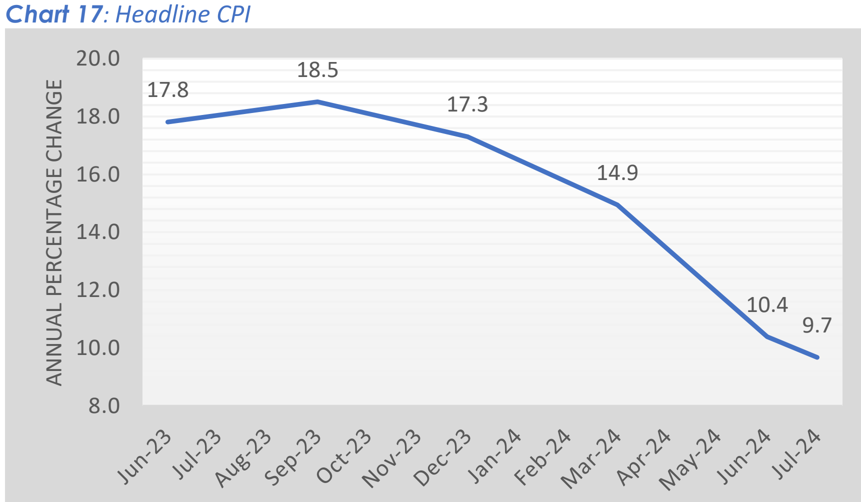
Macroeconomic conditions present a mixed picture. The global economy sentiment shifted from neutrality to modest optimism, influenced by geopolitical concerns in the Mid-East, the political risks surrounding the US election and economic uncertainties. Domestically, sentiment worsened with a negative Diffusion Index of Domestic Economic Activity (DIDEA) of 0.25 for the second quarter of 2024, though a positive outlook is expected for the next quarter. Elevated inflation expectations persist, influenced by high commodity prices, the challenges at the Banjul port and exchange rate pressures. The Diffusion Index of Inflation (DII) remains positive, reflecting ongoing inflationary concerns.

Exchange rate pressures are notable, with businesses anticipating further depreciation of the dalasi, exacerbated by reduced foreign currency availability and high import costs. The Diffusion Index of Exchange Rate (DIER) indicates a continued expectation of currency pressure. Similarly, the Diffusion Index of Lending Rate (DILR) shows rising lending rates, reflecting broader economic pressures and challenges in accessing credit. Businesses appreciate the CBG's efforts in stabilizing the financial system but seek greater clarity and improved communication regarding monetary policies. The Business Satisfaction Index II (BSI II) shows increased satisfaction with the CBG's approach to interest rate setting for inflation control, though there is still uncertainty about the specific impacts of these policies.

Price Development

The current inflationary landscape in The Gambia is marked by a significant reduction in headline inflation, which has decreased from 18.5 percent in September 2023 to 9.7 percent in July 2024. This decline reflects a broad-based disinflationary trend, influenced by reductions in prices across various sectors, particularly within core inflation measures. However, recent upticks in quarterly inflation suggest emerging short-term price pressures that could pose risks to the overall inflation outlook. These pressures are evident in the rise of specific indices, such as Energy (up by 3.0 percent) and Hospitality (up by 1.0 percent), signaling potential challenges ahead.

***Chart 17**: Headline CPI*



***Source**: CBG staff calculations*

The discernible disinflationary trajectory is exerting its influence across most food categories and nearly all non-food categories, culminating in price declines spanning a wide spectrum of goods and services. Despite the positive trend in annual inflation, the recent uptick in quarterly inflation indicates significant price increases in certain goods and services. This divergence suggests that while the overall annual trend reflects a reduction, short-term inflationary pressures are emerging. Notably, the food and drink sector has experienced substantial price hikes.

Market prices exhibit significantly higher volatility, reflecting their sensitivity to rapid changes in supply and demand dynamics, which leads to frequent price adjustments.
Market-driven inflation has shown a deceleration, decreasing from 10.3 percent in April 2024 to 8.4 percent in July 2024. This decline suggests easing price pressures within market-driven sectors. In contrast, administered inflation has risen, increasing by 0.5 percentage points to 1.2 percent in July 2024, from 0.7 percent in April 2024. This rise, which began in June 2024, reflects a divergence from the broader trend of decreasing inflation. The increase in administered inflation can be attributed to specific policy measures, such as upward adjustments in fuel prices, and other external factors influencing administered pricing.

The food basket has shown varied performance among its components. Bread and Cereals, a major component, fish prices, vegetables, and fruits and Nuts decreased, reflecting a reduction in price pressures within this category. In contrast, Oils and Fats, milk, cheese and eggs, and Sugar, Jam, Honey & Sweets increased slightly in the review period month on month but remain declining on annual basis.

As a result, inflation accelerated sharply to its highest level in over two decades. Headline inflation accelerated to 11.7 percent in April 2022, from 8.2 percent in March 2022. Primary contributor to headline inflation remains the consumer prices of food, which constitutes over 50 percent of the consumer basket, the bulk of which is imported.

Analysis of the sub-components of the CPI basket indicates increasing prices of both food and non-food components. Food inflation accelerated to 16.3 percent in April 2022 from

8.2 percent recorded in March 2022, supported by the increase in the consumer prices of most components of the food basket, with the exceptions of Fruits and Nuts, Non-Alcoholic Beverages, and Vegetables. In addition to the price and supply shocks, and the slight exchange rate depreciation, seasonal effects of Ramadan was a major contributor to the rise in food inflation. The Gambia is a net importer of food stuff and bulk of the wheat used to make flour comes from Russia and Ukraine. Risk to the food inflation outlook is high with volatile global food prices, uncertainties relating to the global supply conditions and the unpredictable domestic food production. Depreciation of the exchange rate due to policy tightening in advanced economies is also a risk factor.

The reduction in non-food inflation observed from December 2023 to April 2024 and concurrently experienced declines on both a monthly and quarterly basis can be predominantly attributed to three key subcomponents: Textiles, Energy, and the Tourist Sector. Conversely, transportation costs have been on the rise, primarily driven by escalating oil prices, prompted by geopolitical concerns and supply constraints, has propelled fuel prices upwards and could potentially impede efforts to rein inflation.

Domestically, the decline in core inflation, particularly Core 1 and Core 2, aligns with the overall decrease in headline inflation, indicating a diminishing impact of volatile components on overall inflation. However, the persistence of inflationary pressures in certain sectors, coupled with global economic challenges, underscores the need for vigilant and responsive policy measures to sustain the current disinflationary trend and prevent potential reversals.

Assessment of the Medium-Term Economic Outlook

Staff assessment of current economic conditions revealed an expansion in the output gap in the forecast horizon, bolstered by strong private demand and accommodative monetary conditions, while fiscal policy remains slightly more contractionary. Reserve money demand was restrictive, driven by the tight MPR and slightly stronger real exchange rate. The nominal exchange rate is slightly stronger than it was in 2024Q1. However, expectations of further depreciation and interest rate differentials continue to exert pressure on the exchange rate. Money market interest rates declined during the review quarter, reflecting excess liquidity in the financial market.

The baseline forecast indicated a real GDP growth of 5.7 percent in 2024 (0.2 percentage point upward revision) compared to an earlier projection of 5.5 percent (projection in May). The upward revision is attributed to the stronger than expected tourism receipts, steady remittance inflows, and robust private and public consumption. Global inflation is projected to continue to decline toward target as activities moderate towards the potential. However, due to the risks to inflation outlook easing of monetary policy is expected to follow a gradual process. Headline and market inflation is expected continue decelerating as inflation expectation gradually moderate. The QoQ uptick in market inflation is judged to be temporal reflecting a slightly higher buildup in expectation. The Central Bank staff assessment of the risks to the growth forecast was summarized in four risk scenarios. The first scenario was Absorption of Entire Excess Liquidity in the System. Eliminating the liquidity overhang within a quarter can deliver a more rapid decline in inflation with more support for the domestic currency. Although this may hurt growth in the short term, the benefit is stronger growth in the medium-term

Secondly, staff assessed the impact of Potential Escalation of Tensions in the Middle East and Europe. It was predicted that the policy change will drive domestic inflation above baseline forecast and lead to a further depreciation of the dalasi, prompting monetary policy to be more assertive than initially anticipated. As a result, output in the medium term will decline below the baseline.

Thirdly, Potential US Economy Slowdown Combined with Domestic Climate Shock. The risk scenario will lead to higher domestic prices and accelerated currency depreciation, which would likely require a much stronger policy response. As a result, economic growth may moderate.

Finally, Rapid Spread of the M-Pox Outbreak. The final scenario could hinder economic growth and weaken the domestic currency due to lower tourism receipt, potentially leading to higher inflation and necessitating a stronger monetary policy response.

Decision

Based on its assessment of inflation outlook and growth prospects, the Committee concluded that though there is an indication of moderation in inflation, the risks to the outlook remain and are tilted on the upside. In this regard, it was necessary to keep policy tight to ensure that the disinflation process continues, and inflation gradually returns to its medium-term target. The Committee decided to maintain the monetary policy rate at 17 percent. The Committee also decided to maintain the required reserve (RR) at 13 percent, the interest rate on the standing deposit facility at 3 percent and the standing lending facility 1 percentage point over the MPR (18 percent).

Next MPC Meeting

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

APPENDIX

Table 1: Global Growth Rates and Forecasts for 2022-2023

Group Name	Estimates						Projections		
	2017	2018	2019	2020	2021	2022	2023	2024	2025
World	3.8	3.6	2.8	-3.1	6.1	3.5	3.3	3.2	3.3
Advanced economies	2.5	2.5	1.6	-4.5	5.2	2.6	1.7	1.7	1.8
Euro area	2.6	1.9	1.3	-6.3	5.4	3.4	0.5	0.9	1.5
Emerging market and developing economies	4.8	4.5	3.7	-2	6.8	4.1	4.4	4.3	4.3
Emerging and developing Asia	6.6	6.4	5.4	-0.8	7.3	4.5	5.7	5.4	5.1
Emerging and developing Europe	4.1	3.4	2.5	-1.8	6.7	1.2	3.2	3.2	2.6
United States	2.3	3	1.4	-3.4	5.7	1.9	2.5	2.6	1.9
United Kingdom	1.7	1.3	1.4	-9.3	7.4	4.3	0.1	0.7	1.5
Sub-Saharan Africa	3.1	3.2	3.2	-1.6	4.6	4	3.4	3.7	4.1

Table 2: Summary of current account balance

	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
C/ACCOUNT	-0.68	-33.98	-15.52	-66.49	-91.06	-51.45	4.87	-1.38	-16.04
GOODS	-132	-162.3	-197.4	-226.5	-262.2	-213.4	-309.06	-257.86	-244.13
SERVICES	8.3	3.1	61.2	41.2	45.9	49.3	67.85	117.05	63.54
PRIMARY INCOME	-8.8	-7.1	-6.3	-6.5	-5.9	-3.6	-5.9	10.2	27.6
SECONDARY INCOME	131.9	132.4	126.9	125.4	131.1	116.3	181.2	139.4	137
CAPITAL ACCOUNT	11.9	10.4	20.5	9.6	51.8	14.2	72.3	34	29.04
FINANCIAL ACCOUNT	-90.6	-37.8	-64.1	-104.7	-38.7	-10.9	-147.6	-106.9	-59.6

Table 3: Summary of goods account balance

	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
GOODS	-132	-162.3	-197.4	-226.5	-262.2	-213.4	-238.28	-257.86	-244.13
EXPORTS	8.6	9.2	7.5	63.7	82.6	69.5	70.78	88.12	73.68
IMPORTS	-140.6	-171.6	-205	-290.2	-344.8	-282.9	-309.06	-345.98	-317.81

Table 4: Summary of services account balance

	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
SERVICES	8.3	3.1	61.2	41.2	45.9	49.3	67.85	117.05	63.54
TRANSPORTATION	-10.6	-11.6	-12	-28.3	-7.3	-1.4	-14.87	-18.45	-13.77
O/W SEA TRANSPORT	-13.4	-19	-24.8	-37.1	-17.7	-12.6	-18.38	-21.6	-17.97
TRAVELS	22.1	18.5	77.6	76.8	60	56.8	90.22	146.4	85.05
O/W PERSONAL TRAVEL	24.6	19.1	77.6	77.3	60.4	60	90.64	146.79	85.5

Table 5: Summary of capital and financial account balance

	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
FINANCIAL ACCOUNT	-90.6	-37.8	-64.1	-104.7	-38.7	-10.9	-147.6	-106.9	-59.6
O/W DIRECT INVESTMENT	-54.1	-63.7	-58.7	-63.1	-60	-48.3	-37	-48.1	-62.3

O/W OTHER INVESTMENT	-18.4	-8.8	57.6	-24.7	-24.8	-6.9	5.6	-34.2	8.6
O/W CHANGE IN RESERVE ASSET	-18.1	34.8	-62.9	-16.9	46.1	44.3	-116.1	-24.6	-5.8

Table 6: Inter-bank Transactions Volumes (in US 'millions)

QUARTERLY US$			
	PURCHASES (US$)	SALES (US$)	VOLUMES (US$)
Q2 -2024	259.42	303.59	563.01
Q1 - 2024	284.70	316.21	600.91
Q4 - 2023	208.32	208.90	417.22
Q3 - 2023	207.89	213.65	421.54
Q2 -2023	233.31	233.76	467.07
Q1 - 2023	318.04	326.04	644.08
Q4 - 2022	284.44	286.43	570.86
Q3 - 2022	284.34	286.24	570.58

Table 7:Market Share by Currency

CURRENCY	USD%	EUR%	GBP%	CFA%	OTHERS
Q1-2022	65.68	25.38	7.29	1.15	0.18
Q1-2021	76.33	17.1	5.67	0.77	0.13
Q2-2021	76.12	17.14	5.73	0.9	0.12
Q3-2021	74.04	18.76	6.14	0.89	0.17
Q4-2021	58.81	31.42	7.39	1.33	0.23

Table 8: The Overall Budget Balance

	GMD' million		percent of GDP		Y-o-Y percent
Overall balance	2nd Quarter 2023	2nd Quarter 2024	2nd Quarter 2023	2nd Quarter 2024	
Excluding grants	-4,964.89	-4,751.31	-3.5	-3.3	-43
Including grants	-2,686.67	-2,707.98	-1.9	-1.8	0.8
Basic balance	-1345.82	-1,111.99	-0.9	-0.8	-17.4
Basic Primary Balance	- 898.75	-107.65	-0.6	-0.1	-88.0
CBG Financing	3,869.51	2,128.16	3.9	2.2	-45.0

Table 9: Revenue and Grants

	Q2, 2023	Q2, 2024	2023 -2024

Government Receipts	GMD' million	GMD' million	Y-o-Y percent Δ
Total Revenue & Grants	6598.47	7155.26	8.4
Percent of GDP	4.6	4.9	
Domestic Revenue	4320.24	5111.93	18.3
Percent of GDP	3.0	3.6	
Tax Revenue	3491.63	4348.03	24.5
Percent of GDP	2.4	3.3	
Direct Tax	972.39	1484.67	52.7
Personal	361.14	428.86	18.8
Corporate	555.62	1017.44	83.1
Indirect Tax	2519.24	2863.35	13.7
Domestic Tax on goods & services	687.95	764.93	11.2
Tax on Int'l. Trade	1831.3	2098.4	14.6
Duty	16.77	18.18	14.7
Sales tax on imports	458.48	484.95	5.8
Non-tax Revenue	828.61	763.90	-7.8
Percent of GDP	0.58	0.53	
Grants	2278.23	2043.33	-10.3
Percent of GDP	1.6	1.4	
Program	0	0	0
Projects	2278.23	2043.33	-10.3

Table 10: Total Expenditure and Net Lending

Government Expenditures	2nd Quarter- 2023		2nd Quarter—2024		2023-2024
	GMD' million	percent of GDP	GMD' million	percent of GDP	Y-o-Y percent Δ
Expenditure & Net Lending	9285.14	6.4	9863.24	6.9	6.2
Current Expenditure	4382.93	3.1	5761.58	4.0	31.5
Personal Emoluments	1713.45	1.2	1731.56	1.2	1.1
Other Charges	2222.41	1.5	3026.66	2.1	36.2
Goods and services	1076.71	0.8	1551.45	1.1	44.1
Subsidies and transfers	1145.69	0.8	1475.22	1.0	28.8
Interest Payments	447.07	0.3	1003.35	0.7	124.4
External	134.32	0.1	152.09	0.1	13.2
Domestic	312.75	0.2	851.26	0.6	172.1
Capital Expenditure	4902.21	3.4	4101.66	2.6	-16.3
Externally Financed	3619.08	2.5	3640.32	2.5	0.6
Loans	1340.85	0.9	1596.96	1.1	19.1
Grants	2278.23	1.6	2043.33	1.4	-10.3

GLF Capital	1283.12	0.9	461.35	0.3	-64.0
Net Lending	-	-	-	-	-

Table 11: Summary of Monetary Developments

Key Monetary Aggregates									
Variable	**Level (million)**		**Annual % changes**					**Quarterly % Changes**	
	Q2,2023	Q2,2024	23-Jun	23-Sep	23-Dec	24-Mar	24-Jun	24-Mar	24-Jun
NFA (Banking Sector)	29,341.8	29,341.8	-15.9	-12.6	8.8	11.4	54.9	-0.4	12.6
NDA (Banking Sector)	45,972.8	45,972.8	15.5	15.8	9.5	8.6	-0.3	1.2	1.4
Claims on Gov`t, net	44,538.5	44,538.5	11.9	11.0	2.7	7.2	4.7	9.2	4.1
Claims on Public Entities	2,710.9	2,710.9	-26.0	-34.7	28.0	28.9	30.0	-8.5	-8.0
Claims on Private Sector	12,268.5	12,268.5	27.9	13.9	9.2	17.4	27.9	2.1	-3.7
BROAD MONEY	64,915.3	64,915.3	4.2	6.6	9.3	11.2	16.6	2.0	4.7
Narrow Money	38,918.2	38,918.2	5.6	7.8	12.6	14.1	21.4	3.3	7.4
Quasi-money	38,918.2	47,244.0	16.8	18.2	23.6	27.5	35.9	10.3	9.8
Reserve Money	23,171.3	23,171.3	6.2	12.2	14.1	8.5	3.1	-1.3	4

Table 12: Key Financial Indicators for FCs

INDICATOR	23-Jun	24-Mar	24-Jun	INCREASE (DECREASE)	PRUDENTIAL/ REQUIREMENT
CAPITAL					
Capital Adequacy Ratio	24.68	27.88	24.10	-3.78	10.00%
ASSET QUALITY					
NPL Ratio	3.50	8.66	10.24	1.58	Single Digit
EARNINGS					
ROA	2.63	1.55	1.84	0.29	Positive ratio
ROE	23.53	12.97	16.71	3.74	Positive ratio
LIQUIDITY					
Liquid Assets Ratio	70.01	78.33	76.55	-1.78	30.00%
MARKET RISK					
Net Open Position	-1.11	8.66	2.78	-5.88	+/-25%

Table 13: Food Price Development (Annual Percentage Change)

Y-O-Y INFLATION	22-Dec	23-Mar	23-Jun	23-Sep	23-Dec	24-Mar	24-Jun	24-Jul
Food	18.3	20.5	23.5	25.0	22.5	20.3	14.4	13.0
Bread & Cereals	27.4	22.9	22.3	24.5	15.3	16.8	11.4	10.5
Meat	10.0	16.6	15.8	16.3	18.4	10.8	7.5	7.5
Fish	5.3	15.8	32.6	35.9	42.9	32.9	18.8	18.0
Milk, Cheese and Eggs	22.3	27.7	27.4	25.9	16.8	14.0	13.8	14.1
Oils and fats	24.4	23.4	13.9	9.5	6.7	5.9	0.8	1.0
Fruits & nuts	17.4	12.2	14.9	18.2	19.9	22.4	14.8	14.2
Vegetables, root crops & tubers	16.1	26.2	31.8	34.4	33.0	27.9	25.6	19.2
Sugar, jam, honey & sweets	25.8	15.8	19.2	19.9	19.9	21.4	17.2	18.4
Other food products n.e.c	1.4	8.0	13.2	13.0	12.8	8.6	5.0	5.6

Table 14: Non-Food Price Development (Annual Percentage Change)

Y-O-Y NON-FOOD INFLATION	22-Dec	23-Mar	23-Jun	23-Sep	23-Dec	24-Mar	24-Jun	24-Jul
NON-FOOD PRODUCTS AND SERVICES	9.4	8.9	11.5	11.2	11.2	8.7	5.5	5.5
CLOTHING & FOOTWEAR	5.4	13.7	22.2	31.2	32.3	19.6	15.9	11.1
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	4.1	12.2	32.0	29.7	29.3	19.6	5.4	8.5
HEALTH	12.1	2.9	2.6	2.3	1.9	0.9	0.4	0.2
TRANSPORT	18.0	14.9	4.7	1.5	3.6	3.3	6.3	6.3
COMMUNICATION	0.6	0.2	0.2	0.1	0.0	-0.1	0.0	0.0
RECREATION AND CULTURE	32.7	35.7	35.4	35.4	6.4	2.7	3.1	3.0
NEWSPAPERS, BOOKS AND STATIONERY	51.6	48.6	45.9	46.0	0.6	0.6	0.2	0.2
HOTELS, CAFES, AND RESTAURANTS	27.1	12.5	21.3	22.1	20.9	15.5	4.6	4.9
MISCELLANEOUS GOODS AND SERVICES	11.5	8.6	3.7	6.8	9.6	8.4	6.8	5.4

Table 15: Annual Core inflation

Y-o-Y Inflation	22-Dec	23-Mar	23-Jun	23-Sep	23-Dec	24-Mar	24-Jun	24-Jul
Headline Inflation	13.74	14.83	17.81	18.51	17.30	14.9	10.4	9.7

Core 1 Inflation	19.85	21.07	23.05	24.22	20.77	15.4	4.5	2.0
Core 2 Inflation	18.83	18.33	20.80	22.46	19.24	15.4	5.4	3.5