CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

November 2023

Preface

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

Monetary Policy Committee

The MPC was established by the CBG Act 2005 (amended 2018) as the apex monetary policy decision-making body of the Bank. The membership comprises the Governor (Chairman), the two Deputy Governors, heads of Banking Services, Banking 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 outlook for 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 at 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 (CBG) convened its last meeting of the year on November 29 and 30, 2023. The Committee reviewed the developments in both the global and domestic economy including an assessment of the short-term economic outlook and decided to maintain the monetary policy rate at 17 percent. The decision reflects a more favorable inflation outlook for 2024, supported by the declining global commodity prices and the effects of the tight monetary policy stance.

Global economic activity loss momentum in the third quarter of 2023 after a resilient first half due to the lasting consequences of the elevated inflation level, high borrowing cost, moderate growth prospects in China and intensified geopolitical tensions. In light of these developments, the International Monetary Fund (IMF) in its October release of the World Economic Outlook (WEO), maintained the global growth forecast for 2023 at 3.0 percent but cut the forecast for 2024 by 0.1 percentage points from what was predicted in July 2023. Headline inflation continued its downward trajectory supported by declining commodity prices and monetary policy tightening by central banks. Global inflation was projected by the IMF to fall from its annual average peak of 8.7 percent last year to 6.9 percent this year and to decelerate further to 5.8 percent in 2024.

On the domestic front, economic growth has remained robust in the first half of 2023. The Central Bank's Composite Index of Economic Activity (CIEA) pointed to stronger economic growth in the third quarter than previously anticipated. CBG staff forecast economic growth at 5.3 percent for 2023, a 0.2 percentage point upward revision from the forecast in August 2023. This positive revision is on account of a better-than-expected rebound in tourism, anticipation of better crop harvest, and public and private consumption and investment. However, going forward, key downside risks to the growth outlook include the still uncomfortable inflationary environment, volatile commodity prices and structural bottlenecks in the domestic economy.

Headline inflation moderated somewhat in October, reversing the upward trend since the beginning of the year. Data from the Gambia Bureau of Statistics (GBoS) indicated that headline inflation decelerated from 18.5 percent in September 2023 to 18.0 percent in October 2023, attributed to the monetary policy tightening by the CBG and subdued global food prices. However, inflation expectations in the near-term remained elevated as revealed by the Banks sentiment survey results.

Fiscal pressures have remained high since the pandemic. Although revenue performance improved, the fiscal deficit (excluding grants) widened in the first nine months of 2023, owing to marked increase in expenditures on personnel emoluments, interest payments, goods and services, and infrastructure development. The deficit continued to be financed mainly through domestic sources. As a result, the government domestic debt stock from December 2022 to end October 2023 grew by 4.7 percent to record D42.8 billion, accounting for 29.0 percent of GDP.

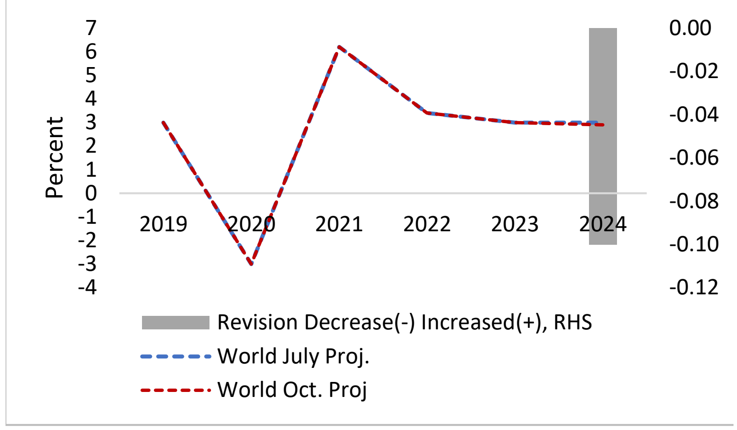
The banking sector remained safe with stable financial soundness indicators. However, the stress exercise highlighted credit risk as a significant source of vulnerability in the banking system. The capital adequacy level of the banking system remained above the minimum regulatory limit with most banks exhibiting excess liquidity. The industry's NPL ratio declined to 2.9 percent as of September 2023, from 3.6 percent in June.

In its assessment of the outlook, the Committee was of the view that though domestic inflation showed signs of receding, the risk to the outlook was still tilted to the upside and that monetary policy should remain tight to anchored inflationary expectations as well as ensuring that inflation return to its medium-term target of 5 percent. Therefore, the MPC decided to leave the monetary policy rate unchanged at 17 percent. The interest rates on the overnight deposit and lending facilities as well as the required reserves of commercial banks were also unchanged.

Global Economic Developments

The global economy continued to recover but the pace has moderated with notable regional differences since August MPC, reflecting the still high inflation, the slowdown in China and intensified geopolitical rifts. Indicators in the third quarter revealed that savings built during the pandemic, which has been supporting consumption, particularly in the United States, declined. Manufacturing and trade sectors have slowed, reflecting weaker demand stemming from the high cost of living and tighter credit conditions. Furthermore, the pace of recovery in China's economy moderated explained by further weaknesses in the property sector. Consequently, the IMF in October 2023 maintained the global growth forecast for 2023 at 3.0 percent and downgraded the forecast for 2024 by 0.1 percentage points to 2.9 percent, compared to the projections in July (Chart 1). In advanced economies, growth prospects for this year and next were expected to slow, mirroring the effects of monetary policy tightening by central banks in the region to fight inflation. The IMF forecast real GDP for the region for 2023 and 2024 to grow by 1.5 percent and 1.4 percent, the same growth projections in July 2023, respectively.

Chart 1: Global Output Growth Forecast for 2023-2024 (in percent)



***Source**: IMF, World Economic Outlook, Oct.,2023, CBG staff calculations*

Output growth outlook for emerging markets and developing economies was forecast to decline relatively modestly compared to advanced economies. The region's growth was forecast to fall from 4.1 percent in 2022 to 4.0 percent in 2023 and 2024. The 4.0 percent growth projection for 2024 is lower by 0.1 percentage point than what was forecast in July WEO 2023 update. Growth in the region was projected to be driven mainly by India, whilst China's growth momentum remains weak explained by the lingering property crisis.

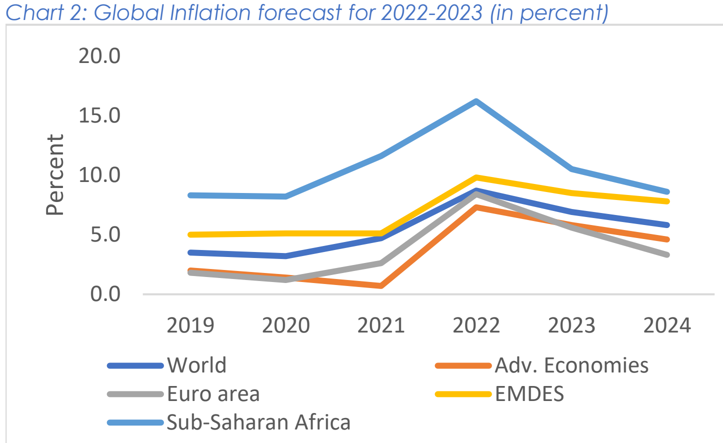
In sub-Saharan Africa, growth was anticipated to register 3.3 percent in 2023, before picking up to 4.0 percent in 2024, with 0.2 and 0.1 percentage points downward revision, respectively, from the July projections. The projected decline in growth in the region reflected the global slowdown, weather related shocks, and domestic supply issues.

Financial conditions eased somewhat in advanced countries, particularly in the United States, despite still tight monetary policy. This was largely predicated on investors' expectation that inflation will abate soon and that central banks will begin to cut rates in the coming months. Meanwhile, lending conditions have remained tight globally as credit dynamics have faltered further in the face of still tight monetary policy stance.

Global inflationary pressures continue to decline but remain well above the comfort zones of central banks, owing to the tightening policy stance and lower commodity prices. According to the IMF, global headline inflation will decline from an average of 8.7 percent last year to 6.9 percent in 2023 and further decelerate to 5.8 percent in 2024. The forecast for this year was, however, an upward revision by 0.6 percentage points from the last projection in July, on account of higher-than-expected core inflation.

In advanced economies, consumer price inflation was forecast by the IMF to decelerate to 4.6 percent and 3.0 percent in 2023 and 2024, respectively. The forecast for 2023 was 0.9 percentage points lower relative to the July forecast. On the other hand, the forecast for next year was revised upward by 0.2 percentage points, reflecting stronger-than-expected underlying inflation.

Chart 2: Global Inflation forecast for 2022-2023 (in percent)



***Source**: IMF, World Economic Outlook, Oct. 2023, CBG staff calculations*

In emerging markets and developing economies, the IMF projected inflation to fall to 8.5 percent and 7.8 percent in 2023 and 2024, from 8.7 percent and 8.8 percent projected earlier. Inflation in sub-Saharan Africa was also estimated to decrease to 10.5 percent in 2023, before decelerating to 8.6 percent in 2024.

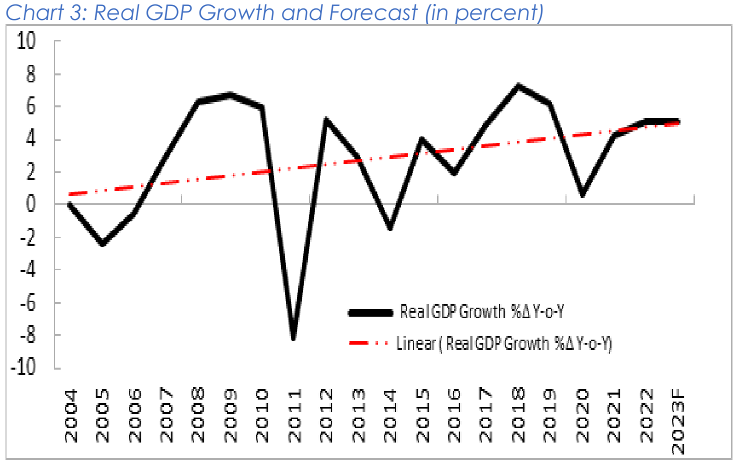
On the commodities market, prices slipped in October. The annual average IMF All Commodities Price Index decreased by 0.5 percent (month-on-month) in October 2023. Crude oil prices slumped by 4.3 percent in October from July because of sluggish demand, particularly from China, the biggest crude oil importer and improved supply conditions by non-OPEC members notably, the United States, which partly offset the OPEC members' production cut. Similarly, the international prices of rice fell during the review period, amid generally sluggish import demand.

The Domestic Economy

Real Sector

The Gambian economy continued to expand at a strong pace driven largely by robust consumer demand, recovery in tourism and sustained private and public investment. The economy is estimated to have grown by 4.9 percent in 2022, supported primarily by the services, agriculture and construction sectors. 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 the total GDP, suggesting the largest demand side component. Real GDP is expected to remain strong this year evidenced by better-than-expected improvement in economic activities in the third quarter of the year. The Bank's Composite Index of Economic activity (CIEA) revealed that economic activity strengthened further recording a growth of 6.6 percent in the third quarter of 2023, higher than the 5.2 percent recorded in the previous quarter. CBG staff forecast economic growth at 5.3 percent for 2023, representing a 0.2 percentage point upward revision from the August 2023 forecast. This positive revision reflects the anticipated better crop harvest, and stronger-than-expected activity growth in the first three quarters of the year, supported by rebound in tourism, and robust public and private consumption and investment. The expansionary fiscal policy stance is also expected to boost aggregate demand, although this will be limited by the high level of public debt. Looking ahead, the high inflationary environment, uncertainties on commodity markets and challenges in the domestic economy are expected to weigh on growth.

Chart 3: Real GDP Growth and Forecast (in percent)

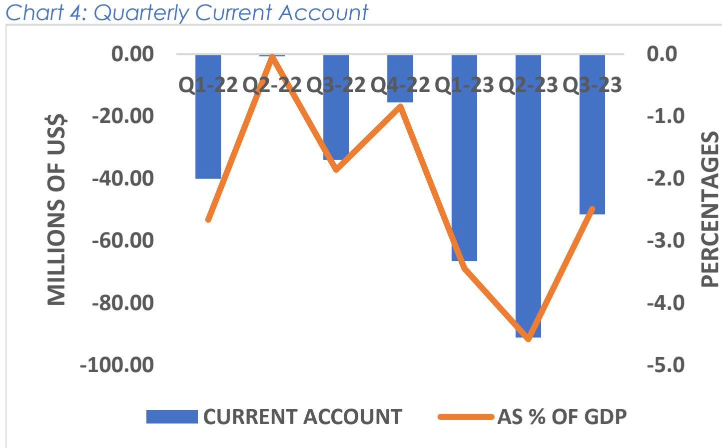


***Source**: GBoS, CBG staff calculations*

Balance of Payments

Developments in the external sector in the third quarter improved somewhat but challenges remain. Provisional estimates of the Gambia's balance of payments in the third quarter of this year showed a moderate deficit in the goods account compared to the last quarter. The current account deficit was estimated to have moderated to a deficit of US$51.5 million in the third quarter of 2023, compared to a deficit of US$91.1 million in the second quarter of 2023, reflecting a decline in electricity imports from Senegal due to the commissioning of the OMVG power project. The project is gradually replacing electricity supply that is imported from Senegal. The steady inflow of private remittances and some recovery in tourism receipts also contributed to the moderation in the current account deficit. The decline in goods imports resulted in the narrowing of the goods account deficit to US$213 million (14.9 percent of GDP) in the review quarter, from US$262.2 million (14.4 percent of GDP) recorded in the preceding quarter.

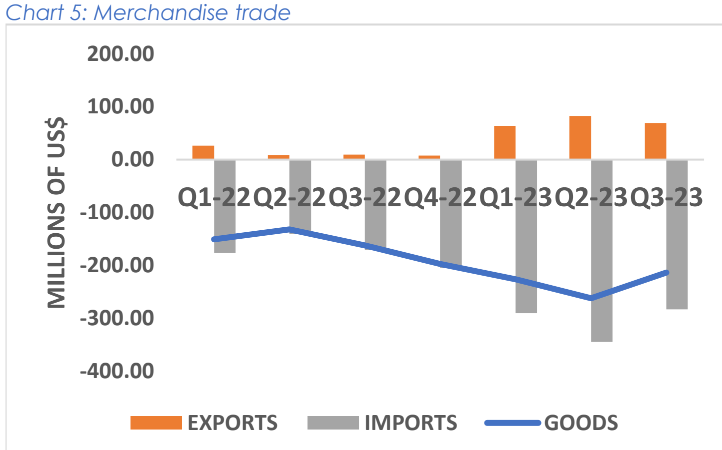
Chart 4: Quarterly Current Account



Source: *GBoS, CBG staff calculations*

The services account balance improved but only slightly, driven by some recovery in tourism. The surplus in the services account improved to US$49.3 million in the third quarter, compared to US$45.9 million in the second quarter of 2023. The number of visitors picked up this year higher than anticipated but remains below the pre-pandemic level.

Chart 5: Merchandise trade



Source: *CBG staff calculations*

Personal transfers, mainly workers' remittances (net), decreased to US$113.6 million in the third quarter of 2023, from US$129.0 million in the preceding quarter of 2023. Seasonal factors accounted for the slight decline.

The capital accounts in the third quarter of 2023 reduced to a surplus of US$14.2 million, from a surplus of US$51.8 million in the preceding quarter, attributed to lower amount of project funds disbursed during the quarter.

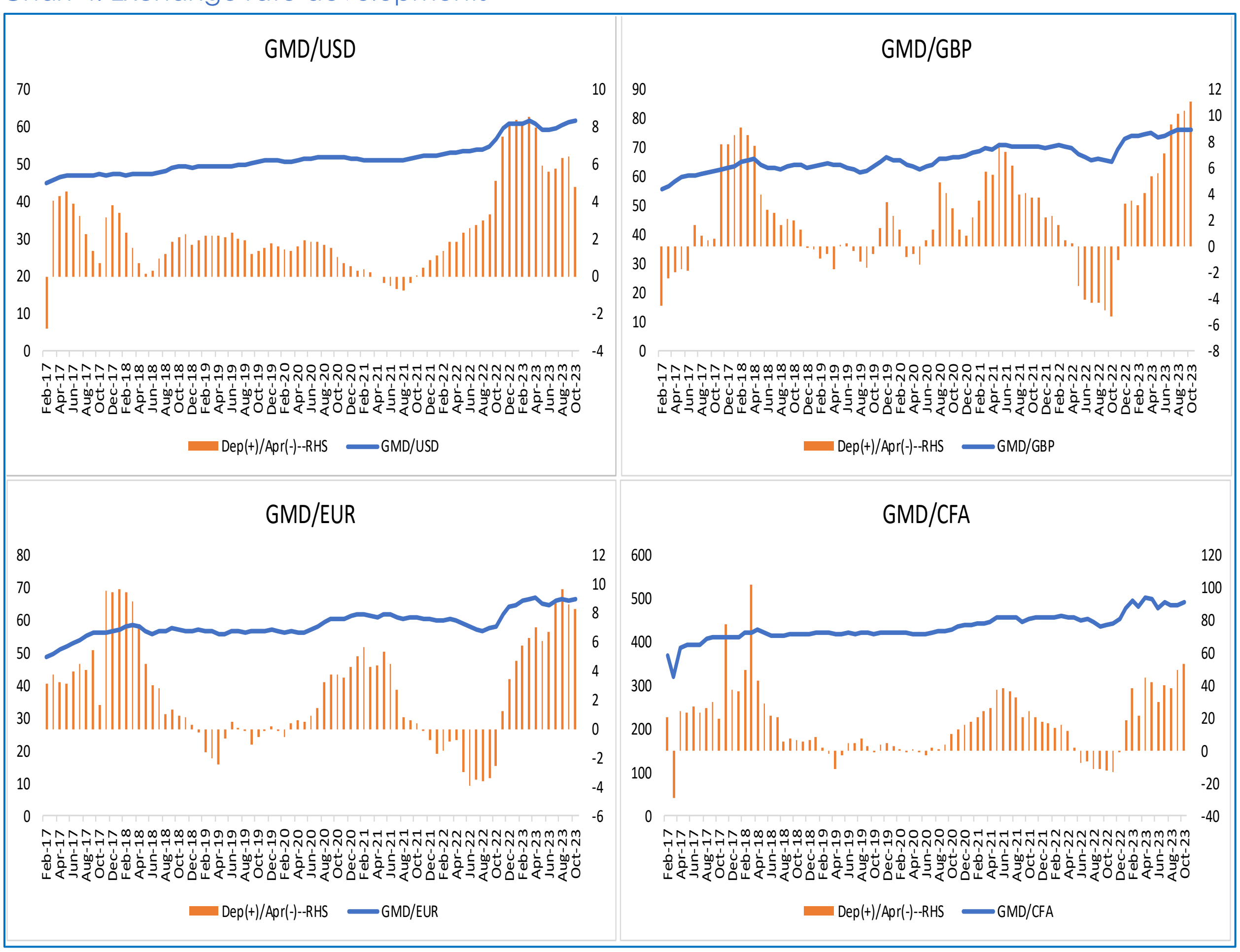
The Financial account balance moderated to a deficit of US$16.0 million in the third quarter of 2023, compared to a deficit of US$38.7 million in the second quarter of 2023, reflecting a drop in non-resident investment. The change in reserve assets decreased to US$42.4 million in the review period, from US$44.7 million in the same period a year ago. The stock of gross official reserves as at end-September 2023 stood at US$373.8 million, adequate to cover an estimated 5.3 months of gross import, compared to US$425.26 million (6.1 months of gross import cover) at end-September 2022.

Exchange Rate Development

Activity volumes in the domestic foreign exchange market, denoted by the aggregate purchases and sales of foreign currency, registered a decrease to US$2.1 billion in the 12 months ending October 2023, relative to US$2.5 billion in the same period a year ago. The sales and purchases of foreign currencies, an indication of demand and sales, declined by 16.1 percent and 15.3 percent, respectively. Supply continued to be supported by remittance inflows, tourism receipts and CBG interventions, while demand continued to stem from importation of food and energy.

The exchange rate of the dalasi has been broadly stable after the introduction of a regulation that requires the use of the reference rate as the trading rate for all authorized players in the market. Nonetheless, the dalasi experienced minimal depreciation during the period under review, arising from significant demand to finance imports. From June to September 2023, it depreciated by 2.7 percent, 2.3 percent, and 0.1 percent against the US dollar, the euro, and CFA franc, respectively, but appreciated by 1.5 percent against the British pound sterling.

Chart 4: Exchange rate developments

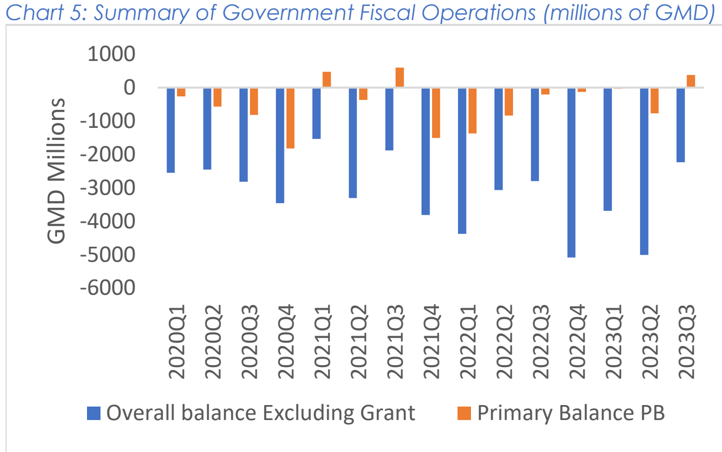


***Source**: CBG staff calculations*

Government Fiscal Operations

Government budgetary operations faced challenges in the third quarter of 2023, but expenditure restraints and better revenue performance slightly narrowed the deficit. Preliminary estimates indicated that overall deficit (including grants) narrowed from D5.4 billion (4.4 percent of GDP) in the first nine months of 2022 to a deficit of D5.3 billion (3.6 percent of GDP) in the first nine months of 2023 (Chart 8).

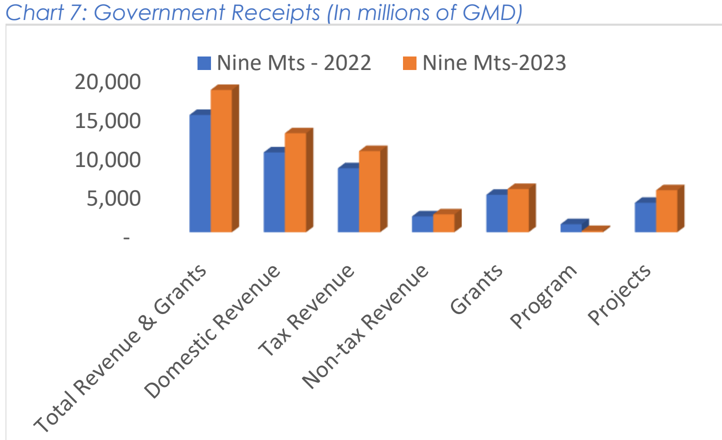
Chart 5: Summary of Government Fiscal Operations (millions of GMD)



Source: *MoFEA& CBG staff calculations*

Total revenue and grants mobilized in the first nine months of 2023 totaled D18.3 billion (12.4 percent of GDP), above the amount recorded in the same period last year by 21.3 percent and higher than the amount projected for the period by 22.0 percent. Tax revenue rose by 26.9 percent to D10.4 billion (7.1 percent of GDP) in the first nine months of 2023, from D8.2 billion (6.7 percent of GDP) in the corresponding period a year ago and outperforms the projected amount by 4.2 percent. Indirect and direct tax revenues increased by 37.7 percent and 8.0 percent, respectively. Corporate tax also increased, by 4.7 percent.

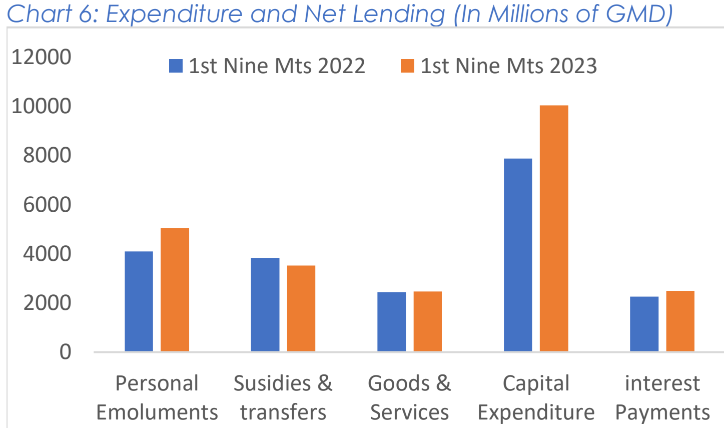
Chart 7: Government Receipts (In millions of GMD)



Source: *MoFEA & CBG staff calculations*

Government expenditure and net lending for the first nine months of 2023 increased by 15.0 percent to D23.6 billion

Chart 6: Expenditure and Net Lending (In Millions of GMD)



Source: *MoFEA & CBG staff calculations*

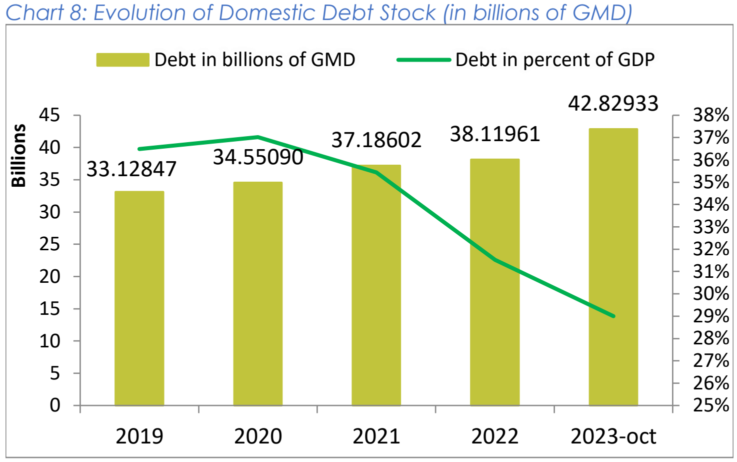
(16.0 percent of GDP), from D20.5 billion (16.7 percent of GDP) in the first nine months of 2023. The increase in government expenditure and net lending during the period was mainly on account of the surged in development expenditure that was largely externally financed, personnel emoluments, interest payments, and goods and services.

From January to end-September 2023, government net borrowing from the domestic market totalled D3.7 billion, higher than D2.8 billion recorded a year ago, representing a growth of 32.1 percent. On the other hand, external financing of the budget deficit for the same period declined by 23.2 percent to stand at D1.7 billion, accounting for 31.5 percent of total borrowing.

Domestic Debt

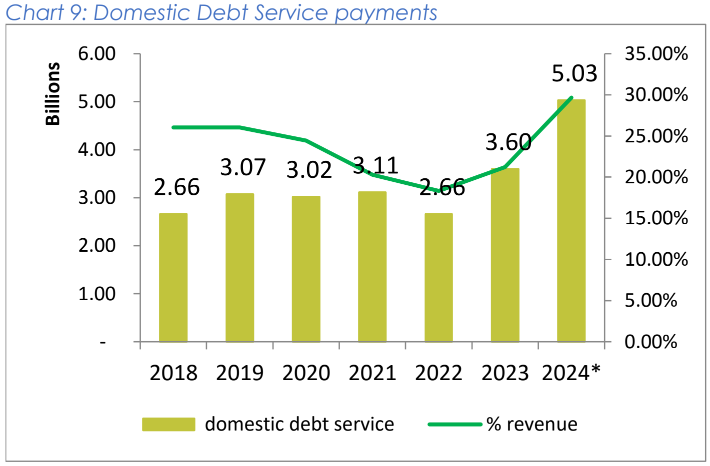
The outstanding domestic debt stock grew from D38.1 in December 2022 to D42.8 (Chart 11), due mainly to increased issuance of treasury bills and bonds to settle maturities and finance the government deficit. From January to October 2023, gross domestic borrowing amounted to D24.9 billion, 81.6 percent of which was raised through short term bills. Of the total domestic debt stock, short-term debt accounted for 49.8 percent, while medium to long-term debt constituted 50.2 percent. Between January and October, government net borrowing from the domestic market stood at D4.6 billion, overshooting the target of D2.0 billion.

Chart 8: Evolution of Domestic Debt Stock (in billions of GMD)



Source: CBG staff calculations

Chart 9: Domestic Debt Service payments



Source: CBG staff calculations

Domestic debt service was projected to increase by D938.4 million recorded in 2022 to D3.6 billion (21.2 percent of domestic revenue) in 2023, mirroring the combination of higher interest rates, higher amortization due to the resumption of repayment of IMF facilities on-lent to the government and the 2-year bond held by the CBG.

Domestic interest expenses were also projected to increase by D324.5 million in 2022 to D2.3 billion (13.8 percent of domestic revenue) this year, due to higher short-term yields. Interest payment was forecast to rise further to D4.3 billion in 2024.

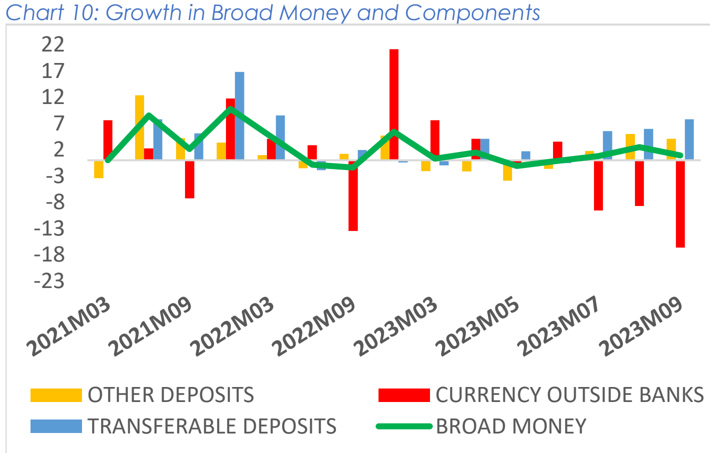
Interest rates in the money market trended downwards in October, diverging from the upward trend observed since the beginning of the year amid increased liquidity in the banking system. The weighted average yield rose from 12.7 in January 2023, peaking at 15.2 percent in July, before dropping to 12.0 percent in August and further down to 5.4 percent in October.

The interbank market continued to be active. Between January and October 2023, total transactions in the market reached D12.3 billion, higher than the D7.8 billion recorded over the same period in 2022. The weighted average interest rate that prevailed in the market also decreased from 10.7 percent in August to 5.0 percent in October 2023, mirroring the trajectory of the interest rates on the 3 months Treasury bills rate.

Monetary Aggregates

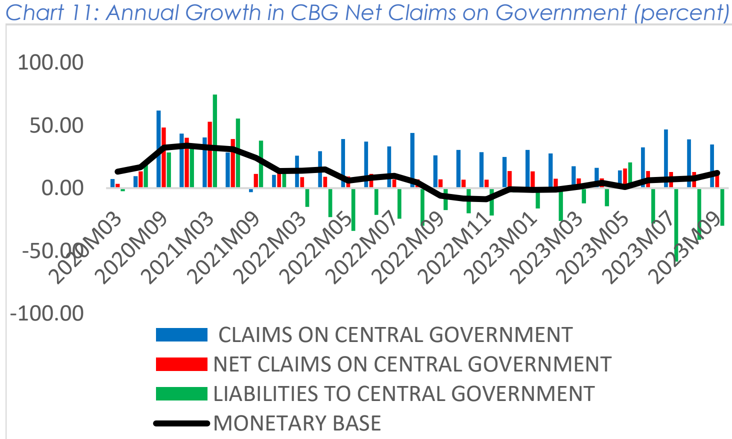
Growth in broad money accelerated to 6.6 percent in September 2023, from 4.2 percent in June 2023 but lower than 12.2 percent registered in September 2022. The growth was driven mainly by the increased borrowing by the central government from depository corporations. The banking sector's net domestic assets (NDA) at end September was D48.7 billion, a growth of 15.8 percent year-on-year, reflecting the picked up in the net claims on government. The banking system's net claims on government surged significantly by 11.0 percent in the reporting period and accounted for about 75.4 percent of the stock of domestic credit. The annual growth in credit to the private sector slowed during the review

Chart 10: Growth in Broad Money and Components



Source: *CBG staff calculations*

Chart 11: Annual Growth in CBG Net Claims on Government (percent)



Source: *CBG staff calculations*

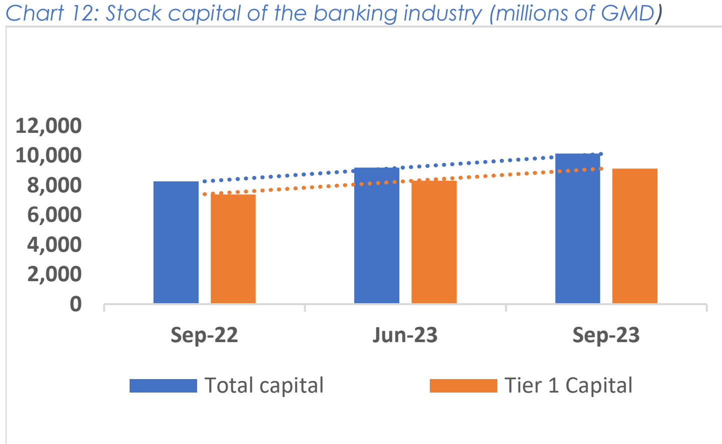
period. After registering an annual growth of 32.3 percent in June 2023, private sector credit growth slowed to 17.4 percent in September 2023. This level of growth is also lower than 36.6 percent recorded in September 2022. Claims on the private sector contributed 3.6 percentage points to NDA growth.

As of end September 2023, reserve money, the Bank's operating target, increased by 12.2 percent (year-on-year), following a contraction of 6.0 percent recorded in the same period in 2022. Frequent interventions in the forex market by the Central Bank attributed to the contraction in the Bank's NFA. In contrast, the NDA of the Bank accounted for 61.0 percent of the reserve money and contributed 34.0 percentage points to its growth, reflecting an increase in monetary financing. The stock of gross claims of the Central Bank on government rose by 10.4 (year-on-year) in September 2023. Meanwhile, government deposits declined by 43.0 during the period, leading to an increase in the Central Bank's net claims on government by 34.8 year-on-year), due mainly to overdrafts in the treasury main account.

Banking Sector

The banking system registered strong performance in the third quarter of 2023, characterized by ample liquidity, strong capital adequacy and increased profitability. The resilience of the banking industry is a result of its strong fundamentals, evidenced by the robust financial soundness indicators and the results of the stress test exercise.

Chart 12: Stock capital of the banking industry (millions of GMD)



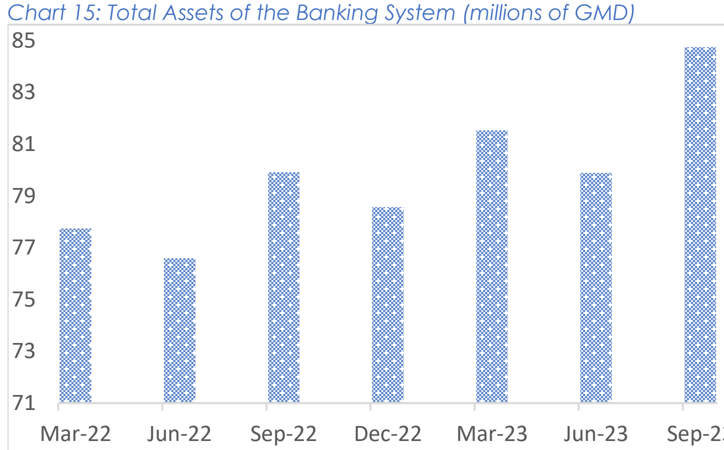
Source: *CBG staff calculations*

In September 2023, the risk-weighted capital adequacy ratio increased to 25.7 percent. This is an improvement from the previous 24.6 percent recorded in June 2023. It is also higher than the regulatory requirement of 10 percent. The liquidity ratio likewise increased in the review period to 78.5 percent, from 70.0 percent in June 2023. The non-performing loans (NPLs) dropped from 3.5 percent of gross loans in June 2023 to 2.9 percent September 2023. This was mainly due to the combination of repayments, debt write-offs and recoveries.

The banking industry's asset base expanded by 6.0 percent (year-on-year), from D80.1 billion in the June quarter to D84.8 billion in September 2023, benefiting largely from a rise in the balances due from other banks, holding of government securities and other assets.

This translated to an increase in the assets-to-GDP ratio from 75.1 percent to 86.0 percent. During the quarter under review, gross loans and advances extended by commercial banks witnessed a decline of 0.6 percent. As a result, the loan-to-deposit ratio also decreased, from 27.4 percent to 25.7 percent. However, there was an increase in the loan-to-GDP ratio from 14.0 percent to 14.5 percent between June and September.

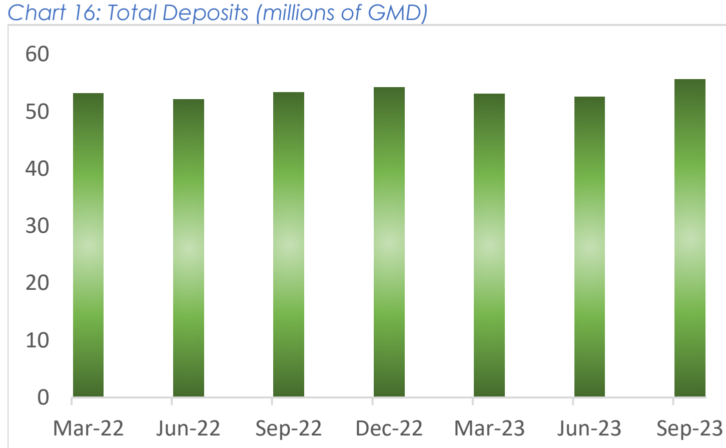
Chart 15: Total Assets of the Banking System (millions of GMD)



Source: CBG staff calculations

Similarly, total customer deposits grew by 4.1 percent quarter-on-quarter to D55.6 billion, signifying a key source of funding for banks. As result, deposit-to-GDP ratio rose by 14.1 percentage points to 56.4 percent. The banking system is concentrated, with one large bank dominating the market by holding 24 percent of the stock of deposits. The three medium-sized banks accounted for 44.4 percent, while the remaining 32 percent was held by the eight small-sized banks. In terms of deposit mix, demand deposits accounted for 48.7 percent of total deposit liabilities, followed by savings (43.8 percent) and time (7.4 percent).

Chart 16: Total Deposits (millions of GMD)



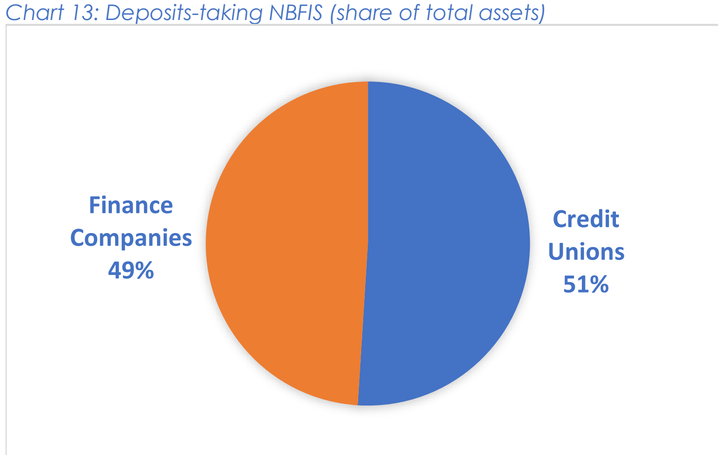
Source: CBG staff calculations

The banking industry's earnings continued to improve. The industry registered an increase in net income of 18.19 percent (quarter-on-quarter) to stand at D575.1 million. Return on assets (ROA) increased slightly, from 2.5 percent in June 2023 to 2.7 percent in September 2023, while net income grew by 25.8 percent (year on year). Similarly, ROE marginally increased to 23.2 percent in September 2023, from 23.1 percent in June 2023 as the industry continues to manage its assets relatively efficiently.

Non-Bank Financial Sector

The non-bank financial sector's total assets expanded noticeably by 26.1 percent (year-on-year) at end-September 2023. For quarter-on-quarter assessment, the industry's assets registered an increase of 4.2 percent to stand at D7.0 billion. The growth of the sector was driven by the rapid growth of Credit Unions.

Chart 13: Deposits-taking NBFIS (share of total assets)



Source: CBG staff calculations

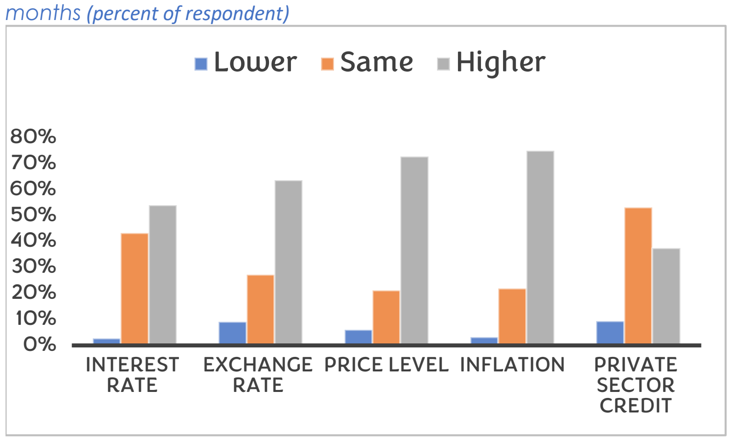
The total deposits of the industry (Credit Unions and Finance Companies combined) grew by 5.0 percent to D4.9 billion at end-September 2023, from D4.2 billion at end-June 2022. When compared to the same quarter a year ago, total industry deposits rose by 18.0 percent or D740.2 million. The total loans grew to D3.5 billion at end-September 2023, from D2.6 billion at end-June 2023. Year-on-year, total deposits significantly increased 32.1 percent (Chart 16).

Total assets of Credit Unions (CUs) grew to 51.5 percent in the quarter under review, from 48.2 percent in the same period a year ago. Likewise, deposits mobilized during the period by CUs improved by 12.9 percent to D2.5 billion in the reporting period.

The risk-weighted capital adequacy ratio of Finance Companies stood at 31 percent at end-September 2023, higher than the regulatory benchmark of 20 percent. The liquidity ratio rose to 70 percent in the review period and was above the 30 percent prudential requirement. In terms of asset quality, the non-performing loans of the Finance Companies remained high at 15 percent of gross loans as at end-September 2023.

Business Sentiment Survey

Chart 14: Sentiment on Macroeconomic indicators for the next three months *(percent of respondent)*



Source: CBG staff calculations

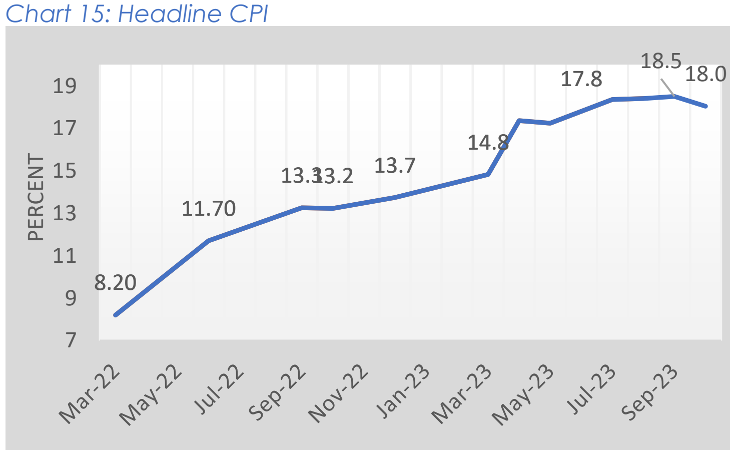
Report on the Business Sentiment Survey conducted in the third quarter of the year revealed that respondents were still pessimistic about the prospects of the global economy. The sentiments of businesses about the prospects of the domestic economy also softened during the third quarter of the year, compared to the results of the preceding survey, attributed to the still high inflationary environment, effects of the global uncertainties, and foreign exchange related issues.

In terms of business activity at firm level, the survey revealed a positive outlook for production and capital expenditure in the third quarter of the year. Employment trends also indicated an uptick in hiring, especially in sectors like tourism and real estate. However, the forward-looking aspect of the survey revealed a further uptick in the near-term inflation expectation. A combination of factors continued to shape the sentiments of were notably the elevated global commodity prices, and depreciation of the domestic currency. Furthermore, the prolonged constraints at the Banjul port continue to be highlighted as a critical cost factor among businesses and domestic tax rates also fuel the inflationary sentiments of businesses.

Price Developments

Domestic prices moderated somewhat in October marking a shift from the steady rise observed throughout the year (Chart 18). According to the latest inflation reading, headline inflation decelerated to 18.0 percent in October 2023, from 18.5 percent in September 2022, thanks to the slowdown in food prices. CBG's near-term forecast suggested that inflation will peak in the fourth quarter of this year, marking the commencement of the disinflation process. However, inflation may remain in double digits for longer.

Chart 15: Headline CPI



***Source**: GBoS*

Food inflation (annual percentage change in food CPI) moderated slightly by 1.1 percentage points to 23.8 percent in October 2023, from 24.9 percent in September 2023, with Bread and cereals been the main drivers of the fall in food inflation. Other components of the food basket that experienced a reduction in prices were oils and fats and other unclassified food products. The non-food group, in contrast, increased, attributed to the rise in prices of clothing and footwear, transport due to the adjustment in fuel pump prices and miscellaneous goods and services. Non-food inflation accelerated to 11.5 percent in October 2023, relative to 11.2 percent in September 2023.

The Central Bank's core measure of inflation that excludes volatility in prices stemming from energy products (Core 1), indicated a slump in underlying inflation. Core1 inflation declined to 23.3 percent from the end-July figure of 24.9 percent. Conversely, Core 2 inflation that excludes both volatile prices of energy and food products, increased to 22.6 percent in October 2023, relative to the 22.4 percent recorded in July 2023.

In the medium-term outlook, while domestic inflation is anticipated to decelerate further supported largely by tight monetary policy and declining commodity prices, the risk on the horizon remains and may slow the pace of disinflation. Factors that may impede the decline in inflation include volatile commodity prices, particularly fuel, high inflationary expectations, and domestic structural challenges.

Risk Assessment

Staff assessment of current economic conditions revealed an expansion in the output gap in the third quarter, bolstered by strong aggregate demand and the expansionary fiscal policy. Reserve money demand increased, driven by high inflation and increased economic activity. On the other hand, the increase in interest rates and strong exchange rate were limiting the money demand. Money market interest rates declined during the third quarter, driven by improved liquidity conditions of banks.

The baseline forecast indicated a real GDP growth of 5.3 percent in 2023 (0.2 percentage points upward revision), compared to an earlier projection of 5.1 percent projection in July. The upward revision is attributed to the stronger than expected tourism receipts, steady remittance inflows, and robust private and public consumption. Inflation was forecast to remain in double digits for the rest of the year but projected to peak sooner than previously projected, reflecting strong monetary policy response and the expected slowdown in global commodity and food inflation.

The Central Bank staff assessment of the risks to the growth forecast was summarized in three risk scenarios. The first scenario was a liberalization of the pump prices that will result in a full pass-through of fuel prices to domestic pump prices. This will push domestic inflation higher than in the baseline, prompting monetary policy to be more aggressive with a further rise in interest rates. However, output will remain fairly unchanged in the forecast horizon.

Secondly, staff assessed the impact of the full adoption of a new exchange rate policy that will remove all forms of restrictions. It was predicted that the policy change could lead to an initial depreciation of the dalasi, before normalizing. In this case, the depreciation could lead to higher domestic prices and inflation briefly at the start of the implementation period. A weaker exchange rate will positively affect domestic economic activity, leading to higher projected real GDP growth than in the baseline. Monetary policy is expected to counter this inflationary pressure by increasing the policy rate higher than what the baseline suggested.

Finally, the risk of a lower-than-predicted monetary policy response to the current inflation trajectory. In this situation, domestic inflation may be more persistent than forecast in the baseline. The accommodative monetary policy stance and the depreciation of the dalasi will somewhat aid growth in the near term.

Decision

Based on its assessment of inflation outlook and growth prospects, the Committee concluded that though there is indication of moderation in inflation, the risks to the outlook remain and are tilted on the upside. In this regard, it was necessary to keep policy tight to ensure that the disinflation process continues, and inflation gradually returns to its medium-term target. The Committee decided to maintain the monetary policy rate at 17 percent. The Committee also 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 (18 percent).

Next MPC Meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, February 28, 2024. The meeting will be followed by the announcement of the policy decision on Thursday, February 29, 2024.

APPENDIX

Table 1: Global Growth Rates and Forecasts for 2023-2024

Group Name	Estimates						Projections		
	2016	2017	2018	2019	2020	2021	2022	2023	2024
World	3.3	3.8	3.6	2.8	-3.1	6.1	3.5	3.0	2.9
Advanced economies	1.8	2.5	2.3	1.6	-4.5	5.2	2.6	1.5	1.4
Euro area	1.9	2.6	1.9	1.3	-6.3	5.4	3.3	0.7	1.2
Emerging market and developing economies	4.5	4.8	4.5	3.7	-2.0	6.8	4.1	4.0	4.0
Emerging and developing Asia	6.8	6.6	6.4	5.4	-0.8	7.3	4.5	5.2	4.8
Emerging and developing Europe	1.9	4.1	3.4	2.5	-1.8	6.7	0.8	2.4	2.2
United States	1.7	2.3	3.0	1.4	-3.4	5.7	2.1	2.1	1.5
United Kingdom	1.7	1.7	1.3	1.4	-9.3	7.4	4.1	0.5	0.6
Sub-Saharan Africa	1.5	3.1	3.2	3.2	-1.6	4.6	4.0	3.3	4.0

***Source**: WEO October 2023*

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

	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23
C/ Account	-34.0	-15.5	-66.5	-91.1	-51.5
Goods	-162.3	-197.4	-226.5	-262.2	-213.4
Services	3.1	61.2	41.2	45.9	49.3
Primary Income	-7.1	-6.3	-6.5	-5.9	-3.6
Secondary Income	132.4	126.9	125.4	131.1	116.3

***Source**: CBG staff calculations*

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

	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23
Goods	-162.3	-197.4	-226.5	-262.2	-213.4
Exports (FOB)	9.2	7.5	63.7	82.6	69.5
Imports (FOB)	-171.6	-205.0	-290.2	-344.8	-282.9

***Source**: CBG staff calculations*

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

	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23
Services	3.1	61.2	41.2	45.9	49.3
Transportation	-11.6	-12.0	-28.3	-7.3	-1.4
o/w Sea Transport	-19.0	-24.8	-37.1	-17.7	-12.6
Travel	18.5	77.6	76.8	60.0	56.8
o/w personal Travel	19.1	277.6	77.3	60.4	60.0

***Source:** CBG staff calculations*

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

	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23
Financial Account	-37.8	-64.1	-104.7	-38.7	-16
O/W Direct Investment	63.7	-58.7	-63.1	-60	-48.3
O/W Other Investment	-8.8	57.6	-24.7	-24.8	-12
O/W Change in Reserve Assets	34.7	-64.3	-26.1	-44.7	42.4

***Source**: CBG staff calculations*

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

QUARTERLY US$			
	PURCHASES (US$)	SALES (US$)	VOLUMES (US$)
2021Q2	329,229,403	322,379,386	651,608,789
2021Q3	336,598,551	345,064,156	681,662,707
2021Q4	294,613,124	290,257,448	584,870,572
2022Q1	285,957,388	289,642,567	575,599,955
2022Q2	367,601,469	398,183,274	765,784,743
2022Q3	284,337,041	285,246,935	569,583,976
2022Q4	283,436,488	286,427,392	569,863,880
2023Q1	318,044,269	326,039,713	644,083,982
2023Q2	233,303,247	233,760,101	467,063,348
2023Q3	193,228,491	201,572,963	394,801,454

***Source**: CBG staff calculations*

Table 7: Quarterly average market Share by currency (in percent)

CURRENCY	USD	EUR	GBP	CFA	OTHERS
Q3-2022	55.27	35.43	6.20	2.88	0.22
Q4-2022	60.27	30.28	7.46	1.65	0.34
Q1-2023	53.02	35.87	9.59	0.79	0.8
Q2-2023	70.05	20.78	7.37	1.56	0.24
Q3-2023	69.02	19.97	5.02	5.83	0.46

***Source**: CBG staff calculations*

Table 8: The Overall Budget Balance

	GMD' million		% of GDP		Y-o-Y %
Overall balance	**1st Nine months 2022**	**1st nine Months 2023**	**1st Nine months of 2022**	**1st nine months of 2023**	
Excluding grants	-10249.2	-10851.8	-8.4	-7.6	5.9
Including grants	-5443.7	-5301.7	-4.4	-3.6	-2.6
Basic balance	-4661.0	-2822.8	-3.8	-1.9	-39.4
Basic Primary Balance	-2406.7	-330.2	-1.9	-0.2	-86.3
CBG Financing	878.2	2843.8	2.1	2.0	224.0

***Source**: CBG staff calculations*

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

	2022	2023	Y-oY	2023	
RECEIPTS	9Mts-2022	9Mts-2023		9 Mts-2023	Performance below (-) above (+)
Total Revenue & Grants	15043.68	18250.11	21.3	14,964.23	3285.88
Percent of GDP	12.3	12.4			
Domestic Revenue	10238.20	12700.05	24.0	13088.23	-388.18
% GDP	8.4	8.6			
Tax Revenue	8205.92	10409.94	26.9	9989.14	420.80
% GDP	6.7	7.1			
Direct Tax	2994.24	3235.21	8.0	3521.23	-286.02
Personal	1043.52	1179.27	13.0	1270.43	-91.16
Corporate	1792.07	1877.12	4.7	2051.47	-174.35
Indirect Tax	5211.67	7174.73	37.7	6467.91	706.83
Domestic Tax on goods & services	1904.74	2085.52	9.5	2510.50	-424.98
Tax on Int'l. Trade	3306.93	5089.21	54.1	3957.41	1131.81
Duty	1833.71	2515.25	35.0	2278.51	236.74
Sales tax on imports	1473.22	2573.96	80.0	1678.89	895.07
Non-tax Revenue	2,032.28	2290.11	12.7	3099.09	-808.98
% GDP	1.7	1.6			
Grants	4,805.48	5550.06	15.5	1876.00	3674.06
%GDP	3.9	3.8			
Program	1027.95	159.82	-84.5	1876.00	-1716.19
Projects	3777.53	5390.25	42.7		5390.25

***Source**: CBG staff calculations*

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

PAYMENTS	9mts-2022		9 mts- 2023		2022-2023
	GMD' Million	% of GDP	GMD 'Millions	% of GDP	Y-0-Y % Change
Expenditure & NL	20487.40	16.7	23551.82	16.0	15.0
Current Expenditure	12620.37	10.3	13511.33	9.2	7.1
Personnel Emoluments	4092.10	3.3	5039.97	3.4	23.2
o/w: wages & salaries	2442.26	1.9	2462.86	1.7	0.8
Other Charges	6237.98	5.1	5978.81	4.1	-8.2
Interest Payments	2254.29	1.8	2492.54	1.7	10.6
External	440.87	0.4	532.97	0.4	20.9
Domestic	1813.42	1.5	1959.57	1.3	8.1
Capital Expenditure	7867.03	6.4	10040.49	6.8	27.6
Externally Financed	5588.23	4.6	3.08	5.4	43.7
Loans	1810.70	1.5	1.30	1.8	45.7
Grants	3777.53	3.1	1.77	3.7	42.7
GLF Capital	2278.80	1.9	1.26	1.4	-11.7
Net Lending	0.00	0.00	0.00	0.00	

***Source**: CBG staff calculation*

Table 11: Summary of Monetary Developments

DEPOSITORY CORPORATIONS	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NET FOREIGN ASSETS	19,375.3	24,032.3	23,374.3	18,942.5	16,938.4
GROSS RESERVES	23,883.1	27,571.8	28,410.0	25,191.7	22,788.7
OTHER CLAIMS ON NONRESIDENTS	13,052.3	15,235.1	15,068.4	12,382.4	12,682.2
LIABILITIES TO NONRESIDENTS	17,560.1	18,774.6	20,104.2	18,631.6	18,532.6
NET DOMESTIC ASSETS	42,073.7	40,767.9	41,614.6	45,972.8	48,730.5
NET DOMESTIC CLAIMS	55,266.7	54,875.6	55,843.4	59,532.3	60,134.5
NET CLAIMS ON CENTRAL GOVERNMENT	40,855.1	39,937.5	41,784.2	44,538.5	45,362.0
CLAIMS ON CENTRAL GOVERNMENT	47,332.1	46,885.2	47,263.6	48,893.3	49,891.9
LIABILITIES TO CENTRAL GOVERNMENT	6,477.0	6,947.7	5,479.4	4,354.8	4,529.9
CLAIMS ON PUBLIC NONFINANCIAL CORPORATIOI	3,355.3	3,266.4	2,969.5	2,710.9	2,191.7
CLAIMS ON PRIVATE SECTOR	11,035.7	11,649.4	11,067.4	12,268.5	12,566.4
of which: Credit to Private Sector	10,661.9	11,275.6	10,693.6	12,194.7	12,515.6
CLAIMS ON OTHER FINANCIAL CORPORATIONS	20.7	22.3	22.3	14.4	14.4
EQUITY	15,272.9	17,581.0	19,474.6	16,988.5	17,711.6
OTHER ITEMS (NET)	2,079.9	3,473.2	5,245.8	3,429.0	6,307.6
BROAD MONEY	61,449.0	64,800.2	64,988.8	64,915.3	65,500.4
NARROW MONEY	35,673.8	37,811.8	38,558.7	38,918.2	38,441.2
CURRENCY OUTSIDE BANKS	10,642.0	12,890.2	13,874.6	14,365.7	11,976.9
TRANSFERABLE DEPOSITS	25,031.9	24,921.7	24,684.1	24,552.5	26,464.4
OTHER DEPOSITS	25,775.1	26,988.3	26,430.1	25,997.1	27,059.1
Annual percent change					
NET FOREIGN ASSETS	-14.3	-9.3	-4.7	-15.9	-12.6
GROSS RESERVES	-12.0	-1.2	5.7	-2.2	-4.6
OTHER CLAIMS ON NONRESIDENTS	5.7	-0.2	0.3	-10.5	-2.8
LIABILITIES TO NONRESIDENTS	4.0	12.6	15.7	9.0	5.5
NET DOMESTIC ASSETS	30.8	21.1	8.7	15.5	15.8
NET DOMESTIC CLAIMS	30.6	19.2	9.3	12.2	8.8
NET CLAIMS ON CENTRAL GOVERNMENT	22.6	11.6	6.5	11.9	11.0
CLAIMS ON CENTRAL GOVERNMENT	15.0	9.1	4.0	6.6	5.4
LIABILITIES TO CENTRAL GOVERNMENT	-17.5	-3.4	-12.0	-28.3	-30.1
CLAIMS ON PUBLIC NONFINANCIAL CORPORATIOI	314.2	276.3	-4.0	-26.0	-34.7
CLAIMS ON PRIVATE SECTOR	34.9	24.4	26.5	27.9	13.9
of which: Credit to Private Sector	36.6	25.4	27.6	32.3	17.4
CLAIMS ON OTHER FINANCIAL CORPORATIONS	46.7	8.5	8.5	-29.9	-30.2
EQUITY	13.5	23.4	31.6	18.2	16.0
OTHER ITEMS (NET)	-37.2	85.5	160.3	210.1	203.3
BROAD MONEY	12.2	7.7	3.4	4.2	6.6
NARROW MONEY	18.8	9.5	4.3	5.6	7.8
CURRENCY OUTSIDE BANKS	3.5	12.2	16.0	16.8	12.5
TRANSFERABLE DEPOSITS	26.8	8.1	-1.4	0.0	5.7
OTHER DEPOSITS	4.1	5.4	2.2	2.1	5.0
Quarterly percent change					
NET FOREIGN ASSETS	-13.9	24.0	-2.7	-19.0	-10.6
GROSS RESERVES	-7.3	15.4	3.0	-11.3	-9.5
OTHER CLAIMS ON NONRESIDENTS	-5.7	16.7	-1.1	-17.8	2.4
LIABILITIES TO NONRESIDENTS	2.8	6.9	7.1	-7.3	-0.5
NET DOMESTIC ASSETS	5.7	-3.1	2.1	10.5	6.0
NET DOMESTIC CLAIMS	4.1	-0.7	1.8	6.6	1.0
NET CLAIMS ON CENTRAL GOVERNMENT	2.7	-2.2	4.6	6.6	1.8
CLAIMS ON CENTRAL GOVERNMENT	3.2	-0.9	0.8	3.4	2.0
LIABILITIES TO CENTRAL GOVERNMENT	6.7	7.3	-21.1	-20.5	4.0
CLAIMS ON PUBLIC NONFINANCIAL CORPORATIOI	-8.4	-2.6	-9.1	-8.7	-19.2
CLAIMS ON PRIVATE SECTOR	15.1	5.6	-5.0	10.9	2.4
of which: Credit to Private Sector	15.7	5.8	-5.2	14.0	2.6
CLAIMS ON OTHER FINANCIAL CORPORATIONS	0.4	8.1	0.0	-35.4	0.0
EQUITY	6.3	15.1	10.8	-12.8	4.3
OTHER ITEMS (NET)	88.1	67.0	51.0	-34.6	83.9
BROAD MONEY	-1.4	5.5	0.3	-0.1	0.9
NARROW MONEY	-3.2	6.0	2.0	0.9	-1.2
CURRENCY OUTSIDE BANKS	-13.4	21.1	7.6	3.5	-16.6
TRANSFERABLE DEPOSITS	1.9	-0.4	-1.0	-0.5	7.8
OTHER DEPOSITS	1.2	4.7	-2.1	-1.6	4.1

***Source**: CBG staff calculations*

Table 12: Key Financial Indicators for Banking sector (in percent)

INDICATOR	Sep-22	Jun-23	Sep-23	Prudential requirement
Capital Adequacy Ratio	24.39	24.60	25.72	10
NPL Ratio	4.21	4.21	2.77	Single Digit
ROA	2.72	2.62	2.62	Positive ratio
ROE	21.60	23.40	23.08	Positive ratio
Liquid Assets	41.44	44.40	49.80	30
Net Open Position	-0.3	1.11	4.73	+/-25

***Source**: CBG staff calculations*

Table 13: Key Financial Indicators for the Finance Companies

INDICATOR	Sep-22	Jun-23	Sep-23	Prudential requirement
Capital Adequacy Ratio	35	37	31	20
Return on Assets (ROA)	0.42	0.4	0.3	1
Return on Equity (ROE)	2.0	2	2	1
Non-Performing Loans (NPL)	7	15	15	5

***Source**: CBG*

Table 14: Food Price Development (Annual Percentage Change)

Y-O-Y INFLATION	Mar-22	Apr-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Oct-23
Food	9.17	14.43	14.43	16.50	18.27	20.47	23.49	24.98	23.75
Bread & Cereals	9.09	18.47	18.47	18.90	27.40	22.94	22.35	24.47	18.75
Meat	11.57	12.22	12.22	10.84	9.95	16.64	15.82	16.27	18.18
Fish	1.61	5.24	5.24	5.22	5.32	15.84	32.55	35.86	36.59
Milk, Cheese and Eggs	6.58	9.31	9.31	13.20	22.26	27.71	27.39	25.91	27.51
Oils and fats	2.51	16.89	16.89	23.29	24.36	23.36	13.89	9.51	7.63
Fruits & nuts	8.88	16.49	16.49	18.05	17.40	12.18	14.90	18.23	18.69
Vegetables, root crops & tubers	14.72	14.78	14.78	21.52	16.13	26.16	31.82	34.35	36.37
Sugar, jam, honey & sweets	18.93	22.44	22.44	23.24	25.82	15.80	19.15	19.88	20.52
Other food products n.e.c	14.12	8.78	8.78	9.90	2.68	9.42	30.10	37.51	37.47

***Source**: CBG staff calculations*

Table 15: Non-Food Price Development (Annual Percentage Change)

Y-O-Y NON-FOOD INFLATION	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Oct-23
NON-FOOD PRODUCTS AND SERVICES	7.45	9.33	10.42	9.93	8.9	11.5	11.24	11.54
CLOTHING & FOOTWEAR	4.39	4.69	4.50	5.37	13.69	22.17	31.18	33.45
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	4.73	5.77	6.16	4.10	12.19	31.96	29.70	29.49
HEALTH	46.32	47.85	48.25	12.12	2.91	2.60	2.26	2.23
TRANSPORT	8.51	13.32	16.12	18.04	14.88	4.69	1.48	2.96
COMMUNICATION	1.01	0.82	0.62	0.62	0.20	0.16	0.14	-0.04
RECREATION AND CULTURE	5.55	6.94	32.72	33.39	35.72	35.44	35.44	35.40
NEWSPAPERS, BOOKS AND STATIONARY	6.33	8.65	5.83	51.57	48.63	45.88	46.03	45.97
HOTELS, CAFES AND RESTAURANTS	35.00	40.73	44.47	7.45	12.49	21.33	22.11	20.91
MISCELLANEOUS GOODS AND SERVICES	12.27	20.24	11.47	6.12	8.59	3.74	6.79	7.49

***Source**: GBoS*

Table 16: Core inflation (Annual Percentage Change)

Y-o-Y Inflation	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Oct-23
Headline Inflation	8.2	11.7	13.27	13.74	14.83	17.81	14.83	18.05
Core 1 Inflation	8.87	15.23	18.99	19.85	21.07	23.05	21.07	23.3
Core 2 Inflation	9.78	15.28	18.08	18.33	18.33	20.8	18.33	22.6

***Source**: GBoS*