CENTRAL BANK OF THE GAMBIA

Monetary Policy Report

August 2022

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 MPC of the CBG met on August 31 and September 02, 2022. The Committee reviewed developments and near-term economic outlook in the international and domestic economy and decided to increase the monetary policy rate by 100 basis points to 12 percent.

On international developments, the lingering effects of the COVID-19 pandemic, the ongoing Russian-Ukraine conflict and monetary tightening amid high inflation have the IMF revised downwards its global growth forecast by 0.4 and 0.7 percentage points to 3.2 and 2.9 percent in 2022 and 2023, respectively. The crises have heightened global uncertainties, constrained global supply chains, and pushed up commodity prices, especially food and energy. As a result, global inflation is forecast by the IMF to remain elevated longer than previously projected. The gloomy global developments are weighing on the prospects for the domestic economy. Weaker external demand is adversely affecting the recovery in tourism and re-export trade while the unprecedented rise in commodity prices continues to push up domestic inflation and cost of living. In addition, the spending needs of government have increased in the face of shortfall in revenue and donor support.

The Gambian economy, however, remains resilient despite the headwinds and growth is forecast be above potential this year. The real GDP growth of 4.3 percent in 2021 is expected to be stronger in 2022, based on higher-than-expected increase in economic activity in the first half of the year, as indicated by the Central Bank's Composite Index of Economic Activity (CIEA). As a result, the CBG staff forecast the economy to grow by 5.2 percent in 2022, an upward revision from the 4.7 percent forecast in May 2022. This outlook is based on higher-than-anticipated recovery in tourism activity, private sector credit growth, public sector investment and steady private remittance inflows, which continue to support private consumption and real estate activity. Downside risks to this outlook continue to be the global economic and geopolitical environment, including a protracted conflict in Ukraine, global COVID-19 situation, and weather conditions on agriculture. In addition, the effects of the overlapping shocks have somewhat dented business confidence, as reflected in the Central Bank's latest Business Sentiment Survey.

Global and domestic factors have pushed up headline inflation to 12.3 percent in July 2022 - the highest in about two decades. Moreover, high global commodity prices have pushed up the import bill that deteriorated the trade balance and the current account of the balance of payments and put the exchange rate of the dalasi under pressure.

The fiscal performance also worsened during the review period, attributed to the decline in revenue collected from taxes on international trade, non-tax revenue and a shortfall in budget support on the back of marked increase in expenditures. The revision of the central government pay scale in the revised budget for this year has further widened the financing gap. With limited external financing, the wider fiscal deficit is being financed mainly through domestic borrowing. In addition to the less accommodative monetary policy stance of the Central Bank, increased domestic borrowing from government is causing money and bond market interest rates start rising.

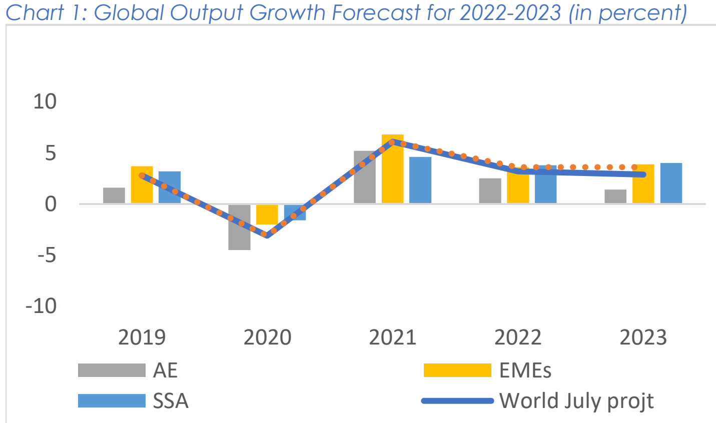
Meanwhile, the financial sector remains stable and resilient with robust liquidity and capital adequacy ratios. The asset quality, however, weakened slightly with non-performing loans (NPLs) of 4.2 percent of gross loans in June 2022, compared to 3.2 percent in March 2022. On the positive side, banks continued to make adequate provisions for the NPLs.

Guided by this assessment, the Committee believes current inflation trajectory dictates that delaying further action would make it more costly and harder to bring back inflation to the implicit medium-term target and risk inflation expectations becoming entrenched. Therefore, the MPC decided to increase the policy rate to 12 percent from 11 percent. The interest rates on the overnight deposit and lending facilities as well as the required reserves of commercial banks were maintained. The Committee is committed to bringing inflation back to its medium-term target and will continue to closely monitor the impact of these policy measures and developments in the global and domestic economy.

Global Economic Developments

The global outlook has weakened considerably since the last MPC meeting in May and there is increased risk of recession in many advanced economies, due to the prolonged effects of the pandemic, spillovers from the Russia-Ukraine war as well as the synchronized monetary policy tightening by central banks. As a result, The IMF in July 2022 downgraded the global growth forecast by 0.4 and 0.7 percentage points to 3.2 percent and 2.9 percent in 2022 and 2023, respectively (Chart 1). In advanced economies, growth prospects were revised downwards for both this year and next, reflecting rising global energy prices and monetary policy tightening amid rising inflation. The IMF forecast real GDP for the region for 2022 and 2023 to grow by 2.5 percent and 1.4 percent, 0.8 and 1.0 percentage points lower than the April 2022 forecast, respectively.

Chart 1: Global Output Growth Forecast for 2022-2023 (in percent)



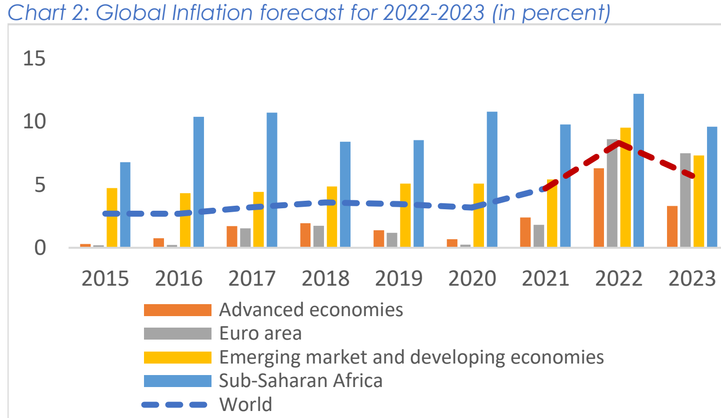
***Source**: IMF, World Economic Outlook, July 2022, CBG staff calculations*

Growth in emerging markets and developing economies was forecast by the IMF at 3.6 percent, also lower than the April forecast of 3.8 percent. The negative revision mirrors largely the notable slowdown in China, reflecting mainly its zero COVID-19 policy restrictions and the deepening of the housing crisis. In addition, the less favorable external demand also continued to weigh on growth prospects in the region. In sub-Saharan Africa, growth is anticipated to reach 3.8 percent, unchanged from the previous forecast in April, supported by the effects of elevated energy and metal prices for some commodity-exporting countries. However, headwinds from price pressures, partly induced by supply disruptions and lower consumer purchasing power will continue to depress demand in the region.

Financial conditions have tightened further as most central bank withdraw monetary accommodations to tame inflation, which has led to higher government bond yields and stronger US dollar. These developments have increased the cost of borrowing and triggered capital flow reversal and exchange rate pressures in many emerging market and developing economies.

Global inflationary pressures have increased higher than previously anticipated and has moved further away from central banks' targets as supply bottlenecks continue to persist (Chart 2). The IMF forecast inflation to rise in all the regions, due to some recovery in demand particularly in the services sector and currency pressures in some economies. In advanced economies, consumer price inflation is forecast to accelerate to 8.3 percent and 5.7 percent in 2022 and 2023, 0.9 percentage points up for both years relative to the April forecast. In emerging market economies, inflation is expected to rise to 9.5 percent and 7.3 percent in 2022 and 2023, from 8.7 percent and 6.5 percent earlier projected. Inflation in sub-Saharan Africa is also estimated to increase to 12.2 percent in 2022, before decelerating to 9.6 percent in 2023. These developments are expected to further exacerbate the rise in domestic prices given the large content of imported goods (food and oil) in The Gambia's consumption basket.

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



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

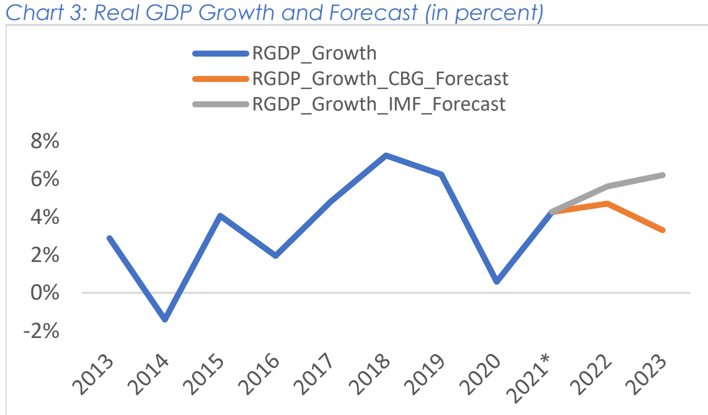
The gloomy global economic environment and increased uncertainties are posing risks to developing economies, like The Gambia. The slowdown in major advanced economies particularly the UK, US and China will weaken external demand for goods and services (trade and tourism). Combination of tighter financial conditions, weaker growth prospects and slowdown in donor support have created fiscal and balance of payment challenges in many developing countries. The strengthening of the US dollar will increase the cost of servicing dollar dominated liabilities and put further pressure exchange rates and external reserves. The unprecedented rise in commodity prices is weighing on domestic demand and denting growth prospects in developing countries.

The Domestic Economy

Real Sector

Despite persistent headwinds, the Gambian economy remains resilient, and the medium-term outlook is positive. The outlook, however, is clouded by heightened uncertainties and subject to significant downside risks, including the impact of the protracted conflict in Ukraine, global COVID-19 situation, and weather conditions on agriculture. The economy is estimated to have grown by 4.3 percent in 2021, supported largely by pick up in fishing and aquaculture, construction, and some recovery in services. A stronger output growth is expected in 2022 following stronger than expected increase in economic activity in the first half of the year. The Bank's Composite Index of Economic activity (CIEA) revealed that economic activity strengthened in the second quarter of 2022 compared to the first quarter. The stronger rebound in economic activity was on account of a higher-than-anticipated pickup in tourism and related activity, steady inflows of private remittance and private sector growth. The trade balance, on the other hand, continued to worsen, a reflection of marked increase in the import bill due to high international commodity prices.

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



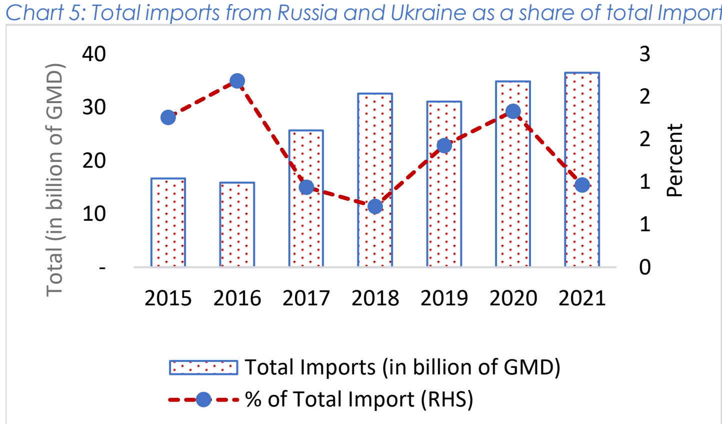
***Source**: GBoS, CBG staff calculations*

The CBG staff forecast the economy to grow above potential as aggregate demand rebounds. The real GDP growth is projected at 5.2 percent in 2022, an upward revision from the May forecast of 4.7 percent. The upgrade reflects mainly a pick-up in private sector credit growth, stronger remittances inflows and a stronger than anticipated growth in tourist arrivals. The expansionary fiscal policy stance is also expected to aid the economic rebound and growth in 2022. However, this outlook is uncertain and subject to significant downside risks as the conflict in Ukraine protracts and the pandemic situation remains unpredictable with risks of the emergence of new Covid-19 variants.

Balance of Payments

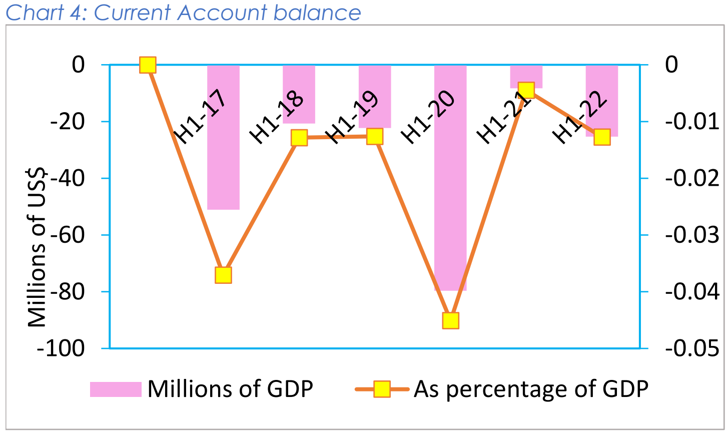
The overlapping external shocks (COVID-19 pandemic and Ukraine war) are putting pressure on The Gambia's balance of payments. Data from the Gambia Bureau of Statistics (GBoS) has shown that The Gambia has comparatively modest direct trade links with Russia and Ukraine (Chart 4), but the spillover effects of the conflict are significant. Sharp increase in commodity prices, particularly fuel and food, has pushed up the import bill, leading to deterioration in the goods account balance. The deficit in the goods account widened to US$292.0 million (14.9 percent of GDP) in the first half of 2022, from US$260.7 million (14.4 percent of GDP) in the corresponding period in 2021.

Chart 5: Total imports from Russia and Ukraine as a share of total Imports



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

Chart 4: Current Account balance



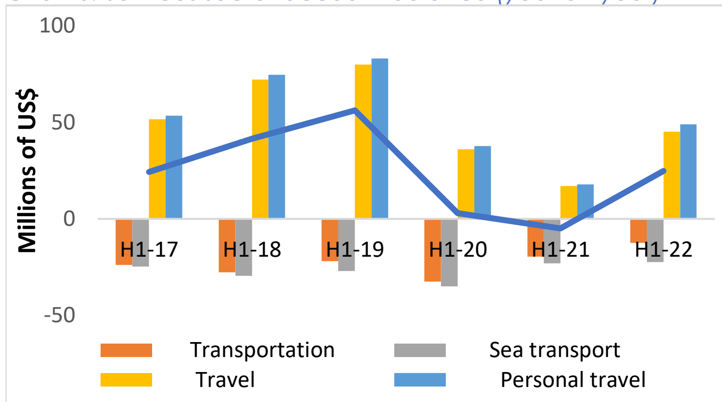
***Source**: CBG staff calculations*

The services account balance improved but only slightly, driven by some recovery in tourism. The number of visitors picked up this year higher than anticipated but the pace of recovery is still slow and fragile as external demand weakens coupled with rising cost of operations of businesses in the hospitality industry. Private remittance inflows[1] quarter-on-quarter increased to US$184.6 million but current transfers declined by 8.7 percent

[1] Note, this exclude transfers through the informal channel that are not being captured in the compilation of BOP statistics.

(year-on-year) to a net inflow of US$259.7 million in the first half of 2022. Combination of these factors result in a higher current account deficit of US$25.6 million (1.3 percent of GDP) in the first half of 2022, from US$8.3 million (0.5 percent of GDP) in the corresponding period of 2021.

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



Source: *CBG staff calculations*

The capital and financial account deteriorated to a deficit of US$182.8 million in the review period of 2022 compared to a deficit of US$96.5 million a year ago, reflecting a decline in change in reserve assets and stall in FDI inflows. Like developments in many net-importing low-income countries, confluence of the effects of the two external shocks (Ukraine war and COVID) has disrupted external reserve build up. From January to September 2022, the CBG intervened in the FX market by selling over US$74 million of external reserves to facilitate importation of essential goods.

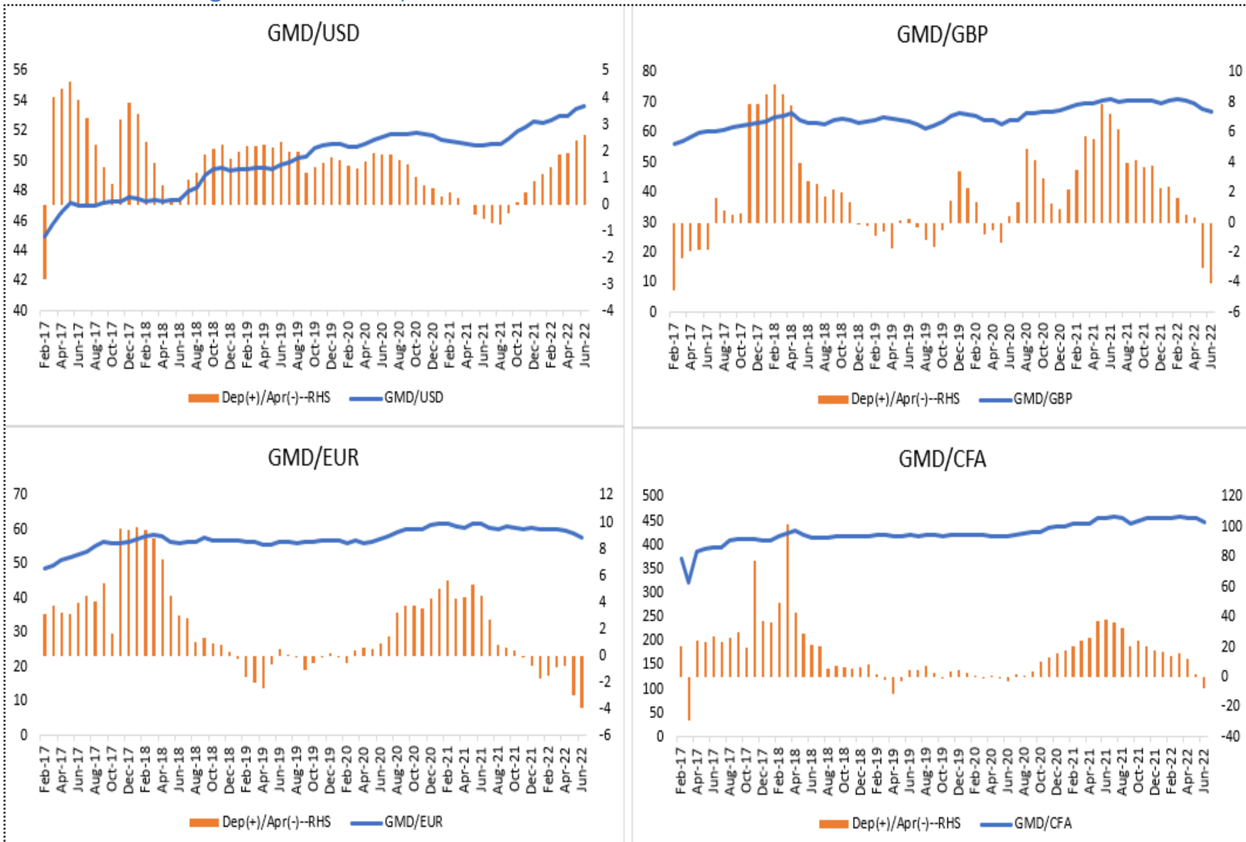
Exchange Rate Development

Volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency, in the 12 months to end-June 2022 registered an increase to US$2.6 billion from US$2.4 billion in the same period a year ago. Although challenges remain, the supply side of the activity volume continue to be relatively stable. Supply of foreign currency increased by 7.6 percent (year-on-year) to US$1.3 billion during the period. Demand for foreign currency also increased by 10.0 percent to US$1.3 billion, driven by import of food and energy as well as telecommunication and construction sectors.

The exchange rate of the domestic currency has come under significant pressure due to the deterioration in the balance of payments and the rising strength of the US dollar, but it remains broadly stable. From June 2021 to June 2022, the Dalasi weakened against the

US dollar by 5.7 percent but strengthened against the euro and pound sterling by 6.7 percent and 7.0 percent, respectively.

Chart 7: Exchange rate developments

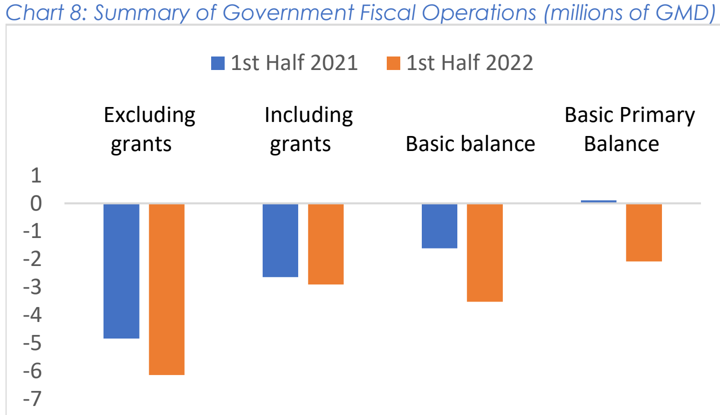


***Source**: CBG staff calculations*

Government Fiscal Operations

Budget execution remains challenging as growth in expenditure continues to outpace revenue performance. The increase in the public sector salaries in the revised budget has further widened the financing gap amid shortfall in revenue collected from international taxes, non-tax revenues and grants. Provisional data indicated that fiscal performance worsened in the first half of 2022 compared to the corresponding period a

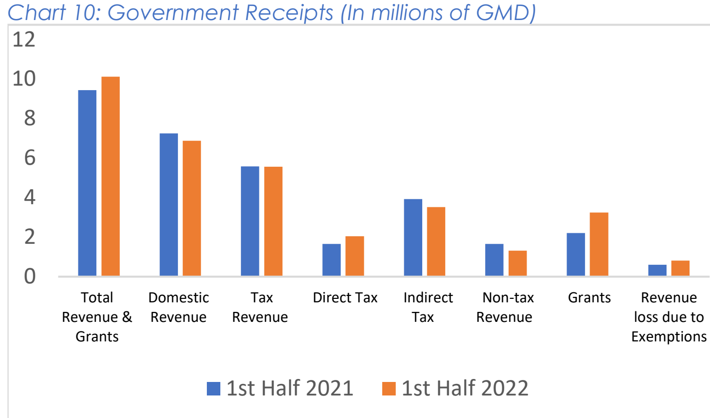
Chart 8: Summary of Government Fiscal Operations (millions of GMD)



***Source**: MoFEA& CBG staff calculations* year ago (Chart 8). The deficit in the overall balance (including grants) widened from D2.6 billion (2.5 percent of GDP) in the first half of 2021 to D2.9 billion (2.8 percent of GDP) in the first half of 2022. Similarly, the primary balance significantly deteriorated to a deficit of D2.1 billion (2.0 percent of GDP) in the first six months of 2022 from a deficit of D105.4 million (0.1 percent of GDP) in the corresponding period of 2021.

Total revenue and grants mobilized in the first half of 2022 totaled D10.1 billion (9.6 percent of GDP), higher than D9.4 billion (9 percent of GDP) recorded in the same period last year and lower than the amount projected for the period by D3.1 billion. The less-than-projected revenue and grants is mainly attributed to the decline in receipts from taxes on international trade (17.8 percent) and non-tax revenue (21.0 percent). Although grant receipts increased by 47.4 percent, it was well below the amount projected for the period by 41.4 percent. Personal and corporate tax receipts increased by 25.2 percent and 25.4 percent, respectively.

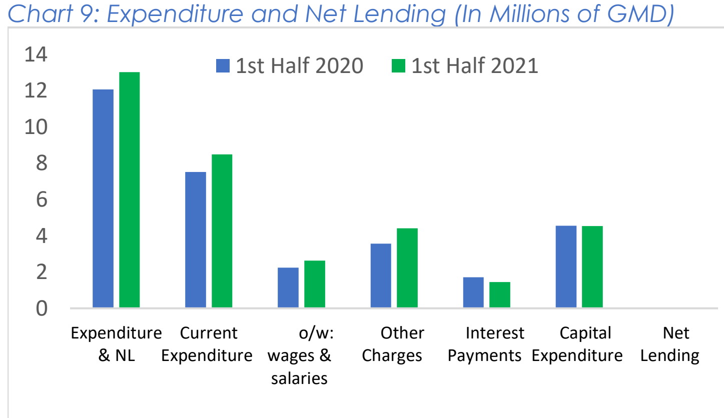
Chart 10: Government Receipts (In millions of GMD)



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

Meanwhile, the spending needs of government continued to increase. Total government expenditure and net lending for the first half of 2022 stood at D13.0 billion (12.4 percent of GDP), 7.8 percent higher than the amount recorded in the first six months of 2021. The increase in expenditure and net lending was driven largely by the growth in recurrent expenditure (12.1 percent), mainly

Chart 9: Expenditure and Net Lending (In Millions of GMD)



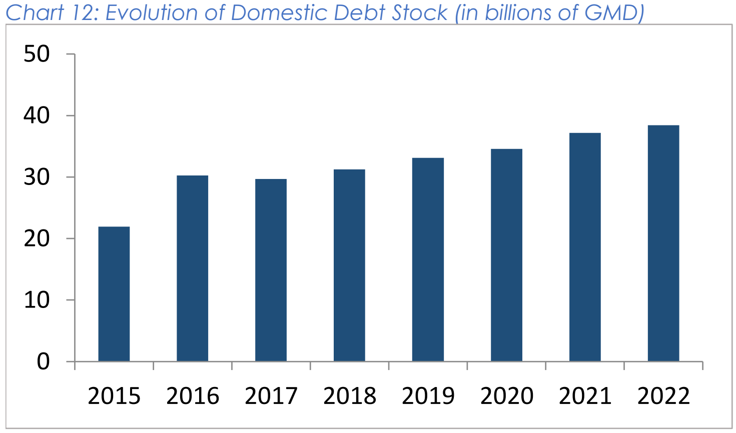
***Source**: MoFEA & CBG staff calculations* payment of salaries, debt service and provision of goods and services. Capital expenditure, which accounted for a lower proportion of total expenditure (34.9 percent), declined by 0.3 percent due to the fall in project grants.

With a decline in external sources of financing, government has increased borrowing from the domestic market to finance the growing deficit. From January to June 2022, government's net domestic borrowing stood at D3.7 billion compared to a net borrowing of D2.5 million in the same period in 2021. Net external borrowing, on the other hand, decreased to D1.2 billion from D2.6 billion.

Domestic Debt

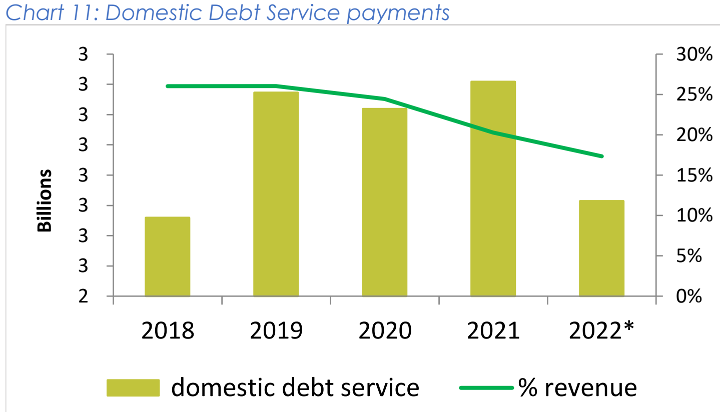
Domestic debt stock grew from D37.2 billion in 2021 to D38.4 billion in July 2022 (Chart 11). The increase reflects new bond issuance, while the stock of short-term debt instruments declined during the period. From January to June 2022, government issued a total of D2.2 billion in longer term bonds in the domestic market to settle maturing bills and to finance government operations. The increase issuance of bonds masked the impact of a contraction of D644.3 million in short term debt on the overall domestic debt stock. The maturity structure of domestic debt shifted slightly in favour of medium-term debt in line with government's strategy to reprofile domestic debt structure. Short-term debt still accounts for more than half of

Chart 12: Evolution of Domestic Debt Stock (in billions of GMD)



***Source**: CBG staff calculations*

Chart 11: Domestic Debt Service payments



***Source**: CBG staff calculations*

the debt stock despite the slight decline in share from 54.0 percent at end-July 2021 to 51.0 percent at end-July 2022. As a result, interest rate and refinancing risks remain elevated.

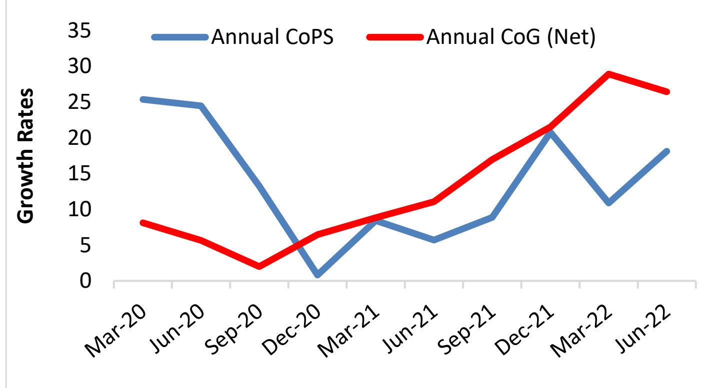
Domestic debt service, which is a function of both the principal and interest payment, is projected to drop in 2022, mirroring low interest rate environment that existed at the time of contracting the debt (Chart 12). Actual domestic debt service for the first half of this year stood at D1.4 billion, relative to D1.6 billion recorded in the same period in 2021. Debt service revenue ratio also fell from 20.3 percent to 17.3 percent during the period. However, interest rates have started rising in response to the tight monetary stance of the Central Bank and the wider financing gap of government which would increase the domestic debt service payments. The weighted average interest rate on short-term treasury bills increased from 3.5 percent in July 2021 to 4.7 percent in July 2022.

Going forward, domestic debt is projected to remain elevated as fiscal deficit widens, amid rising expenditures that do not match the revenue generation. This could divert necessary resources from productive sectors of the economy and poses risk to macroeconomic stability.

Monetary Aggregates

Growth in broad money decelerated from 27.5 percent in June 2021 to 14.0 percent as at end-June 2022, driven by moderate growth in NFA of both the Central Bank and commercial banks, a reflection of pressures on the balance of payments. The NDA was the primary source of liquidity and contributed higher to the growth in broad money as domestic credit expanded with increased borrowing from the central government, public entities, and private sector. The

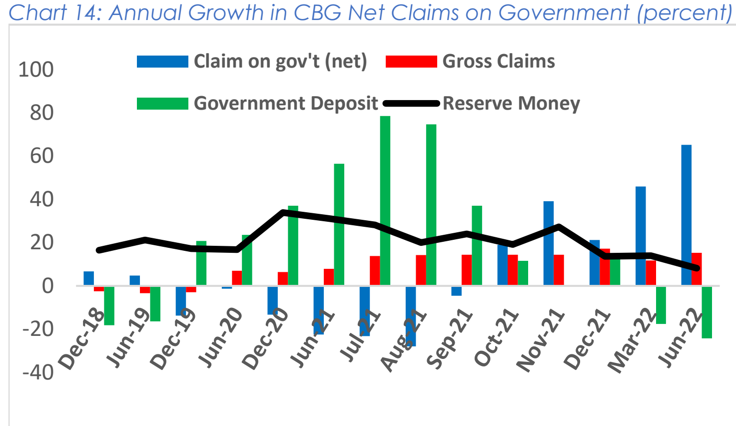
Chart 13: Growth in Net Credit to the Private Sector and government



***Source**: CBG staff calculations*

banking system's net claims on government picked up significantly by 65.1 percent in the reporting period and accounted for about 73.2 percent of the stock of domestic credit.

Chart 14: Annual Growth in CBG Net Claims on Government (percent)



***Source**: CBG staff calculations*

Reserve money (RM), the Bank's operating target, grew year-on-year by 8.2 percent as at end-June 2022, significantly lower than the 31.2 percent growth in the same period a year ago. The deceleration in RM growth is explained, in part, by the deliberate policy by the Bank to intensify open market operations to mop up excess liquidity in the system through increased issuance of CBG bills. The liquidity absorption effect of the foreign exchange market interventions (sale of foreign currency) and the moderate growth in the Bank's NFA also contributed to the deceleration in reserve money growth. The Central Bank's gross claims on government, on the other hand, rose by 15.3 percent (year-on-year) in June 2022, explained by the on-lending of the disbursements under the IMF ECF program (Chart 14). Meanwhile, government deposits declined by 24.2 percent during the period, leading to an increase in the Central Bank's net claims on government by 65.1 percent (year-on-year).

Banking Sector

The banking sector remains stable and resilient with robust liquidity and capital adequacy ratios, which stood at 73.2 percent and the liquidity ratio was 27.8 percent at end-June 2022, respectively. All the banks met the minimum capital and liquidity requirements of 10 percent and 30 percent, respectively. The non-performing loans (NPLs), however, increased slightly from 3.2 percent of gross loans in March 2022 to 4.2 percent in June 2022, but are adequately provisioned.

The banking industry's asset base expanded by 19.7 percent (year-on-year) in June 2022, benefiting largely from higher cash holdings, government bonds and parastatal debt securities, and private sector loans and advances. Letters of credit and guarantees were also significant contributors to the asset growth of the industry.

Customer deposits continues to be the largest source of funding for banks. It grew by 14.7 percent (year-on-year) and accounted for 66.8 percent of total funding at end-June 2022, supported by higher government spending, remittances, and deposit mobilization from private sector.

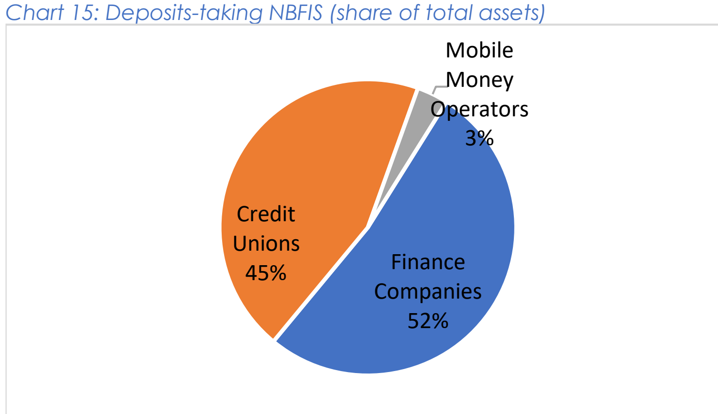
Outstanding gross loans and advances extended by commercial banks stood at D12.6 billion as at end-June 2022, representing 16.4 percent of the industry's total assets. However, loan to deposit ratio remains low, despite increasing to 24.1 percent from 17.1 percent a year ago.

The banking industry's earnings performance continues to improve. Return on Assets (ROA) and Return on Equity (ROE) both increased to stand at 2.2 percent and 27.8 percent as at end-June 2022 compared with end-March 2022 figures of 2.1 percent and 20.6 percent, respectively.

Non-Bank Financial Sector

The non-bank financial sector continues to grow in terms of asset size and deposit base. The growth of the sector is driven by increase in the asset size of the Finance Companies (FCs) by 10.0 percent at end-June 2022. Cash and bank balances, and gross loans respectively expanded by 16 percent and 31 percent (year-on-year). The FCs continue to attract significant deposits despite uncertainties created by the shocks, which continues to be the major source of funding. Total deposit liabilities increased by 10 percent (year-on-year) to D2.0 billion at end-June 2022.

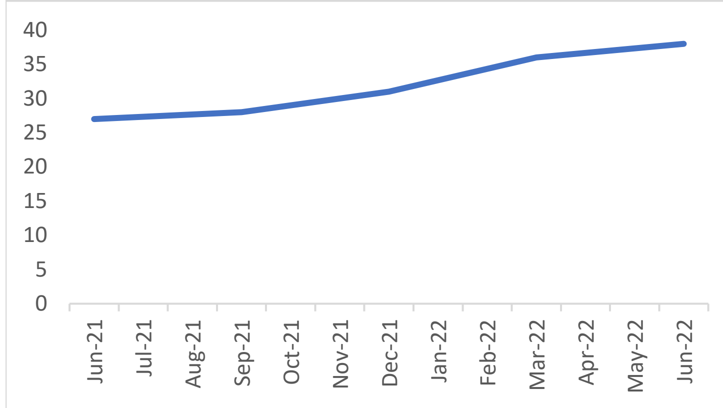
Chart 15: Deposits-taking NBFIS (share of total assets)



***Source**: CBG staff calculations*

Gross loans extended by FCs increased by 83 percent (year-on-year) to stand at D734.6 million at end-June 2022. The level of financial intermediation remains challenging despite the improvement in loan-to-deposit ratio to 38 percent at end-June 2022 from 27 percent a year ago (Chart 16).

Chart 16: Loan to Deposit Ratio (in percent)



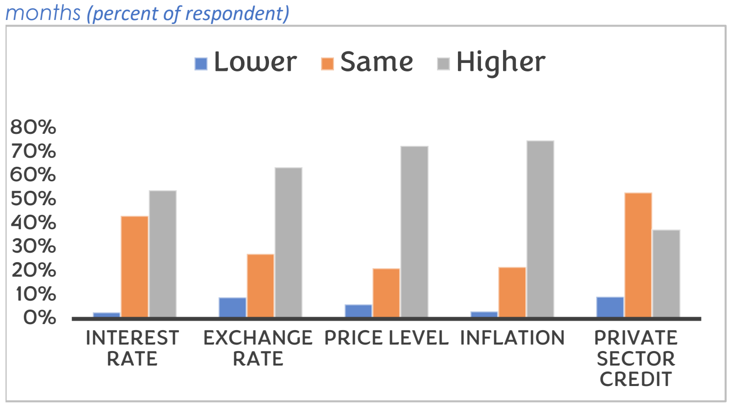
***Source**: CBG staff calculations*

Total assets of Credit Unions (CUs) increased by 29 percent (year-on-year) to D2.7 billion at end-June 2022. Deposits mobilized during the period by CUs also rose to D2.0 billion.

Business Sentiment Survey

The global economic uncertainties, lingering effects of the pandemic, the ongoing war in Ukraine and availability of foreign currency shaped the sentiments of businesses and firms surveyed in the July 2022 Business Sentiment Survey. The adverse effects of the shocks dented business confidence and elevated inflation expectations. Despite reporting higher business activity at firm level, most respondents expressed pessimistic view about the near-term prospects of the economy and expect the general price level to rise further in the next two quarters. Most businesses surveyed expect the exchange rate to depreciate in the next three months, while interest rates and private sector credit growth are expected to remain at the same levels as the current quarter. Key factors cited as influencing their

*Chart 17: Sentiment on Macroeconomic indicators for the next three months **(percent of respondent)***



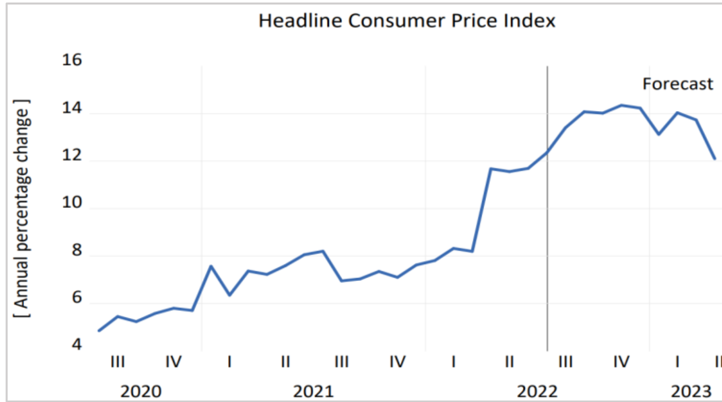
***Source**: CBG staff calculations*

judgment on factors that will hinder business development in the next three months include foreign exchange shortages, tax burden, and cost of doing business.

Price Developments

Global factors and domestic structural bottlenecks are sustaining the rise in inflation away from the implicit medium-term target. Price pressures has become more broad-based with both food and non-food components of the CPI remain elevated (Chart 18). Headline inflation accelerated to 12.3 percent in July 2022, from 8.2 percent in March 2022. Primary contributor to headline inflation remains the consumer prices of food, which constitutes over 50 percent of the consumer basket, the bulk of which is imported. The adjustments in domestic prices (pump prices and transport fares) and increase in inflation expectations are major contributors to inflation.

Chart 18: Headline CPI



***Source**: CBG staff calculations*

CBG's near-term forecast of inflation shows that inflationary pressures are increasing and will continue to remain well above the implicit target of 5.0 percent for the rest of the year. The headline inflation (seasonally adjusted) is forecast to peak at 14 percent by the end of 2022.

Food inflation (annual percentage change in food CPI) moderated only slightly by 1.6 percentage points to 14.6 percent in July 2022 from 16.3 percent in June 2022. However, this represents a 2.8 percentage point increase relative to the same period last year. Vegetables, dairy products, fruits, and cereals were the main drivers of food inflation. Month-on-month analysis further shows that food prices has become broader with a spike in prices of most items in the food basket.

Within the non-food category, the rise in prices was driven by an upsurge in the prices in all sectors except for communication. Non-food inflation accelerated to 10.5 percent in July 2022 relative to 9.3 percent in July 2021, driven by housing, water, electricity, gas and other fuels and transport.

The Central Bank's core measures of Inflation also indicate a rise in underlying inflation. Core1 inflation that excludes volatile energy products from the headline inflation increased to 15.7 percent in July 2022, from 8.9 percent in March 2022 and 12.1 percent in the corresponding period a year ago. Core 2 inflation that further excludes volatile energy and food products also surged to 15.4 percent at end-July 2022 from 9.8 percent in March 2022 and 11.1 percent a year ago.

Going forward, inflation is expected to remain elevated for the rest of the year, supported by the upward adjustments in pump prices and transport fares, and rising inflation expectations. The uncertainties surrounding global food and energy prices also pose upside risk to headline inflation in the outlook. On the downside, monetary policy tightening and the recent decline in global food prices could dampen the inflationary pressures. The expectation of good harvest this cropping season will help improve domestic food supply conditions and moderate food prices. Price pressures are expected to ease by next year, and inflation will return to its long-run trend in response to the tight monetary policy stance of the Bank and the easing of global food and energy supply conditions.

Risk Assessment

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

Assessment of current economic conditions revealed a stronger-than-expected positive output gap due to stronger economic activity. Consumption and investment spending mainly financed by remittance inflows, positive fiscal impulse and accommodative monetary policy supported domestic demand. Actual reserve money demand was over its medium-term target driven by the accommodative monetary policy stance, stronger aggregate demand, and rising inflation. On the other hand, the stronger than expected dalasi is limiting reserve money growth.

The baseline forecast indicated a real GDP growth of 5 percent in 2022 compared to an earlier projection of 4.7 percent. The upward revision is attributed to the improvement in tourism receipts, steady remittance inflows, and robust private sector credit. Inflation is expected to drift away from the medium-term implicit target of 5.0 percent for the rest of the year, due mainly to the sharp increase in commodity prices. However, inflation will return to target by 2023 although the risks are uncertain and tilted on the upside. Upside risk factors include the global economic and geopolitical environment, lingering structural issues at the main port, currency depreciation and fiscal policy. Although global food prices declined in recent months, they remain highly volatile with unpredictable supply conditions. The less accommodative monetary policy stance of the Central Bank and expectation of improved local food production this cropping season are downside risk factors to inflation. The exchange rate is expected to remain relatively stable, but pressures will emerge from higher import demand, stronger US dollar and rising interest rates in advanced economies due to monetary tightening in those countries.

The Central Bank staff assessment of the risks to the growth forecast are broadly summarized in three risk scenarios. Firstly, further acceleration of domestic inflation due to domestic and global factors. The risks of global commodity prices increasing further on the back of tighter global supply conditions coupled with domestic supply bottlenecks could sharply increase inflation higher than in the baseline and slow down real GDP growth in the medium term. Another upside risk to inflation is a sub-optimal monetary policy response compared to the baseline. In this case the impact on output will initially be positive but decline to negative growth by the end of 2023. Inflation will further increase, and the dalasi significantly depreciates compared to the baseline. Finally, staff assessed the risk of a decline in tourist arrivals in the third quarter due to the ongoing geopolitical tensions in Ukraine and a possible slowdown in the global economy. In this case output will significantly contract compared to the baseline with some depreciation pressures on the exchange rate. However, there will be minimal impact on inflation.

Decision

Based on its assessment of emerging risks to the inflation outlook and growth prospects, the Committee concluded that delaying further action will make it harder and costlier to bring back inflation to the implicit medium-term target and risk inflation expectations becoming entrenched. Therefore, the Committee decided to increase the monetary policy rate by 1 percentage point to 12 percent. The Committee decided to maintain the required reserve (RR) at 13 percent, the interest rate on the standing deposit facility at 3 percent and the standing lending facility 1 percentage point over the MPR (13 percent).

Next MPC Meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for Wednesday, November 23, 2022. The meeting will be followed by the announcement of the policy decision on Thursday, November 24, 2022.

APPENDIX

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

Group Name	Estimates						Projections		
	2015	2016	2017	2018	2019	2020	2021	2022	2023
World	3.5	3.3	3.8	3.6	2.8	-3.1	6.1	3.2	2.9
Advanced economies	2.4	1.8	2.5	2.3	1.6	-4.5	5.2	2.5	1.4
Euro area	2.0	1.9	2.6	1.9	1.3	-6.3	5.4	2.6	1.2
Emerging market and developing economies	4.3	4.5	4.8	4.5	3.7	-2.0	6.8	3.6	3.9
Emerging and developing Asia	6.8	6.8	6.6	6.4	5.4	-0.8	7.3	4.6	5.0
Emerging and developing Europe	1.0	1.9	4.1	3.4	2.5	-1.8	6.7	-1.4	0.9
United States	3.1	1.7	2.3	3.0	1.4	-3.4	5.7	2.3	1.0
United Kingdom	2.4	1.7	1.7	1.3	1.4	-9.3	7.4	3.2	0.5
Sub-Saharan Africa	3.2	1.5	3.1	3.2	3.2	-1.6	4.6	3.8	4.0

***Source**: CBG staff calculations*

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

	H1-18	H1-19	H1-20	H1-21	H1-22
C/ Account	-20.7	-22.29	-79.72	-8.25	-25.60
Goods	-162.69	-194.44	-277.51	-260.66	-291.97
Services	40.39	54.85	2.15	-4.96	24.83
Income	-9.51	-7.94	-11.97	-26.94	-18.12
C/Transfers	111.11	125.24	207.62	284.31	259.65

***Source**: CBG staff calculations*

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

	H1-18	H1-19	H1-20	H1-21	H1-22
Goods	-162.69	-194.44	-277.51	-260.66	-291.97
Exports (FOB)	65.00	81.07	57.94	20.59	25.49
Imports (FOB)	-227.68	-275.51	-335.46	-281.25	-317.46

***Source**: CBG staff calculations*

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

	H1-18	H1-19	H1-20	H1-21	H1-22
Services	40.39	54.85	2.15	-4.96	24.83
Transportation	-27.94	-22.46	-33.69	-19.89	-13.12
o/w Sea Transport	-29.44	-27.08	-34.90	-23.12	-22.34
Travel	72.16	79.89	36.01	17.08	45.25
o/w personal Travel	74.66	83.15	37.66	17.93	49.03

***Source:** CBG staff calculations*

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

	H1-17	H1-18	H1-19	H1-20	H1-21	H1-22
Capital & Financial Acc	-23.28	18.41	48.45	-42.72	-96.54	-182.77
Capital Account	32.61	15.40	32.54	41.07	15.17	12.98
Financial Account	-55.89	3.01	15.91	-83.79	-111.70	-195.75
o/w Direct Investment	-29.67	-34.48	-40.67	-87.05	-127.37	-115.61
o/w Other Investment	-30.33	23.23	14.83	-38.39	-46.64	-44.46
o/w Change in Reserve Assets	4.12	14.25	41.75	41.65	62.31	-35.68

Source: *CBG staff calculations*

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

QUARTERLY US$			
	PURCHASES (US$)	SALES (US$)	VOLUMES (US$)
2020Q1	292695410	298799116	591494526
2020Q2	225245166	231197008	456442174
2020Q3	288216338	295008522	583224860
2020Q4	268767038	274491115	543258153
2021Q1	304575456	308436238	613011694
2021Q2	329229403	322379386	651608789
2021Q3	336598551	345064156	681662707
2021Q4	294613124	290257448	584870572
2022Q1	262930528	268771796	531702324
2022Q2	367601469	398183274	765784743

Source: *CBG staff calculations*

Table 7: Market Share by Currency (in percent)

CURRENCY	USD	EUR	GBP	CFA	OTHERS
02 2022	57.65	34.18	6.25	1.15	0.77
Q1-2022	65.68	25.38	7.29	1.15	0.18
Q1-2021	76.33	17.1	5.67	0.77	0.13
Q2-2021	76.12	17.14	5.73	0.9	0.12
Q3-2021	74.04	18.76	6.14	0.89	0.17
Q4-2021	58.81	31.42	7.39	1.33	0.23

Source: *CBG staff calculations*

Table 8: The Overall Budget Balance

	GMD' million		% of GDP		Y-o-Y %
Overall balance	1st Half 2021	1st Half 2022	1st Half 2021	1st Half 2022	
Excluding grants	-4836.90	-6146.78	-4.61	-5.86	27.08
Including grants	-2636.92	-2904.14	-2.51	-2.77	10.13
Basic balance	-1609.52	-3518.69	-1.53	-3.35	118.62
Basic Primary Balance	105.44	-2078.61	0.10	-1.98	-2071.42
CBG Financing	-141.24	2201.51	-0.13	2.10	-1658.75

Source: *CBG staff calculations*

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

RECEIPTS	2021 1st Half 2021	2022 1st Half 2022	Y-oY 2021/22	Q1 Proj 2022	Q2 Proj 2022	2022 1st half Proj 2022	Performance below (-) above (+)
Total Revenue & Grants	9,443.35	10,121.57	7.18	6348.07	6909.73	13257.80	-3136.23
Percent of GDP	9.00	9.64					
Domestic Revenue	7243.37	6878.93	-5.03	3890.55	3887.83	7728.38	-849.45
% GDP	6.90	6.55					
Tax Revenue	5584.01	5568.85	-0.27	3251.79	3221.57	6473.36	-904.51
% GDP	5.32	5.31					
Direct Tax	1652.87	2051.22	24.10	1010.18	991.66	2001.84	49.38
Personal	541.29	677.92	25.24	365.16	322.43	687.59	-9.67
Corporate	985.21	1235.78	25.43	574.65	611.68	1186.32	49.46
Indirect Tax	3931.14	3517.63	-10.52	2241.61	2229.91	4471.52	-953.88
Domestic Tax on goods & services	1236.00	1298.88	5.09	749.54	747.40	1496.94	-198.06
Tax on Int'l. Trade	2695.14	2218.75	-17.68	1492.07	1482.51	2974.58	-755.83
Duty	1467.60	1277.69	-12.94	821.14	788.48	1609.62	-331.93
Sales tax on imports	1227.54	941.06	-23.34	670.93	694.03	1364.96	-423.90
Non-tax Revenue	1659.36	1310.08	-21.05	638.76	616.26	1255.02	55.06
% GDP	1.58	1.25					
Grants	2199.98	3242.64	47.39	2457.52	3071.90	5529.42	-2286.79
%GDP	2.10	3.09					
Program	341.93	1027.95		523.66	654.58		
Projects	1858.05	2214.69		1933.86	2417.33		

***Source**: CBG staff calculations*

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

PAYMENTS	GMD' million 1st Half 2021	1st Half 2022	% of GDP 1st Half 2021	1st Half 2022	Y-o-Y % Δ 1st 2021-1st 2022	1st half Proj 2022	Performance
Expenditure & NL	12080.27	13025.71	11.51	12.41	7.83	16653.44	-3627.73
Current Expenditure	7528.15	8485.33	7.17	8.09	12.71	10028.30	-1542.97
Personnel Emoluments	2247.41	2623.80	2.14	2.50	16.75	2506.29	117.51
o/w: wages & salaries	2247.41	2623.80	2.14	2.50	16.75	2506.29	117.51
Other Charges	3565.78	4421.45	3.40	4.21	24.00	5124.66	-703.21
Interest Payments	1714.96	1440.08	1.63	1.37	-16.03	2397.35	-957.27
External	372.45	283.64	0.35	0.27	-23.84	1053.33	-769.68
Domestic	1342.51	1156.43	1.28	1.10	-13.86	1344.02	-187.59
Capital Expenditure	4552.11	4540.38	4.34	4.33	-0.26	6625.14	-2084.76
Externally Financed	3227.38	2628.09	3.08	2.50	-18.57		
Loans	1369.33	413.41	1.30	0.39	-69.81		
Grants	1858.05	2214.69	1.77	2.11	19.19		
GLF Capital	1324.74	1912.29	1.26	1.82	44.35		
Net Lending	0.00	0.00	0.00	0.00	0.00		

***Source**: CBG staff calculation*

Table 11: Summary of Monetary Developments

Key Monetary Aggregates									
Variable	Level (million)		Annual % changes					Q on Q %	
	Q2,2021	Q2,2022	21-Jun	21-Sep	21-Dec	22-Mar	22-Jun	22-Mar	22-Jun
NFA (Banking Sector)	25743.2	24819.2	48.9	22.5	19.0	9.1	-3.6	-6.5	-8.3
NDA (Banking Sector)	30865.5	39709.5	13.8	21.7	20.0	31.2	28.7	13.6	4.2
Claims on Gov`t, net	27601.9	34896.8	11.0	17.0	21.5	28.9	26.4	11.3	1.5
Claims on Public Entities	97.4	3156.7	-4.2	183.8	313.7	3116.8	3140.4	809.1	23.8
Claims on Private Sector	8155.4	9634.0	5.7	8.9	20.7	10.9	18.1	-6.0	8.9
BROAD MONEY	56608.7	64528.7	27.5	22.1	19.5	21.0	14.0	4.3	-1.0
Narrow Money	31507.9	37521.9	27.3	23.7	20.4	24.5	19.1	7.0	0.0
Quasi-money	25100.7	27006.8	27.8	20.2	18.5	16.6	7.6	0.8	-2.3
Reserve Money	20166.5	21815.7	31.1	24.0	13.6	14.0	8.2	4.0	-0.7

***Source**: CBG staff calculations*

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

INDICATOR	Jun-21	Mar-22	Jun-22	Prudential requirement
Capital Adequacy Ratio	18.71	25.54	27.76	10
NPL Ratio	5.62	3.16	4.23	Single Digit
ROA	1.84	2.09	2.19	Positive ratio
ROE	16.31	20.55	21.52	Positive ratio
Liquid Assets	91.95	76.74	73.21	30
Net Open Position	-2.1	24.5	-1.7	+/-25

***Source**: CBG staff calculations*

Table 13: Food Price Development (Annual Percentage Change)

Y-O-Y INFLATION	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jul-22
Food	5.77	6.55	7.04	10.38	11.21	9.16	10.18	9.17	14.43	14.62
Bread & Cereals	9.43	8.16	7.02	8.06	8.04	7.39	8.22	9.09	18.47	18.17
Meat	3.06	1.50	5.17	6.45	18.56	20.18	16.09	11.57	12.22	10.88
Fish	15.12	18.66	25.72	24.01	18.09	12.34	4.73	1.61	5.24	5.59
Milk, Cheese and Eggs	-0.11	0.97	0.95	5.50	8.57	6.27	5.73	6.58	9.31	10.04
Oils and fats	18.08	10.76	10.83	32.84	31.65	37.73	36.21	2.51	16.89	17.47
Fruits & nuts	10.45	8.14	6.63	12.94	5.22	4.62	4.14	8.88	16.49	16.57
Vegetables, root crops & tubers	-4.70	4.00	2.17	-0.07	1.24	-6.43	2.49	14.72	14.78	16.35
Sugar, jam, honey & sweets	0.71	-0.86	-1.42	6.99	3.00	4.77	10.75	18.93	22.44	23.10
Other food products n.e.c	-0.19	0.97	-0.79	0.02	8.05	4.26	11.89	14.12	8.78	8.67

***Source**: CBG staff calculations*

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

Y-O-Y NON-FOOD INFLATION	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jul-22
NON-FOOD PRODUCTS AND SERVICES	4.41	4.85	4.75	4.91	7.45	9.33	10.47
CLOTHING & FOOTWEAR	5.20	5.57	6.04	7.72	4.39	4.69	4.59
HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	3.97	4.33	5.12	7.23	4.73	5.77	5.73
HEALTH	1.25	0.99	0.90	33.29	46.32	47.85	48.19
TRANSPORT	5.03	11.29	10.72	6.20	8.51	13.32	18.33
COMMUNICATION	-0.76	-1.15	-0.10	1.26	1.01	0.82	0.85
RECREATION AND CULTURE	2.01	2.97	3.82	3.41	5.55	6.94	7.12
NEWSPAPERS, BOOKS AND STATIONARY	3.65	0.82	2.95	3.09	6.33	8.65	8.65
HOTELS, CAFES AND RESTAURANTS	7.46	6.36	-2.84	9.69	35.00	40.73	42.16
MISCELLANEOUS GOODS AND SERVICES	10.54	10.45	10.00	7.45	12.27	20.24	20.38

Source: *CBG staff calculations*

Table 15: Core inflation (Annual Percentage Change)

Y-o-Y Inflation	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jul-22
Headline Inflation	5.14	5.18	5.67	7.37	8.05	7.01	7.60	8.20	11.70	12.33
Core 1 Inflation	2.66	2.72	3.77	7.75	11.53	9.18	9.52	8.87	15.23	15.77
Core 2 Inflation	2.84	2.88	4.18	6.33	10.54	8.99	8.51	9.78	15.28	15.37

Source: *CBG staff calculations*