MINUTES OF THE MONETARY POLICY COMMITTEE

Second Meeting of the MPC

8/6/2016

CENTRAL BANK OF THE GAMBIA

The second meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) took place in the Conference Room of the Bank on June 08, 2016.

Present were:

Mr. Amadou Colley	Governor, Chairman
Mr.Basiru A.O Njai	First Deputy Governor, Member
Mrs. Oumie Savage –Samba	Second Deputy Governor, Member
Mr.Abdoulie Jallow	Permanent Secretary 1, MOFEA, Member
Mr. Essa Drammeh	Director, Financial Supervision Department (FSD), Member
Mr. Ismaila Jarjue	Director, Economic Research Department (ERD), Member
Mrs. Annetta Riley	OIC, Banking Department (BD)
Mr. Baboucarr Jobe	Director, Economic Policy and Research, MOFEA
Mrs. Maimuna John-Sowe	Deputy Director, ERD, Secretary

In attendance were:

Mr. M.G. Tapha-Faal	Adviser, Internal Audit Department
Mr. Omar Jaata	Director, Foreign Department
Mr.Ousaino Corr	Director, Finance Department
Mr. Bai Senghor	Director, Microfinance Department
Mr. Pa Alieu Sillah	Commissioner of Insurance
Mr. Paul Mendy	Director 2, FSD
Mr. Bakary Jammeh	Deputy Director, ERD
Mr. Momodou Lamin Jarju	Principal Banking Officer, BD
Mr. Abdou Ceesay	Principal Officer, Foreign Department
Mr. Karafa Jobarteh	Principal Officer, Foreign Department
Mrs. Isatou Mendy,	Senior Economist, ERD
Mr. Sheriff Touray	Senior Economist, ERD
Mr. Yaya Cham	Senior Economist, ERD
Mr. Sulayman Ceesay	Senior Economist, ERD
Mr. Momodou Jallow	Economist, ERD
Mr. Alagie Sowe	Economist, ERD
Mr. Kebba Secka	Economist, ERD
Mr.Ousman Nicol	Bank Examiner, FSD
Mrs. Oumie Touray	Bank Examiner, FSD
Mr. Baba Darboe	Bank Examiner, FSD
Ms. Ancha Ceesay	Bank Examiner, FSD
Mr. Adama O. Joof	Bank Examiner, FSD

The second meeting of the monetary policy Committee (MPC) in 2016 was held at the Conference Room of the Bank on June 08, 2016.The meeting was called to order at 9.20am. Governor and Chairman of the MPC welcomed the Committee members and other attendees to the meeting. This was followed by a review and adoption of minutes of the previous meeting, presentations and discussions on the world economic outlook, real sector developments, government fiscal operations, balance of payments (BOP), exchange rate developments, money market developments, monetary developments, banking sector developments, as well as private sector business sentiment survey and the inflation outlook.

World Economic Outlook

Since the previous meeting of the Monetary Policy Committee (MPC), global growth outlook appears to have worsened somewhat in recent periods. However, according to the IMF, global economic growth is expected to strengthen gradually. The projected growth of 3.2 percent in 2016 compared to 3.1 percent in 2015 should be supported by accommodative monetary policy, slowing rate of contraction in certain emerging market economies and reforms to promote economic growth in various countries.

Growth in advanced economies is projected at 1.9 percent in 2016,the same as in 2015.Economic activity in the United States expanded at a modest pace at the beginning of 2016.The softer start to the year reflects weaker consumer spending in January, additional drag from the oil and gas sector on investment and the lagged effect of stronger US dollar on exports.However,growth is expected to firm over 2016,expanding by 2.4 percent with a modest pick-up in 2017 supported by underlying strength in labour markets and accommodative monetary policy.

Despite heightened uncertainty at the start of 2016, growth in the Euro area expanded by 0.6 percent in the first quarter over the previous quarter, underpinned by expansionary monetary policy, low oil prices and past exchange rate depreciations. While the recovery in the Euro area remains modest, the growth forecasts for the U.K and Japan have generally been revised downwards.

Growth in emerging market economies is projected to remain broadly stable at 3.5 percent in 2016 and 3.3 percent in 2017.The outlook is, however, heavily influenced by developments in the Chinese economy. China's GDP growth is expected to slow from 6.9 percent in 2015 to 6.5 percent in 2016. Recent fiscal announcements and credit data suggest that the Chinese government is taking measures to support domestic demand.

Growth in sub-Saharan Africa is projected to expand by 3.0 percent slower than the 3.4 percent in 2015.The deceleration in output was mainly due to decreased activity in nearly all the countries in the region, particularly Nigeria and South Africa.

Global inflationary pressures remain benign, reinforced by continuing low oil prices, but there have been upward price pressures in some Emerging economies.

Prices of energy and non-energy commodities remain well below historical averages. The global oversupply and consequent low prices are expected to persist in the short-term, particularly following the lifting of sanctions against Iran. But with marginal producers expected to shut down or reduce production, prices are expected to follow a moderate upward trend over the medium term.

The FAO food Price Index averaged 151.8 points in April 2016, an increase of 0.7 percent from March 2016, but almost 10 percent below the April 2015 level.

Although there has been a slight uptick in global inflation, the Committee agreed that inflation remains benign reflecting mainly subdued global commodity prices, coupled with the slowdown in economic activity.

The Committee indicated that one of the cardinal reasons why global economic activity is well below potential is because monetary policy has been mainly doing the heavy lifting .To speed up the global economy, it would be absolutely necessary for countries with the fiscal space to raise public investment and the others to implement structural reforms to unlock the bottlenecks of growth.

Commenting on economic developments in Sub-Saharan Africa, the view was expressed that although lower commodity prices had an impact, other fundamental factors that support growth such as fiscal buffers, governance and institutions have either been eroded or weakened. Thus, sub-Saharan Africa needs to institute reforms to stimulate short-term economic activity and facilitate long-term growth.

Some Committee members opined that reforms should be encouraged, but in addition, nations should also be cognizant of the fact that shocks will always emerge and in different forms and times.

On a similar note, Some Committee members expressed the view that the stop -go policies are somehow self-inflicted and that Governments need to adhere to consistent and good policies. Coming closer to home, the view was also expressed that negative global economic performance will always have spill-over effects on the Gambia. However, it was also the opinion of some committee members that in addition to spillover effects, inconsistent policies are the main cause of unsustainable growth in the Gambia.

Real Sector Developments

Provisional

GDP estimates from the Gambia Bureau of Statistic (GBoS) indicate that real GDP grew by 4.7 percent in 2015 compared to 0.9 percent in 2014.Output of the agricultural sector is estimated to have expanded by 7.0 percent from a contraction of 7.1 percent in 2014.The industrial sector is estimated to have posted the highest growth rate of 8.2 percent in 2015 compared to 2.7 percent in 2014.Growth of the services sector, on the other hand, decelerated to 3.3 percent in 2015 from the revised estimate of 6.0 percent in 2014.

Commenting on economic developments in The Gambia, it was agreed that growth does not happen by chance .Growth has to be planned, nurtured and sustained. Data spanning over twenty years indicate that the Gambia has not succeeded in nurturing and sustaining growth evidenced by the volatility in output. The Committee also noted that growth is not only a function of labour and capital but total factor productivity-that (strong institutions, infrastructure, etc.) also matter profoundly.

Commenting on the contribution of agriculture to GDP, it was observed that the growth volatility was mainly due to the impact of droughts on the sector. The view was, however, expressed that drought can be attributed to bad luck, but most economic challenges are the consequence of the quality of public policy.

The Committee recommended that the Agricultural data used for MPC report should be based on the post-harvest data to enable meaningful analysis. In addition, Research Department was tasked to investigate what accounted for the decline in the Manufacturing Sector.

Government Fiscal Operations

Preliminary data on government fiscal operations in the first quarter of 2016 indicate that total revenue and grants amounted to D2.2 billion, slightly higher than the outturn in the corresponding period in 2015.Domestic revenue, comprising tax and non-tax revenue, increased to D2.1 billion, or 5 percent from Q1, 2015.The outturn was the result of the increase in tax revenue by 9 percent to D1.96 billion. Non-tax revenue, in contrast, contracted by 24 percent to D151.4 million. Of the components of tax revenue, taxes on income and wealth rose by 9 percent while indirect taxes increased robustly by 8 percent. Grants totaled D106.6 million, a sharp contraction by 43 percent from the first quarter of 2015.

Expenditure and net lending decreased to D2.5 billion, or 3 percent from Q1, 2015.Current expenditure rose to D2.12 billion, or 12 percent. Although interest payments decreased by 9 percent, wages and salaries and other charges, in contrast, rose by 5 percent and 36 percent respectively. Capital expenditure contracted significantly by 44 percent to D 388.1 million. Externally financed capital expenditure decreased by 60 percent while domestic financing rose by 38 percent.

The overall budget balance on commitment basis (including grants) indicated a deficit of D244.4 million (1.0 percent of GDP).

The Committee noted the decrease in Capital expenditure and the view was expressed that the unsustainable level of debt not only crowds out the private sector, but public investment as well. However, it has been alluded to that government has been doing well in the social sector particularly in the health and education sectors.

Some committee members were of the view that looking at capital expenditure at face value may not tell the true picture of the level of investment considering that some of the current expenditures are directly linked to capital outlays, since the projects have to be sustained as they expand.

The Committee lamented the growing size of quasi fiscal expenditures and emphasized the need for urgent reforms of the state-owned enterprises, not only to wean them from the budget, but to ensure that they meet their obligations with Government

The Committee expressed concern over the high level of Government's participation in the money market, which is resultant to the high level of debt stock which is expected to get even higher because 2016 is election year and expenditure is expected to remain elevated.

The meeting was informed of an anticipated budget support which would help in the payment of teachers' salaries for about 6 months.

Balance of Payments (BOP)

Preliminary BOP estimates for the first quarter of 2016 indicate an overall surplus of US$13.7 million lower than the surplus of US$17.9 million in the corresponding quarter of 2015.

The current account deficit narrowed to US$6.3 million compared to the deficit of US$14.4 million in Q1 of 2015.Of the components of the current account, the goods account deficit narrowed to US$44.4 million relative to the deficit of US$59.9 million in Q1 of 2015.Although exports declined by 22.6 percent to US$24.7 million, imports also decreased by the same magnitude to US$69.2 million. The services account surplus rose to US$16.8 million compared to US$13.7 million in Q1 of 2015 attributed mainly to increased travel income amounting to US$23.0 million compared to US$21.5 million in Q1 of 2015.The current transfers surplus rose slightly to US$44.5 million relative to US$42.3 million reflecting the increase in workers' remittances from US$43 million in Q1, 2015 to US$45.7 million in the quarter under review. The income account deficit widened to US$23.1 million from US$10.5 million in Q1 2015 owing mainly to the increase in the deficit of investment estimates at US$20.6 million compared to US$8.7 million in Q1, 2015.This in turn was as a result of increased interest payments on the external debt and reduced income from the international reserves

The capital and financial account recorded a surplus of US$23.8 million, lower than the surplus of US$34.6 million in Q1 2016.

Commenting on the decrease in imports, it was noted that it could be due to several factors including the border closure, decrease in the global price of imported oil and food, in addition to the depreciation of the dalasi. The view was also expressed that the border closure did not only impact imports, but also exports as well particularly re-exports.

The Committee was reminded that in the past, the current account deficit was largely financed by non-debt inflows and in particular foreign direct investment. However, of recent the deficit was financed by draw down of foreign reserves.

Exchange Rate Development

Volume of transaction

Volume of transactions in the foreign exchange market in the year to end -May 2016 rose to US$ 0.81 billion compared to US$0.63 billion a year earlier. From May 2015 to May 2016, the Dalasi depreciated against the US dollar by 8.8 percent, Euro (15.7 percent) and Pound Sterling (4.4 percent).

The Committee noted that the rise in volume of transactions during the review period was mainly on account of the increased inflows from remittances, tourism and prior to the border closure, re-export.

The Committee emphasized that under a flexible exchange rate regime, movement of the rates is expected.

Money market Developments

In the year to end -March 2016, domestic debt rose to D23.2 billion or 20.2 percent from end-March 2015, mainly as a result of CBG advances to Government. Treasury bills and Sukuk- Al –Salam (SAS) combined accounted for 66.6 percent, a decrease by 2.2 percent.

Of the treasury bills outstanding totaling D14.74 billion, commercial banks held 66.9 percent, the non-bank (25.3 percent) and CBG (7.9 percent).

Data on the distribution of Treasury bills and SAS by maturity indicate that 364-day bills accounted for 44.0 percent of the stock, 182- day bills (35.0 percent) and 91-day bills (21.0 percent).

The yield on all the maturities rose .The yield on the 91-day, 182-day and 364-day Treasury bills increased from 12.71 percent, 15.64 percent and 17.7 percent in March 2015 to 17.6 percent, 18.6 percent and 17.66 percent in March 2016 respectively. Similarly, the yield on 91-day,182-day,364-day SAS rose from 13.47 percent,15.96 percent and 18.61 percent in March 2015 to 17.54 percent,18.27 percent and 22.13 percent in March 2016 respectively.

Commenting on the decreasing yields in recent weeks, it was underscored that it was largely as a result of the size of float. In fact, the market was largely oversubscribed during this period.

The Committee noted that the yield on all the maturities exceeds the growth rate of the economy meaning that the debt is unsustainable.

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Monetary Developments

The pace of growth of money supply during the period under review was subdued. Year -on-year to end -March 2016,money supply grew by 0.7 percent compared to 13.6 percent in March 2015.Of the components of money supply, narrow money comprising currency outside banks and demand deposits, grew by 5.4 percent a slower growth compared to 15.7 percent a year ago. Both currency outside banks and demand deposits rose by 4.1 percent and 7.5 percent respectively.Quasi money, on the other hand, contracted by 4.3 percent from the growth of 11.7 percent in March 2015.Of the components of quasi money, savings contracted by 1.0 percent and time deposits by 11.7 percent.

Reserve money, the Bank's operating target, grew at a slower pace of 11.9 percent in the year to end- March 2016 compared to 12.4 percent a year earlier. This was mainly as a result of the 39.7 percent growth of the net domestic assets (NDA) of the CBG.The net foreign assets of the CBG on the other hand, remained negative.

The Committee indicated that the monetary survey provides somewhat a snap shot of the domestic economic climate. And to the extent that some of the key monetary variables grew marginally or contracted is indicative of subdued economic activity in 2015.

Regarding the declining trend of the money multiplier, it was observed that it was due to reserve money, broadly the balance sheet of the CBG, growing faster than money supply.

Concerning the increase in velocity, it was indicated that because money loses value rapidly during high inflation, money holders would prefer to hold as little as possible. It was also reported to the Committee that the template for the monetary survey has been picking a line item under investments as loans and it was suggested that the balance sheets of the banks need to be checked. It was also noted that quasi money can be used as a proxy to determine the economy's savings rate.

On velocity, the Research Department was tasked to investigate and explain the decline in velocity in 2010 especially in the 3rd quarter, on the same token the Research Department and Financial Supervision Department were also tasked to investigate the reasons for the decline in NFA of the Commercial banks.

Banking Sector Developments

The banking sector remains fundamentally safe. The capital adequacy ratio averaged 36.5 percent in March 2016, higher than the average of 32.9 percent in March 2015.

Total assets rose to D29.4 billion, or 4.8 percent attributed primarily to the increase in investments by 13.6 percent. Gross loans and advances on the other hand, decreased by 15.8 percent and accounted for 17.5 percent of total assets. Non-performing loans ratio increased slightly to 8.1 percent in March 2016 compared to 6.5 percent in the previous quarter.

Deposit liabilities totaled D16.5 billion, unchanged from the previous quarter. The liquidity ratio averaged 95.5 percent, well over and above the minimum requirement of 30 percent.

The industry recorded a net profit of D129 million in the first quarter of 2016, albeit lower than the D144.6 million in the previous quarter. The return on assets (ROA) and return on equity (ROE) were 1.8 percent and 11.6 percent in the first quarter respectively.

The Committee noted that the banking sector is a good barometer for the health of the Gambian economy. However, to the extent that deposit liabilities are stagnant is an indication of the challenges besetting the economy. It was brought to the attention of the meeting that despite challenges facing the economy, the distributive trade sector remains very viable and of low risk to banks.

The Committee also noted the need for FSD and ERD to collaborate on a bilateral basis for data sharing and dis- aggregation of data for the purpose of detailed and meaningful analysis.

The Financial Supervision Department reported on the development on peer grouping of banks, and explained why Eco-Bank suddenly jumped into the category of large banks. It was reported that Eco Bank is involved in financing road construction and gets a lot of inflows from the Kuwaiti fund which accounted for the bank becoming the largest in terms of its Assets holdings.

Business Sentiment Survey

Readings of the Business Sentiment Survey indicated that a higher proportion of respondents (51 percent) reported that economic activity in Q1 2016 was the same as Q4 2015.However ,with a diffusion index of 17 percent ,implies that a significant number of respondents perceived that economic activity was weaker in Q1 2016 relative to Q4 2015.

The survey also indicates that inflation expectations remain elevated and a large percentage of those surveyed (43 percent) expect inflation to be higher in Q2, 2016 compared to only 8 percent that think inflation would be lower.

The Committee expressed concern over the elevated inflation expectations, noting that it could be self-fulfilling and may engender vicious cycle of inflationary spiral.

Inflation

Since the previous meeting of the MPC, the inflation outlook has deteriorated. According to the latest release by GBOS, headline inflation accelerated to 7.05 percent in March 2016 compared to 6.46 percent in March 2015.The outcome which solely reflected the increase in non-food inflation, exceeded the expectation of the MPC.

Food inflation decelerated slightly from 8.48 percent in March 2015 to 8.18 percent in March 2016 reflecting mainly the decline in meat prices .Meat price inflation declined to 13.48 percent from 22.33 percent in March 2015.

Non-food inflation accelerated to 5.32 percent in March 2016 compared to 4.23 percent in March 2015 driven mainly by prices of clothing materials, garments and textiles which rose to 9.85 percent in March 2016 from 4.63 percent in March 2015.

Central Bank of the Gambia's measure of core inflation, which excludes prices of volatile food items, energy and utilities increased slightly to 7.06 percent in March 2016 compared to 6.77 percent in March 2015.

The Committee noted that food prices which is the main driver of inflation in the Gambia is trending downward and given the soft prices of food globally, expectations are that this may be a damper on inflation

Decision

The Committee though disappointed at the recent surge in inflation rate, with its associated risks including the fiscal position, external debt service etc., compared to what was reported at the last MPC meeting, decided to leave the policy rate at 23 percent with expectation that inflation will not stay elevated for too long .The Committee remains committed to its price stability mandate and would continue to monitor developments in the economy and take appropriate actions if necessary.