CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

MINUTES OF MEETING NO.85 **FEBRUARY 27 – 28, 2023**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) met on February 27 - 28, 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 1.0 percentage point to 14.0 percent.

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

Absent

Mr. Baboucarr Jobe – Member

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
MR. Saikou B. Jammeh	Economist, Economic Research Department
Mr. Yaya Jatta	Officer, Banking Services Department
Ms. Ya Maram Sosseh	Senior Bank Examiner, Banking Supervision Department
Mr. Nfamara Jeng	Bank Examiner, Banking Supervision Department
Mr. Baba Darboe	Senior Bank Examiner, Banking Supervision Department
Mr. Muhammed Sonko	Officer, Other Financial Institutions Supervision Department
Mrs. Amie Ndure Touray	Officer, Financial Markets and Reserve Management Department
Mr. Alfusainey Touray	Economist, Economic Research Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Mawiyatou Susso	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 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 opening remarks, the Governor who is the Chairman of the Committee, referred to the AfDB report that ranked The Gambia among the least industrialized countries in Africa. He stressed the need for a strong commitment to improve that standing to be able to realize our development aspirations and have meaningful impact on poverty. He stated that supporting the manufacturing sector is a fast way to creating decent jobs and make growth more inclusive. In these difficult times we have to make hard choices and with hard work and dedication, we can transform the economy and improve the well-being of the people. He informed the Meeting that the Bank is spearheading a project that seeks to enhance effectiveness of use of domestic resources to help finance development and lessen the need for foreign financing.

3. The focus must continue to be on bringing down inflation without losing sight of supporting growth and development. It is an important balancing act, but we must face the challenges by being bold and decisive in our policy decisions. He lamented that our development aspirations must be built on strong and stable macroeconomic fundamentals to ensure sustainability and inclusivity. He referred to the decline in international commodity prices as encouraging signs that will help dampen price pressures. However, he cited the rising international prices of rice, which is stable in The Gambia, as a major upside risk to the inflation outlook.

4. Finally, he deplored the low level of financial intermediation in the country. He emphasized that banks and all other financial institutions must be more engaged in economic development through intermediation and trade facilitation. The Bank will continue to advance reforms in the sector, including enhancing regulation and supervision, as well as financial deepening and inclusion.

Review and Adoption of Minutes of MPC Meeting No. 84

5. The minutes of the MPC Meeting No.84 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 the global economy revealed that although central banks' fight against inflation and the war in Ukraine continued to drag output growth momentum, the prospects improved in the fourth quarter of 2022. The IMF projected global economic growth to still decelerate but at a slower pace than projected in October, thanks to firmer-than-expected demand in many countries. Consequently, the Fund upgraded global growth projection to 2.9 percent for 2023, a 0.2 percentage point higher than the projection in October 2022. The strong labor markets, robust household consumption and business investment, reopening of the Chinese economy, and Europe's adaptation to the energy crisis are supporting global demand.

8. Global price pressures started showing signs of easing in light of declining commodity prices and tight monetary policy stance. Recent data suggests that inflation may have peaked in several countries. Headline inflation decelerated in the final quarter of 2022 in some advanced and emerging market economies. Predicated on these developments, the IMF projected global inflation to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and further down to 4.3 percent in 2024. Notwithstanding, core inflation is yet to peak in many countries, indicating the persistence of underlying price pressures.

9. The international prices of food and energy are driving the decline in global commodity prices as global demand softens 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 continued an upward trend after the FAO Rice Price Index increased by 6.2 percent from December to January 2023.

10. The monetary policy tightening cycles among central banks continued with the goal of bringing inflation back to desired levels. However, there were signs that the Federal Reserve of the US may slow the pace of rate hike with indication of easing consumer prices. 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 the 75 basis points increase at each of the prior four meetings. The European Central Bank also raised the key rate by 50 basis points in February, bringing the cumulative rate increase to 250 basis points in a space of 7 months. The Bank of England also increased its policy rate by a cumulative 300 basis points to 4.00 percent since the beginning of the year. A notable exception among central banks was the Bank of Japan, which continued to maintain an accommodative monetary policy stance with inflation still below the Bank's target.

11. Reacting to the presentation, the Committee welcomed the improvement in the global economic outlook but with a caution that we are not yet out of the woods given the high level of uncertainties and elevated risk levels. The geopolitical environment continued to be volatile and global economic fragmentation gathering strength.

12. The Committee also noted the encouraging signs on the inflation front, driven by the decline in international commodity prices. There were positive indications that major factors driving up inflationary pressures may be waning, including supply chain disruptions and freight cost. However, the Committee warned against complacency and emphasized that the fight against inflation was not over, given the high level of uncertainty and the fact that inflation in most countries remained well above central bank targets. Nonetheless, the decision by the Federal Reserve to slow the pace of rate hike and its impact on the US dollar exchange rate will help the outlook of the Dalasi.

13. In terms of the implication for domestic price developments, the Committee lamented that the recent reversal of the declining crude oil prices and the persistent rise in international rice prices remain major upside risks. With the upcoming Ramadan, these developments could threaten gains made in the fight against inflation. The impact of the recent rise in international oil prices, in particular, has direct bearing on the cost of electricity and transportation as the government may react by increasing pump prices and transport tariffs.

14. The Committee was informed that as a short-term measure, the CBG will continue working with the government to facilitate the supply of essential commodities. The long-term solution, however, is to improve domestic production of these commodities. The Committee also emphasized the need for reforms to strengthen domestic institutions and develop human capital to uncover the potential of the economy. Maximizing the benefits from the recovery in the global economy would require deliberate policies to enhance the absorptive capacity of the domestic economy through technology and skills development.

Domestic Macroeconomic Developments

Banking Sector Developments

15. The presentation on Banking Sector Developments assessed the industry to be sound and stable. Commercial banks maintained healthy capital and liquidity positions with comfortable levels of buffers, although the asset base contracted slightly from the previous quarter. Performance indicators also suggested an improvement in profitability from a year ago.

16. The risk-weighted capital adequacy ratio increased to 24.8 percent as at end-December 2022, from 24.5 percent in September 2022. The ratio of liquid assets to total assets of 42.2 percent indicates a comfortable level of buffer. Although asset quality deteriorated slightly in the fourth quarter 2022, the industry portfolio remains sound. The industry non-performing loans ratio stood at 4.6 percent, a marginal 0.4 percentage point increase from the third quarter of 2022. Return on asset and

return on equity ratios increased to 2.1 percent and 20.6 percent in 2022, from 1.8 percent and 16.4 percent in 2021, respectively.

17. The presentation revealed a slight contraction in the total assets of the industry in the fourth quarter of 2022, owing to the drop in balances due to other banks, holdings of government securities and loans to state-owned enterprises. From September to December 2022, the asset base of commercial banks contracted by 1.7 percent to D78.6 billion in December 2022. In contrast, customer deposits increased by 1.2 percent and accounted for 68.8 percent of total liabilities of banks during the period, supported by government spending, remittance inflows, and deposit mobilization from the private sector.

18. The findings of a stress test exercise on the banking system portrayed a robust and resilient industry. However, the report highlighted credit concentration risk as an inherent source of vulnerability within the system. Staff recommended an assessment of the appropriateness of the level of the statutory minimum capital requirement for banks.

19. The Committee requested close monitoring of the level of non-performing loans in some sectors. The construction sector, in particular, had a little more than half (50.6 percent) of the industry non-performing loan portfolio. The Committee was informed that some companies engaged in road construction experienced delays in the disbursement of funds from the Road Authority and could explain the delay in loan repayment and a rise in the non-performing loans in the sector. The Committee called for vigilance to ensure that the risks are contained and do not pose a threat to financial stability.

20. The Committee welcomed the progress made by the Banking Supervision Department (BSD) in the migration to risk-based supervision and implementation of Basel II framework.

21. The Committee was informed that the government was working on establishing a commercial court that will be dedicated to resolving commercial disputes. It is expected that the establishment of such a specialist court will boost investor confidence, and reduce the time taken to conclude foreclosures, thereby encouraging financial intermediation.

22. The BSD was assured that more training will be provided to staff on stress testing and other critical areas of their operations. It was emphasized that capacity development is a major pillar in the Bank's strategic agenda.

Developments in Other Financial Institutions

23. The presentation on deposit-taking Non-Bank Financial Institutions (NBFIs) revealed that the sector is 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 of FCs stood at 31 percent at end-December 2022, higher than the regulatory benchmark of 20 percent. The liquidity ratio contracted to 69 percent in the review period, but significantly above the 30 percent regulatory benchmark. From September to December 2022, the asset base expanded by 5.0 percent to D3.0 billion, driven by cash and bank balances, investments in government securities, and gross loans to the private sector.

24. During the same period, outstanding gross loans and advances grew by 21.0 percent to D1.0 billion, revealing the impact of new entrants in the market. The presentation revealed that the bulk of the loans (69 percent) were extended to the SME sector, consistent with the core of their business model. Proportional to the size of customer deposits, FCs are engaged more in financial intermediation than banks but have a higher level of problem loans. The loan-to-deposit ratio stood at 47.0 percent and a non-performing loan ratio of 11.0 percent as at end-December 2022.

25. The Credit Unions (CUs), the second largest NBFI sub-category, also continued to grow both in asset size and membership. From September to December 2022, total assets increased by 5.0 percent to stand at D2.7 billion. With a total membership of 108,945 country-wide, 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 contracted by 17.0 percent to D1.5 billion from September to December 2022, resulting in decline in loan-to-deposit ratio to 82 percent from 64 percent during the period.

26. Mobile money usage also increased, thanks to effective marketing by service providers. Active users more-than-doubled (109 percent) from September to December 2022 to stand at 112,153 and a 20.1 percent surge in the value of transactions to D131.11 million.

27. The Committee welcomed the improved performance of the NBFI sector, especially the growth in mobile money usage. The rapid growth of the sector revealed the potential of the SME sector that represents the core of NBFI customer base. However, the ratio of non-performing loans in the sector was high and requires close monitoring.

28. The Committee commented that there is potential for mobile money to grow faster, connect more people to vital financial services and transform the economy. Therefore, its development is an integral part of the Bank's financial inclusion strategy. Meanwhile, the Bank, through the Development Finance Department, started engagement with not-for-profit organizations and selected interest groups for the deployment of a microcredit scheme meant to support entrepreneurship development among women and youths who are unable to obtain the financial backing needed to start or sustain a small business.

Domestic Debt Market Developments

29. The report on Domestic Debt Market revealed a declining central government domestic debt-to-GDP ratio. The decline in the ratio was influenced by the high

nominal GDP growth and the steady fall in the issuance of short-term debt instruments, which is a deliberate strategy of the fiscal authorities to elongate the maturity profile of the domestic debt to minimize rollover and financing risks.

30. Domestic debt-to-GDP ratio declined from 40.5 percent in 2018 to 31.7 percent in 2022. In nominal terms, the domestic debt stock stood at D38.1 billion in 2022, a growth rate of 2.5 percent from a year ago. This represents the slowest annual growth rate recorded in over 5 years.

31. 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. As a result, the share of short-term securities (treasury bills with maturity of one year or less) fell from 54.0 percent in 2021 to 48.0 percent in 2022. The stock of treasury bonds increased by 15.7 percent (year-on-year) to D19.8 billion, while the stock of short-term securities contracted by 8.8 percent.

32. The report indicated rising yields on government securities, mirroring the tight monetary policy stance of the Bank. The weighted average interest rate on treasury bills increased markedly from 1.8 percent in December 2021 to 11.2 percent in December 2022.

33. Government's domestic debt service payments declined in 2022 to 15.7 percent of domestic revenue, from 20.9 percent in 2021, owing to the low interest rate environment that existed in 2021. However, this trend was projected to reverse in 2023 with the rise in interest rates.

34. The Committee welcomed a semblance of stability in government domestic debt evidenced by the decline in the rate of accumulation, despite multiple shocks that put pressure on government budget execution. It is a demonstration of the government's commitment to stabilize the overall public debt.

35. The Committee was informed that the Banking Department of the Bank will continue to collaborate with the government to design an appropriate debt management strategy for the next few years. It was, however, lamented that success of any strategy hinges on continued improvement in public finance management.

36. The Committee discussed improving the effectiveness of the interest rate corridor, including the option of narrowing the gap between the interest rate on the standing deposit and lending facilities. It was agreed that time wasn't right for such a move, but it should remain on the table as a key policy option to limit interest rate volatility and improve the potency of monetary policy.

Balance of Payments Developments

37. The presentation on the Balance of Payments Developments indicated that pressures remain, despite some recovery in tourism activity. Stronger domestic demand amid elevated international commodity prices and moderating private remittances resulted in a deteriorated current account position. However, capital transfers helped mitigate the impact of the wider current account.

38. The current account deficit widened to US$116.9 million (5.7 percent of GDP) in 2022, from US$86.9 million (4.5 percent of GDP) in 2021. 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. Total value of imports rose by 6.2 percent (year-on-year) to US$645.3 million in 2022, reflecting mainly higher costs of petroleum and food imports. Total exports of goods increased by 63.2 percent (year-on-year) to US$53.7 million in 2022. In contrast, some recovery in tourism activity helped improve the services account balance to a surplus of US$25.6 million, from a deficit of US$9.1 million a year ago. Secondary income declined by 10.9 percent to a net inflow of US$487.4 million in 2022 as private remittance inflows normalize.

39. Meanwhile, higher net capital transfers (US$41.6 million in 2022 compared to US$23.1 million in 2021) helped mitigate the impact of the deterioration in the current account. The net incurrence of liabilities increased with higher FDI inflows and other investments. Total net inflow of US$278.5 million was recorded in the financial account in 2022, higher than US$181.5 million a year ago.

Foreign Exchange Market Developments

40. The presentation revealed that despite challenges, the level of activity in the domestic foreign exchange market improved in the fourth quarter of 2022 with some improvement in supply conditions. The pickup in tourism, private remittances and Central Bank policy interventions have further catalyzed the market. However, the exchange rate of the dalasi remained under pressure, owing to increased demand for foreign currency to finance imports - largely energy and food products.

41. Data shows that total volume of transactions was US$570.9 million in the fourth quarter of 2022, indicating an increase in activity level by 0.1 percent over the previous quarter. Supply of foreign currency increased by 0.04 percent during the quarter, but demand increased faster (1.0 percent), emanating mainly from the importation of energy, food products, and construction materials.

42. The exchange rate of the dalasi endured significant pressure in the fourth quarter of 2022 due to supply-demand imbalances and depreciated against all major currencies traded in the domestic foreign exchange market. It depreciated against the US dollar by 8.3 percent, the euro by 10.2 percent, and the Great Britain pound by 17.0 percent during the quarter.

43. The Committee welcomed the improvement in the foreign currency supply that has eased pressure on Central Bank reserves. However, some transitory demand pressures were expected as businesses restock in preparation for Ramadan but may not require Central Bank intervention to supply foreign currency.

44. The Committee was informed that transactions in the euro rose fastest compared to other foreign currencies due to the pickup in cross-border trade. It also reflected the slight decline in the strength of the US dollar during the period.

45. The Committee requested close monitoring, for possible corrective action, of the practice by money transfer agencies that only engage in outbound foreign currency transactions.

Real Sector Developments

46. The presentation on Real Sector Developments pointed to a favorable outlook for the Gambian economy, despite significant headwinds. The report revealed that the Bank's Composite Index of Economic Activity (CIEA) indicated a pickup in economic activity and a further expansion in the output gap in the fourth quarter of 2022.

47. The recovery momentum was forecast to continue this year, predicated on increased public infrastructure spending and stronger private demand, particularly tourism and private construction. Real GDP growth for 2023 was forecast to improve to 6.0 percent, from 5.2 percent in 2022. The impact of the volatile global economic and geopolitical environment, and commodity price fluctuations still pose significant risk to this outlook. In addition, the tight monetary policy stance of the Bank is expected to start pinching domestic demand and pose a downside risk to growth over the forecast horizon.

48. Reacting to the presentation, the Committee welcomed the improvement in the economic growth outlook. In addition to ongoing public infrastructure development and the rise in private demand, the projected improvement in the global economic outlook will lift external demand and boost tourism activity and private remittance inflows. It was lamented that the flip side of this optimistic outlook is a further expansion of the positive output gap that has inflationary implications. Therefore, monetary policy must react decisively to firmly put the economy back on a disinflation path.

Monetary Developments

49. The presentation on Monetary Developments reported a deceleration in the growth of monetary aggregates in 2022, consistent with the less accommodative monetary policy stance of the Bank. The increase in the foreign exchange market intervention by the CBG to improve the supply of forex also contributed to the decline in domestic currency liquidity and a moderation in the growth of monetary aggregates.

50. Annual broad money supply growth moderated to 7.7 percent in 2022, compared to 21.7 percent in 2021, due to the decline in NFA of depository corporations (Central Bank and commercial banks). The foreign currency liquidity shortage constrained net foreign asset accumulation during the year. The depository corporations' claims on non-residents moderated during the year compared to liabilities to non-residents. Consequently, annual growth in the NFA of depository corporations fell to 9.3 percent in 2022, from 23.7 percent a year ago. The annual growth in NDA remained strong (21.1 percent) in 2022, supported by expansion in net claims on central government (11.6 percent), credit to state-owned enterprises (276.3 percent), private sector credit (24.4 percent), and equity (23.4 percent).

51. The report showed that a marked contraction (18.7 percent) in the NFA of the Central Bank influenced the deceleration in reserve money growth in 2022. Annual reserve money growth decreased by 0.9 percent in 2022, relative to 13.6 percent the previous year. The NDA of the CBG, on the other hand, grew markedly by 72.2 percent (year-on-year), driven by the Bank's net claims on central government.

52. The Committee noted the moderation in the growth of monetary aggregates resulting from the sharp reduction in the NFA of the Banking system. The Committee directed judicious use of the external reserves, and that rebuilding the buffer level should start when the foreign currency liquidity conditions permit.

53. The Meeting was updated on the progress made under the Enhanced Credit Facility (ECF) program with the IMF. The sixth and final review of the program was expected in March 2023. Despite multiple external shocks, program performance has been broadly satisfactory, and a successful completion was envisaged. It was reported that during preliminary interactions with the Fund, the authorities expressed interest in a new program after the successful completion of the ECF arrangement.

Government Fiscal Operations

54. The report on the execution of the budget indicated that despite expenditure restraints, fiscal performance was weaker than anticipated, due to shortfall in revenues. The overall budget deficit (including grants) increased to D6.4 billion (6.1 percent of GDP) in 2022, from 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 balance also expanded to a deficit of 2.4 percent of GDP in 2022, from 0.8 percent of GDP in 2021.

55. Domestic revenue collection fell short of projection by D2.7 billion, due largely to the weaker-than-expected performance of receipts from international trade taxes, and non-tax revenues. Although total revenue from taxes increased by 4.7 percent to D11.2 billion in 2022, it fell short of the amount projected for the year by D1.5 billion. In addition, there was a significant increase (31.8 percent from D2.1 billion in 2021) in revenue loss due to exemptions, mainly on petroleum products. Non-tax revenues generated during the year was D2.5 billion in 2022, a marked contraction of 41.2 percent from 2021. As a result, total revenue collected domestically in 2022 was D13.8 billion (13.1 percent of GDP), compared to a higher outturn of D15.3 billion (14.6 percent of GDP) in 2021. Budget support and project grants totaled D5.1 billion for the year, representing an increase of 18.0 percent.

56. Prudence in budget execution helped contain expenditure within the year-end target. Total expenditure and net lending decreased by 1.8 percent (year-on-year) to D25.4 billion (24.2 percent of GDP), driven by lower-than-expected

government consumption, interest payments and capital spending. 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 road infrastructure projects.

57. Reacting to the presentation, the Committee observed prudence in the execution of the budget, despite challenges that resulted in revenue shortfall and mounting spending pressures. Measures geared towards mitigating the impact of the high global fuel and food prices continued to exert enormous pressure on the budget. Going forward, it would be important to strengthen domestic revenue mobilization, while minimizing revenue loss by streamlining tax exemptions, and rationalizing subsidies.

58. The Committee applauded the continued coordination between the fiscal and monetary authorities, which is critical to restoring macroeconomic stability. In this volatile environment, policy consistency is critical to delivering price and financial stability.

Business Sentiment Survey

59. 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 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. The hope of brighter prospects has improved business confidence and 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.

60. However, the near-term inflation expectations remained elevated. Most of the participants in the survey expected a further increase in the general price level in

the next three months. The perception of respondents was shaped by the ongoing global shocks, domestic structural challenges, and currency depreciation.

61. In terms of factors that would hinder business activities, the survey revealed foreign currency supply challenges, tax burden, regulatory issues, and the Russia-Ukraine conflict as major concerns.

62. Reacting to the presentation, the Committee stated that the outcome of the report is encouraging as it reflects improving business confidence. The plan to increase capital expenditure and employment, in particular, are signs of improvement in the business climate. The reversal of the perception of businesses may also indicate that the worst may be behind us. The projected rise in sales and consumer demand by businesses is also an indication of a rise in consumer confidence, despite rising domestic prices.

63. The Committee, however, commented that rising inflation expectations, which is a crucial indicator of price developments, remain a concern and more policy action is needed to avoid de-anchoring inflation expectations, which will make it more costly to stabilize inflation.

64. The Committee challenged ERD to explore the possibility of conducting a separate survey on employment.

Inflation Developments

65. The report on Price Developments indicated an elevated inflation outlook, driven by high import costs, exchange rate depreciation and strong private demand. Staff forecast revealed that price pressures will linger, and that headline inflation will decline more slowly than anticipated. Headline inflation decelerated slightly from 13.7 percent in December 2023 to 13.1 percent in January 2023.

66. Consumer food inflation decelerated to 17.5 percent in January from 18.3 percent in December 2023. Bread and cereals, milk cheese and eggs, and sugar drove

the decline in food inflation. Similarly, non-food inflation moderated to 8.6 percent from 9.4 percent over the same comparative period.

67. The Bank's measure of underlying inflation fell for the first time since September 2021. The Bank's core inflation that excludes food and energy prices declined from 18.8 in December 2022 to 17.6 percent in January 2023.

Staff Assessment and Economic Outlook

68. Staff assessment of the 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 contracted but continued to exceed 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.

69. Staff forecast the recovery momentum to continue in 2023, predicated on rebound in the tourism sector, fiscal stimulus associated with the public infrastructure projects, robust private sector credit growth, and moderate improvement in 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 and imported cost factors, and currency depreciation. Finally, staff assessed the risk to the growth outlook as fairly balanced, while the risk to inflation outlook was tilted to the upside.

70. Growth in real economic activity in 2023 was revised upwards, reflecting stronger-than-expected domestic demand (fiscal spending, tourism, private sector credit, and stable remittances). Consequently, real GDP growth was forecast at 6.0 percent in 2023. Staff assessed risks to the growth outlook to be fairly balanced. The main downside risk factors include the unpredictable global geopolitical environment and volatile commodity prices.

71. Staff forecast price pressures to persist longer and inflation to decline slower than anticipated due to increased domestic cost factors, exchange rate depreciation, elevated inflation expectations and rising international prices of rice. The dissipating effects of the policy interventions that were meant to facilitate the availability of essential food stuff also affected price developments. Staff expect headline inflation to remain in double digits for the greater part of 2023. Risks to the inflation outlook remain significant and skewed to the upside, with heightened chances of further rise in headline inflation.

Policy Justification

72. Although the prospects of the global economy have improved, the risk to the outlook is heavily tilted to the downside, with rising uncertainties. Nonetheless, signs of the easing of drivers of global inflation would have dampening effect on domestic price pressures. However, the persistent rise in international price of rice, the impact of rising global interest rates on the exchange rate and volatile geopolitical environment remains significant upside risks.

73. On the domestic front, the economic growth outlook remains favorable, with stronger real GDP growth and positive output gap forecast for this year. However, the global economic and geopolitical environments remained uncertain and pose significant downside risks to the growth outlook. Furthermore, the domestic economy still faces the adverse effects of the relatively tight global financial conditions.

74. The supply conditions in the foreign exchange market improved, leading to dampening of pressures on the Bank's external reserves, but the balance of payment challenges remained.

75. Domestic price pressures were forecast to remain elevated for greater part of 2023 and that headline inflation will fall slower than anticipated. The Committee judged that more action was needed to complement past policy moves to anchor

inflation expectations and bring down inflation. Moreover, the upside risks to inflation remain significant, including volatile global commodity prices and the rippling effect of uncertain geopolitical environment on global supply chains.

Decision

76. Taking these factors in to consideration, The Committee decided the following:
    - Increase the Policy rate (MPR) by 1.0 percentage point to 14 percent.
    - Maintain the required reserve (RR) at 13 percent.
    - Maintain the interest rate on the standing deposit facility at 3 percent.
    - Standing lending facility will increase to 15 percent (MPR plus 1 percentage point).

Information Note

Date for the next MPC meeting

The next MPC meeting was slated for **Tuesday, May 23, 2023**. The meeting will be followed by the announcement of the policy decision on **Wednesday, May 24, 2023**.