MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.79

September 07-08, 2021

The Monetary Policy Committee (MPC) of The Central Bank of The Gambia (CBG) convened its third meeting in the year on Tuesday, September 7, 2021, to review recent economic developments. The following day, Wednesday September 8, 2021, a meeting to decide on the Monetary Policy stance was held and thereafter a press conference.

Present were:

Name	Role
Mr. Buah Saidy	Chairman
Mr. Essa A.K. Drammeh	Member
Mr. Momodou Sissoho	Member
Mr. Paul John Gaye	Member
Mr. Ebrima Wadda	Member
Mr. Amadou S. Koora	Member
Mr. Karamo Jawara	Member
Mr. Alieu S. Ceesay	Secretary

Absent:

Two members were absent with apologies.

Mr. Baboucarr Jobe	MPC Member
Dr. Seeku Jaabi (Official Mission)	MPC Member

Report Presenters

Name	Designation
Mr. Khalilu Bah	Senior Economist, Economic Research Department
Mr. Alieu S. Ceesay	Senior Economist, Economic Research Department
Ms. Aji Adam Njie	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Ms. Fatou Sanyang	Banking Officer, Banking Department

Mr. Bademba Drammeh	Statistician, Economic Research Department
Mr. Saikou B. Jammeh	Economist, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Babucarr Jammeh	Senior Bank Examiner, Banking Supervision Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Ousman Saidykhan	Officer, Financial Markets Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department
Mr. Muhammed Sonko	Officer, Other Financial Institutions Supervision Department

In attendance were:

Name	**Designation**
Mr. Serign Bai Senghor	Senior Advisor, Corporate Services Unit
Mr. Omar Janneh	Director, Administration and General Services Department
Ms. Fatou Deen-Touray	Director, Development Finance Department
Mr. Abdou H. Ceesay	Deputy Director/OIC, Currency Management Department
Mr. Saikou Touray	Deputy Director/OIC, Human Resource Department
Mr. Karafa Jobarteh	Deputy Director/OIC, Financial Markets Department
Mr. Siaka Bah	Deputy Director/OIC, Other Financial Institutions Supervision Department
Mr. Michael Barrai	Deputy Director/OIC, Internal Audit Department
Ms. Sainabou Njie	Senior Bank Examiner, Banking Supervision Department
Ms. Binta Beyai	Senior Economist, Banking Department
Mr. Mustapha Senghore	Principal Bank Examiner, Banking Supervision Department
Mr. Mawiyatou Susso	Statistician, Economic Research Department

Agenda for MPC Meeting-Day 1

1. The agenda of the meeting was adopted as presented.
    1. Adoption of the agenda
    2. Opening remarks by the Chairman
    3. Review of the minutes of the previous meeting and matters arising
    4. Presentation and discussions of reports
    5. Lunch and Prayer Break
    6. Presentation and discussion of reports continue.

Opening remarks by the Chairman

2. The meeting was opened with silent prayers, followed by a welcome note to all attendees. The Governor and Chairman of the MPC once again encouraged staff to maintain good conduct and adhere to the service rules of the Bank as professionals.

3. The Chairman enjoined MPC Members to work diligently to ensure fruitful deliberations aimed at arriving at the best monetary policy decision.

4. The Governor emphasized the importance of using development finance such as Islamic financing for the advancement of the country. He went further to argue that the utilization of the recent SDR allocation by the Fund should be geared towards infrastructure spending which can go a long way in improving the lives of the most vulnerable and poor population instead of servicing external debt.

5. The meeting was informed that the Bank did some restructuring in which a Development Finance Department was created whose responsibility would be to complement Government's efforts in attracting private sector investments to bridge the infrastructure gap.

Review and Adoption of the Minutes of the Previous Meeting

6. The minutes of the previous meeting were reviewed and adopted after few amendments.

Presentation of Reports:

7. The meeting proceeded with the presentation and discussion of reports on the World Economic Outlook (WEO), the Banking Sector, Other Financial Institutions, Domestic Debt Market, Balance of Payments, Financial Markets, Monetary Sector, Government Fiscal Operations, Business Sentiment Survey, Real Sector, and Inflation. These were followed by the macroeconomic forecasts assessing the current economic conditions, baseline forecasts, and alternative scenarios.

Global Macroeconomic Developments

1. Global economic recovery continued albeit, with diverging trends across countries. Latest release of the World Economic Outlook (WEO) by the International Monetary Fund (IMF), projected global output at 6.0 percent in 2021, unchanged from the April 2021 WEO forecast. This strong anticipated recovery, however, is not broad-based across economic regions, resulting in widening gap between rich and poor countries. Uncertainties about the impact of the Covid-19 pandemic and lack of a full grip on its spread continued to weigh on the prospects of the recovery.

2. Economic growth in advanced economies was projected at 5.6 percent in 2021 according to the IMF, reflecting a 0.5 percentage point upward revision relative to the April 2021 WEO forecast. Similarly, growth prospects for 2022 was adjusted upwards based on expected return to normalcy as vaccine roll-out continues coupled with additional fiscal support particularly in the US and better adaptation to Covid-19 restrictions in the U.K.

3. Conversely, emerging markets and developing economies forecast for 2021 was revised downwards in the July 2021 WEO by 0.4 percentage points, on account of growth markdowns for emerging Asian economies. The IMF forecast economic activity in India to grow by 9.5 percent lower than the 12.5 percent projected in April 2021 as the more severe second wave clouded the recovery momentum.

4. In Sub-Saharan Africa, growth projection for 2021 remained unchanged, at 3.4 percent but upgraded for the region's second biggest economy, South Africa on the back of strong positive surprises in the first quarter of the year, offset by downward revisions in other countries in the region. Growth prospects for 2022 was upgraded to 2.6 percent, 0.3 percentage points higher than the 2.3 percent earlier forecast in April 2021. The IMF cautioned that the prevailing worsening pandemic situation in the region is expected to weigh heavily on the region's recovery.

5. Global inflation remained elevated in 2021 in most economies. Inflation was projected to accelerate to 3.5 percent this year compared to 3.2 percent in 2020, reflecting several factors, including pickup in demand as Covid-19 pandemic restrictions eases. In Advanced economies, inflation was estimated at 2.4 percent in 2021, relative to 0.7 percent in 2020. In Emerging Markets and Developing Economies, inflation was projected at 5.4 percent in 2021 compared to 5.1 percent in 2020.

6. In Sub-Saharan Africa, inflation was projected at 9.8 percent in 2021 relative to 10.8 percent last year. Currency depreciation in these economies was also a contributing factor to the increases in food prices. The current inflation trajectory was viewed to be transitory, according to the IMF and expected to return to pre-pandemic levels in most countries in 2022.

7. The Committee noted the continued global economic recovery in the IMF growth projections for 2021, albeit diverging trends across countries. This positive projection was based on better access to Covid-19 vaccines and continued large fiscal policy support in advanced economies while emerging and developing economies experiencing difficulties on both fronts. Despite improvements in the growth forecast, risks to the global outlook are tilted upwards as uncertainties surrounding the COVID-19 pandemic on vaccines efficacy and access amidst the emergence of new variants remain.

8. The Committee noted the increase in food prices which were due to a surge in global food and oil prices as well as cost push effects of the structural bottlenecks at the ports. However, some of these structural issues are being addressed.

9. The Committee opined that the global recovery appeared to be earlier than expected and countries' economic status would determine the necessary policy actions. The Committee, therefore, echoed the need for continued fiscal policy stimulus particularly for infrastructural spending to fight the impact of Covid-19 pandemic which would help in the domestic economic recovery.

10. Some Committee members expressed doubt on the prospects of the anticipated recovery in the tourism sector especially considering the current low level of bookings in hotels. However, the Committee remained optimistic for the first half of 2022 given the gradual access to vaccines.

Domestic Macroeconomic Developments

Banking Sector Developments

11. The banking sector remained fundamentally sound and stable, well capitalised, and highly liquid. The risk-weighted capital adequacy ratio stood at 28.3 percent as at end-June 2021, well above the statutory requirement of 10 percent. All the banks were above the minimum capital requirement. The liquid assets to deposit liabilities of the banking industry stood at 94.1 percent and above the minimum requirement of 30 percent for the period under review. The ratio of non-performing loans to gross loans fell to 5.6 percent at end-June 2021 from 7.7 percent in the previous quarter.

12. As at end-June 2021, total assets of the banking industry expanded by 4.5 percent to D64.01 billion from D61.22 billion recorded in the previous quarter. Year-on-year, it grew by 23.5 percent or D12.2 billion. This is largely attributed to the increase in balances due to other banks and investments accounts securities by 32.7 percent and 21.4 percent, respectively.

13. Banks gross loans and advances to major economic sectors stood at D7.84 billion (8.2 percent of total assets), indicating a growth of 2.8 percent from D7.63 billion in March 2021. Similarly, it increased year-on-year by 6.8 percent.

14. Deposit mobilization remains the major source of funding for banks. Total deposits of banks stood at D45.5 billion (71.1 percent of total liabilities) as at end-June 2021, D2.5 billion higher than the previous quarter. Year-on-year, total deposits increased by D9.7 billion or 27.1 percent.

15. The Committee took note of the decline in the non-performing loan ratio in June 2021 relative to March 2021 attributed to reclassification of some the non-performing loans in the loan basket. However, the Chairman tasked the Banking Supervision Department (BSD) to collect the NPL ratio of the construction companies that were contracted by the government especially those doing pre-financing.

16. The Committee underscored the need to use the credit reference bureau (CRB) to mitigate the risk of higher NPLs within the banking system and extend the service to cover the entire financial system. The Committee noted the limitations of the CRB to capture loans and credit beyond the commercial banks. Thus, the Committee recommended that capacity in this area be strengthened as it remains to be a deterrent within a shallow financial market that shares the same customers.

17. The Committee expressed concern over the joint classification of loans and advances on the balance sheet of DMBs which they believe is not appropriate. Therefore, the Committee recommended that DMBs should classify advances separately from gross loans. The Banking Supervision Department (BSD) is urged to ensure that DMBs comply before the next MPC.

Developments in Other Financial Institutions

18. The Non-Bank financial sector continued to play a pivotal role in extending financial services to the majority of the unbanked or under-banked segment of the population. The UNCDF financial inclusion survey (Finscope Survey 2019) showed that non-bank financial institution provided 14.0 percent of formal finance to the population compared to only 5.0 percent from deposit money bank culminating into 19.0 percent of financially included.

19. All the finance companies (FCs) met the minimum capital requirement of D50 million. The aggregated capital of the FCs stood at D375.83 million as at end-June

2021 compared to D368.95 million at end-March 2021, representing an increase of about 2.0 percent. Year-on-year, it rose significantly by 38.0 percent from D273.29 million at end-June 2020.

20. Total assets of the FCs increased by 5.7 percent to D2.21 billion as at end-June 2021 from D2.09 billion at end-March 2021. Year-on-year, total assets increased remarkably by 39.0 percent, driven by the increase in gross loans and treasury/Sukuk bills investments.

21. Total deposits significantly increased despite the challenges posed by the pandemic. In the second quarter of 2021, total deposits of the FCs grew by 6.6 percent to D1.61 billion from D1.51 billion in previous quarter. It grew notably by 37.0 percent on a year-on-year basis.

22. Total loans disbursed on quarter-on-quarter basis increased by 11.9 percent to D449.49 million in quarter 2, 2021 from D401.68 million in the preceding quarter. Similarly, it expanded significantly by 45.2 percent compared to the same period last year. The average non-performing loan ratio increased from 10.0 percent in the previous quarter to 15.0 percent in the second quarter of 2021, higher than the recommended benchmark of 5.0 percent.

23. The Committee was informed that the 12 largest credit unions (CUs) have started submitting their returns to the Bank, however, they have challenges in preparing the returns. Members indicate a need to build their capacity since they are playing a very crucial role in terms of financial intermediation relative to the DMBs.

24. The Committee recommended a consolidation of all the microfinance institutions i.e finance companies, credit unions, mobile money operators, and mortgage companies to assess their macroeconomic impact. However, it was highlighted that two of the MFIs (FCs and CUs) are deposit taking institutions whilst the other two are not thus becoming improper to consolidate them.

25. The Committee expressed concern over the losses that Home-Finance Mortgage company continued to incur. Thus, it recommended that the Other Financial Institutions and Supervision Department (OFISD) should invite them for discussion regarding the on-going losses.

26. The Committee once again discussed the reclassification of Reliance Financial Services (RFS) to a DMB and concluded that Reliance's rigid culture of business model would not permit it to operate as a bank, but its financial weight warrants closer supervision.

27. The Committee debated on the possibility of bringing Social Security and Housing Finance Corporation (SSHFC) under the regulatory umbrella of the Central Bank in the long run as it remains a major player in the non-bank financial institutions sector. Although there exist a SSHFC Act that gives the institution autonomy, it would require a considerable amount of political will to amend that Act the Committee observed.

28. The Committee re-echoed the need to institute a Sharia Board that would handle and regulate issues of Sharia compliance in Islamic finance industry. Thus, recommended that a proposal should be taken to the Board on Shariah laws regarding Islamic financial institutions. The Chairman tasked the Second Deputy Governor to help establish a relationship with the Central Bank of Malaysia to help build capacity in Islamic Finance related areas.

Domestic Debt Market Developments

29. The stock of domestic debt remained elevated, as the outstanding domestic debt rose to D36.56 billion (38.1 percent of GDP) as at end-August 2021 from D34.55 billion (38.4 percent of GDP) as at end-December 2020, indicating an increase of D2.01 billion. The increase in the debt stock was driven primarily by the net issuance of D2.17 billion to reprofile the domestic debt market as well as finance government operations.

30. Yields across all treasury bills profiles continued to decline reflecting the excess liquidity position of the banking system. The 91-day, 182-day and 365-day treasury bill yields decreased to 1.93 percent, 1.94 percent, and 2.17 percent in August 2021 from 3.57 percent, 5.50 percent, and 8.52 percent in August 2020, respectively.

31. Domestic interest expense for 2021 is estimated at D2.51 billion or 21.49 percent of projected domestic revenue slightly higher than D2.42 billion (17.62 percent of revenue) recorded in December 2020. The domestic debt service for the first half of this year was D1.34 billion higher than the D1.23 billion paid in the same period last year. This was mainly driven by 3-year bond coupons payments due in 2021.

32. The Committee noted that given that over half of the debt stock matures in a year or less, significant refinancing risk continued to persist. The increased bond issuances would bloat the already high debt level with potential to sharply reverse the low security yields.

33. In addition, the spending risks relating to the election cycle may weigh heavily on public finances.

Balance of Payments Developments

34. The report on the developments in the preliminary balance of payment estimates indicated that the current account improved in the second quarter of 2021 due to the strong transfers (Remittances). The current account balance improved significantly to a deficit of US$5.56 million (0.30 percent of GDP) in the second quarter of 2021 from a deficit of US$41.13 million (2.33 percent of GDP) in the same quarter last year.

35. The goods account balance is estimated to widen to a deficit of US$134.42 million (7.3 percent of GDP) in the second quarter of 2021, from a deficit of US$122.38

million (6.9 percent of GDP) in the corresponding period of 2020. The widening of the deficit in the goods account mainly reflects the pickup in economic activities during the period compared to a year ago. Imports increased by 12.2 percent to US$141.45 million in the second quarter of 2021 higher than US$126.08 million in the same period in 2020. Similarly, export receipts increased to US$7.03 million in the second quarter of 2021, from US$3.69 million in the corresponding period of 2020.

36. The services account balance improved to a lower deficit of US$6.07 million, or by 44.08 percent in the second quarter of 2021 from a deficit of US$10.85 million in the same period a year ago. This improvement was due to an increase in personal travels by 36.23 percent to US$9.83 million.

37. The deficit in the capital and financial account worsened to US$52.87 million in the second quarter of 2021, from a deficit of US$28.75 million in the same period a year ago, reflecting a weakened financial account balance due a to decline in investments.

38. The Gross Official Reserves as at end-June 2021 stood at US$418.96 million (7.0 months of import cover) compared to US$392.96 million (5.5 months of import cover) at end-March 2021 and US$264.81million (5.3 months of imports) a year ago.

39. The improvement in the current account balance continued to support the stability of the exchange rate of the dalasi. The exchange rate of the dalasi remained broadly stable, supported by prudent monetary policy, and sustained foreign inflows, particularly, private remittances.

40. The Committee noted the deterioration in the goods account balance and attributed it to higher imports and lower cross border trade for re-exports due largely to the Covid-19 pandemic.

41. The Committee also noted that the improvement in the services account was due mainly to travels. They further highlighted that there is need to develop the services sector which can significantly help to transform the economy. One of the possible ways of improving the services sector, the Committee suggested, is by improving the ports capacity and its IT infrastructure.

42. The Committee once again opined that the port expansion and berthing site project is expected to reduce port charges, increase economic activities and growth. The Committee was informed that meetings were held with the European Investment Bank (EIB) and African Development Bank (AfDB) to ensure that the financing of the Banjul port extension project is on concessional terms.

Financial Market Developments

43. Volume of transactions in the foreign exchange market increased to US$2.4 billion in the twelve months to end-June 2021, from US$2.1 billion a year ago. Purchases of foreign currency (representing supply) grew by 14.6 percent to US$1.2 billion in the review period while sales (indicative of demand) similarly rose to US$1.2 billion or by 13.6 percent. This represents an excess demand of foreign currency which exerted modest pressure on the Dalasi. The demand for foreign currency was import related basically on fuel, telecommunications, and basic commodities.

44. End period mid-market average exchange rates revealed that the Dalasi experienced modest pressure against major traded currencies during the review period. Year-on-year, the Dalasi weakened against the Pound Sterling, Euro and CFA Franc by 11.1 percent, 8.3 percent, and 8.1 percent, respectively and strengthened against the US Dollar by 0.6 percent. The weakening of the Dalasi was largely influenced by the under performance of the tourism sector due to COVID-19, demand pressure from imports, expansionary fiscal policy and the regain strength of the British Pound and Euro in the global market. Furthermore, the fixed parity between the Euro and CFA impacted on the strength of the sub-regional currency in addition to its excess demand.

45. The Committee noted the pressure on the Dalasi but was of the view that this would be reduced towards the end of the year by the expected sustained increase in remittances, anticipated recovery of tourism and a successful groundnut trade season.

46. The increase in remittance inflows which had become the main source of foreign exchange supply since the pandemic hit, largely contributed to the resilience of the local currency. Committee Members were of the view that the remittances' trajectory is expected to continue in the near term given the increase in the number of registered MTOs as well as the increased usage of the formal channels of sending money.

Real Sector Developments

47. The Gambia Bureau of Statistics (GBoS) estimated the Gambian economy to have contracted by 0.2 percent in 2020, lower than 6.2 percent growth registered in 2019. The decline in real GDP growth in 2020 compared to 2019 is attributed to the global COVID-19 pandemic whose waves continue to impact economic activities around the globe.

48. The IMF and the Gambian authorities estimated real GDP growth at 4.9 percent in 2021 premised on the ease in restrictions on economic activities, increase government spending associated with the OIC projects, effective vaccine roll-out and anticipated recovery in tourism and trade. However, the Bank's Composite Index of Economic Activity (CIEA) projected the economy to grow at 1.6 percent in 2021 premised on the relaxation of restrictions on economic activities to curb the spread of the virus.

49. The Committee opined that the anticipated recovery in the global economy has started impacting on domestic developments as evident in some macroeconomic indicators (tourism and exports). Real GDP growth for The

Gambia is forecast at 4.9 percent for 2021, up from the projection of -0.2 percent growth in 2020.

50. The Committee was reminded that the Composite Index of Economic Activities (CIEA) is experimental. At its current stage, it only considers few economic activities to gauge how well it can track GDP growth and provide quarterly GDP forecast for policy formulation since such forecasts are unavailable from The Gambia Bureau of Statistics (GBoS) on a quarterly basis.

Monetary Developments

51. Broad money at D56.61 billion at end-June 2021, grew by 27.5 percent compared to 16.4 percent at end-June 2020 driven by significant growth in Net Foreign Assets (NFA) of the banking system. Growth in broad money was also influenced by narrow and quasi money which grew by 27.3 percent and 27.8 percent respectively. Quarter-on-quarter, broad money grew by 5.1 percent compared to 3.0 percent a year ago.

52. The NFA of the banking system grew by 48.9 percent to D25.74 billion at end-June 2021 compared to D17.28 billion in the same period last year. The growth in the NFA of the banking system was on account of a 64.5 percent and 31.0 percent increase in the NFA of the Central Bank and deposit money banks.

53. The net domestic asset (NDA) of the banking system likewise rose to D30.87 billion, representing an increase of 13.8 percent relative to 10.4 percent growth in the same period last year. The banking system's net claims on government increased by 11.0 percent in June 2021 and constituted 89.4 percent of total domestic credit. Private sector credit expanded by 5.7 percent as of end-June 2021, significantly lower than the 24.5 percent growth recorded in June 2020 mirroring lower economic activities.

54. In the twelve months ending June 2021, reserve money accelerated by 31.1 percent to D20.2 billion relative to 16.8 percent growth a year earlier attributed to a significant growth in the NFA of the Central Bank. Both components of reserve money expanded during the review period. Currency in circulation, the main driver of reserve money growth increased by 27.3 percent while reserves of DMBs rose by 37.1 percent.

55. The Committee noted the recovery in the domestic economy as evidenced in the growth in private sector credit and opined that the accommodative monetary policy stance appeared to be achieving some of its desired objectives.

56. The continued growth in the monetary aggregates is reflective of the monetary policy stance adopted by the Bank to support growth of the economy. However, monetary tools such as the CBG bills could be used if reserve money is seen going outside the programme target. In addition, sterilization of foreign inflows could also be considered.

Government Fiscal Operations

57. Provisional data on Government fiscal operations for the first half of 2021 showed an overall budget deficit (including grants) of D2.9 billion (3.1 percent of GDP) compared to D2.6 billion (2.7 percent of GDP) in the corresponding period of 2020. In contrast, the overall budget deficit (excluding grants) narrowed to D4.2 billion (4.5 percent of GDP) in the first six months of 2021 from a deficit of D4.3 billion (4.6 percent of GDP) in the corresponding period of the previous year.

58. Both the basic and primary balances deteriorated during the review period increasing from D1.6 billion (1.7 percent of GDP) and D137.5 million (0.15 percent of GDP) in the first half of 2020, to D1.9 billion (2.0 percent of GDP) and D219.7 million (0.2 percent of GDP) in the first half of 2021. The deterioration was driven by decrease in externally financed capital expenditure and domestic revenue respectively.

59. In first half of 2021, total revenue and grants mobilized amounted to D8.2 billion (8.7 percent of GDP), D0.5 million lower than the amount registered in the corresponding period a year ago. Domestic revenue accounting for 83.8 percent of revenue and grants declined to D6.87 billion (7.3 percent of GDP) in the first half of 2021 from D6.92 billion (7.3 percent of GDP) in the first half of 2020 attributed to decline in non-tax revenue.

60. Revenue and grants in the first half of 2021 decreased to D8.2 billion (8.7 percent of GDP) from D8.7 billion (9.2 percent of GDP) in the same period last year. Domestic revenue, which comprises tax and nontax revenue declined slightly by 0.7 percent to D6.87 billion (7.3 percent of GDP) in the first half of 2021, from D6.92 billion (7.3 percent of GDP) in the corresponding period a year ago.

61. Expenditure and net lending declined slightly to D11.1 billion (11.8 percent of GDP) or by 1.0 percent in the first half of 2021. This was due to a 6.9 percent fall in recurrent expenditure. Capital expenditure, on the other hand, increased by 13.5 percent in the review period from D3.2 billion a year ago.

62. The Committee observed the increase in expenditure during the review period part of which was towards mitigating the effects of the COVID-19 virus on vulnerable household and strengthening response capacities of the health sector. It also noted the decline in domestic revenue collection which fell short of target reflecting low economic activity and lack of financial muscle for some businesses to recommence operations following the lifting of the restrictions.

63. The increase in capital expenditure for the past consecutive quarters was noted and welcomed. It is envisaged that the implementation of the OIC infrastructure projects would further boost capital spending that can improve lives and engender economic growth.

Business Sentiment Survey

64. The general perception of respondents from the Bank's quarterly Business Sentiment Survey revealed high confidence on the performance and prospects of the economy due to the availability of the COVID-19 vaccine in the country. The downside risks to the outlook included: uncertainties surrounding the mutating variants and, inadequate infection containment measures, the slow recovery of some sectors and political uncertainty with the upcoming elections.

65. Respondents were however pessimistic about the growth or expansion of their businesses in the next quarter due to decline in customer demand. Cost of doing business, regulatory issues, and supply chain disruptions were cited as some of the factors constraining growth of businesses in The Gambia.

66. Expectations on prices remained elevated as respondents expect inflation for the next quarter to increase due to its current trajectory and as a result want an increase in the interest rate to work against the rising inflation. The exchange rate of the Dalasi is expected to remain stable with an appreciating prospect when tourism recovers.

67. The Committee noted the positive sentiments expressed by the business community regarding the outlook of the economy and the fear of increase in inflation. The spike in inflation, the Committee opined is transitory and would soon trend down as projected by the inflation forecast. The Committee recommended that the survey profile of respondents be expanded beyond Senior Management to include front office staff to get a more diverse group of respondents. In addition, the survey should be extended to all the regions for an inclusive country-wide coverage.

Inflation Outlook

68. Consumer price inflation (Headline) increased to 8.2 percent in July 2021 from 7.3 percent recorded in April 2021 and 4.8 percent in the corresponding period a year ago. The rise in headline inflation is primarily explained by the increases in prices of most components of the food basket in July 2021.

69. Year-on-year, food inflation accelerated significantly by 6.5 percentage points to 11.8 percent in July 2021 from 5.3 percent a year ago and 8.5 percent in April 2021. The rise in food prices was driven by the sharp increase in the following sub-components: rice, vegetables, oils and fats, sugar, jam, honey & sweets, non-alcoholic beverages, and other food products.

70. Similarly, non-food inflation also edged up slightly to 4.5 percent in July 2021 from 4.1 percent same period in 2020. In the twelve months to end July 2021, the consumer price of all subcomponents of non-food inflation increased except for miscellaneous goods & services, Hotels, Cafes and restaurants and education.

71. The Committee pointed out that the recent increases in prices could be partly attributable to structural factors. The increase in inflation is largely cost push and could be addressed mainly by tackling the structural bottlenecks, particularly at the ports and the road transport sector.

72. The Committee also noted the rising trend in inflationary pressures particularly during the first seven months of 2021 mainly reflecting global increase in food prices and the one-off effect of increase in the education index in October 2020. The near-term forecast of inflation indicated deceleration in Consumer Price Inflation (CPI) in the forecast horizon.

73. The Committee emphasised the need to strengthen domestic food production capacity to mitigate fluctuations in certain basic commodities and noted that this was what partly motivated the recent establishment of a development finance department in the Bank. The Bank would strengthen sectors that are usually

vulnerable to shocks through the development finance window. A proposed project to improve the groundnut production value chain including the revival of the groundnut processing factory at Denton Bridge was cited as a step in the right direction.

Assessment of the Economic Outlook

74. The economy is projected to rebound faster than anticipated due to positive developments in both domestic and external fronts. The output gap contraction in the initial condition sharply improved as economic activities continue to pick-up. Consumer price inflation accelerated to a peak of 8.2 percent in July 2021, up from a low base of 5.7 percent in the corresponding period last year and 0.1 percentage point from a month ago. The spike in inflation could be attributed to structural bottlenecks and some transitory effects. Amid this inflation trend, monetary conditions remain loose as interest rates remain markedly below their neutral levels compensating for the over-valued exchange rates as well as supporting growth and maintaining macroeconomic stability.

75. In the baseline, the economy is forecast to grow by 5.1 percent premised on anticipated recovery in tourism, infrastructural spending for the OIC Summit, elections, and global demand. The forecast also predicts stability in the exchange rate contingent on a sustained path of remittance inflows and an increase in the monetary policy rate (MPR) to curb the rising inflation.

76. The forward-looking forecast of the model i.e., the Alternative Scenario looks at the reaction of some key monetary variables when certain assumptions hold and compares it with what obtains in the Baseline forecast. The Scenarios assume recovery in tourism, acceleration in inflation, delay in the implementation of the OIC projects or postponement of the Summit and keeping the MPR constant. It is assumed that if tourism partially recovers through to the first half of 2022 and fully in the second half of 2022, then output is forecast to respond faster by 5.8 percent relative to the baseline forecast of 5.1 percent.

77. Similarly, inflation would also increase with a corresponding depreciation of the exchange rate. As a mitigant to the price increase, the Bank would jerk the policy rate. The other assumptions of increase in inflation, delay/postponement of the OIC Summit and leaving the MPR unchanged have marginal impacts on output and the price variables relative to the baseline forecast.

78. Some risks to the scenarios were analyzed and adjudged to be medium based on the threats posed by the new Delta Variant and election uncertainties on tourism, increase in global food prices and late rains constraining supply of food and delay in the commencement of OIC infrastructure projects on output. Policy options were also weighed on either to reduce, increase or keep the policy rate constant.

79. Overall, the risk to the short-term economic outlook based on the forecast is fairly balance. Given the current monetary policy stance and the expected recovery in the tourism sector, economic activity will improve relative to the baseline. In contrast, a spike in inflation and postponement of the OIC summit will impact negatively on the outlook.

80. The Committee took note of the forecast of the quarterly projection model and commented that the scenario analysis show how responsive macroeconomic variables could be to some of the assumptions and the impact on economic outlook. This, the Committee considered informative for policy decision.

81. The Governor and Chairman of the MPC opined that under the Alternative Scenario, tourism is the main sector he is pessimistic about given its sluggish recovery amid the COVID-19 mutating variants and vaccine roll out. The major infrastructure project for the OIC summit has commenced and the others slightly delayed due to the concessional grant element being sought from one of the development partners.

Agenda for MPC Meeting-Day 2

1. Opening Remarks by Chairman
2. Adoption of the Agenda
3. Summary Report by the Second Deputy Governor
4. Deliberations
5. Decision
6. Press Conference by the Chairman

1. The Monetary Policy Committee (MPC) reconvened on Wednesday, September 8, 2021, to deliberate and decide on the direction of monetary policy. This was followed by a press conference by the Governor and Chairman of the MPC.

2. After the opening statement by the Governor and Chairman of the MPC, the Second Deputy Governor gave a summary of the previous day's presentations and discussions of the technical reports. Members also elaborated at length on some of the issues raised during the presentations and developments in the economy that informed their decision.

Decision

Based on the above developments, the Committee decided the following:

- Maintain the Policy rate (MPR) at 10 percent;
- Maintain the required reserve (RR) at 13 percent;
- Maintain the interest rate on the standing deposit facility at 3.0 percent and the standing lending facility at 11.0 percent (MPR plus 1 percentage point) and
- Continue to closely monitor the situation and to take further necessary action as and when the situation requires.

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is slated for Wednesday, November 24, 2021. The meeting will be followed by the announcement of the policy decision on Thursday, November 25, 2021.