CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

February 2023

Preface

The Central Bank of The Gambia (CBG) Monetary Policy Report summarizes developments and outlook for key economic sectors that informed the decision of the Monetary Policy Committee (MPC). The objective is to keep the public informed of the MPC decision as part of the accountability and transparency obligation in the conduct of monetary policy.

Monetary Policy in The Gambia

The mandate of the CBG is to achieve and maintain price and exchange rate stability as well as create an enabling financial sector environment for sustainable economic growth. The Bank continues to operate a monetary targeting framework. Targets for key monetary aggregates are set in line with the Bank's medium-term implicit inflation objective of 5 percent. Nonetheless, the MPC meets every quarter to set the monetary policy rate (MPR) to signal the policy stance of the Bank.

Monetary Policy Committee

The MPC was established by the CBG Act 2005 (amended 2018) as the apex monetary policy decision-making body of the Bank. The membership comprises the Governor (Chairman), the two Deputy Governors, heads of the Banking Services, Banking Supervision, and Economic Research Departments of the Bank, and three external members appointed by the Minister of Finance and Economic Affairs. The MPC meets every three months to review developments and outlook for the domestic and international economy to set the monetary policy rate. The decision-making process is by consensus. The Chairman communicates the decision of the Committee at a press conference. The press release and the minutes of each meeting are posted on the Bank's website for wider access by the public.

Contents

List of Figures

List of Tables

Executive Summary

The MPC of the CBG met on February 27 and February 28, 2023. Following assessment of the outlook of the domestic and global economy, the Committee decided to increase the MPR by 100 basis points to 14 percent.

The ongoing war in Ukraine and the fight against inflation by central banks continue to drag global economic growth. However, prospects have improved, thanks to firmer-than-expected demand in the final quarter of 2022, owing to strong labor markets, robust household consumption and business investment, reopening of the Chinese economy, and Europe's adaptation to the energy crisis.

The Gambian economy has exhibited resilience with signs of stronger recovery in 2023. Staff forecast real GDP growth of 6.0 percent in 2023. The growth momentum will be supported by public investment spending, recovery in tourism and related activities, and robust private remittances. The outlook, however, is still surrounded by heightened uncertainties in the global economic and geopolitical environment.

Domestic price pressures remain elevated, albeit slight decline in headline inflation in January to 13.1 percent from 13.7 percent in February 2023. Staff forecast inflation to remain in double digits for greater part of this year, driven by private aggregate demand pressures coming from the positive output gap, high import cost, depreciation, and rising inflation expectations. However, the easing of global supply conditions coupled with the impact of the tight monetary policy stance of the Bank on domestic demand will dampen price pressures and bring inflation back to the desired level of 5 percent in the medium-term.

On the fiscal policy front, the shortfall in domestic revenue collection led to a wider budget deficit in 2022, despite restraint to contain expenditure within target. Latest data shows an overall budget deficit (including grants) of 6.1 percent of GDP, relative to a deficit of 5.8 percent of GDP in 2021. The corresponding primary balance also worsened from a deficit of 0.8 percent of GDP to 2.4 percent of GDP during the period under review.

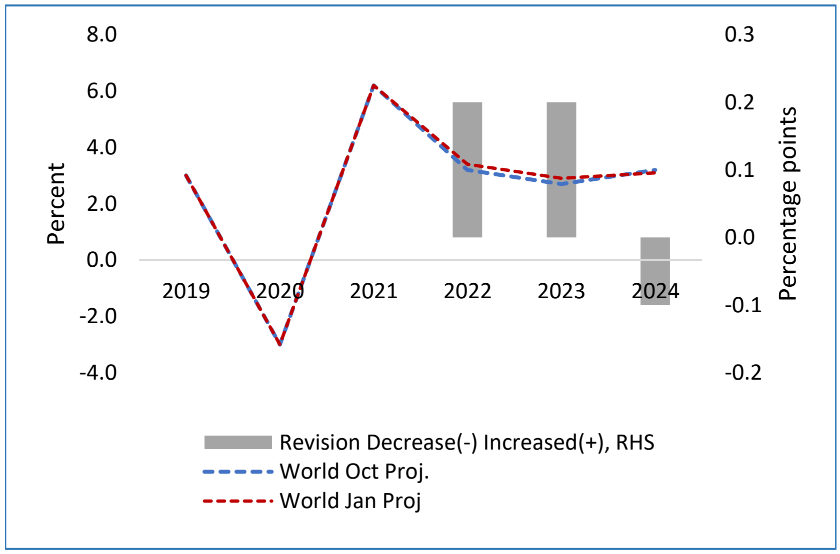
Meanwhile, the financial sector remains stable and resilient with robust liquidity and capital adequacy ratios. As at end-December 2022, all the key financial soundness indicators (FSIs) were within the prudential and regulatory limits for Banks and deposit-taking non-bank financial institutions. Performance indicators also show improvement in profitability in 2022, evidenced by the increase in both ROA and ROE.

Guided by the assessment of the inflation trajectory, the Committee believes that domestic price pressures will remain elevated for greater part of this year and that headline inflation will peak later than anticipated. The Committee judged that although past policy actions are yielding results with positive signs of waning inflation drivers, more action is needed to anchor inflation expectations. Moreover, the upside risks to inflation remain significant, including volatile global commodity prices and the impact of the uncertain geopolitical environment supply chains. Therefore, the Committee raised the key rate for the fourth consecutive time to 14 percent, bringing a cumulative increase of 400 basis points since May 2022.

Global Economic Developments

Notwithstanding the ongoing war in Ukraine and the synchronized monetary policy tightening by central banks, the prospects of the global economy have improved, thanks to stronger-than-expected demand in many economies in the last quarter of 2022. According to the IMF, strong labor markets, robust household consumption, and company investment contributed to increase in demand. The re-opening of China's economy and the easing in inflationary pressures are additional factors supporting demand. As a result, the IMF revised upwards its forecast for 2023 in January for the first time since the pandemic. Global growth is now forecast to slow to 2.9 percent in 2023 from 3.2 percent in 2022, a 0.2 percentage point upward revision relative to the projections in October 2022 (Chart 1).

Chart 1: Global Output Growth January 2023 Vs October 2022 WEO projections



***Source**: IMF, World Economic Outlook, October 2022, CBG staff calculations*

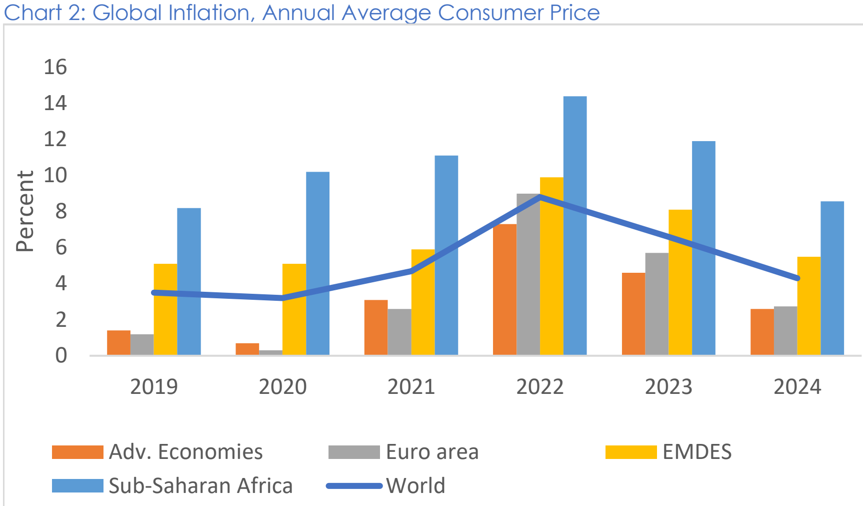
The economic growth in the advanced economies was revised upwards by 0.1 percentage points to 1.2 percent for 2023. The forecast is still lower than 2.7 percent in 2022. Modest growth is expected in emerging markets and developing economies, driven by China, India, and Russia. The region's output is expected to pick up from 3.9 percent in 2022 to 4.0 percent in 2023, a 0.3 percentage point upward revision from the October forecast.

The economic growth outlook for sub-Saharan Africa moderated to 3.8 percent for 2023 but represents a slight upgrade of 0.1 percentage points since October 2022. The lasting negative effects of the shocks are still dragging growth in the region. Growth forecast for Nigeria was slightly revised upwards to 3.2 percent while output growth for South Africa was revised downwards to 1.2 percent.

In the international commodities market, the prices of food and energy are driving the decline in prices as global demand weakens and market sentiments dampen. The annual average IMF All Commodities Price Index declined by 6.1 percent, from December 2022 to January 2023. However, crude oil prices edged up by 2.4 percent in January following a pickup in demand with the re-opening of the Chinese economy and the announcement by Russia to cut supply. Similarly, the international prices of rice, a major component of The Gambia’s food basket, continued an upward trend. The FAO Rice Price Index increased by 6.2 percent from December 2022 to January 2023.

Indications are that monetary policy tightening is cooling inflationary pressures as global headline inflation appeared to have peaked in the third quarter of last year. Declining prices of fuel and nonfuel commodities have lowered headline inflation, particularly in the US, Euro area, and Latin America. However, core (underlying) inflation is yet to peak in most economies and remains above pre-pandemic levels. As a result, the IMF forecast global inflation to decelerate from 8.8 percent in 2022 to 6.6 percent in 2023. In advanced economies, annual average inflation is projected to decline from 7.3 percent in 2022 to 4.6 percent in 2023. In emerging markets and developing economies, annual inflation is expected to decline from 9.9 percent in 2022 to 8.1 percent in 2023.

Chart 2: Global Inflation, Annual Average Consumer Price



***Source**: IMF, World Economic Outlook, October 2022, CBG staff calculations*

The monetary policy tightening cycles continues among central banks with the goal of bringing inflation back to desired levels. However, there are signs that the Federal Reserve of the US may slow the pace of rate hike with indication that consumer prices are easing. In February 2023, the Fed raised the Federal Funds Rate by 25 basis points, taking rates to a range of 4.50 - 4.75 percent. This represents a moderate increase compared to 75 basis points increase at each of the prior four meetings. The European Central Bank also raised the policy rate by 50 basis points in February, bringing cumulative rate increase to 250 basis points in a space of 7 months. The Bank of England also increased the policy rate by a cumulative 300 basis points to 4.00 per cent since the beginning of the year. A notable exception was the Bank of Japan that continued to maintain an accommodative monetary policy stance with inflation still below the Bank's target.

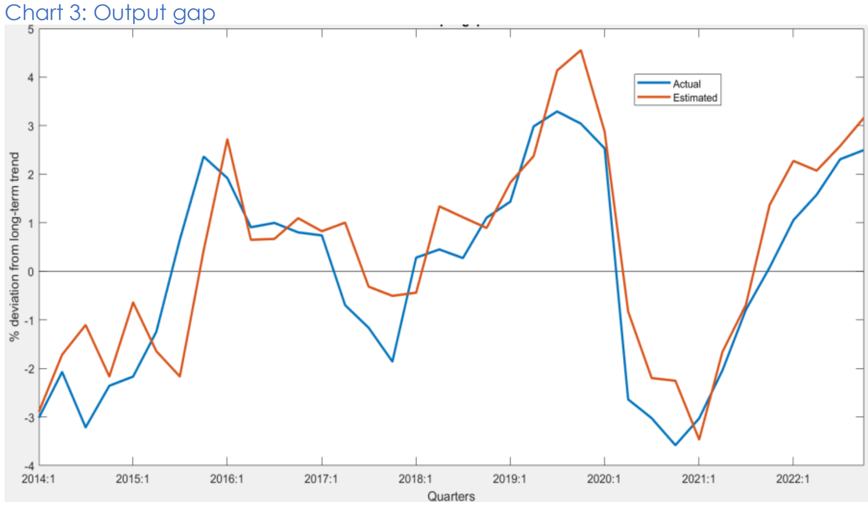
The Domestic Economy

Real Sector

The outlook of the Gambian economy continues to improve, despite significant headwinds. The recovery momentum this year is expected to be supported by public infrastructure spending and stronger private demand, particularly tourism and private construction.

Economic activity picked up and the output gap expanded further in the fourth quarter of 2022, driven by stronger aggregate demand and looser monetary conditions. The estimated positive output gap indicates high-level of economic activity and the presence of domestic inflationary pressures. High frequency indicators, the Bank's Composite Index of Economic Activity (CIEA) also points to higher level of activity in 2022.

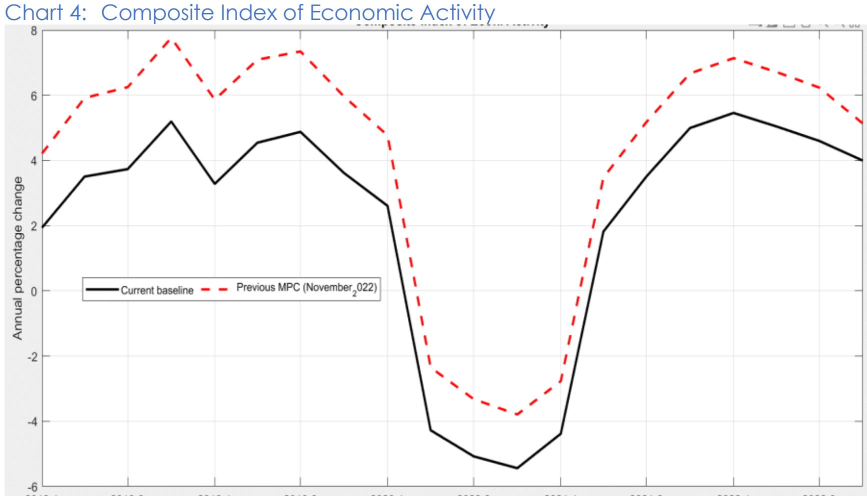
Chart 3: Output gap



***Source**: CBG staff calculations*

Real GDP growth for 2023 is forecast to improve to 6.0 percent, from 5.2 percent in 2022. This is predicated on the anticipated increase in public investment spending, continued recovery in tourism, and steady inflows of private remittances that will continue to support household consumption and investment. However, the impact of the volatile global economic and geopolitical environment on commodity price fluctuations still poses significant risk to the outlook.

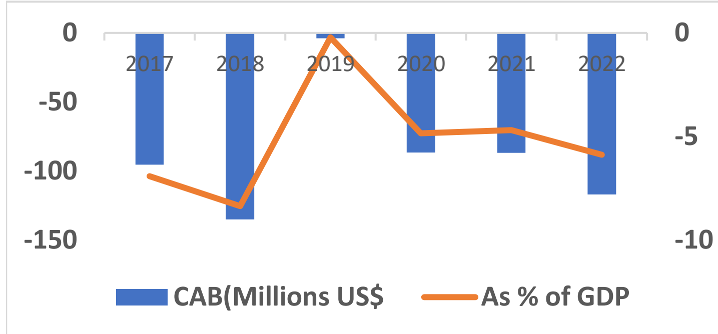
Chart 4: Composite Index of Economic Activity



***Source**: CBG staff calculations*

Balance of Payments

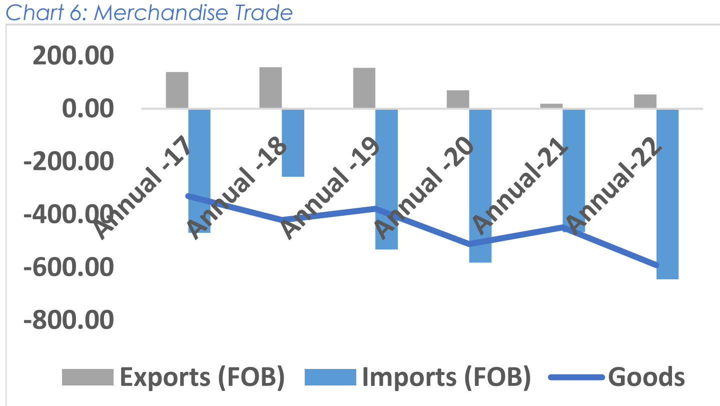
Chart 5: Current Account Balance



Source: GBoS, CBG staff calculations

The balance of payments pressures increased in 2022, resulting to further drawdown on external reserves of the Central Bank. Strong domestic demand amid elevated international commodity prices drove up the import bill. Although export of goods increased, it was not enough to offset the rise in imports. Tourism income recovered but not to the pre-pandemic level while private remittances declined. Consequently, the current account deficit increased to US$116.9 million (5.7 percent of GDP) in 2022, up from US$86.9 million (4.5 percent of GDP) in 2021, as higher import bills more than offset the growth in total exports (Chart 6).

Chart 6: Merchandise Trade

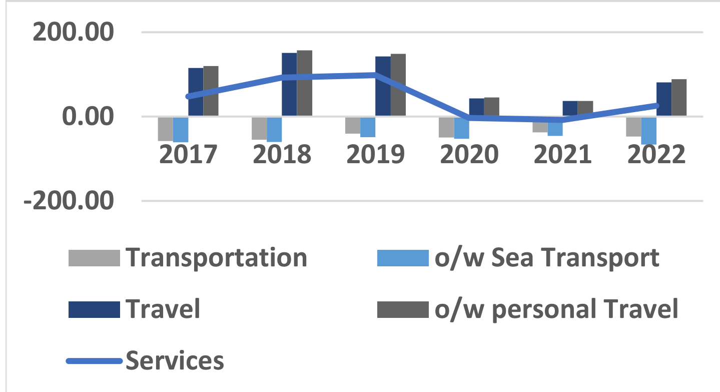


Source: CBG staff calculations

The deficit in the goods account widened to US$591.6 million (29.0 percent of GDP) in 2022, from US$574.5 million (29.8 percent of GDP) in 2021. The value of total imports (FOB) is estimated to have increased by 6.2 percent in 2022, owing to stronger domestic demand and higher global commodity prices, particularly food, and fuel. Exports of goods grew significantly but remained below the pre-pandemic level. Total exports (FOB) of goods increase to US$53.7 million in 2022, from US$32.9 million in 2021. The services account balance, aided by increase in tourist arrivals, registered a surplus of $25.6 million in 2022, compared to a deficit of $9.1 million in the previous year.

Tourist activity is gradually improving, with 185,728 arrivals this year, up from 102,460 a year ago. While this is a notable positive development that has contributed to an improvement in the services account balance, it is still significantly lower than the pre-pandemic level of 235,711 arrivals.

Chart 7: Services sector account balance (year on year)



***Source**: CBG staff calculations*

Following an unprecedented surge in the previous two years, official private remittance inflows are beginning to normalize. As a result, secondary income (current transfers) fell by 10.9 percent in 2022 to a net inflow of $476.2 million in 2022.

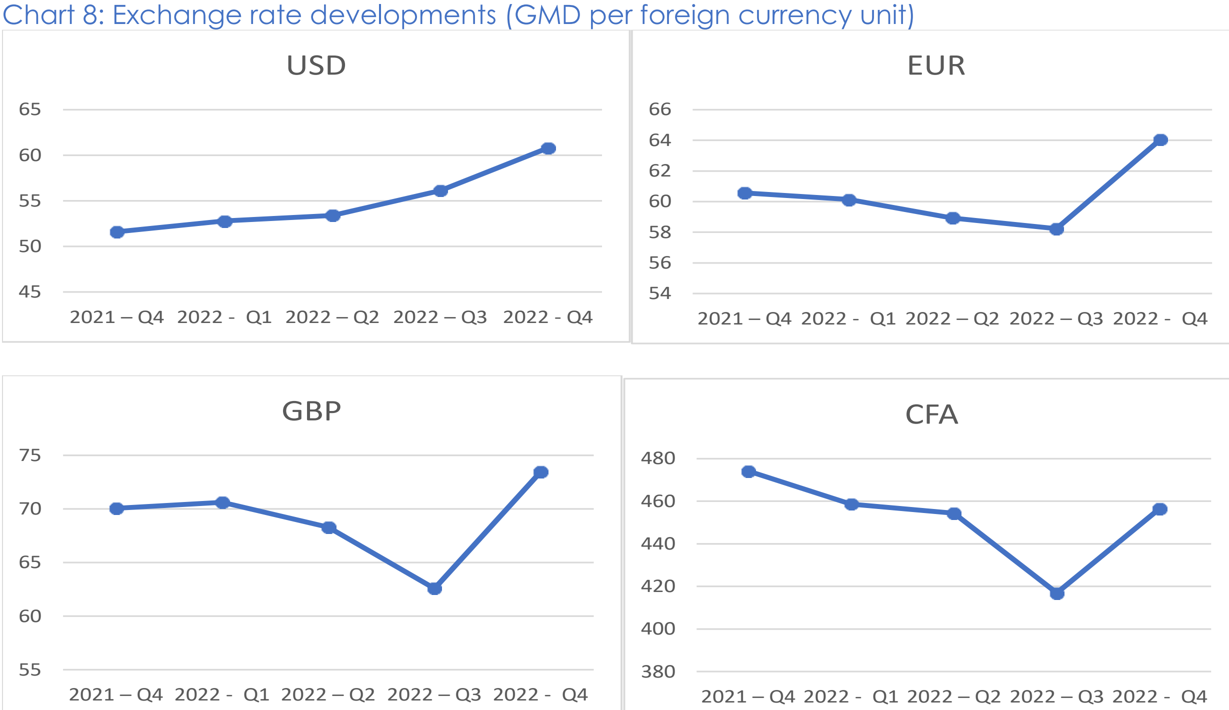
Capital transfers helped mitigate the impact of deterioration in the current account. There was a net inflow of US$41.6 million in the capital account compared to a net inflow of $23.1 million in 2021. Developments in the financial account showed a higher net incurrence of liabilities as non-resident investments increased. In 2022, a total net inflow of US$278.5 million was recorded, up from US$181.5 million the previous year, on account of inflows from foreign direct investments and other investments. From January through mid-December 2022, the CBG intervened in the foreign exchange market by selling US$139.6 million from the external reserves to facilitate imports of vital commodities and services.

Exchange Rate Developments

Activity in the domestic foreign exchange market picked up slightly in the fourth quarter of 2022, following a 29.3 percent quarterly decline in September due to foreign currency liquidity challenges. Volumes of transactions, comprising aggregate sale and purchases of foreign currency, moderately increased by 0.1 percent (quarter-on-quarter) to US$570.9 billion in 2022. Supply of foreign currency was relatively unchanged from the previous quarter (a minimal 0.04 percent increase), supported largely by official inflows and private remittances, Central Bank interventions and some recovery in tourist income. Demand for foreign currency increased faster (1.0 percent), emanating mainly from importation of energy, food products, and construction materials.

Supply-demand imbalances and the strong US dollar put significant pressure on the exchange rate of the dalasi. It depreciated against all major traded currencies in the domestic foreign exchange market. From September to December 2022, the dalasi weakened against the US dollar by 8.3 percent, the euro by 10.0 percent and the GBP by 17.4 percent.

Chart 8: Exchange rate developments (GMD per foreign currency unit)



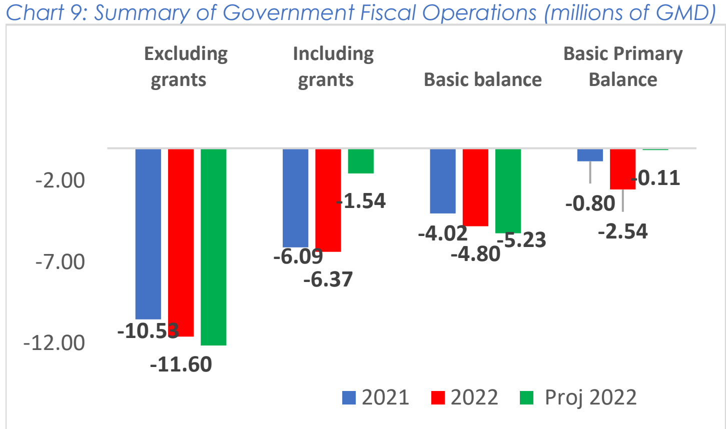
Source: *CBG staff calculations*

Government Fiscal Operations

Preliminary data suggests that despite expenditure restrains, fiscal performance was weaker than anticipated due to shortfall in receipts from international trade taxes and non-tax revenues.

The overall budget deficit (including grants) widened to D6.4 billion (6.1 percent of GDP) in 2022, compared to a deficit of D6.1 billion (5.8 percent of GDP) in 2021. This level of deficit exceeded the amount projected for the year by D4.8 million. The corresponding primary deficit also worsened to D2.5 billion (2.4 percent of GDP) in 2022, from D0.8 billion (0.8 percent of GDP) in 2021.

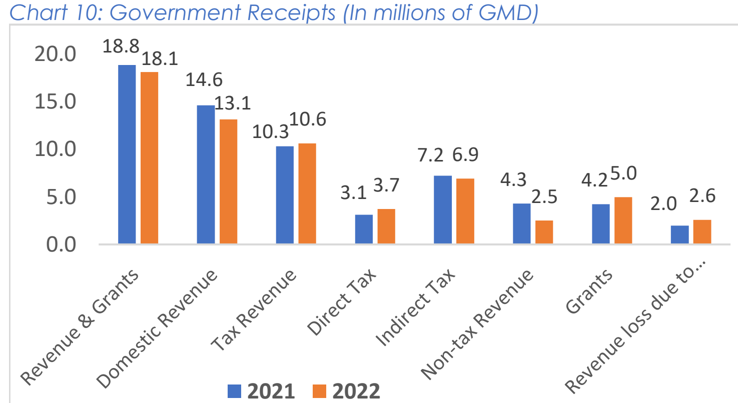
Chart 9: Summary of Government Fiscal Operations (millions of GMD)



Source: *MoFEA& CBG staff calculations*

Total revenue and grants contracted to D19.0 billion (18.1 percent of GDP) in 2022, down from D19.8 billion (18.8 percent of GDP) in 2021. Revenue generated from domestic sources amounted to D13.8 billion (13.1 percent of GDP), lower than D15.3 billion (14.6 percent of GDP) recorded in 2021. It was D2.7 billion lower than the amount projected for the year, owing largely to the shortfall in revenue collected from international trade taxes and non-tax revenues. In addition, there was significant increase (31.8 percent from D2.1 billion in 2021) in revenue loss due to exemptions, mainly on petroleum products.

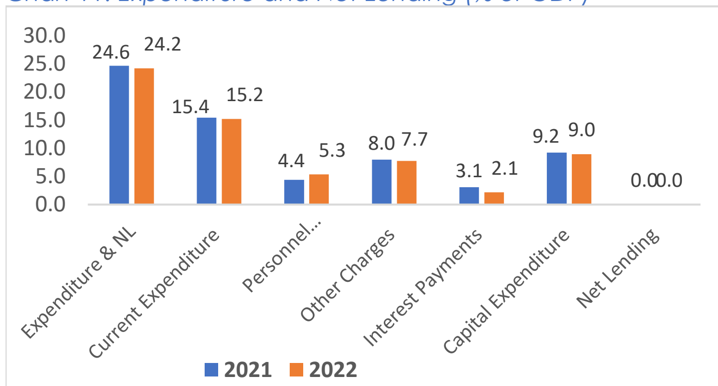
Chart 10: Government Receipts (In millions of GMD)



Source: *MoFEA & CBG staff calculations*

Government expenditure was contained within the target for the year, thanks to lower-than-expected government consumption, interest payments and capital spending. Consequently, total expenditure and net lending fell from D25.9 billion (24.6 percent of GDP) in 2021 to D25.4 billion (24.2 percent of GDP) in 2022. Recurrent expenditure decreased to D16.0 billion (15.2 percent of GDP) in 2022, from D16.2 billion (15.4 percent of GDP) in 2021, reflecting a decrease in other charges (goods and services, subsidies, and transfers) by 3.0 percent. Capital expenditure declined by 2.8 percent in 2022 to D9.4 billion (9.0 percent of GDP), owing to slower execution of some infrastructure projects.

Chart 11: Expenditure and Net Lending (% of GDP)



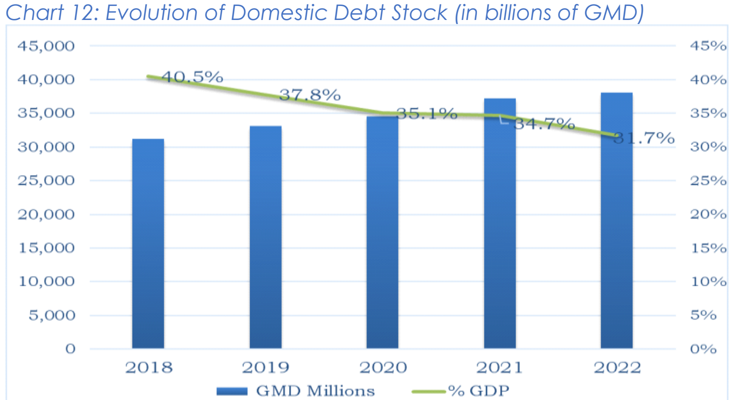
***Source**: MoFEA & CBG staff calculations*

Domestic Debt

The rate of growth of domestic debt of government has moderated in 2022, driven by the decline in the issuance of short-term bills. The nominal debt stock grew by 2.5 percent (year-on-year) to stand at D38.1 billion in 2022. Moreover, the domestic debt-to-GDP ratio declined from 34.7 percent in 2021 to 31.7 percent in 2022.

In line with the government's strategy to reprofile the maturity structure of the domestic debt, the stock of short-term debt instruments contracted during the year in favor of medium and long-term bonds. The outstanding stock of treasury bills and Sukuk Al Salaam bills contracted by 8.8 percent to stand at D18.3 billion as at end-December 2022.

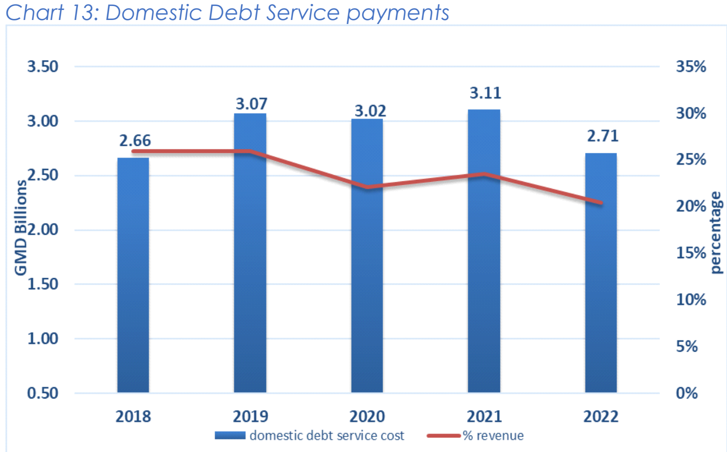
Chart 12: Evolution of Domestic Debt Stock (in billions of GMD)



Consequently, the stock of short-term securities accounted for less than half (48.0 percent of overall domestic debt stock) compared to 54.0 percent in 2021. The stock of treasury bonds, with maturities of 3 to 30 years, increased by 15.7 percent (year-on-year) to D19.8 billion during the period and accounted for the remaining 52 percent of the outstanding domestic debt.

In 2022, domestic debt service payments dropped by 12.6 percent to D2.7 billion (15.7 percent of domestic revenue, of which, interest expense fell by 17.9 percent to D2.1 billion. However, this trend is projected to reverse in 2023 with the rise in interest rates in a less accommodative monetary policy environment.

Chart 13: Domestic Debt Service payments

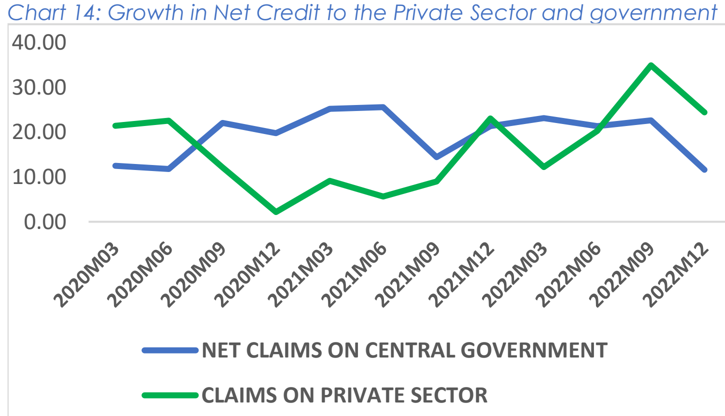


***Source**: CBG staff calculations*

Monetary Aggregates

The annual growth in broad money supply moderated in 2022, which reflects a decrease in the banking sector's NFA. Annual growth in broad money supply moderated to 7.7 percent in 2022, compared to 21.7 percent in 2021. The NFA of the banking system accounted for 37.1 percent of broad money and contributed a negative 4.1 percent to its growth. The net domestic asset (NDA), the main source of liquidity, on the other hand, accounted for 62.9 percent of broad money and contributed 11.8 percent to its increase.

Chart 14: Growth in Net Credit to the Private Sector and government

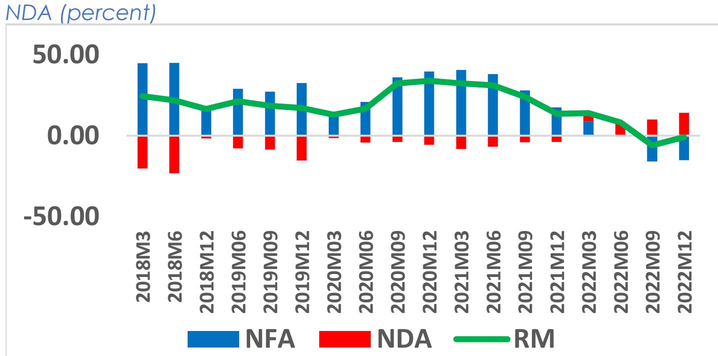


***Source**: CBG staff calculations*

Claims on the private sector grew by 24.4 percent (year-on-year) to D11.6 billion at the end of December 2022, exceeding the 23.1 percent annual growth in December 2021. It increased by 5.6 percent (quarter on quarter), from D11.0 billion in September 2022. Real claims on private sector growth have moderated to 12.3 percent in December 2022, from 17.0 percent in December 2021 due to rising inflation.

Year-on-year, reserve money (RM), the Bank's operating target, fell by 0.9 percent at end-December 2022, compared to a 13.6 percent increase a year ago. The NFA of the Bank constituted 66 percent of reserve money and contributed a negative 15.1 percent to its growth. Monetary operations and Central Bank interventions in the form of foreign exchange market interventions contributed to the decline in the growth of reserve money.

Chart 15: RM Growth and Annual Percent Contribution from NFA and NDA (percent)



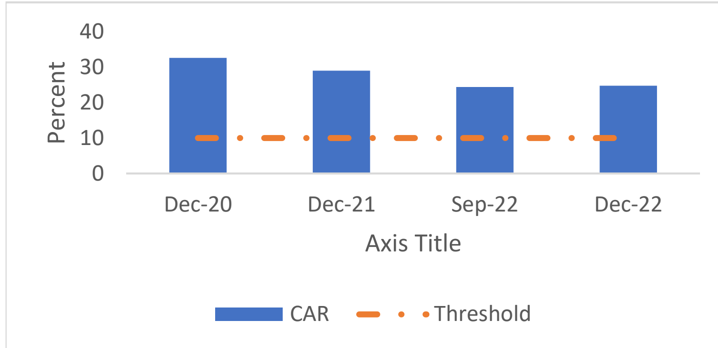
***Source**: CBG staff calculations*

The NFA of the Bank contracted by 18.7 percent (year-on-year) and contributed negatively (15.1 percent) to RM growth. The NDA of the Bank, on the other hand, grew by 72.2 percent and contributed 14.1 percent to RM growth. Overdrafts in the treasury main expenditure account and the ECF on-lending facility were the main sources for the increase in the Central Bank's net claims on the government. In December 2022, Bank's net claims on central government increased by 24.8 percent (year-on-year).

Banking Sector

The banking system remains safe and sound, underpinned by robust liquidity and capital adequacy buffers. Key performance indicators also revealed that profitability increased in the fourth quarter of 2022. The risk-weighted capital adequacy ratio stood at 24.8 percent as at end-December 2022, well above the minimum regulatory requirement of 10 percent. The intensification of monetary operations and foreign exchange market intervention created some liquidity squeeze in the final two quarters of 2022 (Chart 16). Notwithstanding, the level of liquidity remains sufficient and above the regulatory threshold. The ratio of liquid assets to total assets improved to 42.2 percent in December 2022, from a trough of 41.1 percent in September 2022.

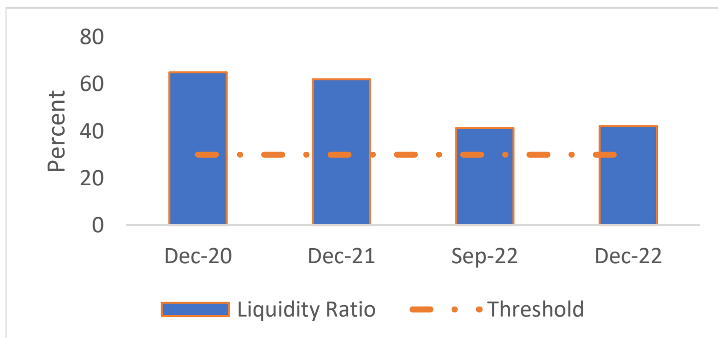
Chart 16: Risk-weighted capital adequacy ratio of banks.



Source: *CBG staff calculations*

Asset quality deteriorated slightly in the fourth quarter 2022, but the industry portfolio remains sound. Total non-performing loans of the industry stood at 4.6 percent of gross loans, a 0.4 percentage point increase in the fourth quarter of 2022. Return on asset and return on equity increased to 2.1 percent and 20.6 percent in 2022, from 1.8 percent and 16.4 percent, respectively, in 2021.

Chart 17: Liquid Assets to Total Assets

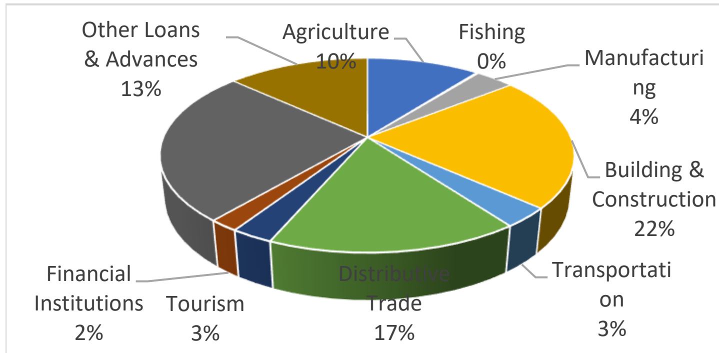


Source: *CBG staff calculations*

From September to December 2022, the asset base of commercial banks contracted by 1.7 percent to D78.6 billion in December 2022. The decline in total assets was due to the contraction in balances with other banks, holdings of government securities and loans to state-owned enterprises. In contrast, customer deposits increased by 1.2 percent and accounted for 68.8 percent of total liabilities of banks during the comparable period. The growth continued to be supported by government spending, remittance inflows, and deposit mobilization from the private sector.

Loans and advances grew by 54.9 percent (year-on-year) to D14.5 billion in 2022, although loan-to-deposit ratio remains low at 26.8 percent. Bank loans are mostly concentrated in building and construction, distributive trade, and other commercial sectors (Chart 18).

Chart 18: Distribution of Outstanding Loans and Advances, Dec-22



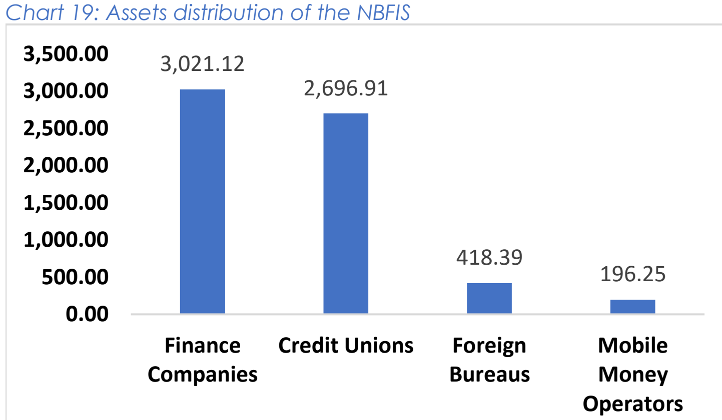
***Source**: CBG staff calculations*

In 2022, the banking system recorded an industry profit of D1.7 billion, a 34.3 percent increase from the previous year. Interest-bearing assets accounted for 53.6 percent of the total revenue of D5.7 billion, while the remaining 46.4 percent came from foreign currency transactions, and fees and charges. Interest expenses, in contrast, declined by 20.7 percent to D422.8 million in December 2022, due to a decline in average deposit rate during the period.

Non-Bank Financial Sector

The deposit-taking non-bank financial institutions (NBFI) sector sound and resilient. The Finance Companies (FCs) that hold the largest share of assets and deposits continue to maintain strong capital and liquidity positions relative to the regulatory requirements. The risk-weighted capital adequacy ratio stood at 31 percent at end-December 2022, higher than the regulatory benchmark of 20 percent. The liquidity ratio decelerated to 69 percent in the review period, but it was significantly above the 30 percent regulatory benchmark. In terms of asset quality, the

Chart 19: Assets distribution of the NBFIS



***Source**: CBG staff calculations*

non-performing loans of the FCs remained high at 11 percent of gross loans as at end-December 2022.

Table 1: Key Indicators

	Dec-21	Sep-22	Dec-22
Capital Adequacy Ratio	29	33	31
Non-Performing Loans	7	11	11
Return On Assets	0.54	0.37	0.57
Liquidity ratio	77	81	69

From September to December 2022, the asset base of FCs expanded by 5.0 percent to D3.0 billion, driven by cash and bank balances, investments in government securities, and gross loans to private sector. The deposits also continue to rise as the customer base increases and as new players enter the market. Customer deposits continue to be the primary source of funding for NBFIs in The Gambia. It increased by 8 percent to D2.1 billion in the fourth quarter of 2022 and accounted for up to 70 percent of total liabilities.

As at end-December 2022, outstanding gross loans extended by FCs rose by 20.5 percent (quarter-on-quarter) to D1.0 billion, raising the ratio of loan to deposits to 47 percent. Petty SME trading that represents the core of their business model accounted for 69 percent of loans and advances. Construction, personal loans, and agriculture respectively accounted for 8 percent, 12 percent, and 4 percent.

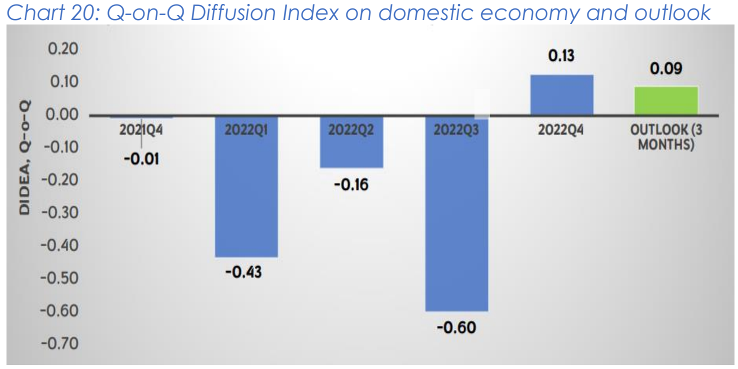
The Credit Unions (CUs), the second largest NBFI category, had total assets of D2.7 billion, representing an increase of 5.0 percent from September to December 2022. With a total membership of 108,945, CUs mobilized total deposits of D2.4 billion as at end-December 2022, reflecting an expansion of 6.0 percent from September 2022. However, total loans extended to members contracted by 17 percent to D1.5 billion from September to December 2022, resulting to a decline in loan-to-deposit ratio from 82 percent from 64 percent.

Business Sentiment Survey

The presentation of the findings of the Bank's quarterly Business Sentiment Survey indicated that business sentiments turned positive for the first time since the pandemic. The results represent a significant reversal of perceptions compared to the outcome of previous surveys conducted in the past three years. Most businesses that participated in the survey were optimistic about the near-term growth prospects of the Gambian economy. Most businesses plan to increase capital expenditure and employ more people with the expectation of higher business activity, driven by higher consumer demand and sales in the next three months. They highlighted foreign currency supply challenges, tax and regulatory burden, and the Russia-Ukraine conflict as factors that may hinder business activities in the next twelve months.

However, inflation expectations remain elevated, influenced by the impact of the ongoing shocks, foreign currency shortage, depreciation of the dalasi, import cost, domestic structural challenges. Majority of the participants expect further increase in the general price level in the next three months.

Chart 20: Q-on-Q Diffusion Index on domestic economy and outlook



Source: *CBG staff calculations. The bars represent quarters.*

Price Developments

Headline inflation (annual percentage change in CPI) moderated to 13.1 percent in January 2023, from 13.7 percent recorded in December 2022. The deceleration in headline inflation is broad-based with a decrease in the price indices of most goods and services, especially in the hospitality sector.

Food inflation (annual percent change in Food CPI) decreased by 0.8 percentage points to 17.5 percent in January 2023 from December 2022. The decrease in food inflation is attributed to the slowdown in the price indices of Bread and Cereals, Sugars, and Dairy Products.

Chart 21: Headline CPI

***Source**: CBG staff calculations*

Non-food inflation (annual percent change in non-food CPI) moderated to 8.6 percent in January 2023, relative to 9.4 percent in December 2022. The decrease in non-food inflation can be attributed to the decline in all subcomponents during the period except housing, water, electricity, gas, and other fuels.

The Central Bank's core measures of inflation indicated a fall in underlying inflation in the January 2023. Core1 inflation that excludes volatile energy products from the headline inflation fell to 18.2 percent in January 2023 from 19.9 percent in December 2022. Core 2 inflation that further excludes volatile food products also declined to 17.7 percent in January 2023, from 18.8 percent in December 2022.

Risk Assessment

The Central Bank staff forecast economic recovery to continue in 2023 predicated on rebound in the tourism sector, fiscal stimulus associated with the public infrastructure projects, private sector credit growth, and moderate global demand. Steady remittance inflows are also expected to continue to finance household consumption and support domestic demand. However, inflation is projected to remain elevated and more persistent than previously anticipated due to increased domestic cost factors and depreciation. Finally, staff assessed the risk to the growth outlook as fairly balanced, while the risk to inflation outlook is tilted to the upside.

Assessment of current economic conditions revealed an expansion in the output gap reflecting the positive impact of government expenditure on aggregate demand and less tight monetary conditions. Reserve money continues to overshoot its medium-term target, driven by stronger aggregate demand, higher inflation, and depreciation of the domestic currency. Although the money market interest rates are edging towards their pre-pandemic levels, real interest rates remain negative due to high inflation. Furthermore, the dalasi is weaker than expected as indicated by the positive exchange rate gap mirroring reduced foreign currency inflows from remittance and other official sources, and the strong US dollar.

Real economic activity in 2023 is projected to be higher than previous forecast in November 2022. The upward revision reflects stronger domestic demand (fiscal spending, tourism, private sector credit, and stable remittances) than previously anticipated. Consequently, real GDP growth is forecast at 6.0 percent in 2023.

Price pressures are expected to be more persistent than previously anticipated due to increased domestic cost factors and exchange rate depreciation. Inflation is now expected to remain in double digits for greater part of the year. The revision reflects the higher-than expected depreciation of the exchange rate in the fourth quarter and the dissipating effect of the policy interventions meant to increase the availability of essential food stuff.

The Central Bank staff assessment of the risks to the growth forecast is broadly summarized in four risk scenarios. Firstly, the reversal of the moderating global commodity prices and its impact on domestic inflation. Due to the heightened ongoing geopolitical tension between Russia and the West, the war in Ukraine could escalate further and disrupt global trade. This will adversely impact global commodity prices, especially food and energy prices. The materialization of this risk would result to higher domestic inflation and lower output growth than in the baseline.

Another scenario assessed was a further depreciation of the dalasi against the US dollar. Stronger demand for foreign currency to finance imports is expected to continue to put pressure on the exchange rate. The depreciation of the currency will feed into higher domestic prices and inflation than in the baseline. However, economic activity will be stronger in 2023 than projected in the baseline. Interest rates will rise as monetary policy responds to counter this inflation acceleration by increasing the MPR higher than seen in the baseline.

Finally, a Laissez-Faire monetary policy approach in 2023 has the potential of reversing gains registered in fighting inflation and make it costlier to bring back inflation to the desired level. Policy missteps in this challenging environment could erode the gains made in the fight against inflation and risk inflation becoming more entrenched far longer than in the baseline.

Decision

The Committee expects domestic price pressures will remain elevated for greater part of this year and that headline inflation will peak later than anticipated. The Committee judged that although past policy actions are yielding results with positive signs of waning inflation drivers, more action is needed to anchor inflation expectations. Moreover, the upside risks to inflation remain significant, including volatile global commodity prices and the uncertain geopolitical environment.

Taking the above factors into consideration, the Committee is of the view that upside risks to inflation remain significant and further policy action is needed to anchor inflation expectations. Therefore, the Committee raised the key rate for the fourth consecutive tine to 14 percent, bringing a cumulative increase of 400 basis points since May 2022.

Next MPC Meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Tuesday, May 23, 2023. The meeting will be followed by the announcement of the policy decision on Wednesday, May 24, 2023.

APPENDIX

Table 2: Global Growth Rates and Forecasts for 2022-2024

Group Name	Estimates						Projections		
	2016	2017	2018	2019	2020	2021	2022	2023	2024
World	3.3	3.8	3.6	2.8	-3.1	6.1	3.4	2.9	3.1
Advanced economies	1.8	2.5	2.3	1.6	-4.5	5.2	2.7	1.2	1.4
Euro area	1.9	2.6	1.9	1.3	-6.3	5.4	3.5	0.7	1.6
Emerging market and developing economies	4.5	4.8	4.5	3.7	-2.0	6.8	3.9	4.0	4.2
Emerging and developing Asia	6.8	6.6	6.4	5.4	-0.8	7.3	4.3	5.3	5.2
Emerging and developing Europe	1.9	4.1	3.4	2.5	-1.8	6.7	0.7	1.5	2.6
United States	1.7	2.3	3.0	1.4	-3.4	5.7	2.0	1.4	1.0
United Kingdom	1.7	1.7	1.3	1.4	-9.3	7.4	4.1	-0.6	0.9
Sub-Saharan Africa	1.5	3.1	3.2	3.2	-1.6	4.6	3.8	3.8	4.1

Source: *CBG staff calculations*

Table 3: Summary of Current Account Balance (Millions of USD)

	2015	2016	2017	2018	2019	2020	2021	2022
C/ Account	-53.8	-76.1	-95.2	-135	-38.8	-86.6	-86.9	-116.89
Goods	-226.9	-219.3	-330.6	-421.4	-378	-511.8	-574.5	-591.89
Services	42.5	34.1	48.1	92.2	98.2	-3.5	-9.1	25.63
Income	-24.8	-27.8	-30.2	-18.8	-17.6	-26.2	-50.5	-33.87
Secondary income	155.4	136.8	217.5	213	258.6	455	547.2	487.38
Financial Acc	-239.7	-100	-36.5	-11.6	24.8	-52.2	-181.5	-279.5

Source: *CBG staff calculations*

Table 4: Summary of Goods Account Balance (Millions of USD)

	2015	2016	2017	2018	2019	2020	2021	2022
Goods	-226.9	-219.3	-330.6	-421.4	-378	-511.8	-574.5	-591.9
Exports (FOB)	107.5	91.2	139.4	157.7	154.5	70.1	32.9	53.7
Imports (FOB)	-334.4	-310.5	-470	-579.1	-532.5	-581.8	-607.4	-645.3

Source: *CBG staff calculations*

Table 5: Summary of Services Account Balance (Millions of USD)

	2015	2016	2017	2018	2019	2020	2021	2022
Services	42.5	34.1	48.1	92.2	98.2	-3.5	-9.1	25.6
Transportation	-30.7	-37.5	-58.1	-54.7	-40.2	-49.5	-45.9	-47.3
o/w Sea Transport	-39	-39.7	-60.7	-60.1	-48.6	-52.9	-56.5	-66
Travel	79.5	77.6	115.2	150.2	142.6	43.1	45.1	80.7
o/w personal Travel	82.1	81.3	119.8	156.9	149.1	45.2	46	88.5

Source: *CBG staff calculations*

Table 6: Summary of Capital and Financial Account Balance (Millions of USD)

	2015	2016	2017	2018	2019	2020	2021	2022
Secondary Income	155.4	136.8	217.5	213	258.6	455	547.2	487.4
General Government	12.1	0	64	18.9	0	54.9	17.6	39.4
Other Sectors	143.3	136.8	153.5	194.1	258.6	400.1	529.6	447.9
o/w Workers' Remittances	143.3	136.8	153.5	194.1	258.6	400.1	529.6	447.9

***Source**: CBG staff calculations*

Table 7: Inter-bank Transaction Volumes (Millions of USD)

QUARTERLY DATA IN (US$ MILLIONS)				
	PURCHASES	SALES	TOTAL VOLUMES	USUABLE RESERVES (US$ MILLION)
2021 - Q4	294.61	290.26	584.87	517.78
2022 - Q1	262.93	268.77	531.7	496.65
2022 – Q2	390.63	418.05	808.68	471.43
2022 – Q3	284.34	286.25	570.58	415.65
2022 - Q4	284.44	286.43	570.86	453.06

***Source**: CBG staff calculations*

Table 8: Market Share by Currency (in percent)

QUARTERS	USD	EUR	GBP	CFA
2021 – Q4	52.61	60.57	70.07	478.14
2022 - Q1	52.79	59.96	70.47	458.5
2022 – Q2	53.4	57.83	67.02	450.01
2022 – Q3	56.13	58.13	62.58	416.92
2022 - Q4	60.81	64.05	73.45	456.51
Q/Q	8.34%	10.20%	17.37%	9.50%
Y/Y	15.57%	5.75%	4.82%	-4.52%

***Source**: CBG staff calculations*

Table 9: The Overall Budget Balance

	GMD' million		% of GDP		Y-o-Y %		
Overall balance	2021	2022	2021	2022		Proj 2022	Performance
Excluding grants	-10525.2	-11598.4	-10	-11.1	10.2	-14899.5	3301.1
Including grants	-6094.4	-6371.8	-5.8	-6.1	4.6	-1539.9	-4831.9
Basic balance	-4019.8	-4797	-3.8	-4.6	19.3	-5230.2	433.1
Basic Primary Balance	-802	-2542.7	-0.8	-2.4	217	-110.2	-2432.6
CBG Financing	1083.3	2749.4	1	2.6	-222.8	-	-

***Source**: CBG staff calculations*

Table 10: Revenue and Grants(Millions of GMD except otherwise stated)

RECEIPTS	GMD' million		% of GDP		Y-o-Y % Δ	Proj 2022	Performance below (-) above (+)
	2021	2022	2021	2022			
Total Revenue & Grants	19761.8	19009.1	18.8	18.1	-3.8	29868.8	-10859.8
Domestic Revenue	15330.9	13782.4	14.6	13.1	-10.1	16509.2	-2726.8
Tax Revenue	10832.9	11136.3	10.3	10.6	2.8	12649.7	-1513.3
Direct Tax	3254.0	3896.5	3.1	3.7	19.7	3845.5	50.9
Personal	1093.3	1361.3	1.0	1.3	24.5	1340.1	21.3
Corporate	1922.1	2358.9	1.8	2.2	22.7	2271.4	87.5
Indirect Tax	7578.9	7239.9	7.2	6.9	-4.5	8804.1	-1564.3
Domestic Tax on gds & svs	2378.8	2489.9	2.3	2.4	4.7	2978.6	-488.8
Tax on Int'l. Trade	5200.1	4750.0	5.0	4.5	-8.7	5825.5	-1075.5
Duty	2802.9	2573.3	2.7	2.5	-8.2	3111.1	-537.9
Sales tax on imports	2397.1	2176.7	2.3	2.1	-9.2	2714.4	-537.7
Non-tax Revenue	4498.0	2646.1	4.3	2.5	-41.2	3859.5	-1213.5
Grants	4430.9	5226.7	4.2	5.0	18.0	13359.6	-8132.9
Program	504.8	1028.0	0.5	1.0	103.6	3690.3	-2662.4
Projects	3926.0	4198.7	3.7	4.0	6.9	9669.3	-5470.6
Revenue loss due to Exemptions	2062.1	2717.2	2.0	2.6	31.8	-	-

***Source**: CBG staff calculations*

Table 11: Total Expenditure and Net Lending (Millions of GMD except otherwise stated)

PAYMENTS	GMD' million		% of GDP		Y-o-Y % Δ		
	2021	2022	2021	2022		Proj 2022	Performance
Expenditure & NL	25856.2	25380.8	24.6	24.2	-1.8	31408.7	-6027.9
Current Expenditure	16176.8	15970	15.4	15.2	-1.3	18581.6	-2611.5
Personnel Emoluments	4593.2	5603.4	4.4	5.3	22	5021.1	582.3
Other Charges	8365.9	8112.3	8	7.7	-3	8440.4	-328.1
Interest Payments	3217.8	2254.3	3.1	2.1	-29.9	5120	-2865.7
External	709.3	440.9	0.7	0.4	-37.8	2707.9	-2267
Domestic	2508.4	1813.4	2.4	1.7	-27.7	2412.2	-598.7
Capital Expenditure	9679.3	9410.8	9.2	9	-2.8	12827.2	-3416.4
Externally Financed	6505.5	6801.4	6.2	6.5	4.5	-	-
Loans	2579.4	2602.7	2.5	2.5	0.9	-	-
Grants	3926	4198.7	3.7	4	6.9	-	-
GLF Capital	3173.8	2609.4	3	2.5	-17.8	-	-
Net Lending	0	0	0	0	#DIV/0!	-	-

***Source**: CBG staff calculation*

Table 12: Monetary Developments

Key Monetary Aggregates										
Variable	Level (million)		Annual % changes					Q on Q %		
	Q4,2021	Q4,2022	21-Dec	22-Mar	22-Jun	22-Sep	22-Dec	22-Sep	22-Dec
NFA (Banking Sector)	26487.1	24032.3	23.7	20.7	-0.8	-14.3	-9.3	-13.9	24.0
NDA (Banking Sector)	33659.1	40767.9	20.3	31.6	28.6	30.8	21.1	5.7	-3.1
Claims on Gov`t, net	35786.7	39937.5	21.3	23.1	21.3	22.6	11.6	2.7	-2.2
Claims on Public Entities	868.0	3266.4	-55.3	268.0	528.4	314.2	276.3	-8.4	-2.6
Claims on Private Sector	9362.4	11649.4	23.1	12.2	20.3	34.9	24.4	15.1	5.6
BROAD MONEY	60146.2	64800.2	21.7	27.2	16.2	12.2	7.7	-1.4	5.5
Narrow Money	34546.6	37811.8	25.6	30.9	23.4	18.8	9.5	-3.2	6.0
Other Deposits	25599.6	26988.3	16.8	22.2	7.1	4.1	5.4	1.2	4.7
Reserve Money	21124.3	20927.9	13.6	14.0	8.2	-6.0	-0.9	-7.8	4.0

***Source**: CBG staff calculations*

Table 13: Key Financial Indicators for FCs (in percent)

INDICATORS	22-Dec	22-Sep	21-Dec	Prudential Requirement
Capital Adequacy Requirement (CAR)	31	33	29	20
Non-Performing Loans (NPLs)	11	11	7	5
Return on Assets (ROA)	0.57	0.37	0.54	1
Liquidity Ratio	69	81	77	30

***Source**: CBG staff calculations*

Table 14: Key Financial Indicators for FCs (in percent)

INDICATOR	Mar-22	Jun-22	Sep-22	Prudential requirement
Capital Adequacy Ratio	25.54	27.76	26.29	10
NPL Ratio	3.16	4.23	4.21	Single Digit
ROA	2.09	2.19	2.21	Positive ratio
ROE	20.55	21.52	21.60	Positive ratio
Liquid Assets	76.74	69.89	63.4	30
Net Open Position	24.5	-1.7	-0.3	+/-25

***Source**: CBG staff calculations*

Table 15: Food Price Development (Annual Percentage Change)

Y-O-Y INFLATION	21-Jun	21-Sep	21-Dec	22-Mar	22-Jun	22-Sep	22-Dec	23-Jan
Food	11.21	9.16	10.18	9.17	14.43	16.5	18.27	17.49
Bread & Cereals	8.04	7.39	8.22	9.09	18.47	18.9	27.4	20.68
Meat	18.56	20.18	16.09	11.57	12.22	10.84	9.95	10.7
Fish	18.09	12.34	4.73	1.61	5.24	5.22	5.32	9.17
Milk, Cheese and Eggs	8.57	6.27	5.73	6.58	9.31	13.2	22.26	21.39
Oils and fats	31.65	37.73	36.21	2.51	16.89	23.49	24.36	24.18
Fruits & nuts	5.22	4.62	4.14	8.88	16.49	18.05	17.4	19.66
Vegetables, root crops & tubers	1.24	-6.43	2.49	14.72	14.78	21.52	16.13	23.57
Sugar, jam, honey & sweets	3	4.77	10.75	18.93	22.44	23.24	25.82	14.42
Other food products n.e.c	8.05	4.26	11.89	14.12	8.78	9.9	2.68	3.7

***Source**: CBG staff calculations*

Table 16: Non-Food Price Development (Annual Percentage Change)

Y-O-Y NON-FOOD INFLATION	21-Sep	21-Dec	22-Mar	22-Jun	22-Sep	22-Dec	23-Jan
NON-FOOD PRODUCTS AND SERVICES	4.75	4.91	7.45	9.33	10.42	9.39	8.58
CLOTHING & FOOTWEAR	6.04	7.72	4.39	4.69	4.5	5.37	6.93
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	5.12	7.23	4.73	5.77	6.16	4.1	4.43
HEALTH	0.9	33.29	46.32	47.85	48.25	12.12	6.34
TRANSPORT	10.72	6.2	8.51	13.32	16.12	18.04	18.47
COMMUNICATION	-0.1	1.26	1.01	0.82	0.62	0.62	0.62
RECREATION AND CULTURE	3.82	3.41	5.55	6.94	32.72	33.39	32.72
NEWSPAPERS, BOOKS AND STATIONERY	2.95	3.09	6.33	8.65	5.83	51.57	51.57
HOTELS, CAFES AND RESTAURANTS	-2.84	9.69	35	40.73	44.47	7.45	27.15
MISCELLANEOUS GOODS AND SERVICES	10	7.45	12.27	20.24	11.47	6.12	11.47

***Source**: CBG staff calculations*

Table 17: Core inflation (Annual Percentage Change)

Y-o-Y Inflation	21-Jun	21-Sep	21-Dec	22-Mar	22-Jun	22-Sep	22-Dec	23-Jan
Headline Inflation	8.05	7.01	7.6	8.2	11.7	13.27	13.74	13.14
Core 1 Inflation	11.53	9.18	9.52	8.87	15.23	18.99	19.85	18.24
Core 2 Inflation	10.54	8.99	8.51	9.78	15.28	18.08	18.83	17.68

***Source**: CBG staff calculations*