CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

MINUTES OF MEETING NO.90 **May 22-23, 2024**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) met on May 22-23, 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 all 9 Members of the Committee.

MPC Members Present

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

Report Presenters

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

Mrs. Fatou Sanyang	Banking Officer, Banking Services Department
Mrs. Awa Bayo	Senior Bank Examiner, Banking Supervision Department
Mr. Karamo Sawaneh	Bank Examiner, Banking Supervision Department
Mr. Alkali Barrow	Officer, Other Financial Institutions Supervision Department
Mr. Momodou A. Jallow	Officer, Financial Markets and Reserve Management Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department

Agenda

1. The meeting agenda was adopted as presented 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 all Members to the second Monetary Policy Committee Meeting (MPC) of 2024. He noted the promising development in the global economy characterized by steady growth and declining inflation. These developments are expected to positively impact the Gambian economy and help foster macroeconomic stability. Notwithstanding, he cautioned that due to the ongoing geopolitical tensions in the Middle East and Ukraine, risks of disruptions in international trade still pose uncertainties on the direction of international commodity prices. He indicated that this is a concern the Committee should take note of given its potential repercussions on the fight

against inflation and overall macroeconomic stability. Furthermore, the Governor emphasized the need for close collaboration between fiscal and monetary authorities as the country navigate these headwinds.

3. On the domestic front, the Governor welcomed the positive developments in the fight against inflation, as headline inflation declined for the third consecutive month. This he noted was predicated on the moderating global commodity prices and the impact of domestic policies on inflation. Similarly, the Governor expressed optimism about the prospects of the Gambian economy as economic activity picked up backed by robust consumer spending and public investment continues to support growth momentum. Nevertheless, he reminded Members that the objective of monetary policy remains to bring inflation back to the Bank's medium-term target, which should leave no room for policy missteps.

4. The Governor went ahead with the announcement that the tenure of the three external Members of the MPC has expired after serving their second four-year term. He expressed his profound thanks and appreciation for their contribution in shaping monetary policy decisions during a very challenging time. From the onset of the COVID-19 pandemic, the Russia-Ukraine war, and the resulting cost of living crises, these Members remained committed and steadfast in confronting these challenges by offering invaluable guidance and support to the Committee. These policies have and continue to yield dividends, evidenced by declining inflation, a stable foreign exchange market, and steady economic growth. He mentioned that while the Committee will continue to tap into their wealth of experience, the Governor wished them the best of luck in their new engagements.

5. 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. 89

6. The minutes of the MPC Meeting No.89 were reviewed and adopted after minor adjustments.

Matters Arising

7. On matters arising, it was reported that the concerns previously raised about the classification of the groundnut financing facility have been addressed. The facility is correctly classified in the monetary survey as claims on public enterprises.

Presentation of Reports

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

Global Economic Developments

9. 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 April 2024 World Economic Outlook (WEO) published by the International Monetary Fund (IMF) including near-term prospects.

10. According to the presentation, despite significant monetary policy tightening, the global economy has sustained momentum since the last MPC, amidst steady growth and disinflation. This is largely supported by improved labour market conditions in many advanced economies and favourable supply factors. According to the World Bank's Purchasing Managers' Index (PMI), manufacturing, alongside trade and industrial activities, as well as global services registered significant improvements aiding the growth momentum. Against this backdrop, in the April 2024 World Economic Outlook, the IMF predicted the global economy to expand by 3.2 percent in both 2024 and 2025, maintaining the same pace as in 2023. This projection for 2024 marks a slight improvement from the January 2024 forecast by 0.1 percentage point, while the forecast for 2025 was left unchanged.

11. Notwithstanding, the pace of growth, however, remains subdued compared to historical standards, owing to the still-high borrowing cost and withdrawal of fiscal support as well as enduring repercussions from the COVID-19 pandemic. The IMF also noted the sluggish productivity growth and increasing geopolitical fragmentation continue to hold back economic expansion.

12. The report also highlighted positive regional developments as both advanced and emerging markets and developing economies are poised to register economic expansions in 2024 and 2025. In sub-Saharan Africa, growth is forecast to increase from 3.4 percent in 2023 to 3.8 percent in 2024 with most countries expecting higher growth rates. The report stated that the continued expansion in the global economy is expected to positively impact the Gambian economy, supporting trade and tourism.

13. On international price developments, the presentation revealed that global headline inflation is anticipated to decrease, from an annual average of 6.8 percent in 2023 to 5.9 percent in 2024 and further to 4.5 percent in 2025. This is on the back of moderating commodity prices, still-tight monetary policies, a corresponding softening in labour markets, and diminishing pass-through effects from earlier declines in relative prices, particularly in energy. However, there are significant disparities in the pace of disinflation across regions. Advanced economies are poised to bring inflation down to their pre-pandemic levels faster than emerging markets and developing economies. Despite these favourable developments, risk to inflation outlook is still shrouded by heightened geopolitical tensions and uncertainties surrounding crude oil prices.

14. According to the presentation, international commodity prices have recently started to trend upward, owing to supply and demand mismatches, poor weather conditions as well as tensions in the Middle East. The IMF All Commodity Prices Index rose by 4.5 percent in April from the level it was in March 2024. Similarly, the FAO Food Price Index, which tracks monthly changes in the international prices of globally traded food commodities, increased modestly by 0.3 percent in April 2024 from its revised March level. However, the FAO Rice Price Index decreased by 1.8 percent compared to the March level, but still 9.2 percent higher than the value it was a year ago. This notwithstanding, global rice prices are still projected to remain elevated this year, due to sustained market tightness caused by adverse weather conditions and export restrictions.

15. In assessing 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 spurring domestic demand. However, the recent 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.

16. Reacting to the presentation, the Committee welcomed this positive development, citing it as favourable to the Gambian economy and the fight against inflation. Members noted that the global and regional growth prospects, particularly from bilateral trading partners, are very encouraging as it has the potential to improve the country's trade balance and boost income. On a similar note, the Committee pointed to the declining inflation and the moderating global commodity prices amidst some risk as good signs for the disinflation process.

17. However, the Committee expressed concerns as rice prices are projected to increase in 2024, given its potential impact on inflation and cost of living in The Gambia. Members noted that trade restrictions and weather-related issues in producing countries could exacerbate this situation and complicate the already challenging policymaking environment. Members emphasized the need to monitor these developments and put together necessary measures to address these risks moving forward.

18. The Committee noted that key risks highlighted in the report are largely supply-side factors, which calls for the use of unconventional monetary policy tools to tackle these supply bottlenecks. Members were informed that the Development Finance Department (DFD) is collaborating with AFDB and Africa Rice to support rice production in The Gambia. This intervention is expected to ensure rice self-sufficiency and even promote the export of rice in the medium to longer term.

19. Notwithstanding, Members were informed that for the immediate term, an arrangement with the Indian government to make available up to 50 thousand metric tons of rice is in place. This is expected to ensure an uninterrupted importation of rice to The Gambia and increase domestic rice stock. The Committee noted that this will significantly ease price pressures, aid the disinflation process and avoid cost-of-living crises.

20. Furthermore, the Committee cautioned that international energy prices are still volatile, posing a significant risk to domestic inflation. Members emphasized that

the ongoing fuel subsidy reforms should be implemented with caution to avoid any unintended disruption in the disinflation process, which could be costly. The Committee was informed that the Ministry of Finance and Economic Affairs is still accommodating some level of fuel subsidy while they work on finalising the social registry. Upon completion of the social registry, the plan is to phase out direct fuel subsidy and replace it with targeted cash transfers to the most vulnerable. On that note, Members reiterated the need for policy coordination in these crucial moments to avoid any policy misstep that could be costly.

21. The Committee inquired about the possible impact of DFD support programs on inflation. It was suggested a study be conducted to establish the impact of CBG supply-side interventions on inflation outcomes. The DFD was tasked to collaborate with ERD to explore this topic and report to the MPC in due course.

Domestic Macroeconomic Developments

Banking Sector Developments

22. 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 one large bank and two medium banks controlling about 59.2 percent of total assets, while the remaining nine small banks held 40.8 percent.

23. The presentation also highlighted that the industry continues to be stable with robust financial soundness indicators. The industry risk-weighted capital adequacy ratio stood at 27.9 percent in March 2024, compared to the 18.7 percent reported in March 2023. All the banks were within the regulatory requirement of 10 percent. Furthermore, the industry liquidity conditions remain strong, with the industry registering a liquidity ratio of 78.3 percent. This is slightly lower than the 82.3 reported in December 2023, but significantly higher than the 70.9 percent reported in March 2023. However, the presentation showed a significant increase

in non-performing loans (NPLs), from 3.3 percent in December 2023 to 8.7 percent in March 2024.

24. Furthermore, the presentation revealed a growing sector, with a stronger industry asset base during the period. From December 2023 to March 2024, total assets increased by 2.4 percent, reaching D88.6 billion. When compared to the same period a year ago, total assets of the industry increased by 8.7 percent. This increase is predicated on increased government sector investment, balances due from other banks, gross loans and advances, and cash-in-hand. On the liabilities side, customer deposits, which continued to be the main source of funding for banks, marginally increased by 0.3 percent from December 2023 to March 2024 to stand at D58.9 billion, but 10.9 percent higher when compared to March 2023.

25. The presentation indicated a significant increase in financial intermediation during the quarter under review. Total loans and advances increased by 1.8 percent, from D16.9 billion in December 2023 to D17.2 billion in March 2024. This improvement in financial intermediation was due mainly to increases in the stock of credit to the building and construction sector and other commercial loans and advances. Although loan-to-deposit remains low, it improved to stand at 29.2 percent in March 2024, from the 28.8 percent reported in December 2023. However, credit concentration remains a regulatory concern as single large borrowers' default could threaten financial stability.

26. 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.

27. The presentation concluded by providing recent developments in The Gambia Islamic financial services industry. The sector comprises eight Islamic financial institutions, including one Islamic Bank, two Islamic Microfinance Institutions, four

Takaful Insurance Operators and one Islamic Credit Union. Although it operates in a fully conventional environment, the industry has registered significant growth with Islamic financial assets increasing by 17.9 percent to stand at D6.9 billion in December 2023, from D5.8 billion reported in December 2022. To ensure smooth functioning of the sector, the Central Bank has instituted a number of legal and regulatory measures including the introduction of the Islamic Finance guidelines and Corporate Governance guidelines. This is expected to safeguard and strengthen confidence in the sector going forward.

28. Despite these positive developments, the report highlighted some challenges within the sector including investors' pessimism on Shariah compliance concerns and the lack of a Shariah board within CBG to oversee the Sukuk al-Salam bills issuance process. Therefore, the report recommended that the Bank address these challenges with the view of unlocking the potential that Islamic Financial products hold for The Gambia.

29. Reacting to the presentation, the Committee welcomed the positive developments in the banking industry despite coming out of a very challenging period. Members noted that the sustained macroeconomic stability since the emergence of the pandemic has benefited the financial sector and the country at large.

30. Notwithstanding, concerns were raised about the reoccurring large borrower concentration problem, which could pose a significant risk to financial stability. Members emphasized that the Banking Supervision Department (BSD) needs to closely monitor the issue with the view of safeguarding the financial system. The Committee also reiterated the need for banks to step up in their customer due diligence to protect depositors' funds. In the same vein, the Committee advised that banks need to broaden their security infrastructure to include their branches to avoid any fraudulent activities.

31. Members were also concerned about the sudden jump in banks' non-performing loans, citing its negative impact on asset quality and financial stability. The BSD

was tasked to do further interrogation to ascertain the extent to which bank assets are affected. The Committee tasked Senior Advisor Njie and BSD to form a team to investigate this matter and report to the MPC. Members were later informed that the recent jump in the NPLs was attributed to just one borrower and BSD is monitoring the situation closely. The Committee requested the department to organize a meeting between the borrower and the bank concerned to get to the bottom of the issue. Similarly, BSD was requested to conduct diagnostic assessments on bank loans and provide quarterly reports to Management going forward.

32. The Committee mentioned that the plans to raise the regulatory minimum capital requirement of 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. Members also expressed optimism that such a reform will go a long way in supporting financial intermediation, particularly in strategic sectors such as agriculture and industry.

33. A concern was raised about the limited number of audit firms for carrying out audit exercises for banks given the size of the industry. It was cited as a significant risk as audit fatigue could lead to sub-optimal audit outcomes. The Committee was informed that the matter was brought to the attention of the National Audit Office (NAO).

34. On the results of the banking sector stress testing exercise, the Committee commended the BSD for a significant milestone. While the results indicated a stable industry with low interest and exchange rate risks, Members raised concerns regarding elevated credit risk, which underscores the need to reassess the capital requirement of banks. The Committee also highlighted the need to closely monitor the high credit concentration within the industry.

Developments in Other Financial Institutions

35. The presentation on non-bank financial institutions (NBFIs) provided key highlights of the financial performance of Finance Companies (FCs) and Credit Unions (CUs) as of end-March 2024. The report indicated that the non-bank financial sector continues to grow 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

36. The report showed a stronger industry performance in the first quarter of 2024, with the sector's asset base increasing by 1.0 percent quarter-on-quarter, on account of an increase in total assets of the CUs and by 8.7 percent year on year. On a year-on-year basis, both FCs and CUs experienced an increase in their assets base by 2.9 percent and 18.0 percent, respectively.

37. From December 2023 to March 2024, the total asset base for Finance Companies (FCs), the largest category of non-bank financial institutions, slid by 1.9 percent. On the other hand, the report indicated an expansion in the asset base of CUs by 0.3 percent in March 2024, when compared to end-December 2023.

38. Furthermore, the presentation indicated that the stock of customer deposits in the industry slightly expanded by 1.2 percent in March 2024 to D4.9 billion. While total deposits of FCs decreased by 4.2 percent in March 2024 to stand at D2.5 billion, total customer deposits of CUs went up by 7.8 percent, benefiting from a higher customer base.

39. The presentation also showed a 1.8 percent increase in outstanding gross loans of NBFIs during the review period, due to an increase in the gross loans of both FCs and CUs. CUs registered the highest increase in gross loans of 2 percent in March 2024, which translated to a 65.4 percent market share of industry loans. FCs, with a market share of 34.6 percent, realized a 1.9 percent growth in gross loans. In terms of sectoral distribution of loans, small SME trading, accounted for 76 percent of total loans issued by FCs, followed by personal loans at 11 percent, construction

(6 percent), agriculture (3 percent), services (2 percent), and the remaining 2 percent is shared between cottage and skilled labour. Furthermore, the industry recorded a net income of D27.6 million in March 2024, compared to D40.4 million recorded in the previous quarter.

30. The presentation also provided highlights of key financial soundness indicators of both FCs and CUs as of March 2024, which suggested a sound and stable industry. The report showed that the industry remained well-capitalized, with a capital adequacy ratio of 44 percent, higher than the 28 percent reported in December 2023. The increase in the CAR, which is largely attributed to internal capitalization, is well above the regulatory benchmark of 20 percent.

31. Furthermore, the sector continues to maintain a comfortable level of liquidity. The liquidity ratio of FCs increased, from 66.0 percent in December 2023 to 78 percent in March 2024 and was above the regulatory benchmark of 30 percent. In addition, the report also indicated some stability in the industry's asset quality as the non-performing loans ratio remained in single digits, at 9 percent.

32. In the same vein, CUs remained well-capitalized with robust financial soundness indicators. The CUs CAR stood at 20 percent in March 2024, which is above the regulatory requirement of 16 percent. The sector also registered an uptick in profitability with both ROA and ROE increasing during the review period. The report also indicated a very stable and low non-performing loans ratio, which stood at 2 percent as at end-March 2024.

40. 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 concern about the existence of significant disparities among institutions and urged the Microfinance Supervision Department (MSD) to continue to monitor closely weak institutions.

41. The Committee also raised concerns about the moderating deposits, despite stronger economic activity in the first quarter of 2024. Members were informed that the decline in customer deposits during the review period was largely seasonal, attributed to the festive period of Ramadan.

42. Given the role of NBFs in financial inclusion, the Committee inquired about the level of financial inclusion in the country. Members stated that given the significant improvement in the country's payment infrastructure, NBFIs should leverage this positive development to promote financial inclusion. The MSD was tasked to explore the possibility of coming up with a nationwide survey to gauge the level of financial inclusion.

43. The Committee was informed about the proposal of an alternative switch from the Gates Foundation, which could enable NBFIs to join the national switch.

Domestic Debt Market Developments

44. The presentation of the Domestic Debt Market report highlighted recent developments in the domestic money market since the last MPC. The report indicated that domestic debt stock remained broadly stable at D41.0 billion in April 2024, declining slightly from the D41.3 reported at end-December 2023. This moderation was occasioned by the marginal decline in short-term securities issuance.

45. Furthermore, short-term instruments continue to dominate the composition of domestic debt, accounting for 47.8 percent. Medium-term instruments accounted for 32.5 percent, while long-term securities represented 19.7 percent. Although the debt is still concentrated in the short end, the recent increase in the share of medium and long-term securities is an indication of effective implementation of government debt management strategy. Notwithstanding, the current composition of the debt stock poses significant refinancing risks given that close to half of the debt matures within one year. The projected debt service for

2024 stands at D4.8 billion and this could rise to D7.7 billion if bond maturities are not rolled over.

46. The report projected domestic interest expenses to reach D4.1 billion in 2024, representing 18.4 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.

47. Despite monetary policy tightening, the spread between the monetary policy rate and other money market interest rates remains wide, reflecting the excess liquidity in the banking system. Yields on short-term government securities continued to decline with the one-year, six-month, and three-month treasury bills rate declining to 6.2 percent, 3.3 percent, and 3.4 percent in March 2024, from 10.8 percent, 8.0 percent, and 6.1 percent in December 2023, respectively.

48. The presentation also indicated that the interbank market continued to function smoothly with strong activity volumes during the period. Trade activity volumes in the interbank dalasi market from January to April 2024 recorded D4.9 billion, compared to D7.4 billion reported in the same period of 2023. Owing to the ample liquidity in the market, the weighted average interest rate prevailing in the market declined, from 7.4 percent in April 2023 to 4.9 percent in April 2024, following the three-month Treasury bills rate.

49. Reacting to the presentation, the Committee welcomed the moderating domestic debt stock, emphasizing the need to sustain the momentum to create the much-needed fiscal space. However, it will require higher level of fiscal policy prudence to be able to reduce the stock of new borrowing and contain the debt situation. Members also cautioned against monetary financing of the deficit as this could jeopardise the disinflation process and risk losing the hard-gained macroeconomic stability.

50. Members also raised concerns about the debt refinancing risks associated with the short-term debt instruments maturing within a year. This continues to eat up domestic resources, further tightening the fiscal space, especially given the fact that the IMF external debt deferral is ending in 2025. The Committee reiterated the need to carefully calibrate fiscal policy going forward to ensure fiscal and debt sustainability.

51. The Committee noted that while domestic debt stock moderated during the period, it still represents a significant risk to fiscal sustainability given the considerable pressure on public finances due to high debt servicing costs. Therefore, fiscal policy actions should aim at gradually reducing the rate of debt accumulation and boosting domestic revenue mobilization.

52. Members discussed the feasibility of writing off the CBG holdings of government 30-year bond, contingent upon commitment from the government to redirect the resources to finance some critical public investment projects. It was suggested that such a structured approach could ease fiscal pressures and create policy buffers, especially in anticipation of the expiration of the external debt deferrals in 2025. Members recommended further consultations on the matter as such a move might be perceived as direct financing of the budget deficit.

Government Fiscal Operations

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

54. The overall deficit (including grants) widened from D2.1 billion (1.5 percent of GDP) in March 2023 to D2.2 billion (1.3 percent of GDP) in March 2024. Similarly, the overall budget deficit, excluding grants, widened to D4.0 billion (2.3 percent of GDP) in the first three months of 2024, compared to a deficit of D3.9 billion (2.3 percent of GDP) recorded in the corresponding period of the previous year. The

deficit in the basic balance and primary balance stood at 0.8 percent of GDP and 0.1 percent of GDP, respectively.

55. On domestic revenue mobilization, the report indicated robust performance in the first quarter of the year. Domestic revenue, encompassing both tax and non-tax revenues, rose by 31.1 percent to D5.5 billion (3.0 percent of GDP) in the first three months of 2024, from D4.3 billion reported the same period last year. This amount was 7.6 percent higher than the amount projected, thanks to improved revenue mobilization efforts, including improved tax administration.

56. Furthermore, the presentation revealed a 34.3 percent rise in tax revenue to D4.6 billion (2.7 percent of GDP) in March 2024, from D3.5 billion (2.4 percent of GDP) recorded in the corresponding period a year ago. This increase was due to higher direct and indirect tax revenue performance, which increased by 36.6 percent and 30.0 percent, respectively. Non-tax revenue rose by 16.6 percent to D902.3 million (0.5 percent of GDP) in the first quarter of 2024 from D773.7 million (0.5 percent of GDP) in the same period last year. However, the outturn for the review period was lower than the projected amount by 2.0 percent. The presentation also showed that project grants declined by 0.6 percent to stand at D1.79 billion (1.0 percent of GDP) in 2024, from D1.8 billion (1.3 percent of GDP) reported in the same period last year.

57. On government expenditure, the report revealed an increase of 17.6 percent to D9.6 billion (5.5 percent of GDP) in the first three months of 2024, from D8.1 billion (5.7 percent of GDP) in the same period in 2023. The increase in government expenditure and net lending was mainly on account of the surge in recurrent expenditure. However, a significant portion of government expenditure went to finance public investment projects, which accounted for 37 percent and was largely externally financed.

58. The presentation revealed that recurrent expenditure increased significantly by 29.7 percent to D5.9 billion (4.2 percent of GDP) in the first quarter of 2024,

compared to D4.6 billion (3.2 percent of GDP) in the first three months 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, notably, goods and services, and subsidies and transfers expanded by 86.1 percent and 20.2 percent, respectively. Additionally, spending on other charges and personal emoluments during the review period rose by 20.2 percent and 6.6 percent, respectively.

59. Public investment expenditure over the reviewed period increased marginally for the first three months of 2024, relative to the same period last year and constituted 37.6 percent of total expenditure and net lending. Total capital expenditure increased by 1.8 percent to D3.6 billion (2.1 percent of GDP), from D3.5 billion (2.5 percent of GDP) in the same period in 2023.

60. Reacting to the presentation, the Committee commended the improvement in domestic revenue mobilization efforts, citing the ongoing reforms in tax administration should be deepened to include the informal sector. They expressed support for the digitalization of tax collections to ensure that revenue leakages are comprehensively addressed.

61. However, the Committee reiterated their concern about the high public debt situation, given the implications on debt and fiscal sustainability. Members emphasized the need to rationalize expenditure to ease fiscal pressures. This will create the much-needed policy space to free up resources for critical social sector financing and provide the government with the muscles to withstand any exogenous shock. The Committee referred to the macro-fiscal stress testing results, which 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.

62. Members were also concerned about the growing net domestic borrowings of government that continued to breach the target under the ECF program. In order to stay within the debt sustainability path as agreed under the new ECF program,

fiscal deficit, primary balance, and domestic borrowings must remain within the set targets. The Committee further reiterated the need to carefully manage the financial sector's exposure to the sovereign as it has implications for financial and macroeconomic stability.

63. In these challenging times, the Committee reiterated the importance of policy coordination between monetary and fiscal authorities to ensure policy consistency. Members opined that the macroeconomic gains registered this far must be jealously guarded and there cannot be any complacency in the discharge of their functions as policymakers.

Balance of Payments Developments

64. The presentation on the balance of payments provided an update on key developments in the external sector. Preliminary data on balance of payments estimates indicated a deteriorated current account position in the first quarter of 2024 after registering a slight surplus in the fourth quarter of 2023. The current account balance deteriorated to a deficit of US$1.4 million (0.1 percent of GDP) in the first quarter of 2024, compared to a surplus of US$4.9 million (0.2 percent of GDP) in the fourth quarter of 2023. This was primarily due to the widening of the goods account explained by the increase in imports (FOB), mainly from the importation of mineral fuel, vehicles for the ongoing road construction and food. Although exports increased, this was not enough to offset the increase in imports.

65. On trade developments, the deficit in the goods account worsened to US$257.9 million (8.8 percent of GDP) in the first quarter of 2024, from a deficit of US$238.3 million (8.2 percent of GDP) in the preceding quarter. This is explained by the increase in imports (FOB), mainly resulting from the importation of foodstuff, mineral fuel, and construction materials. The increase in exports (FOB) to $88.1 million during the period and the reduction in electricity imports from Senegal mitigated the impact on the goods account.

66. The presentation revealed that the services account balance registered a surplus of US$117.1 million in the first quarter of 2024, from US$67.9 million in the previous quarter. This is largely explained by the increase in tourist arrivals, mirroring the strong recovery in the hospitality industry as arrival numbers approach pre-pandemic levels.

67. Evidence from the report indicated robust private remittance inflows, which continued to support the current account position. It was observed that workers' remittances (net), increased by 7.5 percent to stand at US$129.2 million in the first quarter of 2024, from US$120.2 million in the preceding quarter. The surge was partly explained by seasonality as household support increased during Ramadan and Lent festivities. However, because there were no official transfers (grants) during the review period, the secondary income balance dropped to $129.2 million in March 2024, from US$181.2 million reported in the previous quarter.

68. Furthermore, the analysis indicated that the capital account balance moderated from a surplus of US$72.3 million in the fourth quarter of 2023, to a surplus of US$34.0 million in March 2024. This is mainly on account of the non-disbursement of official project grants. Similarly, the financial account balance deteriorated to a deficit of US$106.9 million in the review quarter of 2024, compared to a deficit of US$147.6 million in the preceding quarter of 2023, reflecting a growth in non-resident investment during the quarter under review.

69. Reacting to the presentation, the Committee expressed concern over the persistent balance of payments pressures, which has a compounding effect on the domestic economy. Members noted that the reliance on imports, foreign aid, and remittances exposes the Gambian economy to external shocks that are difficult to manage and sometimes erode macroeconomic gains. The Committee called for urgency in prioritising investment 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.

70. 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.

71. The Committee tasked the ERD to investigate the nature of the contractual arrangements under the OMVG project to better classify electricity data correctly in the BOP statistics. The Committee was informed that the ERD will consult relevant authorities to understand the current arrangements and facilitate its recording to conform with the BOP compilation manual guide.

Foreign Exchange Market Developments

72. The presentation on foreign exchange market developments indicated a stable and well-functioning market underpinned by improved liquidity conditions. Activity volumes rose by 44.0 percent in March 2024 to reach $600.9 million, compared to $417.2 million reported in the fourth quarter of 2023. This significant growth was explained by the improvement in demand and supply conditions during the review period. However, on a year-on-year basis, activity volumes contracted by 26.5 percent.

73. Furthermore, private remittance inflows remain stable, providing foreign currency liquidity in the domestic foreign exchange market. Private remittance inflows increased by 12.4 percent, from US$181.2 million in quarter four of 2023 to US$203.7 million in the first quarter of 2024. The report noted that the strong remittance inflows have helped ease depreciation pressures during the period.

74. According to the presentation, the foreign exchange market has stabilised following the publication of the new foreign exchange policy. The liquidity conditions have also eased, limiting the need for CBG intervention. For the period

under review, CBG injected only US$8.9 million from January-March 2024, to facilitate the importation of essential commodities.

75. The presentation pointed to a stable dalasi, albeit with depreciation pressures. For the period under review, the dalasi depreciated against all the major traded currencies relative to the preceding quarter, suggesting the presence of demand pressures to finance imports. It depreciated quarter-on-quarter against the United States dollar, Euro, Great Britain pound, and CFA franc by 6.9 percent, 5.9 percent, 7.5 percent, and 5.1 percent, respectively.

76. Commenting on the presentation, the Committee welcomed the positive developments in the foreign exchange market, citing the improvement in quarter-on-quarter activity volumes as an indicator of easing liquidity conditions. Members also noted the narrowing gap between the official and parallel market rates as a sign that the foreign exchange market has normalised.

77. However, Members were concerned about the decline in activity volumes on a year-on-year basis and the persistent depreciation pressures, despite the easing of supply conditions. The Committee was informed that the decline in yearly activity volumes could be attributed to data challenges. Members called for immediate measures to improve data collection.

78. The Committee raised concerns about the persistent depreciation pressures, citing that the strong remittance inflows and re-export trade receipts should be able to finance the country's imports without any significant exchange rate pressures. The Foreign Markets and Reserve Management Department (FMRMD) was tasked to closely look into this matter and advise the Committee.

Monetary Developments

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

80. According to the report, monetary policy stance remained tight to sustain the declining inflation with the MPC maintaining the policy rate at 17 percent for the fourth consecutive sitting. The declining inflation and high policy rate have narrowed the interest rates spread, causing real interest, although still negative, to edge up somewhat. This is expected to tighten domestic currency liquidity conditions and support the domestic currency and the disinflation process.

81. Mone supply growth picked up in March 2024, as outlined in the report. Broad money supply growth accelerated by 11.2 percent in March 2024, benefiting from the rise in the net domestic assets (NDA) and the recovery of the net foreign asset (NFA) position of the banking system. The NFA of depository corporations rebounded in March 2024, expanding by 11.2 percent to stand at D26.0 billion, from the D23.4 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 4.0 percentage points to the total growth in annual money supply during this period.

82. Similarly, the NFA of the Central Bank increased by 12.4 percent in March 2024 to stand at D15.9 billion. This strong growth is attributed to the marked increase in the claims on non-residents (11.5 percent) and other non-resident investments (2.0 percent) during the period. Similarly, the NFA of other depository corporations grew annually by 9.3 percent in March 2024 to stand at D10.1 billion, compared to D9.2 billion or a growth rate of 9.6 percent in the comparable period a year ago.

83. The presentation also showed that depository corporations' net domestic assets (NDA) remained the main driver of liquidity in the banking system, accounting for 64.0 percent of the total money supply. As of end March 2024, the NDA of the banking system rose by 8.8 percent to reach D45.3 billion against the D41.6 billion reported in the same period last year. The growth in NDA largely reflects the increase in both net claims on central government and public nonfinancial corporations. Specifically, net claims on central government grew by 6.0 percent

(year-on-year) and contributed 2.7 percentage points to the 8.8 percent growth of NDA. Similarly, the banking system's claims on the private sector contributed 4.6 percentage points to the NDA growth

84. In addition, credit flow to the private sector slowed, registering an annual growth of 19.3 percent in the review period, which is lower than the 27.6 percent recorded in March 2023. In real terms, the banking system's claims on the private sector grew by 4.8 percent in March 2024, from a surge of 13.5 percent in the corresponding period of 2023. This points to a drop in financial intermediation as the public sector continues to crowd out the private sector, limiting the sector's impact on economic growth.

85. Reacting to the presentation, the Committee reiterated its call for prudent fiscal policy to ease the rising central bank net claims on government, citing the ramifications of deficit monetization, especially on inflation and the exchange rate.

86. The Committee was pleased to note the improvement in the banking sector's NFA position, as deposit corporation's NFA continue to rebound. This improvement is expected to support foreign currency liquidity conditions allowing the CBG to replenish its external reserve buffer.

Business Sentiment Survey

87. The presentation of results of the Business Sentiment Survey indicated that business sentiments about the global economy remain pessimistic, owing to uncertainties surrounding the conflict in the Middle East and Ukraine. On the domestic economy, business sentiments about the near-term economic outlook improved, influenced by improvement in foreign currency supply during the review period.

88. However, the findings revealed that inflation expectations remained elevated, largely shaped by the high commodity prices, particularly for fuel, textiles, and food, and the depreciation of the domestic currency. Looking forward, businesses

expect a further increase in inflation over the next three months compared to the first quarter of 2024.

89. Reacting to the presentation, the Committee welcomed the positive view on the prospects of the Gambian economy, which is an indication of the return of confidence. However, Members noted with concern the sustained elevated inflation expectations, which could potentially prolong the disinflation process. The Committee also raised concerns about the expectation of further depreciation pressures, which could further push domestic cost factors higher.

90. On broadening the coverage of the survey, Members proposed the inclusion of wholesale and retail businesses into the survey, citing their relevance in shaping broader expectations in the economy. The Committee was informed that given the nature of the questions asked and the level of sophistication of wholesale and retail businesses, their inclusion may not add much value at the moment. The Department, however, informed Members that the planned introduction of the consumer sentiment survey may provide more balance in expectations. However, the launch of this survey is contingent upon recruitment of additional staff for the Department.

91. The Committee emphasized the importance of effective monetary policy communication, citing the need to utilize forward guidance to help shape business sentiments. Members were informed that the Bank, through the Communications Unit, organized a training for journalist to improve their understanding of monetary policy and the work of the Bank. This is expected to be an ongoing process aiming to improve the effectiveness of monetary policy transmission through anchoring expectations.

Real Sector Developments

92. The presentation on Real Sector Developments provided key highlights on the recent performance of the Gambian economy, amidst a challenging global economy. Preliminary estimates revealed that real GDP growth in 2023 expanded

by 5.3 percent, owing to strong private and public consumption and investment spending. The report also indicated that growth is anticipated to be stronger in 2024 with real GDP growth projected at 5.5 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 robust economic activity in the first quarter of 2024 as sustained public expenditure, alongside stable remittance inflows, which support consumption and investment, and the recovery of tourism continues to aid economic activity.

93. The report also discussed staff forecast of real gross domestic product (GDP) growth of 5.5 percent for 2024, compared to a 5.3 percent reported in 2023. The forecast was a 0.1 percentage point upward revision from the November forecast. Growth is expected to be aided by strong domestic demand, including robust public expenditure, stable inflows of remittances that fuel private consumption and investment, and a rebound in tourism.

94. Reacting to the presentation, the Committee noted the welcoming developments in the domestic economy. However, Members raised concern about the moderating performance of the agriculture sector, stressing the need for strategic interventions in the sector to bolster productivity and growth in the medium to long term.

95. The Committee was also concerned about the potential discrepancies observed in the data on fish catches, which showed higher artisanal fishing output than industrial fishing production. Members were informed that the irregular and unreported fishing activities could explain these discrepancies. Moreover, the Committee was also informed of reports that a good quantity of fish catches ends up in neighbouring countries, which might also explain the rise in currency shipments in recent times. Members urged for a thorough review of the raw data on fish catches in order to address the existing data quality challenges.

Inflation Developments

96. The presentation on Inflation Developments provided an encouraging outlook in the ongoing fight against inflation. Key insights from the report revealed a continued decline in headline inflation, which eased to 11.0 percent in April 2024, down from its peak of 18.5 percent in September 2023. This favourable development highlights the impact of previous policy actions as well as the effect of moderating global commodity prices.

97. According to the report, the decline in headline inflation was broad-based with both food and non-food inflation declining during the review period. Food inflation decelerated by 4.7 percentage points to 15.6 percent in April 2024, compared to the 20.0 percent reported in May 2024. The decline in food price inflation was occasioned by the moderation in the indices of all the items in the food basket, except for price indices of vegetables, dairy products and eggs. Similarly, non-food inflation decreased by 3.3 percentage points to 5.4 percent in April 2024, significantly lower than the 8.7 percent reported in March 2024. The decline in the price indices of key subcomponents including textiles, energy and hospitality services largely drove the reduction in non-food inflation. On the other hand, transportation costs slightly increased reflecting the ongoing adjustments in domestic pump prices.

98. Furthermore, the report indicated that core inflation continues to ease, reflecting the easing of domestic inflationary pressures. Core1 inflation, which excludes volatility associated with energy products, declined to 6.2 percent in April 2024, from the 15.4 percent recorded in March 2024. Similarly, Core 2 inflation, which further excludes both volatile energy and food products, decreased to 9.9 percent in April 2024, compared to the 15.4 percent recorded in March 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 dividends.

99. Commenting on the presentation, the Committee expressed optimism in the fight against inflation as headline inflation as well as core inflation continued the

downward trajectory but cautioned against complacency. More importantly, Members welcomed the moderating food prices, citing its positive impact on the cost of living of low-income groups within the society.

100. However, Members cautioned about the significant uncertainties surrounding commodity prices, especially food and oil prices. They noted that the volatile international commodity prices, depreciation of the exchange rate, and some climate-related risks continue to cloud the inflation outlook. The Committee reiterated the need for policy to stay the course to ensure the disinflation process is sustained.

101. Members also reinforced the commitment to addressing volatility in the exchange rate, citing its direct pass-through to domestic inflation. The Committee was informed that the Bank plans to intervene in the foreign exchange market to ease supply constraints, especially relating to the CFA franc. This is expected to cushion the dalasi and provide the much-needed CFA liquidity for the importation of ruminants and other essentials for the upcoming Tobaski feast.

Staff Assessment and Economic Outlook

102. The Bank Staff assessed that economic activity is poised to remain robust in 2024 with economic growth forecast to reach above the historical average. Staff predicated the favourable growth outlook on the strong domestic demand as private and public consumption and investment are expected to support growth prospects. In addition, private remittance inflows and private-sector credit are expected to continue aiding household consumption and investment. In particular, private investment in the construction sector is projected to continue its robust performance. Public sector investment was also projected to remain strong in line with government's infrastructure development plan. These projects will support aggregate demand and bolster economic growth. Against this backdrop, Staff forecast economic growth at 5.5 percent in 2024, representing a 0.1 percentage point upward revision from its November 2023 forecast.

103. On domestic inflation, staff forecast a continued decline in headline inflation, predicated on moderated commodity prices and domestic policy actions. The forecast further suggested that inflation will decline faster to single digits sooner than previously projected. 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

104. Since the last MPC meeting, the global economy has strengthened aided by improved labour market conditions in many advanced economies and favourable supply factors. Additionally, emerging markets and developing economies are expected to sustain their recovery momentum, with economic growth anticipated to be strong in many countries. These positive improvements are expected to support the Gambian economy, particularly in terms of trade, tourism and remittance inflows. Similarly, the spillover from moderating global inflation is expected to have both direct positive pass-through and second-round effects on the domestic disinflation process.

105. On the domestic economy, the Committee noted the robust economic activity in the first quarter 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.

106. Despite the presence of exchange rate pressures, the foreign exchange market remains stable with improved liquidity conditions. The recent reforms have narrowed the spread between the official exchange rate and parallel market rate, thanks to the new policy which helped unify rates published on the Bank's website. Moreover, it has mitigated speculative behaviours in the foreign exchange market.

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

108. The fight against inflation is on track as domestic disinflation continues to firm. However, significant risks remain, including the uncertainties surrounding international trade and domestic supply constraints. Headline inflation continued to decline, reaching 11.0 percent in April 2024, pointing to the gains registered in the fight against inflation. More importantly, underlying inflationary pressures are abating as the Bank's core measures of inflation decelerated for the third month in April 2024 and the outlook remains encouraging. Against this backdrop, the Committee reiterated to need to stay the course for inflation to return to the Bank's medium-term target sooner than later.

Decision

109. In light of the above factors and the strong commitment to sustaining the disinflation process, the Monetary Policy Committee concluded that previous policy actions are 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 is slated for **Wednesday, August 28, 2024**. The meeting will be followed by the policy decision announcement on **Thursday, August 29, 2024**.