MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.78

May 2021

The Monetary Policy Committee (MPC) of The Central Bank of The Gambia (CBG) convened its second meeting in the year on Wednesday, May 26, 2021, to review recent economic developments. Subsequently, a meeting to decide on the Monetary Policy stance and a press conference ensued on Thursday, May 27, 2021.

Present were:

Name	Role
Mr. Buah Saidy	Chairman
Dr. Seeku Jaabi	Member
Mr. Essa A.K. Drammeh	Member
Mr. Momodou Sissoho	Member
Mr. Paul John Gaye	Member
Mr. Ebrima Wadda	Member
Mr. Amadou S. Koora	Member
Mr. Karamo Jawara	Member
Mr. Baboucarr Jobe	Member
Ms. Isatou Mendy	Secretary

Report Presenters

Name	Designation
Mr. Karafa Jobarteh	Deputy Director, Foreign Department
Ms. Oumie Touray	Senior Bank Examiner, Financial Supervision Department
Mr. Khalilu Bah	Senior Economist, Economic Research Department
Mr. Alieu S. Ceesay	Senior Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mr. Yahya S.K. Jatta	Banking Officer, Banking Department
Mr. Bademba Drammeh	Statistician, Economic Research Department

Mr. Saikou B. Jammeh	Economist, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Mawiyatou Susso	Statistician, Economic Research Department
Mr. Ansou Manneh	Assistant Statistician, Economic Research Department
Mr. Alkali Barrow	Microfinance Officer, Microfinance Department

In attendance were:

Name	Designation
Ms. Rohey Khan	Director, Foreign Department
Mr. Omar Janneh	Director, Administration and Human Resource Department
Ms. Fatou Deen-Touray	Director, Microfinance Department
Mr. Amadou Barry	Senior Bank Examiner, Financial Supervision Department
Ms. Awa Njie	Senior Bank Examiner, Financial Supervision Department
Mr. Alfusainey Touray	Economist, Economic Research Department
Ms. Mariama Ceesay	Assistant Statistician, Economic Research Department

Agenda for the Technical Meeting-Day 1

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

Opening remarks by the Chairman

2. The meeting was opened with silent prayers and followed by a welcome note to all attendees. The Governor and Chairman of the MPC once again echoed a note of admonition on work attitude and punctuality. He requested that reports for future meetings should be circulated one week before the meeting for a

thorough review and valuable comments during deliberations. Reports for circulation from other departments should also be received on time without reminders.

3. The Governor opined that deposit money banks should participate in financing government's ongoing projects to expand the country's infrastructure and thereby enhance the growth of the real economy. The Central Bank is therefore revisiting its laws to amongst others, remove impediments to banks' ability to perform this crucial role.

Review and Adoption of the Minutes of the Previous Meeting

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

Presentation of Reports:

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

Global Macroeconomic Developments

1. Global economic growth is forecast to pick up in 2021 amid uncertainties surrounding the COVID-19 pandemic. In its April 2021World Economic Outlook, the International Monetary Fund (IMF) estimated that the global economy contracted by 3.3 percent in 2020. This is an improvement of 1.1 percentage points compared to the earlier forecast in October 2020. The revision reflected a stronger than expected momentum in the second half of 2020 due to strong demand for products that support working from home and the release of pent-up demand for durable goods (automobiles).

2. In 2021, global economic growth is projected at 6.0 percent before moderating to 4.4 percent in 2022. These reflect the influence of additional strong policy response particularly in advanced economies and the approval and effective roll-out of vaccines across countries.

3. Real GDP growth in advanced economies was projected to contract by 4.7 percent in 2020, 1.1 percentage points higher than in the October 2020 WEO, reflecting better than anticipated growth in the region's economies particularly the US and the euro area. Growth is projected to strengthen to 5.1 percent in 2021 suggesting a 3.5 percentage points above the 2019 level (pre-pandemic) for the group.

4. Like other regions, a lesser contraction of 1.1 percentage points is estimated for the emerging market and developing economies in 2020. In 2021 the region is projected to recover by 0.6 percentage points higher than the October forecast reflecting effective containment measures and investment responses in some countries, a stronger-than-expected recovery in 2020 after lockdowns were eased, among others.

5. In sub-Saharan Africa (SSA), economic growth is estimated to have contracted by 1.9 percent in 2020 and is expected to reach 3.4 percent in 2021. Growth in the region is expected to be supported by improved exports and commodity prices along with a recovery in both private consumption and investment. However, per capita output is not expected to return to 2019 levels until after 2022.

6. Mirroring the extraordinary policy measures in response to the pandemic, global financial conditions have generally eased which supported the global economy and helped contain financial stability risk by preventing further amplification of the COVID-19 shock through the financial system. Except for China, low interest rates and high cooperate valuation contributed significantly to the ease of the financial condition index during the height of the pandemic.

7. Consistent with the subdued demand, global inflation on average decelerated to 3.2 percent in 2020, compared to 3.5 percent in 2019. While prices of items such as medical supplies increased and commodity prices lifted from their April level, the effects of weak aggregate demand appeared to have outweighed the impact of supply interruptions. In 2021 inflation is projected to increase slightly, while remaining below its pre-pandemic levels.

8. The Committee noted the contraction in global growth in 2020 which somewhat improved from the previous forecast and opined that the outlook for 2021 would depend on strong policy response and effective administration of the vaccines.

9. The Committee took note of the positive impact of global developments on the domestic economy but pointed out the slight increase in prices attributed to structural factors. The increase in inflation is largely cost push and could be addressed by tackling the structural bottlenecks, particularly at the ports the Committee recommended.

10. The Committee opined that the global recovery appeared to be V-shape and countries economic status would determine the necessary policy actions. Therefore, there is a strong need for policy coordination between the Central Bank and the Ministry of Finance.

11. Members of the MPC requested for a snapshot of available high-frequency data for analysis alongside the reports. In response, the meeting was informed that the high-frequency macro data requested has actually been transmitted to some MPC members. Presenters were also asked to highly summarise their presentations to save time given that soft copies of the reports had been circulated ahead of the meetings.

12. The meeting was informed that the Bank intends to organize a symposium for its 50th Anniversary slated for the latter part of the year and articles for the occasion would be invited from sister central banks and institutions.

Domestic Macroeconomic Developments

Banking Sector Developments

13. The banking sector remains fundamentally sound and stable, fairly capitalized and highly liquid. The risk-weighted capital adequacy ratio was at 31.8 percent as at end-March 2021, 21.8 percentage points above the statutory requirement. All the banks are above the minimum capital requirement. The liquid asset to total assets of the banking industry stood at 64.2 percent at end-March 2021, representing excess liquidity of 34.2 percentage points over the minimum requirement of 30 percent. The ratio of non-performing loans to gross loans rose to 7.7 percent at end-March 2021 from 6.8 percent in the previous quarter.

14. At end-March 2021, total assets of the banking industry expanded by 4.1 percent to D61.22 billion from D58.82 billion in December 2020. Compared to the same period last year, it grew by D10.37 billion or 20.4 percent. This is attributed largely to the increase in balances due to other banks and investments accounts securities by 66.4 percent and 15.6 percent, respectively.

15. Gross loans and advances extended by banks to major economic sectors stood at D7.63 billion (12.5 percent of total assets), representing an increase of 3.1 percent compared to D7.40 billion in December 2020. Likewise, it increased year-on-year by 7.7 percent.

16. Deposit mobilization remains the major source of funding for banks. Total deposits of banks stood at D43.0 billion (70.2 percent of total liabilities) as at end-March 2021, D0.8 billion higher than the previous quarter. Year-on-year, total deposits increased by D8.24 billion or 23.7 percent.

17. The Committee took note of the performance in most of the financial indicators reflecting the soundness and resilience of the financial system amid the pandemic. However, increasing NPLs that is now on a higher single digit does not augur well with financial resilience and thus need to be watched. The Committee was informed that the high NPLs was attributed to the impact of the pandemic

and challenges with loan waivers. The Committee was further told that Government's involvement in two of the banks was inducing the increasing NPLs. It was thus suggested that Government guarantee loans should be honoured by the guarantor in the case of default.

18. Credit to the private sector picked up relative to quarter 4, 2020, however, the Committee commented that, businesses are struggling due to the impact of COVID-19, and this might limit their access to credit.

19. The meeting was informed that the AfDB grant to the Agricultural sector intended for risk-sharing venture with banks would enable them to lend to the sector with the assurance that the risk of default is provisioned.

20. The Committee expressed concern over the assets' classification issues in terms of T-bills and bonds by DMBs on their balance sheet. So far, only four banks are correctly classifying their investments into their right categories. The Financial Supervision Department (FSD) is urged to ensure that banks do the right thing for ease of secondary data users.

21. The Committee raised concerns about the asset concentration within few banks which is not healthy for the financial system. Eight (8) banks out the twelve (12) banks are classified as small and captured only 32 percent of the industry's assets. This is not encouraging and needs to be looked at to reduce the concentration ratio on the four largest banks.

22. It was observed that banks interest is now tilting towards securing project loans. The Committee, therefore urged banks to be vibrant and proactive in taking calculated risks especially with projects.

Microfinance Sector Developments

23. The Non-Bank financial sector continues to play a pivotal role in extending financial services to the majority of the unbanked or under-banked segment of the population. In April 2021, CBG Board granted licenses to YONNA Islamic

Microfinance and Approved Services (APS) Islamic Microfinance to operate as Finance Companies (FCs) bringing the industry number to six. All the FCs met the minimum capital requirement of D50 million. The capital of the FCs stood at D368.95 million as at end-March 2021 compared to D350.64 million at end-December 2020, representing an increase of about 5.2 percent. Compared to the same period last year, capital rose significantly by 36.3 percent from D270.70 million at end-March 2020.

24. Total assets of the six FCs increased by 4.5 percent to D2.09 billion as at end-March 2021 from D2.0 billion at end-December 2020. Year-on-year, total assets increased remarkably by 36.6 percent, driven by the increase in gross loans, cash and bank balances.

25. Total deposits significantly increased despite the challenges posed by the pandemic. In quarter 1, 2021, total deposits of the FCs grew by 4.1 percent to stand at D1.51 billion from D1.45 billion in quarter 4, 2020. When compared to the corresponding period last year, it grew notably by 34.8 percent.

26. Quarter-on-quarter, total loans disbursed increased by 14.7 percent to D401.68 million in quarter 1, 2021 from D350.22 million in the preceding quarter. Similarly, compared to the same period last year, it expanded significantly by 31.9 percent. The average non-performing loan ratio declined marginally from 11 percent in quarter 4, 2020 to 10.0 percent in the subsequent quarter of 2021 still higher than the prudential requirement of 5.0 percent.

27. The Committee noted the importance of the non-bank financial sector as a vehicle for financial inclusion and development for the middle- and lower-income class. The sector is highly rated in terms of extending financial services to the grass-root and thus should be supported in this endeavour.

28. The non-bank financial sector was similarly experiencing high NPLs as in the banking sector. The Committee observed that the NPLs rose way above the 5 percent threshold, and this was concerning.

29. The Committee expressed concern on the sectoral distribution of loans especially to the agricultural sector given its important contribution to GDP. Loan to this sector is very low due to high inherent risk such as rain-dependent agriculture practiced that is susceptible to climatic conditions. The Committee flagged the narrow gap between loans and deposit ratio which indicates low financial intermediation and perhaps misclassification of sectoral breakdown of loans.

30. The Committee reiterated the need to revive and sustain the Village Savings and Credit Associations (VISACAs). The scheme has been affected by governance issues and capacity constraints. Although work is ongoing with the Ministry of Agriculture to resolve the VISACAs' issues and build capacities of members, it was suggested that few of the VISACAs should be piloted before expanding the network. The importance of rolling out financial products to the village level was emphasised and growth of the Credit Unions (CUs) in the industry is to be encouraged.

31. In addition, the Governor expressed his desire to build and resource the Bank's credit union to be able to extend credit to staff in times of need. The suggested proposal would be forwarded to the Board for approval.

32. The Committee commented that with the licensing of new Islamic microfinance institutions, Islamic finance is becoming large and thus the need to institute a Sharia Board that would handle and regulate issues of Sharia compliance in Islamic finance industry.

33. Responding to a question raised regarding the Bank's preparedness in supervising Islamic finance, the meeting was informed that staff with Islamic finance background were headhunted, others with knowledge on the area were recruited too. The need to build capacity in this area was however emphasised.

34. The Committee expressed the need for the Microfinance Institutions (MFIs), Finance Companies (FCs) in particular to be part of the payment infrastructure.

This would ensure the traceability of any financial transaction of these FCs in the payment system.

Domestic Debt Market Developments

35. Developments in the domestic debt market revealed that the stock of domestic debt remains elevated. The outstanding domestic debt rose to D35.84 billion (35.3 percent of GDP) as at end-April 2021 from D34.55 billion (38.4 percent of GDP) as at end-December 2020, showing an increase of D1.29 billion. The increase was mainly from Treasury bills issuances and 3-year government bonds to finance fiscal operations and debt restructuring.

36. Yields across all treasury bills profiles continued to decline reflecting the excess liquidity position of the banking system. The 91-day, 182-day and 365-day treasury bill yields decreased to 3.81 percent, 4.11 percent, and 4.97 percent in April 2021 from 3.96 percent, 6.71 percent, and 11.59 percent in April 2020, respectively.

37. Interest expense on domestic debt is projected to reach D2.71 billion (27.2 percent of domestic revenue) in 2021 relative to D2.42 billion (18.8 percent of domestic revenue) expensed in 2020 and D2.47 billion (23.5 percent of domestic revenue) in 2019. Actual interest cost from January 2021 to Apri1 2021 is estimated at D0.92 billion relative to D0.89 billion paid in the same period in 2020.

38. The Committee noted the debt management strategy adopted by the government to reprofile the debt by lengthening the maturity curve to mitigate refinancing risk.

39. In response to debt sustainability concerns, the Committee was informed that a balanced-budget execution is the initial minimum prerequisite for bringing a country's debt on a sustainable path. Subsequently, sustained primary surplus can be generated in helping to downsize the debt stock.

Balance of Payments Developments

40. The balance of payment estimates indicated that the current account improved in the first three months of 2021 due to the strong transfers (Remittances) and decreased in goods account balance (imports). The current account balance improved significantly to a deficit of US$8.76 million (0.48 percent of GDP) in the first three months of 2021 from a deficit of US$38.55 million (2.18 percent of GDP) in the same period last year.

41. The goods account deficit narrowed to US$126.24 million (6.9 percent of GDP) in the first quarter of 2021, from a deficit of US$155.13 million (8.8 percent of GDP) in the corresponding period of 2020. The improvement of the deficit in the goods account balance mainly reflected the low economic activities during the period compared to a year ago. Imports declined significantly by 33.2 percent to US$139.80 million in the first three months of 2021 lower than US$209.28 million in the same period in 2020. Similarly, export receipts decreased to US$13.56 million in the first quarter of 2021 from US$54.25 million in the corresponding period of 2020.

42. The surplus in the services account balance, however, dropped markedly to US$1.96 million, or by 84.9 percent in the first three months of 2021 from US$12.99 million in the same period a year ago, on the back of a decrease in personal travels by 75.2 percent to US$9.42 million. This reflects the collapse in tourism, evidenced by the decline in air-chartered tourist arrivals by 74.9 percent in the first three months of 2021.

43. The capital and financial account registered a deficit of US$42.17 million in the first quarter of 2021 compared to a surplus of US$15.29 million in the same quarter a year ago, reflecting a weakened financial account balance due a to decline in investments.

44. The estimates for the gross official reserves as at end-March 2021 stood at US$392.96 million (6.6 months of import cover) compared to US$332.47 million (5.5 months of import cover) at end-December 2020.

45. The Committee noted that the deficit in the current account balance though improved was not due to improvements in factors inducing the deficit as these remained weak. As such, there is a possibility of accessing Balance of Payments support when requested.

46. The Committee commented that looming container shortages had and will continue to have an impact on our economy. The structural issue at the ports the Committee warned should be taken seriously and addressed to mitigate the impact it is already having on prices of goods and the economy as a whole.

47. The Committee opined that the port expansion project is expected to reduce prices, increase economic activities and growth. The project is envisaged to expand the berthing site in Banjul and build a container facility. It was commented that the turnaround time at the ports is too long and affecting businesses and thus the need to fasten the expansion project.

Out of Pocket Expenditure Survey

48. The survey revealed a decrease in tourists' income due to the impact of the pandemic. Arrival numbers also went down as expected and majority of the arrival numbers are Gambian based in Spain who came on family visit.

49. Survey results also indicated that 73.4 percent of visitors were male, while the remaining 26.6 percent were female in sharp contrast to the 2019 survey where 59.4 percent were female and 40.6 percent male.

50. In terms of income from tourism, the survey revealed decline in earnings due to fall in arrival numbers. On the other hand, expenditure incurred by tourists increased occasioned by increase in general price level and in hotel rates per night induced by cost recovery measures by operators due to the effects of the pandemic.

51. The survey further showed that tourists in the youth and middle-aged brackets were the most that visited the country in contrast to older tourists prior to the

pandemic. This suggests the vulnerability of older tourists to the coronavirus and thus the restriction to their movements.

52. The Committee commented that there is a need to re-focus from tourism as a second main contributor to GDP given its volatility. It was suggested that the country need to diversify away from heavy reliance on sectors that negatively impact growth when there is a shock. In addition, exploring technology to improve the tourism sector was recommended.

53. The Committee intimated that the sector's players should partner with others to develop areas of interest to the African tourists' market. Water spot, ecotourism, bird watching, and revival of historical places could be developed or improved as well as areas that can entice African tourists to the country.

Foreign Exchange Market Developments

54. The volume of foreign currency transactions in the 12-months to end-April 2021 totaled US$2.29 billion compared to US$2.08 billion in the same period last year. Purchases of foreign currency (indicating supply) increased by 10.7 percent to US$1.14 billion during the period. Similarly, sales of foreign currency, which indicate demand, also increased by 11.5 percent to US$1.16 billion in the review period.

55. The exchange rate based on end period mid-market averages indicates that the Dalasi has experienced modest pressure against major trading currencies during the review period. From end-May 2020 to end-May 2021, the Dalasi depreciated against all the major trading currencies in the domestic FX market except for the US Dollar. Against the Euro, Pound Sterling and CFA, it depreciated by 9.7 percent, 13.9 percent, and 11.7 percent, respectively. It however appreciated against the US Dollar by 1.2 percent.

56. The Committee observed that remittances have been significantly increasing since the beginning of the pandemic and is becoming the main source of foreign exchange supply. This increase is attributed to the additional number of registered

MTOs as well as the increased usage of the formal channels of sending money amid travel restriction globally.

57. The Committee deliberated extensively on rates displayed at DMBs' boards. It was disclosed that rates displayed on boards at some banks are most of the time not the traded rates. Bank's displayed rates and those traded are sometimes different based on client relationship with the bank and the quantity involved. This practice was considered discriminatory and thereby condemned by the Committee. Consequently, the Committee urged the Bank to compel DMBs to trade on rates displayed otherwise be penalised when found wanting.

Real Sector

58. Available data from the Gambia Bureau of Statistics (GBoS) estimated that real GDP of The Gambia contracted by 0.2 percent in 2020 compared to the 6.8 growth registered in 2019. The contraction in real GDP growth in 2020 compared to 2019 is associated with the COVID-19 pandemic which continues to impact economic activities around the globe.

59. The Fund estimated growth to rebound to 4.9 percent in 2021 and 6.5 in 2022, predicated on a return to normal economic activity with vaccines being rolled out to the population.

60. The CIEA updates reveals economic activity contracted by 4.4 percent for 2020. However, the outlook points to a somewhat rebound in economic activity as the economic contraction is projected to narrow. The Gambian economy is projected to grow at 4.1 percent in 2021 according to the CIEA estimates, premised on improvement in the situation of the pandemic and gradual resumption of tourism.

61. The Committee noted the improvement in the output gap in Q1, 2021 relative to Q4, 2020. Although the economy is not at its potential, the output gap however narrowed during the review period.

62. Unemployment data which is a crucial factor in the measurement of output gap poses a great deal of challenge in accessing due to lack of funding to conduct survey on unemployment. The Committee highlighted that data is very critical in policy formulation and its importance should not be undervalued. As a result, there is a need to re-examine how to help Gambia Bureau of Statistics (GBoS) execute its core mandate of generating and collecting statistics.

63. It was revealed that 90 percent of surveys conducted by GBoS are funded by development partners suggesting Government's minimal role in supporting the Bureau's core activities. The meeting was informed that work is at an advance stage in terms of funding for surveys such as the national census.

64. The Committee is of the view that since accessing timely and reliable data is a challenge in the country, data collection should be liberalized to allow other private sector players to produce data.

65. It was noted that GBoS does surveys for private institutions in which those institutions concerned are charged for the services. This however would not work in the case of government due to capacity constraints in costing the resources involved in conducting these exercises during budgets sessions.

Monetary Developments

66. Money supply grew strongly by 25.7 in March 2021 relative to 18.1 percent a year ago. Narrow and quasi money supported the growth in broad money expanding by 27.2 percent and 23.8 percent in March 2021 compared to 20.7 percent and 15.2 percent in March 2020. The increase in narrow and quasi money was induced by growth in currency outside banks and savings deposits. On a quarterly basis, growth in money supply moderated to 3.0 percent in March 20201 from 9.6 percent in the previous quarter.

67. Net Foreign Assets (NFA) of the banking system increased significantly to D24.8 billion as at end-March 2021 or by 57.6 percent from D15.7 billion at end-March

2020. The NFA of the Central Bank for the review period expanded by a robust 67.2 percent to stand at D14.4 billion compared to D8.6 billion in the same period in 2020. Similarly, the NFA of deposit money banks increased to D10.5 billion or by 46.1 percent at end-March 2021 from D7.2 billion recorded a year ago.

68. The net domestic asset (NDA) of the banking system rose to D29.0 billion, showing a growth of 7.2 percent relative to 15.5 percent growth in the same period last year. The banking system's net claims on government picked up by 8.8 percent year-on-year and accounted for about 76.8 percent of total domestic credit. Private sector credit grew by 8.4 percent (year-on-year) as of end-March 2021, lower than 25.3 percent recorded a year ago reflecting lower economic activities.

69. Annual reserve money grew significantly by 32.4 percent at end-March 2021 compared to 13.0 percent in the corresponding period a year ago. However, quarter-on-quarter, it slowed by 1.2 percent on account of marked decline in reserves of DMBs. Both components of reserve money registered faster growth rates during the period under review. Currency in circulation rose by 29.7 percent, higher than 13.5 percent recorded a year ago likewise reserves of DMBs which registered an accelerated growth rate of 36.8 percent compared to 12.4 percent recorded a year ago.

70. The Committee noted the recovery in the domestic economy and opined that the accommodative monetary policy should continue for the recovery process to take hold. The recovery momentum depends on the policies in place and thus the need to develop macroeconomic policies and strategies to support and sustain it. Restructuring public institutions in a bid to minimise wastage would be on the right path of supporting growth momentums.

71. The Committee observed growth in monetary aggregates but noted that this should not be of major concern because the growth is reflective of actions taken to support growth of the economy and the aggregates are still within the programme targets. Moreover, since foreign inflows are not sterilized, the growth in the monetary aggregates are not out of the ordinary.

Government Fiscal Operations

72. Preliminary estimates of government fiscal operations indicate that overall fiscal deficit (including grants) worsened to a deficit of D2.1 billion (2.1 percent of GDP) in the first three months of 2021 from D1.3 billion (1.4 percent of GDP) in the first three months of 2020. The overall budget deficit (excluding grants) also widened to D2.2 billion (2.3 percent of GDP) in the review period compared to a deficit of D1.9 billion (1.9 percent of GDP) a year earlier.

73. The deficit in the basic balance increased to D616.7 million (0.6 percent of GDP) in the first three months of 2021 compared to a deficit of D530.6 million (0.5 percent of GDP) in the corresponding period a year ago. The primary balance surplus (overall balance excluding grants, external financing, and interest payments) of D420.3 million (0.4 percent of GDP) in the first quarter of 2020 declined to a surplus of D227.7 million (0.2 percent of GDP) in the relative period of 2021.

74. Revenue and grants in the first three months of 2021 decreased to D3.6 billion (3.6 percent of GDP) from D4.6 billion (4.7 percent of GDP) in the same period last year. Domestic revenue, which comprises tax and nontax revenue declined significantly by 15.6 percent to D3.4 billion (3.5 percent of GDP) in the first three months of 2021 from D4.0 billion (4.1 percent of GDP) registered a year ago.

75. Total government expenditure and net lending in the first quarter of 2021 decreased by 4.6 percent to D5.6 billion (5.7 percent of GDP) from D5.9 billion (6.0 percent of GDP) in the same quarter of 2020. Recurrent expenditure decreased by 14.9 percent to D3.5 billion (3.6 percent of GDP) in the review period compared to D4.1 billion (4.2 percent of GDP) in the same period of 2020, attributed largely to the decline in other charges. In contrast, capital expenditure increased significantly by 20.4 percent to D1.6 billion (1.6 percent of GDP) in the first three months of 2021 from D1.4 billion (1.4 percent of GDP) in the same period last year.

76. The committee noted the widened fiscal balance attributed mainly to response measures taken by Government to mitigate the impact of the COVID-19 which has helped a great deal in stabilizing the economy. Furthermore, revenue

mobilization was low due to low economic activity and postponement of tax payments for some businesses that were struggling to be on their feet.

77. The Committee commended government's efforts in reducing recurrent expenditures in place of increased capital investments that are growth driven. The Committee urged Government to sustain the impetus on capital expenditure that would better the lives of people and pay for its cost in the long run.

78. Given the low yields in the domestic debt market, the Committee suggested that government should shift from external borrowing at higher interest rates to domestic financing of projects which banks are now keen on funding.

Business Sentiment Survey

79. The Bank's quarterly Business Sentiment Survey revealed low confidence on the performance and prospects of the economy despite the availability of the COVID-19 vaccine in the country. The survey further revealed weakening dalasi and higher inflation expectations for the next quarter by most respondents.

80. The Committee noted the sentiments expressed by the business community regarding what obtained and the outlook of the economy. However, the Committee expressed optimism that things would change with fallen interest rates that would enable the businesses to acquire funds for investments.

81. The Committee cautioned that the likelihood of the anticipated swift turnaround in the tourism sector should not be taken wholeheartedly as availability of the COVID-19 vaccine would determine the pace of the recovery. Although there is greater campaign to get people vaccinated, there is still strong distrust about the vaccines.

Inflation Outlook

82. Headline inflation decelerated to 7.3 percent in April 2021 from 7.4 percent in March 2021 but up from 5.6 percent in the corresponding period a year ago. The monthly deceleration in headline inflation is primarily attributed to the fall in prices of most components of the food basket in the review period.

83. The consumer price inflation (CPI) of food increased from 7.0 percent in April 2020 to 8.5 percent in April 2021, or by 1.5 percentage points. The major drivers of food inflation during the period were vegetables, oils and fats, sugar, jam, honey & sweets, non-alcoholic beverages, other food products, and especially vegetables.

84. Non-food inflation accelerated to 6.1 percent in April 2021 from 3.3 percent same period in 2020. The consumer price of all subcomponents of non-food inflation except for miscellaneous goods & services and education, increased during the review period. The fall in miscellaneous goods and services can be attributed to the normalization of prices of Covid-19 health supplies, such as hand sanitizers, after the initial spike a year ago.

85. The Committee noted the persistent risk to the inflation outlook and advised that people should be prepared to live with some level of inflation in order to advance growth. However, the Committee was cognizant of the impact of rising inflation on the poor especially on food prices that are escalating. The Committee opined that something needs to be done and thus stressed the need to efficiently handle the Japanese food aid for the benefit of the poor.

Assessment of the Economic Outlook

86. The Bank's macroeconomic forecasting model projects gradual recovery of the domestic economy premised on the proposed 60 percent vaccination of the population. In the initial condition of the model, output gap bottomed out signalling that the worst of the pandemic seems to be over. Headline inflation at 7.3 percent in April 2021, 0.1 ppt lower than the rate in March is above its medium-

term indicative target of 5.0 percent due mainly to supply constraints and transportation costs. Furthermore, monetary conditions are relatively loose as interest rates are significantly below their neutral levels offsetting the over-valued exchange rates. Overall monetary stance is accommodative supporting the recovery process.

87. The baseline forecast 4.1 percent of GDP growth in 2021 on account of a gradual recovery in tourism and positive demand due to fiscal stimulus and expected expenditure for the OIC projects and the up-coming elections. Output gap is expected to close at 0.9 percent in Q2, 2021 compared to -1.7 percent in the February forecast. Stable exchange rate is also projected on the back of strong remittance inflows. However, monetary policy rate (MPR) is expected to tighten occasion by increasing inflation.

88. The alternative scenario which is forward-looking examines various scenarios and their impact on output, inflation, exchange and MPR relative to the baseline forecast. Scenario 1 which assumes partial recovery in tourism for the remaining quarters of 2021 would result in faster economic recovery, increase in inflation accompanied by tighter monetary stance and exchange rate pressures due to demand. The other scenarios of increase in domestic inflation, slower remittance inflows, postponement of OIC and leaving the MPR unchanged have marginal impact compared to the baseline forecast.

89. The risk to the short-term economic outlook is fairly balance. The expected recovery in the tourist sector will boost economic activity relative to the baseline. On the other hand, the risk to an accelerating inflation, postponement of the OIC, slow down in remittances will impact negatively on the outlook.

90. The Committee commented that the projection of the model should consider the partial receipts of OIC funding for the projects. This would show an interactive effect of combine project effects in all the scenarios. It would also give an opportunity to source domestic funds from the debt market for long-term projects

given the low rates, liquidity in the system and willingness of market players to fund projects.

Agenda for Day-2 of the MPC Meeting

1. Welcome Remarks by Chairman
2. Summary Report by the First Deputy Governor
3. Deliberations
4. Decision
5. Press Conference by the Chairman

1. The Monetary Policy Committee (MPC) reconvened on Thursday, May 27, 2021, to deliberate and decide on the direction of monetary policy. This was followed by a press conference by the Governor and Chairman of the MPC.

2. After the opening statement by the Governor and Chairman of the MPC, the First Deputy Governor gave a summary of the previous day's presentations and discussions of the technical reports.

Decision

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

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

Date for the next MPC meeting

The next Monetary Policy Committee (MPC) meeting is slated for Wednesday, August 25, 2021. The technical meeting will be followed by the announcement of the policy decision on Thursday, August 26, 2021.