CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

MINUTES OF MEETING NO.85 **MAY 30-31, 2023**

The Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) met on May 30 -31, 2023. The Committee reviewed developments in the economy, assessed emerging risks to inflation and growth outlook, and decided to increase the monetary policy rate by 200 basis points to 16.0 percent. The meeting was attended by all the 9 members of the Committee.

MPC Members Present

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. Baboucarr Jobe	Member
Mrs. Halima Singhateh -Jagne	Member
Mr. Karamo Jawara	Member
Mr. Ebrima Wadda	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. Binta Beyai	Senior Economist, Banking Services Department
Ms. Awa Njie	Senior Bank Examiner, Banking Supervision Department
Mr. Awa Bayo	Senior Bank Examiner, Banking Supervision Department
Mr. Alkali Barrow	Officer, Other Financial Institutions Supervision Department
Mr. Momodou Alieu Jallow	Officer, Financial Markets and Reserve Management Department
Mr. Alfusainey Touray	Economist, Economic Research Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Bademba Drammeh	Economist, Economic Research Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department

Agenda

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

Opening remarks by the Chairman

2. In his opening statement, the Governor and Chairman of the Committee highlighted the critical need to address inflation. He recognized, however, that certain factors contributing to the recent rise in inflation are beyond the realm of monetary policy. For instance, the elimination of subsidies, the implementation of the Cargo Tracking Note (CTN) at the seaport, and the recent hike in electricity and water tariffs by the utility company have all had an immediate and significant impact on prices. He stated that in times of crisis, it is imperative to ensure policies are aligned in order to establish a systematic and effective strategy.

3. The Chairman shared with the meeting plans to organize a policy coordination retreat in partnership with the Ministry of Finance and Economic Affairs in June 2023. The retreat will provide a platform for a thorough diagnosis of the current economic situation, identify challenges, and proffer solutions. He recommended that the outcome of the retreat should be used as a basis for the upcoming negotiations with the IMF for a new program. He stated that a similar approach was adopted during the HIPC negotiations, which ultimately led to the successful completion of the initiative.

4. The Chairman re-echoed the need to redouble efforts to be able to achieve our development aspirations, move people out of poverty, and graduate to a middle-income country. He commended the staff of the Bank for their commitment and hard work. However, he reminded them that more is expected from them.

5. Finally, he encouraged members of the MPC to contribute their insights and perspectives freely during the meeting as the decision they were about to take would affect the lives and livelihoods of every Gambian.

Review and Adoption of Minutes of MPC Meeting No. 84

6. The minutes of the MPC Meeting No.84 were reviewed and adopted after minor adjustments.

Presentation of Reports

7. Presentations and discussions of reports took place in the following order:
   - Developments in the Global Economy
   - Banking Sector (Recent Developments
   - Stress Testing, and Foreign Currency Net Open Position
   - Non-Bank Financial Sector, Financial Market
   - External Sector (Balance of Payment and Foreign Exchange Market)
   - Monetary Sector
   - Government Fiscal Operations
   - Business Sentiment Survey
   - Real Sector
   - Inflation
   - Staff Assessment and Outlook
     - Assessment of the current economic conditions
     - Baseline forecasts
     - Alternative scenarios

Global Economic Developments

8. The presentation on the global economy pointed to a gradual recovery in 2023, predicated on resilient demand in some advanced economies and a better-than-expected rebound in the Chinese economy. However, the report indicated an emergence of new risks to the recovery process. The recent banking system turmoil in the United States and Europe fueled uncertainties. The combined effects of persistent and new headwinds are expected to exert further pressure on the already fragile growth outlook. Monetary conditions remain tight in several advanced economies due to the tight monetary policy stance. However, the encouraging signs of inflation decelerating may point to a slowdown in interest rate hikes by central banks.

9. The presenter informed the Committee that in view of the persistent and emerging risks, the IMF downgraded the global growth forecast slightly by 0.1 percentage points relative to the projections in January 2023. The IMF forecasts the global economy to grow by 2.8 percent in 2023, lower than 3.4 percent in 2022. The Fund, however, expects a modest recovery in 2024 with a projected growth rate of 3.0 percent.

10. On global price developments, the presentation reported signs of a slowdown in key drivers of inflation. Although headline inflation was still high and above most central bank targets, it started receding on the back of lower international food and energy prices, and the impact of tight monetary policy. Based on indications that inflation may have peaked in several countries, the IMF forecasts the global consumer price index to decline from 8.7 percent in 2022 to 7.0 percent in 2023, before decelerating further to 4.9 percent in 2024. However, the report cautioned that the risks to the inflation outlook were significant and that underlying price pressures, measured by core inflation developments, were more persistent than anticipated.

11. In addition, the report pointed out the resurgence of global commodity price pressures in April 2023, supported by the higher demand and tight supply. The

uncertainties surrounding the Black Sea Grain deal also contributed to the surge. Nonetheless, the forecast still pointed to an overall slowdown in international commodity prices this year, premised on slowing global growth and a projected improvement in supply conditions amid favorable weather conditions. The annual average IMF All Commodities Price Index increased by 1.9 percent in April from March 2023. The FAO Food Price Index increased by 0.6 percent during the same period but was 19.7 percent below the level it was in April 2023. Similarly, crude oil prices also rose by 4.6 percent, following the decision by OPEC to cut supply and rising demand from China. Crude oil prices this year were projected to fall by about 24 percent this year.

12. Finally, it was reported that most central banks around the world continued to raise interest rates to fight inflation, but some signs emerged to indicate a possible slowdown in rate hikes. The notable exception was China where monetary policy remained accommodative to support growth given the subdued inflation of 0.1 percent in April 2023. The Fed raised the Federal Funds Rate by 25 basis points in May 2023, putting it at a range of 5.00-5.25 percent. Similarly, the Bank of England in March raised its bank rate to 4.00 percent, and the European Central Bank jerked up in its meeting in May by 25 basis points.

13. Reacting to the presentation, the Committee expressed concern over the persistent rise in rice prices in the international market, especially considering that a substantial portion of the rice consumed in The Gambia is imported. The Committee was made aware of ongoing negotiations between the governments of India and The Gambia to establish an arrangement for importing rice at concessional prices. The collaboration of the CBG and government in this initiative aims to mitigate the impact of rising international rice prices.

14. In light of the above development, the Committee expressed its added interest in monitoring the economic situation in India, and the ERD was tasked to extend the analysis to encompass developments in that country in future presentations.

Additionally, it was proposed that the analysis should include other trading partner countries as well.

15. The Committee acknowledged the favorable deceleration in global inflation. However, they highlighted concerns over potential risks, such as the uncertainties surrounding the Black Sea grain deal and OPEC production decisions. These factors were deemed significant risks with potential implications for the domestic price outlook.

16. The Committee asked for close monitoring of the emerging banking crisis in advanced economies. While the direct impact might be minimal, due to the limited interconnectedness of our financial sector, but there could be potential economic implications through the second-round effects, similar to what was observed during the 2007-08 global financial crisis.

Domestic Macroeconomic Developments

Banking Sector Developments

17. The presentation on Banking Sector Developments reported strong industry performance in the first quarter of 2023. The financial soundness indicators highlighted strong and resilient fundamentals with improved profitability.

18. The presentation portrayed a well-capitalized and liquid banking industry, despite a slight decline in the risk-weighted capital adequacy (CAR) ratio to 24.4 percent in March 2023, from 24.8 percent in the previous quarter. All the banks met the statutory minimum CAR of 10 percent. The ratio of liquid assets to total assets of 50.5 percent indicated a comfortable level of buffer. The report revealed a marginal deterioration in asset quality relative to the December quarter, due to increases in non-accruals and restructured loans. The industry non-performing loans stood at 4.6 percent of gross loans, a marginal 0.07 percentage point increase during the review period.

19. Total assets of the industry expanded by 3.8 percent (quarter-on-quarter) to stand at D81.5 billion as at end-March 2023. In contrast, customer deposits decreased by 1.7 percent during the same quarter to stand at D53.1 billion. Deposits accounted for 65.2 percent of total liabilities, making it the largest source of funding for banks.

20. The report on the findings of a stress test exercise on the banking system affirmed the stability of the industry, but vulnerabilities remained. The scenario exercise subjected banks to abnormal but plausible shocks and the results showed that credit risk continues to be important and a source of vulnerability in the banking system in The Gambia. The overall market risk was considered low, but the risk associated with banks' exposure to the sovereign persists. However, the study found banks to be liquid with no bank maintaining a liquid asset ratio less than the hurdle rate prior to the shocks. In view of these vulnerabilities, the report recommended a more judicious application of the single obligor waivers, a review of the paid-in capital, as well as encouraging and actively promoting loan syndications.

21. The Committee expressed a positive reaction to the presentation, acknowledging the resilience and stability of the banking industry. Despite this, they again raised concerns regarding the low loans-to-deposit ratio, indicating a need for improvement in financial intermediation.

22. The Committee was also concerned about the high NPL level of an individual bank and stressed the need to monitor it closely to address the issue and prevent any risks to the financial system. The banking industry is doing well, but there is always room for improvement.

23. It was brought to the attention of the Committee that the recent tight liquidity conditions within the banking system were partly due to the interventions of the Central Bank in the foreign exchange market. As a result, it was suggested that the Central Bank should coordinate its policy interventions more effectively to minimize any negative impact on the financial sector liquidity.

24. Regarding provisioning, the Banking Supervision Department (BSD) expressed that, for supervisory purposes, greater concern should be placed on under-provisioning than over-provisioning. Currently, only one bank has reported an issue with under-provisioning, and it is being addressed.

25. The BSD stress test exercise was commended by the Committee, noting that it has become an important instrument that will help inform future decisions regarding the stability and safety of the financial system.

26. It was reported that the government has been encouraging greater participation of the pension fund in government securities auctions, which may trigger large withdrawals of its deposits from commercial banks. The BSD was asked to include in their stress test exercise an assessment of the impact on banks in the context of large depositor withdrawals.

Developments in Other Financial Institutions

27. The presentation on deposit-taking Non-Bank Financial Institutions (NBFIs) covered Finance Companies (FCs) that hold more than half of the assets and deposits of the sector, Credit Unions, and Mobile Money Operators. The report assessed the sector to be sound and resilient, with strong capital and liquidity positions relative to regulatory requirements.

28. According to the presentation, the FCs consistently maintained steady growth, with an expanding customer base and an increasing balance sheet size, affirming the resilience of the entities. The asset base expanded by 20 percent from December 2022 to March 2023 to stand at D3.6 billion. Total deposit liabilities increased by 19 percent during the same period to reach D2.5 billion. However, the report indicated a slight contraction in the stock of customer loans by 2 percent (quarter-on-quarter) to D1.0 billion as at end-March 2023.

29. The report also revealed that the risk-weighted CAR stood at 28 percent, and all but one company met the regulatory benchmark of 20 percent. The industry liquidity ratio of 70 percent exceeded the regulatory threshold of 30 percent, indicating a healthy liquidity position. In terms of asset quality, however, the industry non-performing loans deteriorated to 13 percent of gross loans at end-March 2023, from 11 percent at end-December 2023, due to an increase in arrears.

30. The Credit Unions (CUs), the second largest NBFI category, also experienced growth in asset size and membership. From December 2022 to March 2023, the asset base of CUs expanded by 4.1 percent to stand at D2.8 billion. During the quarter, total membership outreach grew by 1.6 percent to 110,654, resulting in an increase in the stock of customer deposits of 7.9 percent to D2.3 billion. Additionally, outstanding loans extended to members increased markedly by 41.9 percent to D1.9 billion in the first quarter of 2023, following a contraction in the previous quarter.

31. Finally, the presentation highlighted a consistent rise in mobile money usage in The Gambia. From December 2022 to March 2023, active customer base registered a quarterly increase of 30 percent to 145,798. Total value of cash-in transactions went up by 12 percent to D90.2 million, and the total value of cash-out transactions increased by 12 percent to D90.2 million during the same quarter.

32. The Committee welcomed the continued growth of mobile money usage and the crucial role it plays in the economy by fostering increased access to finance. The deterioration in asset quality of the Finance Companies, however, remains a point of concern that requires close monitoring.

33. The Committee expressed concern about a particular Finance Company that failed to meet the capital requirement. The supervisory department informed the Committee of the ongoing onsite examination that seeks to evaluate their internal operations.

Domestic Debt Market Developments

34. The report on the Domestic Debt Market indicated a stable government domestic debt, evidenced by the declining debt-to-GDP ratio. However, rising interest rates and the concentration of the debt in the short end of the maturity profile pose significant refinancing and rollover risks.

35. The report showed a marginal rise in the nominal value of domestic debt by 1.7 percent in the first four months of 2023 to stand at D38.8 billion. The rise was through the increased issuance of short-term Treasury and Sukuk Al Salaam bills as there were no new long-term bond issuance during the period. As a result, the stock of short-term bills picked up by 4.8 percent and accounted for 49.5 percent of outstanding domestic debt.

36. The increase in the concentration at the short end of the maturity profile represents a reversal of the declining trend observed since 2020. This has diluted the progress made in the debt reprofiling strategy, which aims to create breathing space for the government and minimize refinancing and rollover risks.

37. The report also observed that due to the tight liquidity conditions, the market could not absorb the growing borrowing needs of the government, leading to auction undersubscriptions and a rise in central bank financing. Central bank credit extended to the government, mainly through overdrafts, reached D1.8 billion at end-April 28, 2023.

38. Furthermore, the rising short-term yields have lowered the investor appetite for long-term bonds. The report showed a significant rise in interest rates on government securities, increasing the cost of domestic debt servicing. Multiple rounds of policy rate hikes compounded by tight banking system liquidity pushed short-term rates higher toward the monetary policy rate. The weighted average yield rose from 4.8 percent in 2022 to 11.9 percent in April 2023.

39. In view of the rising money market interest rates, the report projected government's domestic debt service payment to increase by 18.4 percent, from

2022 to D3.2 billion (18.4 percent of domestic revenue) in 2023. Another contributing factor to the surge in debt service payments is the higher amortization cost, owing to the resumption of repayment of IMF facilities on-lent to government - marking the end of the grace period for the COVID Catastrophic Relief Fund.

40. Reacting to the presentation, the Committee stated that while the current state of the domestic debt stock may appear stable, the outlook is quite grim. The fiscal situation and projected increase in debt servicing costs are cause for concern. With rising interest rates and the fact that many of the long-term bond holdings will be maturing this year and next, interest payments will constitute a significant burden on the budget. Immediate and careful planning is essential to effectively manage this precarious situation.

41. It was mentioned that the budget was built on the assumption that investors would roll over their bond holdings, but indications suggest that that may be challenging due to high and increasing short-term interest rates. Short-term investments are currently more attractive than long-term bonds, which could result in investors not rolling over the bonds. If this happens, the domestic debt service cost on the budget this year will increase from D3.6 billion to D6.7 billion, which is approximately 39 percent of revenue. The expected budget support has already been earmarked for various projects, although the proceeds from the sale of Megabank will provide a positive shock.

42. The Committee stressed that the situation has implications for overall macroeconomic stability. Therefore, a prudent public financial management strategy is needed to navigate this complex situation and avoid future occurrences.

43. The Committee was unanimous in renewing the call for reforms to stabilize the fiscal situation. This includes reforms of agencies, state-owned enterprises, and embassies that have become a significant burden on the budget.

Balance of Payments Developments

44. The presentation on the Balance of Payments showed a wider deficit in the trade balance and current account in the first quarter of 2023. Rising import bills due to stronger domestic demand continued to drive the deterioration in the current account despite an upsurge in private remittance inflows and some recovery in tourism receipts. However, capital transfers somewhat helped mitigate the impact of the wider current account deficit.

45. The report indicated that the current account deficit widened to US$66.4 million (3.4 percent of GDP) in the first quarter of 2023, from US$40.1 million (1.7 percent of GDP) in the first quarter of 2022. The trade balance registered a higher deficit of US$226.5 million (11.4 percent of GDP) in the review period, compared to US$150.6 million (7.8 percent of GDP) recorded in the corresponding period in 2022.

46. The total value of imports (FOB) was estimated at US$290.2 million in the first quarter of 2023, representing an annual growth of 64.1 percent. The main service and merchandise imports were electricity, vegetables, rice and cereals, fuel, and cooking oil. Total exports (FOB) of goods increased to US$63.7 million in the first quarter of 2023, from US$26.3 million in Q1,2022. The main export items were fish, fruits, cashew, and groundnut.

47. The report highlighted that the rise in tourism contributed to the improvement in the services account balance. It registered a surplus of US$41.2 million in the first three months of 2023, from US$7.7 million in the comparable period a year ago.

48. Meanwhile, the capital account balance improved to a surplus of US$9.6 million in quarter one of 2023, from US$1.1 million in quarter one of 2022. The net incurrence of liabilities increased with higher FDI and other investment inflows. Total net inflow recorded in the financial account increased by 8.3 percent (year-on-year) to US$95.8 million during the period.

49. Reacting to the presentation, the Committee expressed concern about the burden of importing electricity on the balance of payments, which has increased demand for foreign currency, putting additional pressure on the exchange rate. They also lamented the liquidity challenges this presents for NAWEC. The use of Senegal ports for goods bound for Gambia, due to the inefficiency at our seaport, has also increased the demand for foreign currency. These structural issues contribute to the rise in domestic inflation.

50. The Committee was provided with updates on NAWEC's modernization projects, which aim to shift the company's focus from electricity production to distribution. However, the Committee deplored the slow pace of such reforms and reiterated the need for greater commitment to ensure its long-term sustainability. It should be noted that the KAR Power project was intended to be a stop-gap measure while reforms were underway. However, delay or lack of reforms is extending their stay.

Foreign Exchange Market Developments

51. The presentation revealed a rise in the activity level in the domestic foreign exchange market in the first quarter of 2023. The pace of depreciation of the dalasi against major traded currencies slowed during the quarter with an improvement in supply conditions. Demand pressures for foreign exchange emanated mainly from higher imports of electricity, fuel, food, and construction materials.

52. Total transactions in foreign currency from January to March 2023 totaled US$644.1 million, an increase of 12.8 percent over the previous quarter. During the same quarter, the supply of foreign currency increased by 12.8 percent to US$318.0 million, but demand increased faster (13.8 percent) to US$326.0 million.

53. The presentation reported a total private remittance inflow of US$193.0 during the first three months of the year, representing an increase of 6.9 percent over the previous quarter. It was also reported that outflow of remittances registered its

highest-ever quarterly increase (191.3 percent) in the first quarter of 2023 to US$9.4 million, coinciding with the entry of new FinTech companies.

54. Throughout the quarter, the dalasi exhibited considerable stability against major currencies, experiencing only marginal depreciation vis-à-vis the US dollar (0.3 percent), the euro (1.7 percent), and the Great Britain pound (0.7 percent).

55. Reacting to the presentation, the Committee acknowledged the challenges importers face accessing foreign currency from commercial banks. Collaborative efforts from the CBG, Ministry of Trade, and Ministry of Finance were necessary to resolve the complex issue.

56. Concern was raised that the recent reference rate policy may have triggered some degree of foreign currency hoarding. As a result, it was advised to monitor any unintended consequences of the policy measure and make adjustments if necessary to prevent market distortions.

57. The Committee agreed that the parallel market is a sensitive issue that requires careful consideration. While it is important to address any illegal activity, it is also crucial to prevent panic and market distortions. Any efforts to limit the parallel market should be done with flexibility and caution.

Real Sector Developments

58. The presentation on Real Sector Developments painted an optimistic outlook for the Gambian economy, despite significant headwinds. The Bank's Composite Index of Economic Activity (CIEA) pointed to a notable pickup in economic activity in the first quarter of 2023, signifying a positive momentum in the post-pandemic recovery. As a result, the output gap widened during the quarter.

59. The presentation provided an update on the newly released provisional GDP estimates for 2022 by the Gambia Bureau of Statistics, which showed a real GDP growth of 4.9 percent for 2022, slightly lower than the revised growth rate of 5.3

percent for 2021. Driving growth in 2022 were services (mainly wholesale and retail trade, accommodation and food services, information and communication, and financial activities), construction, and agriculture. On the demand side, domestic absorption (private and public consumption and investment) continued to be the main driver of growth. Private consumption alone accounted for more than 50 percent of total GDP, making it the largest demand component.

60. The presentation reported a slight downgrade in the CBG staff growth projection for 2023 in the May forecast round, reflecting a delay in some major government infrastructure projects that were factored in the baseline in the earlier forecast round. The staff forecast the economy to grow by 4.4 percent in 2023, 1.5 percentage points lower than the February forecast. Strong private demand, stable remittance inflows, a gradual recovery in tourism, and public investment expenditure are expected to continue supporting growth. The risks to the growth outlook, however, are skewed to the downside, including uncertain global economic and political environments and domestic structural rigidities.

Monetary Developments

61. The presentation on Monetary Developments indicated subdued money supply and reserve money growth rates in the first quarter of 2023, consistent with the direction of monetary policy. The slowdown was influenced largely by the contraction of the net foreign assets (NFA) of depository corporations (Central Bank and other depository corporations). This resulted from foreign exchange liquidity constraints due to the continued balance of payments challenges, leading to a reduction of the foreign reserves of the Central Bank and foreign assets of other depository corporations (commercial banks).

62. The report indicated that the quarterly broad money supply growth plummeted to 0.3 percent in the first quarter of 2023, from 4.5 percent in the same period in 2022. The depository corporations' claims on non-residents tempered compared to liabilities to non-residents. As a result, the NFA of depository corporations contracted by 2.7 percent during the quarter, although this represents a lower

contraction than 7.4 percent in the same quarter in 2022. The NDA of depository corporations registered a modest 2.1 percent (quarter-on-quarter) growth, significantly lower than 13.8 percent in the first quarter of 2022. The growth in the NDA was supported by an expansion in net claims on the central government by 4.6 percent (quarter-on-quarter). The depository corporations' net claims on the private sector, on the other hand, contracted during the quarter by 5.0 percent.

63. According to the report, the NFA of the Central Bank experienced a notable 2.6 percent growth in the first quarter of 2023, representing a significant improvement compared to the same period in 2022, which had a contraction of 5.7 percent. Although the growth in the NDA of the Central Bank remained strong, it did experience a slowdown from 43.8 percent in the first quarter of 2022 to 13.3 percent in the first quarter of 2023. Consequently, reserve money increased by 6.3 percent during the quarter under review, relative to 4.0 percent in the same period in 2022.

64. In response to the presentation, the Committee raised concerns about the relationship between money supply and inflation. They noted that the two appear to be moving in opposite directions, raising questions about the effectiveness of the monetary targeting framework.

Government Fiscal Operations

65. The presentation on the Government Fiscal Operations was based on preliminary data from the Ministry of Finance and Economic Affairs. The report indicated an improvement in the fiscal position in the first quarter of 2023, due to the decline in expenditure. The data showed that the budget deficit (including grants) narrowed to D2.6 billion (2.5 percent of GDP) in the first quarter of 2023, from D2.9 billion (2.7 percent of GDP) in the corresponding period in 2022.

66. According to the report, there was a shortfall in domestic revenue mobilized during the first quarter of 2023. Both tax and non-tax revenues underperformed, resulting in a total revenue of D4.1 billion, equivalent to 3.9 percent of GDP. This

marked a decrease of 3.2 percent from the previous quarter and a shortfall of 4.8 percent compared to the target. Although tax revenue increased by 18.0 percent to D11.2 billion, it still fell short of the projected amount by 2.1 percent. On the other hand, non-tax revenues declined significantly, standing at D0.6 billion, which is a 50.8 percent contraction compared to the previous quarter. This resulted in a 17.2 percent shortfall relative to the projected amount. However, total grant disbursement was 83.3 percent higher than the previous quarter's collection.

67. The presentation indicated significant expenditure control during the quarter. The data revealed a 17.4 percent (quarter-on-quarter) contraction in total expenditure and net lending, driven by the fall in other charges and capital expenditure. Total expenditure and net lending totaled D7.3 billion or 4.7 percent of GDP and 25.0 percent below the projected amount. Recurrent expenditure increased by 2.0 percent (quarter-on-quarter) to D4.5 billion (3.3 percent of GDP), owing to the increase in spending on wages and salaries, and interest payments. However, total recurrent expenditure was contained at 15.6 percent below projections, reflecting the decline in other charges (goods and services, subsidies, and transfers) by 21.3 percent during the quarter. Capital expenditure declined by 36.5 percent to D2.8 billion (1.4 percent of GDP), owing to slower execution of some government infrastructure projects. It was below the amount projected for the quarter by 37.7 percent.

68. The Committee expressed concern about the quality of the fiscal data, highlighting it did not present an accurate depiction of the fiscal situation. Indications are that the fiscal situation remains challenging and that was not reflected in the data. As a result, they called for improvement in both the timeliness and quality of the data. Discrepancies between the Bank and MoFEA should be addressed to ensure consistent reporting.

Business Sentiment Survey

69. The Bank's quarterly Business Sentiment Survey revealed an improvement in business sentiments for the second consecutive quarter. The results marked a

significant shift, which is an indication of continued post-pandemic recovery. Most participating businesses expressed optimism about the near-term growth prospects of the Gambian economy. This newfound hope has bolstered business confidence, leading to plans for increased capital expenditure and hiring in anticipation of higher business activity over the next three months, which will be supported by increased consumer demand and sales.

70. The presentation reported that the positive economic growth outlook is associated with elevated inflation. Ongoing shocks, domestic issues, and currency depreciation continue to influence respondents' outlook. The survey indicates that most participants expect a rise in the general price level in the next three months, indicating rising near-term inflation expectations.

71. Reacting to the presentation, the Committee emphasized the need to send the right signals in order to subdue inflation expectations. When inflation stays persistently high, there is an increasing risk of expectations de-anchoring. The role of policy consistency becomes pivotal in maintaining credibility and confidence.

Inflation Developments

72. The inflation analysis report revealed persisting price pressures in the domestic economy, driven by strong demand, external factors, exchange rate depreciation, and the increase in electricity and water tariffs by the utility company in April 2023. Data indicated a jump in headline inflation from 14.8 percent in March 2023 to 17.4 percent in April 2023, primarily mirroring the rising prices of most food items, electricity, and water.

73. The report revealed a notable 1.7 percentage point acceleration in consumer food inflation from 20.5 percent in March 2023 to 22.1 percent in April 2023. The rise in food inflation was observed across various subcategories. Within the food basket, the consumer inflation of meat, bread and cereals, and oils exhibited a moderation in April. However, all other subcategories contributed to an upswing in food inflation. These include vegetables, milk, cheese and eggs, fruits and nuts,

fish, and other food products. The report attributed the price variation in some food items to seasonality.

74. Regarding non-food inflation, the presentation attributed the acceleration from April 2023 to March 2023 primarily to the rise in electricity and water tariff adjustments by the NAWEC. The impact of the tariff adjustment in April was immediate with further upward price movements expected in the upcoming reporting periods through second round effects. Non-food inflation jumped from 8.9 percent in March 2023 to 12.3 percent in April 2023.

75. The underlying inflation, measured by the core inflation indicators, moderated in April 2023, but remained elevated. The Bank's core inflation, which excludes volatile food and energy prices, marginally declined from 18.3 percent in March to 18.0 percent in April 2023.

Staff Assessment and Economic Outlook

76. The staff assessment indicated an expansion in economic activity and the output gap in the first quarter of 2023, attributed to the positive impact of government expenditure on aggregate demand and relatively loose monetary conditions. Headline inflation accelerated markedly in April, owing to both external and domestic factors. Strong aggregate demand, inflation, and currency depreciation are pushing reserve money further away from the medium-term target. Although money market interest rates are rising, real interest rates remain negative due to the persistently high inflation levels.

77. The staff forecasts the post-pandemic recovery momentum to continue in 2023. The report cited the rebound in tourism activity, fiscal expansion linked to public infrastructure projects, private demand, and a moderate improvement in global demand as key growth drivers. Remittance inflows and private sector credit growth are expected to continue supporting household consumption and investment.

78. However, inflation is projected to remain elevated and more persistent than previously anticipated, mainly due to increased domestic and imported cost factors. It is worth noting that the risk to the growth outlook is assessed as fairly balanced, while the risk to the inflation outlook leans towards the upside. However, the growth forecast for 2023 was slightly downgraded by 1.5 percentage points to 4.9 percent, owing to delays in some major government infrastructure projects. The staff assessed risk factors to the growth outlook to remain significant, including the unpredictable global geopolitical environment and volatility in commodity prices.

79. Price pressures are expected to persist and inflation to remain in double digits for the rest of the year. The factors contributing to this projection include increased domestic cost factors, exchange rate depreciation, elevated inflation expectations, and rising international prices of rice. Risks to the inflation outlook are skewed to the upside, with chances of a further rise in headline inflation. The immediate impact of the electricity tariff adjustment and the second-round effects will be major factors in the inflation dynamics this year and next.

Policy Justification

80. The global economic climate remains challenging, characterized by uncertainty and volatility, with emerging financial stability concerns in advanced economies. Inflation continues to be a concern but there are some positive signs that commodity prices will continue declining, which could help alleviate inflationary pressures. One notable exception that warrants special attention for The Gambia is the accelerating international prices of rice, our staple food. Additionally, the strength of the US dollar and rising interest rates in advanced economies continues to exert pressure on the exchange rate.

81. The economy of The Gambia has demonstrated remarkable resilience, maintaining growth rates that are just shy of pre-pandemic levels. This can be attributed to a gradual increase in tourism activity, as well as investments from

both the public and private sectors. Additionally, steady remittance inflows have played a significant role in supporting the ongoing economic recovery.

82. Domestic prices are expected to remain elevated this year. However, if global inflation continues to decelerate and monetary policy can anchor inflation expectations, headline inflation could slow down and reach the medium-term target level faster. The Committee judged that there are significant upside risks to the outlook and that inflation expectations are high. Considering that real interest rates are negative, further policy action was necessary to control the inflation spiral.

Decision

83. Therefore, the Committee decided the following:
    - Increase the Monetary Policy Rate (MPR) by 200 basis points to 16 percent.
    - Maintain the required reserve (RR) at 13 percent.
    - Maintain the interest rate on the standing deposit facility at 3.0 percent.
    - The standing lending facility increased to 17.0 percent (MPR plus 1 percentage point).

Information Note

Date for the next MPC meeting

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