

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.83

AUGUST 31- SEPTEMBER 01, 2022

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on August 31 and September 01, 2022. The Committee reviewed developments in the international and domestic economy, assessed emerging risks to the inflation outlook and growth prospects and decided to increase the monetary policy rate by 1 percentage point to 12 percent.

MPC Members in Attendance:

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. Ebrima Wadda	Member
Mrs. Halima Singhateh-Jagne	Member
Mr. Sheriff Touray	Secretary

Absent

Mr. Baboucarr Jobe –Member

Mr. Karamo Jawara -Member

Report Presenters

Name	Designation
Mrs. Isatou Mendy	Principal Economist, Economic Research Department
Mr. Alieu Ceesay	Senior Economist, Economic Research Department
Dr. Momodou Jallow	Economist, Economic Research Department
Mrs. Binta Beyai	Senior Economist, Banking Services Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mrs. Aji Adam Njie	Economist, Economic Research Department
Mr. Saikou B. Jammeh	Economist, Economic Research Department
Mr. Alfusainey Touray	Economist, Economic Research Department
Mr. Karamo Sawaneh	Officer, Banking Supervision Department
Ms. Awa Bayo	Senior Officer, Banking Supervision Department
Mr. Alkali Dibba	Officer, Other Financial Institutions Supervision Department
Mr. Sarjo Jatta	Officer, Financial Markets and Reserve Management Dept
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department

Mr. Mawiyatou Susso	Statistician, Economic Research Department
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Staff in attendance:

Name	Designation
Mrs. Fatou Deen-Touray	Director, Development Finance Department
Mr. Pa Alieu Sillah	Commissioner, Insurance Supervision Department
Mr. Karafa Jobarteh	Deputy Director/OIC, Financial Markets Department
Mrs. Isha Fye	Deputy Director, Information and Communication Technology Department
Mr. Saikou Kassama	Deputy Director, Insurance Supervision Department
Mr. Alagie Manneh	Principal, Other Financial Institutions Supervision Department
Mrs. Efficiency Njie	Principal Auditor, Internal Audit Department
Mr. Mustapha Senghore	Principal Officer, Banking Supervision Department
Mr. Omar Sonko	Principal Auditor, Internal Auditor Department
Mr. Lamin Bah	Senior Officer, Risk Management Department
Mr. Lamin Jawara	Officer, Risk Management Department
Mr. Muhammed Sonko	Officer, Other Financial Institutions Supervision Department
Mrs. Amie Ndure - Touray	Officer, Financial Markets and Reserve Management Department
Mr. Momodou Alieu Jallow	Officer, Financial Markets and Reserve Management Department

Agenda for the Technical Meeting

1. The agenda was adopted as presented.
 - o Adoption of the agenda
 - o Opening remarks by Chairman
 - o Review of minutes of the previous meeting and matters arising
 - o Presentation and discussions of reports
 - o Lunch break
 - o Presentation and discussion of reports

Opening remarks by the Chairman

2. In his welcome remarks the Governor and Chairman stated that the world is still confronted with multiple crises that threaten to undermine the gains made in economic development. Economic growth outlook is bleak while high inflation is eroding income and threatening food security. He added that of immediate concern to policymakers worldwide is the high inflation, which is a major risk to

long-term growth prospects. He urged members to be diligent as the decisions taken would affect the lives of every Gambian.

Review and Adoption of the Previous Meeting Minutes

3. The minutes of the previous meeting were reviewed and adopted after minor amendments.

Presentation of Reports

4. Presentations and discussions of reports followed in the following order: Developments in the Global Economy, Banking Sector, Stress Testing, Financial Market, Balance of Payment, Foreign Exchange Market, Monetary Sector, Government Fiscal Operations, Business Sentiment Survey, Non-Bank Financial Sector, Real Sector, and Inflation. These were followed by presentation on the medium-term macroeconomic forecasts – an assessment of the current economic conditions, baseline forecasts, and risk outlook.

Global Macroeconomic Developments

5. The presentation on the global economy painted a gloomy picture of the prospects for growth and inflation. The combined effects of multiple overlapping crises are devastating economies, with an increasing likelihood of global recession amid high inflation. In addition to the risk factors associated with the spillovers from the conflict in Ukraine and the pandemic, the monetary tightening response of most central banks to the rising inflation has emerged as a significant risk to output growth. Consequently, the International Monetary Fund (IMF) in its July 2022 World Economic Outlook (WEO), revised downwards global economic growth forecast by 0.4 and 0.7 percentage points to 3.2 percent and 2.9 percent for 2022 and 2023, and stressed an increased risk of a global recession this year.
6. In advanced economies, growth is anticipated to expand respectively by 2.5 percent and 1.4 percent in 2022 and 2023, 0.8 and 0.2 percentage points lower than the April 2022 forecast. In the United States, the growth forecast was marked

down by 1.4 and 1.3 percentage points, attributed to the fall in household purchasing power and tighter monetary policy stance. Economic growth for the United Kingdom and Euro area were revised downwards by 0.5 and 0.2 percentage points to 3.2 percent and 2.6 percent in 2022 and 2023, respectively.

7. Similarly, in emerging markets and developing economies (EMDEs) growth for both 2022 and 2023 were revised downwards by 0.2 and 0.5 percentage points to 3.6 percent and 3.9 percent for 2022 and 2023, respectively. The downward revision was due mainly to the slowdown in China and the less favorable external demand.
8. In sub-Saharan Africa (SSA), the growth projection for 2022 was maintained at 3.8 percent, compared to the April forecast, driven largely by the elevated fossil fuel and metal prices for some commodity exporters. However, headwinds from the price pressures, partly induced by supply disruptions, and lower consumer purchasing power will continue to depress demand in the region.
9. Global inflation is forecast to remain elevated this year, well above central bank targets in most countries, reflecting broadened supply bottlenecks, a pickup in demand as well as currency pressures in some economies. In advanced economies, inflation is forecast to accelerate to 8.3 percent and 5.7 percent in 2022 and 2023, respectively. In EMDEs, inflation is expected to rise to 9.5 percent in 2022, before decelerating to 7.3 percent in 2023. Inflation in SSA is also estimated to rise to 12.2 percent in 2022 but forecast to decline to 9.6 percent in 2023.
10. Monetary policy tightening by most central banks in response to increasing inflation has resulted in tighter global financial conditions and increased borrowing costs. The policy rate hikes have led to the strengthening of the US dollar, and triggered capital flow reversals and currency pressures in EMDEs.
11. Reacting to the presentation, the Committee stated that the immediate challenge for developing economies is the spillover effects of policy actions in advanced economies. Rising interest rates in these economies have triggered capital flow reversals and currency depreciation in developing and frontier economies. Limited access to foreign financing is creating foreign currency

shortage and pressure on central bank reserves, especially in the sub-region. Tighter financial conditions are also putting pressure on government budgets and increasing external debt servicing costs, through high interest rates and exchange rate depreciation.

12. The rising strength of the US dollar, amid widespread uncertainties is of particular concern to The Gambia, given that a huge portion of our imports is priced in that currency. This has translated to a depreciation of the dalasi against the US dollar, making the fight against inflation more challenging.

13. The gloomy prospects of the UK economy and the declining pound sterling could hinder the fragile recovery in tourism in The Gambia. This is because a significant proportion of the country's tourists come from the UK. However, expected budget support from the World Bank and the African Development Bank (AfDB) coupled with the anticipated pickup in remittances for school re-opening and the Christmas festivity could ease supply constraints in the foreign exchange market.

14. The Committee welcomed the declining trend in international commodity prices as a positive development, although the outlook remains volatile and uncertain. A sustained decline in global food and energy prices would translate to lower domestic prices, although with a lag.

Domestic Macroeconomic Developments

Banking Sector Developments

15. The banking industry's performance remained strong, despite the challenging macroeconomic environment. The liquidity and capital adequacy ratios declined but remained robust. All the banks were above the regulatory requirements for both indicators. The risk-weighted capital adequacy ratio of banks stood at 27.8 percent in June 2022, compared to 25.5 percent in the previous quarter. The liquidity ratio remained stable at 73.7 percent in March 2022, compared to 73.2

percent in June 2022. The asset quality of the industry fell slightly with an increase in non-performing loans (NPLs) to 4.2 percent of gross loans as at end June 2022, compared to 3.2 percent in March 2022, but were adequately provisioned.

16. Total assets expanded by 19.9 percent (year-on-year) to D76.6 billion in June 2022, sustained by higher cash holdings, investments in treasury bills, government bonds and parastatal debt securities, as well as private sector loans and advances. In addition, letters of credit and guarantees contributed significantly to the industry's asset growth.

17. Customer deposits continue to provide reliable and low-cost funding for banks. It remains the primary source of funding, accounting for 66.8 percent of total funding and an annual growth of 14.7 percent (year-on-year) at end-June 2022. The growth was supported by higher government spending, remittance inflows, and deposit mobilization from the private sector.

18. Reacting to the presentation, the Committee emphasized the need to remain steadfast in preserving the stability of the financial sector. In this regard, the Committee re-echoed supervisory vigilance while encouraging proper risk management and capital preservation to safeguard financial stability.

19. The Committee noted that liquidity risk in the banking system is stable and within the acceptable low single digit. On the discussion on the revision of the national definition of a liquid asset, members agreed to maintain the existing practice that considers only cash and asset categories with a maturity of one year or less.

20. The Committee observed that the decline in the level of provisioning is consistent with the increase in asset quality, and the uncertainties related to the pandemic situation. The Committee, however, reiterated that while maintaining low NPL ratio is desirable, the level of risk aversion in the banking system is impeding the flow of credit to the productive sectors and undermining the role of banks as the principal financial intermediaries in the economy. The loan-to-deposit ratio of 20 percent is low even by regional standards.

21. The Committee was informed that it was premature to accurately assess the impact of the foreign currency deposit (FCD) account directive issued by the Bank in May to address the unethical behaviors of market participants. The outcome of the ongoing site examination of banks would shed some light on the impact.
22. The Committee tasked BSD to work with banks to properly categorize groundnut financing arrangements with the Gambia Groundnut Corporation by excluding it from private sector credit. Currently, four commercial banks hold the facility.
23. The Committee expressed concern about the risk of smaller banks being exposed to non-performing loans and urged BSD to pay closer attention to these banks in their supervisory duties. It was noted that two of the sectors (construction and distributive trade) were the ones influencing the NPLs in the banking sector.
24. The Committee commended the BSD for successfully conducting its first-ever stress testing exercise for commercial banks. The exercise revealed the existence of concentration risk, but the industry remains solvent even with an extreme 400 percent shock to asset quality. The Department, however, cautioned that the results should be interpreted with caution and should not at this stage trigger any policy reaction as more work needs to be done to improve the model. The Committee, nonetheless, tasked BSD to strengthen regulation and encourage banks to diversify their loan portfolios to reduce concentration risk.

Developments in Other Financial Institutions

25. The deposit-taking non-bank financial institutions (NBFIs), comprising of Finance Companies (FCs), Credit Unions (CUs), and Mobile Money Operators (MMOs) continued to grow in terms of asset and deposit base, capital, and loan portfolio.
26. The FCs that hold the largest share of assets and deposits continue to maintain strong capital and liquidity buffers relative to the regulatory requirements. Total assets of FCs expanded by 38.5 percent to D2.9 billion in June 2022, driven by cash and bank balances, and gross loans. From March 2022 to June 2022, total assets

increased by 9.7 percent. Total deposits also increased by 33.6 percent (year-on-year).

27. From March 2022 to June 2022, gross loans grew by 6.7 percent to stand at D734.6 million. It increased by 82.9 percent when compared to the same period last year. The loan-to-deposit ratio also improved but remains low at 27.0 percent. The NPL ratio decreased to 7.0 percent at end-June 2022, from 8.0 percent at end-March 2022.

28. The Committee recognized the improvement in the performance of the non-bank financial sector, especially the credit unions whose financial intermediation had outperformed the FCs. However, the Committee reiterated its call for improvement in the regulatory and supervisory environment for NBFIs. The internal governance and risk management structures of these institutions should be closely monitored. The Committee was informed that the newly developed guidelines would help in this regard, but subjecting NBFIs to similar stringent regulation as banks may prove counterproductive.

29. Furthermore, given their role and customer base, the Committee was advised to approach the suggestion of transforming large NBFIs into a bank with caution. These institutions are key in the quest to foster financial inclusion by serving the most vulnerable groups, such as women groups and youth entrepreneurs.

Domestic Debt Market Developments

30. The stock of domestic debt stood at D38.4 billion in July 2022, from D37.2 billion in 2021. However, the domestic debt-to-GDP ratio declined from 35.4 percent in 2021 to 33.3 percent at end-July 2022. Short-term debt still accounts for more than half of the domestic debt and the refinancing and interest rate risks remain elevated. Treasury bills and Sukuk Al-Salam bills constituted 50.6 percent of the total domestic debt stock, and long-term treasury bonds accounted for the remaining 49.1 percent.

31. Yields on government securities have started rising. The weighted average interest rate on treasury bills increased from 3.2 percent in July 2021 to 7.2 percent in July 2022.
32. The Committee noted that although the debt to GDP ratio is trending downwards due to its slower pace of growth compared to nominal GDP, the growing deficit in the primary balance raises sustainability concerns. The cost of debt service and interest rate risk are increasing with the rising interest rates as monetary policy tightens and the financing gap in the budget widens. The Committee recommended a strategy to amortize or rollover the treasury bonds to reduce the pressure on the budget.
33. The Committee was informed that the Banking Department is in contact with the Ministry of Finance and Economic Affairs as they prepare the 2023 budget. Different domestic borrowing strategies were being considered to ensure that the budget reflects the borrowing plan of the government.

Balance of Payments Developments

34. Pressures in the balance of payments remained. The rise in the import bill is due to high international commodity prices deteriorated the current account balance in the first half of 2022, despite improvement in the services account.
35. The goods account balance registered a deficit of US\$292.0 million (14.9 percent of GDP) in the first half of 2022, higher than a deficit of US\$260.7 million (14.4 percent of GDP) in the corresponding period in 2021. The wider deficit in the goods account is attributed mainly to the marked increase in imports (FOB) of energy and food, and the lower-than-expected increase in re-export trade.
36. The service account, on the other hand, improved to a surplus of US\$24.8 million in the first half of 2022, from a deficit of US\$5.0 million in the same period a year ago, driven by higher tourism receipts. However, the marked improvement in the service account balance could not offset the decline in net income and the

deficit in the goods accounts. As a result, the current account deficit widened to US\$25.6 million (1.3 percent of GDP) in the first half of 2022, from US\$8.3 million (0.5 percent of GDP) in the corresponding period a year ago.

37. The capital and financial accounts registered net inflow of US\$182.8 million in the first half of 2022, higher than a net inflow of US\$95.2 million recorded in the same period in 2021.

38. At end-June 2022, the stock of gross official reserves increased to US\$480.74 million (6.9 months of net import cover), from US\$419.0 million (6.1 months of import cover) at end-June 2021.

39. The Committee commented that the ongoing shocks are aggravating the balance of payment situation and putting pressure on the international reserves of the Bank. However, the prospects of a better tourist season are a positive development for the balance of payment outlook, although the projected weakness in the UK economy and inflationary pressures in Europe are downside risks.

40. The Committee was informed that the Bank's Directive that restricted withdrawal from FCD account was rescinded. It is hoped that the move would improve the flow of private remittances.

41. The Committee once again called for an improvement of the compilation of remittance data. The Committee tasked OFISD to work with FMD in this regard and the ERD should be available if their assistance is needed.

Financial Markets Developments

42. The foreign exchange market continued to function smoothly. In the twelve months to end-July 2022, the volume of transactions, which is an aggregate of sales and purchases of foreign currency, grew by 4.5 percent (year-on-year) to

US\$2.6 billion. Total purchase of foreign currency during the period, an indicator of supply conditions, increased by 7.6 percent to US\$1.3 billion. Supply continues to be supported by inflows from private remittances, gradual recovery in tourism receipts and CBG interventions. Total foreign currency sales, an indicator for demand, increased by 10.0 percent to US\$1.3 billion. Demand for foreign currency was driven mainly by energy and food imports, telecommunication, and construction sectors.

43. The exchange rate of the dalasi remained under pressure against the US dollar. From July 2021 to July 2022, the dalasi depreciated against the US dollar by 5.7 percent, but appreciated against the euro, pound sterling and CFA franc by 6.8 percent, 7.0 percent, and 5.5 percent, respectively.

44. The Committee noted that current exchange rate pressures are not unique to The Gambia. The interest rate hikes in the United States and the strong US dollar are creating currency depreciations in emerging market and developing economies. The passthrough effect is further complicating efforts to curb rising inflation.

45. The Committee noted that the dalasi fares very well among peer countries in the sub-region, despite limited resources. Nonetheless, we should not rest on our laurels but continue to exercise prudence in policy implementation and reserve management.

Real Sector

46. The Bank's indicators of economic activity pointed to stronger economic growth in the first half of 2022, compared to the same period last year, and the prospects are positive. The Composite Index of Economic Activity (CIEA) revealed that economic activity strengthened in the first half of 2022, on account of a better-than-anticipated pickup in tourism and related activities, public sector investments, steady inflows of private remittance and private sector growth. The trade balance, on the other hand, continued to worsen, a reflection of the

marked increase in imports due to high commodity prices. As a result, real GDP growth for 2022 was revised upwards by 0.5 percentage points to 5.2 percent, compared to 4.3 percent in 2021.

47. Risks to the outlook remain significant. The uncertainties in the global economic and geopolitical environment continue to cloud the prospects of the Gambian economy. High international prices of food and energy are negatively impacting the purchasing power of households and dragging aggregate demand. Chances of recession in major economies such as the UK could slow the recovery in tourism activity. On the positive side, the ongoing public investment projects, and the prospects of good agricultural harvest this year, given good rains, would bolster growth.
48. The Committee commented that economic growth is still fragile. However, the fight against inflation has gained prominence in the policy space, due to its adverse effects on livelihoods and long-term growth prospects.
49. It was mentioned that the Development Finance Department is collaborating with some civil society groups in a project meant to extend affordable credit facilities to women and youths engaged in small businesses. This is expected to boost economic growth in the medium term.
50. The Committee observed that the Bank's Composite Index of Economic Activities (CIEA) provides useful information about the level of economic activity, but high frequency GDP data and employment numbers are critical information still missing. The Committee was informed that GBoS is at an advanced stage in publishing quarterly GDP numbers, but the Bureau is constrained by limited resources. The expectation is that the Bureau will start publishing quarterly GDP by the beginning of next year. The ERD was tasked to further engage the national statistics office on a project proposal aimed at generating regular high frequency employment numbers.

Monetary Developments

51. Money supply growth moderated, explained by a significant decline in the banking system net foreign assets (NFA). The annual growth in money supply slowed from 25.7 percent in June 2021 to 14.0 percent as at end-June 2022, owing to the contraction of the NFA of both the Central Bank and commercial banks. The NDA remained the main source of liquidity and continued to drive the growth in broad money as domestic credit expanded with increased borrowing from the central government, public entities, and the private sector.
52. The annual growth of the NFA of the banking system contracted by 3.6 percent, from 48.9 percent a year ago. The stock of NFA of the banking system stood at D24.8 billion as at end-June 2022, down from D25.7 billion in the same period in 2021. The NFA of commercial banks declined by 8.0 percent (year-on-year) at end-June 2022 to stand at D9.7 billion, a slower pace of expansion than the 31.0 percent growth recorded a year earlier. On a quarter-on-quarter basis, it contracted by 8.5 percent, compared to 10.9 percent in the second quarter of 2021.
53. The NDA of the banking system, on the other hand, increased by 28.7 percent to D39.7 billion as at end-June 2022, from D26.4 billion in the corresponding period in 2021, attributed to the increase in domestic credit which is associated largely with government borrowing and expansion in private sector credit. The banking system's net claims on government picked up to D34.9 billion, a marked increase of 26.4 percent from June 2021, and accounted for about 73.2 percent of the stock of domestic credit. Private sector credit grew by 18.1 percent (year-on-year) at end-June 2022 to stand at D9.6 billion, higher than the 5.7 percent recorded in June 2021. It grew (quarter-on-quarter) by 8.9 percent in the June quarter from D8.8 billion in March 2022.

54. Reserve money growth moderated by 8.0 percent (year-on-year) at end-June 2022, from 31.1 percent recorded in the corresponding period a year earlier. This is attributed to slower growth in both currency in circulation (CIC) and reserves of commercial banks. Growth in CIC and reserves of DMBs slowed to 12.7 percent and 1.5 percent, respectively. On a quarterly basis, reserve money contracted by 0.7 percent in June 2022 after expanding by 4.0 percent in the first quarter of 2022.
55. The Committee noted that the deceleration in monetary aggregates, especially reserve money, is consistent with the monetary policy direction of the Bank. The decline in reserve money demand would help bring down inflation.
56. In terms of performance under the ECF program, the Committee called for increased collaboration between the Bank and the fiscal authorities. It was suggested that a monitoring committee be established to consist of relevant stakeholders to closely monitor the quantitative performance criteria (QPCs) and the structural benchmarks.
57. The ERD confirmed to the Committee that the CBG on-lending of ECF program disbursements are correctly treated in the compilation of monetary statistics and in the computation of the net domestic borrowing (NDB) of the government. Appropriate adjustments are made in the computation of the NDB in line with the program Technical Memorandum of Understanding (TMU). Based on similar agreements, adjustments are also made to the net CBG claims on government when reporting under the regional monetary cooperation program. It was pointed out that the on-lending facility and the decline in government deposits are major contributors to the rise in the CBG net claims on government.

Government Fiscal Operations

58. Government fiscal operations for the first quarter of 2022 worsened compared to the corresponding period last year, attributed largely to the less-than-expected

receipts from international trade taxes, non-tax revenues, and grants, on the back of a marked increase in expenditures.

59. Total revenue collected from taxes increased by 7.2 percent (year-on-year) to D10.1 billion in the first half of 2022 but was D9.1 billion lower than the outturn projected for the quarter. Year-on-year, revenue from international trade taxes fell by 17.6 percent and non-tax revenue by 21.1 percent. Grants, on the other hand, increased by 47.4 percent. Revenue generated from personal and corporate taxes increased by 35.9 percent and 42.9 percent, respectively.

60. Total expenditure was within the amount targeted for the first half of the year, despite registering an increase from a year ago. Total government expenditure and net lending for the first six months of 2022 stood at D13.0 billion (12.4 percent of GDP), 7.8 percent higher than the amount recorded in the first half of 2021. The rise in government expenditure was driven by a 28.4 percent surge in recurrent spending, mainly on wages and salaries, other charges (goods and services, subsidies, and transfers) and debt service payments. Capital expenditure, however, decreased by 0.3 percent and accounted for 34.9 percent of total expenditures.

61. As a result, the overall budget deficit (including grants) widened to D2.9 billion (2.8 percent of GDP) in the first half of 2022, compared to D2.6 billion (2.5 percent of GDP) in the corresponding period of 2021. The overall budget deficit (excluding grants) also widened to D6.1 billion (5.9 percent of GDP), relative to a deficit of D4.8 billion (4.6 percent of GDP) a year ago.

62. The Committee commented that budget execution is challenged by limited fiscal space. The Committee further remarked that the fiscal authorities should consider diversifying revenue generation streams. International trade taxes that have traditionally been a dominant source of revenue for the government are not performing as desired. The constraints in revenue mobilization are hindering

budget formulation and implementation, especially for the much-needed capital and social spending.

63. The Committee reiterated the need to reduce tax loopholes, including effectively managing tax exemptions and broadening the tax base instead of raising taxes which would only lead to tax avoidance, evasion, and non-compliance.

Business Sentiment Survey

64. Readings from the Bank's quarterly Business Sentiment Survey revealed a decline in business confidence, reflecting the adverse effects of the ongoing shocks on the economy. Most respondents highlighted rising global uncertainties, higher input costs associated with the unprecedented hike in global commodity prices, higher taxes, demanding regulatory measures, and foreign currency supply concerns as major factors that could dampen near-term prospects for business activity and economic growth.
65. The perception of businesses on the near-term outlook for price level developments indicated an elevated inflation expectation for the next three months, attributable to expected higher international food and fuel prices and the passthrough effects of exchange rate depreciation. Most of the respondents indicated that they expect the dalasi to remain under pressure for the next three months.
66. The Committee acknowledged improvement in the survey, both in terms of coverage and analysis and commended the ERD for adding value to the report. The Committee suggested amendments to some questions for easier understanding and to minimize the chances of getting ambiguous responses from participants.

67. The Committee commented that the perception of businesses is shaped by the prevailing global economic circumstances despite some positive sectoral growths. The Committee stressed that the rising inflation expectations are a policy concern that requires decisive action to avoid de-anchoring inflation spiraling. It also calls for effective policy communication.

Inflation Outlook

68. Global factors and some domestic structural bottlenecks are pushing headline inflation above the long-run trend and away from the medium-term target. Price pressures observed in 2021 have intensified and become more broad-based. Domestic inflation is expected to remain elevated longer than previously anticipated and the outlook is shrouded by uncertainties and subject to upside risks, mainly emanating from the supply side. Key risks include imported inflation, mainly through high international food and energy prices that transmits to domestic pump prices and cost of transportation, exchange rate pass-through and structural issues at the ports of Banjul. In addition, inflation expectations have risen and increasing aggregate demand pressures due to expansionary fiscal policy also presents major risk to the inflation outlook.

69. Headline inflation accelerated sharply to 12.3 percent in July 2022, from 8.2 percent a year ago and 11.7 in June 2022. The primary contributor to headline inflation remains the consumer prices of food, which constitutes over 50 percent of the consumer basket, the bulk of which is imported. CBG's near-term forecast shows that headline inflation (seasonally adjusted) will remain well over the implicit medium-term target of 5 percent for the rest of the year.

70. Food inflation accelerated to 14.6 percent in July 2022, from 11.8 percent recorded in April 2022, supported by the increase in the price indices of most components of the food basket, especially prices of Vegetables, Dairy Products, Fruits along with Bread and Cereals. The increase in food prices has become broader with a spike in prices of most items in the food basket. The acceleration

in food prices continued to be driven by the protracted supply chain constraints, soaring fuel prices and higher transportation costs.

71. Non-food inflation picked up to 10.5 percent in July 2022, from 7.3 percent in April 2022. The main drivers of non-food inflation were Utilities, Energy, Recreation, and Transport.

72. The Bank's core measures of inflation points to heightened inflationary pressures. Both Core 1 and Core 2 measures of inflation that exclude volatile energy and food products from the headline inflation, surged by 15.7 percent and 15.4 percent in July 2022, from 8.9 percent and 9.8 percent in March 2022, respectively.

73. The Committee commented that although inflation is mainly driven by supply-side factors, the pickup in demand and domestic cost factors have become increasingly important. Therefore, monetary policy should be resolute to minimize the risk of inflation and inflation expectations becoming entrenched.

74. The Committee was informed that the Bank is undertaking initiatives to address short-term supply challenges, especially for essential commodities. This would help dampen food prices and stabilize inflation.

Assessment of the Economic Outlook

75. The economy is forecast to continue with its recovery momentum in 2022 premised on the recovery of the tourism sector, fiscal stimulus associated with the public infrastructure projects, private sector credit growth, higher agricultural output, and moderate global demand. Steady remittance inflows will continue to finance household consumption and real estate activity.

76. Assessment of current economic conditions revealed a stronger-than-expected positive output gap due to stronger economic activity. Consumption and investment spending was mainly financed by remittance inflows and positive fiscal

impulse. Actual reserve money demand was over its medium-term target driven by stronger aggregate demand, and rising inflation. On the other hand, the stronger than expected dalasi is limiting reserve money growth.

77. The baseline forecast indicated a real GDP growth of 5.2 percent in 2022 compared to an earlier projection of 4.7 percent. The upward revision is attributed to the improvement in tourism receipts, steady remittance inflows, and robust private sector credit. Inflation is expected to drift away from the medium-term implicit target of 5.0 percent for the rest of the year, due mainly to the sharp increase in commodity prices. However, inflation will return to target by 2023 although the risks are uncertain and tilted on the upside. Upside risk factors include the global economic and geopolitical environment, lingering structural issues at the main port, currency depreciation and fiscal policy. Although global food prices declined in recent months, they remain highly volatile with unpredictable supply conditions. The less accommodative monetary policy stance of the Central Bank and the expectation of improved local food production this cropping season are downside risk factors to inflation. The exchange rate is expected to remain relatively stable, but pressures will emerge from higher import demand, stronger US dollar and rising interest rates in advanced economies due to monetary tightening in those countries.

78. The Central Bank staff assessment of the risks to the growth forecast are broadly summarized in three risk scenarios. Firstly, further acceleration of domestic inflation due to domestic and global factors. The risks of global commodity prices increasing further than in the baseline coupled with domestic supply bottlenecks could sharply increase inflation higher than in the baseline and slow down real GDP growth in the medium term. Another upside risk to inflation is a sub-optimal monetary policy response compared to the baseline. In this case the impact on output will initially be positive but decline to negative growth by the end of 2023. Inflation will further increase, and the dalasi significantly depreciates compared to the baseline. Finally, staff assessed the risk of a decline in tourist arrivals in the third quarter due to the ongoing geopolitical tensions in Ukraine and a possible

slowdown in the global economy. In this case, the output will significantly contract compared to the baseline with some depreciation pressures on the exchange rate. However, there will be minimal impact on inflation.

Policy Justification

79. Uncertainties surrounding the global economy have increased further and become more complicated since the last Committee meeting in May 2022. Global growth prospects have weakened, and inflation is persisting.

80. In The Gambia, economic recovery has strengthened in the first half of this year, and the outlook remains positive. Although there are significant downside risks, the recovery momentum is expected to continue for the rest of the year.

81. Threats to long-term economic growth are depreciation pressures on the exchange rate and rising food prices. The stability of the exchange rate of the dalasi will continue to be tested by foreign currency supply challenges, the strong US dollar and rising demand emanating from rising import bill for food and energy.

82. Taking all these factors into consideration, the Committee believes that the current inflation trajectory dictates a prompt and decisive monetary policy response. Although growth is still considered fragile with significant downside risks, delaying further action would make it more costly to bring back inflation to the implicit medium-term target and risk inflation expectations becoming entrenched.

Decision

83. The Monetary Policy Committee has decided the following:

- Increase the Monetary Policy Rate (MPR) by 1 percentage point to 12 percent.
- Maintain the required reserve (RR) of commercial banks at 13 percent.
- Maintain the interest rate on the standing deposit facility at 3 percent and the standing lending facility 1 percentage point over the MPR (13 percent).

84. The MPC will continue to closely monitor the impact of these policy measures and developments in the global and domestic economy and stands ready to act when necessary. The Bank will also continue using tools at its disposal, including active use of open market operations, while increasing collaboration with the fiscal authority to bring inflation under control.

Date for the next MPC meeting

85. The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, November 23, 2022. The meeting will be followed by the announcement of the policy decision on Thursday, November 24, 2022.