**CENTRAL BANK OF THE GAMBIA**

**MONETARY POLICY COMMITTEE**

**MINUTES OF MEETING NO.89** **FEBRUARY 26-27, 2024**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) met on February 26-27, 2024. The Committee reviewed developments in the domestic economy, assessed emerging risks to inflation and growth outlook, and decided to maintain the monetary policy rate at 17.0 percent. The meeting was attended by the 9 members of the Committee.

## MPC Members Present

| Name | Role |
|---|---:|
| Mr. Buah Saidy | Chairman |
| Dr. Abdoulie Sireh Jallow | Member |
| Dr. Paul Mendy | Member |
| Mr. Momodou Sissoho | Member |
| Mr. Paul John Gaye | Member |
| Mr. Baboucarr Jobe | Member |
| Mrs. Halima Singhateh -Jagne | Member |
| Mr. Karamo Jawara | Member |
| Mr. Sheriff Touray | Member |
| Dr. Momodou O. Jallow | Secretary |

## Report Presenters

| Name | Designation |
|---|---|
| Mrs. Aji Adam Njie | Economist, Economic Research Department |
| Mr. Alagie B. Sowe | Economist, Economic Research Department |

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| Mr. Yaya Jatta | Banking Officer, Banking Services Department |
| Mrs. Mariama Sillah | Senior Bank Examiner, Banking Supervision Department |
| Mrs. Ya Maram Sosseh | Bank Examiner, Banking Supervision Department |
| Mr. Pa Lamin Sonko | Officer, Other Financial Institutions Supervision Department |
| Mrs. Mariama Conateh-Gaye | Officer, Financial Markets and Reserve Management Department |
| Mr. Macodou N. Njie | Statistician, Economic Research Department |
| Mr. Ansou Manneh | Assistant Statistician, Economic Research Department |

## Agenda

1. The meeting agenda was adopted as presented:
   - Adoption of the agenda
   - Opening remarks by Chairman
   - Review of minutes of the previous meeting and matters arising
   - Presentation and discussions of reports
   - Lunch Break
   - Presentation and discussion of reports
   - Closing

## Opening remarks by the Chairman

2. The Governor extended a warm welcome to all members as they convened for the first meeting of the year. Emphasizing the paramount importance of preserving the hard-won macroeconomic stability, he underscored the prevailing uncertainties in the global economic landscape, primarily stemming from the ongoing geoeconomic fragmentation. He stated that the developments have repercussions on international trade and commodity prices, which pose a significant risk to the Gambian economy. Furthermore, the Governor acknowledged the presence of inherent structural challenges within the domestic

economy that underscores the critical necessity of maintaining the credibility of macroeconomic policies as we navigate the shocks.

3. On a more encouraging note, the Governor expressed optimism in the fight against inflation, as headline inflation declined for the second month. He cited the easing of global commodity prices and the impact of domestic policies on inflation as key contributors to this development. Notwithstanding, he cautioned that there is no room for complacency as the fight to return inflation to a single digit and eventually down to the Bank's implicit medium target in the shortest time possible remains the Committee's top priority.

4. In conclusion, he commended staff and MPC members for their unwavering dedication to delivering on the Bank's mandate during these challenging times. He reiterated that while so much has been achieved, there remains a considerable journey ahead given the volatility in the global environment that will necessitate the collective effort of all involved.

## Review and Adoption of Minutes of MPC Meeting No. 89

5. The minutes of the MPC Meeting No.88 were reviewed and adopted after minor adjustments.

## Matters Arising

6. On matters arising, it was reported that the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) bill had been drafted by the Financial Intelligence Unit (FIU) and was undergoing review before validation. The Committee emphasized the importance of expediting this process to prevent any delays, as it constitutes a crucial structural benchmark within the framework of the new IMF ECF program. Nevertheless, it was clarified that the benchmark specifically concerns the drafting of the law, a milestone that has already been accomplished.

7. Members were informed that the Bank's Foreign Exchange Policy was published in December 2023. The objective of this policy is to ensure an orderly, transparent, and smooth functioning domestic foreign exchange market. The policy seeks to unify the exchange rates published on the Bank's website and narrow the spread between the official exchange rate and the parallel exchange rate. It was reported that since its adoption, activity in the foreign exchange market has remained robust and the exchange rate continued to be stable.

8. Regarding the augmentation of the capital requirement of commercial banks, the Committee was informed that the board has approved a 500 million increment to be implemented within three years. A fruitful engagement with all commercial banks was held, where issues regarding requirements and other modalities were discussed. The augmentation is expected to strengthen their capacity to engage in financial intermediation on a greater scale as well as the muscles to weather potential shocks.

9. As part of the efforts to consolidate policy coordination, an annual government borrowing plan and cash plan were to be submitted to CBG to facilitate monitoring and reporting of government fiscal position. The Committee was informed that there will be a follow-up with the Accountant General's office to expedite the process. The Committee stressed that the issue be raised at the Reform Monitoring Committee to fast-track the process.

## Presentation of Reports

10. Presentations and discussions of reports took place in the following order:
    - Developments in the Global Economy
    - Banking Sector (Recent Developments
    - Stress Testing, and Foreign Currency Net Open Position)
    - Non-Bank Financial Sector, Financial Market
    - Domestic Debt Developments
    - External Sector (Balance of Payment and Foreign Exchange Market)
    - Monetary Sector

- Government Fiscal Operations
- Business Sentiment Survey
- Real Sector
- Inflation
- Staff Assessment and Outlook
    - Assessment of the current economic conditions
    - Baseline forecasts
    - Alternative scenarios

## Global Economic Developments

11. The presentation on Global Economic Developments highlighted key developments in the global economy since the last MPC. The presentation made reference to the January 2024 IMF World Economic Outlook (WEO), Organization for Economic Cooperation and Development (OECD) Economic Outlook, February Interim Report, and World Bank February 2024 Global Economic Prospects.

12. . According to the presentation, prospects in the global economy have improved since the last MPC, thanks to the strength of the United States economy and some large emerging market economies, supported by both demand and supply factors. Positive supply conditions combined with sustained private and public spending contributed to the rebound. Against this backdrop, the IMF in its January 2024 WEO forecast the global economy to grow by 3.1 percent in 2024, the same level of growth observed in 2023. This represents a 0.2 percentage points upward revision from October 2023, reflecting upgrades for China, the United States, and large emerging markets and developing economies.

13. Similarly, the OECD revised upward its global economic growth projections in its February 2024 Interim Report on the economic outlook, to 2.9 percent for 2024, from the 2.7 percent earlier predicted in November 2023. However, the World Bank was less optimistic about global prospects, downgrading its global growth

forecast to 2.4 percent, owing to tight monetary and financial conditions and heightened geoeconomic fragmentation.

14. The presentation revealed a continued deceleration in global headline inflation on the back of moderated energy and food prices, along with monetary tightening. The declining global commodity prices, softer supply conditions, as well as the impact of tight monetary policy, continued to speed up the disinflation process in most regions. In January 2024, the IMF forecast global headline inflation to decelerate from an estimated 6.8 percent in 2023 to 5.8 percent in 2024 and 4.4 percent in 2025. However, significant difference was observed in the pace of the disinflation process, with advanced economies expected to see a faster decline than developing economies. The report pointed to heightened geopolitical tensions in the Middle East and uncertainties surrounding crude oil prices as major upside risks to the fight against inflation.

15. According to the report, international commodity prices declined marginally in January 2024, driven by the fall in food prices, metals, and copper that outweighed the surge in crude oil prices. The IMF All Commodity Prices Index fell by 0.3 percent in January 2024, from the level it was in December 2023 and 12.9 percent when compared to the same period a year ago. The FAO Food Price Index, which tracks monthly changes in the international prices of globally traded food commodities, dropped by 1.2 percent in January 2024 from the December level and 10.4 percent from its corresponding level a year ago. However, the FAO Rice Price Index increased by 1.2 percent from December to January and by 13.0 percent from a year ago. Furthermore, the World Bank in February forecast rice prices to increase by 6.0 percent in 2024, underpinned by trade restrictions, adverse weather conditions, and geopolitical uncertainties.

16. The report concluded by assessing the implication of global developments on the Gambian economy. Specifically, it was opined that the improvement in global growth, particularly in China, a major trading partner of The Gambia, could bolster trade and strengthen domestic economic activity in 2024. An improved global

economy will also support a faster rebound in tourism and remittance inflows, providing both foreign currency supply and spurring private consumption and investment spending. Furthermore, the declining global commodity prices are expected to ease price pressures, especially food and energy prices. However, given heightened geo-political uncertainties, volatility surrounding global commodity prices remained a significant risk for the domestic economy.

17. Reacting to the presentation, the Committee welcomed the positive developments in growth and inflation, citing its potential impact on domestic tourism and economic growth prospects. Members noted these favorable developments combined with policy interventions in the areas of agriculture and public infrastructure could bring about sustainable economic growth in the near to medium term.

18. However, the Committee expressed concerns over the rising rice prices and the potential impact on inflation and cost of living. Members were informed of government intervention to import rice and sugar from Brazil to soften supply conditions. In addition, interventions to support domestic rice producers have started and are expected to bring a lasting solution to the reliance on food importation.

19. The Committee noted that risks to economic growth are still tilted to the downside, given the developments in the Red Sea and uncertainties surrounding geopolitical tensions. Therefore, there is a need to keep policies focused on sustaining the macroeconomic gains and avoid any policy missteps that could be costly to recalibrate.

20. On broadening the coverage of the report, members suggested the inclusion of the African Development Bank's (AFDB) African Economic Outlook as it provides rich information on the continent that will be useful for policy consideration.

## Domestic Macroeconomic Developments

## Banking Sector Developments

21. The presentation on Banking Sector Developments reported a stable industry as of end 2023, with robust financial soundness indicators. However, the presentation indicated a concentrated industry with two large banks accounting for 37.3 percent of total assets. The one medium-sized bank accounted for 15.1 percent of the industry assets, while the remaining nine small banks held 47.6 percent. The industry continued to be profitable with a year-on-year increase in net income of 23.6 percent.

22. The report showed robust industry financial soundness indicators. The industry risk-weighted capital adequacy ratio stood at 28.6 percent in December 2023, compared to 24.4 percent reported in December 2022. All the banks were within the regulatory requirement of 10 percent. Furthermore, the industry liquidity conditions continued to improve. The liquidity ratio increased from 33.1 percent in December 2022 to 46.7 percent in December 2023. The report also highlighted a significant improvement in asset quality, following a decline in non-performing loans (NPLs) from 4.6 percent in December 2022 to 3.3 percent in December 2023.

23. Similarly, the presentation indicated a growing asset base for the banking sector. From December 2022 to December 2023, total assets increased by 13.9 percent, reaching D86.5 billion. This is attributed to an increase in Cash-in-Hand, Balances Due from Other Banks, Gross Loans and Advances, and Fixed Assets. On the liabilities side, customer deposits, which continued to be the main source of funding for banks, increased by 8.7 percent to stand at D58.7 billion during the quarter under review, compared to D54.0 billion registered in the comparable period a year ago.

24. The report cited a significant increase in financial intermediation during the quarter under review. Total loans and advances increased by 16.6 percent, from D14.5 billion in December 2022 to D16.9 billion in December 2023. This increase was

due mainly to both increases in public and private sector loans. Notwithstanding, while loan-to-deposit increased slightly during the period to stand at 28.8 percent, it remained relatively low when compared with peer countries. Moreover, credit flow is concentrated on a few large borrowers, limiting the flow of credit to the essential sectors of the economy.

25. Finally, the presentation of the results of the industry-wide stress test exercise once again identified credit risk as a significant source of vulnerability for the banking system in The Gambia. Banks' exposure to the government sector was also reported as significant, but the overall market risk was low. Notwithstanding, the report indicated that the industry was liquid, and all banks maintained a comfortable liquid asset ratio enough to cushion potential liquidity shocks.

26. Reacting to the presentation, the Committee acknowledged the resilience and strong performance registered by the banking industry. However, members lamented banks' low level of financial intermediation, a phenomenon that requires attention. The Committee was informed of an arrangement with AFDB for a credit guarantee scheme aimed at providing affordable financing for SMEs. The arrangement will make available wholesale funding which banks could utilize to fund high-return investment projects. For this intervention to yield the intended benefit, banks must strengthen their due diligence in credit administration to avoid a build-up of NPLs.

27. The Committee reiterated the urgency to establish a commercial court, which will not only ease litigation processes but also have a catalytical effect in boosting credit extension to the private sector. It was reported that work was almost at the completion stage. In the same vein, members stressed the need to finalize the deposit insurance scheme given its importance in safeguarding depositors' funds and shielding the sovereign.

28. On the results of the banking sector stress testing exercise, the Committee commended the BSD for a significant milestone. While the results indicated a stable industry with low interest and exchange rate risks, members raised concerns

regarding elevated credit risk, which underscores the need to reassess the capital requirement of banks. The Committee also highlighted the need to closely monitor the high credit concentration within the industry.

29. The Committee concluded its deliberation on the report by tasking the BSD to look at the issues relating to climate change and financial stability. The department was encouraged to engage entities working in the field for training opportunities with the view of building capacity and eventually incorporating climate change financing, costing, and related issues in financial stability analysis.

## Developments in Other Financial Institutions

30. The report on non-bank financial institutions (NBFIs) provided key highlights of the financial performance of Finance Companies (FCs) and Credit Unions (CUs) as of end-December 2023.

31. The presentation revealed a strong industry performance with the sector's asset base increasing by 30.3 percent year-on-year. This was on account of an increase in the asset base of both FCs and CUs. During the period under review, the total asset base for Finance Companies (FCs), the largest category of non-bank financial institutions, increased by 25.4 percent. Likewise, the asset base of CUs rose significantly by 35.8 percent in December 2023, when compared to the same period a year ago.

32. Similarly, the stock of customer deposits significantly expanded by 15.8 percent in 2023 to D2.7 billion, benefiting from higher customer base. Total deposits of FCs increased by 25.1 percent and accounted for 51.3 percent of industry deposits, while that of CUs went up by 6.8 percent.

33. Similarly, the report also cited a 39.5 percent increase in outstanding gross loans of NBFIs during the review period. CUs registered the highest increase in gross loans, 63.9 percent in 2023, which translates to 69.7 percent market share of industry loans. FCs, with a market share of 30.3 percent realized a 3.7 percent

growth in gross loans. Petty SME trading, which represents the core business model of microfinance institutions, accounted for 68 percent of total loans issued by FCs, followed by personal loans and agriculture at 9 percent each, construction (7 percent), services (5 percent), and cottage (1 percent). The industry recorded a higher net income of D40.4 million in December 2023, compared to D17.1 million recorded a year ago.

30. The report also provided highlights of key financial soundness indicators of both FCs and CUs as of December 2023. The indicators showed that the industry continued to enjoy comfortable capital buffers relative to the regulatory benchmark. Nonetheless, the risk-weighted capital adequacy ratio of FCs moderated slightly, from 29.0 percent in December 2022 to 28.0 percent in December 2023. Despite the moderation in CAR, it was still above the regulatory requirement of 20 percent.

31. The industry liquidity ratio of FCs also moderated to stand at 66.0 percent in December 2023, from 76.0 percent reported in the same period last year. The report also showed a significant improvement in the industry's asset quality as the non-performing loans ratio declined from a high of 15.0 percent in September 2023 to 8.0 percent in December 2023. This was mainly on account of improved loan recovery efforts by FCs.

32. Similarly, CUs continued to maintain strong financial soundness indicators with a CAR of 20 percent in December 2023, which is above the regulatory requirement of 16 percent.

34. Reacting to the presentation, the Committee welcomed the favorable developments within the NBFIs industry. Members noted the significant improvement in industry asset quality, particularly for FCs, that has been a concern in previous meetings. To ensure sustaining this path, the Committee reiterated the urgency of upgrading and widening the scope of the Credit Reference Bureau to include microfinance institutions. This will place the entities in a better position to assess and scrutinize the creditworthiness of customers.

35. It was mentioned that NBFIs continued to lead in financial intermediation, especially the provision of credit to the informal and low-income groups in society.

## Domestic Debt Market Developments

36. The presentation of the domestic debt market report highlighted key developments in the domestic money market. According to the report, domestic debt stock rose by 8.4 percent, from December 2022 to December 2023, to stand at D41.3 billion (29.4 percent of GDP). This increase was due to a combination of increases in bond issuance, interest payments, and rising security yields.

37. On the composition of total domestic debt, short-term instruments accounted for 52.7 percent, while medium and long-term securities represented 27.3 percent and 20.0 percent, respectively. This poses significant refinancing risks given that more than half of the debt matures within one year. In addition, the increase in the debt stock also means an increase in debt servicing costs. It increased to D4.7 billion at end-December 2023 from D2.7 billion recorded in the same period in 2022. In 2024, debt service is projected to reach D5.6 billion, equivalent to 33.0 percent of domestic revenue with assumption that maturing bonds will be rolled over otherwise debt service could reach D7.7 billion, equivalent to 45.4 percent of domestic revenue.

38. Money market interest rates were volatile in 2023, mirroring the liquidity conditions in the banking sector and the financing needs of government. The weighted average interest rate on treasury bills oscillated between 12.7 percent and 16.5 percent during the year, before declining to 3.8 percent in December 2023. Individual instruments followed similar patterns with the yields for the 91-day, 182-day, and 364-day Treasury bills sliding to 3.2 percent, 5.1 percent, and 7.6 percent in 2023, from 11.5 percent, 12.8 percent, and 12.9 percent in 2022, respectively.

39. The presentation also pointed to robust interbank activity during 2023. Activity volumes in dalasi amounted to D14.1 billion, with an average tenor of 3 to 14 days, compared to D10.4 billion in 2022. The average interbank interest rate, which

mirrors the 3-month Treasury bills rate, increased from 4.2 percent in 2022 to 7.5 percent in 2023.

40. Reacting to the presentation, the Committee expressed concern about the increasing domestic debt stock, citing the importance of implementing prudent fiscal policy to manage the debt situation. Members opined that monetary financing of the deficit must be avoided at all costs to safeguard overall macroeconomic stability.

41. Furthermore, the Committee noted with concern the debt refinancing risks associated with the increasing short-term debt instruments. This will not only eat up domestic revenue but also could trigger debt and fiscal unsustainability, especially given the fact that the international debt deferral is ending in 2025.

## Government Fiscal Operations

42. The presentation on Government Fiscal Operations report provided key developments in government activities for the fiscal year 2023. Preliminary estimates showed that the overall deficit (including grants) narrowed, from 5.7 percent of GDP reported in 2022 to 3.1 percent of GDP in 2023. This was mainly on account of improved revenue performance, including a significant increase in grants for budget support in the fourth quarter and higher domestic revenue collections. Notwithstanding, the overall budget deficit (excluding grants) widened to D18.5 billion (12.9 percent of GDP) in 2023, from D15.3 billion (12.5 percent of GDP) a year ago. The deficit in the basic balance and primary balance narrowed to 2.4 percent of GDP and 0.2 percent of GDP, respectively, from 4.2 percent of GDP and 2.1 percent of GDP reported in the same period a year ago.

43. The report indicated domestic revenue mobilized in 2023 significantly increased by 22.8 percent to stand at D17.8 billion (12.4 percent of GDP), from D14.5 billion (11.8 percent of GDP) reported in 2022. This amount marginally exceeded the projected figure by 2.7 percent, thanks to improved revenue mobilization efforts, including digitalization of tax administration. Similarly, the presentation revealed a 24.7 percent rise in tax revenue to D13.9 billion (9.7 percent of GDP) in 2023, from

D11.1 billion (9.1 percent of GDP) recorded last year. This increase was due to higher direct and indirect tax revenue performance. Non-tax revenue rose by 16.6 percent to stand at D3.9 billion (2.7 percent of GDP) in 2023, from D3.3 billion (2.7 percent of GDP) in 2022. Meanwhile, grants recorded a 68 percent increase to D14.1 billion (9.8 percent of GDP) in 2023, from D8.4 billion (6.9 percent of GDP).

44. According to the report, total government expenditure and net lending between 2022 and 2023 increased by 21.8 percent to stand at D36.3 billion (25.3 percent of GDP), from D29.8 billion (24.3 percent of GDP). This increase was driven mainly by the rise in development expenditures that were largely externally financed.

45. The presentation also revealed a 44.7 percent increase in recurrent expenditure to stand at D18.5 billion (12.9 percent of GDP) in 2023, from D12.8 billion (13.9 percent of GDP) reported in 2022. It continued to dominate fiscal expenditure, accounting for 50.9 percent of total expenditure. Of the components of recurrent expenditure, personal emoluments and interest payments expanded by 20.8 percent and 15.5 percent, respectively, while spending on other charges contracted by 1.1 percent.

46. Public investment expenditure increased due to the ongoing infrastructure developments. Over the reviewed period, capital expenditure increased to D17.8 billion (12.4 percent of GDP), from D12.7 billion (10.4 percent of GDP) in 2022 and accounted for 49.1 percent of total expenditure and net lending.

47. Reacting to the presentation, the Committee stressed the urgency of enforcing reforms in the areas of tax administration and domestic revenue mobilization. This should include measures to broaden the tax base and ensure that revenue leakages are comprehensively addressed. Moreover, the Committee expressed concern about the high public debt situation and the need to rationalize expenditure to avoid slippages that could be costly to reverse. The Committee referred to the macro-fiscal stress testing results, which pointed to a potential rise in debt-to-GDP, putting fiscal sustainability at risk in the medium to longer term.

48. Members were also concerned about the growing domestic borrowings as it has implications for the already high public debt level and the fight against inflation. In addition, in order to stay within the debt sustainability path as agreed in the new ECF program, fiscal deficit, primary balance, and domestic borrowings must remain within the set targets. The Committee further reiterated the need to carefully manage the financial sector's exposure to the sovereign as it has implications for financial and macroeconomic stability.

49. The Committee reechoed the importance of policy coordination between monetary and fiscal authorities in tackling the enormous headwinds going forward. Members urged policymakers from both sides to engage in consultation before taking major policy decisions that could jeopardize the current policy path.

## Balance of Payments Developments

50. The presentation on the balance of payments indicated a marked improvement in the current account balance in the fourth quarter relative to the third quarter of 2023. The current account balance recorded a surplus of US$4.9 million (0.2 percent of GDP) in the fourth quarter of 2023, compared to a deficit of US$51.5 million (2.5 percent) reported in the previous quarter. This was primarily due to a significant inflow of program grants during the quarter, a decrease in electricity imports, a stable inflow of workers' remittances, and improved tourism receipts. However, the report showed that the current account balance for the entire year still registered a higher deficit when compared to 2022, due to high deficits in the prior quarters.

51. The deficit in the goods account worsened to US$238.3 million (11.6 percent of GDP) in the fourth quarter of 2023, from a deficit of US$213.4 million (10.4 percent of GDP) in the preceding quarter. This is explained by the increase in imports (FOB), mainly resulting from the importation of foodstuff, mineral fuel, and construction materials. The reduction in the electricity imports from Senegal helped reduce the deficit in the goods account.

52. The report also highlighted an improved services account balance, due to higher tourism receipts. The services account surplus increased by 37.7 percent to stand at US$67.9 million in the fourth quarter of 2023, from US$49.3 million reported in the third quarter. When compared to the corresponding period in 2022, the services account balance improved by US$6.7 million, mirroring the strong recovery in the hospitality industry.

53. The presentation also indicated a steady rise in private remittances, which remains a critical component of the current account. A total of US$120.2 million was received in workers remittances in the fourth quarter of 2023, 5.8 percent higher the amount recorded in the previous quarter. The increase in official transfers and workers remittance inflows expanded the secondary income balance to US$181.2 million, from US$126.9 million reported in the previous quarter.

54. Meanwhile, the report revealed that the capital account balance improved to a surplus of US$148.0 million in 2023, from a surplus of US$44.0 million in 2022, benefiting from higher project grant disbursement in the review period. The financial account balance deteriorated to a deficit of US$147.6 million in the review quarter of 2023, compared to a deficit of US$10.9 million in the third quarter of 2023, reflecting a growth in non-resident investment during the quarter under review.

55. Reacting to the presentation, the Committee noted the improvement in the current account balance for the quarter under review. However, members reiterated the urgency to embark on reforms aimed at enhancing efficiency at the port to improve competitiveness and expand the export base. This is critical for The Gambia as a country to achieve a sustainable external balance in the medium to long term.

56. The Committee commented on the methodology of capturing the tourism arrival numbers. To this end, members requested the ERD to further interrogate the figures with the view of understanding the methodology and scope of the data

coverage. The Committee was informed of a meeting with the consultant working with The Gambia Tourism Board to improve tourism statistics. The ERD continued to share information with the consultant, including a report on the Tourism Out of Pocket Expenditure Survey, and continued to take part in meetings and workshops on tourism statistics.

57. On a similar note, in the spirit of correctly classifying the import and export of electricity from the OMVG for Balance of Payments purposes, the ERD was tasked to look into the nature of the contractual arrangements. The Committee was informed that the ERD will consult relevant authorities to understand the current arrangements and facilitate its recording to conform with the BOP compilation manual guide.

## Foreign Exchange Market Developments

58. The presentation on foreign exchange market developments indicated a contraction in activity volume in 2023, compared to 2022. Both the demand, represented by purchase of foreign currency, and supply, represented by sale of foreign currency, moderated in 2023.

59. According to the report, total volumes of transactions in the market, measured by the total amount of foreign currency bought and sold, contracted by 27.3 percent to US$1.9 billion in December 2023, from US$2.5 billion a year ago. A quarter-on-quarter analysis shows activity volumes recording a moderate decline of 1.0 percent in the fourth quarter of the year to stand at US$417.2 million.

60. Furthermore, private remittance inflows continued to be a major source of the supply of foreign currency, accounting for 76.1 percent of total supply in the market in the third quarter. Private remittance inflows expanded slightly, from US$171.6 million in quarter three to US$177.62 million in quarter four of 2023. However, compared to the corresponding period in 2022, private remittance inflows contracted by US$3.4 million or 2.1 percent.

61. The presentation also revealed that CBG's sale of foreign currency was necessary to improve supply conditions and dampened the exchange rate volatility as the new foreign exchange policy took effect. The CBG injected US$39.1 million in 2023 to facilitate the importation of essential commodities and dampened exchange rate pressures. However, this represents a decline in Bank's sale of foreign currency compared to US$59.6 million in 2022, indicating significant improvement in the liquidity conditions in the market.

62. The presentation reported a stable dalasi, albeit with depreciation pressures. The dalasi depreciated year-on-year against the United States dollar, Euro, Great Britain pound, and CFA franc by 3.8 percent, 10.8 percent, 12.7 percent, and 14.2 percent, respectively. The Bank continued to implement reforms to enhance the efficiency of the foreign exchange market. In December 2023, the Bank published a new foreign exchange policy and revised the foreign exchange bureau guidelines. These reforms were necessary to establish orderliness, ensure transparency, and smooth functioning of the market.

63. In response, the Committee welcomed the positive developments in the foreign exchange market, citing the publication of the new foreign exchange policy and revision of the foreign bureau guidelines as major achievements. However, members were concerned about the decline in activity volumes and the persistent depreciation pressures, despite the easing of supply conditions. The Committee was informed that activity volumes may pick up as the market normalizes after the publication of the new policy. On the depreciation pressures, it was mentioned that structural impediments need to be addressed to improve the country's trade competitiveness.

## Monetary Developments

64. The presentation on Monetary Developments provided key highlights on recent developments in the monetary aggregates and the stance of monetary policy in the fight against inflation.

65. As external sector uncertainties continued to weigh on the domestic economy, the MPC decided to stay the course and maintained the policy rate at 17 percent, despite the fall in inflation. However, despite the high policy rate, the surge in excess liquidity in the banking industry kept real interest rates negative, thus putting a lot of pressure on the local currency and compounding the fight against inflation.

66. Furthermore, the report further revealed a pickup in money supply growth in 2023, benefiting from the rise in the net domestic assets (NDA) and the recovery of the net foreign asset (NFA) position of the banking system. Foreign currency shortages experienced in 2022, which stemmed from external shocks, adversely impacted the net foreign asset position of both the Central Bank and other depository corporations (ODCs), leading to a slowdown in money supply growth. However, significant improvements were observed in the fourth quarter of 2023, thanks to the significant disbursement of donor funds, recovery in tourism receipts, and increase in private remittances. Consequently, external reserves drawdown slowed markedly, from total liquidity injection of US$139.6 million in 2022 to US$59.4 million in 2023. This has facilitated the rebuilding of the net foreign asset position of the Central Bank. The improvement in the foreign currency liquidity condition also enabled the commercial banks to accumulate foreign assets.

67. Broad money year-on-year growth accelerated to 9.3 percent in December 2023, from 7.7 percent recorded in December 2022. The growth in broad money supply was contributed largely by the NDA (6.0 percentage points), while the remaining 3.3 percent came from contributions from the depository corporations' NFA. On a quarter-on-quarter basis, broad money grew by 8.1 percent in the fourth quarter, higher than the 0.9 percent growth recorded in the previous quarter. Similarly, the presentation indicated an annual reserve money growth of 14.1 percent, after contracting by 0.9 percent recorded the previous year.

68. According to the report, the stock of NFA of the depository corporations surged by 54.4 percent in the fourth quarter of 2023, compared to a contraction of 10.6 percent in the previous quarter. This increase reflects the marked improvement (74.5 percent) in the net foreign asset position of the Central Bank. On a year-on-year basis, the NFA of depository corporations grew by 8.8 percent in December 2023 to stand at D26.2 billion.

69. In particular, the NFA of the Central Bank significantly increased by 74.5 percent (quarter-on-quarter), mirroring the marked increase in the claims on non-residents (30.0 percent). Liabilities to non-residents also went up but at a slower pace of 5.7 percent related to disbursements under the IMF ECF program. Annually, the NFA of the CBG recovered to grow by 11.3 percent in 2023, following a contraction of 33.3 percent registered in 2022. Similarly, the report showed that the NFA of other depository corporations grew annually by 5.5 percent in December 2023.

70. Furthermore, the report revealed a deceleration in the growth of the NDA of depository corporations, mirroring the slowdown in the claims on central government and private sector growth. As of the end of December 2023, the banking sector's net domestic assets grew by 9.5 percent (year-on-year) to stand at D44.7 billion. This level of growth is, however, lower than the 21.1 percent growth recorded in the same period a year ago.

71. The banking system’s net claims on the central government grew by 2.7 percent, significantly lower than 11.6 percent registered a year ago. This is explained by the marked increase in government deposits at the Central Bank related to large budget support in the fourth quarter of the year, which also limited the government’s need to borrow from the domestic market. The substantial budget support also enabled government to redeem some existing instruments, including a 30-year bond held by the Central Bank. Credit flow to the private sector also fell in 2023, compared to a year ago. Annual growth in credit to the private sector was 12.2 percent in 2023, down from 25.4 percent recorded at the end of 2022. In real terms, private sector credit growth contracted to 4.8 percent in December 2023, from a surge of 12.3 percent recorded in the corresponding period in 2022.

72. The Committee welcomed the moderated Central Bank net claims on central government during the review period. Members reiterated the need to maintain prudent fiscal policy going forward to avoid the monetization of the deficit, which could fuel inflation and depreciation pressures.

73. The Committee was pleased to note the improvement in the banking sector's NFA position, indicating the waning of foreign currency liquidity constraints. This improvement also enabled the CBG to strengthen its external reserve buffer, enhancing resilience. Ultimately, this will help stabilize the exchange rate and curb inflation.

## Business Sentiment Survey

74. The presentation of results from the Business Sentiment Survey conducted by the Bank every quarter indicated that business sentiments have further moderated in quarter four when compared to the third quarter of 2023. The sentiments of businesses were largely influenced by currency depreciation, the rising cost of living, and uncertainties regarding the prospects of the global economy stemming from concerns surrounding the escalating conflict in the Middle East.

75. The report further revealed continued rising inflation expectations from 2022. The notable surge in commodity prices, particularly fuel and food prices, coupled with the depreciation of the domestic currency, exerts cost pressures on businesses. On the prospects, the majority of respondents anticipated a further increase in the general price level. These sentiments were largely shaped by the imminent rise in higher input prices, the anticipated uptick in public spending, the availability of foreign currency, and the depreciation of the domestic currency. These factors stood out as key determinants of inflation expectations throughout the year.

76. Reacting to the presentation, the Committee noted with concern the elevated inflation expectations, citing its potential drag on the disinflation process. Members were also concerned about the expectation of further depreciation pressures,

which could fuel inflation and complicate the efforts to return inflation to target sooner than later.

77. Members enquired about the status of the consumer expectation survey meant to complement the business sentiment survey for a more balanced view of expectations. The Committee was informed that preparations were in high gear and ERD planned to roll out the survey in the second quarter of 2024, pending resource availability, including staffing.

78. The Committee emphasized the importance of effective monetary policy communication in taming inflation expectations. Members were informed that the Bank's communication strategy has been approved and implementation was expected to begin in earnest.

## Real Sector Developments

79. The presentation on Real Sector Developments indicated a strong performance of the Gambian economy in an environment engulfed with uncertainties. Latest data released by the Gambia Bureau of Statistics (GBoS) revealed a quarterly annualized real GDP growth of 4.8 percent in the third quarter of 2023, supported by agriculture and services sectors. In addition, the Bank's Composite Index of Economic Activity (CIEA) pointed to a robust activity growth in 2023, registering an annual average growth of 6.6 percent. Consequently, the output gap is expected to remain positive, indicating the presence of demand-driven inflationary pressures in the domestic economy.

80. The presentation also discussed staff forecast of real gross domestic product (GDP) growth of 5.4 percent for 2024, compared to a 5.3 percent forecast for 2023. The forecast was a 0.1 percentage point upward revision from the November forecast. Growth is expected to be aided by strong domestic demand, including robust public expenditure, stable inflows of remittances that fuel private consumption and investment, and a rebound in tourism.

81. Reacting to the presentation, the Committee hailed the strong economic performance in 2023, noting that the Gambian economy is on a strong footing to full recovery. Members stressed the need to speed up interventions in agriculture to bolster productivity and growth in the medium to long term.

82. However, members cautioned that the positive output gap has the potential to add to existing inflationary pressures and potentially disrupt the disinflation process.

## Inflation Developments

83. The presentation on price developments report provided key highlights on price developments as headline inflation moderated for the second month. As of the end of January 2024, annual inflation declined to 16.2 percent, from a peak of 18.5 percent reported in September 2023. The decline was largely influenced by the moderated global commodity prices and the impact of previous policy actions.

84. The report further discussed the developments in food inflation. It indicated that food inflation decelerated by 1.5 percentage points to 21.0 percent in January 2024, from 22.5 percent reported in December 2023. The decline in food price inflation was occasioned by the deceleration in the price indices of bread and cereals, meat, oil, and fat during the period. Similarly, non-food inflation moderated slightly by 0.6 percentage points to settle at 11.3 percent in January 2024, largely due to a fall in the price indices of clothing & footwear, housing & utilities, health and transport, while miscellaneous goods and services went up slightly during the same period.

85. Furthermore, the report also pointed to the deceleration of core inflation. In January 2024, Core1 inflation, which excludes volatility associated with energy products, declined to 19.1 percent, from the previous month's 20.8 percent and the end-October 2023 figure of 23.3 percent. Similarly, Core 2 inflation, which excludes both volatile energy and food products, decreased to 18.3 percent in

January 2024, compared to the 22.6 percent recorded in October 2023. These developments pointed to the gains registered in the fight against inflation so far as underlying inflationary pressures show signs of easing somewhat.

86. Nonetheless, members cautioned that even though headline inflation moderated for the second month and core inflation softened, the risk to the outlook remained tilted on the upside. These include uncertainties surrounding global food, particularly rice prices and energy price volatility.

## Staff Assessment and Economic Outlook

87. The Bank staff assessed that economic activity was robust in 2023. This strong performance was expected to be sustained into 2024 with economic growth forecast to reach above the historical average. Staff predicated the favorable growth outlook on the strong domestic demand as private and public consumption and investment are expected to support growth prospects. In addition, private remittance inflows and private-sector credit are expected to continue aiding household consumption and investment. In particular, private investment in the construction sector is projected to continue its robust performance. Public sector investment was also projected to remain strong as infrastructure development projects are expected to support aggregate demand and bolster economic growth. Against this backdrop, staff forecast economic growth at 5.4 percent in 2024, representing a 0.1 percentage point upward revision from its November 2023 forecast.

88. On domestic inflation, staff forecast a decline in inflation, predicated on moderated commodity prices and domestic policy actions. The forecast further suggested that inflation will decline faster to single digits sooner than previously projected. In this regard, the Bank Staff forecast headline inflation to average around 11 percent in 2024. However, the risks to the outlook remained tilted to the upside as uncertainties and volatility in global commodity prices remain.

## Policy Justification

89. The global economy registered an improvement in 2023, buoyed by a combination of both demand and supply dynamics. The momentum is expected to be sustained into 2024. Additionally, large emerging market economies such as China are expected to grow faster than previously expected. These encouraging developments will have positive impact on the domestic economy, particularly in terms of bolstering trade and tourism. Furthermore, the ongoing decrease in global inflation is poised to aid in curbing domestic inflation rates.

90. On the domestic front, the Committee judged that the strong economic recovery would continue, and real GDP growth is forecast to reach 5.4 percent in 2024. This growth will be supported by the recovery in tourism activity, public and private sector consumption, and investments.

91. The foreign exchange market continued to function smoothly, and the exchange rate remained relatively stable, despite demand pressures. The Central Bank continued to maintain a comfortable level of external reserves. However, the persistent current account deficit poses a significant challenge.

92. There are encouraging signs in the fight against inflation, but significant risks remain. Headline inflation continued to decline for the second month to 16.2 percent during the review period. Similarly, underlying inflationary pressures show signs of abating as the Bank's core measures of inflation decelerated again for the second month in January 2024. While the outlook is promising, significant risks remain including geopolitical uncertainties and volatile commodity prices. The Committee pledged to stay firm in the fight against inflation and ensure the disinflation process that has just started is sustained and inflation returns to its medium-term target.

## Decision

93. In light of the above factors and the strong commitment to the fight against inflation, the Monetary Policy Committee took the following decisions:
    1. **Monetary Policy Rate (MPR):** maintain the MPR at 17.0 percent.
    2. **Required Reserve (RR):** The required reserve of commercial banks was maintained at 13.0 percent.
    3. **Standing Deposit Facility (SDF):** The interest rate on the standing deposit facility remains unchanged at 3.0 percent, providing an avenue for banks to park excess reserves.
    4. **Standing Lending Facility (SLF):** The interest rate on the standing lending facility remains at 18.0 percent, aligning with the adjusted MPR.

The Committee affirmed its commitment to continue to monitor the cumulative effects of its policy actions on inflation and economic activity in determining the next policy direction.

## Information Note

## Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is slated for **Wednesday, May 22, 2024**. The meeting will be followed by the policy decision announcement on **Thursday, May 23, 2024**.