MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

May 12, 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 May 12, 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. Amadou Koora	OIC, Financial Supervision Department (FSD), Member
Mr. Ismaila Jarju	Director, Economic Research Department (ERD), Member
Mr. Mbye Jammeh	Deputy Director, Banking Department (BD), Member
Mr. Mod Ceesay	Permanent Secretary II MOFEA, Member
Mr. AlhagieTaal	Director, Macroeconomic Unit, MOFEA, Member
Mr.BakaryJammeh	Deputy Director, ERD, Secretary

In attendance were:

Mr. Omar Jaata	Director, Foreign Department
Mr. OusainouCorr	Director, Finance Department
Mr. Pa Alieu Sillah	Commissioner of Insurance
Mr. Omar Janneh	Deputy Director, Administration Department
Mr. Momodou Njie	Head, Risk Management Unit
Mr. Ebrima N. Wadda	Principal Economist, ERD
Mrs. Annetta Riley	Principal Banking Officer, BD
Mr. BaboucarrJobe	Principal Economist, MOFEA
Mr. Sulayman Ceesay	Economist, ERD
Mrs Halima Sighateh	Bank Examiner, FSD
Mr. Yaya Cham	Economist, ERD
Mr. Alieu Ceesay	Economist, ERD
Mr. MomodouJallow	Economist, ERD
Mr. Khalilu Bah	Economist, ERD

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on May 12, 2014. In his opening remarks, the Governor and Chairman of the MPC welcomed all those present at the meeting. He stated that the Gambian economy faced significant challenges particularly the depreciation of the Dalasi coming into 2014. He, however, expressed optimism that the stabilisation policies in place are adequate to restore stability in the exchange rate. The Committee then reviewed and amended the minutes of the previous meeting. This was followed by presentations and discussions on international economic developments, balance of payments, foreign exchange, monetary and money market developments, real sector as well as Government fiscal operations, financial stability issues and inflation.

World Economic Outlook

According to the International Monetary Fund (IMF), global economic growth is projected to increase from 3.0 percent in 2013 to 3.7 percent in 2014 as headwinds that have been restraining activity dissipate. Monetary policy in advanced economies continues to be highly stimulative and fiscal consolidation, which has been a heavy drag on global growth, has diminished significantly.

The US economy, the major driver of global growth, is expected to expand from around 2 percent in 2013 to average around 3 percent over the next three years. Following robust growth in the second half of 2013, the pace of US economic expansion in early 2014 slowed owing to unseasonably cold weather and severe snowstorms which led to supply-chain disruptions, reduction in construction activity and decrease in consumer spending.

Euro zone growth prospects remain weak, although there are signs of a modest recovery. Real GDP rose by 0.2 percent in the last quarter of 2013 after expanding by 0.1 percent and 0.3 percent in the previous two quarters respectively. Continued moderate growth is expected in the remainder of 2014.

The UK economy continues to show signs of sustained improvement. UK's GDP growth is projected to increase by 2.9 percent in 2014 from 1.7 percent in 2013 before returning to its long – term trend of 2.5 percent in 2015.

Growth in emerging market economies is expected to be solid, but vulnerabilities remain. In China, economic growth is projected to expand between7.0 percent and 7.5 percent over the next three years. Heightened uncertainly and tightening financial conditions are expected to restrain growth in other emerging economies in the first half of this year.

Growth in Sub-Saharan Africa remains robust and is expected to accelerate to 6.1 percent in 2014 from 5.1 percent in 2013 underpinned by improved agricultural production and investment, particularly in infrastructure.

Global inflation remains benign, particularly in advanced economies where activity remains substantially below potential output. Declines in the prices of commodities, especially fuels, also contributed to the decrease in headline inflation across the globe.

International oil prices declined below the US$105 per barrel in March 2014 to around the US$104 per barrel currently impacted by concerns over the slowdown in China's economic growth, lower demand and ample supply. The FAO Food Price Index, however, rose sharply in March 2014 by 2.3 percent to average 212.8, the highest level since May 2013.

During the discussions, the Committee observed that since the last meeting of the MPC, global economic activity had expanded especially in the major developed countries where headwinds that have been restraining activity had dissipated. However, high unemployment and unprecedented low prices are major downside risks to sustained output growth.

The Committee noted the decision of the Fed to no longer target 6.5 percent economic growth as the trigger for a rate hike. Rather, in consideration of the declining labour force participation and weak inflation, the Fed decided to change its approach from targeting specific numbers to more nebulous focus on the quality of economic conditions.
The Committee agreed that strong global economic activity is critical for small open economies like The Gambia given that such countries rely on international trade in goods and services to grow their economies and create jobs. More specifically, the return to robust growth of the UK economy is expected to impact positively on Gambia's tourism sector

because of the strong and positive correlation between output growth and employment in source countries and expenditure on tourism.

EXTERNAL SECTOR DEVELOPMENTS

The overall balance of payments narrowed to a surplus of US$39.7 million in 2013 compared to US$75.12 million in 2012.

The current account recorded a surplus of US$85.54 million, higher than the surplus of US$78.9 million in 2012. Of the components of the current account, the goods account recorded a lower deficit of US$102.9 million compared to the deficit of US$68.3 million in 2012. Both exports and imports declined by 11 percent and 22 percent respectively.Current transfers also decreased from a surplus of US$181.9 million in 2012 to US$104.4 million in 2013. The services account surplus, however, rose to US$97.93 million relative to US$75.63 million in 2012.

The capital and financial account recorded a higher deficit of US$45.84 million compared to the deficit of US$3.78 million in 2012.

The Committee was informed that the ERD had started revising the data on current transfers. In particular, transfers relating to capital projects would be moved from the current account to the capital account in line with the practice adopted by the IMF.

The Committee attributed developments in the goods account partly to the slowdown in economic activity but mainly to the depreciation of the dalasi, especially with respect to imports.

The Committee agreed that the depreciation of the real effective exchange rate of the dalasi positively impacted the tourism sector by making The Gambia a competitive destination. Some Committee members were also of the view that geopolitical factors, especially political and security concerns in countries that are in competition with The Gambia, also contributed to the increase in tourist arrivals. Thus, the Committee broadly agreed that The Gambia should not be complacent and must do more to make the tourism sector very attractive and competitive.

EXCHANGE RATE DEVELOPMENTS

Volume of transactions in the foreign exchange market increased to US$363.5 million in the first quarter of 2014, or 7.3 percent from the previous quarter. However, volume of transactions decreased by 17.4 percentcompared to the first quarter of 2013.

The US Dollar continues to be the most dominant currency in the foreign exchange market accounting for 66.11 percent of the turnover in the first quarter of 2014 followed by the Euro (16.6 percent), Pound Sterling (15.4 percent) and the other currencies combined (1.9 percent).

Relative to the fourth quarter of 2013, the Dalasi depreciated against the US Dollar by 1.9 percent, Euro (1.2 percent) and the Pound Sterling (3.3 percent).

For the twelve months ended March 2014, the Dalasi weakened against the US Dollar by 12.1 percent, Euro (20.9 percent) and Pound Sterling (21.1 percent).

The Committee observed that while the risk to the inflation outlook from the exchange rate may have moderated somewhat, these risks are still assessed to be on the upside. The Committee generally agreed that the exchange rate would continue to be highly sensitive to both domestic and global developments and remain prone to further bouts of volatility and protracted periods of overshooting due to the currentfiscal policy stance.

Commenting on the demand for foreign exchange, it was noted that of late, the main driver of demand for forex is the government and quasi government sectors and that demand would have been higher but for the tight monetary policy stance. Accordingly, the Committee agreed that there was need to take decisive policy changes and in particular to return to fiscal consolidation to attain and sustain macroeconomic stability.

MONEY MARKET DEVELOPMENTS

In the year to end-March 2014, the domestic debt rose to D13.9 billion, or 23.4 percent from March 2013. Treasury Bills and Sukuk Al Salaam, accounting for 81.8 percent and 3.6 percent of the debt stock, increased by 30.2 percent and 18.7 percent respectively.

According to data on Treasury bills by holder, commercial banks held the bulk of bills (61.2 percent), CBG (24.3 percent) and the non-bank (14.5 percent).

Data on maturity structure of Treasury bills indicate that 91-day bills accounted for 14.43 percent of the outstanding stock, 182-day bills (29.20 percent) and 364-daybills (56.37 percent). The yield on all the maturities rose significantly from March 2013. The yield on the 91-day, 182-day and 364-day bills increased from 9.44 percent, 9.86 percent and 10.73 percent to 15.46 percent, 16.7 percent and 18.48 percent respectively. Similarly, the yield on the 91-day Sukuk Al Salaam rose from 9.95 percent in March 2013 to 15.79 percent in March 2014.

Commenting on the reasons for higher Sukuk Al Salaam yields vis-à-vis Treasury bills, it was observed that this may be explained by the fact that the Sukuk market is not as competitive as the Treasury bills market where there are more retail and corporate investors.

The Committee generally agreed that the rising debt stock is a cause for concern and that action should be taken to stabilise the debt in the first instance and to pay it down substantially thereafter. It was pointed out that part of paying down the debt is growing the economy.Some Committee membersindicated that what is needed as a matter of urgency is fiscal adjustment failing which future deleveraging of the debt would be exceedingly costly to the Gambian economy.

The Committee highlighted that it appears communicating the debilitating effects of the debt burden to the relevant authorities has not been effective and the ERD was tasked to prepare a position paper to be shared with the relevant authorities.

GOVERNMENT FISCAL OPERATIONS

Government fiscal operations in the first quarter of 2014 indicate that total revenue and grants increased to D2.09 billion, higher than the D1.62 billion in the corresponding quarter of 2013. It was, however, below the target of D2.14 billion.

Domestic revenue comprising tax and non-tax revenue amounted to D1.57 billion, higher than the 2013 first quarter total of D1.44 billion and the target of D1.53 billion owing primarily to the 11 percent increase in tax revenue. Non-tax revenue, on the other hand, rose by only 1 percent.

Grants also increased to D519.6 million compared to D185.4 million in the first quarter of 2013 attributed solely to project grants. There were no programme grants during the quarter under review.

Expenditure and net lending totalled D2.69 billion, higher than the D2.11 billion in the first quarter of 2013. Both current and capital expenditure rose to D1.88 billion and D813.3 million compared to D1.53 billion and D575.5 million respectively.

The overall budget balance (including grants) recorded a deficit of D214.0 million. The deficit was financed solely by domestic borrowing as there was net external payment of D29.8 million.

The Committee noted that budget execution in the first quarter of 2014 was commendable in that the outcomes either exceeded or were close to the targets. However, the Committee lamented the significant increase in the ratio of the public debt to GDP ratio from 74 percent in 2012 to 83 percent in 2013 and over and above the internationally acceptable threshold of 60 percent.

The Committee reiterated the need for fiscal adjustment to generate the primary surplus needed to bring the debt to a sustainable path and to reorient expenditure from current to capital spending to support economic growth.

Commenting on the issue of rebasing of the Gambia economy, it was agreed it is absolutely necessary, but is best done every 10 years. The Gambian economy was last rebased in 2005 and besides the structure of the Gambian economy had not changed fundamentally to warrant urgent rebasing.

REAL SECTOR DEVELOPMENTS

The Gambian economy is estimated to have grown by 5.6 percent in 2013, lower than the 6.1 percent in 2012. Value-added of agriculture is estimated at 15 percent, services (3.7 percent) and industry (7 percent). Economic activity in 2014 is expected to expand by between 6.0 – 6.5 percent on the back of robust growth of the tourism and agricultural sectors.

The Committee observed that agriculture is the linchpin of the Gambian economy but despite significant investment in the sector, productivity remains low. It was indicated that agriculture output in developed countries averaged 7 tonnes per hectare compared to about 1 tonne in the Gambia. As a result, there is need to revisit the entire value chain from inputs, production, storage and marketing if we are to harness the potentials of the agricultural sector.

The Committee had varied views on the best method to compute the output gap but it was broadly agreed that measuring the output gap is difficult especially in developing countries where there are data challenges.

MONETARY DEVELOPMENTS

In the year to end-March 2014, growth in broad money expanded by10.4 percent from 8.8 percent a year earlier. This was mainly as a result of the robust growth in the net domestic assets (NDA) of the banking system. The NDA rose to D13.5 billion, or 14.6 percent. Domestic credit increased to D16.1 billion, or 21 percent compared to 13.1 percent a year earlier. Credit to the private sector rose by 17.8 percent a year ago. However, credit to government (net) grew at a stronger pace of 24.3 percent compared to 13.5 percent a year earlier. The net foreign assets of the banking system, on the other hand, contracted to D4.6 billion, or 0.3 percent.

Of the components of money supply, narrow money grew by 15.8 percent, lower than the 16.3 percent in the corresponding period a year earlier. Growth in currency outside banks decelerated to 14.9 percent from 22.2 percent a year earlier. Demand deposits on the other hand, grew by 16.3 percent from 13.1 percent in the corresponding period a year earlier. The ratio of narrow money to broad money increased to 50.6 percent from 48.3 percent.

Quasi money rose at an annualised rate of 5.4 percent compared to 2.7 percent a year ago. Time deposits contracted by 12.8 percent whilst savings deposits rose by 16.7 percent. The ratio of quasi money to broad money decreased to 49 percent from 51 percent a year earlier.

Reserve money, the Bank's operating target, rose markedly by 30.7 percent in the year to end-March 2014 relative to 3.4 percent a year earlier.

The Committee took note of the robust growth in private sector credit as reported in the monetary survey and commented that the data reported is expressed in gross terms. Private sector credit, net of provisions, grew by only 5.2 percent.

DEVELOPMENTS IN THE BANKING SECTOR

According to recent data on the banking sector, the industry's capital and reserves grew from D2.85 billion in March 2013 to D3.04 billion in March 2014. Reserves grew to D197.3 million or 8.4 percent from March 2013. The risk weighted capital adequacy ratio averaged 26.5 percent, lower than the 27.3 percent in March 2013. All the banks except one met the capital adequacy ratio.

Total assets rose to D24.6 billion or 16.4 percent with off-balance sheet exposures accounting for 13.2 percent of the total. From a year earlier, gross loans and advances representing 25 percent of total assets, rose to D6.14 billion, or 6.1 percent. Loans to the Government sector grew at a strong pace of 20.9 percent. Private sector loans, net of provisions, also grew but at a slow pace (5.2 percent). The non-performing loans (NPL) ratio rose to 17.4 percent, higher than the 11 percent in March 2013.

Deposit liabilities totalled D14.74 billionin the first quarter of 2014 compared to D13.9 billion in the corresponding quarter of 2013. The liquidity ratio was 80.5 percent, over and above the prudential requirement of 30 percent.

The industry recorded a net income of D136.1 million in the first quarter of 2014, or an increase of 121.0 percent from the corresponding period in 2013. The return on assets and return on equity was 1.8 percent and 12.7 percent respectively.

The Committee noted the decrease in demand and time deposits and the increase in saving deposits. Some Committee members attributed this development to flight to safety in an environment of pressures on prices and exchange rate volatility.

On the issue of the aggressive expansion of branch networks by the small banks, it was commented that in banking, scale matters to reduce operating cost. However, the expansion in branches must be backed by adequate capital.

Regarding access to finance, it was observed that access is mainly about affordability and that under the current dispensation,interest rates are unaffordable. It was, therefore, critical that public policy should be geared towards keeping the debt sustainable and inflation low and non-volatile to allow the monetary authorities to reduce interest rates. The view was also expressed that access to finance was not the only challenge confronting business. Other challenges include inadequate infrastructure particularly the high cost and erratic supply of electricity.

Inflation

Consumer price inflation, measured by the National Consumer Price Index, increased to 5.56 percent in March 2014 relative to 5.35 percent recorded in the corresponding period in 2013.

Both food and non-food prices rose to 6.42 percent and 4.3 percent from 4.78 percent and 4.13 percent respectively.

Core inflation, which excludes prices of volatile food items and energy, also accelerated to 5.56 percent in March 2014 from 5.29 percent in March 2013.

Committee members expressed significant uncertainty concerning the stance of fiscal policy bearing in mind that inflation is usually caused by fiscal excesses financed by the monetary authorities. However, the Committee generally agreed that the current monetary stance is appropriate to rein in inflation.

Decision

Against this backdrop, the Monetary Policy Committee decided to keep the policy rate unchanged at 20.0 percent. Future policy stance would depend on a number of factors including projected inflation, inflation expectations, the state of the economy and global developments.