CENTRAL BANK OF THE GAMBIA

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

FEBRUARY 03, 2016

The first meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) took place in the Conference Room of the Bank onFebruary 03, 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 I, MOFEA, Member
Mr. Essa Drammeh	Director, Financial Supervision Department (FSD), Member
Mr. Ismaila Jarju	Director, Economic Research Department (ERD), Member
Mr. Mbye Jammeh	Director, Banking Department (BD) Member,
Mr. Baboucarr Jobe	Principal Economist, MOFEA, Member
Mrs. Mai John - Sowe	Senior Economist, ERD, Secretary

In attendance were:

Mr. Omar Jaata	Director, Foreign Department
Mr. OusainouCorr	Director, Finance Department
Mr. Bai Senghor	Director, Microfinance Department
Mr. Pa Alieu Sillah	Commissioner of Insurance
Mr. Paul Mendy	Director 2, FSD

Mrs. Fatou Deen Touray	Deputy Director, Microfinance Department
Mr. Bakary Jammeh	Deputy Director, ERD
Mrs. Maimuna John – Sowe	Deputy Director, ERD
Mr. Amadou Koora	Deputy Director, FSD
Mr. Abdoulie Janneh	Economist, National Coordinating Committee on ECOWAS
Mrs. Annetta Riley	Principal Banking Officer, BD
Mr. Momodou Lamin Jarju	Principal Banking Officer, BD
Mr. Karafa Jobarteh	Principal Officer, Foreign Department
Mrs. Halima Singhateh-Jagne	Principal Bank Examiner, FSD
Mr. Sheriff Touray	Senior Economist, ERD
Mr. Sulayman Ceesay	Senior Economist, ERD
Mr. Yaya Cham	Senior Economist, ERD
Mr. MomodouJallow	Economist, ERD
Mr. Khalilu Bah	Economist, ERD
Ms. Awa Njie	Bank Examiner, FSD
Mr. Baboucarr Jammeh	Bank Examiner, FSD
Mrs. Oumie Touray	Bank Examiner, FSD
Ms. Therese L. Jatta	Bank Examiner, FSD
MS. Ya-Maram Sosseh	Bank Examiner, FSD
Mr. Lamin Bah	Risk Management Unit
Mr. Abdou Joof	Intern, ERD Observer
Mr. Mansour Joof	Intern, ERD Observer

The first meeting of theMonetary Policy Committee (MPC) in 2016 was held at the Conference Room of the Bank on February 03, 2016.After silent prayers, the Governor and Chairman of the MPC welcomed Committee members and attendees to the meeting.He noted that the Gambian economy experienced a difficult 2015 owing primarily to the effects of the Ebola on tourism and the late rains on agriculture.However, he expressed optimism that with the lifting of the exchange rate directive and barring shocks, the Gambian economy should return to robust growth in 2016.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, and monetary developments, banking sector developments,private sector business sentiment survey and the inflation outlook.

World Economic Outlook

The underlying forces impacting the global economy remain uneven and areaffecting various economies differently. According to the International Monetary Fund (IMF), global growth was estimated at 3.1 percent in 2015, lower than the 3.4 percent in 2014 attributed to (i) thegradual slowdown and rebalancing of economic activity in China away from investment and manufacturing towards consumption and services, (ii) lower prices for energy and other commodities, and (iii) gradual tightening of monetary policy in the United States against the backdrop of resilient US recovery.

The US economy was estimated to have expanded by 2.5 percent in 2015 compared to 2.4 percent in 2014. Recent data indicate a softening in the fourth quarter, but was not expected to persist given strong underlying fundamentals including robust employment gains, lower oil prices and improving incomes, which have supported private domestic demand and strong business investment outside commodity-related sectors.

Accommodative monetary policy, low oil prices and depreciating currency are expected to underpin continued expansion in the Euro area and Japan. However, growth in these economies was expected to remain relatively modest, restrained by weak investment and structural factors. Growth in the Euro area is projected at 1.5 percent in 2015, the strongest output since 2011 and higher than the 0.9 percent in 2014. Economic activity is expected to expand by 1.7 percent in 2016. The Japanese economy grew by 0.6 percent in 2015 compared to zero growth in 2014. Growth in Japan was expected to expand further to 1.0 percent in 2016 on the back of continuing fiscal stimulus, lower oil prices, accommodative monetary policy and rising incomes.

The UK economy expanded at a slower pace of 2.2 percent in 2015 compared to 2.9 percent in 2014. Despite the slight deceleration, the country's macroeconomic fundamentals remain strong and the robust labour market should sustain economic growth going forward.

Growth in emerging market and developing economies decreased from 4.6 percent in 2014 to 4.0 percent in 2015, the lowest since the 2008-2009 financial crises. China's economy continues its shift toward a more sustainable pace with greater reliance on market forces. Consequently, growth in China was expected to slow gradually from just above 7.0 percent in 2014 to 6.9 percent in 2015. Output is expected to decelerate further to 6.3 percent in 2016. As the process of rebalancing from manufacturing toward the service sector proceeds, industrial output should decelerate whilst services and consumption should remain solid. Growth in infrastructure investment is expected to slow but to remain robust through 2017 in line with the Chinese government's stated priority to address ongoing infrastructure needs. This should support demand for commodities.

Growth in Sub-Saharan Africa is estimated to have slowed to 3.5 percent in 2015 from 5.0 percent in 2014, reflecting in the main the impact of lower commodity prices and higher borrowing costs which weighed heavily on some of the region's largest economies as well as a number of smaller commodity exporters.

Global inflation pressures remain benign, reinforced by a further decline in commodity prices. Both headline and core inflation remain well below the targets in most advanced economies and as a result, monetary policies were expected to remain accommodative in these countries. Inflation developments in emerging market and developing economies varied among countries. Weak domestic demand and lower commodity prices caused prices to decrease in some countries while marked currency depreciations in others resulted in build-up of inflationary pressures.

Since the previous meeting of the MPC, oil prices have declined by about 75.0 percent from their peak in June 2014. The global over supply and the consequent low prices are expected to persist in the short term, particularly following the lifting of sanctions against Iran. However, with the marginal producers expected to shut down or reduce production, prices were expected to follow a moderate upward trend over the medium term.

The FAO Food Prices Index averaged 164.1 points in 2015, nearly 19.0 percent lower than in 2014, marking the fourth consecutive annual decline. Abundant supplies, in the face of slow world demand, depressed prices of food commodities.

The Committee underscored that the global economy continues to be characterised by plunging commodity prices, volatile equity markets, weak world trade and lower long-term inflation expectations.

The Committee agreed that economic developments in China were having a profound impact on the world economy particularly for major commodity exporting countries reflecting in part China's role as the world's growth pole over the past three decades. It was also commented that China's economy was maturing. And as economies mature, growth tends to slow and the structure of the economy shifts from manufacturing to services. But ultimately, the rebalancing of the Chinese economy could in the long-run serve the Chinese and the world economy well.

Some Committee members were of the view that given the transition in China, it was imperative that the world economy has another growth pole and Sub-Saharan Africa could take that mantle. Sub-Saharan Africa had a large and growing population and is endowed with myriad natural resources including vast expanse of land as well as a relatively large middle class. However, Africa can only leverage its endowment if it implements sound macroeconomic and structural policies. The point was made that growth in Africa had been constrained by the stop-go policies which undermined confidence.

The Committee underlined that low oil prices were good for global growth but to a point. The current low oil prices was having a devastating impact on the economies of almost all major oil exporting countries causing reduced investment, slowing growth and engendering low long-term inflation expectations.

Real Sector Developments

The domestic economic growth outlook has improved. Growth in 2015 was estimated at 4.7 percent, higher than the growth of 0.9 percent in 2014 reflecting better than-expected output of tourism and agriculture.

The Committee underscored that a strong agricultural sector holds the key for sustained economic growth and poverty reduction and explains the commitment of Government to scale-up investment to the sector and to build resilience. The Committee debated on the role of central banks in supporting the economy and stressed that monetary authoritiesshould focus first and foremost on price stability and the developmental role should be limited to financial sector development and promoting access to finance.

Despite the fact that economic growth in 2015 wasaffectedby the twin shocks of late rains and Ebola, the impact of the Ebola on the services sectoras a whole was not felt much because of the robust growth of the financial and communications sub-sectors.

The Committee was informed that GBoS was working with AFRITAC West II to forecast GDP on a quarterly basis.That notwithstanding, the MPC enjoined the ERD to finalise the work on the Composite Index of Economic Activities (CIEA) that could serve as a useful guide to the Committee on the performance of the economy.

Government Fiscal Operations

Preliminary data on government fiscal operations for 2015 indicate that total revenue and grants amounted to D8.0 billion (21.6 percent of GDP), higher than the D7.5 billion (20.0 percent of GDP) in 2014. The outturn was, however, D2.3 billion below projection.

Domestic revenue, comprising tax and non-tax revenue, amounted to D7.5 billion, an increase of 21.7 percent over the outturn in 2014. The increased outturn was mainly the result of 27.0 percent increase in tax revenue to D6.7 billion (17.6 percent of GDP). Non-tax revenue, on the other hand, declined by 9.3 percent to D821.3 million. Of the components of tax revenue, direct and indirect taxes rose by 22.7 percent and 28.5 percent to D1.7 billion and D5.0 billion respectively. Tax on international trade, constituting 69.1 percent of direct taxes, rose by 31.7 percent to D3.5 billion. Grants totalled D483.6 million, a decrease of 62.4 percent from 2014.

Expenditure and net lending amounted to D10.4 billion (28.3 percent of GDP), higher than the D9.8 billion in 2014 (26.0 percent of GDP). Current expenditure rose to D8.4 billion, or 15.5 percent. Although personnel emoluments and other charges grew modestly by 5.7 percent and 3.4 percent respectively, interest payments increased significantly by 47.7 percent from the previous year. Capital expenditure in contrast, decreased by 19.5 percent to D2.0 billon. Capital expenditure was financed externally (D1.3 billion) and Gambia Local Fund (D675.5 million).

The overall budget balance (excluding grants) on commitment basis was a deficit of D2.8 billion (7.6 percent of GDP) compared to a deficit of D3.6 billion (9.7 percent of GDP) in 2014. The overall budget balance (including grants) on commitment basis was unchanged at D2.4 billion, or 6.3 percent of GDP.

The Committee noted that the successful implementation of the 2016 budget depends on several factors including (i) the likelihood of restoring relationship with the IMF and negotiating a new programme necessary to restore budget and balance of payments(BOP) support; (ii) the lifting of the directive fixing the exchange rate which should positivelyimpact trade taxes; (iii) higher GDPgrowth which should increase bothtax and non-tax revenue; and (iv) structural reforms which should further support growth while the restructuring of the budget should help restore fiscal health. It was, however, argued that the proposed reform measures alone would not significantly reduce net domestic borrowing.

The Committee reiterated the need for fiscal adjustment now failing which the adjustment could be more far reaching and painful later. The point was also made that given the high expenditure and net lending to GDP of 28.3 percent, expenditure cuts should bear the brunt of the adjustment.

External Sector Developments

Preliminary BOP estimates for 2015 indicated an overall deficit of US$53.5 million compared to the deficit of US$60.2 million in 2014. This mainly reflected the slight narrowing of the current account deficit and modest decrease in the capital and financial account surplus.

The current account deficit narrowed to US$123.7 million compared to a deficit of US$126.9 million in 2014. Of the components of the current account, the goods account deficit rose to US$245.7 million compared to the deficit of US$209.7 million in 2014. Imports increased by 6.6 percent to US$357.9 million while exports declined to US$94.0 million, or 9.6 percent. The service account surplus rose to US$43.7 million, relative to the surplus of US$29.1 million in2014 attributed primarily to the increase in travel income to US$153.5 million, or14.9 percent. The income account deficit widened slightly to US$25.0 million compared to US$24.3 million in 2014 reflecting increased external interest payments. Current transfers surplus rose to US$103.4 million, or 32.6 percent. Although transfers to general government declined by 26.3 percent to US$36.2 million, workers' remittances rose by 8.6 percent to US$135.1 million in 2015.

The capital and financial account recorded a reduced surplus of US$177.3 million compared to the surplus of US$187.2 million in 2014. The capital account surplus decreased by 17.7 percent while the surplus of the financial account rose by 16.4 percent.

The Committee was informed that data provided by the Money Transfer Operators (MTOs) indicated that official remittances totalled US$200.0 million compared to the US$135.1 million estimate. The Committee noted that based on anecdotal evidence and surveys conducted elsewhere, remittances through informal channels may be almost twice or thrice the official figures.

The Committee noted that although the current account deficit narrowed somewhat, it was unsustainable and underlined the need to increase domestic exports. The view was also expressed that imports may be understated because of under invoicing to evade tax and that by implication the current account deficit may be a lot higher than what was being reported.

Exchange Rate Developments

Volume of transactions in the domestic foreign exchange market decreased to US$0.75 billion in 2015,significantly lower than the US$1.40 billion in 2014.

The Dalasistrengthened againstthe US Dollar by 12.2 percent, Pound Sterling (12.6 percent) and Euro (23.0 percent).

Commenting on the decrease in formal remittances in the later part of 2015, it was noted that several studies confirmed that remittances are exchange rate sensitive. Thus, the decrease in remittances could be attributed to the directive fixing the exchange rate of the Dalasi.

Regarding the classification of remittances in the BOP, it was noted that remittances go beyond person to person. In fact, some of the remittances flow into construction. Thus, classifying all the flowsunder current accountis incorrect and overstates the account. Thus, the rule of thumb adopted by the BOP Unit of the Research Department is to classify35.0 percent of remittances as foreign direct investment under the capital and financial account.

Money Market Developments

In 2015, the domestic debt rose to D22.5 billion, or 20.4 percent from 2014 and accounted for 59.1 percent of GDP. Treasury bills and Sukuk-Al-Salam (SAS) combined and accounting for 70.3 percent of the debt, rose by 4.2 percent to D15.9 billion.

Deposit money banks held the bulk of the Treasury bills and Sukuk-Al-Salam (68.3 percent of the stock) compared to 57.7 percent in 2014. The non-bank holdings also increased and accounted for 23.7 percent of the stock compared to 19.4 percent in 2014 while CBG holdings declined from27.8 percent in 2014 to 8.0 percent in 2015.

Data on the distribution of Treasury and SAS bills by maturity indicate that 364 –day bills accounted for 68.2 percent of the stock, 182-day bills (21.5 percent) and 91-day bills (10.3 percent). The average time to maturity of Treasury bills and SAS increased to 9.78 months in2015 relative to 8.93 months in2014.

The yield on all the maturities increased. The yield on the 91-day, 182-day and 364-day Treasury bills increased from 14.01 percent, 16.34 percent and 19.17 percent in 2014 to 17.64 percent, 18.08 percent and 21.77 percent respectively in 2015. Similarly, the yield on the 91-day, 182-day and 364-day SAS rose from 14.07 percent, 16.50 percent and 19.20 percent in 2014 to 17.58 percent, 18.03 percent, and 21.83 percent in 2015 respectively.

The Committee agreed that to successfully re-profile the debt, it is absolutely critical that the yields on Government paper are brought to single digit by sustained fiscal consolidation in the first instance. If not, under the current circumstances, holders of the debt may only enter into debt swaps of longer maturity if paid very high interest rates, which needless to mention would render the public debt more unsustainable.

The Committee noted that although reprofiling of the debt may help in giving the fiscal authorities breathing space, it does not address the underlying cause of the debt, which is the expansionary fiscal policy.

Monetary Developments

The pace of monetary expansion decelerated significantly since the last meeting of the MPC. Money supply contracted by 0.9 percent in 2015 compared to the growth of 11.2 percent in 2014,

All the components of money supply contracted. Narrow money, comprising currency outside banks and demand deposits contracted by 0.9 percent reflecting primarily the contraction in demand deposits by 3.3 percent.Currency outside banks, on the other hand, increased by a modest 3.8 percent. Similarly, quasi money contracted by 0.9 percent from the robust growth of 12.4 percent in 2014. Of the components of quasi money, savings deposits, contracted by 1.6 percent. Time deposits in contrast, increased slightly by 0.7 percent.

Reserve money, the Bank's operating target, increased by 10.0 percent, lower than the 11.9 percent in 2014. This was mainly as a result of the robust growth in the net domestic assets (NDA) of the CBG. The net foreign assets (NFA) of the Bank, on the other hand, contracted significantly by 112.6 percent to negative D140.7 million.

The Committee noted that the contraction in broad money in general and private sector credit in particular reinforces the view of the MPC that the Gambian economy continued to be buffeted by myriad headwinds including seemingly decreased private investment. The view was also expressed that the contraction in money supply is having a bearing on prices evidenced by signs of decelerating inflationary pressures.

Banking Sector Developments

The key financial soundness indicators show that the banking sector is fundamentally sound.The assets of the industry increased to D29.3 billion in 2015, or 3.9 percent from 2014. However, gross loans and advances, accounting for 16.8 percent of total assets, decreased to D4.9 billion, or 9.4 percent from 2014 attributed mainly to the 8.5 percent decline in private sector credit. Investment in Treasury bills, in contrast, rose to D10.3 billion, or 24.4 percent from 2014. Non-performing loans ratio declined to 6.5 percent compared to 7.2 percent in 2014. The capital adequacy ratio averaged 32.9 percent, higher than the average of 29.8 percent in 2014 and all the banks met the minimum requirement of 10 percent.

Deposit liabilities totalled D16.5 billion, or a decrease of 1.9 percent from 2014. The liquidity ratio averaged 93.0 percent compared to 84.8 percent in 2014 and well over and above the minimum requirement of 30.0 percent.

The industry recorded a net profit of D604.0 million, lower than the profit of D624.0 million in 2014. The return on assets (ROA) and return on equity (ROE) was 2.1 percent and14.6 percent compared to 11.5 percent and 76.5 percent respectively in 2014.

The Committee noted that given the headwinds to the Gambian economy, the CBG should explore requesting banks especially those deemed the most vulnerable to shore up their capital. The point was made that once the stress testing exercise is completed, the Bank would be better informed of which banks should augment their capital.

Inflation Outlook

The latest release by the Gambia Bureau of Statistics (GBoS) indicated that headline consumer price inflation decelerated slightly to 6.67 percent in December 2015 compared to 6.92 percent in December 2014. This was primarily attributed to the decline in food inflation from 8.43 percent in December 2014 to 4.83 percent in December 2015. This development was largely on account of the decrease in prices of meat, cheese and eggs (from 7.91 percent, to 3.41 percent); fruits and nuts (from 4.28 percent to 3.94 percent) and vegetables, root crops and tubers (from 3.23 percent to 2.34 percent).

In contrast, non-food price inflation increased from 4.83 percent in December2014 to 5.17 percent in December 2015 reflecting the acceleration in the prices of alcoholic beverages, tobacco and narcotics from 1.85 percent in December 2014 to 2.72 percent in December 2015; "clothing, garments and tailoring services" (from 3.75 percent to 7.69 percent);

“hotels, cafes and restaurants” (from 4.98 percent to 7.11 percent); and “personnel care (from 6.13 percent to 8.71 percent).

Central Bank of The Gambia’s measure of core inflation, which stripes out the prices of energy, utilities and volatile food items decreased slightly to 6.68 percent in December 2015 compared to 6.90 percent in December 2014.

The Committee commented that given the confluence of slowdown in economic activity, contraction in money supply and stability of the Dalasi, inflation should continue to decelerate. In fact, expectations were that the inflation target of 5 percent would be achieved in the middle of 2016.

Decision

Against this backdrop, the Committee assesses the risks to inflation to be on the downside and, therefore, decided to maintain the policy rate at 23 percent. The Committee remains committed to its price stability mandate and would continue to monitor developments in the economy and take appropriate actions if necessary.