CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

Press Release **September 01, 2022**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on August 31 and September 01, 2022. The Committee reviewed the current economic developments, assessed the outlook for inflation and growth, and decided to increase the monetary policy rate (MPR) by 1 percentage point to 12 percent. Below is a summary of the assessment and deliberations that informed the Committee's decision.

1. Global economic environment remains challenging. Growth outlook has weakened further with increasing risk of recession in major economies around the world. The negative impact of the ongoing geopolitical tensions and monetary tightening by central banks have dampened growth prospects. In July 2022, the IMF once again revised downwards global growth forecast for 2022 to 3.2 percent, 0.4 percentage points lower than its forecast in April 2022.

2. Global inflation remains high, being fueled by high food and energy prices, persistent supply constraints, and currency pressures in some economies. Central banks around the world are tightening monetary policy in response to the accelerating inflation, which has created tighter financial conditions and increased borrowing costs.
3. On a positive note, international food prices have declined slightly in recent months. The FAO Food Price Index, which tracks international prices of cereals, vegetable oils, dairy, meat, and sugar, registered a fourth consecutive monthly

drop in July 2022. The Index declined by 8.6 percent in July from June 2022, although it is still 13.1 percent above the level it was a year ago. In addition, the FAO Rice Price Index fell by 2.1 percent during the same period.

4. The Gambian economy remains resilient, and the outlook is favorable. The Central Bank's Composite Index of Economic Activity (CIEA) indicated a stronger-than-expected level of economic activity in the first half of this year. Staff forecast the economy to grow by 5.2 percent in 2022, an upward revision from the 4.7 percent forecast in May 2022. This outlook is based on higher-than-anticipated recovery in tourism activity, private sector credit, public sector investment and steady private remittance inflows which continue to support private consumption and real estate activity.

5. Risks to the growth outlook, however, remain significant and tilted to the downside, including uncertainties arising from the global economic and geopolitical environment, COVID-19 situation, and climate-related impact on domestic food production. Furthermore, the Bank's latest Business Sentiment Survey has shown that the ongoing shocks continue to dent business confidence and that the near-term inflation expectations are still high.

6. The balance of payments position continues to be under pressure on account of the ongoing shocks. Imports of goods increased by 12.9 percent (year-on-year) to US$317.5 million in the first half of 2022, mainly reflecting increased imports of energy, food, and vehicles. Exports increased by 23.8 percent (year-on-year) to US$25.5 million in the first half of 2022. Uptick in tourism coupled with steady remittance inflows continue to be reliable sources of foreign currency. The deterioration in the trade balance resulted in a higher current account deficit of US$25.6 million (1.3 percent of GDP) in the first half of 2022, relative to a deficit of US$8.3 million (0.5 percent of GDP) in the corresponding period of 2021.

7. Gross international reserve buffer, which stood at US$480.7 million (5.4 months of import cover) at end-June 2022, continues to provide adequate cover and cushion against any short-term shocks in the foreign exchange market.

8. Activity volume in the foreign exchange market remains robust, and the Dalasi continues to be stable. Volume of transactions, which is an aggregate of sales and purchases of foreign currency, grew by 52.1 percent at end-June 2022 compared to end-March 2022. Demand for foreign currency emanated mainly from energy and food imports, while supply continues to benefit from steady inflows from private remittances and recovery in tourism receipts. From March to July 2022, the Dalasi depreciated against the US Dollar by 1.4 percent. However, it appreciated against the Great Britain Pound by 4.9 percent, the Euro by 3.6 percent, and the CFA Franc by 1.9 percent.

9. Fiscal operations continue to be expansionary. Growth in expenditure continues to outpace revenue generation as international trade tax receipts and non-tax revenue continue to decline. Disbursement of some grants from development partners did not materialize. As a result, the overall budget deficit (including grants) expanded to 2.8 percent of GDP in the first half of 2022, relative to 2.5 percent of GDP in the corresponding period in 2021.

10. The stock of domestic debt stood at D38.4 billion in July 2022, from D37.2 billion in 2021. However, the domestic debt-to-GDP ratio declined from 35.4 percent in 2021 to 33.3 percent at end-July 2022. Short-term debt still accounts for more than half of the domestic debt and the refinancing and interest rate risks remain elevated.

11. Yields on government securities have started rising. Weighted average interest rate on treasury bills increased from 3.2 percent in July 2021 to 7.2 percent in July 2022.

12. The banking system continues to be stable with robust financial soundness indicators. The risk-weighted capital adequacy ratio stood at 27.8 percent at end-June 2022, and all the banks were well above the regulatory requirement of 10 percent. The liquidity ratio of 73.2 percent was also above the prudential requirement of 30 percent. Asset quality has improved with a decline in the industry's total non-performing loans to 4.2 percent of gross loans as at end-June 2022, and banks have continued to maintain adequate level of provisioning. A

stress test exercise conducted by staff of the Bank revealed that the banking industry remained solvent even with a 400 percent shock on asset quality.

13. Growth in key monetary aggregates remains subdued. Annual broad money growth declined by 14.0 percent in June 2022 from 27.5 percent in the corresponding period last year, reflecting a slowdown in the growth of the net foreign assets (NFA) of both the Central Bank and commercial banks. Similarly, annual growth in reserve money, the Bank's operating target, decelerated to 8.2 percent from 31.0 percent over the same period. Reserve money was above the target for the June quarter by D2.1 billion, reflecting the rise in the net domestic assets (NDA) of Central Bank.

14. Inflationary pressures remain elevated, and inflation expectations have risen, fueled by surging energy and food prices. Headline inflation reached 12.3 percent in July 2022, up from 11.7 percent in June 2022 and 8.2 percent a year ago. Both consumer food and non-food inflation accelerated. Price indices of all items in the food basket increased in July notably, cereals, vegetables, and fish. Main drivers within the non-food category were alcoholic beverages, health care, books and stationery, and housing, electricity, and other fuels.

15. The near-term forecast indicates that inflation will remain elevated this year, predicated on rising global inflation. Other risk factors include the passthrough effects of currency depreciation, adjustments in administered prices (transport fares and pump prices), structural constraints at the ports, and the increase in public sector salaries. However, in the medium-term, price pressures are expected to ease, and inflation will return to its long-run trend by next year in response to the tight monetary policy stance of the Bank and the easing of global supply conditions.

16. The Committee observed the following:

- Uncertainties surrounding the global economy have increased further and become more complicated since the last Committee meeting in May 2022. Growth prospects have weakened, and inflation could rise further and persist longer than previously envisaged in many countries. Low-income countries, especially in sub-Saharan Africa are worse off as cost of living rises with increased risk of food insecurity, rapidly diminishing fiscal space and rising debt vulnerabilities.

- The Gambian economic recovery strengthened in the first half of this year, and the outlook remains positive, benefiting from higher-than-expected pickup in tourism, stable private remittance inflows, private sector credit growth and public sector investment. The risks to this outlook, however, are significant and tilted to the downside as the world economic and geopolitical environment becomes increasingly uncertain.
- The Committee would like to emphasize that Central Bank continues to maintain comfortable level of foreign exchange reserve buffer. Pressures on the exchange rate are expected to remain largely contained and the Dalasi is projected to remain relatively stable. Nonetheless, risks factors continue to emanate from the impact of rising interest rates in advanced economies, the strength of US dollar globally and high global inflation.
- International prices of food have started to ease which would help tame domestic food prices and inflation. The expectation of better harvest this cropping season will help improve domestic food supply conditions. Based on these factors and a prudent monetary policy response, CBG staff forecast price pressures to ease and inflation to return to the medium-term target by next year. However, this will largely depend on how the uncertainties around global food and energy prices unfold.

17. Taking all these factors into consideration, the Committee believes that given the current inflation trajectory, delaying further action would make it more costly to bring back inflation to the implicit medium-term target and risk inflation expectations becoming entrenched.

Decision

The Committee, therefore, decided the following:

- increase the Monetary Policy Rate (MPR) by 1 percentage point to 12 percent;
- maintain the required reserve (RR) of commercial banks at 13 percent; and

- maintain the interest rate on the standing deposit facility at 3 percent and the standing lending facility at 13 percent (1 percentage point over the MPR).

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. The Bank will also increase 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, November 23, 2022**. The meeting will be followed by the announcement of the policy decision on **Thursday, November 24, 2022.**