MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

May 06, 2015

The second meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) in 2015 took place in the Conference Room of the Bank on Monday May 06, 2015.

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. Paul Mendy	Director 2, Financial Supervision Department (FSD), Member
Mr. Ismaila Jarju	Director, Economic Research Department (ERD), Member
Mr. Mbye Jammeh	Director, Banking Department (BD), Member
Mr. Alhagie Taal	Director, Macroeconomic Directorate, MOFEA, Member
Mr. Sheriff Touray	Senior Economist, ERD, (Secretary)

In attendance were:

Mr. Ousainou Corr	Director, Finance Department
Mrs. Haddy Joof	Director, Admin Department
Mr. Omar Jaata	Director, Foreign, Department
Mr. Pa Alieu Sillah	Director, Insurance Department
Mr. Bai Senghor	Director, Microfinance Department
Mr. Paul Mendy	Director II, FSD
Mr. Momodou Njie	Head, Risk Management Unit
Mr. Amadou Koora	Deputy Director, FSD
Mr. Omar Janneh	Deputy Director, Admin Department
Mrs. Rohey Khan	Deputy Director, Foreign Department
Mrs. Maimuna John-Sowe	Deputy Director, ERD
Mrs. Ida Faye-Touray	Deputy Director, FSD
Mr. Abdoulie Janneh	Economist, NCC

Mr. Baboucarr jammeh	Bank Examines FSD
Ms. Ya Maram Sosseh	Bank Examines FSD
Mr. Lamin Jarju	Principal Banking Officer - BD
Mrs. Annetta Railey - Riley	Principal Banking Officer, BD
Mr. Karafa Jobarteh	Principal Officer, Foreign Department
Mr. Paul Solomon Bruce	Senior Economist / Econometrician, ERD
Mr. Yaya Cham	Senior Economist, ERD
Mrs. Aji Adam Njie	Economist, ERD
Mr. Khalilu Bah	Economist, ERD

After observing silent prayers, the Governor and Chairman of the MPC welcomed the Committee members and attendees to the 50th meeting of the MPC. He noted that the economy continues to be challenged evidenced by the deteriorating external position, fiscal slippages, and pressures on the exchange rate and consumer prices. With no matters arising, the Meeting proceeded with presentations and discussions on the world economic outlook, real sector developments, fiscal developments, balance of payments (BOP), exchange rate developments, money market developments, monetary developments, financial stability and the inflation outlook, foreign currency open positions and reserve requesment.

World Economic Outlook

Since the previous meeting of the Monetary Policy Committee (MPC), the effects of lower prices of oil and other commodities are working through the world economy, boosting overall global growth, but weakening growth prospects in some countries.

According to the IMF, growth in advanced economies is projected to expand by 2.4 percent in 2015, higher than the 1.8 percent in 2014. However, economic prospects continue to diverge. In the United States (US), despite minuscule growth in the first quarter of 2015, growth is expected to strengthen and become increasingly self-sustaining. Economic activity in the first quarter was negatively affected by several transitory factors, including severe winter weather and disruptions caused by the West Coast port strike. Much of this activity is expected to dissipate over the coming months. This, coupled with robust employment growth, lower oil prices, tamed inflation, reduced fiscal drag and improving housing market are expected to support growth during the remainder of 2015 despite the drag on net exports owing to the strengthening of the Dollar.

In the Euro area, economic activity is projected to be stronger than in recent years in light of low oil prices and the implementation of quantitative easing. The recovery is nevertheless expected to remain modest and uneven across the region given that labour market conditions continue to be difficult in some economies and private investment remained weak.

In Japan, GDP growth is projected to pick-up to 1.0 percent in 2015 from 0.1 percent contraction in 2014 supported by a weaker Yen as well as higher real wages and equity prices.

The UK economy is forecast to grow by 2.7 percent, higher than the 2.6 percent in 2014 supported by lower oil prices and improved financial market conditions.

Growth in emerging market and developing economies is projected to decline to 4.3 percent from 4.6 percent in 2014. Low commodity prices have dampened the growth prospects of several emerging-market commodity exporters reflecting declines in terms of trade, government revenues, investment and confidence. In some areas, geopolitical uncertainty is exacerbating these negative effects. In China, property market correction and weak investment, brought about in part by the actions of the authorities to rebalance the economy, have led to a slowdown in activity. Economic growth is expected to be close to the authorities' target of about 7.0 percent.

Output in Sub-Saharan Africa is projected to contract to 4.5 percent, down from 5.0 percent in 2014 premised on the marked decline in oil prices which curbed spending plans in oil producing countries, especially Nigeria and Angola.

Commodity prices have decreased by 28.0 percent since September 2014 mainly due to the 38.0 percent decline in energy prices of which, 43.0 percent was as a result of the fall in crude oil prices.

The FAO Food Price Index averaged 173.8 points in March 2015, down 40 points (18.7 percent) below the March 2014 level.

Oil prices have declined by about 45.0 percent since September 2014 reflecting the confluence of increased supply and weaker-than-expected global activity which reduced demand.

Global inflation continues to decelerate in advanced economies and most emerging market and developing economies reflecting primarily the impact of the sharp decrease in oil prices as well as lower commodity prices.

During the deliberations, the Committee agreed that the expansion in the global economy is good for all economies, including small open economies like The Gambia. The Committee noted that the debate on whether the decline in oil prices is a boon or bane has largely been settled. The effects of lower oil prices and other commodities have overall boosted global growth, but weakened growth prospects in some countries including Angola and Nigeria which are major oil exporters. Some Committee members argued the oil price shock may turn out to be a good omen for those countries that rely on primary exports in that it may force them to diversify their economies, which is the best insurance against risks and shocks. Some Committee members indicated that some oil exporting countries are using the oil price shock to implement structural policies, including removing fuel subsidies.

The Committee welcomed the deceleration in global inflation which was attributed to the decrease in commodity prices and slack in the economies of the advanced world. This means that central banks in advanced economies are unlikely to raise interest rates soon. The view was also expressed that The Gambia is in the polar opposite given the acceleration in prices over the past fifteen months owing to the depreciation of the Dalasi.

The Committee agreed that the favourable economic conditions in the UK and Euro area should positively impact the tourism sector. However, some Committee members expressed worry that the perception of Ebola could be a potential risk to the expected rebound unless that the World Health Organisation (WHO) declares the three countries that are the epicenter of the epidemic Ebola - free.

Real Sector Developments

Real GDP growth for the Gambian economy was revised upwards to an estimated 1.6 percent in 2014 from the earlier projection of a contraction of 1.4 percent. This was premised on the lower-than-expected decline in crop production.

The services sector, accounting for about 50.0 percent of GDP in 2014, is estimated to have grown by 6.9 percent, but lower than the growth of 8.1 percent in 2013. The decrease in value added emanated mainly from the contraction in “hotels and restaurants” by 9.1 percent.

The growth in the industrial sector is estimated at 6.0 percent, higher than the 4.5 percent in 2013 attributed to the strong performances of “mining and quarrying” by 10.1 percent, “electricity and water” (7.2 percent) and construction (6.6 percent).

The Committee underscored that the growth projection for 2015, estimated at 4.5 percent, is premised on the expected rebound in tourism and agriculture, arguably the two most important sectors of the Gambian economy. The view was expressed that tourism has a higher multiplier effect than agriculture hence the need to intensify marketing campaigns for the up-coming season especially in the non-traditional markets. Agriculture, on the other hand, is largely subsistence, rainfall dependent and with low value addition. The Committee reiterated the need to move to commercial agriculture supported by mechanisation, irrigation and value addition as envisaged under vision 2016.

Fiscal Developments

Recent data on government fiscal operations indicate that total revenue and grants amounted to D1.8 billion in the first quarter of 2015, lower than the D2.2 billion in the corresponding quarter in 2014.

Domestic revenue, comprising tax and non-tax revenue totaled D1.8 billion, an increase of 6.8 percent from the outturn in the first quarter of 2014. Both components of tax revenue increased. Direct and indirect taxes rose by 11.2 percent and 24.7 percent respectively. In contrast, non-tax revenue decreased significantly to D175 million, or 48.2 percent. Grants decreased significantly to only D29.0 million compared to D539.3 million in the first quarter of 2014.

Total expenditure and net lending amounted to D1.3 billion in the first two months of 2015 compared to D1.4 billion in the corresponding period in 2014.

The Committee expressed concern that the fiscal authorities would struggle to observe the 1.0 percent net domestic borrowing (NDB) target for 2015 in the absence of substantial grant inflows. The Committee reiterated the importance of domestic resource mobilization to reduce dependence on grants. However, the view was expressed that since revenue outturn is largely a function of income, the macroeconomic environment should be conducive for domestic private and foreign direct investments which are important prerequisites for sustained economic growth.

The Committee underscored the importance of economic governance bearing in mind that countries with strong institutions tend to grow faster and are better able to raise revenue. This is particularly evident in developed countries where ratios of revenue to GDP are quite high. The Committee also noted the following challenges to the fiscal sector.

a) Of the expected budget support of US$30.0 million in 2015, only US$8.0 million was disbursed;

b) Expenditure continues to exceed target;

c) Programmed land sales not executed;

d) Although the outlook for the tourism sector looks good, perception of Ebola could negatively impact the industry.

External Sector Developments

Balance of payments estimates indicate an overall surplus of US$18.8 million in 2014, lower than the surplus of US$66.9 million in 2013. This was mainly on account of the worsening of the current account deficit from US$79.3 million in 2013 to US$130.5 million in 2014.

Of the components of current account, the goods account deficit widened to US$207.1 million from the deficit of US$169.7 million in 2013. Imports rose to US$335.0 million, or 10.2 percent. Exports, on the other hand, declined to US$104.6 million, or 3.2 percent.

The services account surplus also declined to US$45.5 million from US$65.8 million in 2013, reflecting in the main, the decline in transportation services from US$ 3.7 million in 2013 to negative US$15.1million in 2014. Communication services recorded a deficit of US6.5 million compared to a surplus of US$5.7 million in 2013. The income account deficit is estimated to have widened to US$23.5 million from the deficit of US$22.4 million owing to higher external interest payments. However, travel income rose to US$74.7 million compared to US$62.4 million in 2013. Current transfers, amounted to US$56.4 million, higher than the US$47.0 million in 2013. Workers remittances in particular rose to US$50.1 million, or 2 percent from 2013.

The capital and financial account is estimated to have recorded a surplus of US$115.4 million, lower than the surplus of US$138.2 million in 2013. The capital account surplus decreased to US$16.5 million from a surplus of US$33.5 million in 2013, indicating a decrease of 50.4 percent. The financial account surplus also decreased from US$104.7 million in 2013 to US$98.95 million in 2014. Foreign reserve declined significantly by US$23.0 million compared to 2013.

The Committee noted that in the past, current account deficits were largely financed by foreign direct investments and portfolio flows. However, the situation reversed in 2014 when the current account deficit was financed primarily by a drawdown in reserves.

The Committee indicated that the main driver of the current account deficit is the goods account which has consistently been in deficit. It is, therefore, imperative that policy should focus on increasing merchandise exports in the medium to long-term and to reduce demand for imports in the short term.

The Committee noted the increase in remittances albeit slightly and commented that overall, the flows are stable and resilient attributed in part to the fact that they account for a small portion of the income of the senders.

Exchange Rate Developments

Volume of transactions in the foreign exchange market in the year to end-March 2015 increased to US$1.4 billion or 1.41 percent from a year earlier.

Year -on- year, the Dalasi depreciated against the US Dollar and Pound Sterling by 21.9 percent and 10.0 percent respectively, but appreciated slightly against the Euro by 0.2 percent. The depreciation of the Dalasi was as a result of a confluence of factors including the broad strengthening of the US Dollar, decreased inflows from tourism, agricultural exports and re-exports as well as strong domestic demand pressures fueled by the expansionary fiscal policy stance.

The Committee commented that the US Dollar strengthened against virtually all the internationally traded currencies. However, in the case of The Gambia and most other African countries, the sharp depreciation was exacerbated by external and domestic shocks, including the Ebola outbreak, delayed rainfall, expansionary fiscal policies and marked decrease in the prices of commodity exports.

The Committee emphasized that the exchange rate remains an important sign of macroeconomic stability as well as determinant of inflation expectations in The Gambia and therefore cannot be treated with benign neglect. It is therefore, imperative to stabilize the Dalasi using all the tools at the disposal of the CBG and the fiscal authorities.

The Committee also highlighted the importance of heading off speculative pressures which tends to create a feedback loop between perception and reality. The view was expressed that speculation is best addressed by the implementation of sound policies that engender certainty.

Money Market Developments

As at end-March 2015, the domestic debt rose to D19.3 billion, or 38.8 percent from March 2014. Treasuring bills and Sukuk-Al Salam (SAS) which rose by 33.1 percent and 24.4 percent respectively were the main drivers of the growing debt.

Data on the maturity structure of the debt indicated that 364 day Treasury bills and SAS accounted for 56.4 percent of the outstanding stock, 182-day (27.3 percent) and 91-day (16.3 percent) compared to 55.7 percent, 28.8 percent, and 15.5 percent respectively in March 2014. The average time to maturity was 8.9 months, unchanged relative to end - March 2014.

According to data on the distribution of Treasury bills and SAS by holder, deposit money banks held 54.2 percent of the debt, the non - bank (19.8 percent) and CBG (26.0 percent) compared to 62.3 percent, 14.7 percent and 23.0 percent respectively in March 2014.

Yields on all Treasury bill maturities declined. The 91-day, 182-day and 364-day yields fell from 15.5 percent, 16.7 percent and 18.5 percent in March 2014 to 12.7 percent, 15.6 percent and 17.7 percent respectively in March 2015. During the same period, the yield on the 91-day and 182-day SAS declined to 13.47 percent and15.96 percent from 15.79 percent and 16.80 percent in March 2014. The 364 – day SAS, however, rose to 18.61percent from 18.49 percent in March 2014.

The Committee emphasized that the biggest challenge and risk to the economy is the continually expanding and unsustainable debt and that the country may be heading towards a debt trap; that is, a situation in which the debt would be difficult to repay because high interest payments prevent repayment of the principal. Evidently, the yields on all the maturities currently exceed the growth in nominal GDP, an indication that the debt ratio would rise even when the primary deficit is zero because the borrowing needed to finance interest payments would rise as a percentage of the economy. If by contrast, the primary deficit is zero or close enough to it and economic growth exceeds interest rates, the debt would likely fall, though perhaps slowly. However, a consoling development is that the yield curve is positive or normal as opposed to being inverted as in the case with some countries.

The Committee underscored that paying down the debt is urgent, but in the short-term emphasis should be on bringing yields down by fiscal adjustment. And in the medium to long-term, the combination of strong and sustained economic growth, tight fiscal policy, debt swaps, etc should reduce the stock of the debt, lengthen the maturity profile and ultimately ensure sustainability.

The Committee commented that the rising yields are apparently not forcing the government to return to fiscal rectitude evidenced by the fact that the appetite to borrow has not abated. However, there is a limit to how much debt investors are willing to hold and should they decide to unwind their holdings or exit the market all together, the economic impact could be profound.

Monetary Developments

Money supply grew at a stronger pace of 13.6 percent in the year to end-March 2015 compared 10.7 percent a year earlier. This was mainly as a result of the strong growth in the net domestic assets (NDA) of the banking system by 21.7 percent compared to 14.6 percent a year earlier. The net foreign assets (NFA) of the banking sector, on the other hand, contracted by 9.6 percent from a slight growth of 0.7 percent a year ago.

Of the components of money supply, narrow money, comprising currency outside banks and demand deposits, grew at a robust pace of 15.7 percent on top of the strong growth of 16.1 percent a year earlier. Both currency outside banks and demand deposits rose by 15.1 percent and 16.1 percent respectively. The ratio of narrow money to broad money was 51.6 percent, compared to 50.7 percent in March 2014.

Quasi money, comprising savings and time deposits, increased by 11.7 percent, higher than the 5.4 percent a year ago. Both savings and time deposits grew by 13.5 percent and 8.0 percent, albeit a slower pace compared to the 16.7 percent and 12.8 percent growth respectively a year ago. The ratio of quasi money to broad money decreased to 48.4 percent from 49.3 percent year earlier.

Growth of reserve money decelerated to 12.4 percent in March 2015, significantly lower than the 32.0 percent in March 2014. This was mainly as a result of the 71.9 percent contraction of the NFA of the CBG. In contrast, the NDA of the CBG increased at a robust pace of 92.3 percent on top of the 200.0 percent increase a year earlier.

The Committee expressed concern of the marked decrease in foreign reserves of the CBG caused in large part by draw downs to meet the foreign obligations of some public enterprise. It was emphasized that reserve accumulation is important to build investor confidence, strengthen debt repayment capacities and external liquidity position.

Commenting on the NFA of the deposit money banks which rose from D1.9 billion in March 2014 to D3.5 billion in March 2015, in the face of decreased supply of forex, the view was expressed that the increase could (i) be a result of the depreciation of the Dalasi and (ii) misclassification in the compilation of the monetary survey.

Developments in the Banking Sector

The banking sector remains sound. Capital and reserves increased to D4.0 billion in the first quarter of 2015, higher than the D3.9 billion in the previous quarter. The capital adequacy ratio also rose, averaging 31.4 percent compared to 30.0 percent in the previous quarter. Loans and advances, accounting for 19.4 percent of total assets, amounted to D5.4 billion, almost the same as in the previous quarter. Private sector credit, accounting for 16.6 percent of loans and advances however, decreased to D4.7 billion, or 1.6 percent compared to the last quarter.

Deposit liabilities totaled D16.7 billion, a decrease of D 0.1 billion from the previous quarter attributed primarily to the decline in demand deposits by 3.5 percent. Savings and time deposits, on the other hand, increased by 0.4 percent and 2.6 percent respectively. The liquidity ratio stood at 89.8 percent, higher than the 85.0 percent in the last quarter.

The industry recorded a net profit of D0.2 billion, significantly lower than the D0.7 billion in the preceding quarter. The return on assets and return on equity averaged 0.6 percent and 4.0 percent respectively.

The Committee noted the contraction in private sector credit and indicated that it may be due to several factors, including risk aversion on the part of banks in light of the slow down in economic activity but mainly due to the crowding out of private sector by increased government borrowing.

Inflation Outlook

The inflationary pressures witnessed in 2014 persisted in the first quarter of 2015. Headline inflation, measured by the National Consumer Price Index, rose to 6.7 percent in March 2015, higher than the 5.6 percent in March 2014 and the target of 5 percent.

The main driver of headline inflation was food prices. Consumer food inflation accelerated to 8.4 percent in March 2015 relative to 6.4 percent in March 2014. Non-food inflation, on other hand, eased slightly to 4.2 percent in March 2015 compared to 4.3 percent in March 2014.

Core inflation, which excludes prices of energy and volatile food items, rose to 7.1 percent in March 2015 from 5.6 percent in March 2014.

The Committee noted the acceleration in general prices attributed to the sharp depreciation of the Dalasi as well as the shock to the agricultural sector owing to delayed rainfall which significantly reduced production across the crops subsector.

Decision

Against this backdrop, the Committee decided to increase the policy rate by 1.0 percentage point to 23.0 percent.