CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

Press Release **February 28, 2023**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on Monday, February 27, and Tuesday, February 28, 2023, and increased the policy rate by 100 basis points to 14.0 percent. Below is a summary of the assessment and deliberations that informed the decision.

1. The outlook for the global economy has improved slightly since the last MPC meeting. Fears for global recession have subsided on the back of stronger-than-expected global demand in the fourth quarter of 2022. The International Monetary Fund (IMF) in its January 2023 World Economic Outlook forecast global growth to moderate to 2.9 percent in 2023 from 2.7 percent in October 2022, a 0.2 percentage point upward revision.

2. Global inflation appeared to have peaked in the fourth quarter of 2022, and is expected to moderate, supported by declining energy and non-fuel commodity prices as well as monetary policy tightening. The IMF forecast global inflation to decelerate to 6.6 percent in 2023, from 8.8 percent in 2022.

3. The Food and Agriculture Organization (FAO) Food Price Index declined for the tenth consecutive month in January 2023. The Index declined by 0.8 percent from December 2022 to January 2023 and 17.9 percent below the peak in March 2022. The international prices of rice, on the other hand, continue to rise. The FAO Rice Price Index increased by 6.2 percent from December 2022 to January 2023, reflecting tighter supply amid strong demand and exchange rate movements.

4. On the domestic front, economic activity continues to strengthen, pushing the output gap in the positive territory. The Central Bank of The Gambia's Composite Index of Economic Activity (CIEA) shows that public investment spending, recovery in tourism and related activity and robust private remittances continue to support the economic growth momentum. As a result, the Central Bank forecasts the economy to grow by 6.0 percent in 2023, higher than the 5.2 percent projected for 2022. However, the risk to the outlook remains significant, including the uncertain geopolitical environment, volatile international commodity prices and the impact of monetary tightening in advanced economies on domestic demand.

5. The findings of the latest Private Sector Business Sentiment Survey point to improved sentiments as most respondents are upbeat about the near-term growth prospects of the Gambian economy. Respondents also expect higher business activities in the first quarter of 2023, predicated on higher capital expenditure, consumer demand and sales. However, inflation expectations remain elevated and are expected to persist in the near-term.

6. Provisional estimates of the balance of payments indicate a wider current account deficit of US$116.7 million (5.7 percent of GDP) in 2022, compared to US$86.9 million (4.5 percent of GDP) in 2021. The deficit in the goods account worsened to US$591.6 million in 2022, from US$574.5 million a year ago. Total import bill rose by 6.2 percent (year-on-year) to US$645.3 million in 2022, reflecting mainly higher costs of petroleum and food imports. Total exports of goods increased by 63.2 percent (year-on-year) to US$53.7 million in 2022. In contrast, the services account balance improved to a surplus of US$25.6 million from a deficit of US$9.1 million during the period under review.

7. The Central Bank continues to maintain an adequate levels of external reserve buffer. At end-December 2022, the stock of external reserves stood at US$470.6 million, adequate to cover 4.8 months of prospective imports of goods and services.

8. Activity volumes in the foreign exchange market made of aggregate of sales and purchases of foreign currency, slightly declined by 1.9 percent (year-on-year) to US$2.5 billion in the 12-months to end-December 2022. Excess demand of US$37.2 million was registered during the period, attributed to imports of food, energy, and construction materials, while supply was largely bolstered by flows from private remittances and development partners. As the tourism sector started picking up, supply conditions in the foreign currency market are expected to improve coupled with the sustained inflows of private remittances.

9. In the year to end-December 2022, the dalasi weakened against the US dollar by 17.8 percent, the euro by 5.8 percent and the Great Britain pound by 4.8 percent but strengthened against the CFA franc by 3.7 percent.

10. Provisional data on government fiscal operations for 2022 shows an overall budget deficit (including grants) of D6.4 billion (6.1 percent of GDP), relative to a deficit of D6.1 billion (5.8 percent of GDP) in 2021, attributed to a shortfall in revenues. Total revenue and grants declined by 3.8 percent to D19.0 billion (18.1 percent of GDP), mainly attributed to a decline in revenue generated from international trade taxes and non-tax revenues. Total expenditure and net lending decreased by 1.8 percent to D25.4 billion (24.2 percent of GDP) compared to a year ago.

11. The stock of government domestic debt increased in 2022 but at a decreasing rate. The nominal debt stock stood at D38.1 billion, representing an annual increase of 2.5 percent, lower than an average growth of 5.8 percent for the past 5 years. Moreover, domestic debt-to-GDP ratio declined from 34.7 percent in 2021 to 31.7 percent in 2022. The stock of treasury bonds increased by 15.7 percent to D19.8 billion during the period under review.

12. Short-term treasury bills and Sukuk Al Salaam, on the other hand, contracted by 9.0 percent to D19.8 billion. The decline in short-term instruments is consistent with the government's debt management strategy to reprofile the domestic debt to reduce the refinancing risk.

13. Yields on government securities continue to rise, mirroring the tight monetary policy stance of the Bank. The weighted average interest rate on treasury bills increased from 1.8 percent in December 2021 to 11.2 percent in December 2022.

14. The banking system continued to be well-capitalized, highly liquid, and profitable. The risk-weighted capital adequacy ratio stood at 24.8 percent at end-December 2022, higher than the regulatory requirement of 10.0 percent. The liquidity ratio at 63.7 percent, was also above the prudential requirement of 30 percent. The ratio of non-performing loans to gross loans improved to 4.6 percent in December 2022, from 5.2 percent in December 2021.

15. Growth in monetary aggregates is moderating. Annual money supply growth slowed to 7.7 percent in 2022, compared to 21.7 percent in 2021, owing to moderation in Net Foreign Assets of both the Central Bank and commercial banks. Private sector credit expanded by 24.4 percent (year-on-year) at end-December 2022, higher than 23.0 percent a year ago. Reserve Money growth decreased by 0.9 percent in 2022, relative to 13.6 percent the previous year.

16. Inflation remained elevated in 2022, driven by both demand pressures and supply shocks. The latest data indicates a decline in headline inflation to 13.1 percent in January 2023, from 13.7 percent in December 2022, due to decline in both food and non-food inflation.

17. Food inflation decreased by 0.8 percentage points to 17.5 percent in January 2023, from 18.3 percent in December 2022, attributed to the slowdown in the price indices of Bread and Cereals, Sugars, and Dairy Products. Non-food inflation declined to 8.6 percent in January 2023, relative to 9.4 percent in December 2022, supported by the decline of all subcomponents during the period except for housing, water, electricity, gas, and other fuels.

18. The Committee observed the following:

- The prospects of the global economy have improved, and global inflation is moderating, reflecting the decline in commodity prices and monetary policy tightening. However, the persistent rise in international price of rice remains a concern given its importance in the food basket of the Gambia.

- Stronger economic activity is projected in 2023 with a higher positive output gap. This is predicated on continued recovery in tourism activity, public sector infrastructure development, and steady inflow of private remittances that continue to support household consumption and investment. However, risks to the outlook are significant, including uncertainties related to the global economic and geopolitical environment.

- The supply conditions in the foreign exchange market have improved since the last meeting of the Committee. This is expected to continue to support stability of the exchange rate of the dalasi.

- Domestic price pressures remain elevated, driven by an increase in aggregate demand, imported cost factors, and depreciation of the local currency. However, inflation is projected to decelerate in the medium-term.

- Taking the above factors into consideration, the Committee is of the view that previous policy actions are paying dividend. However, 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 1.0 percentage point to 14 percent.
- Maintain the required reserve (RR) at 13 percent.
- Maintain the interest rate on the standing deposit facility at 3 percent.
- Standing lending facility will increase to 15 percent (MPR plus 1 percentage point).

Information Note

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is slated for Tuesday, May 23, 2023. The meeting will be followed by the announcement of the policy decision on Wednesday May 24, 2023.