MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

August 6, 2014

The 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 August 6, 2014.

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. Momodou Ceesay	Senior Adviser to Governor
Mr. Essa Drammeh	Director, Financial Supervision Department (FSD), Member
Mr. Ismaila Jarju	Director, Economic Research Department (ERD), Member
Mr. Mbye Jammeh	OIC, Banking Department (BD), Member
Mr. Abdoulie Jallow	Permanent Secretary I MOFEA, Member
Mr. AlhagieTaal	Director, Macroeconomic Unit, MOFEA, Member
Mrs. Isatou Mendy	Senior Economist, ERD, Secretary

In attendance were:

Mrs. Haddy Joof	Director, Administration Department
Mr. Omar Jaata	Director, Foreign Department
Mr. Ousainou Corr	Director, Finance Department
Mr. Paul Mendy	Director 2, Financial Supervision Department (FSD)
Mr. Pa Alieu Sillah	Commissioner of Insurance
Mr. Momodou Njie	Head, Risk Management Unit
Mrs. Fatou Deen Touray	Deputy Director, Microfinance Department
Mr. Abdoulie Janneh	Economist NCC
Mr. Ebrima N. Wadda	Principal Economist, ERD
Mr. Amadou Koora	Principal Bank Examiner, FSD
Mrs. Annetta Railey	Principal Banking Officer, BD
Mr. Momodou Lamin Jarjue	Principal Banking Officer, BD

Ms. Rohey Khan	Principal Officer, Foreign Department
Mr. Baboucarr Jobe	Principal Economist, MOFEA
Mr. Sheriff Touray	Senior Economist, ERD
Mr. Benard Mendy	Senior Bank Examiner
Mr. Sulayman Ceesay	Economist, ERD
Mr. Yaya Cham	Economist, ERD
Mr. Momodou Jallow	Economist, ERD
Mr. Khalilu Bah	Economist, ERD
Mr. Ebirma Jobe	Bank Examiner
Mrs. Oumie Touray	Bank Examiner
Mr. Kabba Baldeh	Foreign Officer, Foreign Department

The Bank held its Monetary Policy Committee (MPC) meeting at the Conference Room of the Central Bank of The Gambia on August 6, 2014. After the opening remarks by the Governor and Chairman of the MPC, the minutes of the previous meeting were reviewed and adopted as amended.

Under matters arising, the Committee was informed that work is in progress regarding the research paper on the domestic debt that was assigned to the Economic Research Department (ERD). Additionally, due to the unavailability of quarterly real sector statistics from The Gambia Bureau of Statistics (GBOS), the ERD was on the verge of compiling a Composite Index of Leading Indicators to predict the direction of the economy.

The meeting then proceeded with presentations and discussions on world economic outlook, balance of payments (BOP), exchange rate developments, fiscal developments, money market developments, real sector developments, monetary developments, financial stability issues, private sector business sentiment survey and the inflation outlook.

World Economic Outlook

Since the previous meeting of the MPC, the International Monetary Fund (IMF) has revised downwards global growth projections in 2014 from 3.7 percent to 3 percent. The earlier optimism of robust US growth of around 3 percent in 2014 had been moderated following the 2.1 percent contraction in economic activity in the first quarter partly due to temporary and one-off factors such as slowdown in inventory investment, the expiration of some fiscal measures at the beginning of 2014 and severe winter weather. Growth is now projected at 1.7 percent for 2014, rising to 3 percent in 2015.

Economic activity in the Eurozone continued to expand modestly in the first quarter. Growth was uneven with the economic expansion in Germany offset by contraction or stagnant activity in many other countries. Growth in the Euro area is expected to strengthen to 1.1 percent in 2014 and 1.5 percent in 2015 but to remain uneven across the region. In contrast, real GDP in Japan rose sharply in the first quarter following the surge in expenditure in advance of the increase in consumption taxes. Output was expected to expand by 1.2 percent in 2014. The economic recovery in the UK was strong and was expected to be sustained with growth of around 3 percent projected in 2014.

The outlook for emerging market economies remains relatively subdued. The Chinese economy was expected to grow by 7.4 percent, the weakest pace since 2009. In other emerging market economies, activity was weighed down by political uncertainty in several regions and tightening financial conditions.

In Sub-Saharan Africa, growth was projected to increase from 4.9 percent in 2013 to 5.5 percent in 2014 premised on increased private consumption, expansion in commodity – related projects and continuing recovery of the global economy.

Inflation remains benign in the advanced economies, although the risk of deflation in the Eurozone persists reflecting the combination of the substantial output gap and the decline in the prices of commodities especially fuels and food. In emerging markets and developing economies, inflation was expected to decline from about 6 percent currently to about 5 percent by 2015. Softer world commodity prices in US Dollar terms should help reduce price pressures, although in some economies, this reduction would be more than offset by recent exchange rate depreciation.

Global crude oil prices have fluctuated in recent months reflecting mainly geo-political developments. The OPEC Reference Basket year-to-date value stood at US$105.30 per barrel, slightly lower than the average of US$ 105.09 per barrel in 2013.

The FAO Food Price Index averaged 206 points in June 2014, 6 points lower than in June 2013. The decline was the third in succession and was largely the result of a marked drop in cereal and vegetable oil prices.

The Committee commented that the slowdown of the global economic expansion was disappointing especially in light of the fact that headwinds that held back growth for the past several years were diminishing, including the fiscal drag and private sector deleveraging in most of the advanced countries. The Committee indicated that what seemed to be stifling the global economy was uncertainty surrounding economic policies and economic prospects generally which appear to be undermining business confidence and restraining investment. However, it was expected that uncertainty would dissipate as the recovery strengthens boosting investment and putting international trade and commodity prices on a firmer footing.

The Committee noted the actions of the European Central Bank (ECB) to further stimulate the Euroarea economy and to fight declining inflation. In particular, the ECB announced further stimulus measures by lowering the main interest rate to 0.15 percent and introducing a negative deposit rate. The ECB also stated that it would implement targeted credit measures. The Committee agreed that the current interest rate policy of the ECB is warranted under the circumstances especially in the light of the fact that the Bank was constrained to engage in massive bond buying programme to reduce long-term interest rates.

The Committee agreed that the strong growth of the UK economy should have a profound impact on Gambian tourism given that arrivals from the UK accounted for about 25 percent of total arrivals but expressed worry of the possible negative impact of the Ebola pandemic on tourism.

The Committee commented that the decline in global food and oil prices should be a boon for the small open Gambian economy but for the depreciation of the Dalasi. It was, however, observed that given the current poor rainfall and the looming drought, which could be further compounded by the uncertainty in the foreign exchange market, there was a need to kick start resource mobilisation in order to ensure food security.

External Sector Developments

Revised balance of payments (BOP) estimates indicate an overall surplus of US$9.8 million in 2013, higher than the US$3.64 million in 2012 owing primarily to the narrowing of the current account deficit.

The current account deficit narrowed from US$124.2 million in 2012 to US$77.5 million in 2013. Of the components of the current account, the goods account deficit decreased to US$169.7 million from a deficit of US$256.8 million in 2012. Total imports declined to US$301.95 million compared to US$375.6 million in 2012. Imports for domestic consumption and re-exports were estimated at US$352.34 million and US$70.47 million compared to US$438.28 million and US$87.66 million respectively in 2012. Exports declined to US$105.92 million, or 5.4 percent from 2012.

The deficit in the income account also narrowed to US$22.41 million in 2013 from US$29.26 million in 2012 owing to the decrease in employee compensation from US$21.57 million in 2012 to US$7.54 million in 2013. All other components of the income account worsened especially investment income and portfolio income which declined to US$7.69 million and US$5.73 million in 2013 from US$14.87 million and US$10.81 million respectively in 2012.

The surplus in the services account decreased to US$67.71 million from US$70.14 million in 2012 reflecting the decrease in tourism income to US$68.5 million from US$94.73 million in 2012.

Current transfers (comprising transfers to general government, workers' remittances and other transfers) decreased to a surplus of US$46.98 million, or 48.8 percent from 2012. Transfers to general government totalled US$10.68 million (22.7 percent of current transfers) in 2013, lower than the US$21.66 million (23.6 percent of current transfers) in 2012. Workers' remittances amounted to US$48.75 million, down from US$61.81 million in 2012.

The capital and financial account surplus decreased significantly from US$127.81 million in 2012 to US$86.74 million in 2013. Foreign Direct Investment (FDI) in particular declined to US$18.0 million from US$ 32.9 million in 2012.

The Committee noted that the reported BOP data appears to be more accurate than past data as it reflected the developments in the Gambian economy in 2012 and 2013. For instance, past data reported a surplus in the current account which was inconsistent with the steep depreciation of the Dalasi and the savings-investment gap.

The Committee agreed with the decision to reduce re-exports as a percentage of imports from 35 percent to 20 percent taking into account reforms in neighbouring countries which have eased direct importation of goods in those economies.

The Committee attributed the narrowing of the goods account deficit to the depreciation of the Dalasi. Imports in particular declined significantly. Exports also decreased, but at a slower pace mainly as a result of lower re-export receipts following changes in the computation of re-exports and the border restrictions to contain the Ebola outbreak.

Exchange Rate Developments

Volume of transactions in the foreign exchange market decreased to US$1.33 billion in the year to end-July 2014, or 10.7 percent from a year earlier.

The US Dollar continues to be the most traded currency accounting for 64 percent of the turnover, followed by the Pound Sterling (17.2 percent), Euro (16.6 percent) and other currencies combined (2.2 percent).

Year-on-year, the Dalasi depreciated against the US Dollar by 19.5 percent, Euro (20.8 percent) and Pound Sterling (30.5 percent).

The Committee commented that the sharp depreciation of the Dalasi since the beginning of 2013 had put upward pressure on inflation as higher import prices have "passed through" to domestic consumer prices. The Committee also noted that the Dalasi is expected to experience further pressures given the anticipated negative effects of the Ebola outbreak on the tourism sector, coupled with the impact of the delayed rainfall on agricultural output.

The Committee agreed that because the exchange rate is the most important price in The Gambia, it cannot be treated with benign neglect. The view was also expressed that given the constraints associated with increasing the supply of forex in the short-term, policy action should be directed at reducing demand. And in the absence of fiscal consolidation, the MPC should explore further tightening of monetary policy.

Money Market Developments

In the year to end-June 2014, the domestic debt rose to D14.7 billion or 29.2 percent from a year earlier. Treasury bills and Sukuk Al-Salaam (SAS), accounting for 82.3 percent and 4 percent of the debt stock, increased by 36.1 percent and 50.1 percent respectively.

According to data on Treasury bills and Sukuk Al-Salaam by holder, deposit money banks held 66.6 percent of the stock, Central Bank (18.2 percent)and the non-bank (15.2 percent).

Data on the maturity structure of Treasury bills and SAS indicate that 364-day bills accounted for 54.7 percent of the stock, 182-day bills (31.8 percent) and 91-daybills (13.5 percent). The average time to maturity of Treasury bills and SAS decreased to 8.9 months in June 2014 from 9.0 months in June 2013.

The Committee observed that yields on all the maturities have declined slightly since March 2014, but are nonetheless quite high in real terms. The decrease in yields was attributed partly to securitisation of overdrafts granted to Government by the CBG and partly to over subscription.

The Committee expressed concern on the increase in the debt to GDP ratio which rose from about 80 percent of GDP in 2013 to about 90 percent currently and was the second highest in West Africa after Cape Verde. The Committee attributed the marked increase of domestic debt in the first half of 2014 partly to Government's borrowing from the CBG to make good guaranteed loans to the energy sector. The Committee emphasised that the debt would continue to be unsustainable as long as the yields exceeded the growth rate of real GDP and is no doubt growth-inhibiting.

Government Fiscal Operations

Preliminary data on government fiscal operations in the first six months of 2014 indicate that total revenue and grants increased to D4.12 billion, or 26 percent from the corresponding period in 2013. The outturn was also higher than the projected D4.08 billion.

Domestic revenue, comprising tax and non-tax revenue amounted to D3.16 billion, higher than the D2.82 billion in first the half of 2013 and the projected D3.14 billion attributed mainly to the 14 percent increase in tax revenue. Non-tax revenue, on the other hand, rose by only 2.0 percent.

Grants also increased to D960.02 million, or 114 percent from the first half of 2013, and exceeded the target by D17.5 million. There were no programme grants.

Total expenditure and net lending amounted to D4.88 billion, higher than the projection of D4.83 billion and the outturn of D4.16 billion in the corresponding period in 2013. Both current and capital expenditure increased by 11 percent and 34 percent respectively.

The overall budget balance (including grants) was a deficit of D778.5 million (4 percent of GDP), higher than the deficit of D198.5 million (1.2 percent of GDP) in the first half of 2013. The deficit was financed by net external borrowing and net domestic borrowing of D284.8 million and D461 million respectively.

Although the Committee acknowledged revenue buoyancy with revenue outturn growing faster than nominal GDP, much of the discussions centred on fiscal dominance identified as a major threat to macroeconomic stability and economic growth. For instance, growth in private sector credit, net of provisions was negative during the period under review indicative of crowding out thanks to increased borrowing by Government from the banking sector. Additionally, monetary policy has become subservient to fiscal policy thus complicating monetary policy implementation.

The Committee indicated that whether fiscal policy was sustainable depends not only on revenue and expenditure outturns, but also on other factors including interest rates on government debt and growth of the economy.

Commenting on the fiscal outlook, views were expressed that support to the energy sector and the likely intervention to assist farmers in the event of drought could put considerable pressure on the budget. Besides, continued sharp depreciation of the Dalasi would significantly increase external debt service payments in Dalasi terms going forward.

Real Sector Developments

The growth outlook for the Gambian economy had moderated since the previous meeting of the MPC. Real GDP growth was forecast at 5.3 percent, lower than the 5.6 percent in 2013 attributed to delayed rainfall and the threat of Ebola on the tourism sector.

Agriculture value added was estimated at 7.1 percent, industry (2.9 percent) and services (3.6 percent) compared to 14.1 percent, 12.9 percent and 5.7 percent respectively in 2013.

The Committee agreed with the downward revision of the real sector growth bearing in mind that the two linchpins of the Gambian economy, agriculture and tourism, are expected to be negatively impacted by inadequate rainfall and Ebola shocks. Some Committee members were of the opinion that even if rainfall were to be plentiful now, it would not make a material difference because the damage to agriculture had already been done. Thus, the prediction is that the Gambian economy would be severely challenged in 2015. Going forward, there was an urgent need to deepen structural reforms to further promote industrialization and development of the manufacturing sector. A diversified economy is the best means to mitigating risks.

Monetary Developments

In the year to end-June 2014, money supply grew by 8.1 percent, lower than the 14.8 percent a year earlier. The deceleration in the growth of broad money was mainly the result of the slower pace of expansion in the net domestic assets (NDA) and the contraction in the net foreign assets (NFA) of the banking system. The NDA rose to 13.6 billion, or 12.6 percent but lower than the growth rate of 15 percent a year earlier. The NFA decreased to D4.95 billion, or 2.5 percent.

Of the components of broad money, narrow money,comprising currency outside banks and demand deposits, grew at a slower pace of 14.2 percent compared to 25.3 percent a year ago. Currency outside banks rose to D3.4 billion, or 18.4 percent. Demand deposits also increased to D6.1 billion, or 12 percent.

Quasi money, comprising savings and time deposits, rose to D9.06 billion, or 2.4 percent and lower than the 6.4 percent a year earlier. Savings deposits increased to D6.2 billion, or 14.7 percent. In contrast, time deposits decreased to D2.9 billion, or 16.7 percent and higher than the contraction of 4.4 percent in the corresponding period a year ago.

Reserve money increased to D5.78 billion, or 19.7 percent, but lower than the strong expansion of 26.4 percent a year earlier. The decrease in the pace of expansion of reserve money was mainly the result of the contraction in the NFA of the Central Bank by 8.4 percent compared to the robust growth of 21.4 percent a year earlier. The NDA of the Central Bank, on the other hand, increased significantly to D2.5 billion, or 97.2 percent owing to increased monetisation of the budget deficit. Central Bank's net claims on government rose from D1.3 billion in June 2013 to D2.2 billion in June 2014.

The Committee noted that although money supply grew at a modest pace of 8.1 percent year-on-year to end-June 2014, the balance sheet of the Bank continued to expand at a robust pace. Central banks are confronted with the challenge of implementing monetary policy in the presence of surplus liquidity. The Committee reiterated the importance of achieving and maintaining a low, stable and predictable rate of inflation which promotes economic welfare by reducing uncertainty and preventing arbitrary redistribution of wealth.

Developments in the Banking Sector

The banking sector remains fundamentally safe and sound. Recent data indicate that capital and reserves increased to D3.45 billion in June 2014, or 16.2 percent from June 2013. The risk weighted capital adequacy ratio averaged 35.1 percent, higher than the average of 26.5 percent in June 2013. All the banks met the capital adequacy ratio.

Total assets increased to D25.57 billion, or 14.2 percent from a year earlier. Gross loans and advances, which accounted for 23.4 percent of total assets, decreased to D5.97 billion, or 2.3 percent from June 2013. Private sector credit, net of provisions also decreased from D4.34 billion to D4.16 billion in June 2014. Deposit liabilities totalled D15.15 billion in June 2014, higher than the D14.28 billion in June 2013. The liquidity ratio was 84.3 percent, significantly over and above the prudential requirement of 30 percent.

The industry recorded net income of D197 million in the first six months of 2014 compared to D80.6 million in the corresponding period in 2013. The return on assets (ROA) and return on equity (ROE) was 3.3 percent and 21.3 percent compared to 1.7 percent and 10.8 percent respectively in the first half of 2013.

The Committee agreed that following the recapitalisation of two of the troubled banks, the risk bearing capacity of the industry increased significantly evidenced by the high risk weighted capital adequacy ratio.

The Committee noted the contraction in private sector credit attributed to the marked increase in Government's borrowing from the banking system. The Committee reiterated the need for fiscal consolidation in order to crowd in the private sector, the engine of growth of the economy.

Private Sector Business Sentiment Survey

According to the readings of the Private Sector Business Sentiment Survey, 28 percent of the respondents reported that economic activity was higher in Q2, 2014 relative Q1, 2014. A smaller percentage (19 percent) reported lower economic activity. However, the majority of respondents (53 percent) reported same level of economic activity. Also the majority of respondents (60 percent) expect subdued growth prospects in Q3, 2014 compared to 30 percent that project higher activity relative to Q2, 2014.

The majority of respondents (53 percent) indicated that activity at the company level was lower in Q2, 2014 compared to 25 percent that expected higher activity in Q1, 2014.

Additionally, the vast majority of respondents (50 percent) expect activity to be lower in Q3, 2014 than those (20 percent) that project higher business activity.

Regarding capital expenditure, employment, sales and profits, 36 percent, 42 percent, 50 percent and 50 percent of the respondents respectively reported that they were unchanged compared to Q1, 2014. The prospects for growth of all the four variables are expected be lower in Q3, 2014.

The vast majority of respondents (80 percent) reported that current prices are higher and none indicated that prices were lower relative to Q1, 2014. Also, 90 percent of the respondents expect inflation to accelerate in Q3, 2014 and none expect prices to be lower.

The Committee expressed concern that inflationary expectations remain elevated attributed partly to the depreciation of the Dalasi and partly to rising relative prices of some of the main commodities. Inflationary expectations tend to be self fulfilling.

Inflation Outlook

Consumer price inflation, measured by the National Consumer Price Index, declined to 5.4 percent in June 2014, lower than the 5.8 percent in 2013. Both food and non-food prices decelerated to 6.2 percent and 4.4 percent compared to 6.8 percent and 4.6 percent respectively in June 2013.

Core inflation, which excludes prices of utilities and volatile food items, accelerated to 5.5 percent in June 2014 compared to 3.8 percent in June 2013.

Despite the tight policy stance, inflation continues to exceed the target and the Committee saw the risks to inflation outlook to be skewed to the upside. Apart from weather-related risks, the sharp depreciation of the Dalasi was expected to put upward pressure on inflation as higher import prices may pass-through to domestic prices.

Decision

Against this backdrop, the Monetary Policy Committee decided to increase the policy rate by two percentage points to 22.0 percent. Future policy stance would depend on a number of factors including projected inflation, inflation expectations, the state of the economy and global developments.