CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

MAY 2024

Preface

The Central Bank of The Gambia (CBG) Monetary Policy Report summarizes developments and outlook for key economic sectors that informed the decision of the Monetary Policy Committee (MPC). The objective is to keep the public informed of the MPC decision as part of the accountability and transparency obligation in the conduct of monetary policy.

Monetary Policy in The Gambia

The mandate of the CBG is to achieve and maintain price and exchange rate stability as well as create an enabling financial sector environment for sustainable economic growth. The Bank continues to operate a monetary targeting framework. Targets for key monetary aggregates are set in line with the Bank's medium-term implicit inflation objective of 5 percent. Nonetheless, the MPC meets to set the monetary policy rate (MPR) to signal the policy stance of the Bank.

Monetary Policy Committee

The MPC was established by the CBG Act 2005 (amended 2018) as the apex monetary policy decision-making body of the Bank. The membership comprises the Governor (Chairman), the two Deputy Governors, heads of Banking Services and Payment Systems, Banking Supervision, and Economic Research Departments of the Bank, and three persons from outside the Bank appointed by the Minister of Finance and Economic Affairs. The MPC meets every quarter to review developments and outlook for the international and domestic economy and set the monetary policy rate. This signals the policy stance of the Bank. The decision-making process is by consensus. The Chairman communicates the decision of the Committee at a press conference. The press release and the minutes of each meeting are posted on the Bank's website for wider access by the public.

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Executive Summary

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) convened its last meeting of the year on May 22 and 23, 2024. The Committee reviewed the developments in both the global and domestic economy, including an assessment of the short-term economic outlook. Based on its assessment of inflation outlook and growth prospects, the Committee decided to keep the monetary policy rate (MPR) at 17 percent for the second sitting in a row. The committee judge that even though forecast suggests strong indication of moderation in inflation risks to the outlook remain and tilted on the upside. Therefore, monetary policy should be committed to ensuring continued inflation moderation and economic stability. Below is a summary of development in global and domestic economy.

The global economy demonstrated unexpected resilience in 2024, driven by strong labour markets and favourable supply conditions, despite ongoing tight monetary policy stance. The International Monetary Fund (IMF) forecasts global growth to hold steady at 3.2 percent for both 2024 and 2025, an improvement from earlier estimates but still lower compared to historical trends. Growth in advanced economies will see modest improvements, while emerging markets, particularly Sub-Saharan Africa and India, will continue to experience strong growth. However, China's economic expansion is expected to slow.

Global inflationary pressures are gradually easing, with headline inflation projected to fall from 6.8 percent in 2023 to 4.5 percent by 2025. Despite this improvement, inflation remains above targets in many advanced economies, delaying anticipated monetary policy easing. Key central banks around the globe have maintained steady interest rates, with potential rate cuts expected later in 2024 as inflation aligns closer to targets.

Commodity prices displayed mixed trends. Primary commodity prices saw a slight decline due to reduced oil prices, but geopolitical tensions and supply-demand imbalances caused a resurgence in oil prices in April 2024. Food prices also increased modestly, with rice prices remaining high due to export restrictions in India and market tightness, although they saw some seasonal moderation.

On the domestic front, the economy is expected to grow robustly, with real GDP projected to reach 5.5 percent in 2024, up from 5.3 percent in 2023. This positive outlook is supported by an ongoing recovery in the tourism sector and resilient domestic activities. Growth in 2023 was driven by strong demand in both public and private sectors, with construction, transport, energy, and agriculture playing significant roles.

The first quarter of 2024 showed a deterioration in the current account balance, shifting from a surplus of $4.9 million in the previous quarter to a deficit of $1.4 million. This was primarily due to an increase in imports, especially of mineral, fuels and construction vehicles. The services account, on the other hand, posted a recovery due to strong tourism numbers. Remittances increased modestly, though official program grants were modest.

Gross official reserves stood at $479.75 million as of April 2024, equivalent to 4.9 months of prospective imports. This highlights the country ability to sustain its import needs despite the existing economic challenges.

The volume of interbank foreign exchange transactions during the first quarter of 2024 declined by 26.5 percent year-on-year. However, there was a significant quarter-on-quarter improvement due to increased remittances and demand for foreign currency. This in addition to global inflationary pressures and interest rate hikes, the dalasi depreciated against the US dollar, British Ponds, Euro and CFA by 6.9 percent, 7.5 percent, 5.9 percent and 5.1 percent q-o-q and by 8.8 percent, 12.6 percent, 9.2 percent and 10.6 percent y-o-y respectively.

The fiscal deficit, including grants, slightly widened to D2.2 billion (1.3 percent of GDP) in 2024Q1. Revenue performance was strong, driven by a 31.1 percent increase in domestic revenue, though grants slightly declined. Government expenditure grew by 17.6 percent, mainly due to higher recurrent spending. Government borrowing decreased, with external financing of the budget deficit declining sharply by 69.8 percent.

Stock of domestic debt moderated to D40.97 billion, with a shift towards longer-term debt. Debt servicing costs increased, with domestic interest expenses projected to rise to D4.12 billion due to higher interest rates.

Broad money growth accelerated to 11.2 percent in March 2024, driven by increased net foreign assets (NFA) and net domestic assets (NDA). The improvement in NFA was supported by tourism recovery and increased remittances. Credit to the private sector also expanded, albeit at a slower pace than the previous year.

The banking sector saw an assets concentration in a few large banks, with the capital adequacy ratio improving to 27.9 percent in March 2024. However, asset quality deteriorated, with non-performing loans (NPLs) rising to 8.7 percent. Earnings were negatively impacted, and liquidity levels decreased slightly, although they remained adequate.

The microfinance sector in The Gambia remained resilient, with credit unions outperforming finance companies in terms of deposit growth and credit expansion. Finance companies saw a slight decline in total assets in the first quarter of 2024, while credit unions experienced robust growth in their loan portfolios.

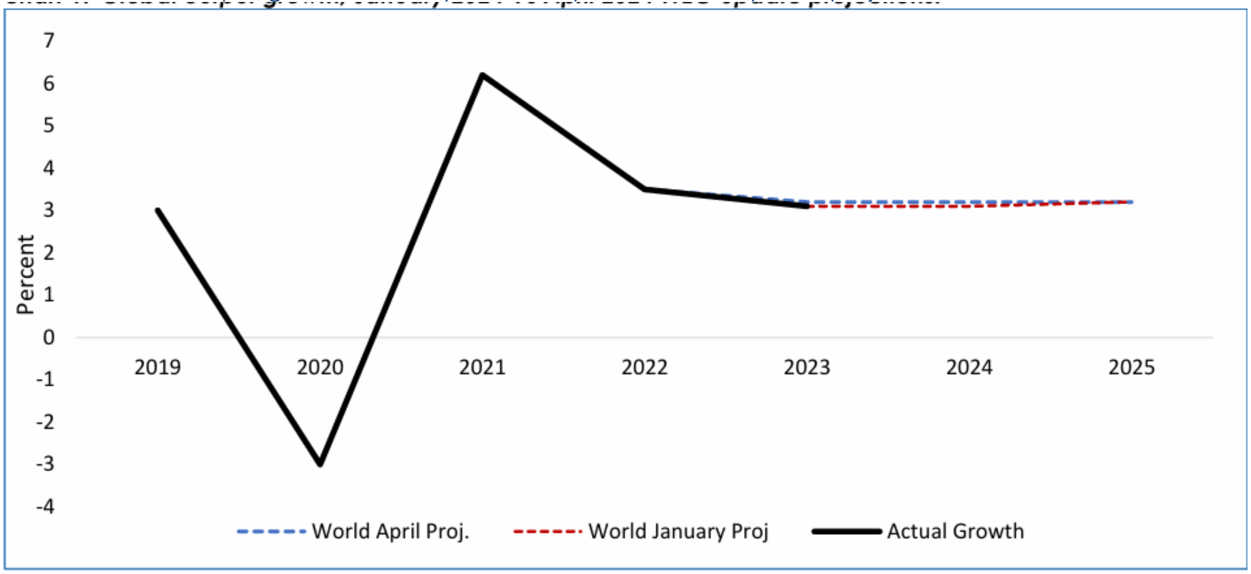
Domestic inflation moderated to 11.0 percent in April 2024, down from 17.3 percent in December 2023, due to reductions in food and non-food prices. However, structural challenges and global uncertainties continue to pose risks to the inflation outlook. Food inflation, while still elevated at 15.6 percent, saw declines in key commodities like bread and cereals. Non-food inflation also decelerated, driven by reductions in textiles and energy prices.

The medium-term outlook is optimistic. Aggregate demand is expected to remain strong through 2024 and beyond, with gradual declines in inflation. The Dalasi is forecasted to remain stable, while monetary policy remains geared toward fighting inflation. However, several risk scenarios, including potential increases in global commodity prices, currency depreciation, and the premature loosening of monetary policy, could affect the forecast.

Global Economic Developments

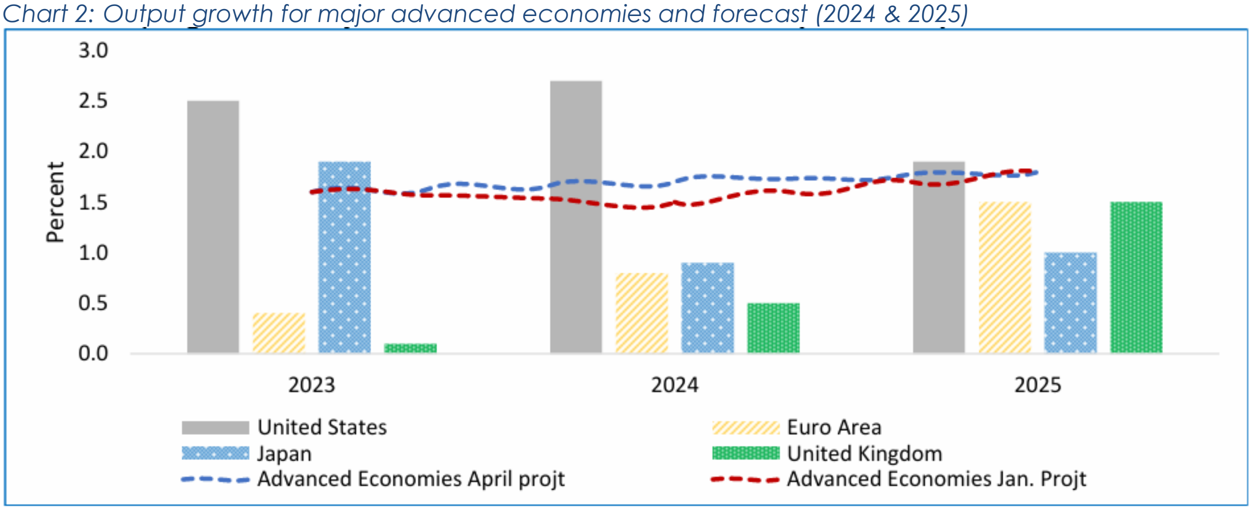
Global economic growth exceeded expectations, driven by resilient labor markets and favorable supply conditions, despite substantial central bank tightening. The IMF projects global growth to maintain a steady pace of 3.2 percent in both 2024 and 2025, a slight improvement from earlier forecasts, but still subdued compared to historical norms. Advanced economies are expected to see marginal growth improvements, while emerging markets, particularly in Sub-Saharan Africa and India, will continue to experience robust growth, though China's economy is anticipated to slow down.

Chart 1: Global output growth, January 2024 Vs April 2024 WEO update projections.



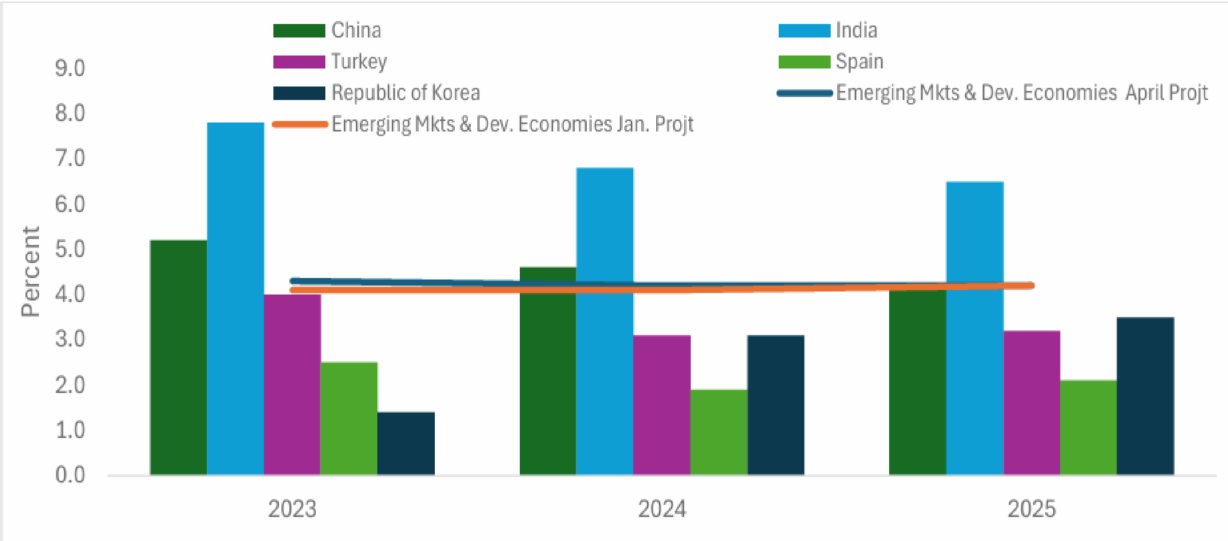
Source: IMF, WEO April 2024

Chart 2: Output growth for major advanced economies and forecast (2024 & 2025)



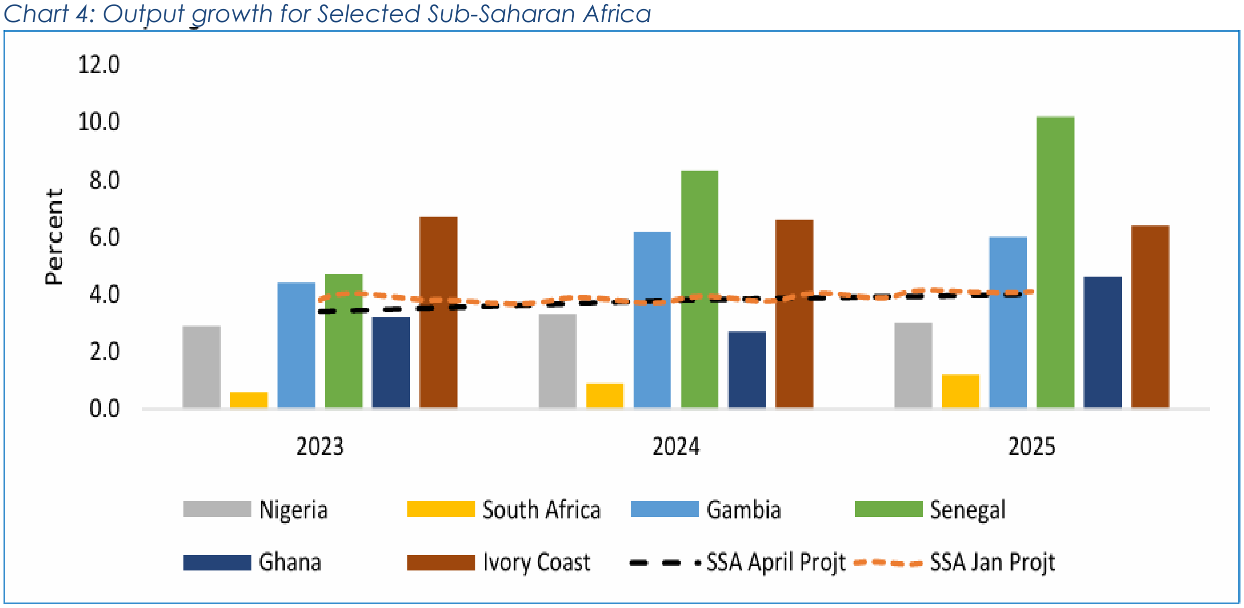
Source: IMF, WEO April 2024

Chart 3: Output growth for emerging and Forecast (2024&2025)



Source: IMF, WEO April 2024

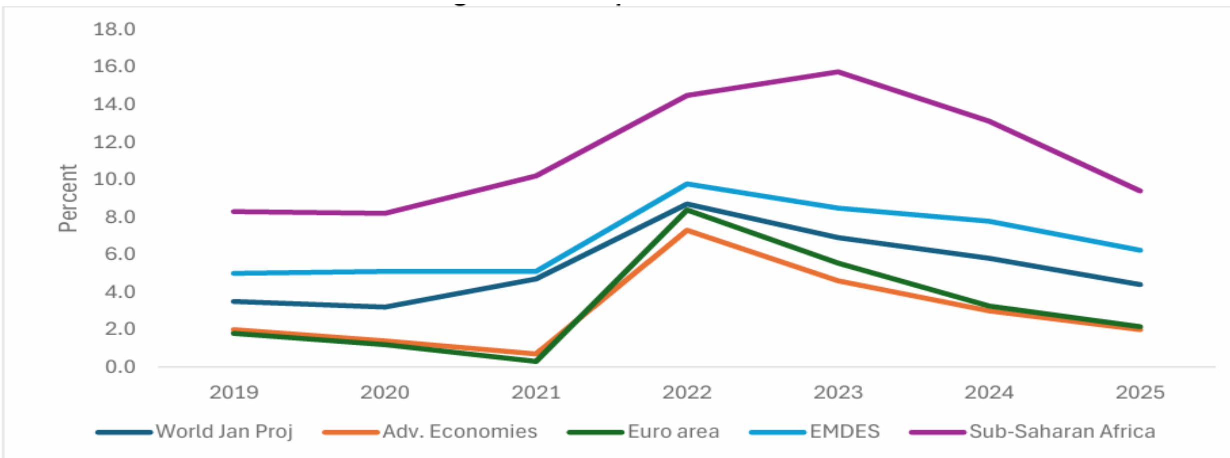
Chart 4: Output growth for Selected Sub-Saharan Africa



Source: IMF, WEO April 2024

Global Inflation pressures are gradually easing, with headline inflation projected to decrease from 6.8 percent in 2023 to 4.5 percent in 2025. However, inflation remains above target in many advanced economies, delaying anticipated monetary easing. Interest rates have been held steady by central banks like the Fed, the Bank of England, and the ECB, with potential rate cuts expected later in 2024, particularly in the Eurozone, as inflation begins to align with targets.

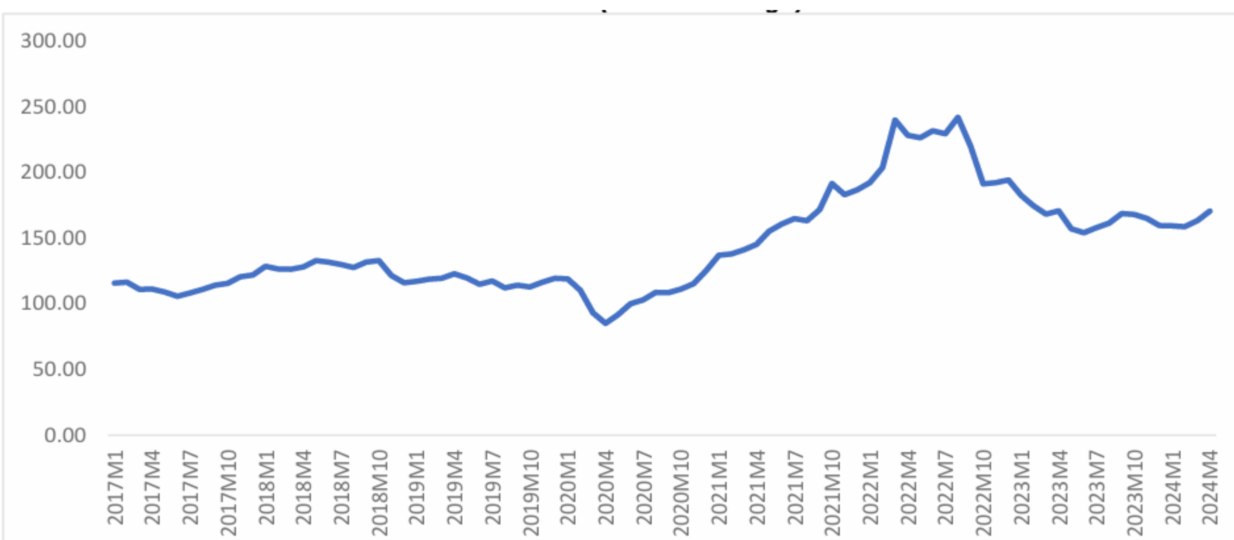
Chart 5:Global inflation, annual average consumer price



Source: IMF, WEO April 2024

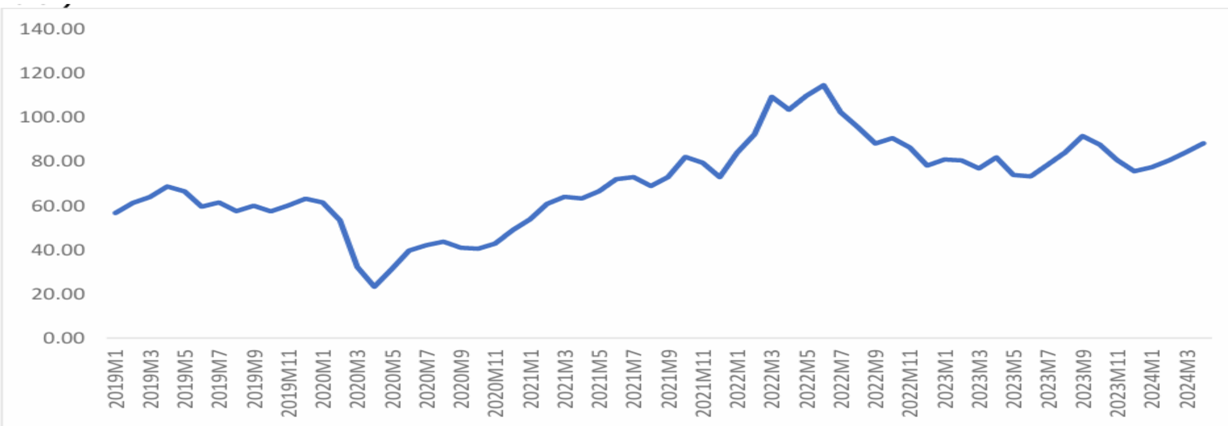
Commodity and food prices have shown mixed trends. Primary commodity prices saw a slight decline due to reduced oil prices but recently started to rise again due to supply-demand imbalances and geopolitical tensions. Crude oil prices increased significantly in April 2024, driven by tensions in the Middle East and OPEC production cuts. Food prices, as measured by the FAO Food Price Index, saw modest increases in April, particularly in meat and cereals, although overall levels remain lower than the previous year. Rice prices declined slightly due to seasonal factors but remain high due to ongoing market tightness and export restrictions from India.

Chart 6: IMF All Commodities Price Index -2016=100 (Annual Average)



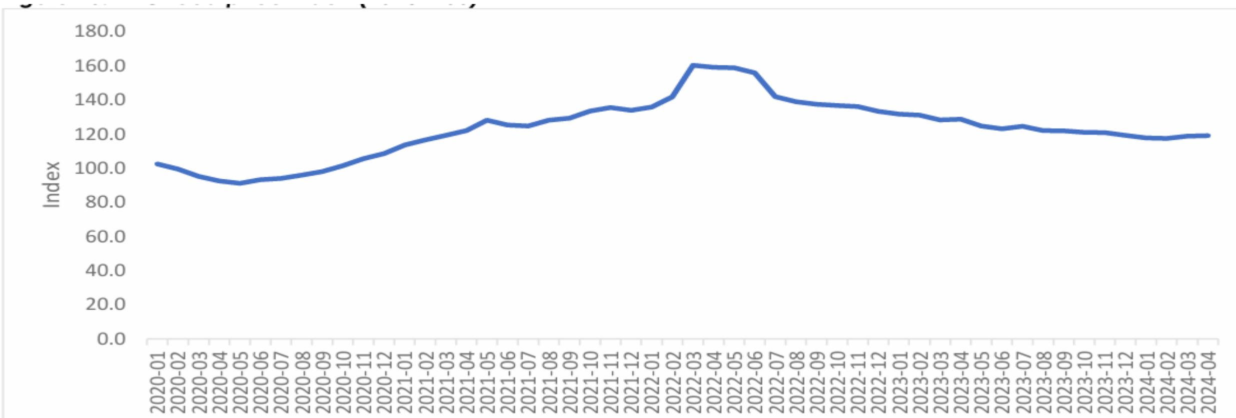
Source: IMF, WEO April 2024

Chart 7: Crude Oil Prices and Food Price Index



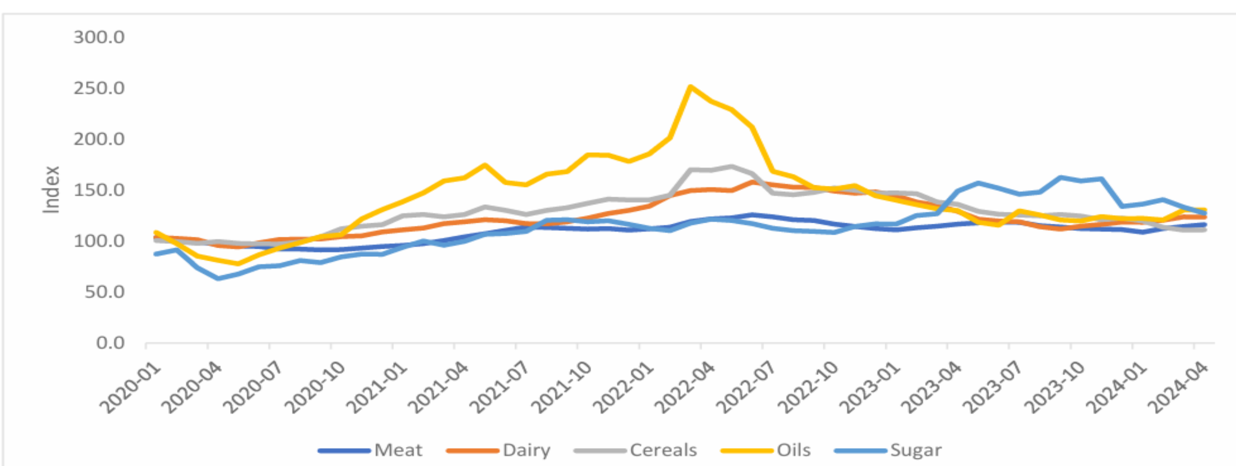
Source: IMF, WEO April 2024

Chart 8: Crude Oil Prices and Food Price Index



Source: IMF, WEO April 2024

Chart 9: Components of Food Price index (2016=100)



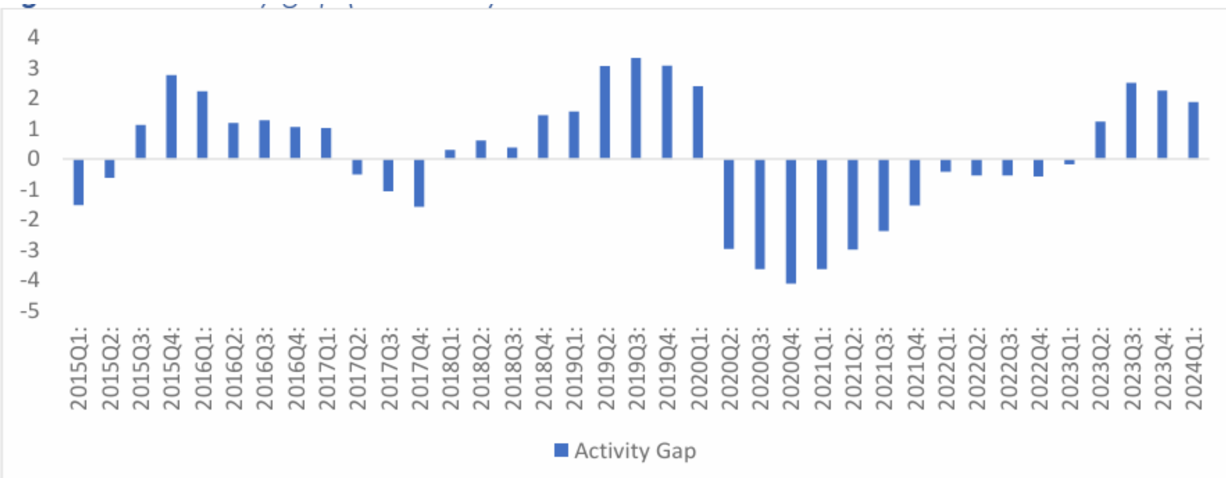
Source: FAO, April Food Price update

The Domestic Economy

Real Sector

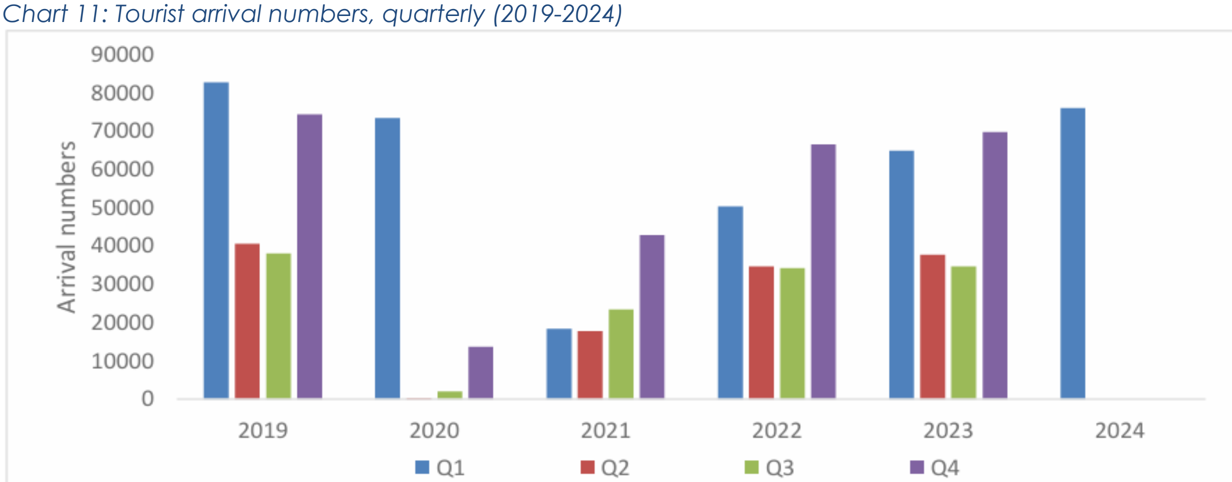
The Gambian economy is projected to remain strong in 2024, with real GDP growth expected to reach 5.5 percent, up from 5.3 percent in 2023. Early indicators, the bank CIEA points to a positive macroeconomic outlook, particularly with the ongoing recovery in the tourism industry and resilience in domestic activities, setting a favorable trajectory for continued economic improvement (*Chart 10*). Growth in 2023 was driven by robust public and private demand, with key contributions from sectors such as construction, transport, energy, and agriculture (*Chart 12* and *Chart 13*).

Chart 10: Real Activity gap (2012-2024)



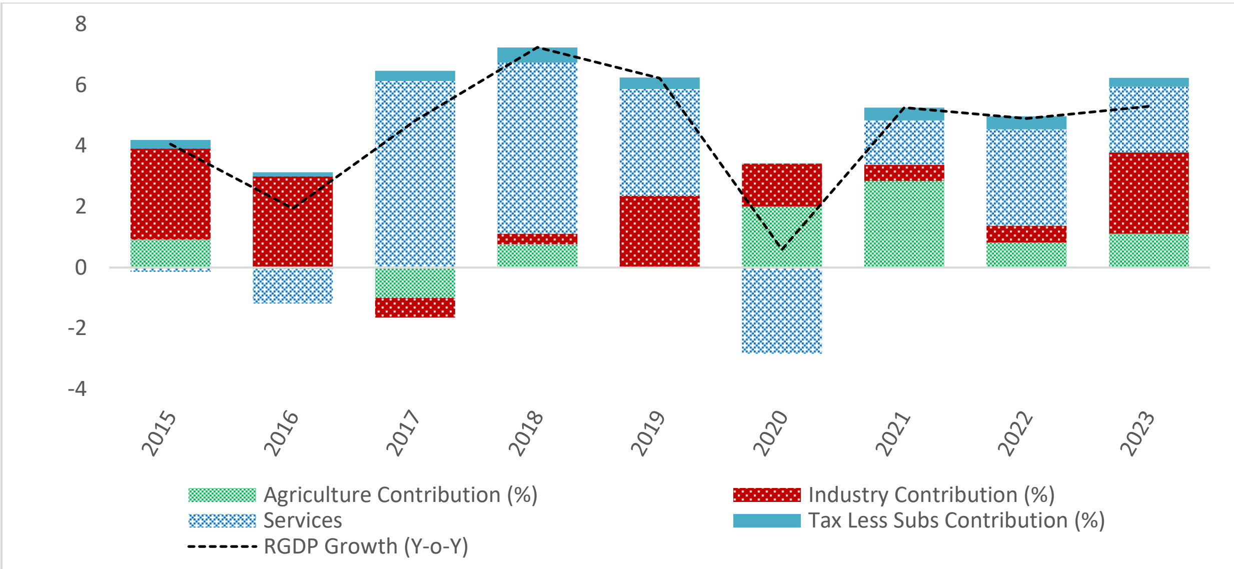
Source: CBG

Chart 11: Tourist arrival numbers, quarterly (2019-2024)



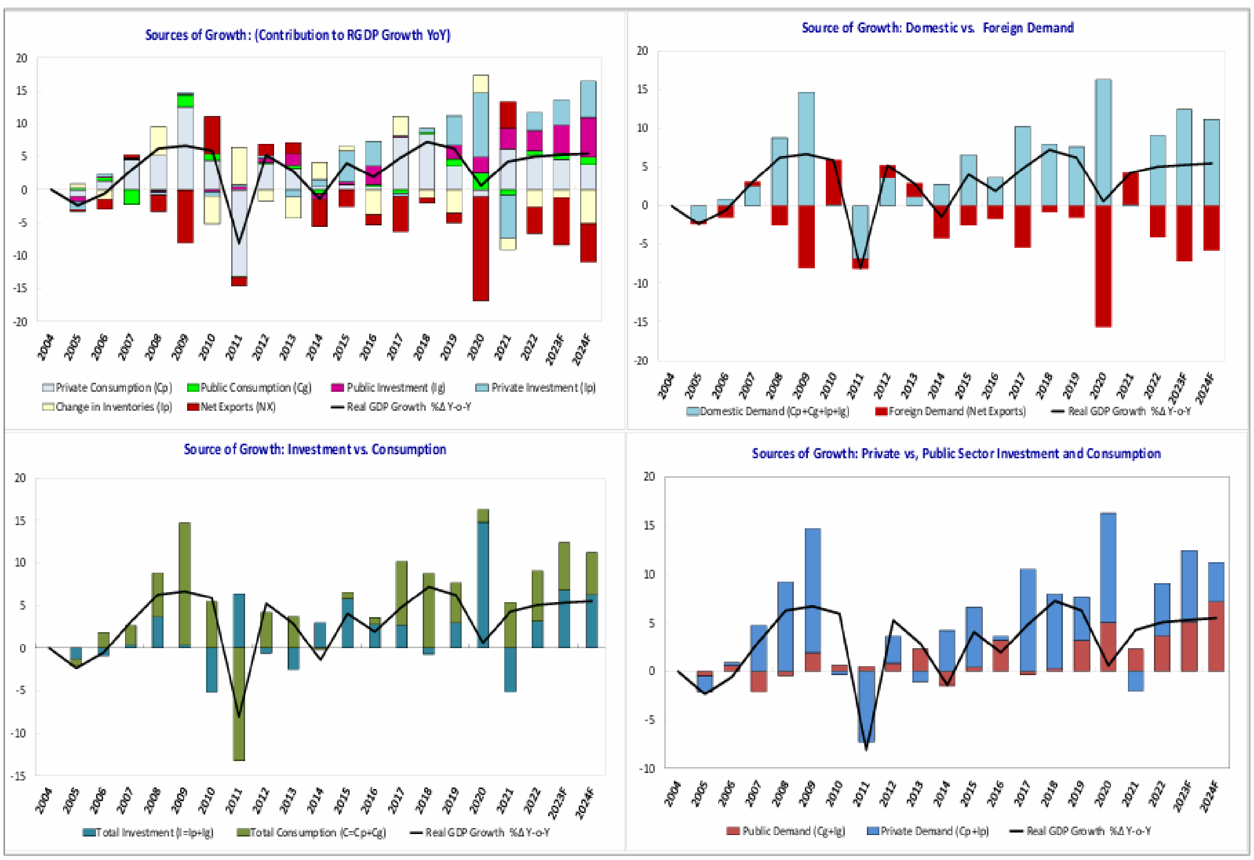
Source: CBG

Chart 12: Real economic growth and its sectoral drivers (2004 – 2023)



Source: GBoS, CBG staff calculations

Chart 13: Real economic growth and its demand side drivers (2004 – 2023)

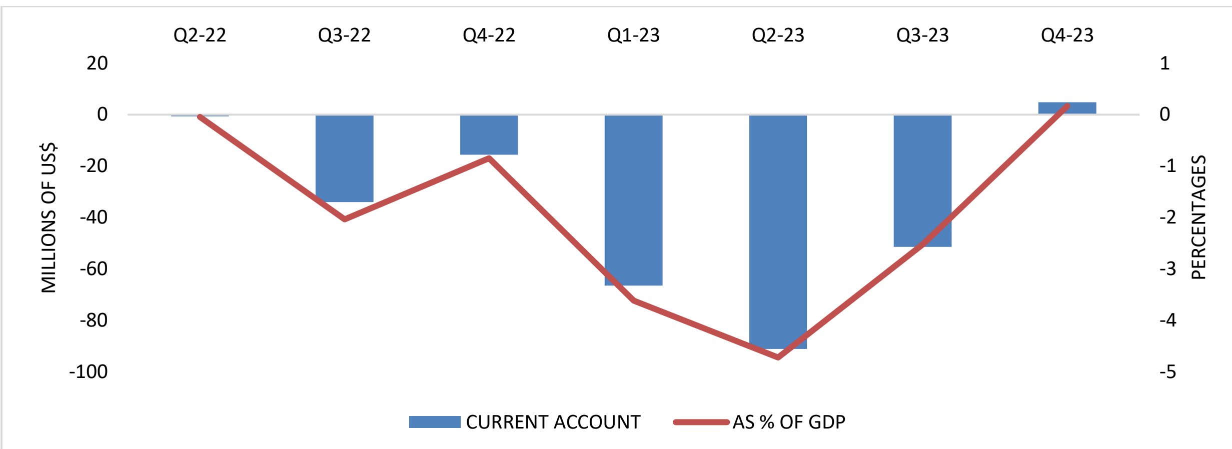


Source: GBoS, CBG staff calculations

Balance of Payments

In the first quarter of 2024, the balance of payments showed a deterioration in the current account, moving to a deficit of US$1.4 million (0.05 percent of GDP) from a surplus of US$4.9 million (0.2 percent of GDP) in the fourth quarter of 2023. This shift was largely due to a widening goods account deficit, which increased to US$257.9 million, primarily driven by higher imports of mineral fuels, vehicles for road construction, and food. Although the increase in imports was slightly mitigated by a reduction in electricity imports from Senegal, overall imports rose to US$346.0 million, while exports increased to US$88.1 million.

Chart 14: Current account balance



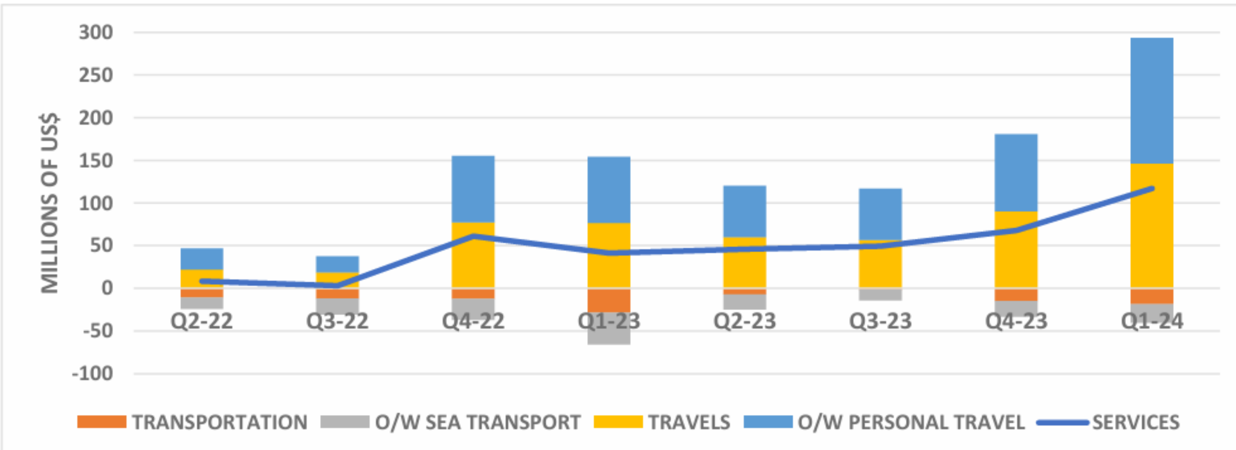
Source: CBG

Chart 15: Merchandised trade

Source: CBG

The services account on the other hand showed signs of recovery, registering a surplus of US$117.1 million in the first quarter of 2024, up from US$67.9 million in the previous quarter. This improvement was largely attributed to the resurgence of tourism, with arrival numbers nearing pre-pandemic levels. However, the secondary income account saw a decline, with net inflows decreasing to US$129.2 million due to the absence of official program grants, although personal transfers, such as remittances, increased during the period.

Chart 16: Service account balance



Source: CBG

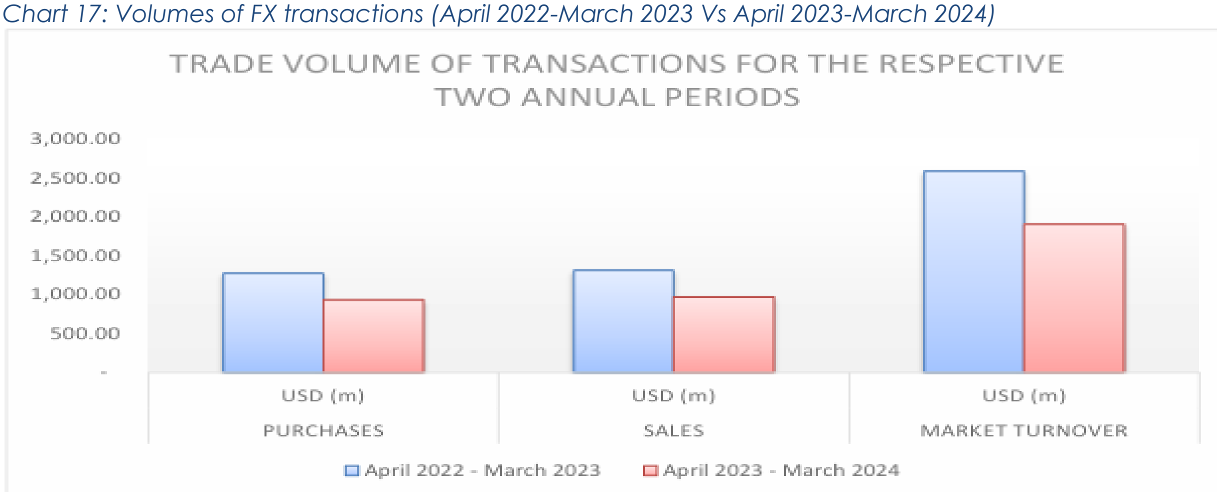
The capital account surplus moderated to US$34.0 million, down from US$72.3 million in the previous quarter, reflecting a decline in project fund disbursements. Meanwhile, the financial account deficit improved to US$106.9 million, compared to a deficit of US$147.6 million in the fourth quarter of 2023, driven by increased non-resident investment. Direct investments recorded a higher deficit of US$48.1 million, while the change in reserve assets and other investments also contributed to the overall financial account performance.

As of the end of April 2024, The Gambia's gross official reserves stood at US$479.75 million, covering 4.9 months of prospective imports of goods and services, reflecting the country’s ability to sustain its import needs amidst these economic developments.

Exchange Rate Development

In the first quarter of 2024, the total volume of foreign exchange (FX) transactions in The Gambia's interbank market was US$1.91 billion, a 26.5 percent decline compared to the same period in 2023, reflecting a drop of US$687.48 million. However, the first quarter of 2024 saw a significant improvement in activity volumes, increasing by 44.03 percent from the previous quarter, with a total of US$600.91 million in transactions. This boost was largely due to enhanced demand and supply conditions during the peak period, as well as a rise in private remittances. Nevertheless, volumes slightly contracted compared to the first quarter of 2023.

Chart 17: Volumes of FX transactions (April 2022-March 2023 Vs April 2023-March 2024)



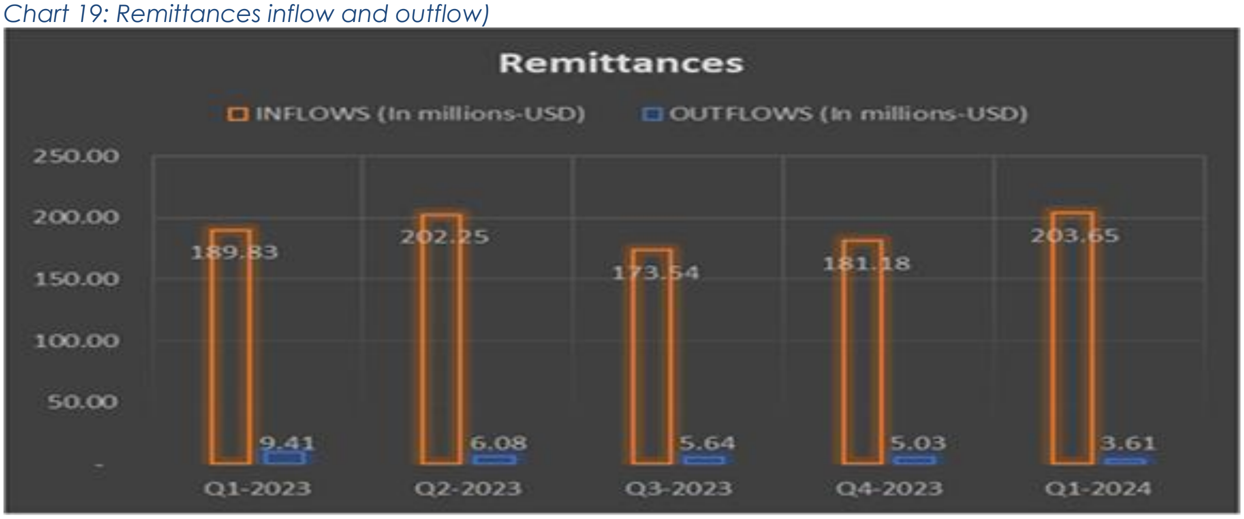
Source: CBG

Chart 18: Volumes of FX transactions (Quarter on Quarter development)

Source: CBG

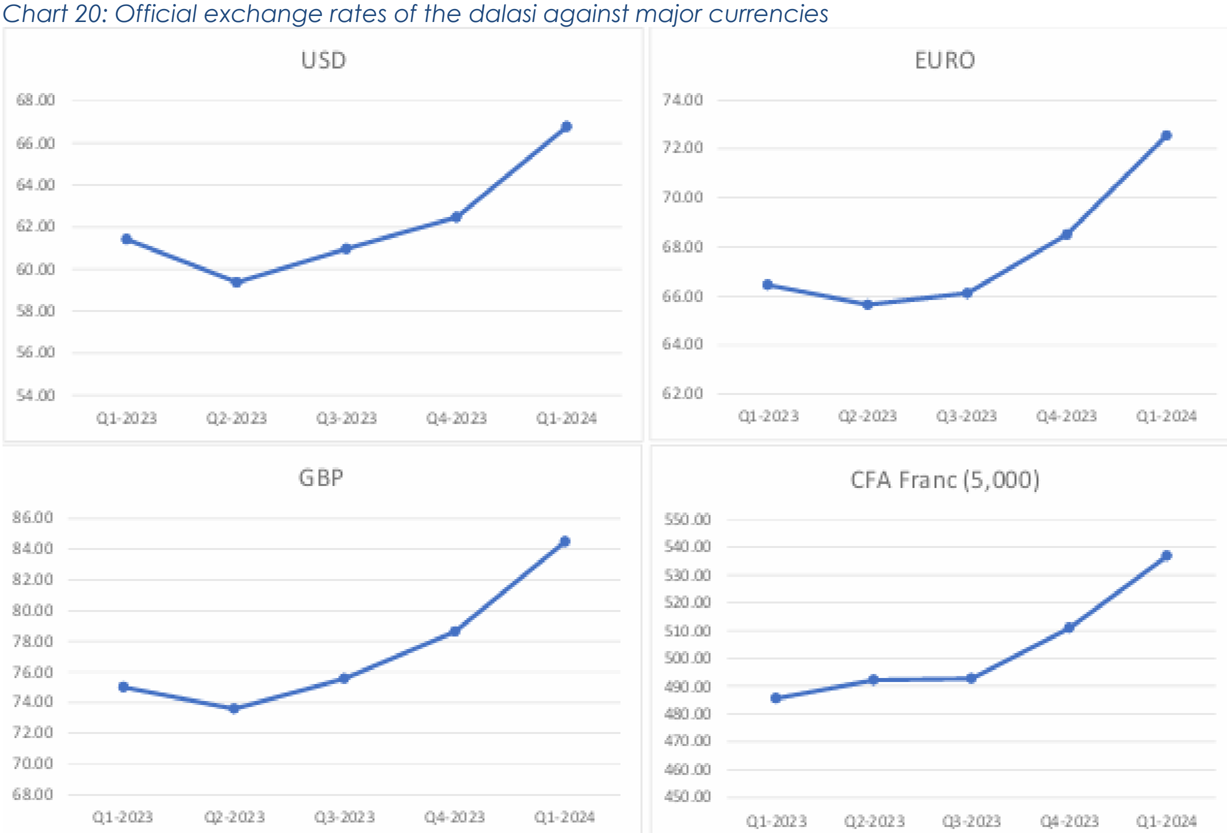
Private remittances saw a modest increase of 12.4 percent in Q1 2024, reaching US$203.65 million, up from US$181.18 million in the previous quarter. Year-on-year, remittances grew by US$13.82 million. The Dalasi, however, depreciated against all major traded currencies during this period, with significant declines observed against the USD, EUR, GBP, and CFA Franc both quarterly and year-on-year. This depreciation is attributed to global currency trends, driven by high inflation and interest rate hikes in major economies, which have put pressure on emerging market currencies, including the dalasi.

Chart 19: Remittances inflow and outflow)



Source: CBG

Chart 20: Official exchange rates of the dalasi against major currencies



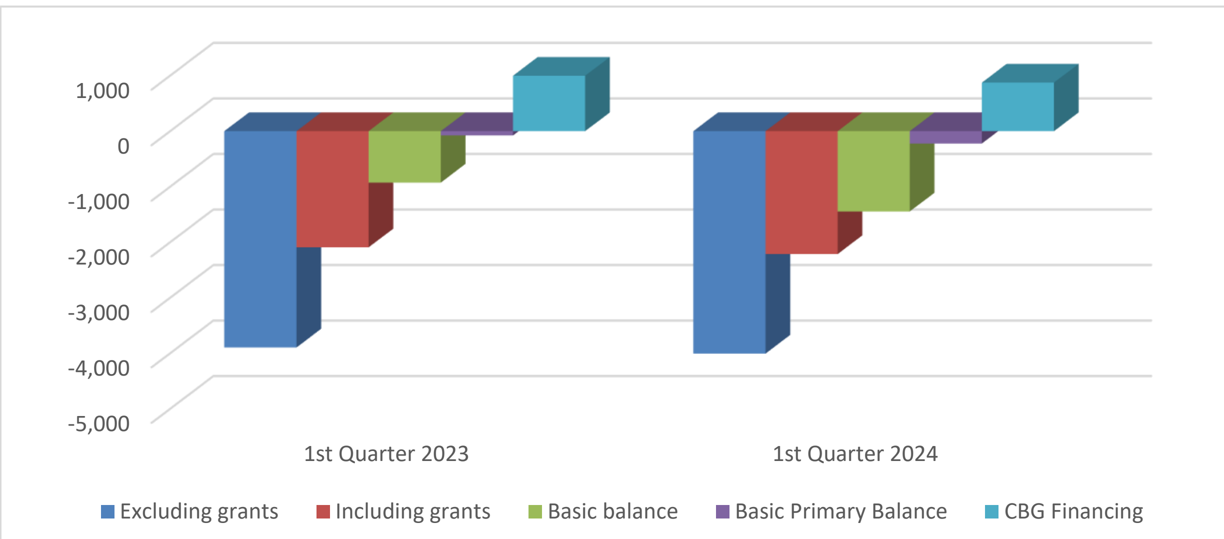
Source: CBG

As at the end of March 2024, foreign reserves improved slightly to US$461.38 million, supported by funds from international financial institutions such as the World Bank, IMF, EU, and AfDB. Diversified investments in term deposits and US T-bills, generated an income of US$3.88 million. The continued management and diversification of these reserves are aligned with international best practices.

Government Fiscal Operations

Preliminary estimates of government operations for the first quarter of 2024 reveal a slight increase in the overall deficit, including grants, rising to D2.2 billion (1.3 percent of GDP) from D2.1 billion (1.5 percent of GDP) in the same period of 2023. Excluding grants, the deficit widened slightly to D4.0 billion (2.3 percent of GDP) from D3.9 billion (2.3 percent of GDP) in the previous year. Both the basic and primary balance deficits also worsened, with the basic balance deficit increasing to D1.4 billion and the primary balance deficit growing to D222.6 million.

Chart 21: The Overall Fiscal Balance (2023Q1 Vs 2024Q1)



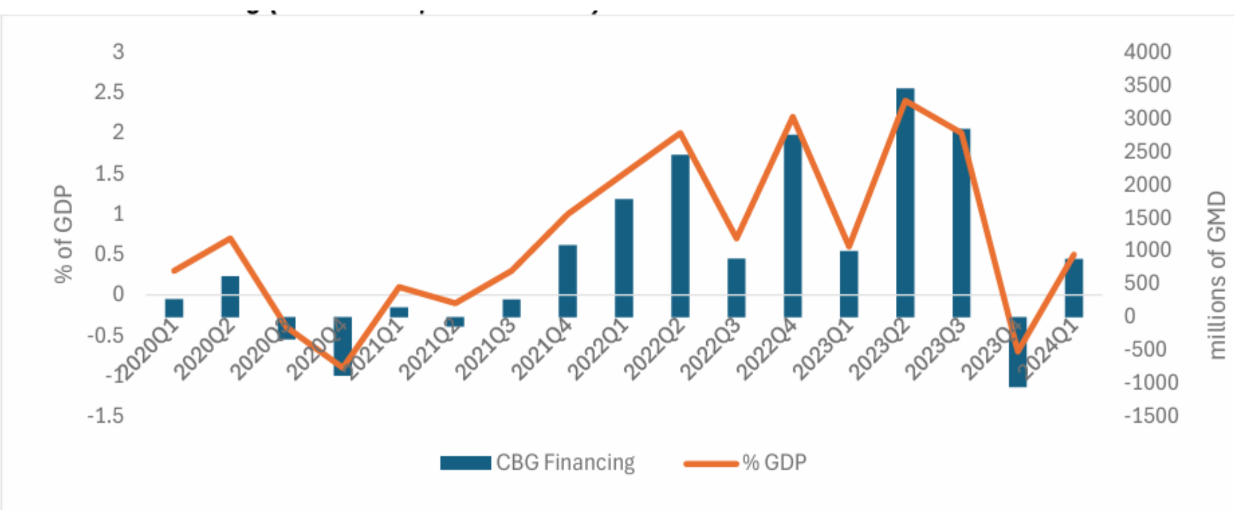
Source: CBG

Quarter-on-quarter improvements were observed, with the fiscal deficit excluding grants decreasing from D5.8 billion in the previous quarter to D4.0 billion in Q1 2024. However, central bank financing, which contracted in late 2023 due to budget support disbursements, increased in Q1 2024 due to reduced government deposits and higher spending.

Chart 22: The Overall Fiscal Balance (2023Q4 Vs 2024Q1)

Source: CBG

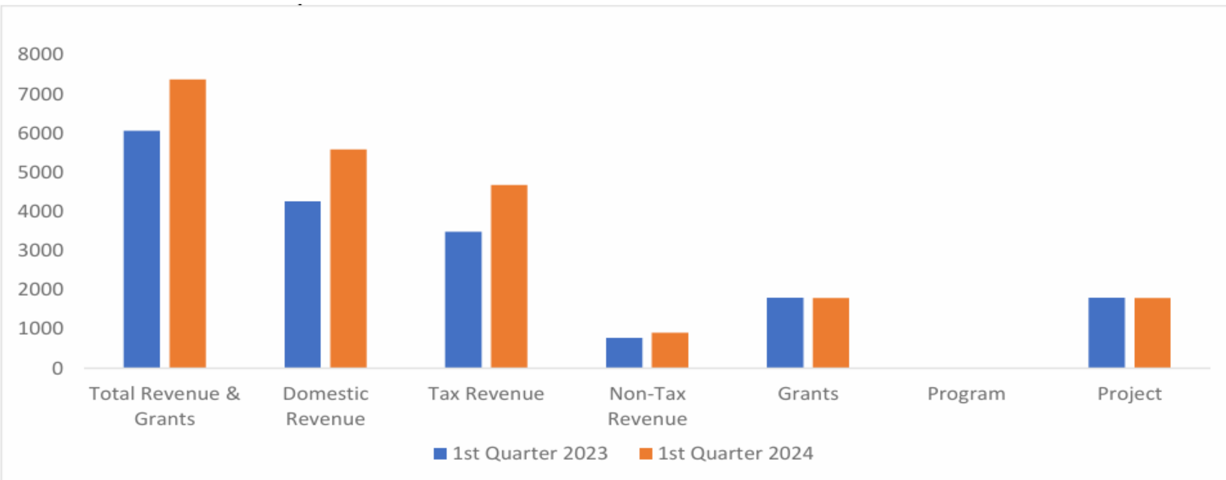
Chart 23: Central Bank financing of government operation



Source: CBG

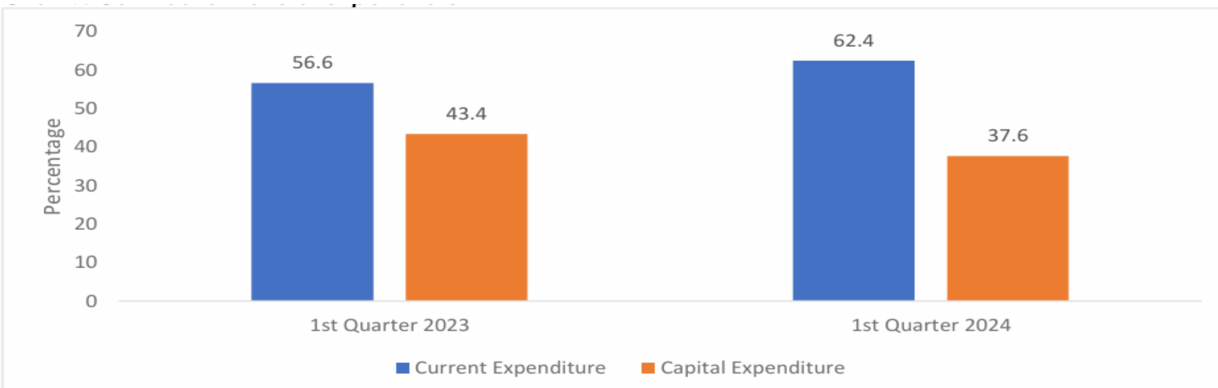
Revenue performance in Q1 2024 was strong, with total revenue and grants rising by 21.7 percent to D7.3 billion, surpassing projections. Domestic revenue, including tax and non-tax revenues, increased by 31.1 percent, driven by improved tax administration and reforms. However, grants fell slightly, with all received grants being project-based. Government expenditure and net lending also grew by 17.6 percent, mainly due to a 29.7 percent increase in recurrent expenditure, while capital expenditure remained relatively stable.

Chart 24: Government Receipts (GMD' billion)



Source: CBG

Chart 25: Government Expenditure (GMD' billion)



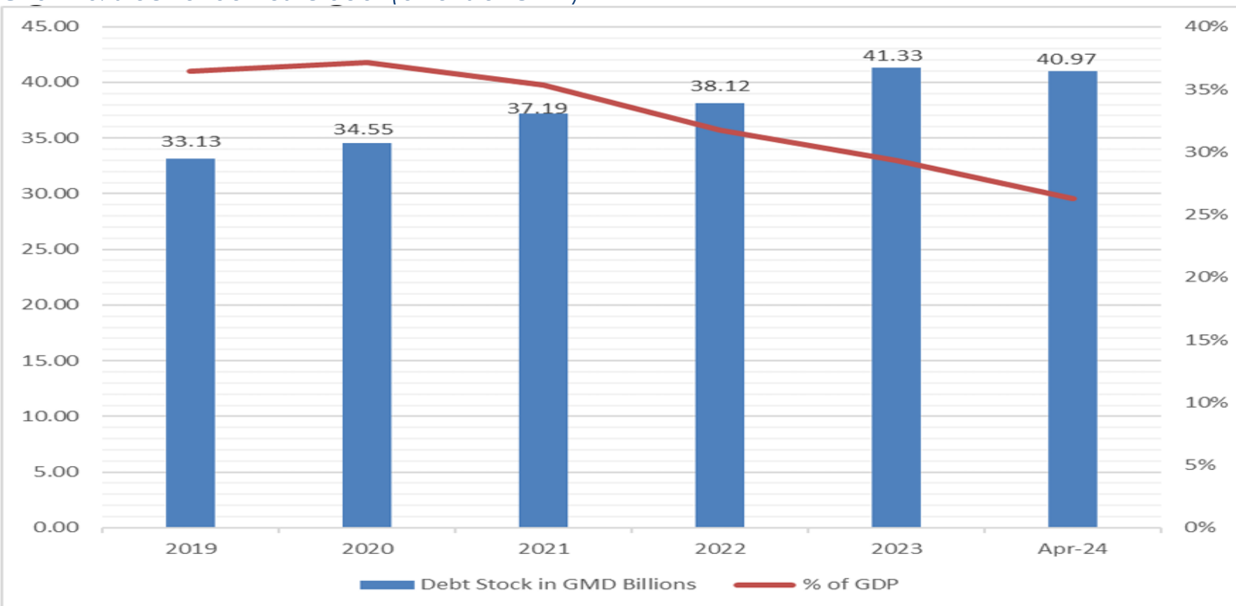
Source: CBG

Government net domestic borrowing decreased by 17.5 percent compared to the previous year, with external financing of the budget deficit also declining sharply by 69.8 percent. The fiscal impulse, as indicated by changes in the primary balance, suggested a negative impact on aggregate demand, implying that government spending had a reduced contribution to GDP growth.

Domestic Debt

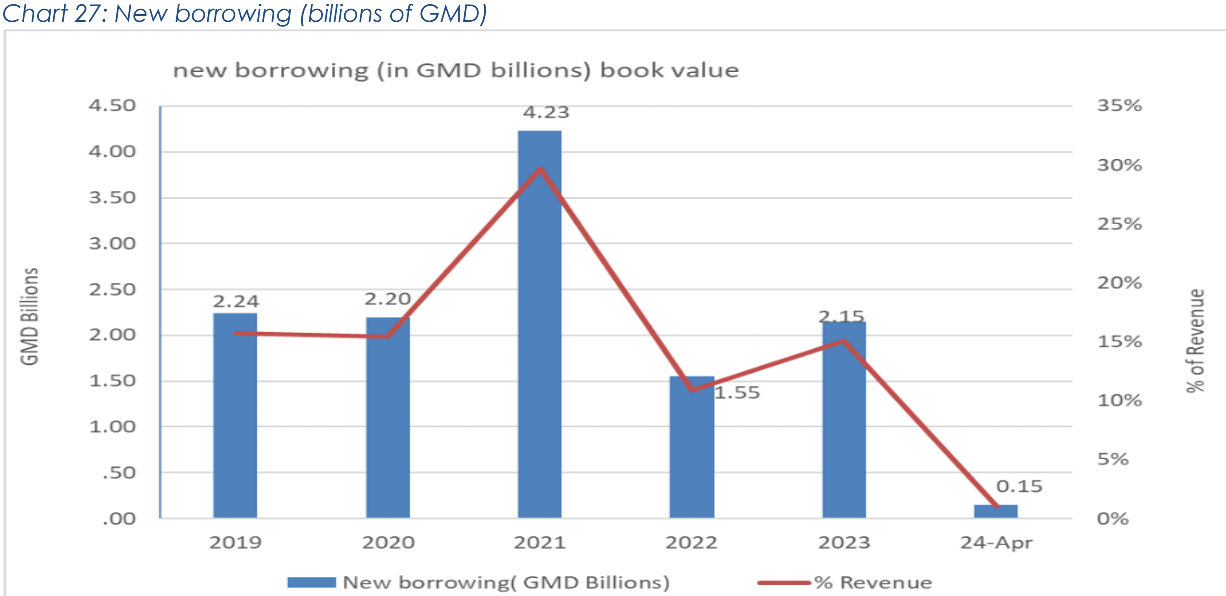
As at end April 2024, the stock of domestic debt slightly moderated to D40.97 billion, primarily due to a reduction in short-term securities like Treasury bills which account for 47.8 percent of the total stock of domestic debt during the first four months of the year. A noticeable shift towards longer-term debt, as evidenced by a rise in the stock of T-bonds which now account for 32.5 percent of the total debt stock during the first four month of 2024 from a share of 27.0 percent of the total debt stock for the whole of 2023.

Chart 26: Stock of domestic debt (billions of GMD)



Source: CBG

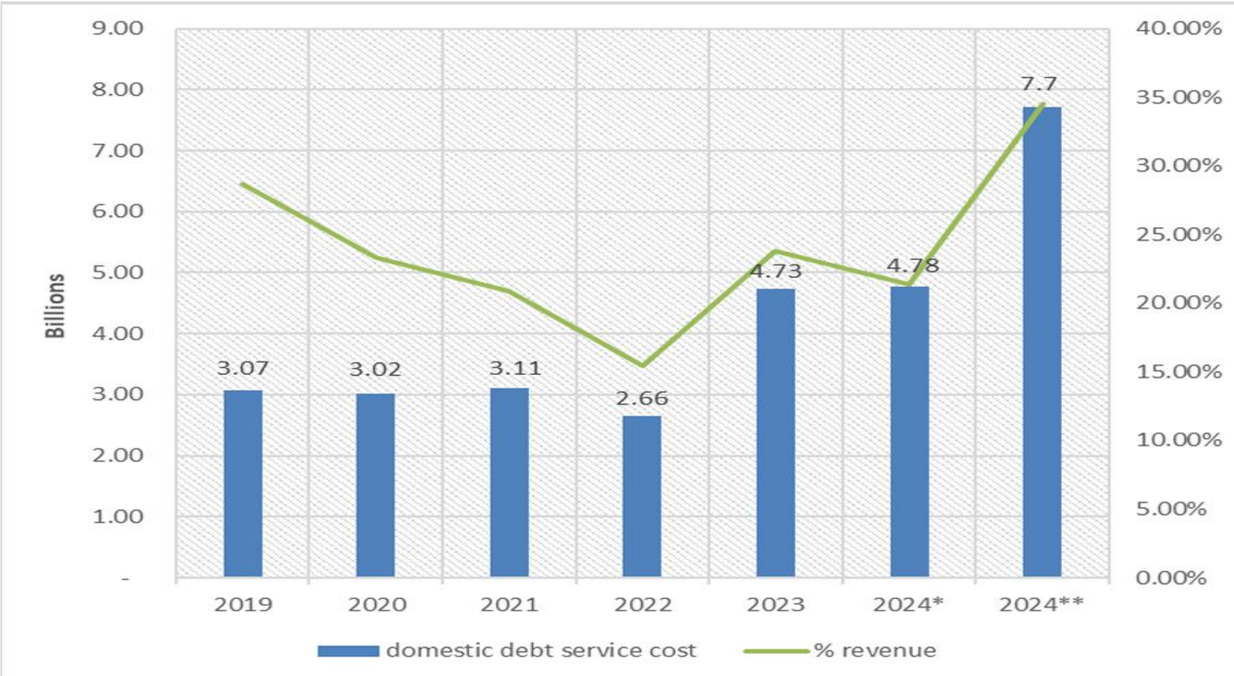
Chart 27: New borrowing (billions of GMD)



Source: CBG

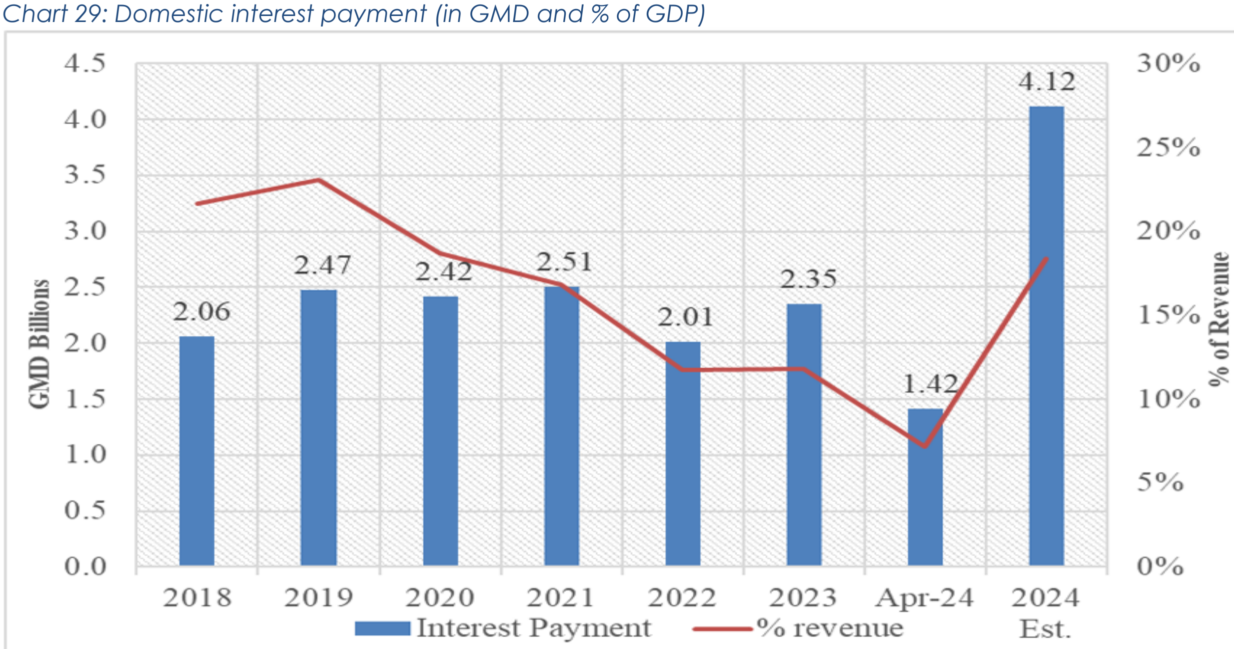
Domestic debt servicing reached D4.73 billion, accounting for 23.85% of total revenue, a significant rise from the D2.66 billion (15.5% of revenue) recorded in 2022. The projected domestic debt service for 2024 is expected to reach D4.8 billion, assuming bond rollovers; otherwise, it could increase to D7.7 billion due to upcoming bond maturities. Domestic interest expenses are also projected to grow, reaching D4.12 billion (18.39% of domestic revenue) in 2024, driven by higher interest rates and an increased debt stock.

Chart 28: Domestic debt servicing (in GMD)



*Source: CBG, *Assuming bond maturities are rolled over. ** Assuming the bond maturities are not rolled over.*

Chart 29: Domestic interest payment (in GMD and % of GDP)

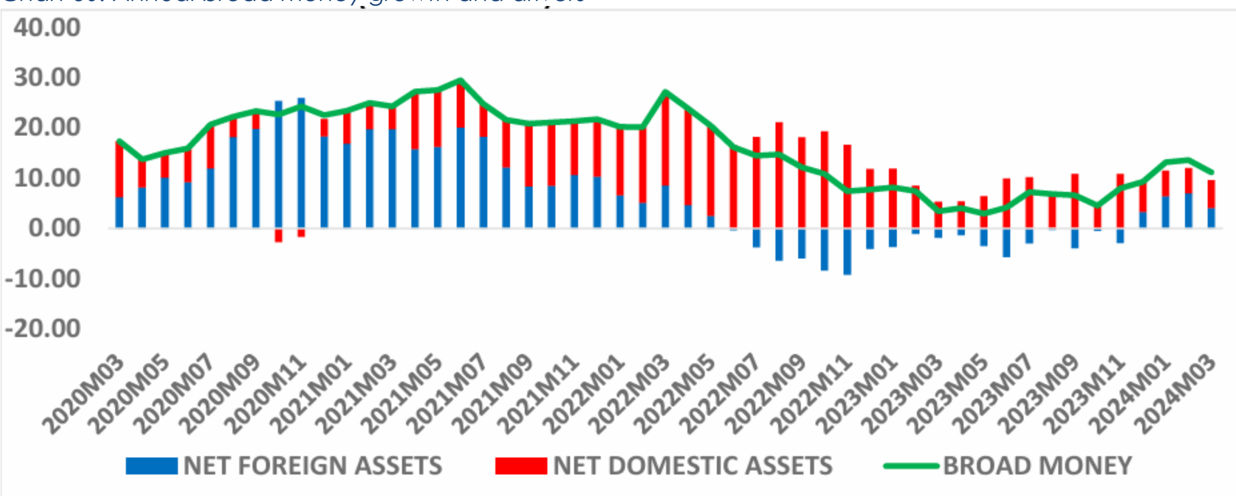


Source: CBG

Monetary Aggregate

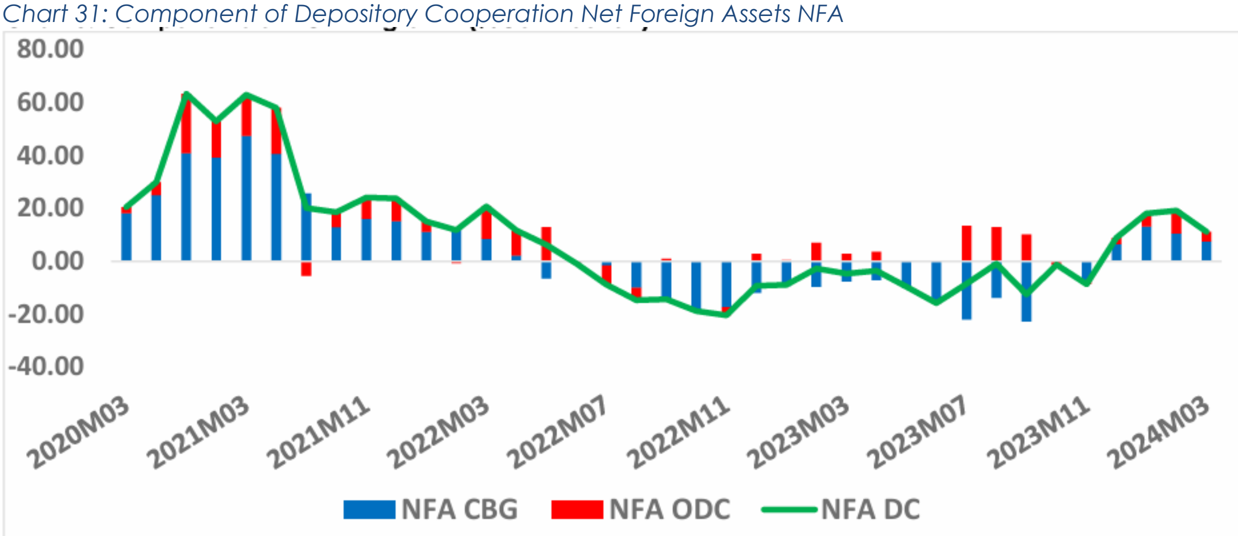
Annual broad money growth accelerated by 11.2 percent in March 2024 from 3.4 percent in the previous year, primarily driven by increases in both net domestic assets (NDA) and net foreign assets (NFA) of the banking system. The improvement in NFA was supported by significant disbursements of donor funds, a recovery in tourism, and increased private remittances, which led to a rebuilding of the Central Bank's foreign reserves and enhanced the foreign asset position of commercial banks. As a result, NFA's contribution to money supply growth shifted from a negative 1.8 percentage points in March 2023 to a positive 4.0 percentage points in March 2024.

Chart 30: Annual broad money growth and drivers



Source: CBG

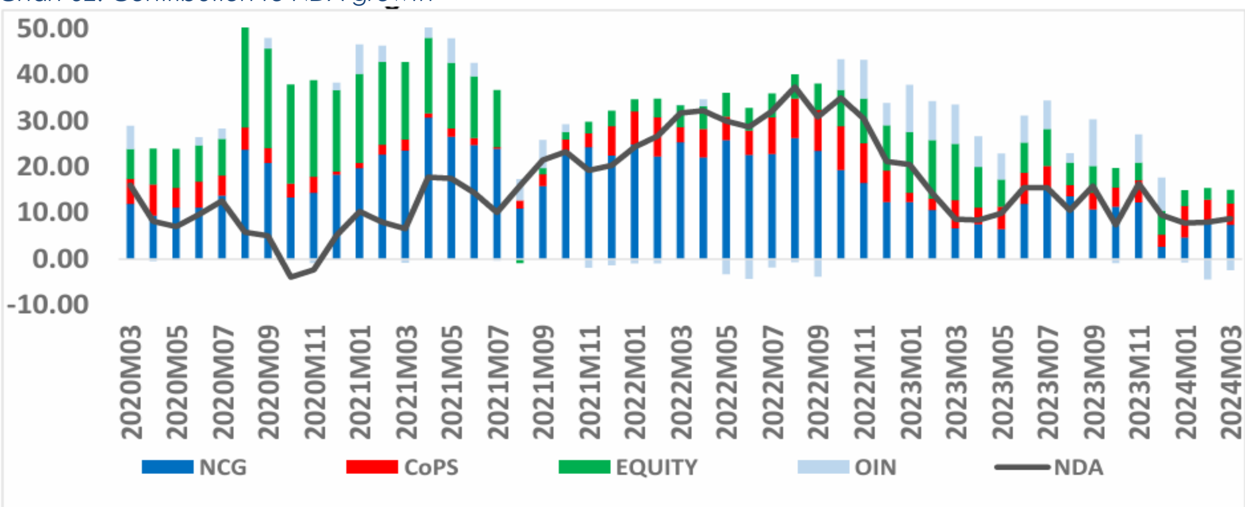
Chart 31: Component of Depository Cooperation Net Foreign Assets NFA



Source: CBG

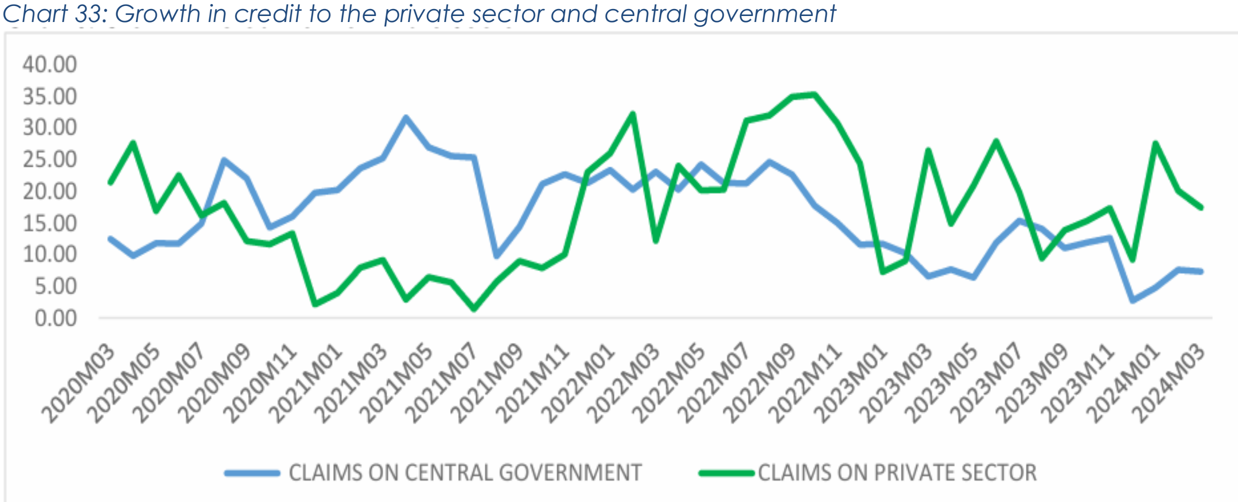
Net domestic assets (NDA) of the banking sector grew by 8.8 percent year-on-year as of March 2024, driven by increased net claims on the central government and the private sector. Credit to the private sector expanded by 19.3 percent during this period, higher than the 12.2 percent growth recorded in December 2023, although lower than the 27.6 percent growth observed in March 2023. In real terms, the banking system's claims on the private sector grew by 4.8 percent in March 2024, down from 13.5 percent in the same period of 2023.

Chart 32: Contribution to NDA growth



Source: CBG

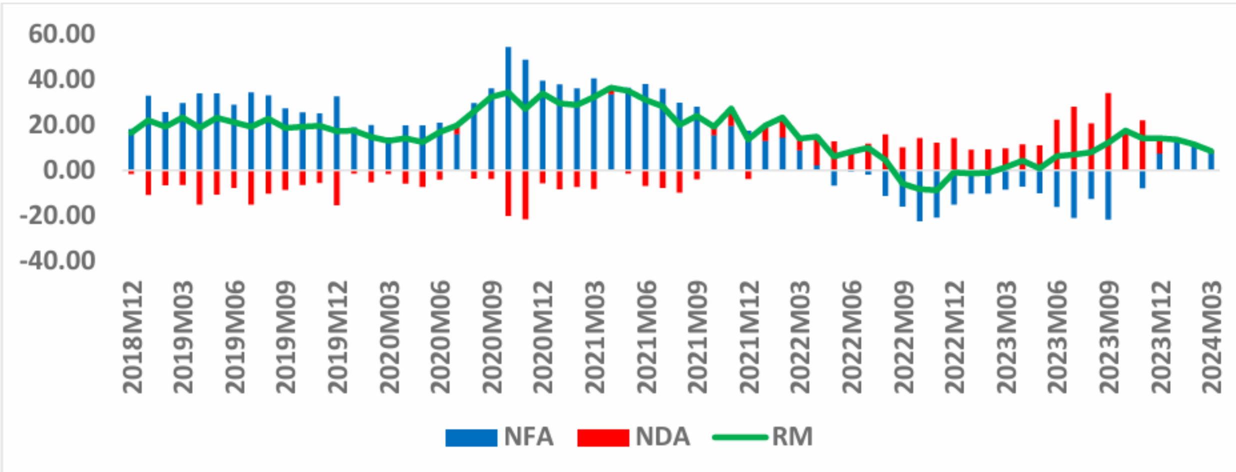
Chart 33: Growth in credit to the private sector and central government



Source: CBG

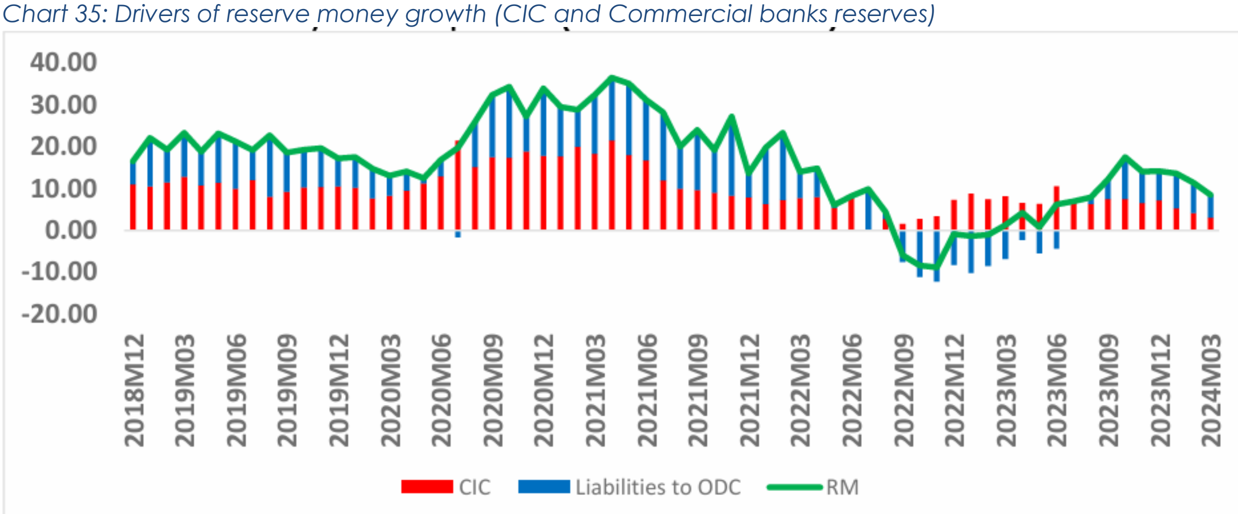
The Central Bank's reserve money (RM) increased by 8.5 percent year-on-year by the end of March 2024, reflecting growth in gross reserves and minimal contributions from NDA due to a drop in the Central Bank's net claims on the government. This drop was partly a result of the government's redemption of a 30-year bond in December 2023 and the inflow of budget support, which helped to reduce the treasury's overdraft position.

Chart 34: Drivers of reserve money growth (NFA & NDA)



Source: CBG

Chart 35: Drivers of reserve money growth (CIC and Commercial banks reserves)

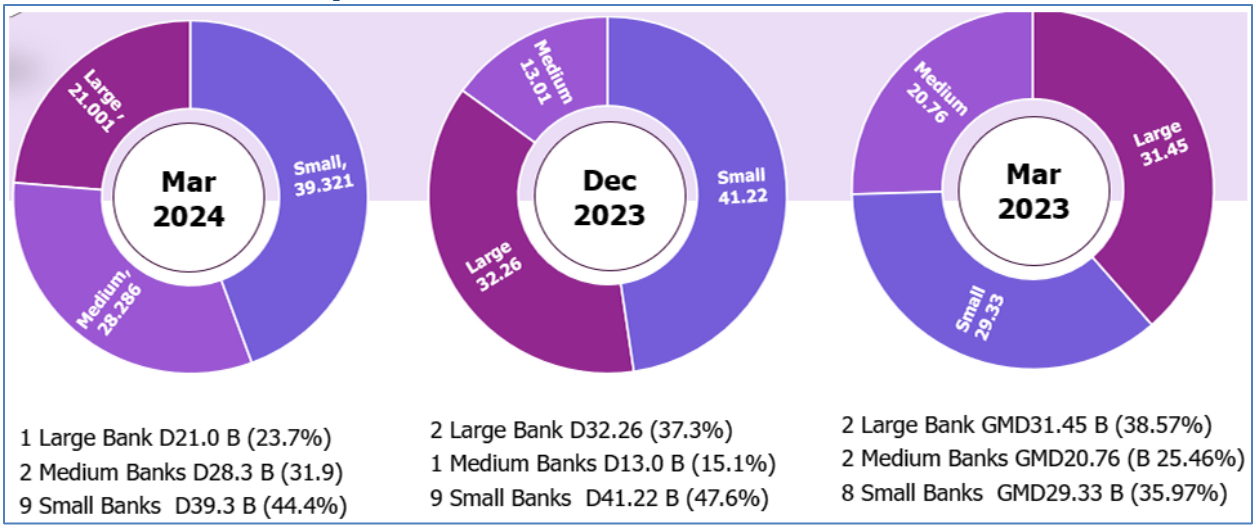


Source: CBG

Banking Sector

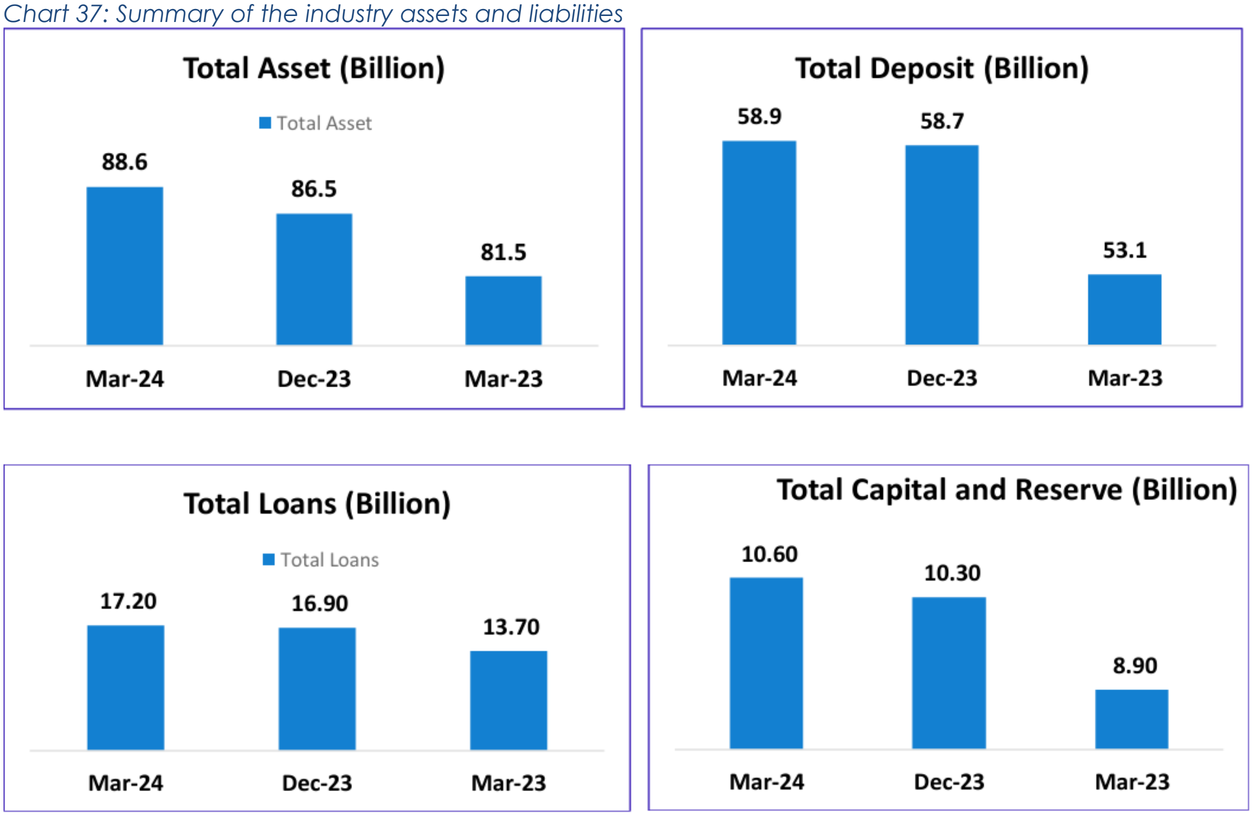
The banking industry in The Gambia has shown varied performance across different categories, with a noticeable concentration of assets in a few large banks. As of the latest quarter, the banking sector is dominated by one large bank controlling 27.3 percent of industry assets, two medium banks holding 31.9 percent, and nine small banks managing the remaining share. Comparatively, from the previous year, two large banks accounted for 38.57 percent of the total assets, while two medium banks and eight small banks made up the rest. The shifts in these categories reflect changes in asset size among the banks, indicating a dynamic environment in terms of asset distribution within the industry.

Chart 36: Market share of large, medium and small banks



Source: CBG

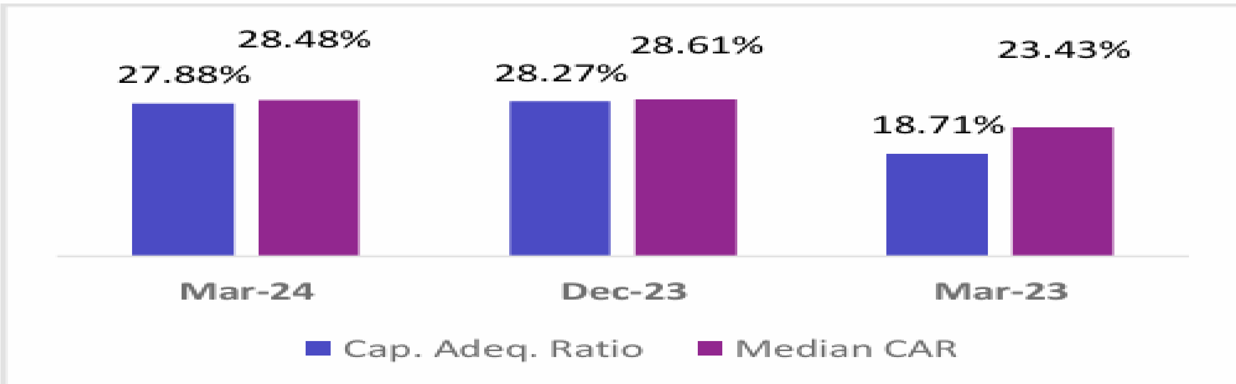
Chart 37: Summary of the industry assets and liabilities



Source: CBG

The capital adequacy ratio for the banking sector has improved, standing at 27.9 percent in March 2024, driven by a significant increase in undivided profits despite a decline in Tier 1 capital. The overall capital has risen to D10.63 billion, which is a positive sign of recovery from the economic impacts of the pandemic and resilience against external shocks. The sector remains well capitalized, with all banks meeting the minimum capital requirement.

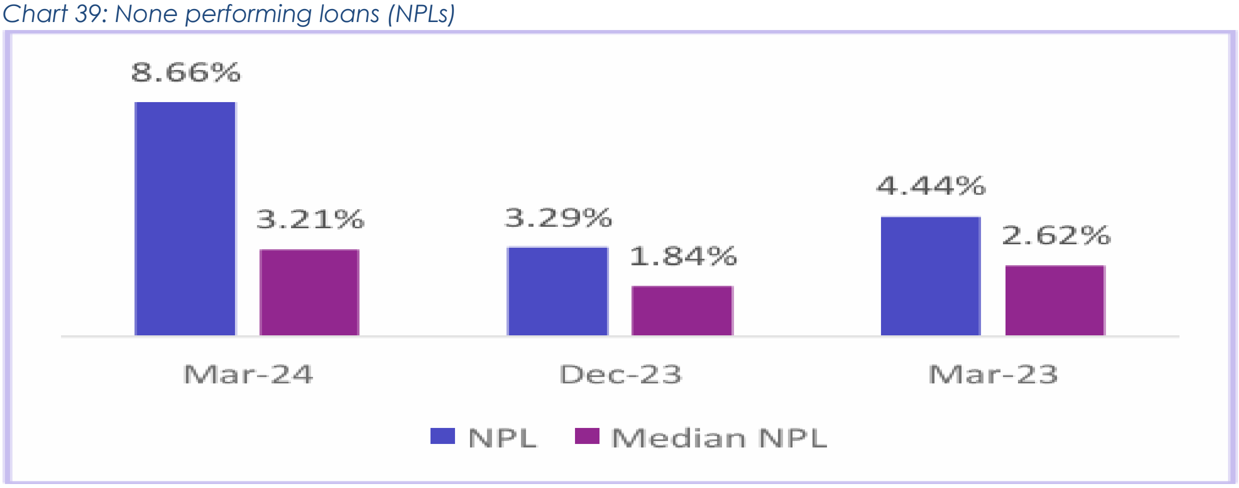
Chart 38: Capital adequacy ratio



Source: CBG

Asset quality has deteriorated, with non-performing loans (NPLs) rising to 8.7 percent from 3.3 percent in December 2023. The increase in NPLs is concerning as it highlights the concentration risk within the industry, especially in the manufacturing and distributive trade sectors, which have seen the highest NPL concentrations. Despite this, banks have increased provisioning to mitigate potential losses, with over-provisioning observed as banks adopt a more prudent approach.

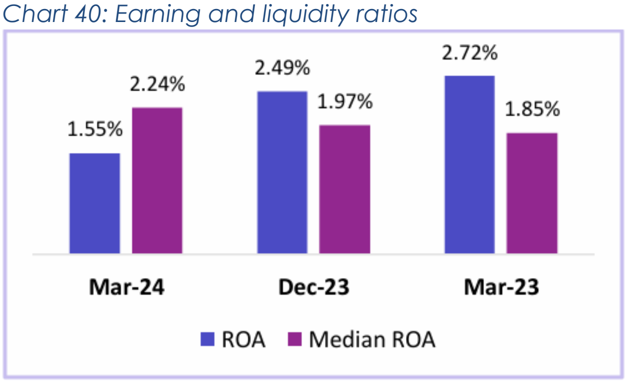
Chart 39: None performing loans (NPLs)

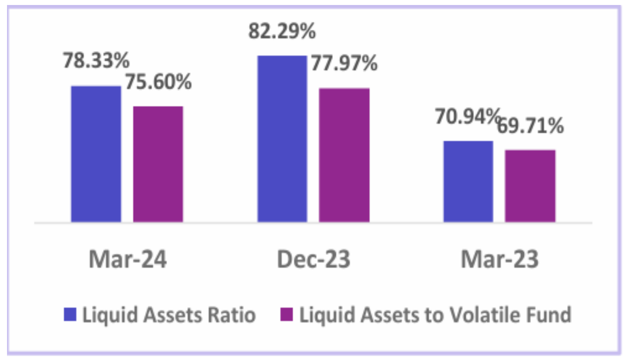


Source: CBG

Earnings in the banking sector have been negatively impacted, with a decline in the return on assets (ROA) to 1.6 percent, partly due to the poor performance of one bank that reported a significant loss. Liquidity levels also dropped slightly, with the liquidity ratio falling to 78.3 percent from 82.3 percent in December 2023. This decrease was despite an increase in government sector investments and customer deposits. The drop in liquidity might not pose a major concern due to the low intermediation levels within the industry. The sector's net open position in foreign exchange remains positive, although FX-related income has declined, reflecting seasonal trends and increased holdings of foreign currency by banks.

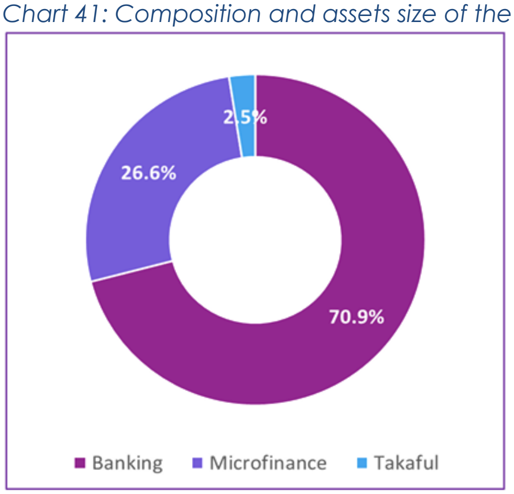
Chart 40: Earning and liquidity ratios

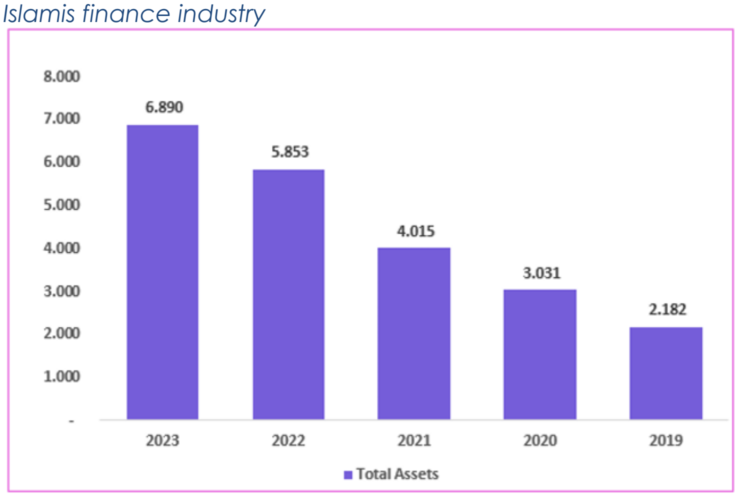




Source: CBG

Chart 41: Composition and assets size of the Islamis finance industry





Source: CBG

The Islamic finance industry in The Gambia is expanding, with the number of institutions growing from six in 2022 to eight in 2023. Islamic finance assets have also increased by 17.7 percent to D6.9 billion, representing 7.6 percent of the total industry assets. This growth highlights the increasing interest in Islamic financial products and services, despite operating in a predominantly conventional financial environment. The sector's upward trajectory reflects its growing importance within the broader financial landscape in The Gambia.

Non-Bank Financial Sector

The microfinance sector in The Gambia as at end March 2024 comprises seven finance companies, including two Islamic institutions, and 56 credit unions. These institutions provide financial services to low-income and informal groups often excluded from mainstream financial services.

Total assets of finance companies (FCs) declined by 1.9 percent in the first quarter of 2024, falling to GMD 3.71 billion, driven by a steep drop in cash and bank balances. However, year-on-year growth was recorded at 2.4 percent. In contrast, credit unions (CUs) experienced marginal growth in total assets (0.26 percent) to GMD 3.04 billion, with a stronger 17 percent year-on-year increase driven by the expansion of credit portfolios. Overall, the sector's deposits grew by 1.2 percent quarterly and 5.6 percent annually, with credit unions showing a more robust performance compared to finance companies.

Table 1: Assets size of FC and CUs

Assets in Millions	March-23	Dec-23	March-24	Quarterly %	Annual %
Finance Companies	3,627.46	3,788.11	3, 714.53	-1.9%	2.4%
Credit Unions	2,576.41	3,031.22	3,039.39	0.26%	17%
Total	6,203.87	6,819.33	6,753.92	0.96%	8.7%

Source: CBG

Table 2: Loans of FC and CUs

Gross Loans in Millions	**Mar-23**	**Dec-23**	**Mar-24**	**Quarterly %**	**Annual %**
Finance Companies	1,013.60	1,072.89	1,092.63	1.9%	7.7%
Credit Unions	1,906.11	2,026.35	2,065.10	2%	8%
Total	2,919.71	3,099.24	3,157.73	1.8%	8.1%

Source: CBG

Table 3: Deposits of FC and CUs

Deposits in Millions	Mar-23	Dec-23	Mar-24	Quarterly %	Annual %
Finance Companies	2,527.96	2,661.77	2,549.97	-4.2%	0.8%
Credit Unions	2,113.74	2,182.59	2,353.77	7.8%	11.3%
Total	4,641.70	4,844.36	4,903.74	1.2%	5.6%

Source: CBG

Table 4: Key financial soundness indicators for Finance Companies (FC)

	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Benchmark
Capital Based						
Capital Adequacy Ratio (CAR)	39%	37%	31%	28%	44%	20%
Tier 1 Capital/Assets	19%	17%	20%	23%	19%	
Profitability						
Return on Assets (ROA)	0%	0%	0%	1%	1%	1%
Returns on Equity (ROE)	4%	2%	2%	5%	4%	
Asset Quality						
Non-Performing Loans (NPL)	13%	15%	15%	8%	9%	5%
Liquidity Indicator						
Liquidity Ratio	70%	67%	75%	66%	78%	30%
Loan to Deposit Ratio	47%	41%	44%	42%	39%	60%
Liquid Assets/Total Assets	49%	40%	54%	59%	54%	
Efficiency Indicator						
Cost/Income	81%	120%	93%	77%	82%	60%
Exchange Income/Total Income	18%	14%	11%	11%	18%	
Interest Income/Total Income	52%	54%	47%	54%	48%	

Source: CBG

Table 5: Key financial soundness indicators of Credit Unions (CUs)

	Mar-23	Jun-23	Sep-23	Mar-23	Mar-23	Benchmark
Capital Based						
Capital Adequacy Ratio (CAR)	20%	17%	17%	20%	20%	16%
Profitability						
Return on Assets (ROA)	0%	1%	0%	0%	1%	1%
Returns on Equity (ROE)	0%	3%	2%	3%	5%	
Asset Quality						
Non-Performing Loans (NPL)	1%	4%	3%	3%	2%	5%
Liquidity Indicator						
Liquidity Ratio	15%	13%	20%	23%	25%	16% - 40%
Loan to Deposit Ratio	79%	92%	95%	93%	88%	80%
Liquid Assets/Total Assets	25%	22%	16%	18%	19%	
Efficiency Indicator						
Cost/Income	91%	95%	87%	82%	69%	60%
Interest Income/Total Income	78%	75%	74%	65%	77%	-

Source: CBG

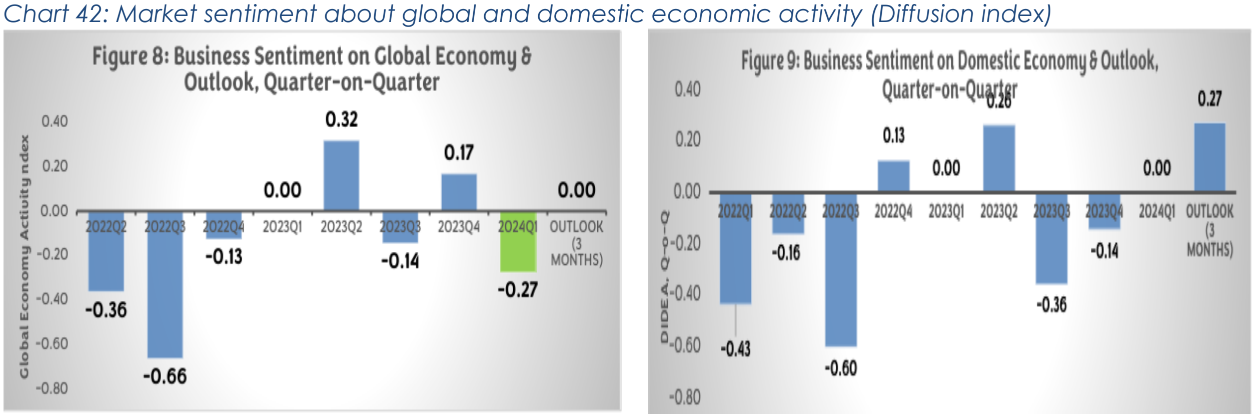
Loans across both finance companies and credit unions increased by 8.1 percent year on year and 1.8 percent in the first quarter of 2024, to a total of GMD 3.16 billion. However, finance companies experienced a decline in total deposits by 4.2 percent in 2024Q1 relative to 2023Q4. Credit unions showed stable growth, particularly in deposits and loans, with both growing by 8 percent in the quarter.

Finance company's key financial ratios such as the capital adequacy ratio (CAR) and liquidity ratio significantly exceeded regulatory requirements, with CAR rising to 44 percent and the liquidity ratio increasing to 78 percent. The capital adequacy ratio for credit unions remained stable at 20 percent, and their liquidity ratio improved to 25 percent. Returns on assets and equity also increased slightly, while the cost-to-income ratio improved to 69 percent, indicating better operational efficiency.

Business Sentiment Survey

The report on the Business Sentiment Survey conducted in the first quarter of the year revealed that respondents were still pessimistic about the prospects of the global economic activities. On the domestic front, respondent perceived that economic activity in 2024Q1 were indifferent from what they were in 2023Q4. The outlook for the domestic economy however is positive. This reflects the optimism in the financial sector in particular, due to the availability of foreign currency despite the still elevated domestic inflation and interest rates.

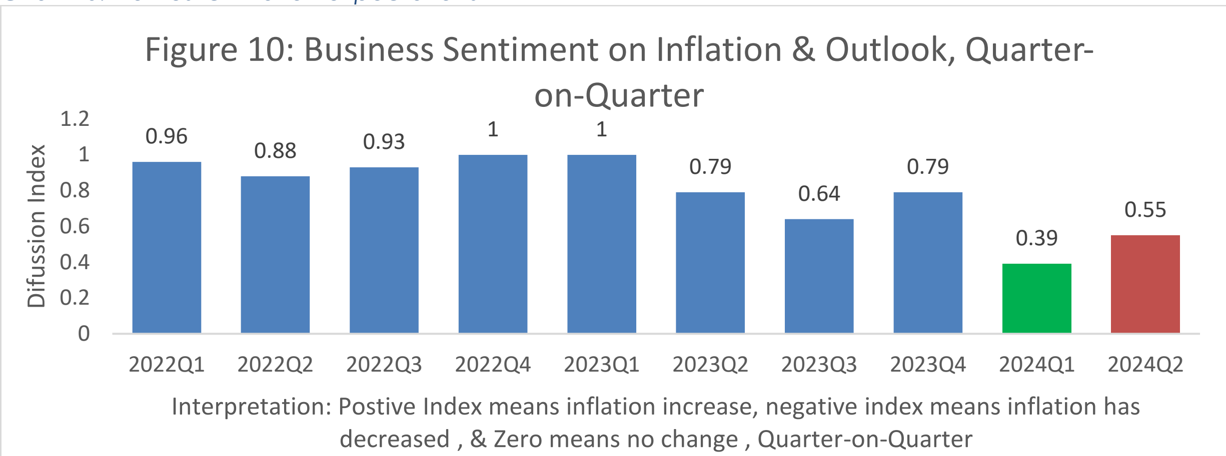
Chart 42: Market sentiment about global and domestic economic activity (Diffusion index)



Source: CBG

Inflation expectations remained positive driven by cost pressures emanating from rising global commodity prices and the depreciation of the domestic currency. These factors, coupled with high credit demand and volatile domestic commodity prices, contributed to expectations of further inflation in the upcoming quarter (2024Q2).

Chart 43: Domestic inflation expectations

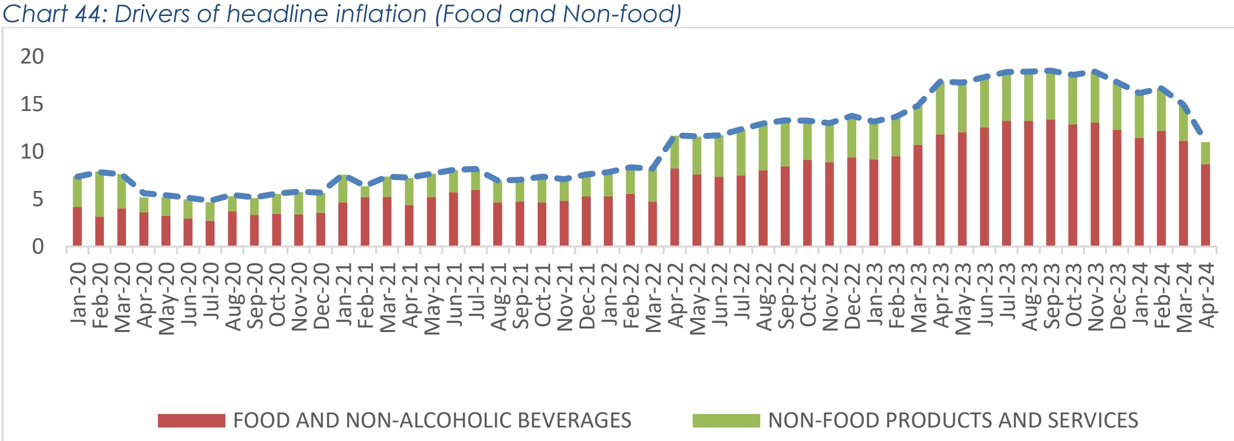


Source: CBG

Price Developments

In April 2024, domestic headline inflation moderated to 11.0 percent from 17.3 percent in December 2023, with reductions in both food and non-food prices. Food inflation dropped by 4.7 percentage points, while non-food inflation fell by 3.7 percentage points. However, domestic structural challenges and global uncertainties continue to pose risks to the inflation outlook.

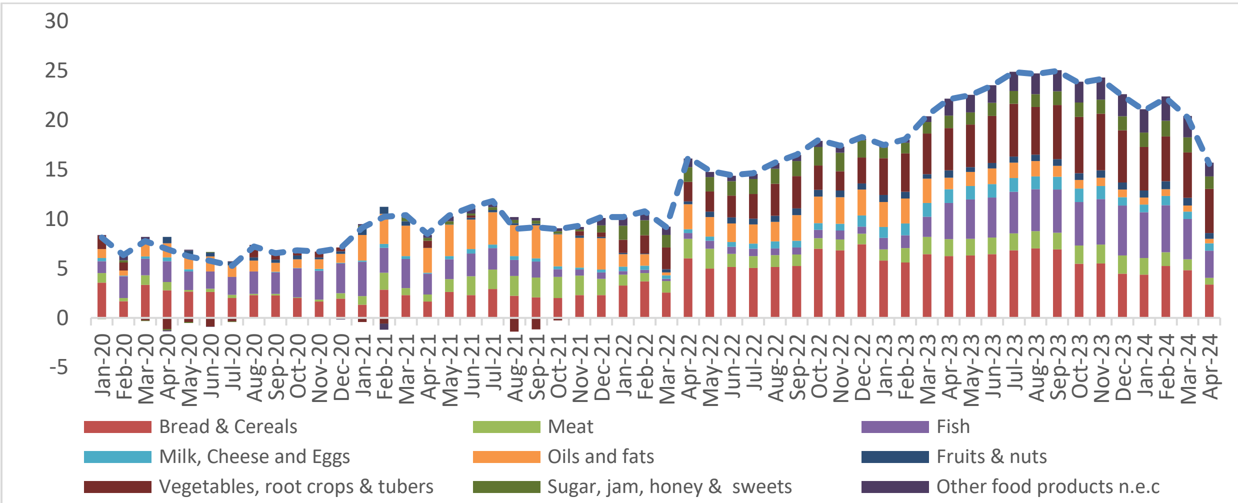
Chart 44: Drivers of headline inflation (Food and Non-food)



Source: CBG

Food inflation declined to 15.6 percent in April 2024, driven by reductions in the prices of bread, cereals, and meat. However, vegetables and dairy products experienced modest price increases. The Gambia's dependence on food imports, combined with volatile global food prices and climate-related risks, remains a key challenge, as currency depreciation further exacerbates food inflation.

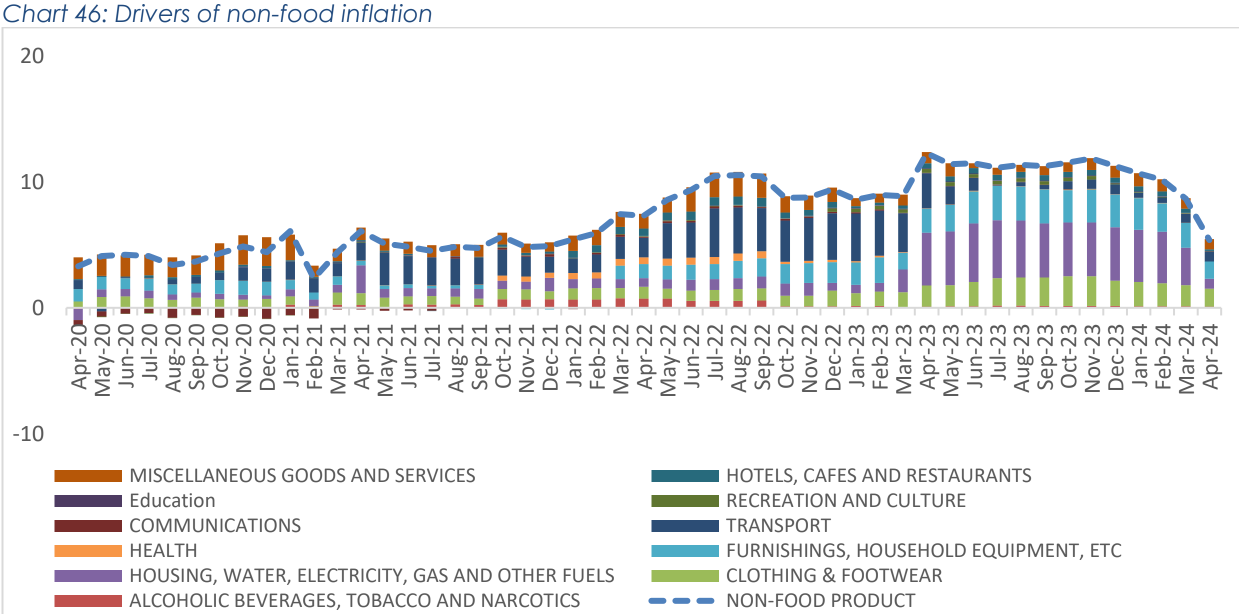
Chart 45: Drivers of Food inflation



Source: CBG

Similarly, non-food inflation has decelerated due to reductions in textiles, energy, and the tourism sector, driven by base effects after price spikes in the previous year. However, rising transportation costs, fuelled by escalating fuel prices linked to geopolitical tensions, could hinder efforts to control inflation, despite recent signs of oil price moderation.

Chart 46: Drivers of non-food inflation

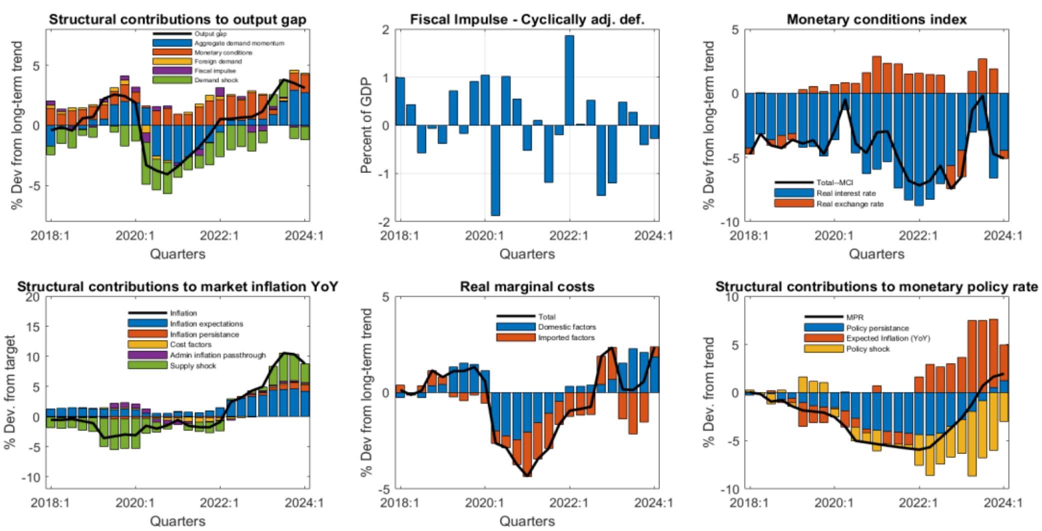


Source: CBG

The outlook for inflation in The Gambia is favourable, with significant progress in reducing headline inflation from its peak. However, risks remain, particularly volatile commodity prices and geopolitical factors that could slow the disinflation process. Caution and prudent policy measures are necessary to sustain the gains and return inflation to target levels.

In summary, overall economic activity remained strong in the first quarter of 2024, with a positive output gap reflecting higher-than-expected economic performance. Headline inflation decelerated, driven by price declines in both market and non-market items, signaling an easing of inflationary pressures. Monetary conditions remained accommodative, largely due to negative real interest rates, which continue to support economic growth. Fiscal policy was less contractionary compared to the previous quarter, allowing for greater spending flexibility while maintaining fiscal discipline. Meanwhile, the dalasi remained broadly stable, benefiting from recent adjustments to align with market fundamentals, which helped to sustain investor confidence and economic stability.

Chart 47: Summary of initial condition



Source: CBG

Baseline Forecast and Risk Assessment

The medium-term outlook is optimistic, with strong expectations for sustained growth. Aggregate demand is projected to remain robust through 2024 and beyond, supported by stable economic activity and consumer confidence. Inflation is expected to gradually decline, easing price pressures. The Dalasi is forecasted to remain stable, providing further support to the economy, while monetary policy will remain focused on controlling inflation.

However, there are several potential risks that could disrupt this positive outlook. These include possible increases in global commodity prices, a depreciation of the currency, and the premature loosening of monetary policy, all of which could negatively impact the forecast. Proactive management of these risks will be essential to maintaining the favorable outlook.

Decision

Based on its assessment of inflation outlook and growth prospects, the Committee concluded that it was premature to start loosening policy rates even though forecast suggests strong indication of moderation in inflation. This is because the risks to the outlook remain and tilted on the upside. In this regard, it was necessary to keep policy tight to ensure that the disinflation process continues, and inflation returns to its medium-term target. Against this backdrop, the Committee decided to maintain the monetary policy rate at 17 percent. The key decisions include keeping the Monetary Policy Rate (MPR) at 17.0 percent, the Required Reserve ratio for commercial banks at 13.0 percent, the interest rate on the standing deposit facility at 3.0 percent, and the interest rate on the standing lending facility at 18.0 percent or MPR plus 1.0 percentage points. The Committee will remain vigilant and ready to take further action if necessary.

Next MPC Meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, August 28, 2024. The meeting will be followed by the policy decision announcement on Thursday, August 29, 2024.