MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

November 24, 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 November 24, 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. 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:

Mr. Omar Jaata	Director, Foreign Department
Mr. Ousainou Corr	Director, Finance Department
Mr. Bai Senghor	Director, Microfinance Department
Mr. Pa Alieu Sillah	Commissioner of Insurance
Mrs. Fatou Deen-Touray	Deputy Director, Microfinance Department
Dr. Seeku Jaabi	Deputy Director, Microfinance Department
Mr. Abdoulie Janneh	Economist, NCC
Mrs. Annetta Railey	Principal Banking Officer, BD
Mr. Momodou Lamin Jarjue	Principal Banking Officer, BD
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mr. Abdou Ceesay	Principal Officer, Foreign Department
Mr. Sheriff Touray	Senior Economist, ERD
Mr. Karafa Jobarteh	Senior Officer, Foreign Department
Mr. Sulayman Ceesay	Economist, ERD

Mrs. Aji Adam Njie	Economist, ERD
Mr. Ebrima Jobe	Bank Examiner, FSD
Mr. Sulayman Cham	Bank Examiner, FSD
Mrs. Binta Beyai	Economist, BD
Mr. Lamin Bah	Risk Officer, Risk Mgt Unit
Ms. Fatim Hydara	Intern, FSD

The Monetary Policy Committee (MPC) meeting of the Central Bank of The Gambia was held at the Conference Room of the Bank on November 24, 2014. After observing silent prayers, the Governor and Chairman of the MPC opened the meeting by apologising for the rescheduling of the meeting from the previous announced date due to circumstances beyond the control of the Bank. This was followed by the review and adoption of the minutes of the previous MPC.

There were no matters arising and thus the meeting proceeded with presentations and discussions on world economic outlook, real sector developments, fiscal developments, balance of payments (BOP), exchange rate developments, money market developments, monetary developments, financial stability issues, and the inflation outlook.

World Economic Outlook

Since the previous meeting of the MPC, global economic recovery remains uneven amid sustained improvements in the US and UK and deteriorating prospects in the Euro zone, Japan and several emerging market economies.

In advanced economies, growth is forecast to increase by 1.8 percent in 2014 and 2.3 percent in 2015. The US recovery continues to gather steam with temporary constraints such as the unusually harsh winter and sharp correction to earlier inventory build-up that have receded. Economic activity grew at an annualised 4.2 percent in the second quarter following a contraction of 1.9 percent in the first quarter reflecting the combination of improving housing activity, stronger non-residential investment and increased manufacturing.

Growth in the Euro area remains weak with the German economy also under pressure following a contraction in the second quarter. Inadequate domestic demand, high debt and unemployment continue to pose challenges to the robust and sustained growth. Sanctions on Russia are expected to be an additional constraint affecting the Euro zones' growth outlook. Growth outlook for the UK remains positive. The UK economy expanded by 0.7 percent in the third quarter, albeit a slowdown from the 0.9 percent in the second quarter. Services expanded by 0.7 percent and contributed 0.6 percentage points to the increase in GDP in the third quarter.

After strong first quarter growth driven by high demand ahead of the consumption tax increase, the Japanese economy contracted in both the second and third quarters. GDP shrank by an annualised 1.7 percent and 1.6 percent in the second and third quarters respectively mainly as a result of decreased business investment.

While emerging Asia appears to be benefiting from the US recovery, emerging markets generally are facing headwinds including lackluster domestic demand and the impact of increasing geopolitical tensions, especially the events in Russia and neighbouring countries. After three decades of remarkable growth, China's economy has been slowing. Growth is expected to decline slightly in 2014-2015 to 7.4 percent as the economy transitions to a more sustainable path.

Growth in Sub-Saharan Africa is expected to remain relatively strong, although commodity producers and those with large tourism sectors may be adversely affected by lower commodity prices and possible spillover effects from the Ebola outbreak. The region's economy is forecast to expand by about 5.0 percent in 2014, the same level as in 2013 and accelerating to about 5.8 percent in 2015 underpinned by continued public investment in infrastructure, buoyant services sectors and strong agricultural production.

There is continued absence of significant upside global inflation risks, despite pressures experienced in some emerging markets. Declining international oil prices and a number of other commodity prices are expected to reinforce the current low inflation environment.

Inflation has generally remained below central bank targets in advanced economies, an indication that continued substantial economic slack and deflation continue to be a concern. In the US, inflation is forecast at 1.6 percent in 2014 and to rise gradually toward the Federal Reserve's longer-term objective of 2.0 percent.

In the Euro area, price pressures remained subdued reflecting persistent output gaps and weak credit conditions. As a result, Euro-area wide inflation rates are expected to remain well below ECB's target through at least 2019.

In emerging markets and developing economies, inflation has remained broadly stable, but is projected to decline in 2014 and to remain broadly unchanged in 2015. The recent decline in inflation reflects the softening of commodity prices particularly foods which have a high weight in the consumer price index for these countries.

The FAO Food Price Index was 192.3 points in October 2014, 14.3 points (6.9 percent) lower than the corresponding period in 2013.

International oil prices traded in the range of US $105-US $114 per barrel for the past years to end-July 2014. Since August, prices have fallen below this range and are currently trading at around US $75 per barrel. This is despite rising tensions and instabilities in the Middle East and conflict in Ukraine, events that in the past would likely have resulted in an oil price hike. Oil demand is currently weak partly due to refinery maintenance and partly to slower-than-expected global output. Supply on the other hand, has surged thanks in large part to increased production of light oil in the US from shale deposits.

The Committee noted that three major developments characterised the global economy: (i) Economic recovery remains uneven; (ii) inflation remains benign and is expected to remain so for an extended period of time thanks to soft commodity prices; (iii) decrease in oil prices and the impact on both producing and consuming countries.

The Committee observed the sharp decrease in oil prices reflecting the prevailing demand and supply conditions. It was emphasised that the supply of oil has increased significantly owing to increased production of oil in the US from shale deposits as well as from some of the OPEC countries particularly Saudi Arabia. Despite the slowdown in global economic activity amid geopolitical tensions in Eastern Europe and the Middle East, the expected high demand for gas for the winter season in America and Euro area would not be enough to sharply increase oil prices.

The Committee noted the normalisation of monetary policy in the US following the announcement by the Fed to ease bond buying. As a result, interest rates are expected to increase in the medium to long-term. On the other hand, the Bank of Japan recently announced a massive expansion of quantitative easing measures. This followed the statement by the authorities that they would do whatever it takes to fight deflation.

The Committee agreed that in the past the strong growth of the UK economy benefited the Gambian tourism industry but lamented that the Ebola outbreak would be a bane to the industry. Also, the reduction in oil prices would ordinarily put a damper on domestic prices but for the sharp depreciation of the Dalasi. Some Committee members agreed with the decision of the fiscal authorities not to reduce the pump price of petrol for now in order to recover past subsidies and reduce the budget deficit.

Real Sector Developments

The domestic growth outlook remains weak following growth rates of 5.6 percent and 6.1 percent in 2013 and 2012 respectively. Partly as a result of the impact of delayed rainfall on agriculture and partly the threat of the Ebola pandemic on the tourism sector, the IMF forecast GDP growth for 2014 to contract by 0.7 percent with the risk assessed to be on the downside. Adding to the prevailing concerns are indications that the depreciation of the Dalasi and the attendant increase in general prices may be more severe and endure for longer than previously anticipated, causing uncertainty and denting private investment.

The Committee generally agreed that the risks to growth and inflation have intensified somewhat since the last meeting of the MPC. Agriculture, the main driver of growth, would undoubtedly be affected by the late and erratic rain. The view was expressed that not only would the value added of crops and livestock decrease, the impact would be felt on trade, telecommunications and transportation sectors. Additionally, the tourism sector, the main foreign exchange earner and accounting for the lion's share of the services sector, is expected to be severely impacted by the Ebola outbreak.

The Committee noted the positive impact of the ECOWAS grant on the energy sector which eased somewhat the demand for foreign exchange in the market. The Committee welcomed the decision by Global Energy Facility (GEF) and United Nations Industrial Development Organisation (UNIDO) to jointly build 60 mega watts of renewable energy plant in Kaur as a small but critical step to addressing the energy deficit and to support long-term economic growth.

The Committee commented that the fishing industry has tremendous potential and that realising the full benefits of the sector would require addressing the structural bottlenecks besetting the sector especially the erratic supply and high cost of electricity.

Fiscal Developments

Preliminary data on Government fiscal operations for the first nine months of 2014 indicate total revenue and grants amounted to D6.0 billion (16.2 percent of GDP), an increase of 27.2 percent from the same period in 2013.

Domestic revenue, comprising tax and non-tax revenue, rose to D4.9 billion, or 19.8 percent. Both tax and non-tax revenue increased by 18.5 percent and 33.9 percent to D4.2 billion and D723.5 million respectively. Grants also increased to D1.12 billion, or 80.5 percent. There were no programme grants.

Total expenditure and net lending increased from D5.98 billion (18.3 percent of GDP) in the first nine months of 2013 to D7.4 billion (19.9 percent of GDP) during the period under review. Both current and capital expenditures increased by 52.2 percent and 5.4 percent respectively. Of the components of current expenditure, wages, salary and allowances, other charges and domestic interest payments increased by 46.7 percent, 30.0 percent, and 120.5 percent respectively. In contrast, external interest payments and personnel emoluments decreased by 52.5 percent and 1.6 percent respectively

The overall deficit (including grants) amounted to D1.4 billion (3.7 percent of GDP), lower than the deficit of D1.3 billion (3.9 percent of GDP) in the first nine months of 2013. The deficit was financed from both domestic and external sources.

The Committee expressed concern of the difficulties and challenges in firming up the fiscal figures, especially with respect to the financing items. This was mainly attributed to the technical challenges besetting the Integrated Financial Management and Information Systems (IFMIS).

The Committee took note of the projected increase in the net domestic borrowing (NDB) of about 10.0 percent of GDP in 2014, significantly higher than the target agreed with the IMF under the Extended Credit Facility (ECF) of 2.5 percent of GDP. The Committee was reminded that the NDB is the anchor of the programme and that expenditure overruns and high interest payments were mainly the sources of the higher-than-expected NDB. The view was also expressed that a significant part of the spending overruns was as a result of Government meeting the external obligations of some State owned enterprise (SOE). The Committee, therefore, recommended that the Government should ensure that SOEs are managed prudently and to fully meet their commitments without recourse to the Government budget.

The Committee reiterated the need to re-orient expenditure from current to capital outlays to support long-term economic growth. However, some Committee members were of the view that some current expenditures should ideally be subsumed under capital expenditure for efficient planning and budgeting purposes.

The Committee indicated that the marked increase in taxes on international trade was mainly due to the surge on taxes emanating from oil imports following the decrease in international oil prices. The point was also made that administrative measures such as tax compliance introduced by the Gambia Revenue Authority also contributed to the increase in taxes from international trade.

The Committee was informed that government is committed to rein in expenditure in order to reduce the net domestic borrowing to 1.0 percent of GDP in 2015. Some of the measures to be implemented include rationalisation of foreign missions abroad, sharp reduction of the travel budget and less intervention in the energy sector with the expectation that the study and strategy report being done with the assistance of the World Bank would identify the challenges of the energy sector and how best to address them.

External Sector Developments

Balance of Payments (BOP) estimates for the first half of 2014 indicated an overall deficit of US $2.2 million, lower than the deficit of US $5.6 million in the corresponding period in 2013. The slight improvement in the overall balance was mainly due to the increase in the capital and financial account surplus. The current account deficit, on the other hand, widened to US $58.1 million from a deficit of US $38.3 million in the first half of 2013.

Of the components of the current account, the goods account deficit narrowed slightly to US$98.9 million from US$100.2 million in the first half of 2013. Exports and imports are estimated to have increased to US$58.4 million and US$167.8 billion, or 32.5 percent and 8.8 percent respectively.

The surplus in the services account narrowed to US$29.6 million, a decrease of 29.8 percent from the corresponding period in 2013. Although income from transportation decreased robustly by 42.9 percent, income from tourism increased to US$57.9 million, or 11.3 percent reflecting in the main the 11.3 percent increase in tourist arrivals.

The deficit in the income account widened from US $9.5 million in the first six months of 2013 to US$16.0 million during the period under review due mainly to higher interest payments and lower income from investments abroad.

Current transfers (comprising transfers to general government, workers' remittances and other transfers) decreased to a surplus of US$27.2 million, from a surplus of US $29.3 million in the first half of 2013. Transfers to general government was estimated at US$8.5 million (31.3 percent of current transfers), higher than the US$5.2 million (17.7 percent of current transfers) in the first half of 2013. Workers' remittances and other transfers are estimated at US$18.7 million, a decrease of 22.3 percent from the first half of 2013.

The capital and financial account surplus increased to US$57.0 million, higher than the surplus of US$35.5 million in the first half of 2013. Both the capital and financial account surpluses rose from US$14.8 million and US$20.6 million to US$26.9 million and US$30.1 million respectively during the period under review.

The Committee noted that there were two vulnerabilities buffeting the Gambian economy; domestic vulnerability, emanating from the large budget deficit increasingly financed by the CBG and external vulnerability owing to the large current account deficit.

The Committee broadly agreed that the large current account deficit mirrors the saving-investment gap of about 13.0 percent of GDP. This, in turn, means that savings would either have to be imported to finance the gap or investment curtailed. The view was expressed that private sector is a net saver whilst the Government is a net borrower.

The Committee noted that the country's main cash crop, groundnuts had not done well of recent due to several factors including the erratic rainfall pattern and hence the need to diversify to other crops such as cashew. It was reported that although cashew production is on the increase, capturing the exports of the crop should help improve the estimates of the goods account of the BOP.

Exchange Rate Developments

In the year to end-October 2014, volume of transactions in the foreign exchange market increased to US$1.4 billion, or 12.0 percent from a year earlier.

The US Dollar continues to be the most traded currency accounting for 62.1 percent of total transactions, followed by Pound Sterling (17.2 percent), Euro (16.8 percent) and the other currencies combined (3.9 percent). Year-on-year, the Dalasi depreciated against the US Dollar by18.6 percent, Euro (12.6 percent) and Pound Sterling (20.1 percent).

The Committee highlighted that the Dalasi was relatively stable in the past few months of the year but weakened significantly in the past few weeks. The Committee was informed that there were multiple reasons for the sharp depreciation of the Dalasi, including the delayed effects of the Ebola outbreak on re-export receipts and tourism, less than expected receipts from groundnut exports due to aflatoxin and increased demand for forex to pay for oil imports. And since the energy sector is a major importer of oil, the Committee agreed that alternative sources of energy be explored. The Committee was informed that under the Gambia River Basin Development Organisation (OMVG) Energy Project, The Gambia would benefit from at least 37 megawatts of electricity. Importantly, in the medium to long-term, expectations are that the restructuring of NAWEC and improvements in transmission and distribution as well as key investments in green energy should reduce the demand for forex to pay for imports of fuel.

The Committee indicated that if the current high fiscal deficit is not reduced especially given that it is largely financed by the CBG, it may cause a currency crisis characterised by pressures on the exchange rate, depleting foreign reserves and slowing output and export growth.

The Committee whilst agreeing on the need to increase the supply of foreign exchange from multiple sources, noted that it is also vital in the short-term to implement measures to reduce the demand for forex by, *inter alia*, returning to fiscal rectitude

Money Market Developments

As at end-September 2014, the domestic debt stood at D16.7billion (45.4 percent of GDP), an increase from the D12.4 billion in September 2013 (38.0 percent of GDP).The marketable debt, comprising Treasury bills and Sukuk AL-Salaam (SAS), accounted for 84 percent of the debt and the non-marketable debt (16 percent).

According to data on holder of Treasury bills and SAS, the banking sector held 57.8 percent of stock of Treasury bills and 84.3 percent of the SAS. The private sector, on the other hand, held 21.3 percent and 15.3 of the stock of Treasury bills and SAS respectively. The remainder of the outstanding Treasury bills were held by CBG.

Data on the maturity structure of Treasury bills and SAS indicate that 364-day bills accounted for 58.6 percent of the stock, 182-day bills (27.0 percent) and 91-day bills (14.3 percent). The average time to maturity of Treasury bills and SAS increased to 9.1 months in September 2014 from 8.6 months in September 2013.

The Committee expressed concern of the high level of domestic debt, which is not only unsustainable, but is a drag on growth. The Committee advised on the need to take immediate remedial action to address the debt problem starting with matching expenditure to revenue in the first instance and ensuring that the primary balance is sufficient to pay down the debt and reduce yields. Some Committee members proposed obtaining grants to help pay down the debt but that ultimately fiscal prudence and growing the economy faster are the best means of addressing the debt problem.

The Committee broadly agreed that if the timing is right reprofiling the debt to longer dated bonds may be explored as a means of giving the fiscal authorities space to fundamentally adjust. For instance, under the current high interest rates environment, the proposed debt swaps would compound rather than ease the debt problem.

Monetary Developments

In the year to end-September 2014, money supply grew by10.9 percent, lower than the 11.3 percent a year earlier. The deceleration in the growth of broad money was mainly due to the slower growth of the net domestic assets (NDA) of the banking system by 10.1 percent from 17.4 percent in the previous year. The net foreign assets (NFA)of the banking sector, on the other hand, grew by 13.2 percent from a contraction of 5.6 percent a year earlier.

Of the components of broad money, narrow money, comprising currency outside banks and demand deposits, grew at a slower pace of 15.1 percent compared to 23.2 percent a year ago. Currency outside banks rose to D3.4 billion, or 33.6 percent compared to 11.7 percent a year earlier. Demand deposits also increased to D5.9 billion, or 6.3 percent from the 29.4 percent in the corresponding period a year earlier.

Quasi money, comprising savings and time deposits, increased to D9.3 billion, or 6.9 percent higher than the 2.0 percent a year earlier. Savings deposit rose to D6.3 billion, or 16.6 compared to 10.0 percent a year ago. Conversely, time deposits contracted to D3.0 billion, or 9.2 percent from a contraction of 8.9 percent in the corresponding period a year ago.

Reserve money continued to grow at a robust pace, increasing to D5.9 billion in the year to end-September 2014, or 27.4 percent. Although the NFA of the CBG decreased by 8.8 percent, the NDA rose by a robust 78.7 percent from a staggering 212.9 percent growth a year earlier. Of the components of reserve money, currency in circulation and reserves of deposit money banks increased by 30.7 percent and 21.4 percent respectively.

The Committee noted the modest growth in broad money signifying that monetary policy remains tight. It was observed that given the accommodative fiscal stance, the monetary authorities had no other choice but to tighten policy.

The Committee expressed concern of the unprecedented increase in Government contingent liabilities which was the primary source of the run down in foreign reserves to make good the guarantees of some public enterprises.

In the light of these developments, the Committee re-emphasised the importance of fiscal prudence and importantly ensuring that the fiscal stance is consistent with macroeconomic stability.

Developments in the Banking Sector

The banking sector remains safe and sound. Capital and reserves totalled D3.1 billion in the year to end-September 2014, higher than the D2.3 billion a year ago. Capital adequacy ratio averaged 27.7 percent, significantly higher than the statutory requirement of 10.0 percent. All the banks met the capital adequacy requirement.

Total assets increased to D25.1 billion, or 10.0 percent from a year earlier. Gross loans and advances, accounting for 24.7 percent of total assets, rose to D6.1 billion, or 3.3 percent from a year ago. Private sector credit increased to D5.3 billion, or 2.6 percent. The non-performing loans decreased to D0.9 billion (14.8 percent of total loans and advances) from D1.2 billion (20.0 percent of total loans and advances) recorded in September 2013.

Deposit liabilities increased to D15.2 billion, higher than the D14.2 billion in the corresponding period in 2013. The liquidity ratio stood at 83.1 percent, well above the statutory minimum requirement of 30.0 percent.

The industry recorded a net loss of D0.3 billion in the third quarter of 2014 compared to a net income of D0.2 billion in the second quarter of 2014.

The Committee expressed concern that the non-performing loans ratio remain high and directed that action be taken to significantly reduce the ratio. Some Committee members clarified that if it were not for the decision of one of the banks to fully provision its entire loan book, the ratio would have been a lower double digit.

The Committee agreed that the CBG investments aimed at modernising the financial infrastructure, including the introduction of the Credit Reference Bureau had helped to reduce the cost of banking business. However, banks also have a responsibility to rein in overheads, an important driver of operating cost to complement the efforts of the CBG.

Inflation Outlook

Consumer price inflation, measured by the National Consumer Price Index, increased to 6.3 percent in September 2014, slightly higher than the 6.1 percent in September 2013. Both food and non-food prices accelerated. Food prices rose to 7.4 percent, slightly above the 7.3 percent a year ago. Non-food inflation also accelerated to 4.8 percent relative to 4.2 percent in September 2013.

Core inflation, which excludes prices of energy and volatile food items, was 6.0 percent in September 2014 compared to 5.9 percent in the same period in 2013.

The Committee noted the acceleration in general prices and agreed that the key upside risk is the exchange rate which, in turn, is vulnerable to the policy stance of both the fiscal and monetary authorities.

The Committee indicated that given the expected decline in crop production due to the late and inadequate rains, demand for food imports is likely to increase. However, global food prices are trending down and this could put a damper on domestic prices if the sharp depreciation of the Dalasi is arrested.

The Committee noted with concern the deterioration in the inflation outlook, the high inflation expectations as reported at the previous MPC meeting, the weakening of the Dalasi exchange rate and the expected impact of the Ebola on tourism and the decline in agriculture production due to the delayed rainfall. However, most of the Committee members were of the view that the current policy stance was sufficiently tight and should help decelerate the inflationary pressures and that open market operations (OMO) should be intensified to ensure that yields in the Treasury bills and SAS market are close to the policy rate.

Decision

Against this backdrop, the Monetary Policy Committee decided to leave the policy rate unchanged at 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.