CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

Press Release **November 26, 2024**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) convened on November 25 and 26, 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 and increased the Standing Deposit Facility Rate by 1.0 percentage point to 4.0 percent. The following is an overview of deliberations that informed the Committee's decision.

1. Global economic growth remains robust, supported by resilient consumer spending and a continued decline in inflation. In its October 2024 World Economic Outlook (WEO), the International Monetary Fund (IMF) maintained the growth forecast for 2024 and 2025 at 3.2 percent. However, growth prospects could be affected by the slowing growth in China, cooling labor markets in advanced economies, rising geopolitical tensions, and increasing trade fragmentation.

2. Global inflation is steadily declining, driven by easing supply chain pressures, cooling demand due to tighter monetary policy, and improvements in labor supply in advanced economies. The IMF projects global inflation to fall from 6.7 percent in 2023 to 5.8 percent in 2024.

Advanced economies are expected to see faster declines, with inflation stabilizing near 2 percent by 2025. In emerging markets and developing economies, the decline will be slower, from 8.1 percent in 2023 to 7.9 percent in 2024, before dropping to 5.9 percent in 2025. In sub-Saharan Africa, inflation is forecast to fall sharply from 16.3 percent in 2024 to 9.8 percent by 2025.

3. Global commodity prices continue to exhibit volatility, arising from supply-demand imbalances due to international trade disruptions. After a three-month decline, prices surged in October 2024, with the IMF All Commodity Price Index rising by 3.0 percent from September. This increase was driven by unfavorable weather conditions, geopolitical tensions in the Black Sea, and strong demand in certain markets. The Index was 1.0 percent lower compared to the same period last year.

4. The FAO Food Price Index, which tracks the monthly movements of prices of food commodities, increased by 2 percent from September to October 2024. This placed food prices 5.5 percent higher than the corresponding period a year ago. On the positive side, international rice prices decelerated in October, owing mainly to improved supply conditions. The FAO Rice Price Index fell by 5.6 percent in October 2024 from the previous month and is 9.5 percent lower than last year.

5. On the domestic front, economic activity was strong in the third quarter of 2024 and the medium-term outlook remains favorable. The Central Bank's Composite Index of Economic Activity (CIEA) indicated an average growth in economic activity of 4.9 percent in the first nine

months of 2024. Staff forecast the economy to grow by 5.7 percent in 2024, unchanged from the August forecast. Growth is to be supported largely by anticipated better cropping season, strong public and private investment spending, household consumption, and a rebound in tourism. Notwithstanding, this outlook is clouded with significant risks. The rising global trade fragmentation, geopolitical tensions, volatility in commodity prices, and climate-related risks could potentially weigh on growth prospects in 2024.

6. The Central Bank's Business Sentiment Survey for the third quarter of 2024 showed improved confidence in the prospects of the Gambian economy. Most respondents expect economic activity to grow in the next three months, reflecting increased optimism. The survey also highlighted a drop in inflation expectations during the quarter, with respondents hopeful about more stable inflation in the near term.

7. Preliminary balance of payments estimates show that the current account balance in the first nine months of 2024 moderated to a deficit of US$59.9 million (2.8 percent of GDP), from a deficit of US$129.3 million (5.9 percent of GDP) in the corresponding period a year ago. The narrowing of the current account deficit was driven by stable remittance inflows, program grants, and tourist arrival. However, the goods account balance worsened to a deficit of US$741.1 million (34.0 percent of GDP), compared to US$657.3 million (30.2 percent of GDP) in the corresponding period of 2023.

8. The domestic foreign exchange market remains stable with improved liquidity conditions. Total activity volumes, measured by aggregate

purchases and sales of foreign currency, stood at US$479.4 million in the third quarter of 2024, compared to US$563.0 million reported in the previous quarter. The quarter-on-quarter decline in activity volumes partly reflects the moderated inflows of private remittances, from US$ 201.4 million in the second quarter of 2024 to US$182.5 million in the third quarter of 2024.

9. The exchange rate of the dalasi remains relatively stable. From June to September 2024, the dalasi depreciated against the US dollar by 0.3 percent, the euro by 3.1 percent, the British pound sterling by 3.3 percent and the CFA franc by 1.2 percent. This was largely explained by the excess demand pressures to finance the rising imports.

10. The Central Bank continues to hold comfortable levels of international reserves, amounting to US$460 million in October 2024, which is sufficient to finance over 4.6 months of prospective imports of goods and services.

11. Preliminary estimates of government fiscal operations for the first nine months of 2024 indicate an overall deficit, excluding grants, of D12.8 billion (8.9 percent of GDP), higher than a deficit of D11.2 billion (7.8 percent of GDP) recorded in the corresponding period of 2023. Similarly, the overall budget deficit, including grants, also widened to D6.8 billion (4.8 percent of GDP) in the first nine months of 2024, compared to D5.8 billion (4.0 percent of GDP) in the corresponding period of 2023.

12. The stock of domestic debt rose by 6.1 percent to D43.8 billion (25 percent of GDP) in September 2024, from D41.3 billion (28.2 percent of GDP) in December 2023. Short-term government securities, with a maturity of one year or less, accounted for 47.9 percent of the total domestic debt stock. The weighted average treasury bill rate increased from 10.4 percent in June 2024 to 11.8 percent in October 2024.

13. The interbank dalasi market continues to function smoothly with robust activity volumes. Total trade activity volumes amounted to D10.2 billion in September 2024, slightly lower than D13.8 billion reported in December of 2023. The weighted average interest rate prevailing in the interbank market declined from 9.1 percent in 2023 to 5.5 percent in September 2024, following the three-month Treasury bills rate.

14. The banking sector remains stable, with robust performance in the third quarter of 2024. The industry asset base reached 64.7 percent of GDP in September 2024, compared to 59.6 percent of GDP reported in June 2024. Similarly, total customer deposits, which continue to be the main source of funding for banks, increased by 5.6 percent (quarter-on-quarter) to stand at D66.1 billion as of September 2024.

15. The industry continues to be adequately capitalized and liquid. The aggregate risk-weighted capital adequacy ratio stood at 24.9 percent in September 2024, slightly higher than the 24.1 percent recorded in June 2024. In the same vein, the liquidity ratio of the industry increased, from 77.2 percent in June 2024 to 81.8 percent in September 2024. On the other hand, the industry's non-performing loans continue to rise, reaching 16.6 percent in September 2024, from 10.2 percent in June

2024. The rise in NPLs is due to concentration risks in the loan portfolios of some banks. However, the portfolios are adequately provisioned. Moreover, the Bank's latest stress testing results suggest that the banking sector remains resilient to potential capital and liquidity shocks.

16. On monetary sector developments, annual money supply grew by 14.4 percent in September 2024, from 6.6 percent reported in the corresponding period in 2023. This reflects the significant increase in the net foreign assets of depository corporations, owing to improved foreign currency liquidity conditions. On the other hand, growth in reserve money, the Bank's operating target, decelerated by 0.3 percent in September 2024 against the 12.2 percent growth registered in the same period in 2023. Credit to the private sector growth moderated significantly to 1.9 percent in September 2024 from 17.4 percent registered in September 2023.

17. On domestic price developments, inflation edged up slightly over the past three months, reversing the declining trend observed in the previous six months. Headline inflation stood at 10.0 percent in October 2024, unchanged from September but higher than 9.8 percent in August. Nonetheless, Staff forecast suggests that headline inflation will eventually decline back to single digits by the first quarter of 2025, barring any further surprises in international commodity prices.

18. Food inflation slightly decelerated to 12.8 percent in October 2024, from 13.0 percent in July 2024. The easing of food inflation reflects moderation in major components in the food basket, including the price indices of meat, milk, cheese and eggs, fruits and nuts,

vegetables, and sugar, which offsets the increase in the prices of bread and cereals, fish and oil and fats. On the other hand, non-food inflation marginally rose to 6.6 percent in the review period, from 6.3 percent reported in September 2024, on account of rising energy costs, particularly firewood, within the housing, water, electricity, and gas categories.

19. Furthermore, the Central Bank's Core inflation measure, which excludes volatile food and energy prices, has also shown modest increases in recent months. Core inflation, which excludes volatile energy and food products, rose to 3.5 percent in October, from 3.1 percent in September 2024.

The Committee observed as follows:

- Global economic conditions are improving, with more favorable prospects for growth and inflation. However, risks to both the growth and inflation outlook remain elevated, including geopolitical tensions and supply disruptions that could impact energy and commodity markets. Fluctuations in fuel prices, in particular, present a significant challenge. Nonetheless, the policy easing cycle initiated by major central banks in advanced economies, evidenced by waves of rate cuts in response to declining inflation, is favorable for the domestic economy in terms of exchange rate and external debt servicing.

- The domestic economic recovery continues to strengthen, with a more favorable medium-term outlook. The Committee believes that public infrastructure development, private construction activities, recovery in tourism and remittance inflows will continue to support economic growth over the next two years.

- While significant progress has been made in reducing inflation during the first half of 2024, recent trends highlight emerging risks. Persistent short-term pressures, particularly in essential goods and services like housing and food, global oil price volatility, and domestic structural bottlenecks continue to challenge the inflation outlook. However, the Committee expects these developments to be temporary, with inflation projected to decline back to single digits by the first half of next year.

- The recent uptick in inflation and its projected persistence, as indicated by the latest forecast, necessitate the commitment to maintaining a policy stance that ensures inflation returns to the medium-term target of 5.0 percent.

Policy Decisions

20. In view of the above, the Committee concludes that monetary policy should stay the course and 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 be increased by 1.0 percentage point to 4 percent.

    iv. The interest rate on the standing lending facility will remain at 18.0 percent or MPR plus 1.0 percentage points.

In addition, the Bank will intensify the use of CBG bills to mop up excess liquidity in the system. The Committee will continue to monitor developments in both the domestic and global economy in deciding its next policy steps.

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for **Wednesday, February 26, 2025**. The meeting will be followed by the policy decision announcement on **Thursday, February 27, 2025.**