CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

Press release November 29, 2023

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) convened on November 29 and 30, 2023. The Committee made the decision to maintain the Monetary Policy Rate at 17 percent. The decision is aimed at sustaining the declining trend in domestic inflation. The following is an overview of deliberations that informed the Committee's decision.

1. The global economic growth has lost momentum since the last MPC meeting in August of this year, with a slowdown in the manufacturing, trade, and services sectors. This is attributed to the still-elevated inflation, high borrowing costs, moderate growth prospects in China, and intensified geopolitical tensions. In October 2023, the International Monetary Fund (IMF), maintained global growth forecast for 2023 at 3.0 percent but revised downwards the growth forecast for 2024 by 0.1 percentage points. Moreover, there are still significant headwinds that continue to cloud this outlook, including the impact of geoeconomic fragmentation and heightened geopolitical tensions on international trade.

2. Global inflation continues to decelerate, driven by the tight monetary policy stance of central banks around the world and the continued easing of global commodity prices. The IMF forecast global headline inflation to decline from 8.7 percent in 2022 to 6.9 percent in 2023, before dropping further to 5.8 percent in 2024. However, this represents an upward revision of 0.1 percentage points from the July 2023 forecast. This suggests that while disinflation is in progress in many countries, the pace is slow, keeping inflation above central banks' targets longer than anticipated. In this regard, monetary policy may remain tight in many countries longer than previously anticipated.

3. International commodity prices fell in October 2023, driven by the combined effects of weak global demand and improved supply conditions. The IMF All Commodity Prices Index declined by 3.9 percent from September to October 2023. Crude oil prices are declining despite production cuts by OPEC countries and the adverse developments in the Middle East. From September to October 2023, crude oil prices fell by 4.8 percent, mirroring weaker demand and improved supply conditions from non-OPEC countries.

4. Furthermore, prices dropped in the international food commodities market, reaching their lowest in more than two years in October this year. The FAO Food Price Index fell by 0.5 percent (month-on-month) in October 2023, reaching 10.9 percent below its level in the same period a year ago. The fall in global food prices is attributed to the decline in the prices of cereals, sugar, vegetable oil, and meat prices. Similarly, the FAO Rice Price Index fell by 2.0 percent from the previous month. However, the Index is 24.0 percent above its level in the corresponding period a year ago. As a major rice importer, the fall in international rice prices is a welcomed development for the Gambia in the fight against inflation.

5. The Gambian economy continues its strong recovery path, aided by robust consumer demand, recovery in tourism, and buoyant public and private sector investments. The Bank's Composite Index of Economic Activity (CIEA) indicates a growth of 6.6 percent in the third quarter of 2023, higher than the 5.2 percent recorded in the previous quarter. CBG staff forecast economic growth at 5.3 percent for 2023, representing a 0.2 percentage point upward revision from the August 2023 forecast. The revision reflects a stronger-than-expected rebound in tourism, better cropping season, and robust public and private consumption and investment. However, significant headwinds remain, tilting the risk to growth outlook to the downside. Key risks to the outlook include elevated inflation, uncertainties surrounding global commodity prices, and structural bottlenecks in the domestic economy.

6. The results from the Central Bank's latest Business Sentiment Survey revealed that sentiments among businesses have slightly moderated in the current quarter. Although most participants anticipate higher business activity over the next three months at the firm level, they are uncertain about the overall near-term outlook for the economy. Moreover, the near-term inflation expectations remain high, as survey respondents foresee a further rise in inflation in the next three months.

7. Provisional balance of payments estimates for the third quarter of 2023 indicate that the deficit in the current account balance moderated when compared to the preceding quarter. The deficit narrowed to US$51.5 million (2.5 percent of GDP), compared to US$91.1 million (4.6 percent of GDP) recorded in the preceding quarter. During the same period, the deficit in the goods account moderated to US$213.4 million (10.3 percent of GDP), from US$ 262.2 million (12.7 percent of GDP) in the second quarter of 2023. The improvement in the goods account reflects the decline in imports of electricity, although export growth also moderated somewhat during the reviewed period.

8. The foreign exchange market continues to be stable with robust activity amid improved liquidity conditions. Total volumes of activities, measured by total sales and purchases of foreign currencies, stood at US$2.1 billion from January to September 2023, slightly lower than US$2.5 billion recorded in the corresponding period in 2022. From January to September 2023, remittance inflows amounted to US$564.1 million, representing a 4.5 percent increase when compared with the corresponding period a year ago.

9. The dalasi continues to be relatively stable against major currencies, despite the challenging global environment. However, owing to excessive demand for foreign currencies to finance the rising import bill, the dalasi depreciated moderately against three major traded currencies. From June to September 2023, it depreciated by 2.7 percent, 2.3 percent, and 0.1 percent against the

US dollar, Euro, and CFA, respectively, but appreciated by 1.5 percent against the British Pound Sterling.

10. The Central Bank continues to hold comfortable level of foreign exchange reserves, totaling US$389.1 million as of end-September 2023, which is sufficient to cover over 4 months of prospective imports of goods and services.

11. Provisional data on government fiscal operations for the first nine months of the year shows that the overall deficit (including grants) slightly narrowed from D5.4 billion (4.4 percent of GDP) to D5.3 billion (3.6 percent of GDP) as at end-September 2023. Total revenue and grants mobilized from January to September 2023 amounted to D18.3 billion (12.4 percent of GDP), which represents an increase of 21.3 percent (year-on-year). Total expenditure and net lending for the first nine months of 2023 increased to D23.6 billion (16.0 percent of GDP), from D20.5 billion (16.7 percent of GDP) in the first nine months of 2022. The increase in government expenditure during the period was on account of the rise in spending on personnel emoluments, interest payments, goods and services, and development expenditures that were largely externally financed.

12. From December 2022 to October 2023, the nominal value of government domestic debt stock grew by 4.7 percent to stand at D42.8 billion, accounting for 29.0 percent of GDP. Of the total domestic debt stock, short-term debt accounted for 49.8 percent while medium to long-term debt constituted 50.2 percent.

13. Latest data shows that yields on short-term government securities are declining, reversing the rising trend observed since the beginning of the year. The fall in interest rates is in response to increased liquidity in the banking system. The weighted average yield on short-term government securities dropped from 12.0 percent in August 2023 to 5.4 percent in October 2023.

14. The interbank market continues to function smoothly with strong activity volumes recorded this year. Between January and October 2023, total transactions reached D12.3 billion, higher than the D7.8 billion recorded over the same period in 2022. The weighted average interest rate prevailing in the market decreased from 10.7 percent in August to 5.0 percent in October 2023.

15. The banking sector continues to be stable with robust financial soundness indicators. For the third quarter of 2023, the banking industry risk-weighted capital adequacy ratio stood at 25.7 percent compared to 24.6 percent reported in June 2023 and higher than the regulatory requirement of 10 percent. The liquidity ratio significantly increased to 78.5 percent, from the 70.0 percent recorded in June 2023, reflecting easing liquidity conditions in the industry. The stock of customer deposits increased by 4.2 percent (year-on-year) to D55.6 billion in September 2023 and accounted for about 65.6 percent of total liabilities. The industry's asset quality has improved, with the non-performing loans declining from 3.5 percent of gross loans in June 2023 to 2.9 percent in September 2023. The banking sector stress test results indicate that the industry remains resilient, well-capitalized, and liquid to absorb any future shocks.

16. Growth in monetary aggregates remains moderate. Annual money supply grew by 6.6 percent in September 2023, higher than the 4.2 percent in June 2023 on account of growth in the net domestic assets of the banking system. It is, however, still lower than the 12.2 percent registered in September 2022. Growth in annual reserve money is picking up, increasing to 12.6 percent in September 2023 following a contraction of 6.0 percent recorded in the comparable period a year ago. Credit expansion to the private sector is slowing down, after registering an annual growth of 17.4 percent in September 2023, which is lower than the 32.8 percent recorded in June 2023 and 36.6 percent in the same period a year ago.

17. Inflation moderated in October 2023, departing from the upward trend seen since the beginning of the year. Headline inflation declined to 18.0 percent in October 2023, down from 18.5 percent in September 2023. The decline in inflation is attributed to the decrease in both the food and non-food components of the CPI basket. Looking ahead, the easing of global commodity prices and the anticipated better cropping season are expected to dampen domestic price pressures.

18. Food inflation decreased to 23.8 percent in October 2023 from 24.9 percent recorded in June 2023, with bread and cereals accounting for most of the decline. Non-food inflation stood at 11.5 percent in October 2023, unchanged from June 2023.

19. The Committee observed the following:

- The committee noted a discernible loss of momentum in the global economy since its last meeting, with slowdowns observed in manufacturing, trade, and services. This deceleration is attributed to persistent challenges, including elevated inflation, high borrowing costs due to rising interest rates, and heightened geopolitical tensions.

- The Committee noted the declining trend in global inflation, driven by the aggressive monetary tightening and the observed decline in international commodity prices, owing to the combination of weakening global demand and improved supply conditions. Although the Committee expects the deceleration in global inflation to continue, it will linger above central banks' targets for the rest of this year and next. As a result, monetary policy around the world is expected to remain tight for long, although the pace of rate hikes will slow.

- On the domestic economy, the Committee anticipates the recovery momentum to continue with real GDP growth averaging around 5.3 percent. Growth is to be supported by strong tourism activity, public infrastructure developments, and private sector consumption, and investments, as well as better harvest expected this cropping season.

- The foreign exchange market is functioning smoothly. Liquidity conditions in the market continue to improve, supported by private remittance inflows and tourism receipts. In addition, substantial improvement in supply of foreign currency is expected from inflows from development partners, including the anticipated balance of payments support from the IMF upon approval of the new ECF program that was agreed in October this year. Meanwhile, the Central Bank continues to maintain a comfortable level of external reserves.

- The Committee is of the strong view that enhanced fiscal and monetary policy coordination is necessary in combating inflation. In this context, fiscal consolidation will be needed to steer the economy toward the path of disinflation.

- The Committee observed encouraging signs of moderation in inflation in The Gambia, driven by the combined effects of prudent monetary policy and sustained decline in international food and energy prices. The latest forecast suggests that headline inflation will peak sooner and lower than expected. However, the Committee acknowledges that the risks to the outlook remain significant and tilted to the upside. In view of this, it is deemed necessary to keep policy tight until inflation firmly establishes a downward trajectory.

Policy Decisions

20. In light of these factors, the Monetary Policy Committee has taken the following decisions:

    1. The Monetary Policy Rate (MPR) will be maintained at 17.0 percent.
    2. Required Reserve (RR) ratio of commercial banks will be maintained at 13.0 percent.
    3. The interest rate on the standing deposit facility will remain unchanged at 3.0 percent.
    4. The interest rate on the standing lending facility will remain at 18.0 percent or MPR plus 1.0 percentage points.

The Committee will continue to monitor the cumulative effects of this and past policy actions on inflation and economic activity in determining the next policy direction. In addition, the Central Bank will start actively using open market instruments, including issuance of CBG bills to manage excess liquidity.

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.**