CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

MINUTES OF MEETING NO.91 **August 26-27, 2024**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) met on August 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 7 Members of the Committee.

MPC Members Present

Name	Role
Mr. Buah Saidy	Chairman
Dr. Abdoulie Sireh Jallow	Member
Dr. Paul Mendy	Member
Mr. Lamin Bojang	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
Mr. Yaya SK Jatta	Banking Officer, Banking and Payment Systems Department

Mr. Ebrima Susso	Senior Bank Examiner, Banking Supervision Department
Mr. Nfamara Jeng	Bank Examiner, Banking Supervision Department
Mr. Alkali Barrow	Officer, Other Financial Institutions Supervision Department
Mr. Sarjo Jatta	Officer, Financial Markets and Reserve Management Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department
Dr. Foday Joof	Risk Management Officer, Economic Research Department
Habib Ceesay	Statistician, Economic Research Department
Rohey B. Cham	Cadet Economist, Economic Research Department

Agenda

1. The meeting agenda was adopted as presented below:
    - 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 and Chairman of the Committee welcomed Members to the third Monetary Policy Committee Meeting (MPC) of 2024. He extended special acknowledgement to the newly appointed external member, Mr. Lamin Bojang, congratulating him on his two-year term. The Chairman then reminded Mr. Bojang of the primary mandate of the MPC, which is achieving and maintaining price stability. He underscored the independence of the Committee, emphasizing that decisions should be guided solely by what each member believes is in the best

interest of the Gambian economy and the well-being of its people. He further stressed that decisions must not be influenced by the fiscal authority.

3. The Chairman went on to stress the importance of the MPC in the country's overall macroeconomic management. He underscored the relevance of the decisions made at the MPC meetings, noting the direct implications on the cost of living of households, financial sector stability and fiscal policy. Therefore, it is important for Members to contribute their expertise and rich experience in the deliberations and decision-making processes.

4. The Governor noted the improved global economic conditions precipitated by steady activity and declining global inflation. This is expected to positively trickle down on the Gambian economy, especially in the areas of tourism and remittance inflows, which will help sustain domestic demand and economic growth. Notwithstanding, he noted with concern the still volatile global commodity prices, which remain a significant risk to domestic inflation. He warned that the ongoing geopolitical tensions in the Middle East and Ukraine could compound these risks, complicating the already fluid policymaking environment. The Governor, therefore, urged Members to stay focused on sustaining the macroeconomic gains going forward.

5. Regarding the performance of the domestic economy, the Governor noted the growth in economic activity and the faster-than-expected decline in inflation. He expressed optimism about the prospects of the economy backed by better cropping season, strong tourism and stable remittance inflows, which will support consumer spending and investment and help maintain growth momentum. Nevertheless, he reiterated to Members that the objective of monetary policy remains to bring inflation back to the Bank’s medium-term target. Thus, all efforts must be directed towards this goal.

6. In conclusion, he commended staff and MPC Members for their staunch commitment to delivering on the Bank’s mandate. He noted that while so much

has been achieved, the ambition is to sustain the macroeconomic stability and generate inclusive economic growth that can lift The Gambia to a middle-income country.

Review and Adoption of Minutes of MPC Meeting No. 90

7. The minutes of the MPC Meeting No.90 were reviewed and adopted after minor adjustments.

Matters Arising

8. On matters arising, Members enquired about the proposed study on the impact of CBG fertiliser interventions on inflation. The DFD informed the Committee that it was premature to conduct the study, given the information needed was not readily available. However, Members reiterated the need to conduct the study as soon as the required information is available.

9. Members were also updated on the task assigned to Advisor Njie and BSD to conduct a diagnostic analysis on NPLs. The Committee was informed that the BSD have a loan database on single-large borrowers and the Department conducts diagnostic analyses to uncover any potential risks on single-large borrowers and the report is always shared with Management. Advisor Njie and the Second Deputy Governor were invited to the Department to confirm the availability and workings of this system. In addition, Members were also informed of the meeting of CBG Management, the single larger borrower and the bank concerned, and modalities have been put in place to regularise the borrower's NPL status.

10. The Committee was updated on the possibility of conducting a Financial Inclusion Survey. The Second Deputy Governor mentioned that the Microfinance Department consulted the Gambia Bureau of Statistics (GBoS) on the possibility of conducting a nationwide financial inclusion survey, but the cost involved was judged to be high. However, a stakeholder meeting was scheduled to promote financial inclusion in the country. He also mentioned that the recent licensing of

Fintech Companies is driving financial inclusion at an unprecedented pace in the country. Notwithstanding, the survey will now be planned for 2025 to evaluate the progress made and whether the country has met the set target of 75 percent.

11. Furthermore, the Committee was informed of the Bill and Gates Foundation's readiness to roll out a free financial inclusion software (Switch), where small microfinance institutions will have the opportunity to connect to the national switch (Gamswitch). The system will be housed at the Gambia Post Office. This initiative is expected to significantly improve financial inclusion in the country. Plans are in place to visit Rwanda to understudy the implementation of this system.

Presentation of Reports

12. Presentations and discussions of reports took place in the following order:
    - Developments in the Global Economy
    - Government Fiscal Operations
    - Domestic Debt Development
    - External Sector (Balance of Payment and Foreign Exchange Market)
    - Real Sector
    - Business Sentiment Survey
    - Banking Sector (Recent Developments
    - Stress Testing, and Foreign Currency Net Open Position
    - Non-Bank Financial Sector, Financial Market
    - Monetary Sector
    - Inflation
    - Staff Assessment and Outlook
        - Assessment of the current economic conditions
        - Baseline forecasts
        - Alternative scenarios

Global Economic Developments

13. The presentation on the Global Economic Developments report highlighted key developments in the global economy since the last MPC. The presentation provided a summary of the July 2024 update of the World Economic Outlook (WEO) published by the International Monetary Fund (IMF).

14. The report indicated that the global economy continued to strengthen with many countries experiencing higher-than-expected growth in the first half of 2024. This was largely attributed to improved trade, particularly in the technology sector and favourable supply conditions. Against this backdrop, in the July 2024 World Economic Outlook update, the IMF predicted the global economy to expand by 3.2 percent in both 2024 and 2025. However, growth for 2025 was revised upward by 0.1 percentage points to 3.3 percent. Similarly, the World Bank in its June Global Economic Prospects Report forecast the global economy to remain steady despite geopolitical tensions and high interest rates.

15. Nevertheless, economic prospects are generally expected to remain tepid, particularly in the most vulnerable countries. Although the risks to the outlook are more balanced, they remain skewed to the downside, with potential challenges from renewed geopolitical tensions, increased trade fragmentation, and prolonged periods of elevated interest rates.

16. The presentation also highlighted regional economic prospects. It noted a positive growth outlook for both advanced and emerging markets and developing economies for 2024 and 2025, unchanged from the April 2024 projections. However, growth prospect in sub-Saharan Africa was revised downward by 0.1 percentage points, due mainly to a 0.2 percentage point reduction in Nigeria's growth. The report stated that the steady growth prospects in the global economy are expected to positively impact the Gambian economy, particularly in the areas of trade, remittance inflows and tourism.

17. The report went further to highlight developments in international prices. The presentation revealed that global disinflation has slowed, with persistent price pressures continuing into early 2025, attributed to the stubbornly high service prices in both advanced and emerging markets economies. As a result, the revised forecast indicates that disinflation will progress more slowly in 2024 and 2025, with the high service inflation and commodity prices expected to hold up global inflation. Nonetheless, the gradual cooling of labour markets, expected declines in energy prices and continued restrictive monetary policy should help bring headline inflation back to target by the end of 2025. Furthermore, heightened uncertainty in trade policy—now at its peak—could result in additional trade restrictions, drive up costs of imports and push up oil prices, thus amplifying near-term inflation risks.

18. On international commodity price developments, the presentation showed that commodity prices are expected to decrease slightly in 2024. The IMF All Commodity Prices Index declined by 0.3 percent in July, from the level it was in June 2024. Similarly, the FAO Food Price Index, which tracks monthly changes in the international prices of globally traded food commodities, declined by 3.1 percent in July 2024 from its value a year ago. This placed it 24.7 percent below its peak of 160.3 points in March 2022, reflecting the easing in the prices of cereals. Furthermore, rice prices, a staple in The Gambia, continue to decline for the second consecutive month. The FAO Rice Price Index decreased by 2.1 percent in July 2024 compared to June. The decline in prices was influenced by sluggish demand and news reports suggesting that amendments to India's export restrictions are being considered.

19. The presentation concluded by providing an assessment of the implication of global developments on the Gambian economy. The report indicated that the improvement in global growth, particularly from major trading partners, could bolster trade and strengthen the domestic economy. This also means more tourism and remittance inflows, providing both foreign currency supply and supporting private consumption and investment, thus stimulating domestic demand. However, the continued volatility in commodity prices due mainly to geopolitical

tensions is expected to slow the disinflation process, due to its pass-through effect on domestic food and energy prices.

20. Reacting to the presentation, the Committee noted the steady improvement in the global economy which could positively impact the Gambian economy. Members commented on the higher growth prospects for the region and from bilateral trading partners as encouraging for domestic trade.

21. However, the slowdown in the global disinflation process poses a significant risk in the fight against inflation in The Gambia, which calls for careful policy calibration going forward. Moreover, this trend suggests that monetary policy easing in advanced economies will be slower than expected, likely keeping the dollar stronger for longer.

22. The Committee welcomed the development in international commodity prices, particularly the declining rice prices. Members noted that this is a good development for the country given the importance of rice in the consumer basket. It was also mentioned that since food accounts for more than half of the consumer price basket, a sustained decline in food prices will have a passthrough impact on domestic inflation. Notwithstanding, members cautioned that many factors are at play in the international scene with huge implications on the direction of global commodity prices, including food prices. Therefore, policies must stay focused until a time when inflation returns to target.

23. Members reiterated the urgency of intensifying domestic intervention policies to tackle ongoing supply-side challenges. The Committee was informed that support from the AFDB and African Rice in collaboration with the Ministry of Agriculture to boost domestic rice production is underway. This project aims to improve rice production and make the country rice self-sufficient in the shortest possible time. In addition, local actors have also entered the business of rice production and other essentials, including dairy production, poultry and vegetables. Members welcomed these initiatives, citing their potential impact on easing constraints on food supply, saving foreign currency and promoting economic development.

Domestic Macroeconomic Developments

Government Fiscal Operations

24. The presentation on the fiscal developments report provided key highlights on government operations for the first half of 2024. Preliminary estimates showed that despite strong revenue performance in the first half of the year, government's position deteriorated.

25. The report indicated that the overall deficit (including grants) widened to D5.1 billion (3.9 percent of GDP) in the first six months of 2024, from D4.8 billion (3.3 percent of GDP) in the first half of 2023. Similarly, the overall budget deficit, excluding grants, widened to D9.3 billion (6.5 percent of GDP) in the first six months of 2024, compared to a deficit of D8.9 billion (6.2 percent of GDP) recorded in the corresponding period of the previous year. The deficit in the basic balance and primary balance stood at 1.9 percent of GDP and 3 percent of GDP, respectively.

26. The presentation highlighted a strong revenue performance during the first half of 2024, thanks to improved tax administration. Domestic revenue, encompassing both tax and non-tax revenues, rose by 24.6 percent to D10.7 billion (7.4 percent of GDP) in the first six months of 2024, from D8.6 billion (6.0 percent of GDP) reported in the same period last year. This was mainly driven by increased tax and non-tax revenue.

27. On tax revenue performance, the presentation revealed a 29.4 percent rise in tax revenue to D9.0 billion (6.3 percent of GDP) in the first half of 2024, from D6.9 billion (4.9 percent of GDP) recorded in the corresponding period of 2023. This increase was predicated on higher direct and indirect tax revenue performance, which increased by 52.7 percent and 13.7 percent, respectively. Similarly, non-tax revenue improved marginally by 6.3 percent to D1.7 million (1.2 percent of GDP) in the first six months of 2024, from D1.6 million (1.1 percent of GDP) in the same period last year. The report also indicated that project grants increased by 2.4 percent to

stand at D4.2 billion (2.9 percent of GDP) in the first half of 2024, from D4.1 billion (2.8 percent of GDP) reported in the same period last year.

28. Furthermore, the presentation revealed that government total expenditure and net lending rose by 14.7 percent to D20.1 billion (14.0 percent of GDP) in the first six months of 2024, from D17.7 billion (12.3 percent of GDP) in the same period in 2023. This was mainly on account of the surge in recurrent expenditure, which accounted for the largest share of total government expenditure during the period.

29. On recurrent expenditure, the report showed a 32.1 percent increase to D11.9 billion (8.3 percent of GDP) in the first six months of 2024, compared to D9.0 billion (6.3 percent of GDP) in the first half of 2023. It continued to account for the bulk (62.4 percent) of total expenditure and net lending. All the components of recurrent expenditure increased, including expenditure on goods and services, and subsidies and transfers, which expanded by 44.1 percent and 28.8 percent, respectively. Likewise, other charges and personal emoluments increased by 42.3 percent and 4.1 percent, respectively, in the first six months of 2024 relative to the same period in 2023. On the other hand, public investment expenditure dropped during the first half of 2024, moderating by 3.9 percent to D8.1 billion (5.6 percent of GDP), from D8.5 billion (5.9 percent of GDP) reported in the same period of 2023.

30. The presentation concluded with a fiscal sustainability assessment, including the implication of primary deficit shock, interest rate shock and climate shocks on growth and public debt dynamics. It was shown that primary deficit shocks and climate-related shocks have more adverse effects on public debt dynamics and economic growth than interest rate shocks. This suggests prudent fiscal policy and investments in climate adaptation measures are critical for both fiscal sustainability and durable economic growth going forward.

31. Reacting to the presentation, the Committee noted that despite the improvement in domestic revenue mobilisation efforts through efficient tax reforms, the fiscal position remains tight. They called for prudent expenditure rationalisation to ensure fiscal sustainability. In the same vein, Members further encouraged the widening of tax reforms to include the informal sector to boost domestic revenue collections and create the much-needed fiscal buffers for future contingencies.

32. The Committee was briefed on a financing arrangement with AFREXIMBANK in the pipeline aimed at supporting road infrastructure development. Under this arrangement, the National Road Authority (NRA) would issue an infrastructure bond, which AFREXIMBANK would purchase. To acquire the required dalasi liquidity for the bond purchase, AFREXIMBANK would engage in a swap arrangement with the Central Bank. It was argued this arrangement is expected to provide the Central Bank with foreign currency, ease exchange rate pressures and support the domestic financing needs of the government.

33. The Committee commended the ERD for the macro-fiscal stress testing exercise. The results provided guidance on a fiscal path consistent with a declining public debt-to-GDP ratio, with fiscal savings ensuring sustainability in the medium to longer term. Members noted the implications of climate-related shocks on fiscal sustainability and called for authorities to take advantage of climate adaptation initiatives to address the country's climate vulnerability and mitigate future shocks.

34. In this regard, the Committee reiterated the call for close policy coordination between monetary and fiscal authorities to ensure policy consistency at the macro level. This is particularly important in derisking the domestic financial landscape in order to attract private capital into climate-related financing, an initiative that should be championed by the government and the Central Bank.

Domestic Debt Market Developments

35. The presentation of the Domestic Debt Market report highlighted recent developments in the domestic money and bond markets since the last MPC. The report indicated that domestic debt stock increased by 3.2 percent to D42.1 billion in June 2024, from D40.8 billion reported in the same period of 2023. This increase was 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.

36. On the composition of the total domestic debt, the report indicated that short-term instruments continue to account for the highest share of the debt, accounting for 47.5 percent. Medium-term instruments accounted for 33.2 percent, while long-term securities represented 19.2 percent. Although the debt is still concentrated in the short end, the share of medium and long-term securities has increased, which are partly used to finance infrastructure projects and settling maturing bills. Nevertheless, the current composition of the debt stock poses significant refinancing risks given that close to half of the debt matures within one year. In 2024, domestic debt service is projected to reach D5.2 billion, accounting for 23.1 percent of domestic revenue.

37. Furthermore, the presentation projected domestic interest expense for 2024 to reach D4.4 billion, representing 19.7 percent of domestic revenue, compared to the D2.4 billion (13.8 percent of domestic revenue) reported in 2023. This increase is largely due to higher interest rates and increased stock of borrowing during the period under review.

38. On short-term market interest rates, the report showed that although market interest rates edged up somewhat during the period, the wedge between the monetary policy rate and other money market interest rates, excluding the standing lending facility rate, remains wide, reflecting the excess liquidity in the banking system. Nevertheless, yields on short-term government securities increased in June 2024, largely reflecting government borrowing from the domestic market.

The weighted average treasury bill rate increased from 6.1 percent in March 2024 to 10.4 percent in June 2024.

39. The report further indicated that the interbank market continues to be active with robust activity volumes. Total trade activity volumes in the interbank dalasi market in June 2024 stood at D7.5 billion, compared to D13.8 billion reported in 2023. The weighted average interest rate prevailing in the market declined, from 7.5 percent in December 2023 to 5.2 percent in June 2024, reflecting the excess liquidity in the banking system.

40. On monetary policy operations and liquidity management, the presenter indicated improvement in the Bank's interest rate corridor (the standing deposit and standing lending facilities), with increased activity during the period. In June 2024, borrowing through the corridor amounted to D2.1 billion, lower than D5.9 billion in June 2023, with an annual interest rate of 18 percent. Similarly, deposits through the corridor amounted to D6.7 billion compared to D2.8 in the same period of 2023, with an interest rate of 3 percent.

41. Reacting to the presentation, the Committee noted with concern the rising domestic debt, especially given the fact that 47.5 percent of the debt is on the short end. This poses significant debt refinancing risks putting a strain on domestic resources and further tightening the fiscal space. The Committee reiterated the need to fully commit to the government's medium-term debt strategy of elongating the domestic debt maturities. This will reduce the re-financing risks and allow government the much-needed fiscal space to embark on critical public investments.

42. The Committee also noted that most of the debt goes to finance recurrent expenditure, which has debt sustainability implications and inflation. Members underscored the need for urgent expenditure rationalisation measures, including the closure of some embassies and redundant government agencies. It was recommended that the MoFEA should consider these adjustments in the upcoming

budgetary cycle. The rising domestic borrowing could jeopardize fiscal sustainability and overall macroeconomic stability.

Balance of Payments Developments

43. The presentation on the balance of payments provided an update on key developments in the external sector. Preliminary data indicated persistent balance of payments challenges. The presentation reported a moderation in the current account deficit 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 period of 2023. The deficit in the current account was largely due to the widening of the goods account, explained by the increase in imports (FOB), mainly from the importation of construction-related materials for the completion of OIC-related projects, mineral fuel, fertilizer and food. Although exports increased, it was not enough to offset the increase in imports.

44. Furthermore, the presentation pointed to a deteriorating trade balance with total imports (FOB) increasing by 4.5 percent to US$663.8 million (30.5 percent of GDP) in the first half of 2024 compared to the corresponding period of 2023. This was explained by the increase in the importation of electricity, minerals and fuels, fertilizer, vehicles, and cereals. Exports (FOB) rose to $161.8 million (7.4 percent of GDP) in the first half of 2024 compared to the corresponding period in 2023, which partly mitigated the impact of imports on the goods account.

45. The report revealed an improved services account balance during the period, reflecting in part the rebound in tourism industry. The service account surged significantly in the first half of the year to a surplus of US$180.8 million (8.3 percent of GDP), compared to US$87.1 million (4.5 percent of GDP) in 2023. This is on the back of a substantial growth in the number of tourist arrivals, thanks to rebranding efforts by Gambia Tourism Board of destination Gambia.

46. The presentation highlighted the strong performance of private remittance inflows during the period. In the first half of 2024, private remittance inflows grew by 3.3 percent to stand at US$405.1 million in the first half of 2024 compared to the same period in 2023. This increase provided support to the current account position, the exchange rate, and private consumption and investments during the period.

47. Furthermore, the report indicated that the capital account balance grew modestly to a surplus of US$63.0 million in the first six months of 2024, from a surplus of US$61.5 million in the first half of 2023. Similarly, the financial account balance deteriorated to a deficit of US$166.5 million in the first half of 2024, compared to a deficit of US$143.4 million in the corresponding period of 2023, reflecting a higher non-resident investment during the period under review.

48. Reacting to the presentation, the Committee lamented the continued balance of payments challenges, citing its implications on the exchange rate and economic growth. Members reiterated the urgency in investing in local agricultural production, including rice and animal husbandry to reduce food imports and expand the export base of the economy. This will ease exchange rate pressures and ensure a sustainable external balance in the medium to long term.

49. In addition, the Committee raised concern about the eroding re-export trade, citing the important role it used to play in providing foreign exchange earnings for the economy. Members were informed that the ERD has plans to conduct a re-export trade survey when the trading season opens to examine the current trends in re-export. This survey will also try to elicit some of the challenges hindering re-export trade activities.

Foreign Exchange Market Developments

50. The presentation on foreign exchange market developments highlighted key developments in the domestic foreign exchange market since the last MPC. The report indicated that the market continues to function smoothly with stable activity

volumes. Total volumes of transactions measured by aggregate purchases and sales of foreign currency moderated by 6.3 percent to US$563.0 million in June 2024, compared to US$600.9 reported in March 2024. However, when compared to the same period of June 2023, activity volumes significantly increased by 20.5 percent. This stable activity volume reflects improved supply conditions during the review period easing foreign exchange liquidity pressures observed in 2023.

51. In terms of foreign currency supply, private remittance inflows continue to play a significant role in providing foreign exchange liquidity in the domestic economy in addition to other traditional sources such as tourism, exports and budget support. Private remittance inflows slightly moderated by 1.6 percent in June 2024 to US$200.9 million, from US$204.2 million reported in the first quarter of 2024. However, when compared to the same period last year, remittance inflows grew by 2.6 percent. The stable remittances have helped ease foreign exchange liquidity conditions in the domestic market.

52. Furthermore, the report noted that the dalasi remains relatively stable, following a trend depreciation. From March to June 2024, the dalasi depreciated against all the major traded currencies, highlighting the continued increase in demand for foreign currencies to finance the importation of goods. It depreciated quarter-on-quarter against the United States dollar, Euro, Great Britain pound, and CFA franc by 0.5 percent, 1.2 percent, 1.2 percent, and 3.9 percent, respectively.

53. Commenting on the presentation, the Committee noted the stable activity volumes, citing that it is an indicator of improved liquidity conditions in the domestic foreign exchange market. Members were informed that the softer supply conditions could be partly attributed to the temporal moratorium on foreign currency shipment recently introduced by the Bank.

54. The Committee raised concerns about the persistent depreciation pressures, despite the stable remittance inflows, budget support and re-export trade receipts. The Committee was informed that even though supply conditions have improved somewhat, excess demand pressures persist.

55. Moreover, foreign currency leakages to neighbouring countries either through elicit re-export trade and/or through remittance outflows are also contributing factors. The Financial Markets and Reserve Management Department (FMRMD) was tasked to closely look into this matter and advise the Committee.

Real Sector Developments

56. The presentation on Real Sector Developments provided key highlights on the recent growth performance of the Gambian economy. Preliminary estimates from the Gambia Bureau of Statistics (GBoS) revealed that real GDP growth in 2023 was estimated at 4.8 percent, lower than the revised growth figure of 5.5 percent recorded for 2022. This estimate is 0.5 percentage points lower than the CBG staff forecast for 2023. The moderation in real GDP growth was broad based with most sectors experiencing slower growth in 2023 compared to 2022. Specifically, growth in the agriculture and services sectors slowed, from 7.5 percent and 5.1 percent in 2022 to 2.4 percent and 4.1 percent in 2023, respectively. Nevertheless, the report indicated that economic activity during the review period remains strong with the output gap staying positive.

57. On the outlook, growth is anticipated to be stronger in 2024 with real GDP growth projected at 5.7 percent. Growth is to be supported by agriculture, services and construction sectors, including robust public sector investments. In addition, the Bank's Composite Index of Economic Activity (CIEA) pointed to strong economic activity in the first half of 2024, driven by higher public expenditure, alongside stable remittance inflows, which support consumption and investment. The anticipated better cropping season will also aid economic activity in 2024.

58. Reacting to the presentation, the Committee noted the resilience of the Gambian economy during a challenging global environment. Members acknowledged the above-average performance of the economy in 2022 and 2023 and welcomed the higher prospects for 2024 and beyond. They noted that with agriculture

expected to perform better in 2024 coupled with a rebound in tourism and robust private and public spending, real GDP growth is expected to be stronger in 2024.

59. The Committee was informed that local actors in the agricultural sector, including in rice and vegetable production and animal husbandry are expected to boost output of the sector and aid economic growth and employment. However, Members stressed the need to improve the financial landscape of the country with significant improvement in access to finance, particularly for businesses in the agricultural sector.

Business Sentiment Survey

60. The presentation of results of the Business Sentiment Survey highlighted factors influencing business sentiments during the review period. The report indicated improved sentiments among businesses about the prospects of the economy, although inflation expectations remained high. The results show that businesses were optimistic about the developments in the global economy, with global growth prospects and inflation expected to be better in the second half of 2024. On the domestic economy, although businesses were pessimistic about the current state of the economy, they expressed optimism about the near-term economic outlook. These views were mainly influenced by expected improvements in foreign currency supply and higher economic activity

61. Nonetheless, the report showed persistently high inflation expectations, largely shaped by rising commodity prices – particularly food, high loan interest rates, and fluctuations in exchange rate. Similarly, on the outlook, the presentation revealed that businesses foresaw further inflation increases in the next quarter, driven by global price pressures, anticipated strong credit demand, and volatile domestic commodity prices. Survey respondents perceived depreciation pressures to persist into the near future, citing the lean tourism activity, limited exports and high importation costs as the main reasons shaping their expectations.

62. Reacting to the presentation, the Committee welcomed the positive view on the prospects of the Gambian economy, indicating the return of confidence in the near term. Members commented that this is a good sign for the economy as it gives investors and households confidence to spend and invest in projects that generate employment and growth.

63. However, Members lamented the persistently high inflation expectations. The risk of de-anchoring inflation expectations will further complicate the fight against inflation. The Committee also raised concerns about the expectation of further depreciation pressures, which could further push domestic cost factors higher. To this end, Members emphasized the importance of effective monetary policy communication, citing the need to utilize forward guidance to help shape business sentiments, especially in the areas of inflation and the exchange rate.

Banking Sector Developments

64. The presentation on Banking Sector Developments provided key updates in the industry since the last MPC. The report indicated that the sector remained concentrated with two large banks and one medium bank controlling about 55.9 percent of total industry assets, while the remaining nine small banks held 44.1 percent.

65. Furthermore, the report highlighted that the industry's financial soundness indicators depicted a healthy industry standing. The industry risk-weighted capital adequacy ratio slightly declined to stand at 24.1 percent in June 2024, compared to the 27.9 percent reported in March 2024. For the reporting period, all banks were within the regulatory requirement of 10 percent.

66. The presentation pointed out that the industry remains liquid, with the industry registering a liquidity ratio of 76.6 percent. This is slightly lower than the 78.3 percent reported in March 2024 but higher than the 70.0 percent reported in June 2023. However, the report showed a declining asset quality within the industry, with the

sector's non-performing loans (NPLs) increasing from 3.3 percent of gross loans in December 2023 to 8.7 percent in March 2024 and 10.2 percent in June 2024. Nevertheless, the industry continues to adequately provide for the loans.

67. Additionally, the report revealed the banking industry continues to expand with a growing asset base. Total assets of the sector increased by 8.6 percent to stand at D96.2 billion in June 2024, compared to D88.6 billion reported in March 2024. When compared to the same period a year ago, total industry assets increased by about 20.0 percent. Government sector investments, balances due from other banks, gross loans and advances, and off-balance sheets continued to account for the greatest share of the increase in total assets. Specifically, government sector investment accounted for 30.0 percent, balances due from other banks at 23.9 percent, loans and advances at 16.1 percent, and off-balance sheet items accounted for 15.1 percent.

68. On the liabilities side, the presentation revealed that customer deposits, which continued to be the main source of funding for banks, marginally increased by 6.3 percent to stand at D62.6 billion in June 2024, and 19.0 percent higher when compared to June 2023.

69. Furthermore, the report indicated a moderation in financial intermediation during the quarter under review. Total loans and advances declined by 4.7 percent, from D17.2 billion in March 2024 to D16.4 billion in June 2024. This moderation was occasioned by the slight decline in other commercial loans and advances, loans to agriculture, and others. On the other hand, other loans and advances, credit to distributive trade, and credit to building and construction registered significant improvement during the review quarter. However, loan-to-deposit ratio remained low, with the report indicating a decline from 29.2 percent reported in March 2024 to 26.2 percent in June 2024. Moreover, credit concentration continues to be a regulatory concern and needs urgent action to safeguard financial stability.

70. The report on 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. While the overall market risk of the industry is low, banks' exposure to the sovereign remains a significant risk to the financial system. Nonetheless, the presentation indicated that the industry is well-capitalized and maintains a comfortable level of liquidity to withstand any potential liquidity shocks.

71. Reacting to the presentation, the Committee noted the positive developments in the banking industry, citing the stable financial soundness ratios as key indicators of a strong industry during the period. Members commented on the expansion in the sector's asset base which is a sign of an improved economic environment.

72. Nevertheless, the Committee raised concerns about the high non-interest income mainly coming from fees and other charges on foreign currency transactions. The BSD was requested to investigate this matter and report to Management.

73. In addition, Members were concerned about the sudden jump in banks' non-performing loans. The Committee lamented that while loan-to-deposit ratio is one of the lowest in the region, lending interest rates and now NPLs are among the highest in the sub-region. A proposal was forwarded for The Gambia to consider tapping into the African Solidarity Fund, which is a multilateral, financial guarantee institution with the purpose of facilitating access to credit. Members underscored its importance as the Fund provides guarantees of bank loans and bonds. Such an intervention would allow Gambian businesses easier access to finance, bolstering credit to the private sector and economic activity.

74. The Committee was informed that the Bank through BSD is working with the Ministry of Justice (MoJ) for the establishment of a commercial court to fast-track litigation processes. This is expected to speed up judgment on encumbered assets for quick disposal.

75. Furthermore, Members were informed that the planned augmentation of the regulatory capital requirements for banks could play a significant role in mitigating the single large borrower challenge the industry is facing and potentially address the concerns raised about rising NPLs. The Committee was informed that part of the regulatory requirement for banks is to seek approval from CBG for loans beyond a certain limit.

76. 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, especially the industry exposure to the sovereign.

Developments in Other Financial Institutions

77. The presentation on non-bank financial institutions (NBFIs) provided key highlights of the performance of Finance Companies (FCs) and Credit Unions (CUs) since the last MPC. The presentation depicted a growing non-bank financial sector, providing reliable financial services to the low-income groups of The Gambian population. The sector consists of seven Finance Companies, two of which are Islamic microfinance institutions, and fifty-six Credit Unions.

78. According to the report, the industry asset base increased by 7.4 percent in June 2024. Total assets of the FCs and CUs increased by 8.2 percent and 6.4 percent, respectively. On a year-on-year basis, total asset of the industry expanded by 3.6 percent, suggesting improved performance for NBFIs during the review period.

79. Furthermore, the presentation indicated that the stock of customer deposits, the main source of funding for NBFIs, significantly increased by 10.0 percent in June 2024 to stand at D5.4 billion, from D4.9 billion reported in March 2024. This increase was due to the growth in total deposits of both FCs and CUs by 11.9 percent and 7.5 percent, respectively, in June 2024. The increase in customer base was the key driver of deposits.

80. On financial intermediation, the presentation showed a quarter-on-quarter industry-wide increase in credit expansion, occasioned by the higher gross loans for both FCs and CUs during the period. FCs, with a market share of 33.9 percent, recorded a 1.4 percent growth in gross loans, while CUs gross loans rose by 4.5 percent. In terms of sectoral distribution of loans, small SME trading, accounted for 59 percent of total loans issued by FCs, followed by personal loans at 14 percent, construction at 10 percent, transport at 6 percent, agriculture at 5 percent, services at 3 percent, consumables at 2 percent, and the remaining 1 percent goes to energy. Furthermore, the FCs sub-sector recorded a net income of D30.4 million in June 2024, compared to D27.6 million recorded in the previous quarter.

81. Furthermore, the presentation showed that the sector remained well-capitalized, with a capital adequacy ratio of 35 percent, lower than the 44 percent reported in March 2024 but higher than the regulatory benchmark of 20 percent. The increase in the CAR is largely attributed to internal capitalization, with all FCs being above the regulatory benchmark of 20 percent.

82. The presentation also revealed that the sector continues to maintain a comfortable level of liquidity. The liquidity ratio of FCs increased, from 78 percent in March 2024 to 81 percent in June 2024, which was above the regulatory benchmark of 30 percent. However, industry asset quality slightly deteriorated as the non-performing loans ratio increased to 11 percent in June 2024, higher than the 9 percent reported in the previous quarter. The report indicated that this ratio is significantly higher than the regulatory benchmark of 5 percent, thus posing some financial stability concerns.

83. Similarly, the presentation highlighted the performance of key financial soundness indicators for CUs during the review period. The CAR of CUs stood at 20 percent in June 2024, unchanged from its March figure and was above the regulatory requirement of 16 percent. The report also indicated a very stable and low non-

performing loans ratio, which stood at 3 percent in June 2024, which is marginally higher than the 2 percent reported in the previous quarter.

84. Reacting to the presentation, the Committee welcomed the positive developments within the NBFIs industry, supported by a comfortable level of capital buffers, adequate liquidity and stable NPLs. However, the Committee expressed concerns about the existence of significant disparities among institutions and urged the Microfinance Supervision Department (MSD) to continue to monitor closely this situation.

Monetary Developments

85. The presentation on Monetary Developments provided key highlights on recent developments in monetary aggregates and the stance of monetary policy since the last MPC, as inflation continued to decline but remained high relative to the Bank's medium-term target.

86. The report indicated that monetary policy stance remained tight to sustain the declining inflation with the MPC maintaining the policy rate at 17 percent for the fifth consecutive sitting. With inflation declining and market interest rates edging up, real interest rates have turned positive for the first time since the third quarter of 2020. This is expected to tighten liquidity conditions and support the domestic currency and the disinflation process.

87. Annual money supply growth accelerated by 16.6 percent in June 2024, from 4.2 percent in the corresponding period of 2023. This acceleration was primarily driven by a robust recovery in the net foreign assets of depository corporations, reflecting improved foreign currency liquidity conditions. The NFA of depository corporations in June 2024 expanded by 54.9 percent to stand at D29.3 billion, from the D18.9 billion reported in the same period last year. This increase is mainly due to the substantial inflows of donor funds, recovery in tourism receipts, and increased remittance inflows during the review period. The report revealed that growth in the NFA of deposit corporations contributed 16.0 percentage points to the total growth in annual money supply during this period.

88. On a similar note, the presentation showed that the NFA of the Central Bank increased by 41.8 percent in June 2024 to stand at D16.4 billion. This strong growth is attributed to the marked increase in the claims on gross reserves (27.4 percent) and other claims on non-residents (27.0 percent) during the period. Furthermore, the NFA of other depository corporations grew annually by 75.3 percent in June 2024 to stand at D12.9 billion, reflecting a 53.0 percent increase in commercial banks' claims on non-residents.

89. Conversely, the report showed that 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 2024, compared to the previous year. As of June 2024, the NDA of the banking system contracted by 0.3 percent to stand at D45.8 billion against the D45.9 billion reported in the same period last year. Specifically, net claims on central government moderated to 5.0 percent (year-on-year), from the 6.6 percent growth report a year ago. Similarly, the banking system's claims on the private sector growth moderated to 2.0 percent in June 2024, from the 27.9 percent growth registered in June 2023.

90. Reacting to the presentation, the Committee welcomed the significant improvement in the Bank's NFA, citing that it will improve confidence in the dalasi and provide the Bank with the muscles to counter speculative attacks on the currency. Members also noted that the slowdown in domestic credit is in line with the current monetary policy stance, which is expected to tighten liquidity conditions and help the disinflation process.

91. However, the Committee was concerned about the large share of claims on government, pointing to its crowding out effect and potential impact on the exchange rate and inflation. Members, therefore, called for careful calibration of fiscal policy to ensure the recent gains in the fight against inflation and macroeconomic stability are sustained.

Inflation Developments

92. The presentation on Inflation Developments provided key highlights on recent inflation dynamics and near-term outlook, including uncertainties and risks surrounding inflation. The report revealed that headline inflation declined to 9.7 percent in July 2024 for the fourth month consecutively. This favourable development highlights the impact of previous policy actions as well as the effect of moderating global commodity prices.

93. The presentation also indicated that the decline in headline inflation was predicated on the reduction in food inflation, while non-food inflation remained steady during the period. Food inflation slowed by 1.4 percentage points to reach 13.0 percent in July 2024, compared to the 14.4 percent reported in June 2024. The decline in food price inflation was occasioned by the moderation of the bread and cereals, fish, fruits and nuts, and vegetables sub-components of the food basket. On the other hand, non-food inflation remained steady at 5.5 percent in July 2024, following its decline from 8.7 percent reported in March 2024. While price indices of clothing and footwear, health, recreation and culture, and miscellaneous goods and services decelerated during the period, price indices of housing, water, electricity, gas and other fuels as well as price indices of hotels, cafes and restaurants accelerated.

94. In addition, the presentation provided insights into developments in underlying inflation, measured by core inflation. Core1 inflation, which excludes volatile energy products, declined to 2.0 percent in July 2024, from the 10.4 percent recorded in June 2024. Similarly, Core 2 inflation, which further excludes both volatile energy and food products, decreased to 3.5 percent in July 2024, compared to the 5.4 percent recorded in June 2024. The reduction in core inflation is an indication of the softening of inflationary pressures in the domestic economy as past policy effects continue to bear dividend. Nevertheless, the report noted that despite these encouraging developments on annual inflation, there are build-ups in quarter-on-quarter inflationary pressures, which call for vigilance going forward.

95. Reacting to the presentation, the Committee noted the significant gains made in the fight against inflation, as both food and core inflation continued to decelerate. However, Members warned that inflation remained high and above the Bank's medium-term target, which dictates that monetary policy should stay the course to sustain the disinflation process.

96. Furthermore, the Committee raised concerns about the build-up of near-term inflationary pressures, citing the rise in monthly and quarterly changes in CPI. If sustained, this has the potential to disrupt the disinflation trajectory and reverse the gains. Similarly, the significant uncertainties surrounding commodity prices, especially food and oil prices, depreciation of the exchange rate, and climate-related shocks compound the upside risks to inflation. Therefore, Members reiterated the need for policy consistency to avoid any unintended consequences on inflation dynamics and macroeconomic stability.

97. On a more positive note, Members noted that the expected better cropping season will improve the supply of food and help ease price pressures. In addition, the anticipated rebound in the tourist season will likely ease foreign currency liquidity conditions and stabilise the exchange rate. This will limit the passthrough of import costs to domestic prices.

Staff Assessment and Economic Outlook

98. CBG Staff assessed that the strong momentum in economic activity registered in the first half of the year will continue for the rest of 2024. This assessment was based on the favourable growth prospects on the back of robust domestic demand as private and public spending and investment are expected to support growth prospects. In addition, the anticipated better cropping season is expected to boost agricultural productivity and economic growth in 2024. Furthermore, private remittance inflows and private-sector credit are expected to continue driving household consumption and investment, particularly private construction. Against

this backdrop, Staff forecast economic growth at 5.7 percent in 2024, representing a 0.2 percentage point upward revision from its May 2024 forecast.

99. On domestic inflation, Staff assessed that inflation would continue to decline into the single-digit region during the last quarter of 2024. This is predicated on moderated commodity prices and consistent domestic policy actions. Against this backdrop, the Bank Staff forecast headline inflation to average around 11 percent by the end of 2024. However, Staff warned that the risks to the outlook remained tilted to the upside as uncertainties and volatility in global commodity prices remain.

Policy Justification

100. Since the last MPC meeting, the global economy has strengthened, aided by stronger trade, particularly in the technology sector. In addition, growth prospects were strong in many regions, with many countries anticipating higher-than-expected growth in 2024 and beyond. These encouraging growth prospects, especially from bilateral trading partners are expected to positively impact the Gambian economy through improved trade, tourism and remittance inflows. Furthermore, moderating global commodity prices and the easing of global inflationary pressures are expected to aid the domestic disinflation process.

101. On the domestic economy, the Committee noted the robust economic activity in the first half of 2024, which is expected to last into the medium term. With a full recovery of the hospitality industry, robust private sector consumption and investment, and strong public investments, real GDP growth is forecast to remain robust in 2024 and 2025, averaging above 5 percent.

102. The domestic foreign exchange market continues to function smoothly with stable activity volumes and improved liquidity conditions. Although depreciation pressures persist, the spread between the official exchange rate and the parallel market rate has narrowed. Nevertheless, the anticipated rebound in tourism this year, continuous inflows of remittances, and the expected disbursement of budget

support will improve foreign currency supply conditions and help stabilise the exchange rate.

103. In addition, the Central Bank continues to maintain a comfortable level of international reserves, which is expected to strengthen market confidence and cushion the dalasi. Notwithstanding, the persistent current account deficit poses significant BOP challenges.

104. On domestic prices, inflation decelerated faster than expected to reach the single digit in July 2024. However, significant risks remain, including the recent build-up in near-term inflationary pressures, uncertainties surrounding international trade, and domestic supply constraints. Notwithstanding, underlying inflationary pressures showed signs of moderation as the Bank's core measures of inflation decelerated for the fourth month in July 2024 and the outlook remains encouraging. On this note, the Committee was of the view that monetary policy should stay consistent to ensure the disinflation process is sustained and inflation returns to the Bank's medium-term target.

Decision

105. In light of the above factors and the strong commitment to sustaining the disinflation process, the Monetary Policy Committee concluded that previous policy actions were yielding positive results. However, given the uncertainties, it was too early to ease monetary policy. The Committee, therefore, 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 pledged its commitment to continue to monitor domestic and international price developments and stand ready to act should the need arise.

Information Note

Date for the next MPC meeting

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