MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.84

DECEMBER 07- 08, 2022

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia met from December 07 - 08, 2022. The Committee reviewed developments in the international and domestic economy, assessed emerging risk to inflation outlook and growth prospects and decided to increase the monetary policy rate by one percentage point to 13 percent.

MPC Members in Attendance:

Name	Role
Mr. Buah Saidy	Chairman
Dr. Abdoulie Sireh Jallow	Member
Dr. Paul Mendy	Member
Mr. Momodou Sissoho	Member
Mr. Paul John Gaye	Member
Mr. Ebrima Wadda	Member
Mr. Karamo Jawara	Member
Mr. Baboucarr Jobe	Member
Mrs. Halima Singhateh-Jagne	Member
Mr. Sheriff Touray	Secretary

Report Presenters

Name	Designation
Dr. Momodou Jallow	Principal Economist, Economic Research Department
Mrs. Aji Adam Njie	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mr. Saikou B. Jammeh	Economist, Economic Research Department
Mrs. Fatou Sanyang	Officer, Banking Services Department
Ms. Ya Maram Sosseh	Senior Bank Examiner, Banking Supervision Department
Mr. Karamo Sawaneh	Officer, Banking Supervision Department
Mr. Muhammed Sonko	Officer, Other Financial Institutions Supervision Department
Mr. Momodou Alieu Jallow	Officer, Financial Markets and Reserve Management Dept
Mr. Alfusainey Touray	Economist, Economic Research Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Mawiyatou Susso	Statistician, Economic Research Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department

Staff in attendance:

Name	Designation
Mrs. Fatou Deen-Touray	Director, Development Finance Department
Mr. Pa Alieu Sillah	Commissioner, Insurance Supervision Department
Mr. Saikou Touray	Director, Risk Management Department
Mr. Siaka Bah	Director, Other Financial Institution Supervision Department
Mr. Baboucarr Cham	Director, Human Resource Department
Mr. Karafa Jobarteh	Deputy Director/OIC, Financial Markets Department
Mrs. Isha Fye	Deputy Director, Information Technology Department
Mr. Saikou Kassama	Deputy Director, Insurance Supervision Department
Mrs. Isatou Mendy	Principal Economist, Economic Research Department
Mr. Abdoulie Touray	Principal Officer, Banking Supervision Department
Mr. Alagie Manneh	Principal, Other Financial Institutions Supervision Dept
Mrs. Efficiency Njie	Principal Auditor, Internal Audit Department
Mr. Mustapha Senghore	Principal Officer, Banking Supervision Department
Mr. Omar Sonko	Principal, Internal Auditor Department
Mr. Lamin Bah	Senior Officer, Risk Management Department
Mr. Bademba Drammeh	Statistician, Economic Research Department
Mrs. Mariama Ceesay	Statistician, Economist Research Department
Mr. Lamin Jawara	Officer, Risk Management Department
Mr. Alkali Barrow	Officer, Other Financial Institutions Supervision Department
Mrs. Amie Ndure-Touray	Officer, Financial Markets Department
Mr. Sarjo Jatta	Officer, Financial Markets Department
Mrs. Kanie Ceesay	Officer, Development Finance
Mr. Momodou Bah	Officer, Development Finance

Agenda for the Technical Meeting

1. The meeting agenda was adopted as presented.
    - Adoption of the agenda
    - Opening remarks by Chairman
    - Review of minutes of the MPC Meeting No. 84 and matters arising
    - Presentation and discussions of reports
    - Lunch break
    - Presentation and discussion of reports

Opening remarks by the Chairman

2. In his welcome remarks the Governor and Chairman noted the adverse impact of high inflation on the wellbeing of people. He, therefore, stated that the Bank is strongly committed to bring back stability as low and stable inflation is essential for the health of the economy. He urged members to carefully assess

inflation and growth trajectory to come up with an appropriate policy response.

Review and Adoption of Minutes of MPC Meeting No.84

3. The minutes of the previous meeting was reviewed and adopted after minor amendments.

Presentation of Reports

4. Presentations and discussions of reports took place in the following order: Developments in the Global Economy, Banking Sector, Stress Testing, Financial Market, External Sector (Balance of Payment and Foreign Exchange Market), Monetary Sector, Government Fiscal Operations, Business Sentiment Survey, Non-Bank Financial Sector, Real Sector, and Inflation. These were followed by the macroeconomic forecasts - assessment of the current economic conditions, baseline forecasts, and alternative scenarios.

Global Macroeconomic Developments

5. Global economic conditions remain challenging, and prospects are bleak. The cost-of-living crisis emanating from the supply bottlenecks due to the war in Ukraine and lingering effects of the pandemic, and the aggressive broad-based monetary tightening response are weighing on the outlook. As a result, the International Monetary Fund (IMF) in its latest World Economic Outlook (WEO) report in October 2022, projected global economic growth to decelerate from 6.0 percent in 2021 to 3.2 percent in 2022 - unchanged compared to the forecast in July 2023. The IMF expects global output growth to slow further to 2.7 percent in 2023, a 0.2 percentage point downward revision from the July forecast.

6. In advanced economies, growth is anticipated to expand by 2.4 percent and 1.1 percent in 2022 and 2023, 0.1and 0.3 percentage points lower than the July 2022 forecast, respectively.

7. Growth in emerging markets and developing economies (EMDEs) is estimated to decline to 3.7 percent for both 2022 and 2023. The downward revision was due mainly to the projected slowdown in China, which is expected to grow by

3.2 percent this year, driven by the strict pandemic containment measures and worsening property crisis.

8. In sub-Saharan Africa (SSA), output growth projection for 2022 and 2023 were downgraded to 3.7 percent, 0.2 and 0.3 percentage points lower than the July projections. The downward revision was on account of the lower trading partner growth, tighter financial and monetary conditions, and a negative shift in the commodity terms of trade.

9. Global inflation is forecast to remain elevated this year, well above central bank targets in most countries, reflecting broadened supply bottlenecks, a pickup in demand as well as currency pressures in some economies. However, there are indications that global price pressures may peak mid next year as the major drivers of inflation ease. Improvement in global supply conditions, slow demand and tight monetary policy are expected to dampen inflationary pressures. In advanced economies, inflation is forecast to accelerate to 8.8 percent in 2022, before decelerating to 6.5 percent in 2023. In EMDEs, inflation is expected to rise to 7.2 percent in 2022 and decelerate to 4.4 percent in 2023. Similarly, inflation in SSA is forecast to rise to14.4 percent in 2022 but decline to 11.9 percent in 2023.

10. Global financial conditions have tightened further, reflecting largely aggressive monetary policy stance of central banks in response to rising inflationary pressures. The policy rate hikes have led to strengthening of the US dollar. These developments have pushed up borrowing costs, triggered capital flow reversals and elevated debt profiles.

11. The Committee noted the gloomy outlook for the global economy. The silver lining is the decline in commodity prices, including oil and some major food items. However, the persistence of rice prices is a concern, given that it is a stable food and a major component of the food basket in The Gambia. The Committee acknowledged that while an appropriate monetary policy response is required in the short-term to deal with emerging risks, a long-term solution is to increase local food production by incentivizing private sector participation in agriculture.

12. The Committee noted that economies to closely monitor in terms of the impact on Gambian economy include the US, China, Eurozone, and the UK. This is because of their direct impact on the Gambian economy through remittances, trade and tourism.

13. The Committee further commented that tightening financial conditions due to interest rate hikes in advanced economies would continue to put pressure on the dalasi through trade and exchange rate channels.

Domestic Macroeconomic Developments

Banking Sector Developments

14. The banking industry continues to be well capitalized, liquid, and profitable. The risk-weighted capital adequacy ratio of banks stood at 26.3 percent in September 2022, compared to 27.8 percent in the previous quarter. Liquidity ratio remained stable at 69.9 percent in June 2022, compared to 63.4 percent in September 2022. The asset quality of the industry remains low with non-performing loan (NPLs) of 4.2 percent of gross loans as at end-September 2022.

15. Total assets of the banking industry amounted to D79.9 billion as at end-September 2022, an increase of 18.7 percent (year-on-year), supported by higher balances held with banks abroad, investments in treasury bills, government bonds and parastatal debt securities, as well as private sector loans and advances.

16. Customer deposits continue to provide reliable and low-cost funding for banks. As at end-September 2022, total deposits stood at D53.4 billion, representing an annual increase of 11.3 percent and accounted for 66.8 percent of total funding. The increase was on the back of higher government spending, remittance inflows, and deposit mobilization from the private sector.

17. The Committee lamented that although the banking system continue to maintain adequate liquidity, it is premature to reverse some of the COVID-19 impact-mitigating measures. Therefore, it is prudent not to increase the

required reserve ratio of banks, which was reduced to 13 percent during the pandemic.

18. The Committee lamented that the rising NPL ratio in the construction sector requires closer monitoring. Loans to the sector have been rising rapidly in recent years and so do the NPLs, especially after the moratorium on loan repayment was lifted.

19. The Committee was informed that technical assistance is being sought for the establishment of a deposit insurance scheme. Currently, the main obstacles include the absence of a legal framework and a stable seed capital.

20. Reacting to the findings of the stress test, the Committee once again commended the BSD and applauded the close collaboration with the ERD. The Committee directed that the high concentration risk in the banking system be closely monitored.

21. The Committee raised concern about the large exposure of banks to real estate agencies. Given that the sector is not regulated, they pose risk to the financial sector. The meeting was informed that a cabinet paper that seeks to establish a regulatory framework has been drafted.

Developments in Other Financial Institutions

22. The deposit-taking non-bank financial institutions (NBFIs), comprising of Finance Companies (FCs), Credit Unions (CUs), and Mobile Money Operators (MMOs) continue to grow in terms of asset and deposit base, capital, and loan portfolio.

23. The FCs that hold the largest share of assets and deposits continue to maintain robust capital and liquidity buffers relative to the regulatory requirements. Total assets of FCs expanded by 22.2 percent (year-on-year) to D2.9 billion as at end-September 2022, driven by cash and bank balances, and gross loans. Total assets, however, fell slightly by 0.5 percent from June 2022 to September 2022. Total customer deposits increased by 14.3 percent (year-on-year), reflecting the increase in the customer base.

24. Gross loans grew by 7.3 percent (quarter-on- quarter) and 82.9 percent (year-on-year) to stand at D828.9 million as at end-September 2022. The loan-to-deposit ratio contracted marginally to 42.0 percent, due to the significant expansion of deposits relative to loan disbursements. The NPL ratio increased to 9.0 percent at end-September 2022, from 7.0 percent at end-June 2022.

25. The asset base of Credit Unions (CUs) expanded by 13 percent (year-on-year) to D2.6 billion as at end-September 2022, driven by the 12 largest entities that accounted for 92 percent of total assets. Similarly, customer deposits increased by 17.0 percent over the comparative period to D2.2 billion. Total loans extended to members increased by 25 percent (year-on-year) to D1.8 billion, resulting to a loan-to-deposit ratio of 82 percent.

26. The Committee directed a review of the lending policy of Credit Unions. Currently, members can access loan amount of up to three times their deposits. Although NPLs among Credit Unions remain low, especially among those that are work-based, high loan-to-deposit ratio of over 80 percent is a potential risk to the viability of the institutions.

27. Members expressed concern about the high lending rates charged by the deposit-taking non-bank financial institutions, given that affordability is key to improving access to finance. The Committee was informed that the risk premium is driving interest rates in the sector.

Domestic Debt Market Developments

28. The stock of domestic debt stood at D39.7 billion as at end-September 2022, from D37.2 billion at end-December 2021. Short-term debt still accounts for more than half of the domestic debt and the refinancing and interest rate risks remain elevated. The share of short-term debt dropped from 54.0 percent in December 2021 to 50.4 percent in September 2022. This is in line with government's debt management strategy of re-profiling the domestic debt. Treasury bills and Sukuk Al-Salam bills constituted 50.6 percent of total domestic debt stock, and long-term treasury bonds accounted for the remaining 49.1 percent.

29. Yields on government securities have started rising. The weighted average interest rate on treasury bills increased from 3.2 percent in September 2021 to 7.2 percent in September 2022.

30. The Committee commented that the rise in interest rates on government securities reflects the less accommodative monetary policy stance of the Bank. Other money market interest rates have also increased. This means higher debt service payment for government.

31. The Committee was informed that government is improving its cash and debt management systems as part of the strategy to stabilize public debt. Similarly, the Ministry is working to revive the Macroeconomic Forecasting Committee.

Balance of Payments Developments

32. The current account of the balance of payments is forecast to register a wider deficit of US$114.4 million (5.6 percent of GDP) in 2022, from US$86.9 million (4.5 percent of GDP) in 2021. The projected improvement in the goods and services accounts will be offset by a deterioration in current transfers (net) as private remittance normalizes following a sharp increase during the pandemic.

33. The goods account is projected to record a deficit of US$541.8 million (26.6 percent of GDP) in 2022, slightly lower than a deficit of US$574.5 million (29.8 percent of GDP) in 2021. The improvement in the goods account is predicated on slower growth of imports (FOB) due to the projected decline in international commodity prices, and a pickup in re-export trade.

34. The service account is forecast to register a surplus position in 2022 for the first time since the start of the pandemic. It is estimated to register a surplus of US$47.2 million in 2022, compared to a deficit of US$9.1 million a year ago, on the back of a rebound in tourism.

35. Private remittance inflows are normalizing following a sharp increase in the pandemic period. As a result, secondary income is 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.

36. The capital account is forecast to register a net inflow of US$45.5 million in 2022, lower than US$23.1 million a year ago. The financial account projected to register a net outflow of US$184.0 million in 2022, compared to US$181.5 million a year ago, mainly reflecting the decline in changes in reserve asset.

37. The Committee noted the continued balance of payments challenges that have led to the decline in the foreign reserves of the Bank. However, the prospects are brighter following the reopening of tourism, steady private remittance inflows and support from development partners. These developments will ease liquidity pressures in the foreign exchange market and help stabilize the exchange rate.

38. The Committee expressed the need for prudence in the utilization of foreign reserves. going forward, an appropriate policy mix would reduce reliance on reserves.

39. The Committee directed the Banking Department to continue collaborating with MoFEA in designing a debt management strategy for government in anticipation of the expiration of the debt service payment deferral in 2025.

Financial Markets Developments

40. The foreign exchange market continued to function smoothly. In the twelve months to end-September 2022, the volume of transactions, which is an aggregate of sales and purchases of foreign currency, grew by 0.3 percent (year-on-year) to US$2.5 billion. Total purchase of foreign currency during the period, an indicator of supply conditions, declined slightly by 0.5 percent to US$1.2 billion. Supply continues to be supported by official inflows from development partners, private remittances, Central Bank interventions and recovery in tourism receipts. Total foreign currency sales, an indicator of demand, increased by 1.0 percent to US$1.3 billion. Demand pressures emanated mainly from energy and food imports, and telecommunication and construction sectors.

41. The exchange rate of the dalasi remained under pressure against the US dollar. From September 2021 to September 2022, the dalasi depreciated against the US dollar by 6.3 percent, but appreciated against the euro, pound sterling and CFA franc by 5.9 percent, 6.2 percent, and 2.6 percent, respectively.

42. The Committee commented that supply conditions in the foreign exchange market are expected to improve amid promising start to the tourism season and support from development partners. This will improve the near-term outlook of the exchange rate and limit the pressure on external reserves of the Bank.

Real Sector

43. Growth prospects of the Gambian economy in the short to medium term are positive. These are, however, subject to significant downside risks, including rising uncertainties due to the volatile global economic and geopolitical environments. Data from the Gambia Bureau of Statistics (GBoS) indicated that real GDP grew by 4.3 percent in 2021. The economic growth is forecast to reach 5.2 percent in 2022. Although the rise in the cost of living continues to hold back household consumption, public and private construction, and rebound in tourism will support growth resilience in 2022.

44. On the supply side of economic activity, growth continues to be driven largely by contributions from capital and labor. Total factor productivity has improved since the pandemic, but the growth rate remains low. On the demand side, domestic absorption (private and public consumption and investment) has been the main driver of growth in 2022. Foreign demand, on the other hand, remained sluggish.

45. The Committee commented that prospects of the Gambian economy is positive, despite strong headwinds. A robust recovery in tourism activity, public and private sector investments, and good agriculture harvest are expected to drive economic growth this year.

46. However, critical reforms are needed to enhance resilience and the long-term growth prospects of the economy. These will include investment in agriculture,

legal and institutional reforms, strengthening the judicial system and tax reforms to attract foreign investment.

Monetary Developments

47. Money supply growth slowed, explained by significant decline in the banking system net foreign assets (NFA). The annual growth in money supply decelerated from 20.9 percent in September 2021 to 12.2 percent in September 2022, owing to the decline of the NFA of both the Central Bank and commercial banks. The NDA remained the main source of liquidity and continued to drive the growth in broad money as domestic credit expands with increased borrowing from the central government, public entities, and private sector.

48. The NFA of the banking system contracted by 14.3 percent (year-on-year) in September 2022 after growing by 20.1 percent in the comparative period in 2021. The stock of NFA of the banking system stood at D19.4 billion as at end-September 2022, down from D22.6 billion in the same period in 2021. The NFA of commercial banks increased by 3.0 percent (year-on-year) to stand at D6.2 billion at end-September 2022, a higher pace of expansion than the 14.9 percent contraction recorded a year earlier.

49. The NDA of the banking system, on the other hand, increased by 30.8 percent (year-on-year) to D42.1 billion as at end-September 2022, from D32.2 billion in the corresponding period in 2021. The growth in the NDA is attributed to the increase in domestic credit which is associated largely with the rise in government borrowing and expansion in private sector credit. The banking system's net claims on government picked up to D40.9 billion, a marked increase of 22.6 percent from September 2021, and accounted for about 73.9 percent of the stock of domestic credit. Private sector credit also grew by 34.9 percent (year-on-year) in September 2022 to stand at D11.0 billion, higher than the 9.0 percent recorded in September 2021.

50. Reserve money growth contracted by 6.0 percent (year-on-year) in September 2022, from a growth of 24.0 percent recorded in the corresponding period a year earlier. This is attributed to slower growth in currency in circulation (CIC)

and a contraction in reserves of commercial banks. CIC growth moderated to 3.0 percent whilst commercial banks reserves growth contracted by 16.0 percent.

51. The Committee noted that the deceleration of monetary aggregates is related to the decline in the NFA of the banking system. The Central Bank will start rebuilding reserves once the supply conditions in the foreign exchange market stabilize. However, the decline in reserve money growth is in line with the objective of curbing inflation.

52. The Committee lamented that intervention in foreign exchange market through sale of foreign currency by the Central Bank has created temporary tight liquidity conditions. The Committee called for coordination in the use of policy instruments at the disposal of the Bank for effective liquidity management.

Government Fiscal Operations

53. Government fiscal operations for the nine months to end-September 2022 worsened compared to the corresponding period last year, attributed largely to the less-than-expected receipts from international trade taxes and non-tax revenues, on the back of marked increase in expenditures. Grants, on the other hand, increase significantly during the review period.

54. Total revenue collected from taxes decreased by 1.3 percent (year-on-year) to stand at D8.2 billion in the first nine months of 2022, lower than the outturn projected for the quarter by D1.4 billion. Year-on-year, revenue from international trade taxes fell by 19.7 percent and non-tax revenue by 40.3 percent. Grants, on the other hand, increased by 30.0 percent. Revenue generated from personal and corporate taxes increased by 31.6 percent and 26.2 percent, respectively.

55. Total expenditure increased from a year ago but was within the amount targeted for the first nine months of the year. Total government expenditure and net lending for the period stood at D18.8 billion (18.0 percent of GDP), 0.5

percent higher than the amount recorded in the same period in 2021. The rise in government expenditure continued to be driven by recurrent spending, mainly on wages and salaries, other charges (goods and services, subsidies, and transfers) and debt service payments. Capital expenditure, however, decreased by 12.1 percent and accounted for 33.3 percent of total expenditures.

56. As a result of the shortfall in revenues, the overall budget deficit (including grants) widened to D4.4 billion (4.2 percent of GDP) in the first nine months of 2022, compared to D3.6 billion (3.5 percent of GDP) in the corresponding period of 2021. Overall budget deficit (excluding grants) also widened to D8.4 billion (8.0 percent of GDP), relative to a deficit of D6.7 billion (6.4 percent of GDP) a year ago.

57. The Committee lamented that the increase in overall deficit is attributed to the shortfall in revenue performance. Regional trade agreements such as ECOWAS Trade Liberalization Scheme (ETLS) and Africa Free trade Area initiative are weighing on revenue collected from international trade taxes, making it a less reliable source. Another contributing factor is revenue loss due to exemptions and subsidies that are a function of the measures instituted by government to mitigate the impact of the ongoing shocks. Government spent a total of D1.7 billion in 2022 to subsidize fuel prices. As a result, the overall fiscal deficit widened despite efforts to keep expenditure within target.

58. The Committee was informed that efforts are underway to diversify revenue sources using digital technology. The launch of the ASYCUDA World System is in line with that strategy, which is expected to improve the effectiveness and efficiency of custom administration and reduce the loopholes in tax administration. The project is part of the overall government strategy to digitize the economy.

59. The government is also collaborating with the World Bank to introduce iTax to improve domestic tax collection. In this regard, the CBG should move faster on modernizing the payment system infrastructure. The Committee was informed

that the second phase of the modernization of the national switch, GAMSWITCH, is ongoing.

60. A social register is also being introduced that will promote efficient social protection. The mechanism will facilitate social assistance programs such as cash transfers and minimize the use of costly subsidies. Such a delivery system will help government prepare for future crises and make social protection programs reach targeted individuals and communities more quickly, efficient, and transparent.

Business Sentiment Survey

61. Results from the Bank's quarterly Business Sentiment Survey revealed that businesses are less optimistic about the growth prospects of the Gambian economy, mirroring the adverse effects of the enduring shocks on the global economy. 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 could dampen near term prospects for business activity and economic growth.

62. The perception of businesses on the near-term outlook of price levels remains elevated, driven mainly by higher energy and commodity prices, and the shortage of foreign currency.

63. The Committee commented that the perception of businesses is consistent with prevailing global economic and geopolitical developments. The expectation of improved supply conditions in the foreign exchange market, however, will may soften the perception of businesses.

64. The Committee stressed that the rising inflation expectations is a policy concern that requires decisive action to avoid inflation spiraling out of control.

Inflation Outlook

65. Headline inflation accelerated to 13.2 percent in October 2022, from 11.3 percent in September 2022. The acceleration in annual inflation is broad-based with an increase in the prices of most goods and services. The CBG's near-term forecast shows that headline inflation (seasonally adjusted) will remain higher than the implicit medium-term target of 5 percent for the rest of the year. However, indications are that headline inflation will peak earlier than anticipated as major drivers of price pressures, including global commodity prices, continue to ease. In addition, the core measures of inflation are decelerating, an indication of a slowdown in underlying inflation.

66. Food inflation accelerated to 18.0 percent in October 2022, from 16.5 percent recorded in September 2022, attributed to the increase in the consumer prices of most components of the food basket. Except for meat, non-alcoholic beverages, and vegetables, the price indices of all other components of the food basket increased.

67. Non-food inflation, on the other hand, moderated to 8.7 percent in October 2022, from 10.4 percent in September 2022. The deceleration in non-food inflation is explained by the decline in the price indices of all the subcomponents except for housing, water, electricity, gas, and other fuels.

68. The Bank's core measures of inflation point to easing of underlying inflationary pressures. Both Core 1 and Core 2 measures of inflation that exclude volatile energy and food products from the headline inflation, declined to 18.7 percent and 17.1 percent in October 2022, from 19.0 percent and 18.1 percent in September 2022, respectively.

69. The Committee commented that there may be signs that inflation will peak earlier than anticipated. There are indications that global price pressures may peak mid next year as the major drivers of inflation ease, including improvement in global supply conditions, slowdown in demand and tight monetary policy.

70. The outlook, however, is still volatile and uncertain. Therefore, more policy action is needed to anchor domestic inflation expectation and stabilize inflation.

Assessment of the Economic Outlook

71. Assessment of current economic conditions indicated a further positive output gap on the back of stronger economic activity and loose monetary conditions. Consumption and investment spending was mainly financed by remittance inflows and positive fiscal impulse. Actual reserve money demand was over its medium-term target driven by stronger aggregate demand and rising inflation. On the other hand, the stronger than expected dalasi to some extent is limiting reserve money growth.

72. The baseline forecast indicated a real GDP growth of 5.2 percent in 2022, unchanged from the forecast in August 2022. Growth is expected to be supported by improvement in tourism receipts, steady remittance inflows, and robust private sector credit. Inflation is expected to decline but to remain above the medium-term implicit target of 5.0 percent for the rest of the year. However, inflation is forecast to peak in 2023, although the risks are uncertain and tilted on the upside. The less accommodative monetary policy stance of the Central Bank, expectation of improved local food production this cropping season and declining international commodity prices are downside risk factors to inflation.

73. The Central Bank staff assessment of the risks to the growth forecast are broadly summarized in four risk scenarios. First, a more severe global economic recession in 2023 and its impact on tourism and the hospitality industry. The risks of global economic recession could precipitate a deeper global recession in 2023 than currently anticipated. This has the potential of further straining household incomes thus limiting their travel options. Another risk is the reversal of the moderating global commodity prices and its impact on domestic inflation. In this case Inflation will further increase and become more persistent compared to the baseline. This will prompt an aggressive monetary policy response pushing the economy into recession in the second half of 2023. Thirdly,

staff assessed the impact of a risk scenario of a lower-than-expected crop yield in quarter 2022 on output and domestic inflation. In this case output will significantly contract in quarter three and quarter four of 2023 compared to the baseline. Inflation will rise slightly further, prompting a tighter monetary policy response. Lastly, staff assessed a sharp depreciation of the dalasi against the US dollar in the fourth of 2022 to the third quarter in 2023. In this situation, this will drift inflation higher than in the baseline leading to a tighter monetary policy response. However, the depreciation is expected to push growth higher than the baseline.

Policy Justification

74. Uncertainties surrounding the global economy have increased further and become more complicated since the last Committee meeting in May 2022. Global growth prospects have weakened, and inflation is persisting.

75. In The Gambia, economic recovery has strengthened in the first half of this year, and the outlook remains positive. Although there are significant downside risks, the recovery momentum is expected to continue for the rest of the year.

76. Balance of payment pressures and rising inflation are threats to long-term economic growth. Inflation expectations remain elevated and business confidence is low.

77. Taking all these factors into consideration, the Committee believes that the current inflation trajectory dictates prompt and decisive monetary policy response. Although growth is still considered fragile with significant downside risks, delaying further action would make it more costly to bring back inflation to the implicit medium-term target and risk inflation expectations becoming entrenched.

Decision

78. The Monetary Policy Committee has decided the following:

- Increase the Monetary Policy Rate (MPR) by 1 percentage point to 13 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 the standing lending facility 1 percentage point over the MPR (13 percent).

79. 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

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