MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.68

November 28, 2018

The fourth meeting of the Monetary Policy Committee (MPC) of The Central Bank of the Gambia (CBG) was held in the conference room of the Bank on Wednesday, November 28, 2018. This was followed by a decision and press conference the next day. Presentations and discussions of technical papers were held on the first day of the meetings.

Agenda for The Technical Meeting

1. Opening remarks by the Chairman
2. Review of the minutes of the previous meeting and matters arising
3. Presentation and discussions of reports
4. Lunch break
5. Presentation and discussion of reports

Day 1

Following the opening remarks by the Governor and Chairman of the MPC, members reviewed and adopted the minutes of the previous meeting after some amendments. This was followed by presentations and discussions on World Economic Outlook (WEO), Banking Sector Developments, Financial Market Developments, Balance of Payments Developments, Exchange Rates Developments, Monetary Developments, Government Fiscal Operations, Business Sentiment Survey, Real Sector Developments, Inflation Developments, and a presentation on the assessment of Monetary Policy Stance.

Present were:

Mr. Bakary Jammeh	Hon. Governor, and Chairman
Dr. Seeku A.K Jaabi	First Deputy Governor, Member
Mr. Essa A.k Drammeh	Second Deputy Governor, Member
Mr. Mod K Ceesay	Permanent Secretary 1, MOFEA, Member
Mr. Momodou Taal	Director, MOFEA, Member
Mrs. Maimuna John-Sowe	Director, ERD, Member
Mr. Amadou S. Koora	Director, FSD, Member
Mr. Karamo Jawara	Director, BD, Member
Mr. Ebrima N Wadda	Deputy Director, ERD, Secretary

Report Presenters:

Mrs. Annetta Riley	Deputy Director, Banking Department
Mr. Sheriff Touray	Deputy Director, Economic Research Dept.
Mr. Yaya Cham	Senior Economist, Economic Research Dept.
Mr. Sulayman Ceesay	Senior Economist, Economic Research Dept.
Mr. Abdoulie Barry	Senior Bank Examiner, Financial Supervision Dept.
Mr. Alieu Ceesay	Economist, Economic Research Dept.
Mr. Alagie B. Sowe	Economist, Economic Research Dept.

Mr. Ebrima Jain	Officer, Foreign Dept.

In attendance were:

Mr. Buah Saidy	Senior Advisor, Office of the Governor
Mr. Bai Senghor	Director 1, Microfinance Dept.
Mr. Pa Alieu Sillah	Commissioner, Insurance Dept.
Mrs. Rohey Khan	Director, Foreign Dept.
Mrs. Saffie Secka-Njie	Deputy Director, Information Tech. Dept.
Mr. Saikou Touray	Deputy Director, Insurance Dept.
Mr. Karafa Jobarteh	Deputy Director, Foreign Dept.
Mrs. Halima Sighateh	Deputy Director, Financial Supervision Dept.
Mrs. Wooday Minteh-Marena	Principal Accountant, Finance Dept.
Mr. Omar Sonko	Principal Auditor, Internal Audit Dept.
Mr. Amadou Touray	Principal Auditor, Internal Audit Dept.
Mr. Lamin Bah	Officer, Risk Management Unit
Mr. Yaya Loum	Officer, Risk Management Unit
Mr. Baba Darboe	Bank Examiner, Financial Supervision Dept.
Mr. Ebrima Ceesay	Protocol & Communication Officer, Admin. Dept.
Mrs. Aji Amie Njie	Legal Officer, Office of the Governor

Observer:

Dr. Ruby Randall	IMF Resident Representative, IMF Country Office

Adoption of Agenda:

The draft agenda was adopted after few minor amendments.

Review and Adoption of the Previous Meeting Minutes

The minutes of the previous meeting were reviewed and adopted after some amendments.

Presentation of Reports:

A. Presentation on the World Economic Outlook (WEO)

1. The report indicated that since the last MPC meeting, global economic growth remains on track, although risks to the outlook have shifted to the downside. In its October release of the World Economic Outlook, the International Monetary Fund (IMF) has revised downwards its growth projection for 2018 to 3.7 percent (the same level as in 2017) from 3.9 percent reported in its July 2018 update, as trade and investment moderate and financial conditions tighten.

2. In advanced economies, growth is projected at 2.4 percent in 2018, compared to 2.3 percent in 2017. The rising global interest rates combined with the strengthening of the U.S. dollar, have contributed to tighter financial conditions and moderated capital flows to the emerging and developing economies. Growth in emerging market and developing economies is projected to remain unchanged at 6.5 percent in 2018 compared to 2017 before declining to 6.3 percent in 2019. In sub-Sahara Africa, economic recovery continues, supported by stronger external demand, higher commodity prices and improved access to capital. Economic growth in the region is projected at 3.1 percent in 2018, higher than 2.7 percent in 2017.

3. Global inflation is projected to accelerate to an average of 3.5 percent in 2018, higher than 3.1 percent in 2017, driven largely by rising energy prices. However, inflationary pressures in sub-Saharan Africa have broadly softened, with annual inflation projected to ease to 8.6 percent in 2018, from 11 percent in 2017.

4. After presentation of the report, the Committee noted the downside risks to the domestic economy posed by the advanced economies as trade and investment moderated and financial conditions tightened. For instance, the softening of growth in advance economies in 2019 may negatively impact tourism, which largely depends on disposable income in those countries. In this regard, the Committee stressed the need to reorient economic policies to diversify the economy in order to minimize the impact of shocks, refocus spending to growth enhancement sectors, while strengthening public financial management.

5. On sub-Saharan Africa growth prospects, the Committee advised against short-term and adhoc fixes, and recommended durable policy measures that have the potency of delivering balanced and sustainable growth in the face of global shocks. The Committee also highlighted the need for a continued implementation of sound macroeconomic policies as well as the diversification of our economies to secure macroeconomic stability to mitigate the effects of the global slowdown on the economy.

6. The Committee further noted with concern the potential impact of rising energy prices on domestic inflation outlook. Nevertheless, the Committee observed that the declining trend in food prices might dampen the impact of such effects on domestic prices.

B. Presentation on the Domestic Economic Outlook:

I. Banking Sector Developments:

7. The banking sector remains fundamentally sound and continues to be highly liquid and profitable. The sector's asset quality has also improved. The industry registered asset growth of 15.8 percent in the year to end-September 2018. Non-performing loan ratio stood at 4.7 percent, at end – September 2018 lower than 5.9 percent reported at the previous MPC and 10.2 percent in the same period last year.

8. The risk weighted capital adequacy ratio was 33.6 percent at end-September 2018, significantly higher than the statutory requirement of 10 percent. Similarly, the liquidity ratio stood at 98.5 percent in September 2018, well above the requirement of 30.0 percent.

9. The Committee noted with satisfaction the developments in the banking system, especially the sustained increase in private sector credit and the marked decline in non-performing loans. Members attributed the decline in non-performing loans to the effective use of the credit reference bureau, proper credit administration and recoveries and the collateral registry. The Committee welcomed the growth in all categories of deposits, as this signifies confidence in the banking system.

10. Commenting on banks sources of earnings, the Committee observed that banks made much of their income from foreign exchange transactions, instead of actual financial intermediation. However, the Committee was informed that because of the lower return on treasury bills, banks are shifting their lending to the real sector of the economy as evident in the growth in private sector credit. Going forward, the Financial Supervision department was asked to keep this development in view, with the hope that income generated from loans extended to the real sector of the economy would form the bulk of deposit money banks' earnings.

11. However, the Committee observed that most of the deposits of commercial banks are short-term in nature, thus making it difficult for banks to finance medium to long-term projects, especially agriculture. It was further noted that majority of banks are engaged in retail banking, and therefore face a mismatch in short-term deposits vis-à-vis financing of medium to long-term projects.

II. Money Market Developments:

12. The total stock of domestic debt increased slightly to D29.66 billion (42.7 percent of GDP) at end-October 2018, from D29.14 billion (42.0 percent of GDP) in the corresponding period a year ago. The stock of Treasury and Sukuk-Al Salaam bills increased by 0.96 percent to D17.14 billion during the period under review. Outstanding government bonds with maturities of three (3) and five (5) years totaled D2.5 billion as at end-October 2018, constituting 8.4 percent of overall domestic debt.

13. Yields on all Treasury bills increased during the review period. The 91- day, 182-day, and 364-day Treasury bills rates increased from 3.68 percent, 4.77 percent, and 6.34 percent in October 2017 to 4.97 percent, 6.83 percent, and 9.25 percent, respectively in October 2018. The rise in treasury bills rates are largely due to government's increase borrowing from the domestic market.

14. As part of broader reforms of the monetary policy framework of the Bank, the Central Bank has started issuing its own bills for liquidity management purpose beginning October 2018. In addition, the Bank has also introduced the interest rate corridor comprising overnight lending and deposit facilities.

15. The Committee noted that the level of domestic debt remains high, but has stabilized. The Treasury Main Account (TMA), was positive due largely to the transfer of funds from the Consolidated Revenue Fund (CRF) to the TMA to ensure that it is not overdrawn at any given time.

16. Regarding the issue of SAS bills attracting interest, some Committee members opined that this might not be consistent with the nature of the Islamic instrument, as it is not supposed to attract interest. In view of this, the Committee directed that the instrument needs to be reviewed to make it Sharia compliant.

17. Commenting on raising D1.2 billion from the market to finance the government's proposed supplementary budget for December 2018, the Committee expressed concern that this could increase treasury bills rates and interest payments. In light of this, the Committee advice the fiscal authorities to submit the request for financing to enable the T/bills Committee plan the float size for the remaining issuance dates in December 2018.

III. External Sector Developments:

18. Preliminary balance of payments estimates for the first nine months of 2018 indicate a widening of the current account deficit compared to the corresponding period of 2017. The deterioration of the current account deficit was attributed largely due to the sharp increase in imports, which reflects the growth in economic activities.

19. The current account deficit grew to US$55.58 million in the first nine months of 2018 from a deficit of US$28.11million a year ago. The services account balance on the other hand, surged to a surplus of US$52.23 million or by 43.50 percent in the first nine months of 2018 from US$36.40 million in the same period last year. This neat performance of the services account was due in the main, to the increase in travel income, reflecting the robust start of the tourism season. Similarly, current transfers rose to US$136.68 million in the first nine months of 2018, or by 20.46 percent from a year ago.

20. The deficit in the goods account widened to US$252.64 million or 16.47 percent of GDP in the first nine months of 2018 from US$ 205.51 million in the corresponding period of 2017.

21. The surplus in the capital and financial account improved to US$ 40.15 million in the first nine months of 2018 from a deficit of US$ 13.55 million in the same period a year ago. Gross international reserves were projected at 4 months of next year's imports of goods and services.

22. The Committee observed that 64.0 percent of total imports was on oil imports. Some Committee members made the assumption that the excess oil imports may be for re-exports to the neighboring countries. In this regard, the Committee directed the Economic Research Department (ERD), to investigate the reason for the high oil content of the country's imports during the period under review. The ERD was also tasked to conduct a survey of tourists' out-of-pocket expenditure to measure travel income in the BOP.

23. Furthermore, the Committee instructed the ERD and Foreign Department to work with the visiting T.A team from African Institute for Remittances (AIR) in order to improve the estimation of remittances. Consequent of these assignments, the Committee proposed for an increase in survey expenses in the 2019 budget of the Bank.

IV. Exchange Rate Developments

24. Presentation on the foreign exchange market developments indicated that the domestic currency remains stable, reflecting improved market conditions, as evident by the increase in volume of transactions.

25. Transactions volume in the foreign exchange market, measured by aggregate sales and purchases of foreign currency has picked up rapidly. In the year to end-October 2018, activity volume totaled US$1.9 billion, higher than US$1.2 billion in the same period last year, reflecting improved supply conditions. Aggregate Purchases of foreign currency, which indicates supply, increased markedly by 50.7 percent to US$965.4 million as at end-October 2018 from US$640.4 million in the corresponding period in 2017. Similarly, sales of foreign currency, which indicates demand, increased significantly by 68.4 percent to US$963.3 million in the review period from US$572.2 million in the same period of 2017.

26. The exchange rate of the dalasi remains stable. From December 2017 to October 2018, the dalasi appreciated against the pound sterling by 0.2 percent but depreciated against the U.S. dollar and Euro by 3.7 percent and 0.3 percent respectively. The exchange rate is expected to remain stable in the near to medium-term, predicated on the continued implementation of sound macroeconomic policies, improved supply conditions and confidence.

27. The Committee welcomed the stability of exchange rate and expressed hope that going forward, the dalasi would remain stable on the back of the implementation of sound macroeconomic policies and improved market conditions.

V. Real Sector

28. Economic recovery in the Gambia continues to gather strength, as real GDP growth is expected to be robust in 2018, on the back of a rebound in tourism, construction activities, finance and insurance, trade, and telecommunication. The strong business confidence and prudent macroeconomic policies were also important contributors to growth during the period.

29. The Gambia Bureau of Statistics (GBoS) estimated real GDP to have grown by 4.6 percent in 2017, higher than 0.4 percent in 2016. Growth is expected to remain robust in 2018 and in the medium-term, premised on the continued implementation of sound macroeconomic policies and structural reforms.

30. The Committee welcomed the economic recovery and the projected strong growth in the medium-term. However, the Committee expressed concern on the recent declaration by government that agricultural production would drop by 57.0 percent based on the pre-harvest assessment report. In light of this development, the Committee opined that the projected growth rate for 2018 might be revised downward.

VI. Monetary Developments

31. As at end-September 2018, money supply grew by 22.4 percent, higher than 20.0 percent recorded a year earlier, reflecting the strong growth in both the net foreign assets and net domestic assets of the banking system. The net foreign assets of the banking system expanded to D9.4 billion or by 33.1 percent during the period. Similarly, the banking system's net domestic assets increased to D22.7 billion or by 18.4 percent following a contraction of 6.7 percent at end-September 2017.

32. Reflecting the increased demand from almost all the economic sectors, private sector credit expanded by a robust 28.2 percent at end-September 2018, compared to a contraction of 12.3 percent a year ago. This development is on the back of decreased government borrowing from the banking system and the declining trend in Treasury bills rates.

33. As at end-September 2018, reserve money grew by 11.8 percent, lower than 29.3 percent recorded last year, largely reflecting the decline in the Bank's net claims on government. Central Bank financing of the fiscal deficit remains zero in November 2018.

34. The Committee noted developments in the monetary aggregates, especially the 22.4 percent growth in money supply. The Committee, however, observed that looking at the growth rate of money supply alone might suggest that there was an accommodative policy stance, but a further analysis of reserve money, would reveal that the actual money creation was as a result of commercial banks' lending to the real sectors of the economy, and not Central Bank printing money.

VII. Government Fiscal Operations

35. Preliminary government fiscal operations for the nine months to end-September 2018 indicated that the budget balance (excluding grants) narrowed to a deficit of D4.0 billion, compared to a deficit of D7.5 billion in the corresponding period a year ago. This improved performance was attributed to lower interest payments and a decline in capital expenditure during the review period.

36. Total revenue and grants in the nine months of 2018 stood at D7.8 billion compared to D10.9 billion in the same period last year. The decrease in revenue and grants was mainly due to the significant decline in grants during the period under review.

37. Total expenditure and net lending dropped to D10.7 billion or by 19.1 percent compared to D12.7 billion in the same period last year, reflecting largely the marked drop in interest payments (20.4 percent) and capital expenditure.

38. The Committee noted with concern the developments in the government fiscal operations, especially the decline in total revenue and grants and the lower-than-expected grants received. The Committee directed that henceforth, the report on public finance should be prepared from January to the latest available period in order, to give a clearer view of government fiscal operations as opposed to the current quarterly analysis.

39. The Committee also instructed that the report be prepared on the basis of comparing the fiscal outturn to the budgeted or program target, as this would be more helpful in determining the fiscal authorities' budgetary performance. The Committee further directed that the report state all the factors responsible for the slippages in government fiscal operations, as well as the sources of financing the deficit, be it domestic or external, and from bank or non-bank.

VIII. Business Sentiment Survey

40. Presentation on the private sector business sentiment survey indicated optimism in the prospects of the economy in Q3 and Q4. The optimism was broad based and cuts across all the sectors. Firms reported positive sentiments about current and expected sales, profit and employment opportunities. There is renewed optimism in the tourism industry as the new season commenced and the construction sector remained robust evidenced by the boom in real estate activity.

41. The survey also indicated that Inflation expectation is well anchored with about 73 percent of respondents expecting inflation to either remain at current level or decline.

42. The Committee noted that the sentiments expressed by the survey respondents are consistent with the economic reality on the ground and the confidence restored in the economy.

IX. Inflation Outlook

43. End-period Inflation, as measured by the National Consumer Price Index (NCPI), decelerated to 6.5 percent in October, 2018 from 7.4 percent a year ago. Average inflation rate (12 months moving average) stood at 6.0 percent in October 2018, from 7.5 percent a year ago.

44. Food inflation, decelerated to 6.5 percent in October 2018 relative to 7.9 percent last year. Non-food inflation, on the other hand, edged up slightly to 6.8 percent from 6.7 percent during the review period.

45. All measures of core inflation declined in October, 2018, indicating the easing of underlying inflationary pressures. Core-1 measure of inflation which excludes price effects of energy and utility items in the CPI basket declined to 6.5 percent at end-October 2018, from 7.3 Percent in the same period in 2017. Similarly, core-2 inflation, which strips out prices of volatile food items decelerated to 6.5 in the review period from 7.5 percent at end- October 2017.

Agenda for Day-2 0f the MPC Meeting

a. Welcome Remarks by Chairman
b. Summary Report by the First Governor
c. Deliberations
d. Decision
e. Press Conference by the Chairman

46. The Monetary Policy Committee (MPC) reconvened on Thursday 29, 2018 to take a decision on the direction of monetary policy. The deliberations were followed by a press conference by the Governor and Chairman of the MPC.

47. In his opening remarks, the Chairman welcomed members and attendees to the meeting, and this was followed by a summary of the reports and discussions of the technical meeting by the first Deputy Governor.

Deliberations

48. The Committee noted that Economic recovery in the Gambia continues to gather strength, as real GDP growth is expected to be robust in 2018, evidenced by the rebound in tourism and construction activities.

49. Majority of respondents in the private sector business sentiment survey indicated that Inflation expectations are well anchored and projected inflation to either remain at current level or decline.

50. The Committee observed that global food prices declined by 6.4 percent during the period, which has a dampening effect on domestic inflation. Similarly, the Committee observed that recent data on oil prices is exhibiting a downward trend, which could also have a downward pressure on domestic prices.

51. The exchange rate is expected to remain stable supported by prudent monetary and fiscal policies, as well as the expected budget support before the end of the year.

52. Against this backdrop, the Committee expected inflation to further decelerate toward the Bank's target of 5.0 percent

Decision

53. Taking the above factors into consideration, the Committee decided to maintain the policy rate at 13.5 percent. The Committee will continue to monitor developments in the domestic and international economy, and stands ready to act accordingly should economic conditions change.