**CENTRAL BANK OF THE GAMBIA**

# Monetary Policy Report

**May 2022**

## Preface

The Central Bank of The Gambia 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 Central Bank of The Gambia (CBG) is to achieve and maintain price and financial sector stability as well as create an enabling 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 inflation objective of 5 percent. In addition, the MPC meets to set the monetary policy rate (MPR) to signal the policy stance of the Bank.

## Monetary Policy Committee

The Monetary Policy Committee (MPC) was established by the CBG Act 2005 (amended 2018 Act) as the apex monetary policy decision-making body of the Bank. The membership comprises the Governor (Chairman), the two Deputy Governors, heads of Banking, Financial 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 near-term outlook in 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 in a press statement and 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 Monetary Policy Committee (MPC) of the Central Bank of The Gambia met on May 30 and 31, 2022 amid a challenging global economic environment. 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 11 percent.

On international developments, the fragile recovery from the COVID-19 pandemic and the Russian-Ukraine conflict have the IMF revised downwards its global growth forecast by 0.8 and 0.2 percentage points to 3.6 percent in 2022 and 2023. The crisis has heightened global uncertainties, constrained global supply chain, and pushed up commodity prices, especially food and energy. As a result, global inflation is forecast to remain elevated longer than previously projected with the rising prices of energy, food, and metal. These global developments are weighing on the prospects for the domestic economy. Weaker external demand is adversely affecting the recovery in tourism and re-export trade while the unprecedented rise in commodity prices continues to push up cost of living and suppressing domestic demand.

The Gambian economy remains resilient despite the headwinds, supported by a pick-up in fishing and aquaculture, construction, and some recovery in the service sector. The medium-term outlook is positive but shrouded by heightened uncertainties and subject to significant downside risks, including a protracted conflict in Ukraine, 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 Businesses Sentiment Survey. Global and domestic factors have pushed up headline inflation to 11.7 percent in March 2022 - the highest in about two decades. Moreover, slower-than-expected recovery in tourism and re-export trade and the marked decline in official grants amid rising import bill deteriorated the balance of payments position. Preliminary estimates show that the current account deficit worsened to 2.3 percent of GDP in the first quarter of 2022 from 0.3 percent of GDP in the corresponding period of 2021. The fiscal performance also worsened during the review period, attributed to the decline in revenue collected from taxes on international trade, non-tax revenue and a shortfall in budget support on the back of marked increase in expenditures.

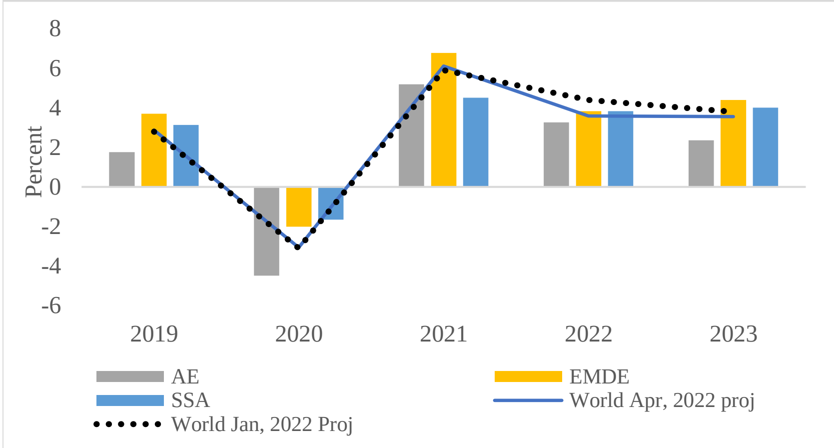
Meanwhile, the financial sector remains stable and resilient with robust liquidity and capital adequacy ratios. The asset quality has improved with non-performing loans (NPLs) of 4.6 percent of gross loans in March 2022, compared to 7.7 percent in December 2021. Banks have continued to make adequate provisions for the NPLs.

Guided by its assessment of the economic outlook, especially for inflation, the MPC decided to reverse its accommodative monetary policy stance by increasing the policy rate to 11 percent. The interest rates on the overnight deposit and lending facilities as well as the required reserves of commercial banks were maintained. The Committee is 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.

## World Economic Outlook

The global economic environment has changed remarkably since the last meeting of the Committee in February 2022. The conflict in Ukraine and the lingering effects of the pandemic have dampened global growth prospects and pushed up inflation. The IMF in April 2022 downgraded global growth forecast by 0.8 and 0.2 percentage points to 3.6 percent for both 2022 and 2023, respectively (Chart 1). In advanced economies, growth prospects were revised downwards, reflecting rising global energy prices and reliance on energy imports from Russia. The region is expected to expand respectively by 3.3 percent and 2.4 percent in 2022 and 2023, 0.6 and 0.2 percentage points lower than the January 2022 forecast.

*Chart 1: Global Output Growth (Note 2022-2023 are Forecast)*




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

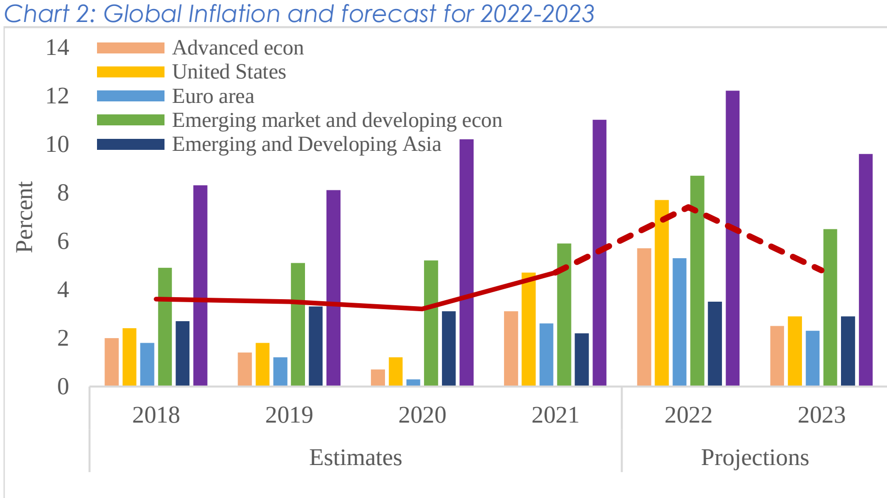
Growth in emerging markets and developing economies was estimated at 3.8 percent, lower than the January forecast of 3.9 percent. Developments in China continued to dominate the prospects for emerging Asia as the strict zero-COVID strategy led to repeated restrictions and localized lockdown, in addition to weaker external demand. In Sub-Saharan Africa, growth projection for 2022 was upgraded by 0.1 percentage points to 3.8 percent, driven by a 0.7 percentage points markup in South Africa's growth forecast. The region is susceptible to food and energy shocks and the unprecedented rise in prices is hurting consumer purchasing power, especially in low-income households. This is weighing on demand in addition to the political and social unrest, having its toll on the growth outlook for the region.

The risks pose by these adverse global developments on the domestic economy are significant. Heightened global uncertainties and the rising cost of living are pushing up domestic inflation to a level not seen in about two decades, thereby hurting consumer purchasing power of households and business confidence. The overlapping shocks also have the potential to disrupt the fragile recovery in tourism, putting further pressure on the balance of payments and exchange rate. These factors are weighing on domestic demand and denting growth prospects of the Gambian economy.

Monetary policy normalization in most countries has resulted in tighter global financial conditions. Interest rate hikes in advanced economies in response to accelerating inflation could fuel capital withdrawal from emerging markets and developing economies and exert pressure on the currencies and external reserves in the region.

Prior to the war, inflation had surged in many economies due to soaring commodity prices and pandemic-induced supply-demand imbalances but was forecast to be temporal. Global inflation is now forecast to remain elevated longer than previously projected as the conflict in Ukraine prolongs (Chart 2). The conflict is likely to have a protracted impact on commodity prices, affecting oil and gas prices more severely in 2022 and food prices well into 2023 due to lag effects. Since imports constitute a significant portion of domestic consumption, The Gambia is expected to experience rising commodity prices (food and energy) in 2022. An upsurge in commodity prices in the global market would translate to increase domestic prices due to imported inflation though with some lag effects.

*Chart 2: Global Inflation and forecast for 2022-2023*



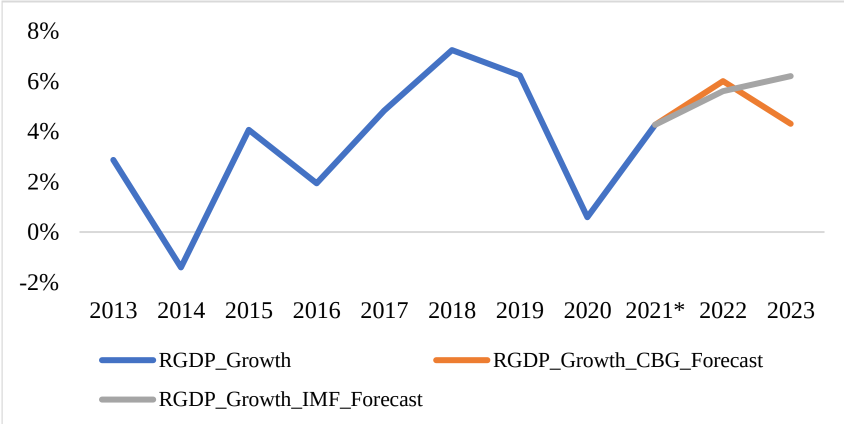

***Source***: *IMF, World Economic Outlook, April 2022, CBG staff calculations*

## The Domestic Economy

### Real Sector

The Gambian economy remains resilient, and the medium-term outlook is positive. However, the outlook is surrounded by heightened uncertainties and subject to significant downside risks, including protracted conflict in Ukraine, global COVID-19 situation, and weather conditions on agriculture. According to the Gambia Bureau of Statistics (GBoS), the Gambian economy is estimated to have grown by 4.3 percent in 2021, supported largely by pick up in fishing and aquaculture, construction, and some recovery in services.

*Chart 3: RGDP Growth*




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

The GBoS also revised upwards real GDP growth for 2020 to 0.6 percent from a contraction of 0.2 percent. Major upward revisions were in the service sector, including transportation (11.8 percentage points), education (10.1 percentage points), professional activities (6.7 percentage points) and other services (36.5 percentage points). Livestock production and mining & quarrying were also revised upward by 15.3 and 5.6 percentage points, respectively.

The agriculture sector is estimated to have grown by 4.7 percent in 2021, significantly lower than the 10.6 percent in 2020. Crop production, livestock and forestry continue to be affected by climate-related developments. Growth in the services sector remains modest as education and transport sub-sectors continue to contract, while tourism is yet to fully recover to the pre-pandemic level following waves of COVID-19 outbreak in 2021. The sector grew by 1.9 percent in 2021 relative to a contraction of 5.0 percent a year ago. The industrial sector is estimated to have grown by 4.3 percent in 2021compared to the revised growth rate of 0.6 percent in 2020. The expansion of the industrial sector was largely driven by private construction and electricity supply by 20.5 percent and 0.7 percent, respectively.

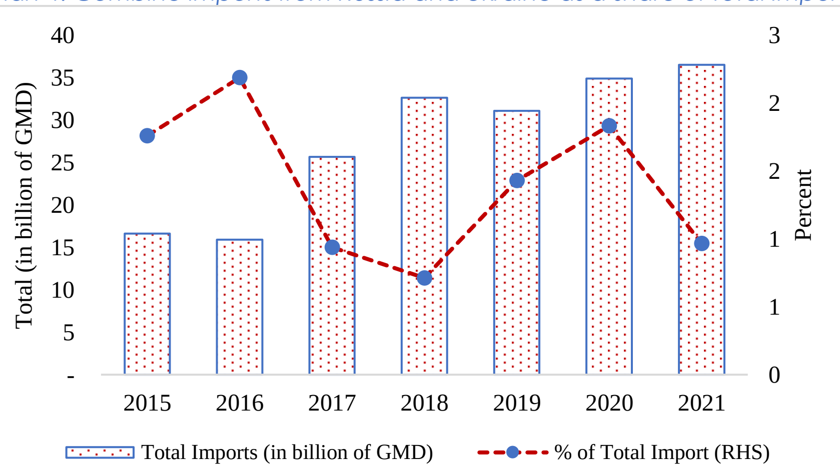
Analysis of the gross domestic product from the expenditure approach shows that household consumption is the main driver of the Gambian economy, accounting for 82.9 percent of real GDP in 2021. It is followed by gross fixed capital formation (37.1 percent), which consists of private construction (19.0 percent of nominal GDP) and government construction (12.2 percent). The trade balance accounted for negative 29.4 percent of real GDP in 2021, reflecting the fact that The Gambia is a net importer of goods given the low export base.

Economic activity is expected to improve in 2022 with the economy forecasted to grow above potential as aggregate demand rebounds. CBG staff forecast the Gambian economy to grow by 4.7 percent in 2022, predicated on a rise in aggregate domestic demand with a projected increase in public sector investments, private construction, and some recovery in tourism. projected stronger  However, the outlook is uncertain, and the balance of risk is tilted on the downside.

## Balance of Payments

The overlapping external shocks (COVID-19 pandemic and Ukraine war) are putting pressure on The Gambia's balance of payments. Data from the Gambia Bureau of Statistics (GBoS) has shown that The Gambia has comparatively modest direct trade links with Russia and Ukraine (Chart 3). However, spillover effects of the conflict are having significant pressure

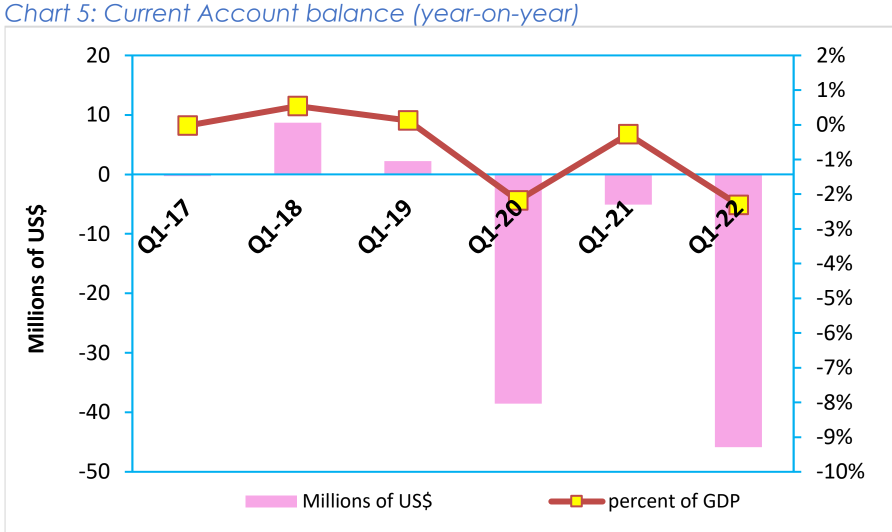
*Chart 4: Combine imports from Russia and Ukraine as a share of total Imports*




***Source**: GBoS, CBG staff calculations* on the balance of payments. Sharp increase in commodity prices (particularly fuel and food) has pushed up the import bill on the back of subdued recovery in tourism and re-export trade from the adverse impact of COVID-19 pandemic. Official program grant inflows also declined markedly while private remittance inflows are normalizing following the unprecedented rise in the past two years. A combination of these factors drove the deterioration in the current account balance.

Preliminary estimates show that the current account deficit worsened to US$46.0 million (2.3 percent of GDP) in the first quarter of 2022 from US$5.1 million (0.3 percent of GDP) in the corresponding period of 2021. The deficit in the goods account widened, reflecting mainly the marked increase in imports (FOB), especially mineral fuel and oils, vehicles, and cereals, and the less-than-expected increase in re-export trade. The goods account balance registered a deficit of US$161.5 million (8.1 percent of GDP) in the first quarter of 2022, higher than a deficit of US$126.2 million (6.4 percent of GDP) in the corresponding period in 2021.

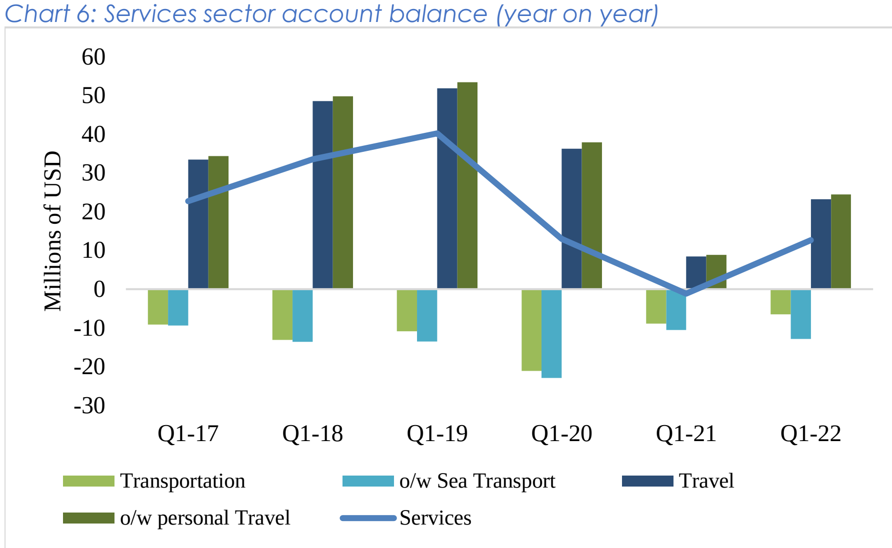
*Chart 5: Current Account balance (year-on-year)*




***Source**: CBG staff calculations*

The services account balance improved but only slightly, driven by the modest recovery in tourism, and remains significantly below the pre-pandemic level. Following the easing of travel and other pandemic-related restrictions in 2021, tourist arrival numbers improved somewhat but the recovery is slow and fragile as external demand weakens coupled with rising cost of operations of businesses in the hospitality industry. Private remittance inflows[1] during the quarter declined relative to the corresponding period a year ago, associated in part with the resumption of transfers through the unofficial channels following the re-opening of international travels. The decline also shows that inflows are normalizing following a dramatic rise in the past two years. As a result, current transfers declined by 13.9 percent (year-on-year) to a net inflow of US$111.8 million in the first quarter of 2022.

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




***Source**: CBG staff calculations*

The capital and financial account registered a deficit of US$102.4 million in the review quarter of 2022 compared to a deficit of US$51.8 million a year ago, reflecting a decline in change in reserve assets and a stall in FDI inflows. Like developments in many net-importing low-income countries, a confluence of the effects of the two external shocks (Ukraine war and COVID-19 pandemic) has disrupted external reserve build-up. The stock of net official reserves as at end-March 2022 stood at US$407.19 million (5.82 months of net import cover) compared to US$392.96 million (5.08 months of net import cover) at end-March 2021. It declined to US$370.43 million (5.29 months of net import cover) as of May 12, 2022, due mainly to CBG intervention to provide foreign currency for the importation of essential commodities.

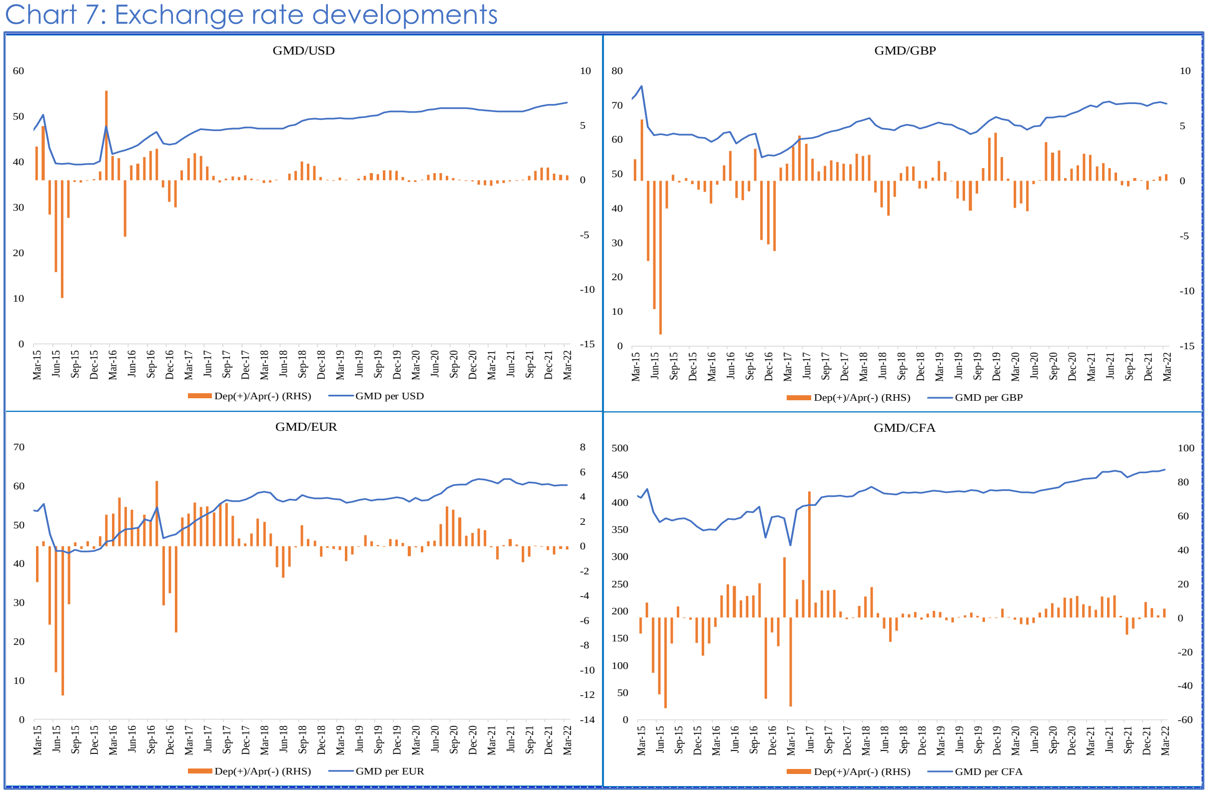
[1] Currently there is no reliable data on transfers through the informal channel and are, therefore, not being captured in the compilation of BoP statistics. The BoP Unit is discussing with an IMF TA for the possibility of coming up with an estimate of unofficial transfers for the purpose of BoP statistics.

## Exchange Rate Development

Volume of transactions in the domestic foreign exchange market measured by aggregate purchases and sales of foreign currency in the year to end- April 2022 registered marked increase to US$2.51 billion from US$2.29 billion for the twelve months to April 2021. Although challenges remain, the supply side of the activity volume during the period totaled US$1.25 billion, slightly higher than US$1.14 billion in the same period a year ago. Meanwhile, demand for foreign currency also increased toUS$1.26 billion, relative to US$1.16 billion a year ago. Demand for foreign currency during the period under review stemmed largely from the energy and food imports as well as telecommunication sector.

The exchange rate of the domestic currency remains stable despite the shocks. From April 2021 to April 2022, the Dalasi strengthened against the Euro and Pound Sterling by 3.9 percent and 1.8 percent whilst it weakened against the US Dollar by 4.6 percent during the review period.

Chart 7: Exchange rate developments

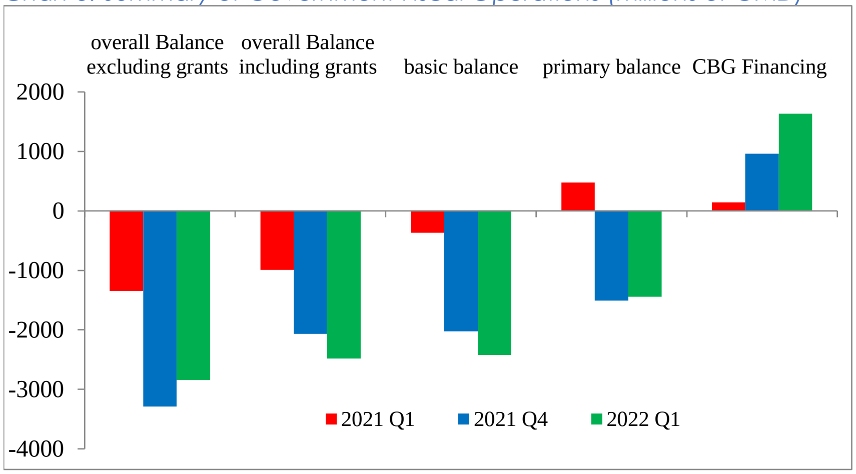



***Source**: CBG staff calculations*

## Government Fiscal Operations

Provisional data on budget execution for the first quarter of 2022 indicated that fiscal performance worsened compared to the same quarter in 2021 (Chart 7). The effects of the conflict in Ukraine and COVID-19 pandemic are putting additional constraints on the budget. In addition, budget support from some donor partners is either delayed or not materializing. The deficit in the overall balance (including grants) widened from D1.0 billion (1.0 percent of GDP) in the first quarter of 2021 to D2.5 billion (2.3 percent of GDP) in the first quarter of 2022. Similarly, the primary balance significantly declined to a deficit of D1.4 billion (1.3 percent of GDP) in the first quarter of 2022 from a surplus of D477.9 million (0.5 percent of GDP) in the corresponding period of 2021.

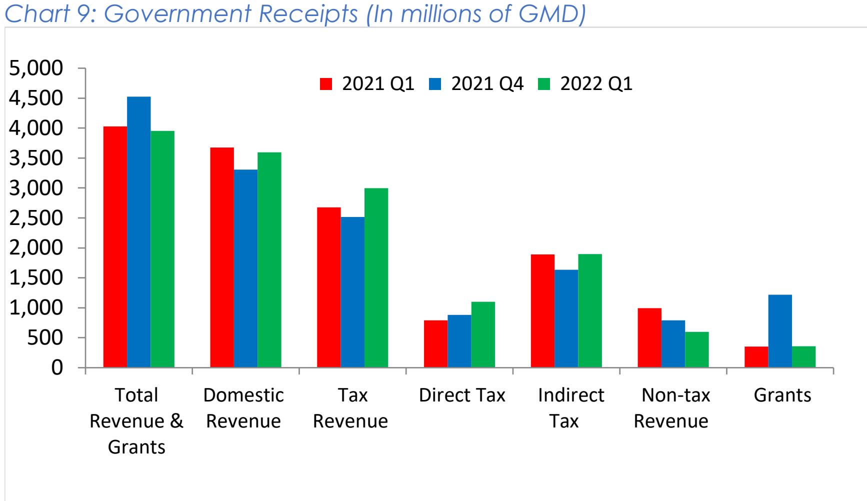
*Chart 8: Summary of Government Fiscal Operations (millions of GMD)*



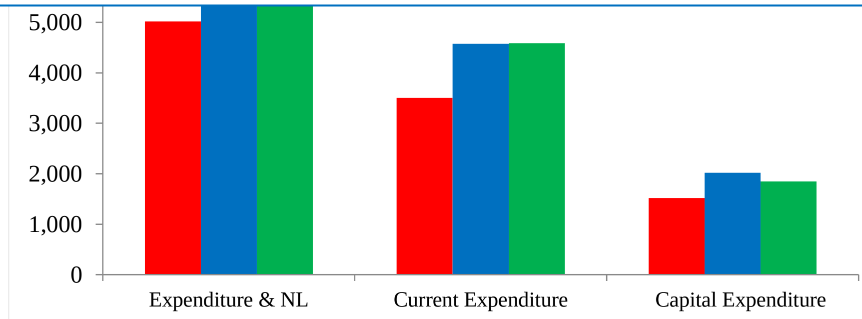

***Source**: MoFEA& CBG staff calculations*

Total revenue and grants mobilized in the first three months of 2022 totaled D4.0 billion (3.6 percent of GDP), a decline of 1.9 percent from the same period last year and lower than the amount projected for the period by D2.4 billion. This is mainly attributed to the decline in revenue collected from taxes on international trade (2.8 percent), non-tax revenue (40.0 percent) and a shortfall in budget support g rants (1.4 percent) during the review period. The decline was due mainly to the personal and corporate tax receipts, on the other hand, increased by 35.9 percent and 42.9 percent, respectively.

*Chart 9: Government Receipts (In millions of GMD)*




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




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

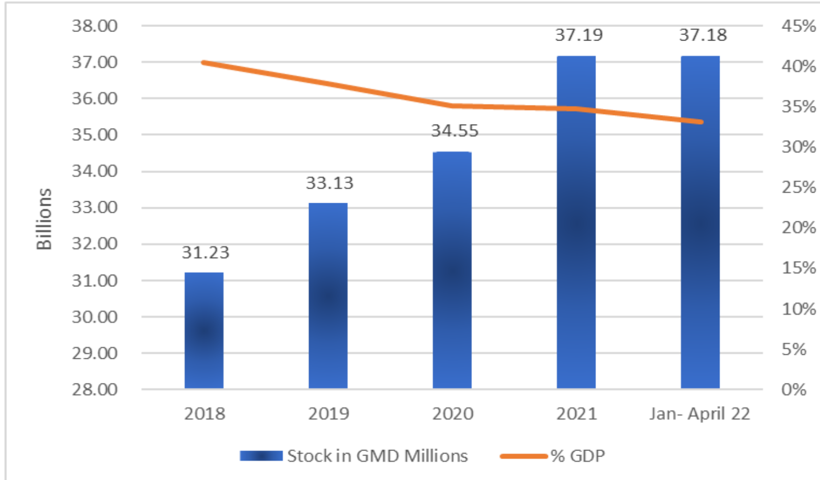
Total government expenditure and net lending for the first three months of 2022 stood at D6.4 billion (5.9 percent of GDP), 28.2 percent higher than the amount recorded in the first quarter of 2021. The increase in expenditure and net lending was driven largely by the increase in current expenditure (31.0 percent) and Capital expenditure (21.6 percent). The rise in recurrent expenditure was on account of an increase in personnel emoluments, other charges and interest payments by 18.8 percent, 47.9 percent, and 15.8 percent, respectively.

Government's net domestic borrowing to finance its fiscal deficit stood at D1.6 billion in the first quarter of 2022 compared to a net borrowing of D39.3 million in the first quarter of 2021. On the other hand, net external borrowing decreased to D989.8 million in the first three months of 2022 from D2.2 billion recorded in the same period a year ago.

## Domestic Debt

The outstanding domestic debt stock as remains high at 37.2 percent of nominal GDP in April 2022 (Chart 10). The maturity structure of domestic debt has sharply reversed in favour of medium-term debt. Government's strategy to reprofile domestic debt structure led to increased longer bond issuance. As a result, the share of short-term debt dropped from 54.0 percent in December 2021 to 50.5 percent in April 2022.

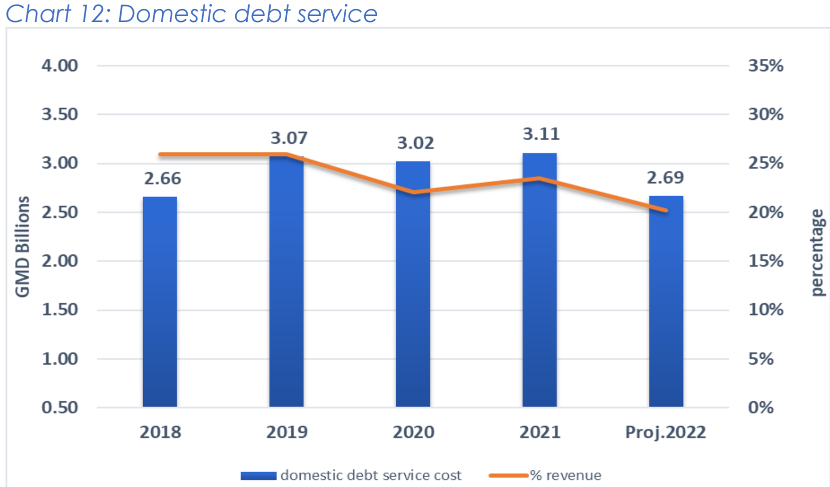
*Chart 11: Domestic Debt Stock and its Distribution*




***Source**: CBG staff calculations*

Debt service, which is a function of both the principal and interest payment is projected to drop in 2022, due to the falling yields (Chart 11). Actual domestic debt service from January - April 2022 was D1.15 billion, relative to D1.16 billion recorded in the same period in 2021. Treasury bills yields of 91-day, 182-day and 364-day decreased respectively from 3.81 percent, 4.11 percent, and 4.97 percent in April 2021, to 1.66 percent, 1.74 percent, and 1.69 percent in April 2022. The 3-year bond yield dropped from a weighted average of 9.43 percent to 3.79 per cent in March 2022. Inter-Bank placements increased to D2.76 billion, compared to D2.62 billion recorded in the same period last year. Domestic debt is projected to remain elevated as fiscal deficit widens, amid rising

*Chart 12: Domestic debt service*



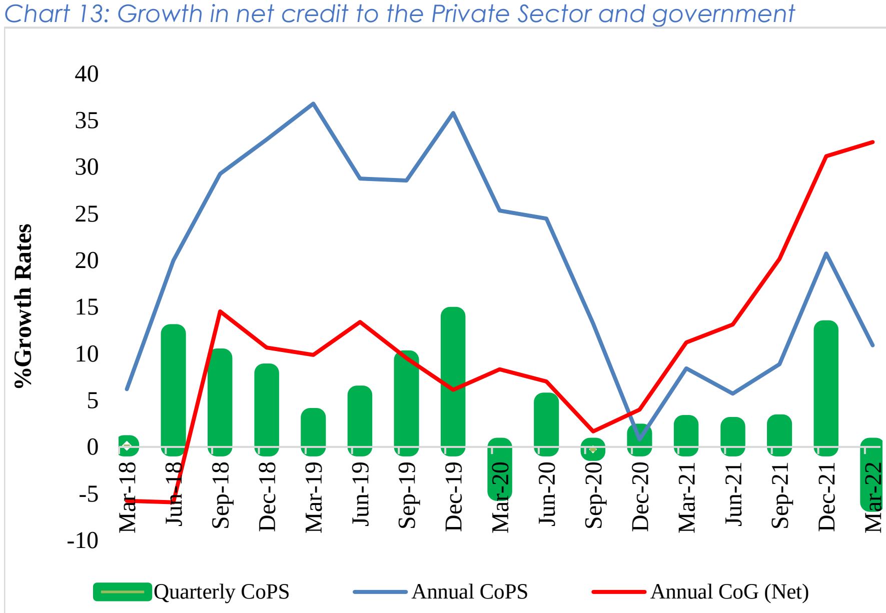

***Source**: CBG staff calculations*

expenditures that do not match the revenue generation. This could divert necessary resources from productive sectors of the economy.

## Monetary Aggregates

Growth in broad money decelerated from 25.7 percent in March 2021 to 21.0 percent as at end-March 2022, driven by the moderate growth in NFA of both the Central Bank and commercial banks. The NDA contributes higher (16.8 percentage points) to the growth in broad money as domestic credit expands with increased borrowing from the central government, public entities, and private sector. Total domestic credit rose by 34.8 percent (year-on-year) to D45.8 billion, up from D34.0 billion in March 2021. The rapid expansion in domestic credit was due to increased demand to finance government spending and growth in private sector credit. Commercial banks' claims on state own enterprises are also increasing rapidly. Net claims on government picked up significantly in the reporting period and accounted for about 75.1 percent of the stock domestic credit.

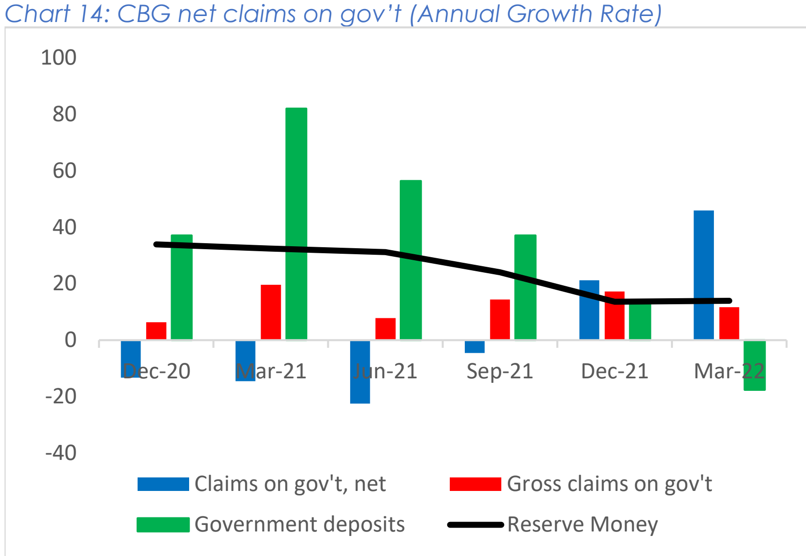
*Chart 13: Growth in net credit to the Private Sector and government*




***Source**: CBG staff calculations*

Reserve money (RM), the Bank's operating target, grew year-on-year by 14.0 percent as at end-March 2022, lower than the 32.4 percent growth in the same period a year ago. The deceleration in RM growth is explained by Central Bank activity to mop up the excess liquidity in the economy and the moderate growth in NFA of the Bank. CBG gross claims on government rose by 11.7 percent (year-on-year) in March 2022, while government deposits decline by 17.6 percent (Chart 13). This led to an increase in CBG net claims on government by 45.9 percent (year-on-year).

Chart 14: CBG net claims on gov't (Annual Growth Rate)




**Source**: CBG staff calculations

The Ukraine crisis is bringing additional challenges to the already constrained budget. To ensure fiscal and debt sustainability, prudence at budget planning and execution stages is critical, given that donor funds are becoming increasingly unreliable. Close coordination between the Monetary and Fiscal authorities is also crucial during these extraordinary times. Central Bank deficit financing is distortionary that will exacerbate inflationary pressures and taint the economic outlook.

## Banking Sector

The banking sector remains stable and resilient with robust liquidity and capital adequacy ratios. The risk-weighted capital adequacy ratio of banks stood at 25.5 percent and the liquidity ratio was 89.7 percent at end-March 2022. All the banks met the minimum capital and liquidity requirements of 10 percent and 30 percent, respectively. The asset quality has improved with non-performing loans (NPLs) of 4.6 percent of gross loans in March 2022, lower than 7.7 percent in December 2021. In addition, banks have continued to make adequate provisions for the NPLs.

The banking industry's asset base expanded by 26.9 percent (year-on-year) in March 2022, benefiting largely from higher cash holdings, investments in treasury bills, government bonds and parastatal debt securities, and private sector loans and advances. Letters of credit and guarantees were also significant contributors to the asset growth of the industry.

Customer deposits continues to be the largest source of funding for banks. It grew by 23.7 percent (year-on-year) and accounted for 68.5 percent of total funding at end-March 2022, supported by higher government spending, remittances, and deposit mobilization from private sector.

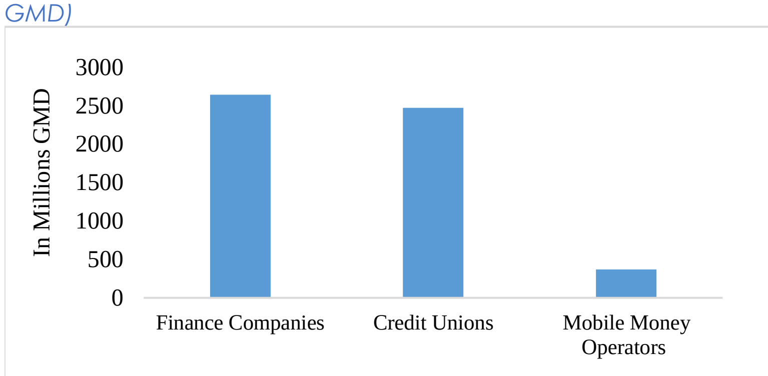
Outstanding gross loans and advances extending by commercial stoodD11.09 billion as at end-March 2022, representing 14.3 percent of the industry's total assets. However, loan to deposit ratio remains low, despite increasing slightly to 20.8 percent from 17.0 percent a year ago.

The banking industry's earnings performance continues to improve. Return on Assets (ROA) and Return on Equity (ROE) both increased to stand at 2.1 percent and 20.6 percent as at end March 2022 compared with end-December 2022 figures of 1.8 percent and 16.4 percent, respectively.

## Non-Bank Financial Sector

The non-bank financial sector continues to expand with robust capital position. The growth of the sector is driven by increase in the asset size of the Finance Companies (FCs) by 26.0 percent at end-March 2022. Cash and bank balances, and gross loans respectively expanded by 25 percent and 26 percent (year-on-year). The FCs continue to attract significant deposits despite uncertainties created by the shocks and continued to be the major source of source of funding. Total deposit liabilities increased by 5.8 percent (year-on-year) to D1.82 billion at end-March 2022.

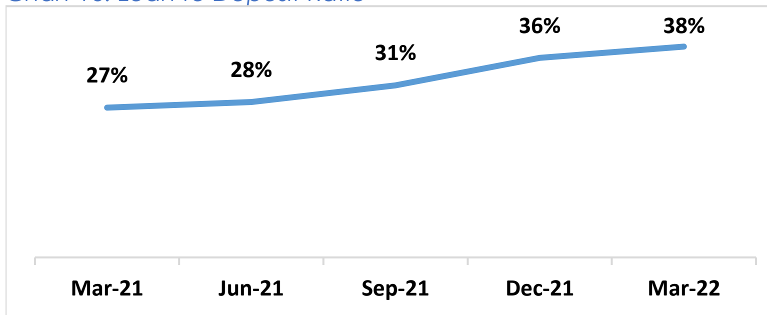
*Chart 15: Distribution of Assets according to sectors (millions of GMD)*




***Source**: CBG staff calculations*

The industry gross loans rebounded following the pandemic-induced contractions. As at end-March 2022, gross loans increased by 73 percent (year-on-year) to stand at D695.1 million. The loan-to-deposit ratio improved to 38 percent at end-March 2022 from 27 percent a year ago (Chart 16). Total assets of the Credit Unions (CUs) increased by 20 percent (year-on-year) to GMD 2.5 billion at end-March 2022. Deposits mobilized rose to GMD 1.98 billion at end-March 2022.

*Chart 16: Loan to Deposit Ratio*



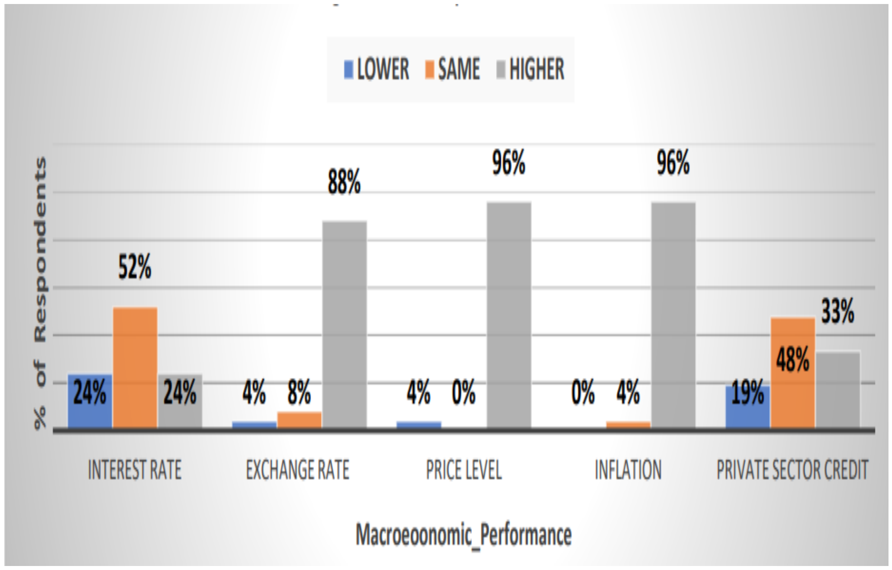

***Source**: CBG staff calculations*

## Business Sentiment Survey

The global economic uncertainties, lingering effects of the pandemic and foreign exchange supply concerns shaped the sentiments of businesses and firms surveyed in the April 2022 Business Sentiment Survey. Most respondents expressed pessimistic view about the near-term prospects of the economy. The survey revealed that business confidence about growth prospects of the Gambian economy has declined compared to January 2022 survey.

According to most respondents, the general price level is expected to be higher and the exchange rate to depreciate in the next six months, while interest rates and private sector credit growth are expected to remain at the same levels as the current quarter. Key factors cited as influencing their judgment include foreign exchange shortage, rising interest rates in the United States, the strong US dollar, and the Ukraine-Russia conflict.

*Chart 17: Sentiment on Macroeconomic indicators Q1-2022 Vs Q4-2021*



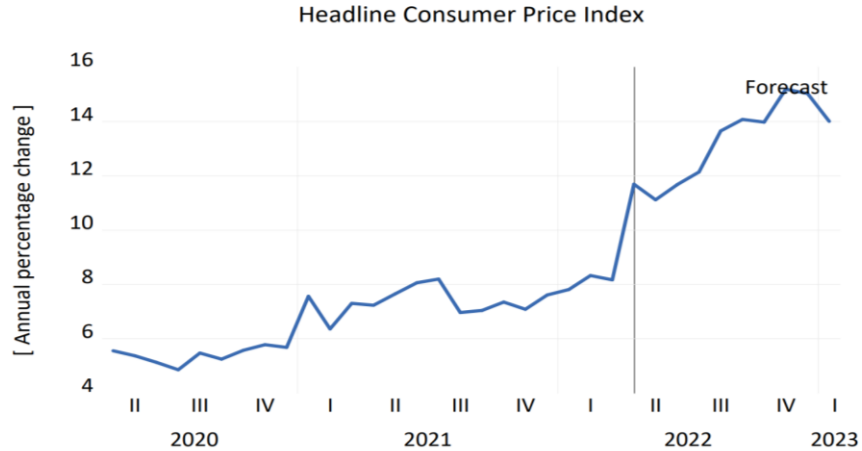

***Source**: CBG staff calculations*

## Price Development

Global factors and domestic structural bottlenecks are pushing headline inflation above the long-run trend and away from the medium-term target. Price pressures observed in 2021 have intensified and become more broad-based, and inflation is expected to remain elevated longer than previously anticipated (Chart 17).

CBG's near-term forecast shows that headline inflation (seasonally adjusted) will remain well over the implicit medium-term target of 5 percent, at least for the next three months. Moreover, the outlook is shrouded by uncertainties and subject to upside risks, mainly emanating from the supply side. Key risks include rising crude oil prices and its transmission to domestic pump prices and cost of transportation, persistent global inflation, exchange rate pass-through and structural issues at the ports of Banjul. The launch of the government's recently revised pay and grading structure presents risk of increasing aggregate demand pressure. In addition, inflation expectations have risen recently, a reflection of the ongoing shocks.

*Chart 18: Headline CPI*




***Source***: *CBG staff calculations*

As a result, inflation accelerated sharply to its highest level in over two decades. Headline inflation accelerated to 11.7 percent in April 2022, from 8.2 percent in March 2022. 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.

Analysis of the sub-components of the CPI basket indicates increasing prices of both food and non-food components. Food inflation accelerated to 16.3 percent in April 2022 from 8.2 percent recorded in March 2022, supported by the increase in the consumer prices of most components of the food basket, with the exceptions of Fruits and Nuts, Non-Alcoholic Beverages, and Vegetables. In addition to the price and supply shocks, and the slight exchange rate depreciation, seasonal effects of Ramadan was a major contributor to the rise in food inflation. The Gambia is a net importer of food stuff and bulk of the wheat used to make flour comes from Russia and Ukraine. Risk to the food inflation outlook is high with volatile global food prices, uncertainties relating to the global supply conditions and the unpredictable domestic food production. Depreciation of the exchange rate due to policy tightening in advanced economies is also a risk factor.

Within the non-food category, the rise in prices was driven by an upsurge in the prices in all sectors except for Clothing & Footwear during the review period. Non-food inflation moderated only slightly to 7.3 percent in April 2022 relative to 7.5 percent in March 2022. The main drivers of the slight decline in non-food inflation were Housing, Water, Electricity, Gas and Other Fuels, transport, and communications.

The Central Bank's core measures of inflation indicate rise in underlying inflation. Core1 inflation that excludes volatile energy products from the headline inflation increased to 16.4 percent as at end-April 2022 from 8.9 percent in March 2022 Core 2 inflation that excludes volatile energy and food products from the headline inflation items also surged to 12.6 percent at end-April 2021 from 9.8 percent in March 2022.

Global inflation has surged, with nearly all food and fuel commodity price levels rising. Domestically, inflation, which currently mostly supply-driven, is expected to remain elevated in the short to medium term, much of it via import price pass-through to domestic prices as the sanctions on Russia continue constrain global supply chain.

## Assessment of the Medium-Term Economic Outlook

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

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

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

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

## Decision

Based on the above analysis, the Committee reviewed developments in the international and domestic economy, assessed emerging risks to the inflation outlook and growth prospects and decided to increase the monetary policy rate by 1 percentage point to 11 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 (12 percent).

## Next MPC Meeting

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

## APPENDIX

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

| Group Name | Estimates | | | Projections | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| World | 2.9 | –3.1 | 6.1 | 3.6 | 3.6 |
| Advanced economies | 1.7 | –4.5 | 5.2 | 3.3 | 2.4 |
| United States | 2.3 | –3.4 | 5.7 | 3.7 | 2.3 |
| Euro area | 1.6 | –6.4 | -6.3 | 2.8 | 2.3 |
| Major advanced economies (G7) | 1.6 | –4.9 | 5.1 | 3.2 | 2.2 |
| Emerging market and developing economies | 3.7 | –2.0 | 6.8 | 3.8 | 4.4 |
| Emerging and developing Asia | 5.3 | –0.8 | 7.3 | 5.4 | 5.6 |
| Emerging and developing Europe | 2.5 | –1.8 | 6.7 | –2.9 | 1.3 |
| Sub-Saharan Africa | 3.1 | –1.7 | 4.5 | 3.8 | 4 |

***Source**: CBG staff calculations*

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

| | Q1-18 | Q1-19 | Q1-20 | Q1-21 | Q1-22 |
|---|---|---|---|---|---|
| C/ Account | 8.69 | 2.24 | -38.55 | -5.1 | -46.04 |
| Goods | -73.44 | -90.32 | -155.13 | -126.24 | -161.5 |
| Services | 33.51 | 40.22 | 12.99 | -1.17 | 12.63 |
| Income | -4.65 | -4.57 | -8.12 | -7.58 | -8.96 |
| C/Transfers | 53.28 | 56.91 | 111.71 | 129.89 | 111.78 |

***Source**: CBG staff calculations*

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

| | Q1-18 | Q1-19 | Q1-20 | Q1-21 | Q1-22 |
|---|---|---|---|---|---|
| Goods | -73.44 | -90.32 | -155.13 | -126.24 | -161.5 |
| Exports (FOB) | 29.75 | 37.1 | 54.25 | 13.56 | 15.36 |
| Imports (FOB) | -103.2 | -127.42 | -209.38 | -139.8 | -176.86 |

***Source**: CBG staff calculations*

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

| | Q1-18 | Q1-19 | Q1-20 | Q1-21 | Q1-22 |
|---|---|---|---|---|---|
| Services | 33.51 | 40.22 | 12.99 | -1.17 | 12.63 |
| Transportation | -13.13 | -10.84 | -21.1 | -8.88 | -6.47 |
| o/w Sea Transport | -13.59 | -13.53 | -22.92 | -10.53 | -12.85 |
| Travel | 48.54 | 51.89 | 36.29 | 8.44 | 23.19 |
| o/w personal Travel | 49.76 | 53.46 | 37.94 | 8.84 | 24.46 |

***Source**: CBG staff calculations*

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

| | Q1-17 | Q1-18 | Q1-19 | Q1-20 | Q1-21 | Q1-22 |
|---|---|---|---|---|---|---|
| Capital & Financial Acc | 11.89 | 32.88 | 40.09 | -41.18 | -51.83 | -102.43 |
| Capital Account | 12.97 | 7.09 | 19.28 | 8.6 | 3.29 | 1.06 |
| Financial Account | -1.08 | 25.79 | 20.81 | -49.78 | -55.13 | -103.49 |
| o/w Direct Investment | -11.57 | -9.43 | -18.59 | -24.39 | -59.17 | -54.91 |
| o/w Other Investment | 9.53 | 18.12 | 0.01 | -29.62 | -32.89 | -31.02 |
| o/w Change in Reserve Assets | 0.96 | 17.1 | 39.38 | 4.22 | 36.93 | -17.56 |

***Source**: CBG staff calculations*

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

| QUARTERLY US$ | | | |
|---|---|---|---|
| | PURCHASES (US$) | SALES (US$) | VOLUMES (US$) |
| 2020Q1 | 292695410 | 298799116 | 591494526 |
| 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 |

***Source**: CBG staff calculations*

*Table 7:Market Share by Currency (in percent)*

| CURRENCY | USD | EUR | GBP | CFA | OTHERS |
|---|---|---|---|---|---|
| Q1-2022 | 65.68 | 25.38 | 7.29 | 1.15 | 0.18 |
| 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 |

***Source**: CBG staff calculations*

*Table 8: The Overall Budget Balance*

| | GMD' million | | | % Of GDP | | | Q-o-Q % | Y-o-Y % |
|---|---|---|---|---|---|---|---|---|
| Overall balance | 2021 Q1 | 2021 Q4 | 2022 Q1 | 2021 Q1 | 2021 Q1 | 2022 Q4 | | |
| Excluding grants | -1345.63 | -3288.63 | -2839.55 | -1.28 | -3.13 | -2.59 | -13.655 | 111.02 |
| Including grants | -991.53 | -2068.42 | -2480.37 | -0.94 | -1.97 | -2.27 | 19.9159 | 150.156 |
| Basic balance | -366.43 | -2024.86 | -2420.66 | -0.35 | -1.93 | -2.21 | 19.5471 | 560.614 |
| Primary Balance | 477.92 | -1506.67 | -1442.82 | 0.46 | -1.44 | -1.32 | -4.2374 | -401.9 |
| CBG Financing | 144.21 | 963.06 | 1635.65 | 0.14 | 0.92 | 1.49 | 69.8389 | 1034.24 |

***Source**: CBG staff calculations*

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

| RECEIPTS | 2021 Q1 Outturn | 2021 Q4 Outturn | 2022 Q1 Outturn | Y-o-Y % Δ | Q-o-Q % Δ | 2022 Q1 2022 Projections | Performance below (-) above (+) |
|---|---|---|---|---|---|---|---|
| Total Revenue & Grants | 4028.36 | 4526.86 | 3952.75 | -1.88 | -12.68 | 6399.37 | -2446.62 |
| Percent of GDP | 3.84 | 4.31 | 3.61 | | | | |
| Domestic Revenue | 3674.25 | 3306.65 | 3593.56 | -2.2 | 8.68 | 3941.85 | -348.29 |
| % GDP | 3.5 | 3.15 | 3.28 | | | | |
| Tax Revenue | 2678.06 | 2516.99 | 2995.18 | 11.84 | 19 | 3126.29 | -131.11 |
| % GDP | 2.55 | 2.4 | 2.74 | | | | |
| Direct Tax | 788.25 | 883.39 | 1100.03 | 39.55 | 24.52 | 1010.18 | 89.85 |
| Personal | 267.03 | 300.47 | 362.95 | 35.92 | 20.79 | 365.16 | -2.21 |
| Corporate | 456.69 | 502.28 | 652.42 | 42.86 | 29.89 | 574.65 | 77.77 |
| Indirect Tax | 1889.81 | 1633.6 | 1895.15 | 0.28 | 16.01 | 2116.11 | -220.95 |
| Domestic Tax on goods & services | 588.13 | 550.81 | 630.19 | 7.15 | 14.41 | 624.04 | 6.16 |
| Tax on Int'l. Trade | 1301.68 | 1082.79 | 1264.96 | -2.82 | 16.82 | 1492.07 | -227.11 |
| Duty | 739.16 | 614.61 | 705.52 | -4.55 | 14.79 | 821.14 | -115.62 |
| Sales tax on imports | 562.52 | 468.18 | 559.44 | -0.55 | 19.49 | 670.93 | -111.49 |
| Non-tax Revenue | 996.19 | 789.66 | 598.38 | -39.93 | -24.22 | 342.09 | 256.29 |
| % GDP | 0.95 | 0.75 | 0.55 | | | | |
| Grants | 354.1 | 1220.21 | 359.19 | 1.44 | -70.56 | 2457.52 | -2098.33 |
| % GDP | 0.34 | 1.16 | 0.33 | | | | |
| Program | 205.11 | 549.81 | 137.2 | -33.11 | -75.05 | | |
| Projects | 148.99 | 670.41 | 221.99 | 48.99 | -66.89 | | |

***Source**: CBG staff calculations*

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

| PAYMENTS | 2021 Q1 Outturn 2021 | 2021 Q4 Outturn 2021 | 2022 Q1 Outturn 2022 | Y-o-Y % Δ | Q-o-Q % Δ | Q1 2022 Projections | Performance below (-) above (+) |
|---|---|---|---|---|---|---|---|
| Expenditure & NL | 5019.88 | 6595.28 | 6433.11 | 28.15 | -2.46 | 8287.99 | -1854.88 |
| % GDP | 4.78 | 6.28 | 5.88 | | | | 5.88 |
| Current Expenditure | 3501.17 | 4574.69 | 4586.69 | 31 | 0.26 | 4828.58 | -241.89 |
| % GDP | 3.34 | 4.36 | 4.19 | | | | |
| Personnel Emoluments | 1099.74 | 1258.75 | 1306.01 | 18.76 | 3.75 | 1247.22 | 58.78 |
| Other Charges | 1557.08 | 2797.75 | 2302.85 | 47.9 | -17.69 | 2597.57 | -294.72 |
| Interest Payments | 844.35 | 518.2 | 977.84 | 15.81 | 88.7 | 983.8 | -5.96 |
| External | 76.4 | 167.61 | 151.35 | 98.1 | -9.7 | 215.83 | -64.48 |
| Domestic | 767.95 | 350.59 | 826.49 | 7.62 | 135.75 | 767.97 | 58.52 |
| Capital Expenditure | 1518.71 | 2020.59 | 1846.42 | 21.58 | -8.62 | 3459.41 | -1612.99 |
| % GDP | 1.45 | 1.93 | 1.69 | | | | |
| Externally Financed | 979.2 | 1263.77 | 418.89 | -57.22 | -66.85 | 1933.86 | -1514.97 |
| Loans | 830.21 | 593.36 | 196.9 | -76.28 | -66.82 | | |
| Grants | 148.99 | 670.41 | 221.99 | 48.99 | -66.89 | 1933.86 | -1711.87 |
| GLF Capital | 539.51 | 756.82 | 1427.53 | 164.6 | 88.62 | | |
| Net Lending | 0 | 0 | 0 | | | | |

***Source**: CBG staff calculations*

*Table 11: Summary of Monetary Developments*

| Key Monetary Aggregates | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Variable** | **Level (million)** | | **Annual % changes** | | | | | **Quarterly % Changes** | |
| | Q1,2021 | Q1,2021 | 21-Mar | 21-Jun | 21-Sep | 21-Dec | 22-Mar | 21-Dec | 22-Mar |
| NFA (Banking Sector) | 24806.48 | 27057.58 | 57.6 | 48.9 | 22.5 | 19 | 9.1 | 10.9 | -6.5 |
| NDA (Banking Sector) | 29042.14 | 38110.8 | 7.2 | 13.8 | 21.7 | 20 | 31.2 | 4.4 | 13.6 |
| Claims on Gov`t, net | 25911.24 | 34378.31 | 11.2 | 13.1 | 20.2 | 31.2 | 32.7 | 10.9 | 11.3 |
| Claims on Public Entities | 79.28 | 2550.37 | -28.2 | -4.2 | 183.8 | 313.7 | 3116.8 | 66 | 809.1 |
| Claims on Private Sector | 7979.7 | 8848.07 | 8.4 | 5.7 | 8.9 | 20.7 | 10.9 | 12.6 | -6 |
| BROAD MONEY | 53848.62 | 65168.38 | 25.7 | 27.5 | 22.1 | 19.5 | 21 | 7.3 | 4.3 |
| Narrow Money | 30157.04 | 37539.47 | 27.2 | 27.3 | 23.7 | 20.4 | 24.5 | 9.2 | 7 |
| Quasi-money | 23691.58 | 27628.91 | 23.8 | 27.8 | 20.2 | 18.5 | 16.6 | 4.9 | 0.8 |
| Reserve Money | 19279.68 | 21973.9 | 32.4 | 31.1 | 24 | 13.6 | 14 | -1.3 | 4 |

***Source**: CBG staff calculations*

*Table 12: Key Financial Indicators for FCs ( in percent)*

| Column1 | Column2 | Column3 | Column4 | Column5 | Column6 |
|---|---|---|---|---|---|
| INDICATOR | 22-Mar | 21-Dec | 21-Mar | INCREASE | PRUDENTIAL |
| | | | | (DECREASE) | REQUIREMENT |
| CAPITAL | | | | | |
| Capital Adequacy | 25.54 | 29.01 | 31.76 | -3.47 | 10.00 |
| Ratio | | | | | |
| ASSET QUALITY | | | | | |
| NPL Ratio | 4.59 | 5.15 | 7.74 | -0.55 | Single Digit |
| EARNINGS | | | | | |
| ROA | 2.09 | 1.77 | 2.09 | 0.32 | Positive ratio |
| ROE | 20.55 | 16.42 | 17.71 | 4.13 | Positive ratio |
| LIQUIDITY | | | | | |
| Liquid Assets | 89.87 | 92.03 | 92.83 | -2.16 | 30.00 |
| Ratio | | | | | |
| MARKET RISK | | | | | |
| Net Open Position | 24.54 | 0.94 | 4.03 | 23.60 | +/-25 |
| (NOP) | | | | | |

***Source**: CBG staff calculations*

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

| **Y-O-Y INFLATION** | 20-Mar | 20-Jun | 20-Sep | 20-Dec | 21-Mar | 21-Jun | 21-Sep | 21-Dec | 22-Mar | 22-Apr |
|---|---|---|---|---|---|---|---|---|---|---|
| Food | 7.78 | 5.77 | 6.55 | 7.04 | 10.38 | 11.21 | 9.16 | 10.18 | 9.17 | 16.26 |
| Bread & Cereals | 12.05 | 9.43 | 8.16 | 7.02 | 8.06 | 8.04 | 7.39 | 8.22 | 9.09 | 21.66 |
| Meat | 9.41 | 3.06 | 1.5 | 5.17 | 6.45 | 18.56 | 20.18 | 16.09 | 11.57 | 19.03 |
| Fish | 14.59 | 15.12 | 18.66 | 25.72 | 24.01 | 18.09 | 12.34 | 4.73 | 1.61 | 4.13 |
| Milk, Cheese and Eggs | 3.89 | -0.11 | 0.97 | 0.95 | 5.5 | 8.57 | 6.27 | 5.73 | 6.58 | 7.54 |
| Oils and fats | 17.85 | 18.08 | 10.76 | 10.83 | 32.84 | 31.65 | 37.73 | 36.21 | 2.51 | 23.05 |
| Fruits & nuts | 5.9 | 10.45 | 8.14 | 6.63 | 12.94 | 5.22 | 4.62 | 4.14 | 8.88 | 7.66 |
| Vegetables, root crops & tubers | -1.49 | -4.7 | 4 | 2.17 | -0.07 | 1.24 | -6.43 | 2.49 | 14.72 | 12.97 |
| Sugar, jam, honey & sweets | -0.78 | 0.71 | -0.86 | -1.42 | 6.99 | 3 | 4.77 | 10.75 | 18.93 | 22.71 |
| Other food products n.e.c | 3.49 | -0.19 | 0.97 | -0.79 | 0.02 | 8.05 | 4.26 | 11.89 | 14.12 | 14.26 |

***Source**: CBG staff calculations*

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

| Y-O-Y NON-FOOD INFLATION | 20-Dec | 21-Mar | 21-Jun | 21-Sep | 21-Dec | 22-Mar | 22-Apr |
|---|---|---|---|---|---|---|---|
| NON-FOOD PRODUCTS AND SERVICES | 4.4 | 4.41 | 4.85 | 4.75 | 4.91 | 7.45 | 7.31 |
| CLOTHING & FOOTWEAR | 2.28 | 5.2 | 5.57 | 6.04 | 7.72 | 4.39 | 7.76 |
| HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS | 1.91 | 3.97 | 4.33 | 5.12 | 7.23 | 4.73 | 4.54 |
| HEALTH | 0.07 | 1.25 | 0.99 | 0.9 | 33.29 | 46.32 | 47.37 |
| TRANSPORT | 5.11 | 5.03 | 11.29 | 10.72 | 6.2 | 8.51 | 7.34 |
| COMMUNICATION | -4.64 | -0.76 | -1.15 | -0.1 | 1.26 | 1.01 | 0.47 |
| RECREATION AND CULTURE | -1.87 | 2.01 | 2.97 | 3.82 | 3.41 | 5.55 | 5.52 |
| NEWSPAPERS, BOOKS AND STATIONERY | -2.35 | 3.65 | 0.82 | 2.95 | 3.09 | 6.33 | 6.26 |
| HOTELS, CAFES, AND RESTAURANTS | 10.29 | 7.46 | 6.36 | -2.84 | 9.69 | 35 | 37.59 |
| MISCELLANEOUS GOODS AND SERVICES | 27.94 | 10.54 | 10.45 | 10 | 7.45 | 12.27 | 12.25 |

***Source***: *CBG staff calculations*

*Table 15: Core inflation (Annual Percentage Change)*

| Y-o-Y Inflation | 20-Mar | 20-Jun | 20-Sep | 20-Dec | 21-Mar | 21-Jun | 21-Sep | 21-Dec | 22-Mar | 22-Apr |
|---|---|---|---|---|---|---|---|---|---|---|
| Headline Inflation | 7.59 | 5.14 | 5.18 | 5.67 | 7.37 | 8.05 | 7.01 | 7.6 | 8.2 | 11.69 |
| Core 1 Inflation | 8.66 | 2.66 | 2.72 | 3.77 | 7.75 | 11.53 | 9.18 | 9.52 | 8.87 | 16.44 |
| Core 2 Inflation | 8.76 | 2.84 | 2.88 | 4.18 | 6.33 | 10.54 | 8.99 | 8.51 | 9.78 | 12.58 |

***Source***: *CBG staff calculations*