CENTRAL BANK OF THE GAMBIA

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

May 08, 2017

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The First meeting of the Monetary Policy Committee (MPC) of the Central Bank of the Gambia (CBG) in 2017 took place in the Conference Room of the Bank Monday May 8, 2017.

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 1, MOFEA, Member
Mr. Lamin Camara	Permanent Secretary 2, MOFEA, Member
Mr. Mbye Jammeh	Director Banking Department, Member
Mr. Bakary Jammeh	Deputy Director/OIC, ERD, Member
Mr. Amadou Koora	Deputy Director/OIC, FSD, Member
Mrs. Maimuna John-Sowe	**Deputy Director, ERD, Secretary**

In attendance were:

Mr.Ousman.A. Sowe	Senior Adviser, Office of the Governor
Mr. Bai Senghor	Director, Microfinance Department
Mr. Pa Alieu Sillah	Commissioner of Insurance
Mr. Ousainou Corr	Director Finance Department
Mrs. F. Deen Touray	Deputy Director, Microfinance Department
Mr. Ebrima L.S Darboe	Director, Loans and Debt, MOFEA
Ms. Rohey R.S Khan	Deputy Director, Foreign Department
Mr. Abdou Ceesay	Deputy Director, Foreign Department

Mr. Karamo Jawara	Principal Officer, (Banking Department)
Mr. Karafa Jobarteh	Principal Officer, Foreign Department
Mr. Sheriff Touray	Principal Economist, Economic Research Dept.
Mr. Yaya Cham	Senior Economist, Economic Research Dept.
Mr. Sulayman Ceesay	Senior Economist, Economic Research Dept.
Mr. Momodou Jallow	Economist, Economic Research Dept.
Mr. Alieu A. Ceesay	Economist, Economic Research Department
Agi Adam Njie	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mr. Baboucarr Jammeh	Bank Examiner, Financial Supervision Dept.
Mr. Ousman S. Bojang	Intern, Financial Supervision Department
Mr. Alagie A. Ceesay	Micro-finance officer, Micro- finance Dept.
Mr. Ebrima Jain	Officer, Foreign Department

1. The first meeting of the Monetary Policy Committee (MPC) in 2017, was held at the Conference Room of the Central Bank on May 08, 2017. The Governor and Chairman of the MPC called the meeting to order at 9.30am and welcomed the Committee members and other attendees to the meeting. This was followed by a review and adoption of the minutes of August 31, 2016 meeting as well as presentations and discussions on the world economic outlook, real sector developments, government fiscal operations, balance of payments (BOP),exchange rate developments, money market developments, monetary developments, banking sector developments, and inflation outlook.

World Economic Outlook

2. Since the previous meeting of the MPC, growth outlook for the global economy appears to have worsened somewhat due primarily to uncertainty surrounding the Brexit. However, with gradual return of confidence and barring financial market disruptions, the impact of the Brexit on the global economy in the medium to long-term is expected to be moderate.

3. Against this backdrop, the International Monetary Fund (IMF) lowered its global growth projections modestly by 0.1 percentage points for 2016 and 2017 to 3.1 percent and 3.4 percent respectively. Growth in advanced economies is projected at 1.8 percent in 2016, lower than 1.9 percent in 2015.Economic activity in the United States was lower than anticipated in the first quarter of 2016 due mainly to weak consumer spending, and lower oil and gas investment as well strong US dollar. However, the impact of Brexit on the US economy is expected to be moderate predicated on lower long-term interest rates and gradual monetary policy normalization.

4. Growth in the euro area in the first quarter of 2016 was 2.2 percent which was higher than anticipated reflecting robust domestic demand and rebound in investment. In Japan, the growth forecast for 2017 would have been revised up by 0.4 percentage points if not for the delay in announcement of the April 2017 consumption tax hike. Despite this development, the recent appreciation of the yen is expected to take a toll on growth in both 2016 and 2017. Consequently, growth forecast for 2016 is revised down to 1.7 percent while only 0.2 percentage points is added to the growth projection in 2017.

5. The UK economy is expected to grow only modestly this year amid subdued business sentiment owing to Brexit, significant depreciation of the pound, as well as a weaker outlook for the labor market. While growth in the first part of 2016 appears to have been slightly stronger, the uncertainty following the Brexit referendum should significantly weaken domestic demand relative to previous forecasts. Growth is revised down by about 0.2 percentage points to 1.7 percent for 2016 and close to 1 percentage point in 2017 to 1.3 percent.

6. Growth in emerging market and developing economies is forecast to remain unchanged at 4.1percent and 4.6 percent for 2016 and 2017, influenced heavily by developments in China. Economic growth in China is projected at 6.7 percent and 6.2 percent for 2016 and 2017 respectively.

7. Growth forecasts were revised downwards significantly in sub-Saharan Africa, reflecting challenging macroeconomic conditions in its largest economies, which are adjusting to lower commodity prices. The region's economy is set to grow at a slower pace of 2.4 percent in 2016 from 3.3 percent in 2015 as subdued commodity prices, uncertainty regarding Brexit and its effects on financial markets, and the numerous domestic headwinds will weigh on growth.

8. In Nigeria, economic activity is projected to contract in 2016 by 0.5 percentage points, as the economy adjusts to foreign currency shortages as a result of lower oil receipts, low power generation and weak investor confidence.

9. Global inflationary pressures remain subdued reinforced by the continuing low oil prices, but there have been upward price pressures in some emerging economies. According to preliminary estimates, inflation in the SSA region edged up from 12.4 percent in May 2016 to 12.9 percent in June 2016, the highest reading in nearly eight years. Higher inflation was recorded in some of the biggest countries in the region.

10. Prices of energy and non-energy commodities remain well below historical averages. The global over supply and consequent low prices are expected to persist. The FAO Food Price Index averaged 161.9 points in July 2016, an increase of 0.8 percent from June 2016.

11. Some Committee members commented that the presentation confirmed the IMF and World-Bank growth projections during the April, 2017 spring meetings which suggested lower than expected growth of the U.S economy and also intimated that a wait and see approach should be adopted regarding the US economy since President Trump is likely to go ahead with the implementation of his campaign rhetoric.

12. The Committee also expressed concern over the impact of the Brexit on the global economy, however, it was also muted that despite the uncertainty of the Brexit negotiations, Britain's economy remains the second strongest in the region, and this the Committee noted was attributed to good and consistent policies of the U.K government.

13. The Committee also noted that Senegal was missing from the presentation and recommended that future presentations on the global economic outlook should include Senegal, given its proximity to home and the fact that The Gambia has a lot to learn from Senegal's economic model.

14. Some Committee members were of the view that if the impact of Brexit turns out to be negative, it will affect the Gambia's tourism sector profoundly because it is its largest supplier of tourists.

15. It was also the view of the Committee that the European Union (EU) should not encourage the United Kingdom (U.K) to cherry pick whilst negotiating their exit from the EU, because it will bring about more uncertainty in the global economy.

Real Sector Developments

16. Provisional data from the Gambia Bureau of Statistics (GBOS) indicate that the Gambian economy grew by 4.7 percent in 2015, higher than 0.9 percent in 2014, and was due in the main to the recovery in agriculture, tourism and construction sectors. Agricultural output was estimated to have recovered from a contraction of 7.1 percent in 2014, to a growth rate of 7.0 percent in 2015.Industry value-added was estimated at 8.2 percent, higher than the 2.7 percent in 2014 and was attributed to the marked increase in the output of construction and electricity sub-sectors. However, output growth in the services sector declined to 3.3 percent in 2015, compared to 6.0 percent in 2014, mainly due to the decline in output of hotels and restaurants.

17. The Committee commented that growth reversals in the agricultural sector is worrisome in the Gambia's growth trajectory and the nation has not been able to create wealth through the agricultural sector, even though a lot of money has been spent on the sector

18. It was also the opinion of some Committee members that there is need to implement structural reforms in the sector and also consider the use of irrigation rather than continuous dependence on rainfall. It was also the Committee's view that in addition to diversification, good policies, strong leadership, commitment, and understanding of issues in the Agricultural Sector, is the only way forward in resolving the hurdles in the Sector.

19. The Committee also emphasized the need to identify and address the reasons for the failure in the projects and programmes in the l sector and start holding people in positions of responsibility accountable if found wanton for the failures in the Sector.

Government Fiscal Operations

20. Preliminary data on government fiscal operations for the first two months of 2017, showed that total revenue and grants amounted to 1.37 billion (2.88 percent of GDP),a decline by 5.69 percent from 2016.Grants stood at D229.23,and was 74.30 million below the quarterly target of D891.93 million. Domestic revenue, which comprises tax and non-tax revenues, decreased by 15.88 percent to D1.14 billion (2.39 percent of GDP) with 91.65 percent coming from taxes. Tax revenue decreased from D1.3 billion in the first two months of 2016, to D1.04 billion in the corresponding period in 2017.

21. Both direct and indirect taxes decreased by 22.85 percent to D717.93 million and direct taxes to D322.82 million or by 2.78 percent. Both direct and indirect taxes declined to D322.82 million and D717.93 million or by 2.75 percent and 22.85 percent respectively.

22. Total expenditure and net lending during the review period amounted to D1.44 billion (3.04 percent of GDP), compared to D1.60 billion (3.79 percent of GDP) in the first half of 2016.

23. Development expenditure which accounted for 33.44 percent of total expenditure, grew by 56.47 percent in the first two months of 2017, compared to the same period in 2016, and was attributed to higher spending on infrastructural projects with a sizeable portion of public investments financed from grants.

24. Recurrent expenditure accounting for 66.56 percent of total expenditure declined to D958.90 million driven by the decline in other charges (60.94%).Interest payments also declined by 13.12 percent in 2016.

25. Capital expenditure increased from D307.93 million (0.73 percent of GDP) in the first two months of 2016, to D481.81 million in the same period in 2017, or by 56.5 percent and accounted for (0.73 percent of GDP)

26. The overall budget deficit (including grants) for the first two months of 2017, recorded an overall deficit of D75.49 million (0.16% of GDP) compared to a deficit of 156.76 million (0.37% of GDP) in the same period last year, mainly on account of the increase in grants during the review period.

27. The meeting was informed that due to unavailability of data the report was based on the first two months of 2017.This was due to the challenges encountered by the Ministry of Finance and Economic Affairs(MOFEA) regarding the data generating system, the Integrated Financial Management Information system (IFMIS).

28. The Committee members observed the increase in capital expenditure which they considered to be a move in the right direction but frowned on the continuous dependence on grants, and said it is an unsustainable source of revenue.

Balance of Payments

29. Provisional balance of payments estimates for the fourth quarter of 2016, indicate an overall deficit of US$3.5 million, lower than the deficit of US$7.8 million in the corresponding quarter of 2015. Merchandise trade deficit during the quarter under review amounted to US$63.5 million, 19.4 percent higher than the same period last year and was mainly due to the decline in merchandise export earnings coupled with increased merchandise import bills.

30. The current account balance including official transfers registered a deficit of US$ 36.0 million compared to a deficit of US$16.5 million a year ago and was mainly due to the huge trade deficits registered in the trade, services and income account. The deficits in these accounts all widened by 55.9 percent, 9.8 percent and 123.0 percent respectively. However, remittances remained resilient and surged by 77.0 percent

31. During the review period the capital account balance recorded a surplus of US$3.7 million,40.1 percent lower than in the corresponding period last year and was as a result of increased outflows of long-term capital and foreign direct investment by 24.5 percent and 11.9 percent respectively.

32. Net foreign Assets of the banking system recorded US$ 29.7 million representing by 46.5 from the same period last year. The gross international reserves as at December 2016, stood at US$59.88 and were equivalent to 1.5 months of imports of goods and services.

33. The Committee was informed of the difficulty in generating numbers for the Capital and Financial Account in the absence of a Capital and financial Flows survey.

Exchange Rate Developments

34. In the year to end -April 2017, volume of transactions in the domestic foreign exchange market, as measured by aggregate sales and purchases, rose to US$1.2 billion, higher than US$0.83 billion in the corresponding period a year earlier. The Dalasi depreciated against the US dollar, Pound and Euro by 10.7 percent, 1.9 percent and 7.4 percent respectively.

35. The Committee commented that there is excess liquidity in the system which needs to be mobbed up and the proceeds sterilized. It was also the opinion of the Committee that there is need for Central Bank/ government to be proactive in the wake of fiscal consolidation and introduce other investment corridors for the banking industry in order to

avoid a crisis in the financial sector. It was the view of the Committee that a holistic approach should be embraced in viewing the challenges confronting the Gambian economy, rather than concentrating on interest rates alone. The Committee also opined that the economy needs to be lubricated in order to spur growth.

Money Market Developments

36. As at end-June 2016, the domestic debt rose to 29.8 billion (68.1percent of GDP) compared to 23.6 billion (54.6 percent of GDP) in March 2016.The Outstanding stock of Treasury bills and Sukuk Al Salaam (SAS) combined, accounted for 61.7 percent of the debt, which increased to D18.4 billion, or by 21.7 percent from last year.

37. Yields on all the profiles of Government securities trended down amid huge liquidity in the system and the decline in government's appetite for private funds. The yield on the 91-day,182-day and 364-day Treasury bills declined from 17.66 percent ,18.24 percent and 22,12 percent in March 2016, to 10.1 percent,12.1 percent and 13.3 percent respectively in March 2017.Similarly,the yield on the 91-day, 182-day and 364-day SAS fell from 17.54 percent,18.27 percent and 22.13 in March 2016, to 10.4 percent, 12.7 percent and 13.9 percent respectively in March 2017.

38. The Committee observed that yield rates were trending down and expressed hope that banks may now consider lending to the private sector.

39. The Committee opined that the domestic debt should be re-structured in order to create some fiscal space for government. The Committee also highlighted the need to conduct stress tests on the banks, in the wake of government's fiscal consolidation in order to assess the impact on their balance sheets. The impact of declining yields and or government buy back of debt was also brought to the fore in the discussions by some Committee.

40. On the high lending rates, the Committee intimated that the only way to get the commercial banks to lower them is to encourage the private sector to invest in long term bonds; however it also recognized the fact that the issuance of bonds will be a long term measure. The introduction of development stocks was muted by the Committee and suggested that the central bank should start thinking in that direction.

41. The Committee raised concerns over the continuous decline in the level of interbank borrowing, but some Committee members intimated that it could be that all the banks are liquid enough, thus minimizing the need to borrow from each other.

Monetary Developments

42. Growth in the key monetary aggregates surged significantly in the year to end-March, 2017.Broad money (M2) grew by 14.4 percent in March 2017 compared to 0.7 percent in March 2017 partly reflecting the uptick in the net foreign assets (NFA) of the banking system coupled with strong growth in the monetary base. The net assets (NDA) of the banking system rose by 10.2 percent to D22.2 billion.

43. Reserve money, the Central Bank's operating target, grew by 18.1 percent in the year to end-March 2017 from 11.9 percent a year earlier. This was solely as a result of the 10.2 percent increase in the net domestic assets (NDA) of CBG.

Banking Sector Developments

44. According to the financial soundness indicators, the banking sector remains safe and sound. The industry risk-weighted capital adequacy ratio averaged 35.4 percent lower than the 36.5 percent in March 2016, or 13.9 percent from a year ago, attributed primarily to 27.5 percent increase in balances due from other banks.

45. As at end March, 2017 gross loans and advances stood at D4.06 billion and accounted for 12.1 percent of the industry's total assets. Relative to end December 2016 and March, 2016, loans and advances dropped by 9.09 percent and 21.39 percent respectively, due mainly to the decline in both government and private sector loans and advances during the review periods.

46. Deposit liabilities increased markedly to D18.9 billion or 13.9 percent from a year ago mainly due to the increases in savings and time deposits by 21.9 percent and 21.2 percent respectively. The Liquidity ratio averaged 98.2 percent in March 2017 compared to 95.5 percent in March 2016 and higher than the statutory minimum requirement of 30.0 percent. The industry recorded a net profit of D184.8 million in the first quarter of 2017, higher than the D129.0 million in the same quarter in 2016.

47. The Financial sector report revealed that Standard Charted bank has moved from a rating of a big bank to that of a medium bank, due mainly to its level of loans and advances. Some Committee members intimated that Standard Chartered Bank could be playing it safe and cautiously paying attention to how the Gambian economy unravels following the change of government.

48. Some Committee members also opined that Standard Charted Bank may have also learnt from its past mistakes when it had a high rate of Non-Performing Loans.

49. Three banks were reported to have double digit non-performing loans and that one of them was placed under prescription

Composite Index of Economic Activity (CIEA)

50. A paper on CIEA was presented by the research department and the meeting was informed that the paper was in its early stages and is an experimental series comprising only three variables namely electricity consumption, water consumption and tourism arrivals, with the intention of populating it further. The Meeting was also informed that the purpose of the exercise was to complement the GDP which Gambia Bureau of Statistics (GBoS) produces annually, but it was in no way a replacement for it. The Committee encouraged the Research Department to continue working on the paper with a view to improving it further, and provide the Committee with a clear picture of the study. The meeting was informed that the CIEA would help track economic activities at a higher frequency and will be very useful for the purpose of the MPC meetings. The Committee also suggested that the composite index be looked at in relationship to GDP growth and tourism to give it more insight.

Monetary policy Reaction Function in the Gambia.

51. Another paper with the title captioned above was also presented by the Economic research department featuring the Taylor rule, which basically tries to prescribe the conduct of monetary policy by a simple rule that relates interest rates to inflation and the output gap. The Committee commended the AFRITAC WEST (2) T.A mission for guiding the research department in this exercise and encouraged the research department to continue working on the paper with the aim of improving it.

52. Some Committee members also urged senior management to give support to the staff of the economic research department in their quests to come up with more academic work which will help the Bank proffer informed policy decisions.

Inflation Outlook

53. Consumer price inflation, measured by National Consumer Price Index (NCPI), rose to 8.7 percent in March 2017 compared to 7.0 percent in March 2016 owing to the marked increase in both food and non-food inflation. Food inflation rose from 8.2 percent in March 2016 to 9.7 percent in March 2017.

54. Similarly, non-food inflation rose to 7.1 percent in March 2017 from 5.3 percent in March 2016, driven mainly by the increase in the prices of "clothing materials, garments and textiles" which rose to 7.9 percent in March 2017 from 7.1 percent in March 2016.

55. Central Bank of the Gambia's measure of core inflation, which excludes price effects of items such as energy and utility ,to reflect the underlying inflation ,increased to 8.6 percent in March 2017 compared to 7.2 percent in march 2016.

Decision

56. Taking into consideration sluggish global growth, fiscal consolidation alongside prudent monetary policy in the home front, which will all help to dampen inflationary pressures, the monetary policy Committee agreed to reduce the policy rate from 23 percent to 20 percent.

    The Committee will however, continue to monitor the situation and act accordingly if the need arises.