MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.80

November 24-25, 2021

The Monetary Policy Committee (MPC) of The Central Bank of The Gambia (CBG) convened its fourth meeting of the year on Wednesday, November 24, 2021, to review recent economic developments. Subsequently, a meeting to decide on the Monetary Policy stance and a press conference ensued on Thursday, November 25, 2021.

Present were:

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

Report Presenters

Name	**Designation**
Ms. Sainabou Njie	Senior Bank Examiner, Banking Supervision Department
Ms. Binta Beyai	Senior Economist, Banking Department
Mr. Alieu Ceesay	Senior Economist, Economic Research Department
Mr. Khalilu Bah	Senior Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mr. Saikou B. Jammeh	Economist, Economic Research Department
Mr. Alfusainey Touray	Economist, Economic Research Department

Mr. Muhammed Sonko	Officer, Other Financial Institutions Supervision Department
Mr. Momodou Alieu Jallow	Officer, Financial Markets and Reserve Management Dept
Mr. Macodou N. Njie	Statistician, Economic Research Department
Mr. Habib Ceesay	Statistician, Economic Research Department
Mr. Mawiyatou Susso	Statistician, Economic Research Department

In attendance were:

Name	**Designation**
Mr. Serign Bai Senghor	Senior Adviser, Corporate Services Unit
Pa Alieu Sillah	Commissioner of Insurance, Insurance Supervision Department
Ms. Rohey Khan	Director, Risk Management Department
Ms. Fatou Deen-Touray	Director, Development Finance Department
Mr. Attikan Dibba	Director, Finance Department
Mr. Karafa Jobarteh	Deputy Director/OIC, Financial Markets & Reserve Management Department
Mr. Abdou H. Ceesay	Deputy Director/OIC, Currency Management Department
Ms. Isha Fye	Deputy Director, Information & Communication Technology Department
Mr. Siaka Bah	Deputy Director/OIC, Other Financial Institutions Supervision Department
Mr. Michael Barrai	Deputy Director/OIC, Internal Audit Department
Ms. Halima Singhateh-Jagne	Deputy Director, Banking Supervision Department
Alhagie Manneh	Principal Microfinance Officer, Other Financial Institutions Supervision Department
Mr. Abdoulie Touray	Principal Bank Examiner, Banking Supervision Department
Ms. Mariama Sillah	Senior Bank Examiner, Banking Supervision Department
Mr. Bademba Drammeh	Statistician, Economic Research Department
Mr. Ousman Saidykhan	Officer, Other Financial Institutions Supervision 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 Chairman of the MPC welcomed members and attendees to the fourth and final meeting of 2021 and subsequently requested for individual silent prayers before the meeting commenced.

3. He instructed that Minutes of meetings should be drafted and circulated to MPC members two weeks after each meeting for review and comments. Reminders are to be sent to members for the submission of comments. The Chairman obliged Members to review the minutes prior to the meeting and provide comments for incorporation by the Secretariat. He urged them to see this as part of their responsibility to make good what comes out from the MPC and publish on the CBG website.

Review and Adoption of the Minutes of the Previous Meeting

4. Members were requested to review the minutes of the previous meeting and submit comments for incorporation by Wednesday December 01, 2021, for finalisation and publication.

Presentation of Reports:

5. The meeting proceeded with the presentation and discussion of reports on the World Economic Outlook (WEO), the Banking Sector, Domestic Debt Market developments, Balance of Payments, Financial Markets, Monetary Sector, Government Fiscal Operations, Business Sentiment Survey, Other Financial Institutions, 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. The global economy continues to recover amid a resurging pandemic that poses exceptional policy challenges. Although vaccinations have proven effective at mitigating the adverse health impacts of COVID-19, the unequal access, hesitancy, and higher infectiousness have left many people still vulnerable, and these are fueling the pandemic. This has implications for the resilience of recovery already in uncharted territory. Consequently, the International Monetary Fund (IMF) in its October 2021 World Economic Outlook (WEO), forecast the global economy to grow by 5.9 percent in 2021, a 0.1 percentage point downward revision from the July 2021 WEO. This reflected forecast downgrades to the advanced economies and low-income developing countries due in part to supply disruptions and worsening pandemic dynamics.

2. Global forecast for 2022 remained unchanged at 4.9 percent premised on some emerging market economies joining advanced economies to gain broad base access to vaccines in 2021. Most countries are assumed to acquire broad access by the end of 2022 and some only in 2023.

3. In advanced economies, growth prospects for 2021 were revised down by 0.4 percentage points to 5.2 percent compared to the July 2021 forecast, largely reflecting downgrades to the United States, Germany, Japan, and United Kingdom due to supply disruptions, softening consumption, and shortages of major inputs. The euro area economic performance is expected to strengthen by 5.0 percent, an improvement of 0.4 percentage points from the July forecast. Other advanced economies are projected to grow by 5.2 percent as well.

4. The forecast for emerging markets and developing economies marked up slightly by 0.1 percentage point to 6.4 percent compared to the July 2021 WEO Update, mirroring upgrades across most regions. China's prospects for 2021 are marked down by 0.1 percentage point to 8.0 percent, due to stronger-than-anticipated

scaling back of public investment whilst India's forecast remained unchanged at 9.5 percent. Emerging and developing Asia was downgraded as the pandemic picked up in this region. Growth forecasts in other regions have been slightly upgraded for 2021. The revisions in part reflect improved assessments for some commodity exporters outweighing the drags from pandemic developments in Latin America and the Caribbean, Middle East and Central Asia, and sub-Saharan Africa.

5. In Sub-Saharan Africa, growth projection for 2021 was increased to 3.7 percent, a 0.3 percentage points upgrade from the previous update. Nigeria and South Africa economies are projected to grow at 2.6 percent and 5.0 percent respectively, an upward revision in both countries by 0.1 and 1.0 percentage points respectively.

6. The growth forecast for the low-income developing country group is marked down by 0.6 percentage points relative to the July 2021 WEO, with the continuing slow rollout of vaccines as the main factor weighing on the recovery. IMF staff analysis indicates that low-income developing countries will require close to $200 billion in spending to combat the pandemic and $250 billion to regain the convergence paths they were on before the pandemic.

7. As the world strives to bring COVID-19 under control, fiscal policy remained key to addressing the impacts of the still-evolving pandemic. Consequently, differences in policy support across countries underlay gaps in recovery speeds. In many advanced economies, the fiscal policy continued to be accommodative and is shifting toward strengthening economies. In contrast, in emerging markets and low-income developing countries, growth is held back by the low availability of vaccines, and governments are shifting expenditures toward addressing pandemic-related priorities.

8. Global financial conditions in advanced economies have eased further buoyed by expectations of continued accommodative monetary policy and rising risk asset valuations. On the other hand, financial conditions in emerging markets

have changed a little, as monetary policy tightening in response to inflation pressure in some countries have offset gains in risk asset prices. Financial vulnerabilities continued to be elevated in several sectors, masked in part by massive policy stimulus. Financial stability risks have been contained so far, reflecting ongoing monetary and fiscal policy support and the rebound of the global economy in 2021.

9. Global inflation is projected to accelerate to 4.3 percent in 2021 compared to 3.2 percent in 2020. The three broad drivers of increases in headline inflation are: (1) a pickup in economic activity; (2) rapidly rising commodity prices; and (3) input shortages and supply chain disruptions. Inflation has increased in advanced and emerging market economies, driven by firming demand, input shortages, and rapidly rising commodity prices. Headline inflation is projected to peak in the final months of 2021, with inflation expected back to pre-pandemic levels by mid-2022 for both advanced economies and emerging markets country groups. The inflation rate in sub-Saharan Africa is projected to increase in 2021 to 10.7 percent.

10. The Committee noted the shortage of labour in advanced economies reflecting the impact of COVID-19 associated with deaths and lockdowns. This is creating supply disruptions and slowing down of economic activities as evident in fewer products on store shelves ramping up demand.

11. The misconception of the COVID-19 vaccines, the Committee believed, caused the hesitance and reluctance of the general world populace to take the vaccine. It was observed that there was not much changes from the previous MPC on vaccines and the pandemic. Challenges to get people vaccinated even in developed countries remained.

12. The Committee noted that the pumping of liquidity in the system such as the infrastructure bill recently passed by the Senate in the US and the expected Next Generation European Union (EU) grants and loans for EU economies all meant for spending to spur growth. These came with their unintended effects of spike in inflation, part of which are however considered transitory.

13. The meeting noted the stockpiling of basic commodities in China which should signal to the world, especially the developing countries that shortage of basic commodities and hike in prices might be looming. Therefore, preparation must be in place for whatever would happen in order not to be taken by surprise.

14. The Committee took note of the impact of the global commodity prices on domestic prices aside from the structural issues affecting the turnaround time for discharge of goods at the ports. This must be borne in mind for the Committee's action in the event of second round inflationary effects.

Domestic Macroeconomic Developments

Banking Sector Developments

15. The banking sector remains adequately capitalized, profitable and resilient to the impact of the COVID-19 pandemic due to strong liquidity positions.

16. All banks met the regulatory minimum capital requirement with liquidity ratio of 91.5 percent in September 2021, down from 95.5 percent in the comparative period in 2020. The risk weighted capital adequacy ratio declined by 4.4 percentage points to 30.3 percent during the period under review. In contrast, the non-performing loan ratio year-on-year narrowed slightly by 0.9 percentage points to 5.7 percent.

17. The banking industry's total assets at end-September 2021, amounted to D67.5 billion compared to D56.8 billion a year ago attributed to increases in T-bills holdings, balances due from other banks and loans and advances. Quarter-on-quarter, total assets grew by 5.5 percent from 64.0 billion in June 2021.

18. Total loans and advances from the banking industry to major sectors of the economy in September 2021 rose by 12.3 percent to D8.11 billion and by D0.8 billion from the June 2021 quarter. Loans to the private sector constituted 97.9 percent of total loans extended during the period indicating marginal government rush for private sector funds to finance budget deficit.

19. Depositors' funds continued to be the largest sources of funding for banks. At end-September 2021, total deposits mobilised amounted to D47.96 billion from D39.16 billion in September 2020, representing 71 percent of the industry's total liabilities. From Q2, 2021 to Q3, 2021, deposits grew by D2.5 billion or 5.4 percent.

20. The Committee noted the resilience of the banking system as evidenced by the strong performance of most of the financial indicators. However, the Committee observed the mismatch between deposits and long-term investments and thus welcomed the steps being taken towards the establishment of a Capital Market which could help to overcome this mismatch. It is anticipated that with the legislation in place for the commencement of the Capital Market in the country, this would avert the seemingly inelastic T-bills' security market. This observation was however counteracted in that banks are not confronted with maturity mismatch since bonds floated so far, are usually hugely oversubscribed. It was thus recommended that government should come up with infrastructure projects for funding which banks might find attractive to participate in given their high levels of liquidity.

21. It was further observed that the approval of the Capital Market bill by the National Assembly was a good signal for financial deepening since it would attract investors avail funds to the market at a lower cost. Furthermore, it was observed that the creation of the Capital Market would rather bring greater competition for market players.

22. It was explained that the non-performing loan (NPL) ratio expanded due to NPLs of two (2) banks with higher double digits. The Committee expressed concern that these banks need to be closely monitored and if it warrants the use of draconian law to bring the NPLs down, they would do so.

23. Furthermore, it was observed that two (2) sectors (construction and distributive trade) which are the largest beneficiaries of loans defaulted in their loan obligations. The Committee thus, called for lending to be refocused more on the productive sectors of the economy that would add value to growth.

24. On the issue of encouraging diaspora investments in critical sectors of the economy, the Committee opined that this could contribute to further domestic debt build-up. Instead, the Committee recommended the creation of sovereign wealth fund that would be floated for shares to be bought into by all Gambians as an investment option. In this regard, funding for large projects such as the proposed construction of bye-pass toll roads to ease traffic congestion would be available using Gambian money.

25. The Committee opined that the Central Bank should, while pursuing its core mandate of price stability also adopt policies geared towards growing the economy. The Ministry of Finance and Economic Affairs (MoFEA) was also urged to look into some sources of funding internally for development projects.

26. It was observed that loans to distributive trade picked up which could be explained by seasonal factors such as the commencement of the trade season.

Developments in Other Financial Institutions

27. The Non-Bank Financial Institutions (NBFIs) sector is an important vehicle for the financial drive of the Central Bank of The Gambia. It continued to play a pivotal role in serving majority of low-income individuals and groups within the informal sector. The sector comprised mainly the Finance Companies (FCs), Credit Unions (CUs), Mortgage Finance, as well as Mobile Money Operators (MMOs).

28. The FCs are made up of four conventional and two Islamic microfinance institutions licensed by the Central Bank of The Gambia. The FCs have registered steady growth over the review period despite the clouds hanging over the pandemic. The FCs are well-capitalized as they all met the minimum capital requirement of GMD 50 million despite quarterly slight decline in capital and income by 1.0 percent and 4.0 percent to D372.5 million and D7.8 million in September 2021. Capital however expanded by 35.0 percent while income plunged by 47.0 percent year-on-year.

29. Total assets increased to D2.4 billion in September 2021 from D1.8 billion a year earlier explained by expansion in gross loans and fixed assets. On a quarterly basis,

total assets rose by 6.0 percent or by D140.1 million in September 2021 from D2.21 million in June 2021.

30. Likewise, deposits of FCs rose steadily despite the uncertain outlook created by the Covid-19. Total deposits increased to D1.7 billion at end-September 2021 from 1.3 billion same period a year ago and by D111.6 million from a quarter earlier. Majority of the FCs' deposits (75%) are mobilized by Reliance Finance Services (RFS).

31. Gross loans at D528.1 million in September 2021 increased by 93.1 percent from a year ago and by 17.5 percent from the preceding quarter. Loan to deposit ratio improved by 10.0 percentage points from last year and by 3.0 percentage points from the previous quarter indicative of increase financial intermediation of the FCs. In terms of asset quality, the industry NPLs improved to 8.0 percent at end-September 2021, from 11 percent at end-June 2021.

32. The Committee observed that data from the CUs was not detailed compared to the FCs, reflecting the lack of capacity and governance issues confronting the CUs. In response, it was reported that the data was sourced from the National Corporative Credit Union of the Gambia (NACCUG), the umbrella body of the CUs. Other Financial Institutions Supervision Department (OFISD) have started training some officials of the CUs on how to complete required returns and the process would continue. The issue of governance would also be addressed. The Committee recommended for a detailed report on CUs for scrutiny and comments.

33. The Committee suggested that the report should breakdown assets into the various categories for ease of analysis.

34. The Committee noted that remittances through mobile money transactions need to be checked for accuracy since remittances are in foreign currencies and operators do not cash out foreign currencies.

Domestic Debt Market Developments

35. In the domestic debt market, stock of domestic debt continued to expand though within the projected domestic borrowing target. Total outstanding domestic debt rose by D2.8 billion to D37.3 billion in October 2021 relative to the same period in 2020 occasioned by issuance of bonds to finance government operations and reprofile the debt structure.

36. Treasury bills yields in the domestic security market were mixed. The yields on the 91-day and 364-day Treasury bills declined to 0.99 percent and 3.25 percent in October 2021 from 1.05 percent and 4.00 percent respectively in October 2020. In contrast, the yield on the 182-day Treasury bill increased to 2.07 percent in October 2021 from 1.51 percent in October 2020. The 3-year bond yield also dropped from 10.28 percent in July 2020 to 8.94 percent in June 2021 likewise the 5-year bond from 10.0 percent in October 2020 to 6.0 percent in October 2021.

37. Domestic debt service at D3.1 billion in October 2021, increased marginally by 3.0 percent from the level in 2020. Despite declining yields in the security market, interest component of the debt service rose by 3.7 percent during the review period.

38. The Committee commended government in adhering to the annual borrowing plan during the review period. This helped to reduce the refinancing risk since there were no new T-bills issued for debt financing instead only maturing bills were rolled over. Most of the debt burden is associated with the legacy loans and crystalisation of contingent liabilities. The bonds issued were mainly for reprofiling short-term debt and deficit financing.

39. The Committee noted that the bonds issued were meant to reduce the refinancing risks of the short-dated security instruments which was achieved through; short-term debt reduction, elongating the maturity profiles and savings for government. Consequently, The Committee recommended that going forward, resources mobilized through the issuance of bonds should be tied to specific projects and use only for such.

40. The meeting was informed that the Banking Department was working on a paper that would look at the dynamics of domestic debt others spanning from 2010 to 2021 among.

Balance of Payments Developments

41. Developments in the Balance of Payments showed that the current account balance improved to a deficit of US$31.91 million (1.76 percent of GDP) in the nine months of 2021, from a deficit of US$87.88 million (4.97 percent of GDP) in the corresponding period in 2020, due to the improvement in private transfers.

42. The deficit in the goods account balance narrowed to US$399.95 million (21.75 percent of GDP) in the nine months of 2021, compared to a deficit of US$403.95 million (22.85 percent of GDP) in the corresponding period in 2020, reflecting fall in imports due to low economic activities in the first quarter 2021. Total imports declined to US$427.22 million during the review period from US$469.49 million a year ago.

43. In contrast, the services account balance worsened to a deficit of US$13.47 million in the nine months of 2021, from a deficit of US$4.98 million in the corresponding period a year earlier, owing to decline in personal travels (air-chartered tourist arrivals) by 15.96 percent to US$32.25 million.

44. The surplus in the capital and financial account increased to US$23.63 million in the nine months of 2021 relative to a surplus of US$2.74 million in the nine months of 2020 attributed to a remarkable improvement in the financial account. The financial account balance improved to a surplus of US$3.15 million in the nine months of 2021 from a deficit of US$69.24 million in the corresponding period a year ago, mainly on account of the improvement in other investment and change in reserve assets.

45. In the third quarter of 2021, gross official reserves rose significantly by US$108.97 million to US$527.82 million (8.8 months of import cover) compared to US$418.85 million (7.0 months of import cover) in the second quarter of 2021.

46. The Committee noted the improvement in the current account balance due partly to declining imports but opined that the trend is expected to reverse when imports pick up for the OIC projects.

47. The meeting was informed that the SDR Allocation received from the IMF has a net zero effect on the CBG balance sheet. The new allocation of the SDR is meant to help countries mitigate the impact of the COVID-19 pandemic and help in the recovery process. Thus, money on-lent to government from the SDR Allocation should be at no interest to the Bank. It would, however, be recorded as both asset and liability on the CBG balance sheet since monies on lent to government would be paid back to settle the debt liability with the Fund.

Financial Markets Developments

48. Activity volumes in the foreign exchange market continued to be vibrant and driven by both demand and supply of foreign currency induced in part by sustained increase in private remittances, and renewed confidence on the macroeconomic environment following the introduction of Covid-19 vaccines. Inbound remittance flows rose to 598.04 million during the review period relative to $421.0 million a year ago.

49. Transaction Volumes in the foreign exchange (FX) market increased to US$2.49 billion in the twelve months to end-September 2021, from US$2.24 billion a year ago. Both purchases and sales of foreign currency (representing supply and demand) rose by 12.0 percent and 10.7 percent to US$1.24 billion and US$1.25 billion, respectively. Quarter-on-quarter, volumes of transaction expanded by $33.14 or 5.1 percent.

50. In the twelve months to end-September 2021, the Dalasi remained relatively stable despite the economic challenges posed by the impact of the pandemic and its mutating variants. The Dalasi strengthened against the US Dollar by 1.0 percent but weakened against the Euro, Great British Pound and CFA Franc by 2.8 percent, 6.8 percent, and 6.6 percent respectively due largely to underperformance of the tourism sector and demand pressures. It however appreciated on a quarterly basis

against the Euro and GBP by 1.1 percent and 0.2 percent while depreciating against the USD and CFA Franc by 0.3 percent and 0.2 percent respectively.

51. Consequent on the Bank's restructuring process, supervision, and regulation of money transfer operators (MTOs) i.e., transactions and performance are now under the purview of OFISD while policy related arm of the MTOs i.e., exchange rate developments remain with the Financial Markets and Reserve Management Department (FMRMD).

52. The Committee noted that the Bank should attract diaspora investors to invest in areas that are not debt creating for the government. This could be done by having predictable government policies that would give confidence to investors to invest in the economy. Proper institutional structures are also essential in attracting investors. Therefore, packaging what is intended to be done needs to be carried out properly.

53. The Committee noted the availability of funds for as the D1.0 billion budget support, US$20.0 million for the OIC infrastructure projects and D0.6 billion from European Investment Bank (EIB) for project financing.

54. The Committee observed that the FMRMD report did not contain outlook for exchange rate which was usually the case. In response, the meeting was informed that it was due to COVID-19 related restrictions in Germany. It was however reported that the Dalasi would be under slight pressure against the USD but resilient against the rest of the major international currencies traded in the foreign exchange market.

55. The Committee noted that the number of authorised players in the shipment of foreign currency is thin and suggested that the number be increased to avoid monopoly. It was argued that the increased number must come from the players themselves wanting to participate in the shipment and then vetted by the Bank. So far there are two players (Travel X and Money Corp).

56. On the issue of experiencing delays in fund transfers, the Committee recommended that the regulations should be aligned to international standards. This is to ensure that banks can do business with intermediary banks who are concerned about the associated risks on their rating. Banks are expected to meet international standards to be considered worthy of operating with foreign banks. It was objected that meeting all international standards would be a huge investment call for banks and that is the reason why banks do cost benefit analysis to take up those standards that are cost effective for them. Although banks are meeting the minimum requirements, they should meet other extra requirements to be viable in international operations.

Real Sector

57. According to the Gambia Bureau of Statistics (GBoS), the Gambian economy contracted by 0.2 percent in 2020, lower than the 6.2 percent growth registered in 2019. The significant decline in real GDP growth in 2020 was due largely to the impact of the global COVID-19 pandemic whose effects are still felt around the world.

58. In 2021, the economy was estimated to recover on account of eased restrictions on economic activities, anticipated recovery in tourism, trade, and the continuous support of fiscal and monetary policies. Consequently, the IMF and the Gambian authorities forecast real GDP to grow at 4.9 percent in 2021.

59. The Central Bank's Composite Index of Economic Activity (CIEA) in November 2021, forecast GDP at 5.3 percent in 2021 compared to 5.1 percent forecast in August 2021 on account of expected recovery in the tourism sector and global demand in the fourth quarter of 2021. The negative output gap narrowed and is expected to be above potential due to policy responses.

60. Committee members were skeptical of the strength of the anticipated recovery in tourism as the assumptions should have considered the 30 percent bed of tourist arrivals and five (5) years recovery period to gauge the pace of recovery.

61. The Committee expressed the need for government to announce groundnut price per ton for the 2021/22 groundnut trade season that is competitive on time in order not to lose the market to our neighbours. Furthermore, the need to correctly forecast the expected tonnage each groundnut trade season was emphasized given the fact that there was a huge difference between what was forecast last year, and the actual tonnage bought.

62. In addition, in order not to be edged out by private buyers at the farm gate, the government should have local buying agents (LBAs) who would also be going around farms buying directly from the farmers and thereby saving them transportation cost and produce screening costs.

Monetary Developments

63. Developments in the monetary sector in the twelve months to end-September 2021, revealed moderate growth in money supply by 0.3 percentage points from a year ago. This slight growth in money supply was induced by increase in narrow money as well as net foreign assets of the banking system. In the September quarter 2021, money supply grew by 11.4 percent, higher than the 8.3 percent growth recorded in the June quarter.

64. Net foreign assets (NFA) of the banking system expanded by 22.5 percent to D26.1 billion for the period under review from D21.3 billion a year earlier. A marked increase of D4.8 billion in the net foreign assets of the Central Bank accounted for the growth in the banking system's NFA. Deposit money banks' NFA in September 2021, grew modestly by 0.3 percent to D9.5 billion, significantly lower, than the 37.3 percent recorded in September 2020 attributed to a significant increase in the foreign liabilities of banks which more than off-set the marginal increase in its foreign assets.

65. Similarly, the net domestic assets (NDA) of the banking system at end-September 2021, increased by 21.7 percent to D32.1 billion from D26.4 billion in the corresponding period in 2020 attributed to the increase in domestic credit associated with government borrowing from the banking system. Claims on

government net grew by 15.4 percent and accounted for 77.0 percent of total domestic credit while credit to the private sector rose marginally by 8.9 percent as of end-September 2021, relative to 13.2 percent a year ago.

66. Year-on-year, reserve money grew by 24.0 percent at end-September 2021, lower than 32.3 percent recorded in the corresponding period a year earlier occasioned by slower growth in both currency in circulation (CiC) and reserves of DMBs. Growth in CiC and reserves of DMBs slowed to 17.1 percent and 32.8 percent in September 2021 from 30.7 percent and 34.4 percent in September 2020. However, on a quarterly basis, reserve money expanded by 15.1 percent in September 2021 compared to 8.5 percent in June 2021.

67. The Committee noted with concern the negative real interest rate which augured well for government debt service, but not for the savers who are looking for a positive return on savings. There were calls to reduce the negativity of the real interest rate for savings to make local denominated assets appetizing for savers.

68. On the flip side, it was argued that not all rates are negative. Lending rates are well above the inflation rate and that is the premium the private sector is paying for the borrowed funds. It was also noted that the spike in inflation is temporal and transitory and would trend down as per the Central Bank's internal forecast.

Government Fiscal Operations

69. According to preliminary estimates of government fiscal operations in the first nine months of 2021, the fiscal position worsened relative to a year ago. Overall budget deficit (including grants) increased to D4.1 billion (4.3 percent of GDP) in the first nine months of 2021 compared to D1.3 billion (1.4 percent of GDP) in the corresponding period of 2020 explained largely by 65.2 percent decline in grant receipts. In contrast, overall budget deficit (excluding grants) improved to D5.9 billion (6.2 percent of GDP) in the review period relative to a deficit of D6.5 billion (6.9 percent of GDP) a year ago.

70. The deficits in both the basic and primary balances widened to D3.8 billion (4.1 percent of GDP) and D1.2 billion (1.3 percent of GDP) during the review period from D2.9 billion (3.0 percent of GDP) and D329.2 million (0.4 percent of GDP) a year ago. The expansion in the deficits were induced by a drop in externally financed capital expenditure, which declined by 44.8 percent and a slight decline in domestic revenue by 2.9 percent.

71. Total revenue and grants collected in the nine months ended September 2021 amounted to D11.8 billion (12.6 percent of GDP), compared to D15.5 billion (16.5 percent of GDP) recorded in the same period a year ago. The decline in government revenue receipts is mainly explained by a significant drop in grants receipts.

72. Likewise, government expenditure and net lending also decreased during the review period, to D15.9 billion (16.9 percent of GDP), from D16.8 billion a year ago, on account of decline in recurrent and capital expenditures by 6.1 percent and 4.5 percent respectively. The decline in recurrent and capital expenditure were driven by deceleration in other charges by 18.0 percent and externally financed activities by 44.8 percent.

73. The Committee commended government for a well-managed fiscal position amid the COVID-19 pandemic. The Committee was confident that the authorities would be in control of government finances to ensure a sustained resilient recovery.

74. The Committee was informed that the undisbursed US$20.0 million budget support from the World Bank that was adjusted for was based on prior actions including enacting the Gambia Public Procurement Agency (GPPA) bill which got stuck in in the National Assembly, which government has no control over. The delay in the enactment of the bill also showed how robust the oversight role of the National Assembly has become in recent years. Another US$13.5 million from the European Union for budget support was not disbursed due to prior actions that were not met.

75. There were some project financing grants that were disbursed, such as the results-based financing upgrade of the Edward Francis Small Teaching Hospital (EFSTT).

76. Commenting on the projected non-tax revenue-based items, the Committee was informed that the sale of Mega bank and former President Yahya Jammeh's assets did not materialize. The deficit in the budget was not out of scope as government did a lot to cut down on some recurrent expenditure lines.

Business Sentiment Survey

77. Readings from the Bank's quarterly Business sentiment survey revealed a sustained optimistic business sentiment in Q3, 2021, and enthusiasm for the quarter ahead on account of COVID-19 vaccine roll out. A large percentage of business leaders were of the view that the business environment would improve. There were however concerns relating to the political uncertainty regarding the upcoming Presidential elections and supply chain constraints.

78. Perception on prices for the next three months indicated an elevated inflation expectation, attributable to expected higher international food and fuel prices. However, the Dalasi is expected to remain stable underpinned by increased diaspora remittances, high international reserve level and gradual recovery in tourism.

79. The Committee applauded the improvements in the survey methodology used to gauge the sentiments of the business community. Coverage increased and results generated reflected the sentiments of businesses which made the results more reliable. Continuation of the survey methodology was recommended.

80. The Committee opined that additional measures need to be put in place to improve the country's rank in the Cost of Doing Business index. This will further enhance the attractiveness of the country to both domestic and foreign investors and help businesses grow as anticipated. Growth in businesses engender stronger growth and resilience of the economy.

Inflation Outlook

81. Inflationary pressures in October 2021, remained elevated mirroring increase trends in global commodity prices associated with supply chain disruptions and domestic structural issues. Headline inflation accelerated to 7.3 percent at end-

October 2021, from 7.0 percent at end-September 2021 and 5.6 percent a year ago attributed to both increase in food and non-food inflation.

82. Year-on-year, food and non-alcoholic beverages inflation surged to 8.97 percent in October 2021 from 6.83 percent a year ago induced by increases in oil and fats, meat, Bread & Cereals, and fish. Month-on-month, food inflation slowed by 0.2 percentage points owing to decline in the prices of all food components except meat, and Vegetables, root crops & tubers during the period.

83. Similarly, non-food inflation also increased to 5.67 percent in October 2021, from 4.32 percent in the same period last year. The surge in non-food inflation was due to an increase in the prices of all the components of non-food baskets except furnishings and household equipment. The principal contributors were transport, miscellaneous goods and services, clothing and footwear, and house, water, electricity, gas, and other fuels.

84. The near-term forecast suggests that underlying inflationary pressures are slowing down for November 2021 premised on the anticipated slowdown in the prices of the non-food basket. However, pressures are expected towards the end of the year, where headline inflation is forecast at 7.3 percent.

85. The Committee observed that the increase in inflation was due to the increase in global commodity prices and domestic structural issues. Increase in energy prices and the structural issues at the ports are exerting pressures on general price levels and making it difficult to predict inflation.

86. It was noted that the country has been operating under upward inflation trajectory since the onset of the pandemic The inflation numbers seen are by no means a coincidence, but rather a reflection of the policy measures adopted to spur aggregate demand and the supply chain disruptions. Thus, the thought-provoking question is at what level can the Central Bank allow inflation to reach.

Assessment of the Economic Outlook

87. The macroeconomic forecasting model of the Bank projected recovery of the domestic economy in 2021 predicated on expected recovery in the tourism sector, fiscal stimulus associated with the OIC projects and global demand in the final quarter of 2021.

88. The initial condition of the model revealed a narrowed output gap due to positive developments in the domestic economy. Consumption & investment spending, positive fiscal impulse and accommodative monetary policy supported domestic demand. The initial condition also showed that actual reserve money demand was within the medium-term target attributed to appreciation of the domestic currency despite the accommodative monetary policy stance of the Bank.

89. The baseline forecast GDP to grow at 5.3 percent 2021 on account of expected recovery in tourism, positive demand associated with fiscal expenditures towards the OIC projects and the up-coming elections. Inflation is expected to hover above the medium-term target of 5.0 percent before sliding. The exchange rate is expected to be broadly stable on the back of strong remittance inflows and anticipated recovery in tourism while the policy rate is forecast to be lower based on projected lower inflation in 2022.

90. The alternative scenario gives another perspective view of what if the assumptions in the baseline do not hold, what would be the impact on growth, inflation, exchange rate and the reaction of monetary policy. If the anticipated recovery in tourism projected in the baseline did not materialise, economic growth would decline to 4.8 percent relative to 5.3 percent in 2021. Inflation would remain stable and then decelerate for the forecast horizon resulting to depreciation of the Dalasi and reduction of the Monetary Policy Rate. If inflation is to increase due to increase in global commodity prices, this would have minimal negative impact on output and exchange rate depreciations. Policy rate would be jerked up to curb inflation.

91. The risk to the short-term economic outlook is judged to be fairly balance predicated on improved output if current monetary stance is maintained and well anchored expectations to minimise inflationary pressures.

92. The Committee noted that the quickest way to get out of a downturn is to spend to increase aggregate demand. The spending relating to the elections, OIC project would feed into aggregate demand and would impact on prices but would fizzle out as time passes.

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, November 25, 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.

3. The Committee noted that despite excess demand in the foreign exchange market, supply remained robust thanks to sustained remittance inflows. They also noted the resumption of shipment of foreign currencies by two carriers which has seen surge in shipment volumes.

4. The Committee emphasised the need to help grow the agricultural sector through addressing the bottlenecks in the sector with the view to boost productivity.

Policy Justifications

5. Although domestic inflation is accelerating due to supply chain constraints and structural issues coupled with increased domestic debt, financial indicators on the other hand are all within the prudential limits and the economy is showing signs of recovery. The downside risks are tilted towards the uncertainties on the impact of the pandemic and its mutating variants, uneven vaccine access and hesitancy which are weighing on growth disparities within regions. Furthermore, projected growth might be illusive given that some businesses are still closed while others downsizing. The Committee is of the view that growth prospects are fragile and need to be supported through accommodative policies.

Decision

Based on the above developments and policy justifications, 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, February 23, 2022. The technical meeting will be followed by the announcement of the policy decision on Thursday, February 24, 2022.