CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

MINUTES OF MEETING NO.87 **AUGUST 28-29, 2023**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) met on August 28-29, 2023. The Committee reviewed developments in the economy, assessed emerging risks to inflation and growth outlook, and decided to increase the monetary policy rate by 100 basis points to 17.0 percent. The meeting was attended by all 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
Mrs. Halima Singhateh-Jagne	Member
Mr. Karamo Jawara	Member
Mr. Ebrima Wadda	Member
Mr. Sheriff Touray	Secretary

Report Presenters

Name	Designation
Dr. Momodou Jallow	Principal Economist, Economic Research Department

Mrs. Aji Adam Njie	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mrs. Fatou Sanyang	Officer, Banking Services Department
Mr. Nfamara Jeng	Bank Examiner, Banking Supervision Department
Mrs. Sainabou Njie	Senior Bank Examiner, Banking Supervision Department
Mr. Alkali Barrow	Officer, Other Financial Institutions Supervision Department
Mr. Sarjo Jatta	Officer, Financial Markets and Reserve Management Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Bademba Drammeh	Statistician, 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 the 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. In his introductory statement, the Governor and Chairman acknowledged the enormity of the task facing the Committee. Inflation, the primary focus of the Bank's mandate, has surged to an unsustainable level. He, therefore, emphasized that achieving stability demands the collective effort and unwavering commitment of the members. While the road ahead will not be easy, history has shown that we are more than capable of success.

3. Addressing the hurdles concerning data sharing between the Bank and fiscal authorities, he emphasized the need for closer collaboration to find a resolution. Data is an indispensable tool for informed decision-making.

4. In conclusion, he urged all Committee members to remain dedicated to the task of lowering inflation to our desired level.

Review and Adoption of Minutes of MPC Meeting No. 86

5. The minutes of the MPC Meeting No.86 were reviewed and adopted after minor adjustments.

Presentation of Reports

6. 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
   - 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

7. The presentation on Global Economic Developments reported remarkable resilience in the first half of the year. Some major headwinds that significantly impeded growth have subsided. Notably, the recovery in the global supply chain contributed to the decline in food and energy prices. The World Health Organization's declaration of an end to the COVID-19 public health emergency adds further impetus to the normalization of the global supply chain. Furthermore,

the banking crisis that occurred in the United States and Switzerland no longer poses financial stability concerns.

8. However, the report cautioned that there remain substantial challenges that continue to cast shadow over the medium-term outlook for the global economy. The high inflation continues to erode purchasing power and was not declining fast enough. Monetary policy tightening has raised the cost of borrowing, which is limiting the flow of credit. Moreover, geopolitical tensions and fragmentation persist, with growing possibility of more restrictions on trade and international payments. In addition, China, a major driver of the global economy, continued to experience a slower pace of recovery due to the ongoing real estate crisis.

9. Nonetheless, the report highlighted IMF's relatively optimistic perspective on the global economy in its July World Economic Outlook (WEO) update. The optimism resulted in a 0.2 percentage point upgrade in its growth forecast for 2023, when compared with the projections made in April 2023. The revised global output projection sets global growth at 3.0 percent for 2023, which although higher than the April forecast, is still lower than the 3.5 percent recorded in 2022.

10. The report highlighted strong indications of a decrease in global inflation this year and next but warned that the pace of disinflation will be slow. The major drivers of the decline include the improvement in the global supply chain, which will continue to subdue global prices for energy and food, as well as the tight monetary policy stance of central banks. The IMF forecast global inflation to decrease from an average of 8.7 percent in 2022 to 6.7 percent in 2023, and further down to 5.2 percent in 2024. The report identified the tight labor market conditions in advanced economies and currency depreciation in emerging and developing economies as major risks to the outlook. In Addition, the war in Ukraine presents additional concern for upward pressure on energy and food prices.

11. According to the report, however, commodity prices increased in July 2023, breaking the declining trend of the previous months. This development was due

to a combination of factors, including higher demand, tighter supply, and adverse weather conditions. In July 2023, the IMF All Commodities Prices Index rose by 2.9 percent compared to June 2023, while crude oil prices registered their steepest rise since January 2022 because of OPEC's decision to cut supply. During the same period, crude oil prices increased by 7.8 percent. The FAO Food Price Index, which tracks monthly changes in the international prices of globally traded food commodities, also saw a 1.3 percent increase in July compared to the previous month. Rice prices continued to surge, reaching the highest level in almost 12 years. The FAO Rice Price Index went up by 2.8 percent from June to July 2023, due to robust demand, India's decision to restrict exports of some varieties of rice, and erratic rainfall in Asian-producing countries.

12. Finally, it was reported that central banks around the world continued to hike interest rates to combat persistent price pressures, which could lead to renewed financial instability risks and weigh on economic growth. This policy may continue for a prolonged period, potentially exacerbating the downside risks to the global outlook. A notable exception is China, which maintained an accommodative monetary policy as the post-Covid recovery lost momentum and inflation continued to fall.

13. Reacting to the presentation, the Committee welcomed the improvement in economic conditions. The easing of global supply chain constraints is expected to keep international food and energy prices stable, which in turn will have dampening effect on domestic inflation. In addition, although the pace of disinflation was slow, the declining trajectory in global inflation is an encouraging sign.
14. However, members expressed concern over the increase in international food prices in July, which was caused by Russia's suspension of the Black Sea Graine deal and India's ban on certain rice varieties. However, it was indicated that the rice importation arrangement with the government of India will provide solace and help mitigate the impact of the price increase. It was reported that the initial

arrangement was 50 metric tons, which along with the existing inventory, should provide sufficient buffer in terms of supply of rice.

15. It was suggested the public should be made aware of the availability of rice from India, and efforts should be taken to prevent its abuse. This is important to prevent businesses from smuggling it out of the country, as was the case with fertilizer.

16. It was reported that the Development Finance Department of the Bank was considering hiring the service of a consultant to devise a strategy of improving local rice production. However, it was suggested that such interventions should be temporary with a clear exit strategy in place to enable the Bank to shift focus back to its traditional role and core mandate.

Domestic Macroeconomic Developments
Banking Sector Developments

17. The presentation on Banking Sector Developments unveiled a comprehensive analysis of the industry's performance in the second quarter of 2023. According to the report, the banking sector has shown remarkable growth, with strong and resilient fundamentals, backed by improved profitability.

18. The presentation showed that the industry's financial soundness indicators depicted a healthy industry standing. The risk-weighted capital adequacy (CAR) ratio remained stable, increasing to 24.6 percent in June, from 24.4 percent in March 2023. All banks have met the minimum statutory CAR requirement of 10 percent. The ratio of liquid assets to total assets decreased slightly to 43.2 percent as of June 2023 from 44.3 percent in March 2023, which still indicates a comfortable level of buffer. The report also indicated an improvement in asset quality compared to the March quarter. The non-performing loans of the industry dropped to 3.5 percent of gross loans, representing a decline of 0.9 percentage points.

19. However, according to the report, the industry experienced a slight decline in its asset base during the June quarter. This was primarily due to a reduction in the balance owed by other banks. As of the end of June 2023, the total assets of the industry fell by 2.0 percent (quarter-on-quarter) to reach D79.9 billion. Loans and advances registered a growth of 8.8 percent during the quarter to stand at D14.8 billion. However, there was a fall in customer deposits of 1.3 percent during the same quarter to D52.4 billion. The loan to deposit ratio increased to 28.3 percent, from 25.8 percent during the same quarter.

20. The report on the findings of a stress test exercise indicated that credit risk remains significant and a source of vulnerability in the banking system in The Gambia. Although the overall market risk was assessed to be low, the risk exposure to the sovereign continues to rise. However, the study found banks to be liquid with no bank maintaining a liquid asset ratio less than the hurdle rate prior to the shocks.

21. Reacting to the presentation, a concern was raised about the fact that the fall in the NPL ratio was due to the increase in write-offs, in which case banks would have taken a big hit on their profits and loss accounts. However, it was mentioned that the write-offs were adequately provisioned and that there is no need for concern. In addition, write-offs were mainly concentrated in a single sector and largely affected a single bank.

Developments in Other Financial Institutions

22. 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-June 2023.

23. The Finance Companies presented a mixed performance during the second quarter of 2023. Although gross loans and total deposits rose during the quarter, there was a significant decrease in net income primarily caused by increasing costs. Additionally, there was a decline in asset quality as reflected by the increasing non-performing loan (NPL) ratio. The report underlined the need for

effective strategies to manage costs and address non-performing loans to improve the financial stability of FCs.

30. The asset base of FCs registered a decline of 6.6 percent (quarter-on-quarter) to stand at D3.4 billion as at the end of June 2023. Gross loans demonstrated an 8 percent increase, reaching D1.1 billion in June 2023. The majority of outstanding loans, representing 69 percent, were granted to petty SME traders, followed by personal loans at 12 percent, construction at 8 percent, services at 5 percent, agriculture at 4 percent, and other sectors at 2 percent. On the other hand, the stock of customer deposit liabilities saw an increase of 2.4 percent during the same period, reaching D2.6 billion.

31. The report continued to provide analysis of trend of the key financial soundness indicators of FCs in the second quarter of 2023. The risk-weighted capital adequacy ratio decreased from 39.0 percent in March to 36.9 percent in June 2023. Similarly, the industry liquidity ratio also dropped from 70 percent to 67 percent during the same period. However, the industry's non-performing loans increased from 13 percent at the end of March 2023 to 15 percent of gross loans at the end of June 2023, indicating a decline in asset quality.

24. The Credit Unions (CUs), the second largest NBFI category, registered significant growth in the second quarter. The asset base expanded by 16.1 percent from March to June 2023 to stand at D3.0 billion. During the same period, the stock of customer deposits went up by 10.8 percent to D2.3 billion. Additionally, outstanding loans extended to members increased by 16.3 percent to D2.2 billion.

25. The Committee discussed the high level of non-performing loans and default rates in the microfinance sector. It was mentioned that plans were underway to improve the supervisory infrastructure to address these concerns. This includes upgrading the Credit Reference Bureau to include microfinance institutions that will allow them to better scrutinize their customers. The service providers were engaged in this process, and they recommended a new system be developed as the existing one was obsolete and not scalable.

26. Concerns were also raised about the declining profitability of microfinance institutions with the return on assets of less than 1 percent as of June 2023. The relevant supervisory department was tasked to investigate whether this was due to rising overheads or management lapses.

27. The Committee was informed that microfinance institutions can improve their participation in the treasury bills market by opening current accounts at the Central Bank and paying charges associated with primary dealerships.

Domestic Debt Market Developments

28. The Domestic Debt Market report revealed a noticeable 6.5 percent increase in central government domestic debt from December 2022 to July 2023. The nominal value of the domestic debt stock reached D40.6 billion, equivalent to 32.5 percent of GDP.
29. In terms of domestic debt composition, almost half (48.5 percent) of the debt was in short-term instruments, while medium- and long-term bonds accounted for 30.1 and 21.4 percent, respectively. This heavy concentration of the debt at the short end of the maturity profile increases the refinancing and rollover risks. Moreover, the rise in interest rates has pushed up the cost of domestic debt service for 2023. From January to July 2023, the actual domestic debt service paid was D1.6 billion, which is higher than the D1.5 billion paid during the same period in 2022. The expected debt service amount for the entire year was estimated at D3.1 billion, equivalent to 22.6 percent of total domestic revenue collection and higher than the amount recorded in the previous year by 16.2 percent.

30. Following multiple rounds of monetary policy rate hikes and the government's increasing need for domestic borrowing, money market interest rates have risen. The weighted average interest rate on treasury bills increased from 9.8 percent in December 2022 to 18.8 percent in July 2023. For individual instruments, the yields for the 91-day, 182-day, and 364-day Treasury bills have increased from 9.54 percent, 10.64 percent, and 12.64 percent respectively in December 2022, to 10.72 percent, 11.80 percent, and 15.73 percent in July 2023. The yield for the 3-

year bond has also experienced a significant increase, rising from a weighted average of 9.77 percent in 2022 to 18.82 percent by July 2023.

31. The report also highlighted an increase in interbank market activity in the current year. The total transactions between January and July 2023 amounted to D11.3 billion, which is higher than the D10.5 billion recorded in 2022. The average interest rate in the market rose from 9.5 percent in December 2022 to 11.5 percent in July 2023.

32. Reacting to the presentation, a concern was raised about the current fiscal policy stance, which could lead to an increase in the domestic debt stock, pushing the overall level of public debt to unsustainable levels. Currently, The Gambia is among countries at high risk of debt distress. Therefore, measures must be taken to prioritize fiscal spending and improve revenue mobilization.

33. Moreover, the rise in money market interest rates means a higher debt service payment, which would exert further pressure on the budget. Therefore, it is essential to embark on reforms and be innovative in the quest to finance the infrastructure gap. It was highlighted that one possible solution is to tap private resources through partnerships to finance infrastructure development.

Balance of Payments Developments

34. The Balance of Payments presentation highlighted a growing deficit in the current account. The deficit still grew in the first half of 2023 despite the resilience of remittance inflows and the continued recovery in tourism receipts. This was primarily due to an increase in the value of imports of food, fuel, and electricity. Meanwhile, the value of exports of goods grew but remained significantly lower than the value of imports. It was noted that an improvement in data coverage in the reporting period by capturing electricity imports from Senegal for the first time which partly explained the marked increase in the deficit.

35. The report indicated a current account deficit of US$157.6 million (7.6 percent of GDP), which is significantly higher than US$40.8 million (2.1 percent of GDP) in the

comparable period in 2022. The goods account registered a deficit of US$488.7 million (23.6 percent of GDP), higher than US$282.6 million (14.2 percent of GDP) recorded in the corresponding period in 2022.

36. The inclusion of electricity imports from Senegal in the first two quarters of 2023 contributed significantly to the jump in the import number, reaching US$635.0 million in the reporting period to US$317.5 million in the same period in 2022. Other major imported items were vegetables, rice and cereals, fuel, and cooking oil. Export of goods continued to recover rapidly but the size remains significantly lower than import of goods. Exports of goods grew markedly to US$146.3 million, from US$34.9 million during the period under review. The main export items were edible fruits, fish, cashews, and groundnut which are mainly destined for India, China, UK, and Turkey.

37. Meanwhile, the capital account balance improved to a surplus of US$61.5 million in the first 6 months of 2023, from US$13.0 million in in the same period in the previous year. Total net inflow recorded in the financial account was 20.5 percent lower than the US$179.1 million recorded in the first half of 2022.

38. Reacting to the presentation, the Committee commended the ERD for the improvement in the balance of payments statistics, noting significant improvements in the data coverage. It was revealed that electricity imports from Senegal have become a crucial component driving the current account. It reinforced the need for reform in the energy sector. The Committee was also informed that KAR Power, the Turkish ship providing electricity from the shores of Banjul since 2018, should be classified as a foreign direct investment. However, despite several efforts, it is still challenging to get data on its operations for the purpose of balance of payments statistics compilation.

39. The Committee noted the balance of payment challenges but expressed optimism for some improvement in the near term with a potential recovery in tourism. However, there is cause for concern with the level of export of goods,

which remained at its lowest level in 12 years, which indicates significant structural issues that require remedial measures.

Foreign Exchange Market Developments

40. The presentation on foreign exchange market developments revealed a decline in activity volume in the first half of the year. The dalasi remained under pressure as demand pressures in the market continued to outstrip supply.

41. There was a significant contraction in the volume of transactions in the market, which is calculated by the total amount of foreign currency bought and sold. The volume decreased by 13.8 percent (year-on-year) to US$2.3 billion in the year ending in June 2023. The quarterly data also showed a downward trend, with the volume dropping from US$644.1 million in the first quarter of 2023 to US$467.07 million in the second quarter of 2023. From January to June 2023, private remittance inflows reached US$388.8 million, rising 49.5 percent (year-on-year) and remained the leading source of foreign currency supply.

42. The report pointed out that the Central Bank intervened in the foreign exchange market by selling US$49.2 million from January to June 2023, in order to ease the forex liquidity, especially for importers of essential commodities. This has been the main factor behind the drop in gross international reserves since 2022. From the first to the second quarter of 2023, gross international reserves declined by 5.0 percent to US$421.7 million.

43. The report indicated that over the course of a year, the value of the dalasi weakened by more than 10 percent against the three major trading currencies. Specifically, it depreciated by 10.3 percent against the US dollar, 11.6 percent against the euro, and 11.0 percent against the pound sterling.

44. In response, the Committee called for the fast-tracking of the work being done on the exchange rate policy. This includes streamlining the different exchange rates published by the Central Bank, as the current status quo contributes to foreign

exchange challenges. For instance, the Ministry of Finance's fuel pricing formula uses the official exchange rate published by the Central Bank. However, fuel importers cannot acquire dollars at that rate, which poses a challenge for the fiscal authorities and adds pressure on Central Bank reserves. It was stated that publishing an official exchange rate that reflects market fundamentals would not only eliminate distortions in the market and ensure its smooth functioning but would also improve supply conditions.

45. Meanwhile, regulation and supervision of market operators should be strengthened. This includes ensuring accurate reporting and transparency and ensuring that market players charge consumers the rates that they publish.

Real Sector Developments

46. According to the presentation on Real Sector Developments, the Gambian economy is poised for robust growth this year despite facing significant challenges. The Bank's Composite Index of Economic Activity (CIEA) pointed to a stronger-than-expected growth in the second quarter. As a result, real economic growth in 2023 was forecast to surpass its potential and further expand the positive output gap.

47. The report indicated a CIEA growth of 3.5 percent growth in the first quarter of the year, followed by a higher-than-expected 5.2 percent growth in the second quarter. Consequently, the real GDP growth for 2023 was projected to surpass 5.0 percent, compared to 4.9 percent in 2022. The forecast was a 0.7 percentage point upward revision from the May forecast. Growth is expected to be supported by strong private demand, recovery in tourism, and public and private sector consumption and investments.

Monetary Developments

48. The presentation on Monetary Developments provided an update on past policy actions by the MPC in the fight against inflation. So far this year, the MPR was raised by a cumulative 200 basis points, taking the cumulative rate hikes to 600 basis

points since May 2022. The monetary policy rate stood at 16 percent at the start of the August meeting. Nonetheless, the rising inflation kept the real interest rates in negative territory.

49. The report revealed sluggish growth in both money supply and reserve money, which was attributed to the slowdown in the growth of the net foreign assets (NFA) and net domestic assets (NDA) of depository corporations (Central Bank and other depository corporations). Broad money annual growth decelerated from 16.2 percent in June 2022 to 4.2 percent in June 2023.

50. According to the report, the challenges in the balance of payments have continued to hinder the growth of the NFA of the depository corporations in the first half of this year. In June 2023, the stock of NFA of depository corporations decreased by 15.9 percent (year-on-year) to D18.9 billion, which was a much steeper decline than the 0.8 percent decline recorded last year. The Central Bank's NFA fell faster (23.4 percent) than that of other depository corporations (0.5 percent), due to interventions by the Bank in the foreign exchange market to address the shortage of forex liquidity.

51. The NDA of depository corporations continued to be the main source of liquidity in the system, supported by growth in credit to the central government and private sector. The stock of NDA of depository corporations grew by 15.5 percent (year-on-year) to stand at D46.0 billion as of June 2023. The banking system's net claims on the central government increased by 11.9 percent, while credit to the private sector grew by 32.3 percent during the period under review. Reserve money, which is the operating target of the Bank, grew by 6.2 percent year-on-year, but this was lower than the 8.2 percent growth recorded in the previous year.

52. Following the presentation, the Committee urged enhanced policy coordination between the fiscal and monetary authorities due to the growing central bank financing of fiscal deficit through overdrafts. Such practices may contribute to elevated inflation, contradicting the goals of monetary policy. In addition,

stronger coordination will be needed as we envisage a new program with the IMF to succeed the completed ECF program.

Government Fiscal Operations

53. The presentation on Government Fiscal Operations highlighted a deteriorated fiscal position in the first half of this year compared to the same period in 2022. The report attributed the widening deficit to an increase in expenditure, which outpaced the rise in revenue and grants.

54. Preliminary data revealed a 3.4 percent (y-o-y) increase in the overall budget deficit (including grants) for the first half of 2023, reaching D3.9 billion (3.2 percent of GDP). The overall budget deficit (excluding grants) also expanded to D8.3 billion (6.8 percent of GDP) during the first six months of 2023, up from a deficit of D7.5 billion (6.1 percent of GDP) during the corresponding period in 2023. However, the deficit in the primary balance narrowed to 0.6 percent of GDP, from 2.0 percent of GDP.

55. The domestic revenue, which includes tax and non-tax revenues, increased by 21.4 percent (year on year) to D8.4 billion, equivalent to 6.8 percent of GDP. However, the actual revenue fell short of the projected amount by 3.9 percent due to the 25.6 percent shortfall in non-tax revenues. On the bright side, the report indicated that tax revenue increased by 25.1 percent (y-o-y) to D6.9 billion, equivalent to 5.7 percent of GDP, indicating a significant improvement in the government's tax collection efforts. Moreover, tax revenue exceeded the projected amount by 2.0 percent during this period. In contrast, non-tax revenue was lower than projected by 25.6 percent. Meanwhile, grants increased significantly by 19.5 percent (y-o-y), reaching D3.4 billion above the projection to stand at D4.4 billion (3.6 percent of GDP).

56. Meanwhile, total expenditure of government increased by 16.2 percent (y-o-y) to stand at D16.7 billion (13.6 percent of GDP) in the first half of 2023. The primary drivers of government expenditures were salaries, interest payments, other charges (goods and services, subsidies, and transfers), and capital expenditures.

57. The Committee expressed concerns about the fiscal position and emphasized the need for reforms that can ensure fiscal sustainability. These reforms should include downsizing the number of embassies, improving the governance and financial positions of state-owned enterprises, reducing the number of sub-vented institutions, and conducting a civil service audit. However, the committee lamented that these reforms should be implemented in an orderly manner.

58. The rise in Central Bank financing of fiscal deficit was also raised as a concern as it was adding to the build-up of inflationary pressures. Therefore, efforts should be made to reverse this trend. In this regard, the coordination between the Bank and MoFEA should be intensified to put the country in a strong position in preparation for new program negotiations with the IMF.

59. The Committee was informed that the sharp rise in personnel emoluments was due to the recruitment of new personnel by the security forces as well as the Ministries of Education and Health. It was projected that the rise in debt service payments will also be a significant burden on the budget with the increase in interest rates.

Business Sentiment Survey

60. According to the Business Sentiment Survey conducted by the Bank every quarter, business sentiments have improved for the third quarter in a row. This confirms signs of a sustained recovery in economic activity after the pandemic. The latest survey report showed that most of the businesses that participated were optimistic about the near-term growth prospects of the Gambian economy. This renewed hope has strengthened business confidence, leading to plans for increased capital expenditure and hiring in expectation of higher business activity in the next three months, which will be supported by increased consumer demand and sales.

61. However, the presentation also reported that the positive economic growth outlook was accompanied by high inflation expectations. In addition to the effects of the ongoing shocks, domestic structural issues and currency

depreciation continued to affect respondents' outlook for inflation. The survey indicated that most participants anticipated a further increase in the general price level in the next three months, indicating rising near-term inflation expectations.

62. In response to the presentation, it was stated that the Bank should prioritize strengthening monetary policy communication to anchor inflation expectations.

63. The Economic Research Department was asked about the feasibility of broadening the coverage to include more businesses to reduce the influence of financial institutions on the survey outcome. However, the Committee was informed of the ongoing efforts by the Department to improve not only the coverage but also the scope and response rate for more representative results.

64. Additionally, there was a suggestion for a collaboration among the Central Bank, MoFEA and other stakeholders to conduct a survey on re-export trade to complement official data released by GBoS.

Inflation Developments

65. The presentation on Inflation developments pointed to the continued rise in consumer price inflation, mainly due to high food prices and the upward adjustments in utility tariffs that were implemented in April 2023. The annual inflation rate reached 18.4 percent in July 2023, an increase from 17.8 percent in June 2023. The tariff changes have affected the consumer price index directly and the spillover effect continues to exert upward pressure on prices.

66. Food inflation went up to 24.9 percent in June 2023, from 23.5 percent in June 2022. The main contributors to the rise in food inflation were Bread and Cereals, Fish, Fruits, Vegetables, and imported food subcategories. Non-food inflation decreased slightly from 11.5 percent in June 2023 to 11.3 percent in July 2023, largely due to a drop in the transport price index.

Staff Assessment and Economic Outlook

67. The Bank staff observed stronger-than-expected growth in economic activity during the second quarter. It was predicted that the domestic economy will continue the impressive growth momentum in 2023, benefiting from dynamism across key economic sectors. It was assumed that tourist arrivals will steadily increase, returning to pre-pandemic levels and positively impacting related sectors.

68. Additionally, it was predicted that private remittance inflows and private sector credit would continue to support household consumption and investment. Construction activity was also projected to maintain its steady growth, driven by various ongoing infrastructure projects in the public sector. Finally, it was presumed that the improved rainfall would lead to better crop yields and boost agricultural production. Based on the above factors, the Bank has projected economic growth at 5.1 percent for 2023.

69. Price pressures were expected to remain high, with inflation largely influenced by external factors due to the country's high dependence on imports. The adjustments in electricity and water tariffs that took effect in April of this year would also continue to impact prices. However, the normalization of global food and energy prices, as well as the easing of global supply conditions, will help to reduce domestic price pressures going forward.

70. The Bank Staff forecast inflation to end the year at around 19 percent, with the possibility of disruptions due to global price shocks which still pose upside risks to inflation. If the risks materialize, inflation may increase further and become more persistent.

Policy Justification

71. The global economy showed signs of improvement in the first half of the year, with brighter growth prospects and decreasing inflation. However, geopolitical uncertainties and volatility in commodity prices, particularly for food and energy,

continued to cloud this outlook. The easing of global supply chain bottlenecks is expected to help lower food and energy prices.

72. On the domestic front, the Committee judged that the post-pandemic recovery will continue, with a healthy real GDP growth rate of over 5.0 percent forecast 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.

73. While the foreign exchange market remained relatively stable despite demand pressures, the Central Bank continued to maintain a comfortable level of external reserves. However, the continued increase in the current account deficit poses a challenge to the balance of payments.

74. Domestic price pressures remain a critical concern. The headline inflation rate of 18.4 percent in July 2023 was above the Committee's tolerable level, and the outlook looked unfavorable. The Committee expressed strong commitment to bringing it down to the medium-term target, despite the challenges posed by the complex global environment and domestic economic dynamics. The Committee aims to navigate these challenges through prudent policy decisions and effective communication, ensuring the well-being of the economy and the financial system.

Decision

75. In light of these factors and our strong commitment to bringing down inflation to the desired target, the Monetary Policy Committee took the following decisions:
    1. **Monetary Policy Rate (MPR):** We have decided to increase the MPR by 1.0 percentage points to 17.0 percent.
    2. **Required Reserve (RR):** The required reserve of commercial banks will be maintained at 13.0 percent.
    3. **Standing Deposit Facility (SDF):** The interest rate on the standing deposit facility will 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 will increase to 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, November 29, 2023**. The meeting will be followed by the policy decision announcement on **Thursday, November 30, 2023**.