



CENTRAL BANK OF THE GAMBIA

Foreign Exchange Policy

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Abbreviations:

CBG	Central Bank of The Gambia
DRR	Daily Reference Rate
FMD	Financial Markets Department
FFBSD	Fintech and Forex Bureau Supervision Department
GMT	Greenwich Mean Time
MTOs	Money Transfer Operators
WVR	Weekly Valuation Rate

1. Introduction:

Section 64 of the Central Bank of The Gambia (CBG) Act, 2018, stipulates that the Government shall determine the exchange rate regime of The Gambia, after consultation with the Central Bank. To this end, the free-floating exchange rate regime has been implemented in The Gambia since 1986 following the liberalization of the Gambian economy. Furthermore, Section 65 of the Central Bank Act 2018 assigns the responsibility for the formulation and execution of the exchange rate policy to the CBG. While one of the Bank's main objectives is to maintain and promote the stability of the Gambian currency, the CBG does not officially target a specific level of the exchange rate. The CBG offers policies and guidelines consistent with its overall policy objectives and The Gambia's international obligations.

The CBG foreign exchange policy is designed to promote a transparent, fair, and liquid foreign exchange market for the conduct and management of an orderly foreign exchange business in the domestic financial market. This is intended to be achieved by communicating the role of foreign exchange management towards achieving the CBG's policy objectives as well as its interaction with broader monetary policy objectives of the CBG.

2. Legal Background:

2.1 CBG Act 2018

Section 64 of the CBG Act, 2018, stipulates that the Government shall determine the exchange rate regime, after consultation with the Central Bank of The Gambia. Where the Government does not declare an external value for the Dalasi or any other exchange system, the exchange rates for the Dalasi against other currencies shall be market-determined.

Section 65 of the CBG Act states that the formulation and execution of the exchange rate policy shall be the responsibility of the Central Bank of The Gambia. To this end, the CBG "may issue guidelines for the purpose of regulating the purchase, sale, holding or transfer of foreign exchange".

Furthermore, the CBG may temporally restrict the purchase, sale, holding or transfer of foreign exchange in order to achieve its policy objectives, or to avert a foreign exchange crisis. Such restrictions, however, shall be in line with the provisions of the CBG Act 2018.

3. Exchange Rate Regime:

The Gambia's exchange rate regime shall be free floating in accordance with Section 64 of the CBG Act 2018 and consistent with the obligations of any international treaty to which The Gambia is a party. The free floating regime has been in existence since 1986.

4. Role of the Central Bank of The Gambia:

4.1 Exchange Rate Policy

The CBG is responsible for the formulation and execution of the exchange rate policy of The Gambia in line with section 65 of the CBG Act, 2018. The CBG issues guidelines for the purpose of regulating the purchase, sale, holding or transfer of foreign exchange. In the event of a foreign exchange crisis or misconduct by market participants, the CBG may temporarily restrict the purchase, sale, holding or transfer of foreign exchange. Such restrictions may apply to the entire market, or in some cases, individuals or businesses found in violation of the provisions of the existing guidelines and/or regulations.

Any restrictions shall be for an initial period of not more than twelve months and may be extended for another period not exceeding twelve months, subject to the approval of the Board of Directors of the CBG. The law requires that in the event of a restriction imposed on the market, the CBG shall submit a report to the Minister of Finance and Economic Affairs within seven days, and every three months thereafter, containing the causes which have led to the imposition of the restriction and the actions the CBG intends to take to remedy the situation.

4.2 CBG's Foreign Exchange Intervention Policy

Similarly, the CBG shall formulate and publish its foreign exchange intervention policy in line with the exchange rate policy of The Gambia and the monetary policy framework.

The CBG's intervention policy shall clearly communicate the objectives it hopes to achieve and shall be aimed at achieving transparency and fairness to all market participants. Consistent with the above section 3 (exchange rate regime), the CBG intervenes in the interbank foreign exchange market of The Gambia in accordance with its fundamental monetary and exchange rate policy objectives (ensuring price and exchange rate stability), taking into account the free-floating exchange rate regime to (i) mitigate excessive volatility in the exchange rate and (ii) to maintain adequate level of foreign currency reserves. The foreign exchange intervention policy, including CBG's internal manual on foreign currency management, also provides a detailed explanation/definition of excessive volatility as well as clear distinction between operations to mitigate volatility and meet foreign currency reserves objectives.

Any intervention (purchase or sale of foreign currency) shall be published in line with the reserve management guidelines, the exchange rate policy, and the monetary policy framework. The CBG shall be committed to publishing the results of market operations, the level and volume of activity, and the direction of its interventions (i.e., purchases or sales) on its website in a similar fashion to the results of Treasury bills auctions.

The CBG will disclose the role of foreign exchange interventions towards achieving the foreign exchange policy objectives consistent with its broader monetary policy objectives.

4.3 Policy Implementation

The Central Bank of The Gambia conducts its foreign exchange intervention in line with its published intervention policy. Foreign exchange intervention decision making involves stages as contained in the intervention policy guidelines. The Financial Markets Department (FMD) conducts market intelligence on the demand and supply conditions in the domestic foreign exchange market and advises Senior Management. Senior Management could grant approval or otherwise for an intervention on either side of the market.

4.4 The Setting of the Official Exchange Rate

The daily reference rate (DRR) and weekly valuation rate (WVR) that are currently published by the CBG will be discontinued and replaced with the official exchange rate. The CBG shall fully document and publish the process of determination of the official exchange rate. This includes the documentation of the methodology for calculating the official exchange rate.

The CBG shall compute and publish the official exchange rate. This rate is intended to reflect market conditions that prevailed through that same day. Under normal market circumstances, when the CBG has no temporary restrictions in place, this rate should be formed by the competitive forces of supply and demand in order to provide confidence that the price discovery system is reliable. The CBG shall publish what the exchange rate represents and its calculation methodology, in line with IOSCO Principles for Financial Benchmarks. This rate shall be a mid-market rate based on trading, representing market conditions during the day. The CBG shall collect actual buying and selling rates with volumes from participants in the foreign exchange market (banks, microfinance institutions, Fintech companies, and foreign exchange bureaus) and calculate the average mid-market rate. The official exchange rate shall be based on daily transactions up until

15:00 hours GMT and submitted before 16:00 hours GMT. The selection of foreign exchange bureaus and microfinance institutions that shall be included in the calculation shall be based on their size and shall be determined in such a way that submitting institutions comprise an appropriately representative group of participants taking into consideration the structure of the foreign exchange market. CBG has put up appropriate measures to ensure that submitting institutions comply with the guidelines for data submission. The publication of the official exchange shall show that the rate reflects market conditions prevailing through that day. The official exchange rate shall be based on USD buying and selling transactions only. The CBG shall publish a mid-rate based on a simple average of the volume weighted buying and selling rates. Cross rates for other currencies shall be calculated based on independent sources such as Bloomberg/Reuters or selected central banks rates.

4.5 Applications of the Official Exchange Rate

The CBG's published exchange rate shall serve as an indicator for economic agents of the prevailing exchange rate of the Dalasi with respect to the United States Dollar in the market. It shall also be used for Government accounting and customs purposes.

5. Foreign Exchange Market in The Gambia:

5.1 Market Participants

The foreign exchange market in The Gambia comprises of licensed commercial banks, foreign exchange bureaus, microfinance institutions, mobile money operators, and money transfer operators (MTOs). Commercial banks are the largest players in the market, accounting for a significant percentage of overall transaction volumes (purchases and sales). Foreign exchange bureaus are the second largest participants and like banks, are engaged in purchases and sales of foreign currency; some foreign exchange bureaus serve as agents of MTOs.

5.2 Participants Guidelines and Code of Conduct

The accompanying foreign exchange regulations are issued under this policy and the CBG Act and shall be applicable to all participants in the foreign exchange market, including banks, foreign exchange bureaus and MTOs. Participation in the foreign exchange market requires a license from the CBG. International MTOs and Fintech companies are just conduit of remittance transfers and shall not engage in the buying and selling of foreign exchange currencies in the domestic market.

6. External Reserves:

6.1 Maintenance of External Reserves

Section 67 of the Central Bank Act 2018 stipulates that the CBG shall maintain external reserves in the forms of foreign currency (notes and coins), gold, any other internationally recognized reserve assets, bills of exchange or promissory notes, debt securities, etc. Such a portfolio shall have the characteristics of high retention of value and liquid in most cases.

It shall be the responsibility of the Board of Directors of the CBG to consider and approve the reserves management policy of the CBG and to review reports and ensure compliance with the reserves management policy.

The CBG shall be committed to the management of reserves in line with the Reserves Management Guidelines approved by the CBG's Board of Directors.

6.2 Purpose of Holding External Reserves

The CBG shall endeavor to maintain external reserves at a level which, in the CBG's opinion, is adequate for the execution of its monetary and exchange rate policies, and for the prompt settlement of the country's international transactions.