CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

MINUTES OF MEETING NO.88 **NOVEMBER 29-30, 2023**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) met on November 29-30, 2023. The Committee reviewed developments in the economy, assessed emerging risks to inflation and growth outlook, and decided to maintain the monetary policy rate at 17.0 percent. The meeting was attended by 7 out of the 9 members of the Committee.

MPC Members Present

Name	Role
Mr. Buah Saidy	Chairman
Dr. Abdoulie Sireh Jallow	Member
Dr. Paul Mendy	Member
Mr. Momodou Sissoho	Member
Mr. Paul John Gaye	Member
Mr. Baboucarr Jobe	Member
Mr. Sheriff Touray	Member
Dr. Momodou O. Jallow	Secretary

Absent with Apologies

Mrs. Halima Singhateh-Jagne	Member
Mr. Karamo Jawara	Member

Report Presenters

Name	Designation
Mrs. Aji Adam Njie	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mrs. Binta Beyai	Senior Economist, Banking Services Department
Mr. Hamar Jawo	Senior Bank Examiner, Banking Supervision Department
Mr. Karamo Sawaneh	Bank Examiner, Banking Supervision Department
Mr. Alkali Barrow	Officer, Other Financial Institutions Supervision Department
Mrs. Amie Ndure	Officer, Financial Markets and Reserve Management Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Mariama Ceesay	Economist, Economic Research Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department

Agenda

1. The meeting agenda was adopted as presented:

- Adoption of the agenda
- Opening remarks by Chairman
- Review of minutes of the previous meeting and matters arising
- Presentation and discussions of reports
- Lunch Break
- Presentation and discussion of reports
- Closing

Opening remarks by the Chairman

2. The Governor remarked that this MPC was the final meeting for the year 2023 and emphasized the importance of sustaining the macroeconomic gains registered during the year. He highlighted the need to create policy buffers to build economic resilience and deal with potential shocks to the domestic economy, particularly in terms of fiscal sustainability and international reserve adequacy. He urged both sides of the aisle to factor in this reality in the 2024 fiscal year with the view to consolidating macroeconomic gains since the pandemic.

3. The Governor further expressed optimism in the fight against inflation, citing promising indications that key drivers of inflation may have started to subside, notably global commodity prices, as the gradual impact of the tight domestic monetary policy filters into the economy. Notwithstanding, he reminded Committee members the battle against inflation was yet to be won because significant headwinds remained and cautioned the need to stay the cause.

4. The Governor informed members of the completion of program negotiations with the International Monetary Fund (IMF) and reached a staff-level agreement on a new 36-month Extended Credit Facility (ECF). He stated that the new program, which amounts to $100 million, will help in deepening the reforms that were started in the completed ECF program while addressing emerging macroeconomic challenges going forward. The Executive Board approval was expected in January and the resources attached to the program will be used for balance of payments and budgetary support.

5. He notified the Committee that the publication of a foreign exchange policy by December 2023 and the revision of the AML/CFT act by March 2024 were the two structural benchmarks for the CBG under the new program. Although not a structural benchmark, the revision of the guideline for foreign exchange bureaus is a commitment in the agreed MEFP (Memorandum of Economic and Financial Policies). The primary objective of the reform is to stabilize the foreign exchange market, reduce volatility, and narrow the spread between official and parallel exchange rates. The resources that will come with the program will also enable the Bank to replenish its international reserves, which is very crucial for the smooth functioning of the domestic foreign exchange market.

6. In conclusion, he commended staff and MPC members for their unwavering dedication to delivering on the Bank's mandate during these challenging times. He reiterated that while so much has been done, a lot more lies ahead that demands all hands on deck.

Review and Adoption of Minutes of MPC Meeting No. 87

7. The minutes of the MPC Meeting No.87 were reviewed and adopted after minor adjustments.

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 Developments
- External Sector (Balance of Payment and Foreign Exchange Market)
- Monetary Sector
- Government Fiscal Operations
- Business Sentiment Survey
- Real Sector
- Inflation
- Staff Assessment and Outlook
    - Assessment of the current economic conditions
    - Baseline forecasts
    - Alternative scenarios

Global Economic Developments

9. The presentation on the global economy centered on key highlights from the IMF October 2023 release of the World Economic Outlook (WEO). According to the report, the global economy lost steam in the third quarter of 2023, following a strong performance in the second quarter of this year. This was mainly due to the eroded pandemic-related savings that have been supporting consumption, particularly in the United States. Furthermore, the downturn in the manufacturing sector, reflecting weaker demand stemming from the high cost of living and tighter credit conditions, also weighed on growth. Similarly, the report highlighted a slowdown in the service sector and a moderated pace of recovery in China's economy, explained by further weaknesses in the property sector. These factors, coupled with the tight monetary and financial conditions, held back the growth momentum seen in the first half of the year.

10. With these developments clouding the outlook, the report highlighted IMF's relatively pessimistic view of the global economy in its October World Economic Outlook (WEO). While the 2023 global growth projection was unchanged at 3.0 percent from the July updates, there was a 0.1 percentage point downgrade in its growth forecast for 2024. The downgrade of the 2024 projections placed global growth below the historical average.

11. The report pointed to a decline in global inflation this year and next but pointed out significant divergences in the pace of disinflation across countries. Key factors responsible for the decline include easing global commodity prices as well as the impact of tight monetary and financial conditions. In its October WEO, the IMF forecasted global inflation to decrease from a peak of 8.7 percent in 2022 to 6.9 percent in 2023, and further down to 5.8 percent in 2024. The report signaled the mounting climate and geopolitical tensions as well as the elevated inflation expectations as major risks to winning the battle against inflation. In addition, currency depreciation was highlighted as a risk that could hinder the disinflation process in emerging and developing economies.

12. The presentation revealed a continued decline in commodity prices after a sudden uptick in July 2023. This was primarily due to weaker global demand and improved supply conditions from non-OPEC suppliers. Against this backdrop, the IMF All Commodities Prices Index slightly declined by 0.5 percent in October compared to September 2023. Furthermore, crude oil prices slumped in October 2023 by 4.3 percent (month-on-month) as non-OPEC's supply more than offset the supply cuts from OPEC countries. In the same vein, the FAO Food Price Index, which tracks monthly changes in the international prices of globally traded food commodities, fell to its lowest in more than two years in October, representing a 10.9 percent decline compared to last year. Rice prices continued to soften with the FAO Rice Price Index decreasing by 2.0 percent from September to October 2023, due to sluggish import demand.

13. Finally, it was reported that the projected global slowdown could potentially impact the domestic tourism sector, which is yet to recover fully. Similarly, weaker growth prospects in China as a major trading partner could inadvertently hurt Gambian exports and weigh on domestic economic activity. On the positive side, the declining global commodity prices are expected to ease price pressures, notably food and energy prices. In addition, the halt in rate hikes in advanced economies, especially in the United States, may help moderate the strength of the U.S. dollar and dampen exchange rate pressures on the dalasi.

14. Reacting to the presentation, the Committee noted with concern the impact of a projected global slowdown on domestic tourism and economic growth. Notwithstanding, with the policy interventions in areas of agriculture and public infrastructure envisaged during the year may offset these negative developments and keep economic growth on a positive trajectory.

15. The Committee posited that the easing of global commodity prices will help dampen domestic price pressures and speed up the disinflation process. However, monetary policy around the world may remain tight until the disinflation process is firmly anchored, although the pace of rate hikes may slow. It was mentioned that a sustained decline in global crude oil prices means that a further upward adjustment in domestic pump prices during the year was very unlikely.

Domestic Macroeconomic Developments
Banking Sector Developments

16. The presentation on Banking Sector Developments revealed a strong industry performance in the third quarter of 2023, with robust financial soundness indicators. However, the report revealed a highly concentrated industry, with one big bank accounting for up to 23.9 percent of industry assets. The three medium-sized banks held 40.0 percent, while the remaining eight banks shared 36.0 percent of industry assets.

17. The report showed strong industry financial soundness indicators, with a risk-weighted capital adequacy (CAR) ratio of 25.7 percent in September, higher than 24.6 percent in June 2023. All banks have met the minimum statutory CAR requirement of 10 percent. Furthermore, the industry liquidity conditions improved during the reviewed period. The liquidity ratio increased from 44.4 percent in June 2023 to 49.8 percent in September 2023. The presentation also highlighted a significant improvement in asset quality, following a decline in non-performing loans from 3.5 percent in June to 2.96 percent in September 2023.

18. Similarly, the report indicated a growing asset base. The industry's assets increased by 5.7 percent from June to September 2023, to stand at D84.8 billion. This was mainly influenced by an increment in balances due from other banks. Customer deposits, the primary source of funding for banks, increased by 5.8 percent to stand at D55.6 billion during the quarter under review. However, loans and advances marginally declined from D14.4 billion in June to D14.3 billion in September 2023, due mainly to repayment of government sector loans and advances. In the same vein, the loan-to-deposit ratio dropped by 1.7 percentage points from 27.4 percent to 25.7 percent from June to September 2023.

19. The presentation of the results of the industry-wide stress test exercise showed that credit risk remains a significant risk and a source of vulnerability for the banking system. While overall market risk was assessed to be low, banks' exposure to the government sector remains high. However, the report showed that the industry is liquid, and all banks maintained a liquid asset ratio not less than the hurdle rate prior to the shocks.

20. Reacting to the presentation, the Committee reiterated the need to reassess the level of required capital for banks. This is to ensure that the industry is well-positioned to absorb shocks and engage in longer-term financial intermediation. The Gambia has one of the lowest capital requirements for banks in the sub-region. The BSD reported that work is ongoing at the Department to review the capital requirement policy. The Department reported that a study was conducted, and the report has been submitted for review and consideration by Management and the Board.

21. The Committee enquired about the status of the deposit insurance scheme given its importance in safeguarding depositors' funds and shielding the sovereign. The BSD reported that the law was being reviewed and a draft will soon be submitted to Management for consideration.

22. The Committee was informed that the drop in loans and advances to the private sector was caused by a repayment of loans by public entities. These loans were previously misclassified as private-sector credit. The Committee tasked the Banking Supervision Department (BSD) with ensuring the correct classification of loans and advances going forward. In terms of sharing individual bank information with MPC members, the members agreed that aggregated data would suffice.

23. The Committee acknowledged positive outcomes of the stress test exercise, indicating low foreign exchange and interest rate risks, which signals a stable industry. Nonetheless, members raised concerns regarding elevated credit and liquidity risks, which underscores the need to reassess the capital requirement of banks. The Committee tasked the Banking Supervision Department (BSD) to closely monitor the high level of borrower concentration.

24. In response to the request to include a shock scenario on under-provisioning in subsequent stress test exercises, the BSD explained that the shock on non-performing loans addresses that concern. The BSD also reported that most of the assets of banks are at a fixed interest rate as opposed to a variable rate. As a result, explaining the less significant impact of a shock on interest rates.

Developments in Other Financial Institutions

25. The presentation on deposit-taking non-bank financial institutions (NBFIs) provided an overview of the financial health of Finance Companies and Credit Unions as of end-September 2023.

26. The presentation provided a mixed performance of Finance Companies (FCs), the largest category of non-bank financial institutions. Both the asset base and the stock of customer deposits of FCs significantly expanded in the third quarter of 2023. However, loans and net income declined marginally, reflecting a decision by some institutions to suspend the extension of credit due to high default rates. The non-performing loan (NPL) ratio among FCs remains high, a concern that has persisted since the beginning of the year. To ensure improved financial stability, the report underscored the need to address these challenges going forward.

30. The asset base of FCs registered a marginal increase of 1.0 percent (quarter-on-quarter) to stand at D3.4 billion as of the end of September 2023. The marginal increase in the stock of assets was primarily driven by a 3.0 percent increase in cash and bank balances. Similarly, the industry's stock of deposits rose by 3.0 percent to D2.4 billion in September 2023, benefiting from a growing customer base (mainly petty SME traders).

31. On the other hand, outstanding gross loans contracted by 3.0 percent (quarter-on-quarter) to D1.1 billion in September 2023. According to the report, this was largely due to the moratorium on loan disbursement by a single entity that now focuses more on loan recovery to improve the NPL ratio. Of the total outstanding

loans, 70 percent was granted to petty SME traders, 14.0 percent as personal loans, 5.0 percent to construction, 6.0 percent to services, 3.0 percent to agriculture, and the remaining 2.0 percent to other sectors.

32. The report also provided a detailed analysis of key financial soundness indicators of FCs for the reviewed period. On capital adequacy, the report showed that the industry continued to hold comfortable capital buffers relative to the regulatory benchmark. Nonetheless, the risk-weighted capital adequacy ratio moderated slightly, from 39.0 percent in March to 36.9 percent in June and 31.0 percent in September 2023. On the other hand, following a drop in June to 67 percent from 70 percent in March 2023, the industry liquidity ratio increased to 75.0 percent in September 2023. The report also showed that the industry's non-performing loans ratio remained at 15.0 percent as of September 2023 which is above the regulatory threshold of 5.0 percent.

27. The report went further to present the third quarter analysis of the Credit Unions (CUs), the second largest NBFI sector. The assets base of CUs registered a marginal quarterly growth of 1.0 percent in the third quarter to stand at D3.02 billion. However, total member savings (customer deposits) declined by 4.0 percent to D2.3 billion in the review period. Similarly, outstanding loans plummeted by 6.0 percent to D2.1 billion during the same period.

28. Reacting to the presentation, the Committee reiterated concern about the high level of non-performing loans in the microfinance sector. The Committee called for upgrading and widening the scope of the Credit Reference Bureau which will upgrade its capacity to include microfinance institutions. This will place the entities in a better position to assess and scrutinize the creditworthiness of their customers.

29. Referring to institutions that engage in both microfinance and foreign exchange bureau operations, the Committee emphasized the need for a clear separation between the two operations. Such a separation is necessary and prudent to minimize risk to the microfinance industry and ensure continued financial stability.

30. The Microfinance Supervision Department (MSD) was tasked to look into the possibility of using some of the FCs to pilot the AFDB support projects. If feasible, these companies will serve as the link between CBG and the beneficiaries in critical areas of intervention. The Department was tasked to work with the Development Finance Department (DFD) on the modalities.

Domestic Debt Market Developments

31. The presentation of the domestic debt market report showed a 12.3 percent jump in central government domestic debt from December 2022 to October 2023. The nominal value of the domestic debt stock amounted to D42.8 billion, representing 29.0 percent of GDP. This increase in domestic debt was largely through the issuance of short-term treasury bills.

32. Furthermore, the share of short-term instruments stood at 49.8 percent of total domestic debt, while the medium and long-term securities represented 30.1 percent and 19.3 percent, respectively. With more than 60 percent of the debt stock maturing in less than a year, this poses significant refinancing risks. In addition, the rise in the domestic debt stock translates to an increase in debt servicing by 21 percent to D3.6 billion in the year to end-October 2023. This is projected to reach D5.0 billion in 2024, equivalent to 30.0 percent of domestic revenue.

33. Money market interest rates declined in August following a rally observed from January to July when the banking system encountered a temporary liquidity squeeze resulting from a large-scale Central Bank foreign exchange market intervention. The weighted average interest rate on treasury bills declined from 12.0 percent in August to 5.4 percent in October 2023. Similar patterns were observed for individual instruments with the yields for the 91-day, 182-day, and 364-day Treasury bills sliding to 3.3 percent, 3.2 percent, and 5.7 percent from 9.5 percent, 10.6 percent, and 12.6 percent, respectively.

34. The presentation also detailed the interbank market activity during the reviewed period. From January to October 2023, total interbank volumes of transactions increased to D12.3 billion, higher than the D7.8 billion recorded in 2022. The average interbank interest rate increased from 3.7 percent in December 2022 to 7.9 percent in October 2023.

35. The Committee expressed concern about the increasing domestic debt stock and emphasized the importance of implementing prudent fiscal policy to ensure macroeconomic stability. They referred to a recent debt sustainability analysis (DSA) report on The Gambia, which indicated that although the public debt level is sustainable, the country is still at high risk of debt distress. Therefore, it is crucial to enhance fiscal management, implement measures to enhance revenue mobilization, and rationalize expenditure in 2024 and beyond.

36. Furthermore, the debt refinancing risks could adversely impact the budget and fiscal policy credibility, and further complicate the public debt management efforts. Public finance reforms to build both policy and fiscal buffers are critical for sustainable macroeconomic stability.

37. To promote effective policy coordination, the Committee suggested that CBG through the Banking Services and Payment Systems Department help monitor government expenditures and update the Ministry for a timely intervention. Efforts should be made to avoid overdraft positions at the Central Bank. In addition, it was also mentioned that CBG should request for government cash plan for 2024. However, the Committee was informed that the Accountant General's Department has real-time access to government accounts in addition to the regular updates from the Bank.

Government Fiscal Operations

38. The report on Government Fiscal Operations depicted a more favorable fiscal position than was reported in the first half of 2023. Preliminary estimates showed that the overall deficit (including grants) narrowed from 4.4 percent of GDP reported in the first nine months of 2022 to 3.6 percent of GDP in the same period of 2023. This was largely explained by the improved revenue performance, including the better-than-projected revenue from taxes and grants. However, the overall deficit excluding grants widened during the same period, from D10.2 billion (8.4 percent of GDP) to D10.8 billion (7.6 percent of GDP. The deficit in the basic balance and primary balance narrowed to 1.9 percent of GDP and 0.2 percent of GDP respectively, from 3.8 percent of GDP and 1.9 percent of GDP reported in the same period a year ago.

39. The presentation indicated a notable uptick in domestic revenue mobilized in the first nine months of the year in comparison to the same period a year ago. Domestic revenue, which comprises tax and non-tax revenues, rose by 24.0 percent (year on year) to D12.7 billion, equivalent to 8.4 percent of GDP. However, this figure is below the amount projected by 3.0 percent. Similarly, the report revealed a higher tax revenue of D10.4 billion, corresponding to 7.1 percent of GDP and a year-on-year increase of 26.9 percent. It surpassed the amount projected for the period by 4.0 percent. Similarly, non-tax revenue rose by 12.7 percent but was lower than the projection by 26.1 percent. Meanwhile, grants increased significantly, recording 195.8 percent above expectations to stand at D5.5 billion (3.8 percent of GDP).

40. On the expenditure side, the report indicated an increase of 15.0 percent (year-on-year) to stand at D23.6 billion (16.0 percent of GDP). This was mainly on account of the surge in development expenditure that was largely externally financed. The presentation also highlighted a notable 7.1 percent increase in recurrent expenditure, reaching D13.5 billion (9.2 percent of GDP). It accounted for 57.4 percent of total expenditure. Of the components of recurrent expenditure, wages, and interest payments accounted for the bulk of the increment in total expenditure. Similarly, government investment spending continues to rise owing to the ongoing infrastructural developments. Capital expenditure increased by 26.6 percent to D10 billion (6.8 percent of GDP) and constituted about 42.6 of total expenditure and net lending during the period.

41. Reacting to the presentation, the Committee stressed the need to intensify domestic revenue mobilization measures, including reforms that minimize revenue leakages. Furthermore, given the public debt situation, expenditure rationalization is crucial to avoid costly slippages that could erase macroeconomic gains. The Committee referred to the macro-fiscal stress testing results, which pointed to a potential rise in debt-to-GDP to above 100 percent in the medium term if stronger fiscal measures are not implemented.

42. Members also raised concerns about the growing domestic borrowings to finance the fiscal deficit as it has implications on domestic interest rates and inflation. In addition, the financial sector's exposure to the sovereign and the growing risk of overcrowding the private sector is of critical concern for financial stability and growth. Furthermore, debt sustainability is the anchor of the new ECF program negotiated with the IMF. This means strictly abiding by the borrowing limit to avoid missing the Net Domestic Borrowing quantitative target.

43. Policy coordination between monetary and fiscal authorities was reechoed as crucial to tackling the enormous challenges ahead. A suggestion was made to establish an independent budget advisory committee to guide the preparation of the national budget and monitor its implementation. However, it was pointed out that such a body would contradict the objective of reducing the number of sub-vented institutions that put undue pressure on the budget.

44. The Committee was informed that the fiscal authorities were finalizing the establishment of a cash management system. This system would be crucial for government debt management and the Central Bank’s short-term liquidity management.

Balance of Payments Developments

45. The presentation on the balance of payments indicated an improved current account balance in the third quarter relative to the second quarter of 2023, despite the drop in export receipts and private remittances. The deficit moderated to US$51.5 million in the third quarter, compared to a deficit of US$91.1 million reported in the previous quarter in 2023. This was largely due to an improved trade balance, with imports of electricity declining significantly during the reviewed period. The commissioning of the OMVG Power Project reduced the electricity imports from Senegal. Although merchandise exports marginally decreased, the larger contraction in imports led to a moderation in the goods account deficit by 18.8 percent.

46. The report also highlighted an improved services account balance, owing to a strong recovery in tourism activity. In the third quarter of 2023, the services account recorded a surplus of US$49.3 million, higher than the US$45.9 million in the second quarter, indicating a 7.0 percent improvement. When compared to the corresponding period in 2022, the services account balance improved by US$46.3 million, significantly mirroring the strong recovery in the hospitality industry.

47. Furthermore, the presentation indicated that workers' remittances moderated somewhat during the third quarter relative to the second quarter of 2023. Net remittance inflows declined to US$113.6 million, from US$129.0 million attributed largely to seasonality and reemergence of the unofficial channels of money transfer. This has shrunk the secondary income during the reviewed period by 11.3 percent.

48. Meanwhile, the capital account balance surplus declined markedly, from US$51.8 million in the third quarter of 2023, to US$14.2 million in the previous quarter. However, when compared to the same period a year ago, the capital account balance improved to a surplus of US$14.2 million in quarter three of 2023, from an excess of US$10.4 million reported in 2022 quarter three.

49. Reacting to the presentation, the Committee lamented the ongoing challenges confronting the country's external position and reiterated the urgent need for reforms aimed at enhancing competitiveness and expanding the export base. Enhancing agricultural productivity and local manufacturing will not only reduce the need to import but will also increase the export base, which is essential to bolster the much-needed foreign currency liquidity and stabilize the exchange rate.

50. The Committee also noted that measures to revitalize re-export trade, which used to support our balance of payment, could be considered. This should include removing the structural bottlenecks at the port to regain the edge in competitiveness.

Foreign Exchange Market Developments

51. The presentation on foreign exchange market developments showed a loss of steam in activity volume in the first nine months of the year. Both demand and supply of foreign currency fell during the period.

52. The volume of transactions in the market, measured by the total amount of foreign currency bought and sold, decreased by 16 percent to US$2.1 billion in September 2023, from US$2.5 billion a year ago. Similarly, activity volume slid by 9.7 percent, from US$467.1 million in the second quarter of 2023 to US$421.5 million in the third quarter of 2023.

53. Private remittance inflows continue to be the major source of the supply of foreign currency in the domestic foreign exchange market. According to the presentation, it accounted for 81.9 percent of the total supply of foreign currency during the quarter under review, compared to 67.4 percent in the same quarter in 2022.

54. The presentation also revealed that CBG's sale of foreign currency contributed significantly to the improvement in supply conditions and dampened somewhat the exchange rate pressures during the period under review. On a net basis, the CBG injected US$15.8 million in the third quarter of 2023 to ease supply conditions and facilitate the importation of essential commodities into the country. This has helped cushion the dalasi with a dampening effect on prices.

55. The presentation indicated that the dalasi remained relatively stable, albeit with depreciation pressures. In quarter three of 2023, the dalasi depreciated against the United States Dollar, Euro, and CFA by 2.7 percent, 2.3 percent, and 0.1 percent, respectively. It, however, appreciated against the British Pound by 1.5 percent.

56. In response, the Committee anticipated an improvement in supply conditions in the fourth quarter with a projected increase in budgetary support and a rebound in tourism receipts. The Committee welcomed the reforms being implemented by the Bank, including the publication of an exchange rate policy and the revision of the guidelines for foreign exchange bureaus. These reforms are expected to guide market participants, restore market confidence and discipline, and ensure the smooth functioning of the domestic FX market.

57. Members reiterated the importance of improving the export base of the country. It was mentioned that this is the only sustainable way to address supply-demand imbalances and keep the economy competitive.

58. The Committee tasked the Economic Research Department (ERD) to start incorporating in their analysis the Real Effective Exchange Rate (REER) to better understand our price competitiveness relative to our trading partners.

Monetary Developments

59. The presentation on Monetary Developments provided an update on the recent developments in monetary aggregates and the stance of monetary policy in the fight against inflation. The MPC paused rate hikes in the November 2023 meeting following a cumulative rate hike since the beginning of the tightening cycle of 700 basis points. The monetary policy rate was maintained at 17 percent at the November meeting, amid encouraging signs of a slowdown in the main drivers of inflation. However, the loose liquidity situation in the banking system and the elevated inflation left real interest rates negative.

60. According to the report, growth in monetary aggregates has been picking up since June 2023, driven largely by strong growth of the banking sector's net domestic assets (NDA). Both broad money supply and reserve money grew in what appears to be a reversal of the trend experienced earlier this year and last year. Broad money growth accelerated to 6.6 percent in September 2023, up from 4.2 percent recorded in June 2023. The growth in broad money supply is largely as a result of the expansion in the NDA of depository corporations as government borrowings soared during the reviewed period. Similarly, annual reserve money growth accelerated to 12.6 percent in September 2023 from a contraction of 6.0 percent reported the same quarter a year ago.

61. The report pointed out a continued decline in the net foreign assets (NFA) of depository corporations, explained by the challenges in the balance of payments. Between September 2022 and September 2023, the NFA of depository corporations contracted by 12.6 percent. However, this is a lower rate of contraction than the 14.3 percent recorded in the same period a year ago.

62. The NFA of the Central Bank, in particular, decreased by 33.3 percent year-on-year in September 2023, higher than the annual contraction of 23.4 percent in June 2023 and 20.6 percent in September 2022. The decrease in the Bank's NFA is attributed largely to the continued efforts to ease foreign exchange supply-side liquidity constraints by drawing down the external reserves. The aim was to provide foreign currency for the continued importation of essential commodities. On the other hand, growth in other depository corporations' NFA significantly rose by 31.6 percent in September 2023. This is higher than the growth rate of 3.0 percent in the same period a year ago.

63. The report revealed that the NDA of depository corporations continued to be the main source of liquidity in the system, supported by growth in claims on the central government and private sector. As of the end of September 2023, the banking sector's net domestic assets grew by 15.8 percent (year-on-year) to stand at D48.7 billion. This level of growth is higher than 15.5 percent in June and 8.7 percent in March 2023, but lower than the growth of 30.8 percent registered a year ago. The banking system’s net claims on the central government accounted for 10.7 percent of the growth in NDA. However, annual growth in credit to the private sector slowed. After registering an annual growth of 32.3 percent in June 2023, private sector credit growth slowed to 17.4 percent in September 2023. This level of growth was also lower than the 36.6 percent recorded in September 2022.

64. The Committee observed that the rise in monetary aggregates reflects fiscal activities, including the growing central bank financing of the budget. This could fuel inflation and depreciation pressures given the level of excess liquidity in the banking system and compromise monetary policy goals. As a result, stronger policy coordination will be needed to ensure a sustainable fiscal path and for monetary policy to remain credible in the fight against inflation.

65. It was also mentioned that the government’s growing appetite for borrowing may have started crowding out the private sector as commercial banks shy away from financing riskier private investments. It was remarked that given the high level of liquidity, banks will be forced to explore other avenues to invest their funds, including credit expansion, if government limits domestic borrowing.

Business Sentiment Survey

66. The presentation of results from the Business Sentiment Survey conducted by the Bank every quarter indicated that business sentiments have moderated in quarter three when compared to the second quarter of 2023. The sentiments of businesses were largely influenced by the uncertainty in the global economy and its impact on the domestic economy, currency depreciation and rising cost of living, which continued to dampen consumer demand. The latest survey report showed that most of the businesses that participated were pessimistic about the near-term growth prospects of the Gambian economy, despite reporting a more optimistic outlook of business activity at firm level.

67. The report further revealed rising inflation expectations. Businesses perceived inflation to be high during the third quarter. The notable surge in commodity prices coupled with the depreciation of the domestic currency imposes cost pressures on businesses. On the near-term outlook, the majority of respondents anticipated a further increase in the general price level, indicating a further rise in near-term inflation expectations. This poses a significant challenge in the fight against inflation as the risk of de-anchoring inflation expectations increases.

68. The presentation also indicated the presence of exchange rate pressures as participants perceived the dalasi to have lost ground during the third quarter relative to the second quarter of 2023. Respondents attributed the depreciation of the domestic currency to multiple factors, including the challenges related to foreign exchange availability, low export receipts, and some foreign exchange market regulations.

69. Reacting to the presentation, the Committee noted the existence of high inflation expectations as a potential disruptor to the disinflation process. Members therefore cautioned that the battle against inflation was yet to be won and demanded monetary policy to stay the course to prevent inflation expectations from becoming entrenched.

70. Members were optimistic that the removal of foreign exchange market directives, the publication of a foreign exchange policy that abolishes the reference rate and the revision of guidelines would help restore market discipline and confidence.

71. The Economic Research Department was asked to consider conducting a consumer expectations survey to complement the business expectation survey. This will provide a more balanced perspective on overall inflation expectations and assist the MPC in making better-informed decisions. The Committee was briefed on the Department's ongoing efforts to launch the survey in 2024.

Real Sector Developments

72. The presentation on Real Sector Developments painted a favorable outlook for the Gambian economy, despite significant headwinds. The Bank's Composite Index of Economic Activity (CIEA) indicated a robust level of activity in the first three quarters of the year. After registering robust growth in economic activity in the first and second quarters of 2023, the CIEA recorded a higher growth of 6.6 percent in the third quarter of 2023. As a result, real economic growth for the year 2023 was forecast to be higher than recorded in 2022.

73. The presentation discussed staff forecast of real gross domestic product (GDP) growth of 5.3 percent for 2023, compared to 4.9 percent in 2022. The forecast was a 0.2 percentage point upward revision from the August forecast. Growth is expected to be aided by robust consumer demand that continues to be strong despite elevated inflation, recovery in tourism, and buoyant public and private sector investments.

74. The Committee noted that the strong economic recovery seen so far could improve further if the planned reforms and policy interventions materialize. With prudent economic management, we can harness the development potentials of the country and sow the seeds of durable inclusive growth.

75. It was reported that the African Development Bank has agreed to intervene in modernizing the agriculture value chain in The Gambia. The initiative will target rice production, and food processing with the aim of enhancing food self-sufficiency. The project also aims to leverage the strong potential in the agricultural value chain to support tourism and export growth.

Inflation Developments

76. The presentation on price developments painted an encouraging outlook, with strong indications that inflation may have peaked as key drivers continue to ease. As of the end of October 2023, annual inflation rate decelerated marginally to 18.0 percent from 18.5 percent reported in September 2023. The decline was largely influenced by the moderating global commodity prices and the impact of previous policy actions.

77. The report also indicated that food inflation decelerated by 1.1 percentage points to 23.8 percent in October 2023, from 24.9 percent reported in September 2023. The significant decline in the price indices of bread and cereals, oil, and fat contributed to the slowdown in food inflation. However, non-food inflation picked up slightly from 11.2 percent in September 2023 to 11.5 percent in October 2023, largely due to a rise in the price indices of textiles, transport, and miscellaneous food items.

78. The report also highlighted a slight deceleration of core inflation. The Bank's core measure of inflation which excludes volatile energy and food products, slowed marginally to 22.6 percent in October 2023, relative to the 22.4 percent recorded in July 2023.

79. Nonetheless, according to the report, even though headline inflation moderated in October and core inflation softened somewhat, the risk to the outlook remains significant and tilted on the upside. These include uncertainties surrounding global commodity prices, particularly food and energy price volatility as well as climate-related risk on domestic agricultural output.

Staff Assessment and Economic Outlook

80. The Bank staff assessed that economic activity grew above potential in the first three quarters of 2023. This strong activity level is expected to prevail for the remainder of the year with economic growth expected to remain above 5.0 percent. Staff predicated the favorable growth outlook on the strong private and public consumption and investment, prospects of better harvest in the cropping season and recovery of the tourism industry.

81. Furthermore, private remittance inflows and private sector credit are expected to continue at current levels to support household consumption and investment. Private investment, particularly in the construction sector, was projected to continue its growth momentum and contribute to economic growth. Public sector investment was also projected to remain buoyant as the ongoing infrastructure projects as well as those envisaged in the later part of the year and beyond are expected to bolster economic growth. Against this backdrop, staff forecast economic growth at 5.3 percent in 2023.

82. On domestic inflation, staff projected that as global supply chain continues to ease, food and energy prices moderate, and domestic monetary policy takes full effect, inflationary pressures will continue to be subdued, and the pace of disinflation will move faster in 2024. In this regard, the Bank Staff forecast headline inflation to peak sooner, at 18.0 percent by the end of the year, lower than the earlier forecast. However, the risks to the outlook remained significant and tilted to the upside as uncertainties and volatility in global commodity prices remain, especially in relation to geopolitical developments.

Policy Justification

83. The global economy lost steam in the third quarter of the year, with growth expected to slow. This slowdown could exacerbate if risks of geopolitical uncertainties and volatility in commodity prices, particularly for food and energy, materialized. However, the easing of global supply chain bottlenecks and moderating food and energy prices are expected to help lower inflation and support demand.

84. On the domestic front, the Committee judged that the post-pandemic recovery will continue, with a healthy real GDP growth rate of 5.3 percent for 2023. This growth will be supported by the recovery in tourism activity, public and private sector consumption and investments, and a better harvest expected this cropping season.

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

86. While inflation slid marginally to 18.0 percent during the review period, domestic price pressures remained a critical concern. The inflation outlook has improved but remained shrouded by significant risks, including geopolitical uncertainties and volatile commodity prices. The Committee was unanimous in the commitment to staying the course until the disinflation process takes root with clear indications of inflation returning to the desired level.

Decision

87. In light of the above factors and the strong commitment in the fight against inflation, the Monetary Policy Committee took the following decisions:

1. **Monetary Policy Rate (MPR):** maintain the MPR at 17.0 percent.
2. **Required Reserve (RR):** The required reserve of commercial banks was maintained at 13.0 percent.
3. **Standing Deposit Facility (SDF):** The interest rate on the standing deposit facility to remain 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 to remain at 18.0 percent, aligning with the adjusted MPR.

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

Information Note

Date for the next MPC meeting

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