

## MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.82

**MAY 30-31, 2022**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) met on May 30 and 31, 2022 amid challenging global economic environment. The Committee reviewed developments in the international and domestic economy, assessed emerging risks to inflation outlook and growth prospects and decided to increase the monetary policy rate by 1 percentage point to 11 percent.

### Present were:

Name	Role
Mr. Buah Saidy	Chairman
Dr. Paul Mendy	Member
Mr. Momodou Sissoho	Member
Mr. Paul John Gaye	Member
Mr. Ebrima Wadda	Member
Mrs. Halima Singhateh-Jagne	Member
Mr. Sheriff Touray	Secretary

### Absent with Apology

Mr. Baboucarr Jobe

### Report Presenters

Name	Designation
Mr. Alieu Ceesay	Senior Economist, Economic Research Department
Dr. Momodou Jallow	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mr. Saikou B. Jammeh	Economist, Economic Research Department
Mr. Alfusainey Touray	Economist, Economic Research Department
Mr. Alkali Barrow	Officer, Other Financial Institutions Supervision Department
Mrs. Sarjo Jatta	Officer, Financial Markets and Reserve Management Dept

Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Mawiyatou Susso	Statistician, Economic Research Department
Mr. Karamo Sawaneh	Senior Bank Examiner, Banking Supervision Department
Ms Awa Bayo	Senior Bank Examiner, Banking Industry Stress Test
Ms. Binta Beyai	Senior Economist, Banking Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department
Mrs. Aji Adam Njie	Economist, Economic Research Department

**In attendance were:**

<b>Name</b>	<b>Designation</b>
Mr. Serign Bai Senghor	Senior Adviser, Corporate Services Unit
Mr. Omar Sonko	Deputy Director/OIC, Internal Audit Department
Ms. Isha Fye	Deputy Director, Information & Communication Technology Department
Mr. Karafa Jobarteh	Deputy Director/OIC, Financial Markets & Reserve Management Department
Mr. Abdou H. Ceesay	Deputy Director/OIC, Currency Management Department
Mr. Karamo Jawara	Principal Banking Officer, Banking and Payment Systems Department
Alhagie Manneh	Principal Microfinance Officer, Other Financial Institutions Supervision Department
Mr. Lamin Bah	Senior Risk Analyst, Risk Management Department
Ms. Ya Maram Sosseh	Senior Bank Examiner, Banking Supervision Department
Mr. Momodou Alieu Jallow	Officer, Financial Markets & Reserve Management Department
Ms. Mariama Ceesay	Assistant Statistician, Economic Research Department

## Agenda for the Technical Meeting

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

## Opening remarks by the Chairman

2. The Governor and Chairman of the MPC welcomed members of the Committee. He informed members of a change in the management of the Bank. The President of the Republic appointed two new Deputy Governors after the terms of office of the former deputies expired. The Chairman then briefly went through the credentials of the new Deputy Governors. He went on to recognize the presence of the Second Deputy Governor, Mr. Paul J. Mendy and informed the Committee that the First Deputy Governor, Dr. Abdoulie Sireh Jallow was unavoidably absent as he had travelled to Jeddah to complete his offboarding process at the Islamic Development Bank. He welcomed them to the MPC before proceeding with a summary of the functions of the MPC as enshrined in the Central Bank of The Gambia Act 2018.
3. The Chairman stated that the world is confronted with unprecedented crisis due to the conflict in Ukraine. According to him, what makes the crisis more severe is that it occurs at a time when economies around the world are just starting to recover from the adverse effect of the COVID-19 pandemic. He further stated the crises are crippling economies and making policy trade-off between fighting inflation and safeguarding growth more challenging.

## Review and Adoption of the Previous Meeting Minutes

4. The minutes of the previous meeting were reviewed and adopted after some amendments.

## Presentation of Reports

Presentations and discussions of reports ensued in the following order:

- Developments in the Global Economy
- Banking Sector Developments
- Financial Market Developments
- Balance of Payments Developments
- Foreign Exchange Market Developments
- Monetary Sector Developments
- Government Fiscal Operations
- Business Sentiment Survey
- Non-Bank Financial Sector Developments
- Real Sector Developments
- Inflation Developments
- Assessment of Initial Conditions
- Baseline Forecast
- Risk Assessment.

## Global Macroeconomic Developments

- 5.** Prospects for the global economy have changed significantly since January 2022. The recovery momentum that started in the second half of 2021 was projected to strengthen as the pandemic recedes but was disrupted by the conflict in Ukraine. The International Monetary Fund (IMF) in its April 2022 World Economic Outlook (WEO), revised downwards global economic growth forecast by 0.8 and 0.2 percentage points to 3.6 percent for 2022 and 2023, respectively.
- 6.** In advanced economies, growth prospects have been revised downward reflecting rising global energy prices and reliance on energy imports from Russia. The region is expected to expand respectively by 3.3 percent and 2.4 percent in 2022 and 2023, 0.6 and 0.2 percentage points lower than the January 2022 forecast. In the United Kingdom, growth forecast was revised down by a percentage point, due to weaker consumption as inflation rises. In United States

and Canada, growth forecast was marked down by 0.3 and 0.2 percentage points, attributed to faster withdrawal of monetary support to rein in inflation and weaker external demand.

- 7.** Growth in emerging markets and developing economies is estimated at 3.8 percent, lower than the January forecast of 3.9 percent. Developments in China continued to dominate the prospects for emerging Asia. The combination of more transmissible variants and the strict zero-COVID strategy in China led to repeated mobility restrictions and localized lockdowns that, together with an anemic recovery in urban employment, have weighed on private consumption coupled with weaker external demand associated with the conflict in Ukraine.
- 8.** In Sub-Saharan Africa, growth projection for 2022 was upgraded by 0.1 percentage points to 3.8 percent, driven by a 0.7 percentage points markup in South Africa's growth forecast. The region is susceptible to food and energy shocks and the unprecedented rise in prices of these commodities is hurting consumer purchasing power, especially in low-income households. This is weighing on demand in addition to the political and social unrest, having its toll on the growth outlook for the region.
- 9.** Monetary policy normalization in most countries has resulted in tighter global financial conditions. There is growing risk of capital withdrawal from emerging markets and developing economies as central banks in advanced economies tightened policy in response to accelerating inflation. The rise in interest rates in advanced economies is exerting downward pressure on currencies in the emerging and developing countries.
- 10.** Global inflation was forecast to remain elevated longer than previously projected because the conflict is likely to have a protracted impact on commodity prices, especially energy and food. In advanced economies, inflation was forecast to accelerate to 5.7 percent in 2022 before slowing to 2.5 percent in 2023. In emerging market economies, inflation is expected to rise to 8.7 percent and 6.5 percent in 2022 and 2023, respectively. Inflation in sub-Saharan Africa is also

estimated to rise to 12.2 percent in 2022, before decelerating to 9.6 percent in 2023.

- 11.** Reacting to the presentation, the Committee reiterated that the conflict in Ukraine has complicated the trade-off between fighting inflation and safeguarding growth. Economies all over the world are affected, especially developing economies and in addition to monetary and fiscal policy tools, countries should devise ways to reduce the impact on the poor and vulnerable population. Given the limited fiscal space created by the pandemic, such measures should be well targeted to maximize their impact and to make them fiscally sustainable.
- 12.** The Committee was informed that The Gambia is expected to benefit from fertilizer subsidy, thanks to AfDB's commitment to include the country among beneficiaries. Availability of fertilizer at affordable prices will boost local food production, which will mitigate the impact of the rising global commodity prices.
- 13.** The Committee emphasized the need for decisive policy measures given that the global inflation is expected to be more persistent than previously anticipated. The risk to inflation and growth outlook are elevated as the conflict prolongs. China's zero COVID policy continued to put further pressure on an already constrained global supply chain.

## **Domestic Macroeconomic Developments**

### **Banking Sector Developments**

- 14.** The banking sector in The Gambia continue to maintain strong fundamentals, despite shocks from the COVID-19 pandemic and conflict in Ukraine. The liquidity and capital adequacy ratios remain robust. The risk-weighted capital adequacy ratio of banks stood at 25.5 percent and the liquidity ratio was 89.7 percent. All banks met the minimum capital and liquidity requirements of 10 percent and 30 percent, respectively. The asset quality of the industry improved markedly during the year. Non-performing loans (NPLs) were 4.6 percent of gross loans in March 2022, compared to 7.7 percent in December 2021. Banks have continued to make adequate provisions for the NPLs.

- 15.** The banking industry's asset base expanded by 26.9 percent (year-on-year) to D77.74 billion in March 2022, benefiting largely from higher cash holdings, investments in treasury bills, government bonds and parastatal debt securities, and private sector loans and advances. Letters of credit and guarantees were also significant contributors to the asset growth of the industry.
- 16.** Customer deposits continued to be the largest source of funding for banks, accounting for 68.5 percent of total funding at end-March 2022. Total deposit liabilities grew by 23.7 percent (year-on-year) to D53.2 billion at end-March 2022, benefiting from higher government spending, remittances, and deposit mobilization from private sector.
- 17.** The Committee stated that the resilience of the banking sector could be attributed to higher quality capital and liquidity. The Committee, however, urged supervisory departments to remain vigilant, as prudent, and sound regulation and supervision are critical during these challenging times.
- 18.** The Committee expressed concerned that despite robust liquidity and capital positions, financial intermediation remains low with loan to deposit ratio of 21.8 percent at end-March 2022. Banks continued to derive revenue mainly from non-interest income, including foreign exchange transactions and trade-related facilities. The Banking Supervision Department (BSD) was tasked to provide a more in-depth analysis of the composition of non-interest income of banks.
- 19.** The Committee was informed that there was concern that some players in the foreign exchange market may be engaging in unethical behaviors that prompted a directive issued by the Central Bank that prohibits withdrawal in foreign currency from foreign currency deposit (FCD) accounts. The Committee was informed that preliminary evidence suggests no concern for dollarization in the country at this stage. The ERD was tasked to provide a policy note on the existence of dollarization in the economy.

**20.** The Committee, however, emphasized the need to closely monitor developments in the foreign exchange market and called for close collaboration with the Financial Intelligence Unit (FIU) to strengthen Anti Money Laundering and Combatting of Financing of Terrorism (AML/CFT) measures.

## Developments in Other Financial Institutions

**21.** The non-bank financial institutions (NBFIs) sector in The Gambia comprises Finance Companies (FCs), Credit Unions (CUs), Mortgage Finance, as well as Mobile Money Operators (MMOs).

**22.** The FCs are made up of four conventional and two Islamic microfinance institutions, all of which met the minimum capital and liquidity requirements. The FCs have registered steady growth despite the overlapping shocks. Total assets increased substantially by 32 percent to D2.64 billion in March 2022, attributed to an increase in cash and bank balances, and gross loans. From December 2021 to March 2022, total assets expanded by 10.0 percent and total deposits increased by 19.7 percent (year-on-year).

**23.** Gross loans are recovering after contracting in the last three consecutive quarters due to the pandemic, and tighter credit standards. From December 2021 to March 2022, gross loans grew by 13.0 percent to stand at D695.1 million. Loan to deposit ratio remains low at 38 percent. NPLs increased slightly to 8.0 percent at end-March 2022, from 7.0 percent at end-December 2021.

**24.** The Committee highlighted the urgent need for improvement in regulation and supervision of non-bank financial institutions. Other Financial Institutions Department (OFISD) was tasked to collaborate with Banking Supervision Department (BSD), Risk Management Department (RMD) and Insurance Department (ISD) to develop Fit and Proper Guidelines that will minimize non-compliance.



- 25.** The Committee was informed that Fintech regulation is being developed and the national switch, GAMSWITCH, is also being upgraded to enable interoperability within the financial system and provide variety of more advanced electronic payment solutions. These are expected to improve financial inclusion.
- 26.** The Committee was informed that there were attempts previously by the Bank to regulate Post Office and Social Security that was blocked by legal restrictions. At this stage, an MoU with these institutions is necessary to enable data and information sharing for financial stability and AML/CFT reasons.
- 27.** The ERD was asked to consider incorporating non-bank financial institutions in the compilation of monetary statistics given that they are becoming increasingly significant in terms of asset base as well deposit and loans sizes.

## **Domestic Debt Market Developments**

- 28.** Domestic debt remained relatively stable at 37.2 percent of GDP in the first quarter of 2022. Short-term Treasury bills and Sukuk Al-Salam bills constituted 50 percent of total domestic debt stock, followed by the thirty-year bond at 24 percent, three-year bond at 19 percent, five-year bond at 6 percent while the seven-year bond accounted for only 1 percent of the total debt stock. Debt service as a percent of tax revenue declined to 2.7 percent in 2022 from 3.1 percent in 2021.
- 29.** Treasury bills yields of 91-day, 182-day, and 364-day increased from 0.75 percent, 0.71 percent, and 1.55 percent to 1.66 percent, 1.74 percent, and 1.69 percent, respectively in April 2022. The yield on the 3-year bond dropped from a weighted average of 9.43 percent to 3.79 per cent in March 2022.
- 30.** The Committee recognized the difficult policy choice given the limited fiscal space amid rising spending needs of government. Fiscal policy measures needed to mitigate the adverse impact of unprecedented surge in the prices of essential

commodities will put further pressure on the budget and increase the domestic debt.

- 31.** The Committee called for prudence at budget planning and execution stages to ensure fiscal sustainability, given that donor funds are becoming increasingly unreliable. In addition, close coordination between the Monetary and Fiscal authorities would be crucial during the challenging times.

## Balance of Payments Developments

- 32.** The adverse external shocks shaped the developments in The Gambia's balance of payments. Tourism and re-export trade are recovering from the negative effects of the pandemic but at a slower pace than anticipated. Official inflows have declined markedly while private remittances are normalizing after a sharp increase during the pandemic. Meanwhile, robust domestic demand and higher commodity prices have pushed up import bills. As a result, the current account deficit worsened to US\$46.0 million (2.3 percent of GDP) in the first quarter of 2022 from US\$5.1 million (0.3 percent of GDP) in the corresponding period a year ago.
- 33.** The goods account balance registered a deficit of US\$161.5 million (8.1 percent of GDP) in the first quarter of 2022, higher than a deficit of US\$126.2 million (6.4 percent of GDP) in the corresponding period in 2021. The widening of the deficit in the goods account reflected mainly the marked increase in imports (FOB), especially energy and food, and the less-than-expected increase in re-export trade.
- 34.** Although the services account balance improved, driven by the modest recovery in tourism, it remained significantly below the pre-pandemic level. It registered a surplus of US\$12.6 million in the first quarter of 2022 from a deficit of US\$1.2 million in the same period a year ago.
- 35.** The capital and financial accounts registered a deficit of US\$102.4 million in the quarter under review compared to a deficit of US\$51.8 million a year ago, reflecting a decline in the changes in reserve assets. Like developments in many

net-importing low-income countries, a confluence of the effects of the two external shocks (COVID-19 pandemic and conflict in Ukraine) has disrupted external reserve build-up.

- 36.** At end-March 2022, the stock of gross official reserves increased to US\$407.2 million (5.82 months of net import cover) from US\$393.0 million (5.1 months of net import cover) at end-March 2021.
- 37.** The Committee commented that the sharp increase in global commodity prices will widen The Gambia's trade balance further through an increase in import bills and its adverse effect on exports, especially re-exports. The crisis also has the potential to disrupt the recovery in tourism.
- 38.** It was further observed that the decline in private remittance inflows was associated largely with the resumption of transfers through the unofficial channel, which is not currently captured in official statistics. Members also noted the potential adverse effect the CBG Foreign Currency Directive could have on private remittances and advised that the situation be closely monitored.

## Financial Markets Developments

- 39.** Activity in the foreign exchange market remained robust, and the dalasi continued to be stable. Transaction volumes increased to US\$2.5 billion in the twelve months to end-April 2022, from US\$2.2 billion a year ago. Both purchases and sales of foreign currency (representing supply and demand) rose by 12.0 percent and 10.7 percent, respectively.
- 40.** The dalasi remained relatively stable during the year, despite the shocks. From April 2021 to April 2022, the dalasi depreciated against the US dollar by 4.6 percent but appreciated against the euro and pound sterling by 3.9 percent and 1.8 percent, respectively.

**41.** The Committee tasked OFISD to work with FMD to resolve the compilation challenges of the remittance statistics. Private remittance inflow is the major source of foreign currency. Therefore, reliable reporting of the statistics is essential to proper and informed policy decision.

## Real Sector

**42.** The Gambian economy is recovering following a marked slowdown in 2020 due to the pandemic. Although the medium-term outlook is favorable, risks to this outlook are high, uncertain, and tilted to the downside, including a protracted conflict in Ukraine, COVID-19 situation globally, and the impact of weather conditions on agriculture.

**43.** Recent data released by the Gambia Bureau of Statistics (GBoS) estimated real GDP growth of 4.3 percent for 2021, supported by pickup in fishing and aquaculture, construction, and a moderate recovery in services. The statistics bureau also revised upwards the growth estimate for 2020 to 0.6 percent from negative 0.2 percent. On the demand side, household consumption and private construction, financed largely by steady remittance inflows, and public investment were the main drivers of the growth momentum. Notwithstanding the overlapping external shocks, the Bank's leading indicators point to a stronger level of economic activity in 2022. CBG staff forecast higher real GDP growth of 4.7 percent for 2022, predicated on stronger fiscal activities related to the ongoing public infrastructure projects, continued recovery in tourism and private construction.

**44.** The Committee observed that the fundamentals of the economy remain strong, and the prospects are positive, but the headwinds are significant. The conflict in Ukraine has further constrained global supply chain, causing unprecedented rise in prices which is eating into the purchasing power of households. Household consumption being the key driver of the Gambian economy, is the main channel of transmission of the ongoing shocks in addition to tourism and trade.

- 45.** The Committee remarked that prospects for better rain this year as indicated by forecast by the Meteorology Department and initiatives afoot to facilitate the availability of affordable fertilizer and other input to farmers will boost agriculture - domestic food production, in particular.
- 46.** It was observed that the ongoing public investment projects would boost aggregate demand, but the tight fiscal space may mean that some projects may have to be spread over a longer timeframe.

## Monetary Developments

- 47.** Developments in the monetary sector in the twelve months to end-March 2022, revealed that growth in money supply decelerated from 25.7 percent in March 2021 to 21.0 percent as at end-March 2022, driven by the moderate growth in NFA of both the Central Bank and commercial banks. The NDA contributed larger (16.8 percentage points) to the growth in broad money as domestic credit expanded with increased borrowing from the central government, public entities, and private sector.
- 48.** The annual growth rate of the NFA of the banking system decelerated markedly to 9.1 percent from 57.6 percent a year ago. The stock of NFA of the banking system stood at D27.1 billion as at end-March 2022 compared to D24.8 billion in March 2021. The NFA of commercial banks grew by 3.7 percent at end-March 2022 to stand at D10.8 billion, a slower pace of expansion than the 46.1 percent growth recorded a year earlier. On a quarter-on-quarter basis, it contracted significantly by 8.5 percent at end-March 2022 compared to a robust growth of 25.2 percent registered in the previous quarter.
- 49.** The NDA of the banking system at end-March 2022, increased by 31.2 percent to D31.8 billion from D26.4 billion in the corresponding period in 2021, attributed to the increase in domestic credit associated largely with government borrowing from the banking system and expansion in private sector credit. The government has increased its borrowing from the banking system to finance the fiscal deficit.

The banking system's net claims on government picked up to D34.4 billion, a marked increase of 32.7 percent from March 2021, and accounted for about 75.1 percent of the stock of domestic credit. Increased demand for domestic resources by government contributed to the slower-than-expected growth in private sector credit, which was still recovering but at a moderate pace. Private sector credit grew year-on-year by 10.9 percent at end-March 2022 to stand at D8.8 billion, higher than the 8.4 percent recorded in March 2021.

- 50.** Reserve money grew by 14.0 percent (year-on-year) at end-March 2022, lower than the 32.4 percent recorded in the corresponding period a year earlier, occasioned by slower growth in both currency in circulation (CIC) and reserves of commercial banks. Reserve money was 9.8 percent below the target for the quarter under review. Growth in CIC and reserves of DMBs slowed to 12.8 percent and 15.7 percent, respectively. However, on a quarterly basis, reserve money expanded by 4.0 percent in March 2022 after contracting by 1.3 percent in the fourth quarter of 2021.
- 51.** The Committee noted that monetary policy stance was kept accommodative since the start of the pandemic to support private sector credit growth and economic recovery. Members, therefore, emphasized that given the rising global and domestic inflation dynamics, there is need for a thorough reassessment of the Bank's policy stance at this stage to help shape a suitable monetary policy response.
- 52.** The Committee was informed that the Treasury Bills Committee has intensified monetary operations through the active use of the CBG bills to mop-up excess liquidity in the system. This has contributed significantly to the moderate growth in reserve money.
- 53.** The Committee noted the rise in the level of CBG financing of government deficit, which was explained partly by the shortfall in budget support as well as tax incentives (duty waivers on essential commodities to mitigate the impact of the

crises on consumers). Therefore, the Committee emphasized the need to enhance fiscal and monetary policy coordination during these challenging times.

## Government Fiscal Operations

- 54.** Overall fiscal performance worsened in the first quarter of 2022 compared to the corresponding period last year, attributed largely to the less-than-expected receipts from international trade taxes, non-tax revenues, and grants, on the back of marked increase in expenditures.
- 55.** Total revenue collected from taxes increased by 11.8 percent (year-on-year) to D3.0 billion in the first quarter of 2022 but was D131.1 million below the outturn projected for the quarter. Year-on-year, revenue from international trade taxes fell by 2.8 percent, non-tax revenue by 39.9 percent and grants by 70.6 percent. Revenue generated from personal and corporate taxes, on the other hand, increased by 35.9 percent and 42.9 percent, respectively.
- 56.** Meanwhile, although within target, total expenditures increased markedly from a year ago, due mainly to the sharp increase in spending on wages and salaries, other charges (goods and services, subsidies, and transfers) and debt service payments. Total government expenditure and net lending for the first three months of 2022 stood at D6.4 billion (5.9 percent of GDP), 28.2 percent higher than the amount recorded in the first quarter of 2021. The amount projected for the review period is D8.3 billion, which is D1.9 billion higher than the outturn realized for the quarter. Capital expenditure also increased (by 21.6 percent) but accounted for less than 29 percent of total expenditures and was D1.6 billion below the amount targeted for the period.
- 57.** As a result, overall budget deficit (including grants) increased to D2.5 billion (2.3 percent of GDP) in the first three months of 2022 compared to D1.0 billion (1.0 percent of GDP) in the corresponding period of 2021. Overall budget deficit (excluding grants) increased to D2.8 billion (2.5 percent of GDP) in the review period relative to a deficit of D1.3 billion (1.1 percent of GDP) a year ago.

- 58.** The Committee observed that given growing constraints in accessing external budget support, the government has shifted to the domestic debt market as the major source of financing. The low-interest rate environment in the money market is making it cheaper to borrow from the domestic debt market.
- 59.** The Committee remarked that the Ukraine conflict is expected to continue to bring additional challenges to the already constrained budget. The Committee projected a continuation of increased in social spending by government to mitigate the impact of the crisis on the poor and vulnerable population. This will further widen the fiscal deficit and increase the public debt. Therefore, to maintain fiscal and debt sustainability, such social protection spending should be measured and well-targeted.
- 60.** The Committee stated that the drop in external grants was not surprising as some conditionalities attached to the disbursements of some funds were outside the control of the authorities. Meanwhile, the Committee emphasized the need to revisit some of the tax exemptions and the current fuel pricing formula as a way of reducing revenue leakage and employ other non-debt generating revenue measures to create the needed fiscal space.
- 61.** The Committee reiterated the need to reduce the level of Central Bank financing of government deficit as this would aggravate the already elevated inflationary pressures in the economy.

## **Business Sentiment Survey**

- 62.** Readings from the Bank's quarterly Business Sentiment Survey revealed a decline in business confidence. Sentiments of businesses were shaped by the adverse effects of the overlapping external shocks of the pandemic and the conflict in Ukraine. Most respondents highlighted rising global uncertainties, higher input costs associated with the unprecedented hike in global commodity prices, higher taxes, demanding regulatory measures, and foreign currency supply concerns as major factors that would constrain business activity and growth in the near term.



- 63.** Survey of perceptions on price developments for the next three months indicated an elevated level of inflation expectations, attributable to expected higher international food and fuel prices. On the exchange rate, most of the respondents indicated that they expect the Dalasi to be under pressure in the coming quarter.
- 64.** The Committee acknowledged improvement in the survey, both in terms of coverage and analysis.
- 65.** The Committee commented that the rise in inflation expectations and decline in business confidence are in line with prevailing realities of the global economic environment. Members were unanimous in their response that the reaction of monetary policy should be prudent and decisive to anchor expectations and to avoid inflation spiraling.

## **Inflation Outlook**

- 66.** Global factors and some domestic structural bottlenecks are pushing headline inflation above the long-run trend and away from the medium-term target. Price pressures observed in 2021 have intensified and become more broad-based. Domestic inflation is expected to remain elevated longer than previously anticipated and the outlook is shrouded by uncertainties and subject to upside risks, mainly emanating from the supply side. Key risks include rising crude oil prices and its transmission to domestic pump prices and cost of transportation, persistent global inflation, exchange rate pass-through and structural issues at the ports of Banjul. The launch of the government's recently revised pay and grading structure presents the risk of increasing aggregate demand pressure. In addition, inflation expectations have risen, a reflection of the ongoing shocks.
- 67.** As a result, headline inflation accelerated sharply to 11.7 percent in April 2022, from 8.2 percent in March 2022. The Primary contributor to headline inflation remains the consumer prices of food, which constitutes over 50 percent of the consumer basket, bulk of which is imported. CBG's near-term forecast shows that

headline inflation (seasonally adjusted) will remain well over the implicit medium-term target of 5 percent, at least for the next three months.

- 68.** Food inflation accelerated to 16.3 percent in April 2022 from 8.2 percent recorded in March 2022, supported by the increase in the consumer prices of most components of the food basket, with the exceptions of Fruits and Nuts, Non-Alcoholic Beverages, and Vegetables. In addition to the price and supply shocks, and the slight exchange rate depreciation, seasonal effects of Ramadan was a major contributor to the rise in food inflation. The Gambia is a net importer of food stuff and bulk of the wheat used to make flour comes from Russia and Ukraine.
- 69.** Risk to the food inflation outlook is high with volatile global food prices, uncertainties relating to the global supply conditions and the unpredictable domestic food production. Depreciation of the exchange rate due to policy tightening in advanced economies is also a risk factor.
- 70.** Non-food inflation moderated only slightly to 7.3 percent in April 2022 relative to 7.5 percent in March 2022. The main drivers of the slight decline in non-food inflation were Housing, Water, Electricity, Gas and Other Fuels, Transport, and Communications.
- 71.** The Central Bank's core measures of inflation also point to rising underlying inflation pressures. Core 1 inflation that excludes volatile energy products from the headline inflation, increased to 16.4 percent in April 2022 from 8.9 percent in March 2022. Similarly, Core 2 inflation that excludes volatile energy and food products from the headline inflation, surged to 12.3 percent in April 2022 from 9.8 percent in March 2022.
- 72.** The Committee commented that inflation during the review period was mainly driven by supply-side factors, although domestic cost factors were gradually picking up. The Ukraine conflict and the zero COVID policy in China have aggravated global supply chain bottlenecks created by the pandemic and pushed up prices.

**73.** The Committee emphasized the role of rising global commodity prices, and recent periodic adjustments in domestic pump prices and transport fares in shaping inflation expectations. Moreover, the uncertain global economic and geopolitical environment will sustain inflation and inflation expectations at elevated levels in the coming months. Therefore, decisive policy action is needed to anchor expectations and stabilize inflation.

### **Assessment of the Economic Outlook**

**74.** CBG staff forecast economic recovery to continue in 2022 predicated on expected recovery in the tourism sector, fiscal stimulus associated with the public infrastructure projects and moderate global demand. Steady remittance inflows will continue to finance household consumption and private construction.

**75.** Analysis of the initial conditions of the economy revealed a slightly positive output gap due to positive developments in the domestic economy. Consumption and investment spending, positive fiscal impulse and accommodative monetary policy supported domestic demand. The current economic assessment, however, showed that actual reserve money demand was over its medium-term target attributed to increase in currency in circulation due to fiscal activities and rise in inflation.

**76.** The baseline forecast indicated a real GDP growth of 4.7 percent in 2022 compared to an earlier projection of 6.9 percent. The downgrade was on account of slower-than-expected recovery in tourism associated with the conflict in Ukraine and rising global commodity prices. Inflation is expected to drift away from the medium-term implicit target of 5.0 percent for the rest of the year, due mainly to the upward trend in commodity prices. However, inflation will return to target by 2023 although the risks are uncertain and tilted on the upside. The exchange rate is expected to remain stable, but pressures will emerge from higher import demand and rising interest rates in advanced economies due to monetary tightening in those countries and the strengthen of the US dollar globally.

**77.** CBG staff assessment of the risks to the forecast are broadly summarized in three risk scenarios and the balance of risk is tilted on downside. Firstly, staff assessed the impact of a slower recovery of the tourism sector than in the baseline. A protracted conflict in Ukraine would negatively affect external demand and slow the pace of recovery in tourism. This will slow down real GDP growth and depreciate the currency faster than in the baseline. Another downside risk is a postponement and delay in some fiscal infrastructure projects which is expected to tilt growth to the negative regions. Finally, staff assessed the risk of maintaining current monetary policy stance amid rising inflation. In this case inflation will accelerate faster than in the baseline. Specifically, if the recent gyrations in the commodity markets persist longer than anticipated, this could lead to even higher inflation and more entrenched inflation expectations in the medium term.

### Policy Justification

**78.** The global economy is experiencing unusually high uncertainties with significant risks that threaten to disrupt the post-pandemic recovery momentum around the world. The conflict in Ukraine and China's zero COVID policy aggravated the global supply chain constraints created by the pandemic. This led to an unprecedented increase in commodity prices and pushed up inflation.

**79.** Given the high import content in The Gambia's consumption basket, these developments have complicated the policy trade-off between fighting inflation and safeguarding the fragile economic recovery. The acceleration in global inflation is fueling domestic inflation and influencing inflation expectations. In addition, the rise in fiscal spending will increase reserve money demand which will put further pressure on inflation and exchange rate.

**80.** Therefore, although recovery in economic growth is still fragile and the risks to the outlook tilted on the downside, further delay in tightening monetary policy would aggravate the inflation situation. Prudent policy response is required to anchor inflation expectations and dampen the second-round effects of the supply shocks.

## Decision

**81.** Taking the above factors into consideration, the Monetary Policy Committee has decided the following:

- Increase the Monetary Policy Rate (MPR) by 1 percentage point to 11 percent.
- Maintain the required reserve (RR) of commercial banks at 13 percent.
- Maintain the interest rate on the standing deposit facility at 3 percent and increase the standing lending facility by 1 percentage point over the MPR to 12 percent.

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

## Date for the next MPC meeting

**83.** The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, August 24, 2022. The meeting will be followed by the announcement of the policy decision on Thursday, August 25, 2022.