CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

Press release **May 23, 2024**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) convened on May 22 and 23, 2024 to review current domestic and global economic conditions and trends. The Committee decided to maintain the Monetary Policy Rate at 17 percent. The decision aims to sustain the declining inflation trend observed in the past 3 consecutive months. The following is an overview of deliberations that informed the Committee's decision.

1. The outlook for the global economy is showing signs of improvement, although there remain significant headwinds. Economic growth is expected to strengthen in many countries this year, accompanied by a steady decline in inflation. In its latest assessment of the world economy in April 2024, the International Monetary Fund (IMF) upgraded the economic growth forecast for 2024 by 0.1 percentage point compared to its January 2024 projections, while maintaining the growth forecast for 2025 unchanged. This slight upward revision reflects the continued robustness in economic activities and the easing of some supply chain constraints that had previously hampered global trade. However, the IMF has also highlighted persistent risks, including

geopolitical tensions and policy uncertainties, which could derail this growth trajectory.

2. According to the IMF, 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. 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.

3. International commodity prices have risen in recent months, reversing the downward trend observed since the middle of last year. The increase was driven by a supply and demand mismatch, arising from concerns over geopolitical instability and adverse weather conditions. The IMF All Commodity Prices Index rose by 4.5 percent in April, from the level it was in March 2024.

4. Similarly, the FAO Food Price Index in April 2024 marginally increased by 0.3 percent from its March level. The increase was driven by a rise in the prices of meat, vegetable oil, and cereals, which outweighed the decline in the prices of sugar and dairy products. Notwithstanding, the FAO Food Price Index is 7.4 percent lower when compared to its value in the same period a year ago. Furthermore, average international rice prices experienced a moderate decline in April 2024 for the second month in a row. 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. However, global rice prices are still projected to remain elevated this year due to the impact of adverse weather conditions on production and export restrictions.

5. In The Gambia, the strong economic growth momentum continues, and inflation pressures have started to ease. According to the Bank's latest forecast, the economy is projected to grow by 5.5 percent in 2024, surpassing the estimated growth rate of 5.3 percent for 2023. This forecast indicates a further upward adjustment by 0.1 percentage points from the February projections. Growth is anticipated to be supported by public and private infrastructure investments, household consumption & investment, tourism, and financial services. Significant risks continue to weigh on this growth trajectory including the uncertain geopolitical environment, volatility in commodity prices, and structural bottlenecks within the domestic economy.

6. The Central Bank's latest Business Sentiment Survey for the first quarter of 2024 indicated a notable improvement in business sentiments. The majority of respondents anticipate a surge in economic activity over the next three months, driven by robust consumer demand. While optimism prevails regarding increased business activity, concerns linger over persistently high inflation expectations. A significant portion of surveyed businesses expect a further rise in inflationary pressures in the near term. However, the

latest inflation figures indicate a notable decline, which we believe will help moderate inflation expectations going forward.

7. Preliminary balance of payments estimates show that the current account balance deteriorated in the first quarter of 2024, registering a deficit of US$1.4 million (0.1 percent of GDP), compared to a surplus of US$4.9 million (0.2 percent of GDP) in the fourth quarter of 2023. The goods account balance widened to a deficit of US$257.9 million (8.8 percent of GDP) in the first quarter of 2024, compared to a deficit of US$238.3 million (8.2 percent of GDP) in the preceding quarter. The services account balance registered a surplus of US$117.1 million (4.0 percent of GDP) in the first quarter of 2024, higher than US$67.9 million (2.3 percent of GDP), on the back of increased tourist arrivals.

8. The foreign exchange market continues to function smoothly. Total volumes of transactions in the domestic foreign exchange market stood at US$600.9 million in the first quarter of 2024, slightly lower than the US$644.1 million in the same period in 2023. Private remittances remain the largest source of foreign currency, with a total inflow of US$203.7 million in the first quarter of 2024. This represents a 12.4 percent increase from the previous quarter.

9. The exchange rate of the dalasi continues to be relatively stable. From December 2023 to March 2024, it depreciated against the US dollar by 6.9 percent, the euro by 5.9 percent, Great Britain pound sterling by 7.5 percent, and CFA franc by 5.1 percent. CBG continues to hold comfortable levels of international reserves

amounting to US$479.8 million in April 2024, which is sufficient to finance over 4.9 months of prospective imports of goods and services.

10. Preliminary estimates of government operations indicated an increase in the overall deficit, including grants, from D2.1 billion (1.5 percent of GDP) in the first quarter of 2023 to D2.2 billion (1.3 percent of GDP) during the same period in 2024. Similarly, the overall budget deficit, excluding grants, widened to D4.0 billion (2.3 percent of GDP) in the first quarter of 2024, compared to a deficit of D3.9 billion (2.7 percent of GDP) recorded in the corresponding period of the previous year.

11. Revenue performance continues to be strong, thanks to improvements in tax administration. Total revenue and grants mobilized in the first quarter of 2024 surged to D7.3 billion (4.2 percent of GDP), a 21.7 percent rise from the corresponding period last year. Total expenditure and net lending for the first quarter of 2024 increased by 17.6 percent to D9.6 billion (5.5 percent of GDP).

12. The stock of domestic debt declined marginally to D41.0 billion (26.3 percent of GDP) in April 2024, from D41.3 billion (29.4 percent of GDP) in December 2023. Treasury bills and Sukuk Al Salaam bills, with maturity of one year or less, accounted for 47.8 percent of the total domestic debt stock. Medium to long-term debt constituted 32.5 percent and 19.7 percent, respectively.

13. Yields on short-term government securities continue to decline, influenced by liquidity conditions in the banking system. The one-year, six-month, and three-month treasury bills rate declined 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.

14. 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. The weighted average interest rate prevailing in the market declined from 7.4 percent in April 2023 to 4.9 percent in 2024, following the three-month Treasury bills rate.

15. The banking industry's performance remains robust, underpinned by healthy macroprudential ratios. The asset base of the industry grew from 70.7 percent of GDP in March 2023 to 76.9 percent in March 2024. Total customer deposits, which continue to be the main source of funding for banks, increased by 11.1 percent (year-on-year) to stand at D58.9 billion as of March 2024.

16. Furthermore, the industry remains well-capitalized and solvent. The capital and reserves of banks increased by 30.9 percent to stand at D10.6 billion, benefiting from a 19.4 percent rise in retained earnings from a year ago. The aggregate risk-weighted capital adequacy ratio of banks stood at 27.9 percent in March 2024 and all banks were above the minimum regulatory requirement of 10 percent. The banking industry continues to be liquid and profitable with a system-wide liquidity ratio of 78.3 percent in March 2024, compared to 70.9

percent reported in March 2023. The industry's non-performing loans increased in the reporting quarter to 8.7 percent, from 3.3 percent reported in December 2023. Although credit concentration risks remain, the stress test results indicated overall market risk is low and the banking industry remains resilient.

17. On monetary developments, annual money supply grew by 11.2 percent in March 2024 from 9.3 percent reported in December 2023. Growth in annual reserve money moderated to 8.5 percent down from the 14.1 percent reported in December 2023. Furthermore, the supply of credit to the private sector picked up to 19.3 percent in March 2024 from a growth of 12.2 percent registered in the previous quarter. This is however lower than the 27.6 percent recorded in March 2023 reflecting the tight monetary and financial conditions.

18. Headline inflation decelerated for the third consecutive month, driven by moderated global commodity prices and domestic policy actions. In April 2024, headline inflation declined to 11.0 percent, down from 14.9 percent in March 2024 and the peak of 18.5 percent in September 2023. The decline was broad-based, with a fall in both food and non-food inflation. Looking ahead, if there are no sudden surprises, especially in global commodity prices, inflation is expected to decelerate to single digits by the end of 2024.

19. During the review period, food inflation decreased to 15.6 percent from 21.0 percent in December 2023. The decline in food inflation was predicated on the significant deceleration in the prices of bread & cereals, and meat while prices of vegetables and dairy

products held up. Similarly, non-food inflation declined to stand at 5.4 percent from 8.7 percent reported in March 2024, owing to a decrease in prices of textiles and energy.

20. The central bank's core measure of inflation, which excludes volatile energy and food products, also declined significantly during the review period, suggesting that underlying inflationary pressures are abating.

21. **The Committee observed:**

- The sustained momentum in the global economy, aided by strong consumer demand and softer supply conditions. These developments are expected to support trade and tourism-related activities in the domestic economy.

- A continued decline in global inflation, which reflects the tight monetary policy stance of central banks as well as benign commodity prices. Notwithstanding, Members noted the uncertainties surrounding international commodity markets and their potential adverse impact on the disinflation process.

- In the domestic economy, the Committee is of the view that the Gambian economy will continue its strong performance with this year's growth expected to average 5.5 percent.

- That past policy actions are paying dividends as inflation continues to decline, with a favorable outlook. The projection is predicated on easing global commodity prices and the effects of domestic policies. Without further surprises, especially on international commodity prices, domestic inflation will continue to fall towards the 5 percent medium-term target. However, the Committee recognizes the significant risks surrounding the outlook, which calls for prudent policy calibration to sustain the declining inflation.

- As the global economic environment continues to be fluid, the importance of policy coordination to safeguard gains in the fight against inflation and sustain macroeconomic stability going forward is crucial.

Policy Decisions

22. In view of the above, the Committee concludes that monetary policy should stay the course to ensure inflation returns to its desired target.
23. Consequently, the Monetary Policy Committee has taken the following decisions:

   i. The Monetary Policy Rate (MPR) will be maintained at 17.0 percent.

   ii. The Required Reserve (RR) ratio of commercial banks will be maintained at 13.0 percent.

   iii. The interest rate on the standing deposit facility will remain unchanged at 3.0 percent.

iv. 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 observe vigilance 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.**