CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

December 2022

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, in every quarter, the MPC meets 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 persons from outside the Bank appointed by the Minister of Finance and Economic Affairs. The MPC meets every quarter to review developments and outlook for the international and domestic economy and set the monetary policy rate. This signals the policy stance of the Bank. 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.

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Executive Summary

The MPC of the CBG met on December 07 and December 08, 2022. The Committee reviewed developments and near-term economic outlook in the international and domestic economy and decided to increase the monetary policy rate by 100 basis points to 13 percent.

On international developments, the lingering effects of the COVID-19 pandemic continue to ripple through the globe, with the ongoing Russian-Ukraine tensions, monetary policy tightening amongst central banks amid a high inflation environment have seen the IMF revised downwards its global growth forecast for 2023 down by 0.2 percentage points to 2.7 percent. The crises have persisted longer than expected, with initial analysis expecting them to be transitory, Factors such as constrained global supply chains have maintained inflationary pressures and pushed up commodity prices, especially in the food and energy sector. The IMF however expects global inflation to fall in 2023 to 6.5 from 8.8 percent of 2022. This is premised on monetary policy continuing to restore price stability by maintaining an adequately tight stance. Uncertainty looms over the domestic economy however the prospects are positive. Early signs of recovery in tourism and construction are supporting domestic growth with indications that domestic inflation will begin to gradually ease.

The Gambian economy remains resilient in the face of various headwinds. CBG staff forecast the economy to grow by 5.2 percent in 2022, an unchanged revision from the forecast in August 2022. This outlook is based on higher-than-anticipated recovery in tourism activity, private-sector credit growth, public-sector investment, and steady private remittance inflows, which continue to support private consumption and real estate activity. Downside risks to this outlook continue to be the global economic and geopolitical environment, including a protracted conflict in Ukraine, the global COVID-19 situation, and weather conditions on agriculture. In addition, the effects of the overlapping shocks have somewhat dented business confidence, as reflected in the Central Bank's latest Business Sentiment Survey.

Global and domestic factors allowed headline inflation to ease to 12.98 percent in November 2022 - the first deceleration of headline inflation since the second quarter of 2022. However, domestic inflation remains under pressure with elevated global commodity prices increasing the import bill and further deteriorating the trade balance and the current account of the balance of payments. This, in addition to the strong dollar globally, continues to exert pressure on the exchange rate of the dalasi.

Fiscal performance also slipped during the first three quarters of 2022 due to shortfalls in revenue collection, resulting in a wider budget deficit gap. The budget deficit (including grants) widened to D4.4 billion (4.2 percent of GDP), from a deficit of D3.6 billion (3.5 percent of GDP) in the corresponding period in 2021. Total revenue and grants declined by 4.5 percent to D14.4 billion (13.7 percent of GDP), reflecting the drop in both tax and non-tax revenue. Tighter budget executions have seen total expenditure and net lending increased at a slower pace of 0.5 percent to D18.8 billion (18.0 percent of GDP).

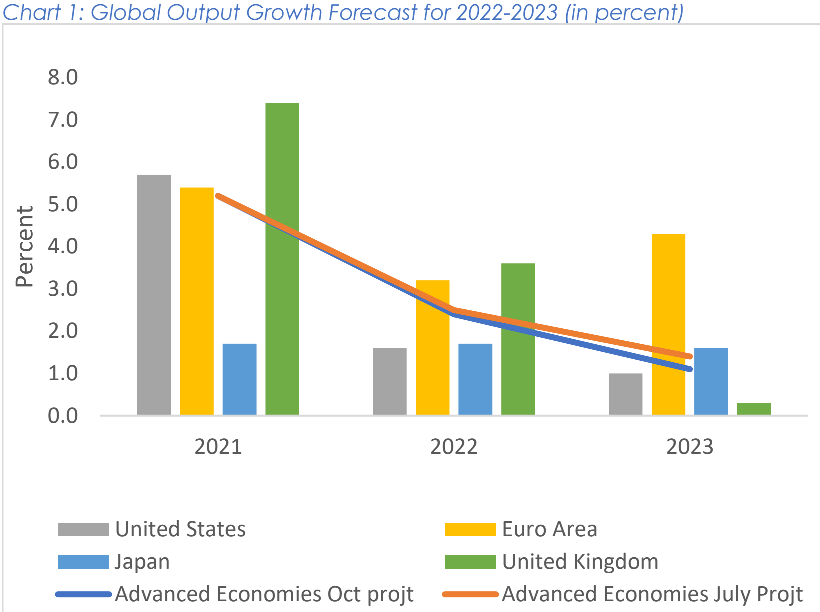
Meanwhile, the financial sector remains stable and resilient with robust liquidity and capital adequacy ratios of 26.3 percent in September 2022. The asset quality, however, marginally improved with non-performing loans (NPLs) falling from 4.21 percent of gross loans in September 2022, from 4.23 percent in June 2022. Furthermore, banks continued to make adequate provisions for the NPLs.

Guided by this assessment, the Committee believes the upside risk to the inflation outlook dictates that further policy action to bring back inflation to the implicit medium-term target. Therefore, the MPC decided to increase the policy rate to 13 percent from 12 percent. The interest rates on the overnight deposit and the required reserves of commercial banks were maintained at 3 percent and 13 percent while the overnight rate on the lending facility which is priced at MPR plus one rise to 14 percent. The Committee remains committed to bringing inflation back to its medium-term target and will continue to closely monitor the impact of these policy measures and developments in the global and domestic economy.

Global Economic Developments.

Global economic conditions have deteriorated further since August. The overlapping shocks are taking an increasing toll on economies around the world. The persistent and broadening inflationary pressures emanating from supply bottlenecks and the aggressive broad-based monetary tightening response have a dampening effect on aggregate demand. China's economic growth momentum continued to soften, owing to the strict measures to contain the spread of the Covid-19 virus, coupled with the deepening property market crisis that started in 2020. Consequently, the International Monetary Fund (IMF) in its latest World Economic Outlook (WEO) report in October 2022, projects global economic growth to decelerate from 6.0 percent in 2021 to 3.2 percent this year unchanged compared to the previous forecast in July (WEO) 2022. (Chart 1).

Chart 1: Global Output Growth Forecast for 2022-2023 (in percent)



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

The growth forecast for advanced economies group was revised downward, reflecting a slowdown in the United States (US) and major European economies. Output growth for the region is now projected to slow from 5.2 percent in 2021 to 2.4 percent in 2022 and 1.1 percent in 2023. The forecast for both years was cut by 0.1 and 0.3 percentage points respectively relative to the July WEO.

Growth in emerging markets and developing economies is estimated to decline to 3.7 percent in both this year and next (Chart 2). The downward revision is explained by the slowdown in China, which is expected to grow by 3.2 percent this year, driven by the zero COVID policy and worsening property crisis. However, in 2023, growth is expected to rise to 4.4 percent. The outlook for India is a growth of 6.8 percent in 2022 (0.6 percentage point) downgrade and 6.1 percent in 2023, reflecting a weaker-than-expected outturn in the second quarter and more subdued external demand.

For sub-Saharan Africa, the economic outlook for this year and next is slightly weaker than predicted in the July forecast. Growth for the region is now expected to decline to 3.6 percent in 2022, from 4.7 percent in 2021 and pick up marginally to 3.7 percent in 2023, a downward revision of 0.2 and 0.3 percentage points respectively (Chart 3). This weaker outlook reflects lower trading partner growth, tighter financial and monetary conditions, and a negative shift in the commodity terms of trade. In Nigeria, the growth of the economy is projected to slow to 3.2 percent in 2022 and decline more to 3.0 percent in 2023 lower than the 3.4 percent and 3.2 percent projected in the July WEO. For South Africa, growth is revised downwards, expected to reach 2.1 percent in 2022 and to drop further to 1.1 percent in 2023.

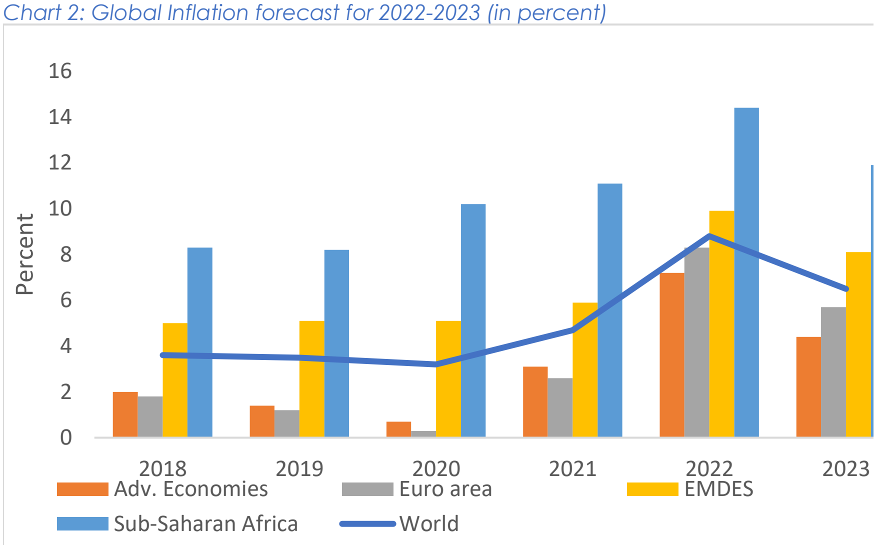
Global financial conditions remain tight in most economies since July 2022 amid tighter monetary policy and increased uncertainty about the global economy (Chart 5). In advanced economies, financial conditions are tight by historical levels. Likewise, in emerging markets and developing economies, in Europe, the Middle East and Africa, financial conditions have tightened. On the other hand, financial conditions in China have eased as policymakers provide additional support to the deteriorating economic environment.

Global inflationary pressures remain extremely elevated, reflecting high commodity prices, and recovery in demand. Currency depreciations in some economies have also added pressure on inflation. Global headline inflation is now anticipated to accelerate to 8.8 percent from 4.7 percent in 2021. This is an upward revision of 0.5 percentage points but is expected to decline to 6.5 percent in 2023 and 4.1 percent in 2024. In advanced economies, inflation is expected to rise from 3.1 percent in 2021 to 7.2 percent in 2022 before declining to 4.4 percent in 2023 (up 0.6 and 1.1 percentage points revision). For emerging markets and developing economies, inflation is anticipated to increase to 9.9 percent from 5.9 percent in 2021 and to decelerate to 8.1 percent in 2023. The new forecast is a 0.4 and 0.8 percentage points upward revision in 2022 and 2023 respectively relative to the July forecast. Inflation in sub-Saharan Africa is also estimated to increase to 14.4 percent in 2022, an upwards revision of 2.0 percentage points from July and to decline but to remain above target in 2023 to 11.9 percent.

These developments are expected to apply further pressure on domestic prices given the large content of imported goods (food and oil) in the Gambia's consumption basket.

The global economic environment remains challenging.

Chart 2: Global Inflation forecast for 2022-2023 (in percent)



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

Growth prospects are bleak, with high inflation and tight financial conditions. The undesirable combination of the rising strength of the US dollar, high-interest rates amid accelerating inflation, shrinking external financing conditions and terms of trade shocks will continue to put pressure on the exchange rate, balance of payments and external reserves and inflation in The Gambia. There are encouraging signs of declining international commodity prices, including crude oil, but rice and wheat prices are still rising which has implications for food inflation in The Gambia.

The Domestic Economy

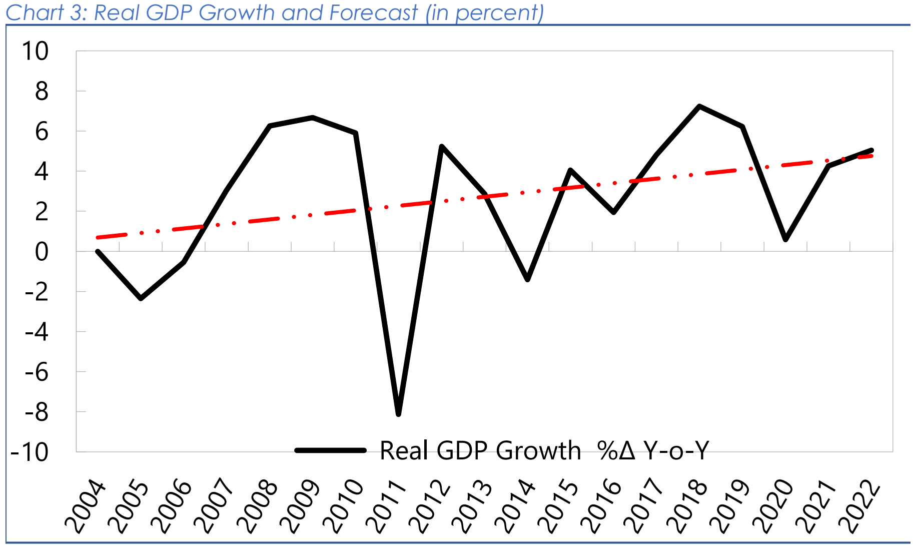
Real Sector

The Gambian economy weathered the impact of the COVID-19 pandemic. Although growth plummeted from 6.2 percent in 2019, it remained positive at 0.6 percent in 2020.

The fiscal, and monetary policy support and strong remittances inflow helped cushioned the economy during the pandemic.

Economic growth strengthened further in 2021, registering a growth rate of 4.3 percent and it is projected to grow by 5.2 percent in 2022. The outlook in the short to medium term is positive but there are downside risks, which include the economic and geopolitical situations, and the impact of climate change on weather conditions in the agricultural sector.

Chart 3: Real GDP Growth and Forecast (in percent)



Economic growth since 2020 has been driven largely by capital, and the supply of labour. A little contribution has emerged from total factor productivity (TFP) during this period. Even when many years are bundled together to allow for the accumulation of TFP (technology and technical know-how), capital and labour emerged as effectively the main drivers of growth.

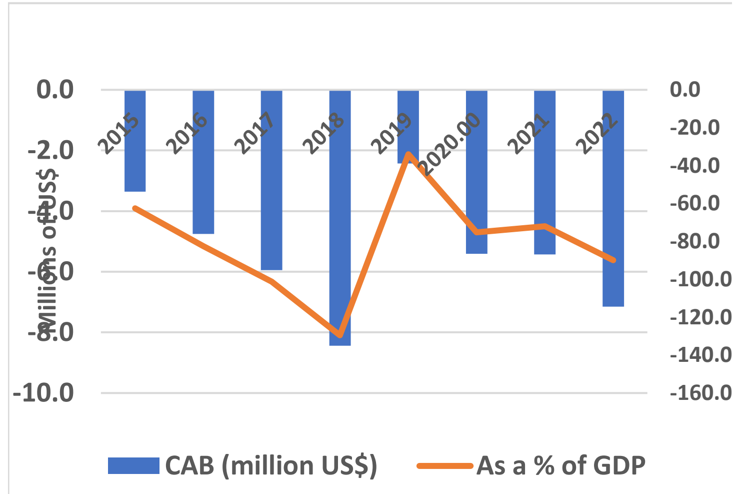
On the demand side, growth is mainly driven by domestic absorption (private and public consumption and investment). As a result of the huge dependence on imports with a small and underdeveloped export base, the contribution of foreign demand to economic growth has been broadly negative. The deterioration in competitiveness and adverse effects of ongoing shocks also contribute to the poor performance of the export sector. Enhancing the productive capacity of our economy may require a mixture of strategies that fosters both private and public investment in the productive sectors of the economy to improve exports.

The Gambian economy remains resilient and the near to medium-term outlook is positive. Although still fragile, the economic recovery that started in 2021 is expected to get stronger in 2022 and 2023. However, a weaker external demand, further global commodity prices surge, and tighter global financial conditions would adversely hurt domestic growth, increase the cost of living of households and negatively weigh on the exchange rate of the dalasi.

Balance of Payments

The current account deficit is forecast to widen to US$114.4 million (5.6 percent of GDP) in 2022, from a deficit of US$86.9 million (4.5 percent of GDP) in 2021. Although the deficit in the goods accounts is expected to improve due to the moderation in the growth in imports, remittance inflows continue to slow down. (Chart 5).

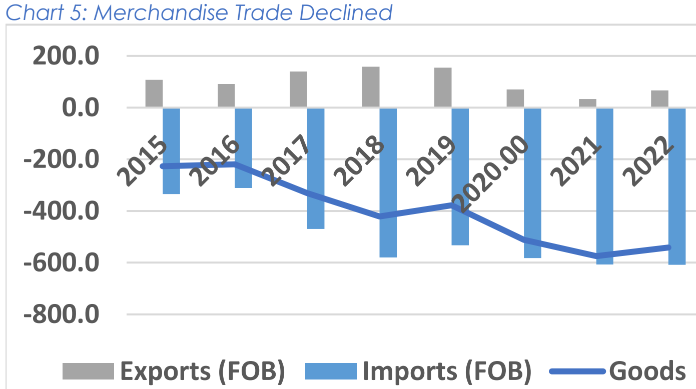
Chart 4: Current Account balance



***Source**: GBoS, CBG staff calculations*

The goods account is projected to register a deficit of US$541.8 million (26.6 percent of GDP) end of 2022, lower than a deficit of US$574.5 million (29.8 percent of GDP) in the corresponding period in 2021. The narrowing of the deficit in the goods account is predicated on a moderation in the growth in the value of

Chart 5: Merchandise Trade Declined



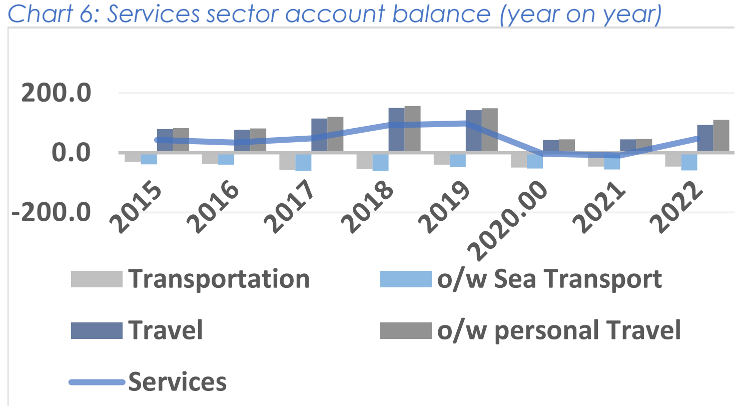
***Source**: CBG staff calculations*

imports (FOB) due to the projected decline in international commodity prices, and an increase in re-export trade.

However, the spillover effects of the conflict are significant. A sharp increase in commodity prices, particularly fuel and food, has pushed up the import bill, leading to deterioration in the goods account balance. The deficit in the goods accounts widened to US$292.0 million (14.9 percent of GDP) in the first half of 2022, from US$260.7 million (14.4 percent of GDP) in the corresponding period in 2021.

The services account balance is forecast to improve, premised on recovery in tourism, but to remain below the pre-pandemic level. The services account balance is estimated to register a surplus of US$47.2 million in 2022 from a deficit of US$9.1 million a year ago, on the back of an increase in tourist arrivals.

Chart 6: Services sector account balance (year on year)



***Source**: CBG staff calculations*

Private remittance inflows are normalizing following an unprecedented increase in the past two years. The resumption of transfers through unofficial channels following the re-opening of international travel is putting a damper on the inflows recorded in the official statistics. As a result, current transfers are projected to decline by 9.4 percent to a net inflow of US$382.5 million in 2022, from a net inflow of US$422.1 million in 2021.

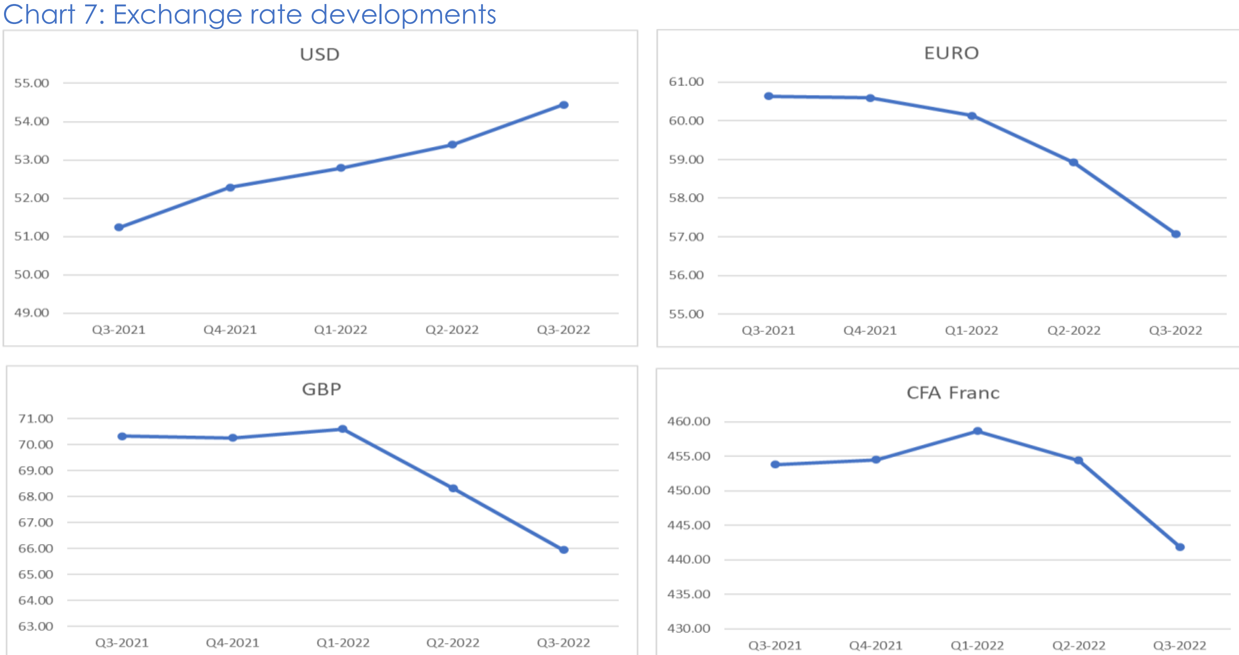
The capital and financial account is forecast to register a net inflow of US$138.5 million in 2022, lower than US$158.4 million a year ago. Like developments in many net-importing low-income countries, a confluence of the effects of the two external shocks (Ukraine war and COVID) disrupted external reserve build-up. From January to mid-November 2022 the CBG intervened in the FX market and sold US$135.2 million of it's foreign currency reserves to facilitate the importation of essential goods (commodities). This intervention led to a softening of supply conditions and dampening price pressures during the period under review.

Exchange Rate

On the domestic front, volumes of transactions in the domestic FX market, measured by aggregate purchases and sales of FX in the inter-bank market for the 2021/2022 annual period registered $2.50 billion. Relative to same period last year, the volumes marginally picked up by $6.3 million or 0.25%. The marginal increase in volumes of transactions was partly driven by private remittances and the renewed confidence in the macroeconomic environment following the relaxation of Covid-19 restrictions.

The local FX market continued to be very vibrant as the Bank continues its prudent monetary policy implementation. Thus, for the period under review, the market recorded an excess demand, which by extension exerted some pressure on the Dalasi. The excess demand is largely driven by the increased demand to finance food importation, construction materials and energy-related products as global prices continue to firm.

Chart 7: Exchange rate developments



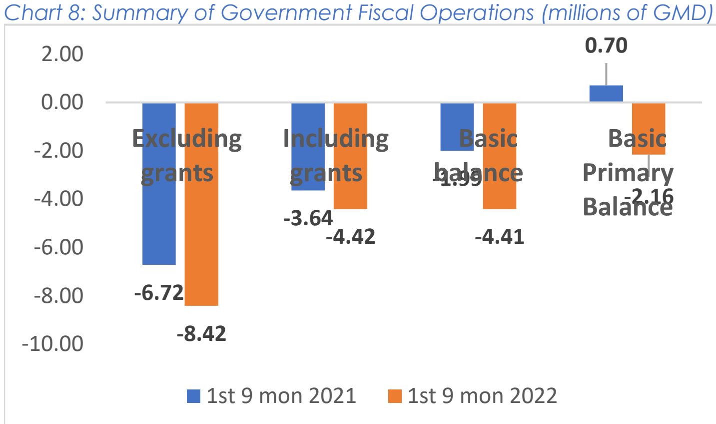
***Source**: CBG staff calculations*

Government Fiscal Operations

Overall fiscal performance has worsened in the first nine months of 2022 despite realizing an improvement in grants during the review period. The decline in tax and non-tax revenue continued to hinder revenue performance. Expenditure on the other hand rose driven mainly by expenditure on wages and salaries, goods and services. . Capital expenditure accounts for a relatively small proportion of overall spending. The positive fiscal impulse implies that government operations have a positive impact on aggregate demand.

The preliminary data on the government fiscal operations for the first nine months of 2022 shows an overall budget deficit (including grants) of D4.4 billion (4.2 percent of GDP), compared to a deficit of D3.6 billion (3.5 percent of GDP) in the corresponding period a year ago.

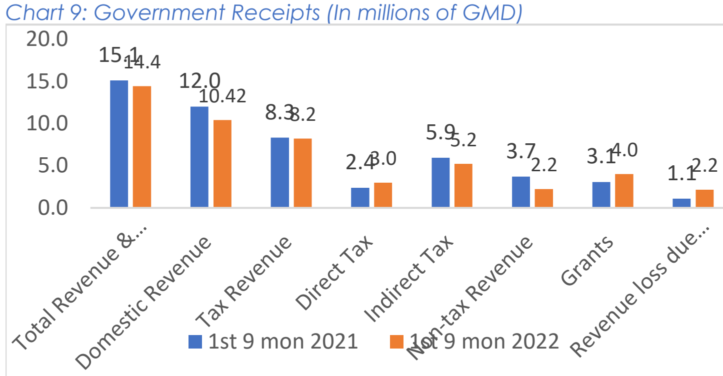
Chart 8: Summary of Government Fiscal Operations (millions of GMD)



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

The basic balance registered a higher deficit of D4.4 billion (4.2 percent of GDP) in the first nine months of 2022, compared to a deficit of D2.0 billion (1.9 percent of GDP) in the corresponding period a year ago. The primary balance recorded a deficit of D2.2 billion (2.1 percent of GDP) in the first nine months of 2022 after recording a surplus of D0.7 billion (0.7 percent of GDP) in the first nine months of 2021.

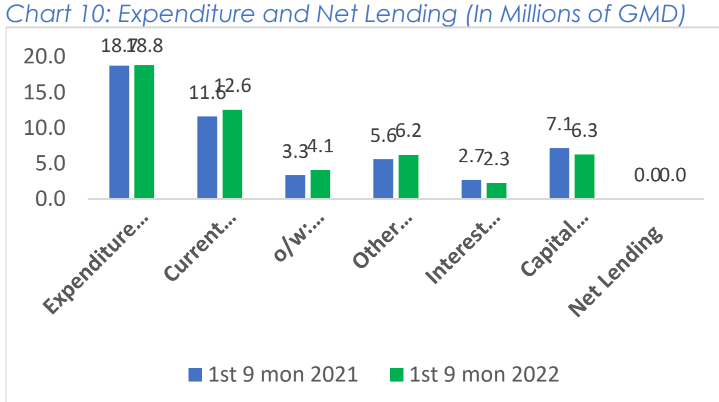
Chart 9: Government Receipts (In millions of GMD)



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

Total revenue and grants stood at D14.4 billion (13.7 percent of GDP) in the first nine months of 2022, compared to D15.1 billion (14.4 percent of GDP) in the same period last year. This represents a decline of 4.5 percent (year-on-year) and D7.3 billion below the amount projected for the period, Domestic revenue, comprising tax and non-tax revenues, fell by 13.4 percent to D10.4 billion (9.9 percent of GDP) in the first nine months of 2022, from D12.0 billion (11.5 percent of GDP) a year ago. The decrease in the domestic revenue was mainly attributed to the fall in both the tax and non-tax revenue. It also was lower than the projected amount for the nine months by D2.1 billion.

Chart 10: Expenditure and Net Lending (In Millions of GMD)



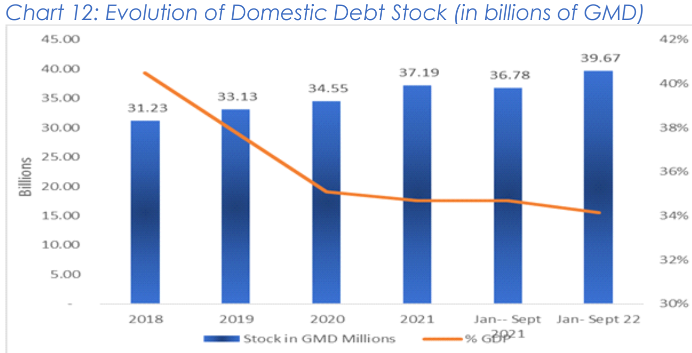
***Source**: MoFEA & CBG staff calculations*

Meanwhile, the spending needs of the government continued to increase. Government expenditure and net lending for the first nine months of 2022 increased by 0.5 percent to D18.8 billion (18.0 percent of GDP), from D18.7 billion (17.9 percent of GDP) in the first nine months of 2021. The increase in government expenditure and net lending was mainly driven by the rise in recurrent expenditure, while capital expenditure was contracted in the review period.

Domestic Debt

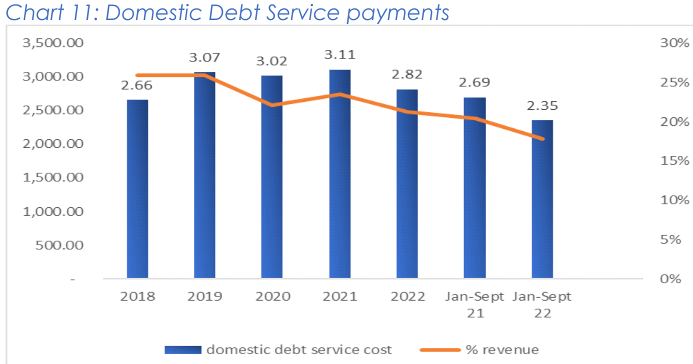
The outstanding domestic debt stock as of end of September 2022 increased from D37.19 billion in 2021 to D39.67 billion or an increase of 6.67 percent. However, the maturity structure improved in favour of medium-term debt. A new 3 & 5-year bond amounting to D2.451 billion and D670 million respectively were issued while short-term debt contracted by D99.91 million. Thus, the share of short-term debt dropped from 53.98 percent in December 2021 to 50.35 percent in September 2022. This is in line with the government's debt management strategy of re-profiling domestic debt.

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



Source: *CBG staff calculations*

Chart 11: Domestic Debt Service payments



Source: *CBG staff calculations*

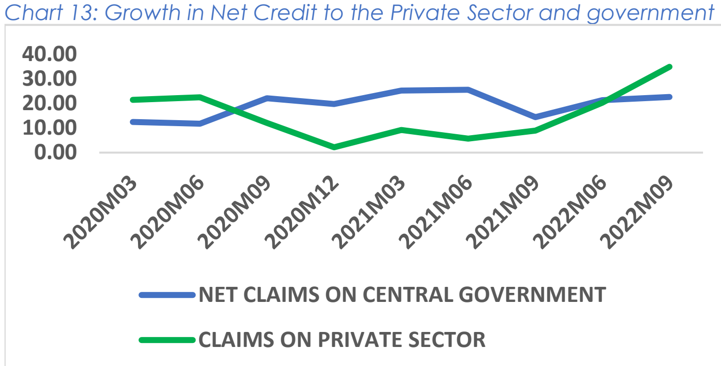
Domestic debt service, which is a function of both the principal and interest payment, is projected to drop in 2022, mirroring the low-interest rate environment that existed at the time of contracting the debt (Chart 12). The debt service for 2022 is D2.78 billion or 20.99 percent of domestic revenue compared to D3.11 billion or 23.51 percent of domestic revenue in 2021. Actual domestic debt serviced from January – September 2022 is D2.31 billion relative to D2.70 billion paid in the same period in 2021.

The increase in domestic debt by D2.48 billion in the first nine months of 2022 is attributed to bond issuance during the same period. The cost of debt has dropped due to falling yields, but risks of rate reversal remain as more bonds are issued with high spending pressures. Government deficits were financed from bond proceeds so far in 2022. The commitment to the government's debt management strategy of domestic debt restructuring needs to be maintained with prudent expenditure management and efficient revenue mobilization.

Monetary Aggregates

Base money or reserve money (RM), the Bank's operating target, contracted by 6.0 percent (year-on-year) as at end-September 2022, compared to an expansion of 24.0 percent a year ago. NFA made up of 65.6 percent of RM's stock and had a negative 16.0 percentage points contribution to the negative growth in reserve money. Monetary operations, including the increased sale of FX attributed to the contraction in the Bank's NFA and the decline in RM growth.

Chart 13: Growth in Net Credit to the Private Sector and government

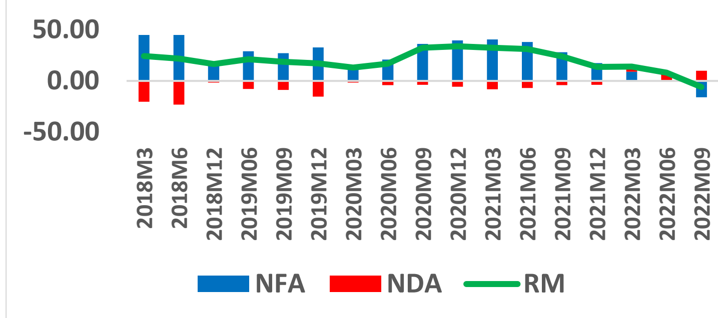


Source: *CBG staff calculations*

On the contrary, NDA accounted for 34.4 percent of RM and contributed 10.1 percent to the growth of RM, reflecting an increase in CBG net claims on government. Claims on private sector are recovering, contributing 8.9 percent to NDA's growth. It increased annually by 34.9 percent at the end of September 2022 to D11.0 billion, higher than the 9.0 percent annual growth in September 2021, and. It rose (quarter-on-quarter) by 15.1 percent from D9.6 billion in June 2022.

On a quarter-on-quarter analysis, reserve money declined by 7.8 percent in September 2022. The Central Bank's net claims on central government grew, primarily through deficits in the treasury main expenditure account (TMA) (Chart 12) and the ECF on-lending facility. In September 2022, CBG's net claims on government increased by 26.2 percent (year-on-year).

Chart 14: RM Growth and Annual Percent Contribution from NFA and NDA (percent)



***Source**: CBG staff calculations*

It is important to note that monetization of fiscal deficit through Central Bank financing can be highly destabilizing with price and exchange rate stability implications. Therefore, cooperation between monetary and fiscal policies is necessary to reverse the trend.

Banking Sector

The banking sector remains stable and resilient with robust liquidity and capital adequacy ratio. All banks in the industry as at end September 2022 were above the minimum Capital Requirement of D200 million. The Capital Adequacy Ratio stood at 26.3 per cent which represents a decrease of 0.9 and 0.3 percentage points compared to the previous year and quarter respectively. This is likely due to an increase in risk-weighted. assets (i.e., loans) from 7.8 in September 2021 to D12.6 billion in June 2022 and 13.4 billion in the review period.

The NPL in the reporting quarter stood at 4.21 percent from 4.23 per cent in June 2022 and 16.18 per cent in the corresponding quarter last year. The drop from the previous is likely due to an increase in the loan portfolio (the denominator) to D13.4 billion in the reporting quarter from D8.1 billion last year. This increase in total loans is likely due to the ease of the lockdown measures in the latter part of 2021. In the reporting quarter, government sector loans have reduced from 3.1 billion to D2.9 billion due to part repayment of the loan.

Banking industry profit stood at D465 million in the quarter under review from D459 million last quarter and D239 million in the corresponding quarter last year. This could be attributed to an increase in all lines of income and perhaps the drop in total interest expenses to 96 million in the quarter under review from D101 million last quarter and D116 million last year. This may be a sign of recovery from the internal and external shocks caused by the pandemic and the Russia/Ukraine conflict.

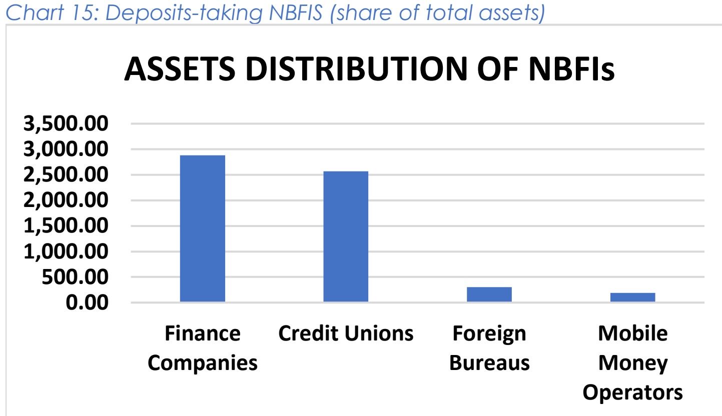
The banking industry recorded a Liquid Asset Ratio of 63.4 per cent in September 2022 from 69.89 per cent in June 2022, and 62.56 per cent in September 2021. Despite the marginal growth in Treasury Bills and Bonds (D1.5 billion), the decrease in industry Balances due from other banks to 19.4 in the reviewed quarter from D20.2 billion coupled with an increase in customer deposits may account for the drop in the liquidity ratio.

The banking system appears well capitalized (CAR), the industry remains highly profitable (ROA), and nonperforming loans (NLPs) are under 5 percent. Liquidity remains strong despite external or internal shocks. Nevertheless, as the banking industry passes most vital checks, there is a need to improve on its level of intermediation, lower the NPLs on Building and construction, improve compliance to guideline 5 as most onsite examination reports have highlighted poor classification of NPLs and evergreening practices.

Non-Bank Financial Sector

The non-bank financial sector continues to be stable. Total assets of the FCs contracted slightly to GMD 2.88 at end-September 2022 from GMD 2.89 billion at end-June 2022, representing a quarterly contraction of 0.5% or GMD 14.22 million. FCs deposits continue to rise steadily against the backdrop of the headwinds from the Covid-19 disruptions and, more recently, the consequences of the Ukraine-Russia war on household incomes. Total deposits increased from GMD 1.84 billion at end-June 2022 to GMD 1.96 billion at end-September 2022, representing an upsurge of 6% or GMD 116.06 million. On a year-on-year basis, deposits expanded significantly by 14% or GMD 245.96 million.

Chart 15: Deposits-taking NBFIS (share of total assets)



Source: *CBG staff calculations*

The industry gross loans have rebounded and risen steadily following the Covid-induced contractions of three consecutive quarters. As at end-September 2022, gross loans stood at GMD 828.98 million from GMD 772.66 million at end-June 2022, signifying a quarterly growth of 7.3% or GMD 56.32 million. Compared to the same quarter a year ago, gross loans expanded by 57% or GMD 300.93 million

The loan-to-deposit ratio contracted slightly to 42% in the review period from 45% at end-June 2022. It is worth pointing out that the loan-to-deposit ratio of 45% remains the highest according to our industry data sets. The slight contraction in the loan-to-deposit ratio is due to the significant expansion of deposits relative to loan disbursements. Notwithstanding, the loan-to-deposit ratio of 42% is still impressive compared to the previous years.

The loan income ratio has been rising steadily from end-December 2020 to end-September 2022. However, the exchange income has been fluctuating, but important to note that it took a downward trajectory between end-March 2022 and end-September 2022. The relationship between these two variables is not exact, however, they are moving in opposite directions from end-March 2022 to end-September 2022.

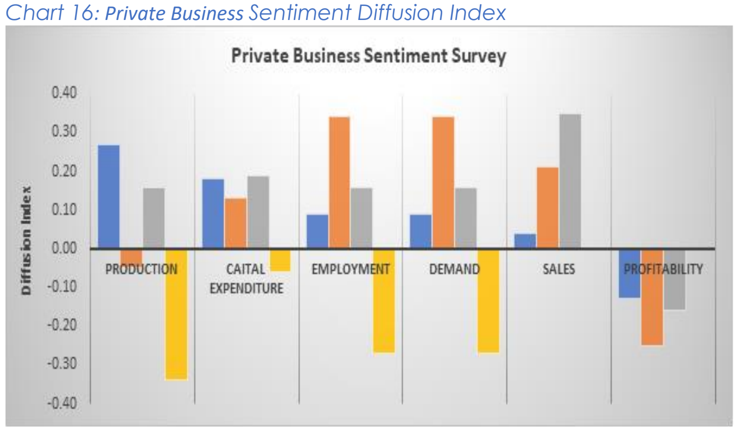
Total assets of Credit Unions (CUs) stood at D2.56 billion at end-September 2022. MMOs, however, comprises two institutions and their total assets stood at GMD 190 million at end-September 2022.

Business Sentiment Survey

The results of the October survey round revealed that most of the businesses expect higher business activity in the next-3-months (November 2022 to January 2023) at the company level, driven mostly by expected higher capital expenditure, the upcoming Christmas feast, and bumper agricultural harvest. However, most businesses do not expect growth at the company level will translate into broader growth at the aggregate economy level. Hence, most of them are less confident about the growth prospect of the Gambian economy.

Inflation expectations remain elevated and are fast becoming rooted. The impact of the ongoing shocks on global energy and commodity prices combined with the challenges at the Banjul port and depreciation of the dalasi are driving domestic inflation and near-term inflation expectation. This suggests that the Central Bank, through monetary policy, should be resolute to anchor inflation expectations.

Chart 16: Private Business Sentiment Diffusion Index



***Source**: CBG staff calculations*

The exchange rate of the dalasi is also expected to be under pressure in the near term, as the US dollar strengthens, and external shocks persist. Taxes, availability of foreign currency, and consumer demand have been highlighted as factors that may impede business activities in the next twelve months.

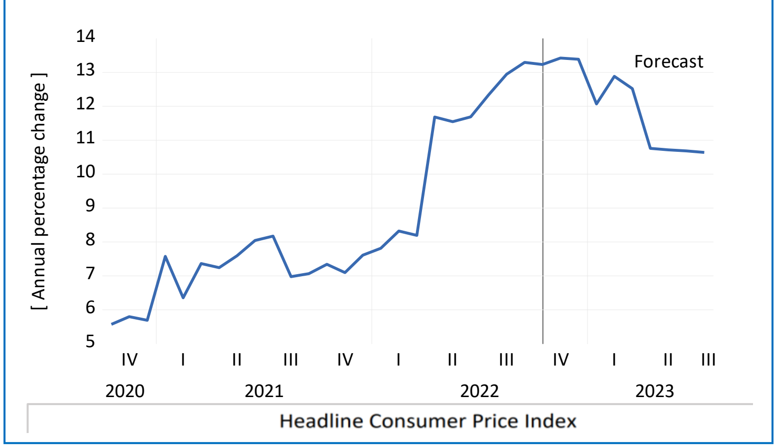
The two satisfaction/confidence indexes that measure how satisfied the business community is with the way Central Bank performs its overall functions and set short-term interest rates to control inflation declined in the October 2022 survey. Finally, the business community showed a preference for the Bank to prioritize promoting economic activities over lowering the inflation level.

Price Developments

Global factors and domestic structural bottlenecks are sustaining the rise in inflation away from the implicit medium-term target. Price pressures have become more broad-based with both food and non-food components of the CPI remaining elevated (Chart 18). Headline inflation (annual percentage change in CPI) moderated slightly to 13.2 percent in October 2022, from 13.3 percent recorded in September 2022 and 7.3 percent in the corresponding period a year ago. Primary contributor to headline inflation remains the consumer prices of food, which constitutes over 50 percent of the consumer basket, the bulk of which is imported. The adjustments in domestic prices (pump prices and transport fares) and increase in inflation expectations are major contributors to inflation.

CBG's near-term forecast of inflation shows that inflationary pressures are increasing and inflation will continue to remain well above the implicit target of 5.0 percent for the rest of the year.

Chart 17: Headline CPI



Food inflation (annual percent change in Food CPI) increased by 1.5 percentage points to 18.0 percent in October 2022, from 16.5 percent in September 2022 and 9.0 percent in the same period last year. The yearly increase in food inflation is attributed to the growth in the consumer prices of most components of the food basket, with the exceptions of Meat, Non-Alcoholic Beverages and Vegetables. Month-on-month, the increase in food prices is broader with a rise in prices of most items in the food basket. The acceleration in food prices continue to be supported by protracted supply chain constraints, high fuel prices and transportation costs.

Within the non-food category, prices moderated to 8.74 percent in October 2022, relative to 10.42 percent in September 2022. However, it remained above the level it was a year ago (5.67 percent). The decrease in non-food inflation from July 2022 to October 2022 can be attributed to the decline of all subcomponents during the period except for housing, water, electricity, gas & other fuels.

The Central Bank's core measures of Inflation also indicate a rise in underlying inflation. Core1 inflation that excludes volatile energy products from the headline inflation increased to 18.7 percent in October 2022, from 15.8 percent in July 2022 and 8.5 percent in the corresponding period a year ago. Core 2 inflation that further excludes volatile energy and food products also surged to 17.3 percent at end-October 2022 from 15.4 percent in July 2022 and 8.4 percent a year ago.

Going forward, inflation is expected to remain elevated for the rest of the year. Due to external and domestic factors, annual headline inflation moderated in the review period. The October near-term forecast projects headline inflation to remain above 10.5 percent for the next two quarters. The main upside risks to headline inflation in the forecast horizon include higher global inflation, upward pressures from domestic food prices, high fuel prices, and the depreciation of the local currency against the US dollar. Price pressures are expected to peak in the coming months. However, there are significant risks to the outlook.

Risk Assessment

CBG staff forecast economic recovery to continue in 2022 predicated on some recovery in the tourism sector, fiscal stimulus associated with the public infrastructure projects, private sector credit growth and moderate global demand. Steady remittance inflows will continue to finance household consumption and real estate activity.

Assessment of current economic conditions revealed a stronger-than-expected positive output gap due to stronger economic activity. Consumption and investment spending mainly financed by remittance inflows, positive fiscal impulse and accommodative monetary policy supported the strong domestic demand. Actual reserve money demand was over its medium-term target driven by the accommodative monetary policy stance, stronger aggregate demand, and rising inflation. On the other hand, the stronger than expected exchange rate is limiting reserve money growth and squeezing out the liquidity overhang brought about in response to the Covid-19 pandemic.

The baseline forecast indicated a real GDP growth of 5.2 percent in 2022 unchanged from the August projection. The upward revision is attributed to the improvement in tourism receipts, steady remittance inflows, and robust private sector credit.

Inflation is expected to drift away from the medium-term implicit target of 5.0 percent for the rest of the year, due mainly to the sharp increase in commodity prices. However, inflation will return to target by 2023 although the risks are uncertain and tilted on the upside. Upside risk factors include the global economic and geopolitical environment, lingering structural issues at the main port, currency depreciation and fiscal policy. Although global food prices declined in recent months, they remain highly volatile with unpredictable supply conditions. The less accommodative monetary policy stance of the Central Bank and the expectation of improved local food production this cropping season are downside risk factors to inflation. The exchange rate is expected to remain relatively stable, but pressures will emerge from higher import demand, stronger US dollar and rising interest rates in advanced economies due to monetary tightening in those countries.

The Central Bank staff assessment of the risks to the growth forecast are broadly summarized in four risk scenarios.

Firstly, the impact of a more severe global economic recession in 2023 and its impact on tourism. The tighter global financial conditions and the impact of the energy crises in the Euro area could further precipitate a global recession in 2023 deeper than currently anticipated. Should this materialize, travels for leisure to The Gambia could be affected with the potential of limiting tourism-related activity.

Another scenario assessed was a reversal in the moderation of global commodity prices and its impact on easing domestic inflation. Even though global commodity prices have moderated except for cereals, a further escalation of geopolitical tensions could disrupt international trade and further put pressure on commodity prices thus posing an upside risk to domestic inflation.

The other scenario looks at the agricultural sector and what impact a lower than excepted crop yield in Q4 2022 would have on domestic inflation and aggregate output. Despite adequate rainfall, fertilizer delays and flash flooding could hamper crop yields potentially hampering growth and pushing prices upward.

Finally, staff assessed the risk of a sharp depreciation of the dalasi against the US Dollar. With the US Dollar strengthening globally, the domestic currency remains under pressure. Furthermore, increased demand for foreign currency to finance imports is also expected to weigh on the exchange rate and exacerbate the depreciation pressures on the dalasi.

Decision

Based on its assessment of emerging risks to the inflation outlook and growth prospects, the Committee concluded that delaying further action will make it harder and costlier to bring back inflation to the implicit medium-term target and risk inflation expectations becoming entrenched. Therefore, the Committee decided to increase the monetary policy rate by 1 percentage point to 13 percent. The Committee decided to maintain the required reserve (RR) at 13 percent, the interest rate on the standing deposit facility at 3 percent and the standing lending facility 1 percentage point over the MPR (14 percent).

Next MPC Meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, February 22, 2023. The meeting will be followed by the announcement of the policy decision on Thursday, February 23, 2023.

APPENDIX

Table 1: Global Growth Rates and Forecasts for 2022-2023

Group Name	Estimates						Projections		
	2015	2016	2017	2018	2019	2020	2021	2022	2023
World	3.5	3.3	3.8	3.6	2.8	-3.1	6.0	3.2	2.7
Advanced economies	2.4	1.8	2.5	2.3	1.6	-4.5	5.2	2.4	1.1
Euro area	2.0	1.9	2.6	1.9	1.3	-6.3	5.2	3.1	0.5
Emerging market and developing economies	4.3	4.5	4.8	4.5	3.7	-2.0	6.6	3.7	3.7
Emerging and developing Asia	6.8	6.8	6.6	6.4	5.4	-0.8	7.2	4.4	4.9
Emerging and developing Europe	1.0	1.9	4.1	3.4	2.5	-1.8	6.8	0.0	0.6
United States	3.1	1.7	2.3	3.0	1.4	-3.4	5.7	1.6	1.0
United Kingdom	2.4	1.7	1.7	1.3	1.4	-9.3	7.4	3.6	0.3
Sub-Saharan Africa	3.2	1.5	3.1	3.2	3.2	-1.6	4.7	3.6	3.7

***Source**: CBG staff calculations*

Table 2: Summary of current account balance (millions of USD)

	2018	2019	2020	2021	2022
C/ Account	-135.0	-38.8	-86.6	-86.9	-114.4
Goods	-421.4	-378.0	-511.8	-574.5	-541.8
Services	92.2	98.2	-3.5	-9.1	47.2
Income	-18.8	-17.6	-26.2	-50.5	-32.5
C/Transfers	213.0	258.6	455.0	547.2	422.1

***Source**: CBG staff calculations*

Table 3: Summary of goods account balance (Millions of USD)

	2018	2019	2020	2021	2022
Goods	-421.4	-378.0	-511.8	-574.5	-541.8
Exports (FOB)	157.7	154.5	70.1	32.9	66.2
Imports (FOB)	-579.1	-579.1	-581.8	-607.4	-608.1

***Source**: CBG staff calculations*

Table 4: Summary of services account balance (Millions of USD)

	2018	2019	2020	2021	2022
Services	92.2	98.2	-3.5	-9.1	47 .2
Transportation	-54. 7	-40.2	-49.5	-45.9	-46.1
o/w Sea Transport	-60.1	-48.6	-52.9	-56.5	-59.2
Travel	150.2	142.6	43.1	45.1	93.3
o/w personal Travel	156.9	149.1	45.2	46.0	110.5

***Source:** CBG staff calculations*

Table 5: Summary of capital and financial account balance (Millions of USD)

	2017	2018	2019	2020	2021	2022
Capital & Financial Acc	19.2	44.3	94.2	43.0	-158.4	-138.5
Capital Account	55.7	55.9	69.4	95.2	23.1	45.5
Financial Account	-36.5	-11.6	24.8	-52.2	-181.5	- 184.0
o/w Direct Investment	-64.3	-81.8	-73.4	-189.6	-251.8	-177.3
o/w Other Investment	-63.0	51.7	22.6	9.2	-119.2	-38.4
o/w Change in Reserve Assets	90.8	18.5	75.6	128.1	189.5	32.0

***Source**: CBG staff calculations*

Table 6: Inter-bank Transactions Volumes (Millions of USD)

QUARTERLY US$			
	PURCHASES (US$)	SALES (US$)	VOLUMES (US$)
2020Q2	225245166	231197008	456442174
2020Q3	288216338	295008522	583224860
2020Q4	268767038	274491115	543258153
2021Q1	304575456	308436238	613011694
2021Q2	329229403	322379386	651608789
2021Q3	336598551	345064156	681662707
2021Q4	294613124	290257448	584870572
2022Q1	262930528	268771796	531702324
2022Q2	367601469	398183274	765784743
2022Q3	284337041	285246935	569583976

***Source**: CBG staff calculations*

Table 7: Market Share by Currency (in percent)

CURRENCY	USD	EUR	GBP	CFA	OTHERS
Q1-2021	76.33	17.1	5.67	0.77	0.13
Q2-2021	76.12	17.14	5.73	0.9	0.12
Q3-2021	74.04	18.76	6.14	0.89	0.17
Q4-2021	58.81	31.42	7.39	1.33	0.23
Q1-2022	65.68	25.38	7.29	1.15	0.18
Q2 2022	57.65	34.18	6.25	1.15	0.77
Q3-2022	55.27	35.43	6.20	2.88	0.23

***Source**: CBG staff calculations*

Table 8: The Overall Budget Balance

	GMD' million		% of GDP		Y-o-Y %
Overall balance	1st 9 mon 2021	1st 9 mon 2022	1st 9 mon 2021	1st 9 mon 2022	
Excluding grants	-6716.59	-8418.40	-6.40	-8.02	25.34
Including grants	-3639.06	-4416.69	-3.47	-4.21	21.37
Basic balance	-1994.92	-4410.29	-1.90	-4.20	121.08
Basic Primary Balance	704.65	-2156.00	0.67	-2.05	-405.97
CBG Financing	265.09	878.15	0.25	0.84	231.27

***Source**: CBG staff calculations*

Table 9: Revenue and Grants (Millions of GMD except otherwise stated)

RECEIPTS	2021 1st 9 Mon 2021	2022 1st 9 Mon 2022	Y-oY 1st 2021/1st 2022	1st 9 Mon Proj 2022	Performance below (-) above (+)
Total Revenue & Grants	15,101.78	14,421.23	-4.51	21728.28	-7,307.05
Percent of GDP	14.39	13.74			
Domestic Revenue	12,024.26	10,419.52	-13.35	12,512.58	-2,093.05
% GDP	11.46	9.93			
Tax Revenue	8,315.95	8,205.92	-1.32	9,564.37	-1,358.45
% GDP	7.92	7.82			
Direct Tax	2,370.63	2,994.24	26.31	2,851.80	142.45
Personal	792.81	1,043.52	31.62	993.08	50.44
Corporate	1,419.84	1,792.07	26.22	1,687.65	104.42
Indirect Tax	5,945.32	5,211.67	-12.34	6,712.57	-1,500.90
Domestic Tax on goods & services	1,828.04	1,904.74	4.20	2,239.94	-335.20
Tax on Int'l. Trade	4,117.28	3,306.93	-19.68	4,472.63	-1,165.70
Duty	2,188.33	1,833.71	-16.20	2,408.31	-574.60
Sales tax on imports	1,928.95	1,473.22	-23.63	2,064.32	-591.10
Non-tax Revenue	3,708.31	2,213.61	-40.31	2,948.21	-734.60
% GDP	3.53	2.11			
Grants	3,077.52	4,001.71	30.03	9,215.71	-5,214.00
%GDP	2.93	3.81			
Program	341.93	1027.95	200.63		1,027.95
Projects	2,735.39	2,973.76	8.71		2,973.76

***Source**: CBG staff calculations*

Table 10: Total Expenditure and Net Lending (Millions of GMD except otherwise stated)

PAYMENTS	GMD' million		% of GDP		Y-o-Y % Δ		
	1st 9-Mon 2021	1st 9-Mon 2022	1st 9-Mon 2021	1st 9-Mon 2022	1st 2021-1st 2022	1st 9-Mon Proj 2022	Performance
Expenditure & NL	18740.84	18837.92	17.86	17.95	0.52	24768.42	-5930.49
Current Expenditure	11602.15	12561.78	11.06	11.97	8.27	14717.54	-2155.75
Personnel Emoluments	3334.42	4079.32	3.18	3.89	22.34	3760.88	318.44
o/w: wages & salaries	3334.42	4079.32	3.18	3.89	22.34	3760.88	318.44
Other Charges	5568.16	6228.17	5.31	5.93	11.85	6882.10	-653.93
Interest Payments	2699.57	2254.29	2.57	2.15	-16.49	4074.56	-1820.26
External	541.71	440.87	0.52	0.42	-18.61	1976.53	-1535.66
Domestic	2157.86	1813.42	2.06	1.73	-15.96	2098.02	-284.6
Capital Expenditure	7138.70	6276.14	6.80	5.98	-12.08	10050.88	-3774.74
Externally Financed	4721.67	4008.11	4.50	3.82	-15.11		
Loans	1986.08	1034.35	1.89	0.99	-47.92		
Grants	2735.59	2973.76	2.61	2.83	8.71		
GLF Capital	2417.03	2268.04	2.30	2.16	-6.16		
Net Lending	0.00	0.00	0.00	0.00	0.00		

***Source**: CBG staff calculation*

Table 11: Summary of Monetary Developments

Key Monetary Aggregates									
Variable	Level (million)		Annual % changes					Q on Q %	
	Q3,2021	Q3,2022	21-Sep	21-Dec	22-Mar	22-Jun	22-Sep	22-Jun	22-Sep
NFA (Banking Sector)	22,619.8	19,375.3	22.5	19.0	9.1	-3.6	-14.3	-8.3	-13.9
NDA (Banking Sector)	32,169.9	42,073.7	21.7	20.0	31.2	28.7	30.8	4.2	5.7
Claims on Gov`t, net	33,310.3	40,855.1	17.0	21.5	28.9	26.4	22.6	1.5	2.7
Claims on Public Entities	810.0	3,355.3	183.8	313.7	3116.8	3140.4	314.2	23.8	-8.4
Claims on Private Sector	8,180.2	11,035.7	8.9	20.7	10.9	18.1	34.9	8.9	15.1
BROAD MONEY	54,789.7	61,449.0	22.1	19.5	21.0	14.0	12.2	-1.0	-1.4
Narrow Money	30,019.5	35,673.8	23.7	20.4	24.5	19.1	18.8	0.0	-3.2
Quasi-money	24,770.2	25,775.2	20.2	18.5	16.6	7.6	4.1	-2.3	-4.6
Reserve Money	21,397.2	20,124.0	24.0	13.6	14.0	8.2	-5.95	-0.7	-7.75

***Source**: CBG staff calculations*

Table 12: 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 13: Food Price Development (Annual Percentage Change)

Y-O-Y INFLATION	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Oct-22
Food	6.55	7.04	10.38	11.21	9.16	10.18	9.17	14.43	16.50	18.01
Bread & Cereals	8.16	7.02	8.06	8.04	7.39	8.22	9.09	18.47	18.90	25.50
Meat	1.50	5.17	6.45	18.56	20.18	16.09	11.57	12.22	10.84	9.97
Fish	18.66	25.72	24.01	18.09	12.34	4.73	1.61	5.24	5.22	6.17
Milk, Cheese and Eggs	0.97	0.95	5.50	8.57	6.27	5.73	6.58	9.31	13.20	13.66
Oils and fats	10.76	10.83	32.84	31.65	37.73	36.21	2.51	16.89	23.49	24.49
Fruits & nuts	8.14	6.63	12.94	5.22	4.62	4.14	8.88	16.49	18.05	18.16
Vegetables, root crops & tubers	4.00	2.17	-0.07	1.24	-6.43	2.49	14.72	14.78	21.52	15.41
Sugar, jam, honey & sweets	-0.86	-1.42	6.99	3.00	4.77	10.75	18.93	22.44	23.24	29.08
Other food products n.e.c	0.97	-0.79	0.02	8.05	4.26	11.89	14.12	8.78	9.90	10.30

***Source**: CBG staff calculations*

Table 14: Non-Food Price Development (Annual Percentage Change)

Y-O-Y NON-FOOD INFLATION	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sept-22	Oct-22
NON-FOOD PRODUCTS AND SERVICES	4.85	4.75	4.91	7.45	9.33	10.42	8.74
CLOTHING & FOOTWEAR	5.57	6.04	7.72	4.39	4.69	4.50	3.92
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	4.33	5.12	7.23	4.73	5.77	6.16	6.48
HEALTH	0.99	0.90	33.29	46.32	47.85	48.25	11.75
TRANSPORT	11.29	10.72	6.20	8.51	13.32	16.12	15.71
COMMUNICATION	-1.15	-0.10	1.26	1.01	0.82	0.34	0.67
RECREATION AND CULTURE	2.97	3.82	3.41	5.55	6.94	5.07	5.15
NEWSPAPERS, BOOKS AND STATIONARY	0.82	2.95	3.09	6.33	8.65	5.83	5.92
HOTELS, CAFES AND RESTAURANTS	6.36	-2.84	9.69	35.00	40.73	44.47	26.02
MISCELLANEOUS GOODS AND SERVICES	10.45	10.00	7.45	12.27	20.24	20.40	13.24

Source: *CBG staff calculations*

Table 15: Core inflation (Annual Percentage Change)

Y-o-Y Inflation	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jul-22	Aug-22	Sept-22	Oct-22
Headline Inflation	7.37	8.05	7.01	7.60	8.20	11.70	12.33	12.93	13.27	13.23
Core 1 Inflation	7.75	11.53	9.18	9.52	8.87	15.23	15.77	18.33	18.99	18.65
Core 2 Inflation	6.33	10.54	8.99	8.51	9.78	15.28	15.37	17.28	18.08	17.26

Source: *CBG staff calculations*