MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.69

February 27, 2019

The first meeting of the Monetary Policy Committee (MPC) of The Central Bank of the Gambia (CBG) in 2019 was held in the conference room of the Bank on Wednesday, February 27, 2019. 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, and Balance of Payments Developments. The Committee also received and discussed reports on 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 A.K Secka	Permanent Secretary 1, MOFEA, Member
Mr. Baboucarr Jobe	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:

Mr. Karafa Jobarteh	Deputy Director, Foreign Dept.
Mr. Sheriff Touray	Deputy Director, Economic Research Dept.
Mr. Yaya Cham	Senior Economist, Economic Research Dept.
Mr. Baba Darboe	Senior Bank Examiner, Financial Supervision Dept.
Mrs. Binta Beyai	Senoir Banking Officer, Banking Department
Mr. Alieu Ceesay	Economist, Economic Research Dept.
Mr. Alagie B. Sowe	Economist, Economic Research Dept.

Mr. Bademba Drammeh	Economist, Economic Research Department
Mr. Saikou Jammeh	Economist, Economic Research Department

In attendance were:

Mr. Buah Saidy	Senior Advisor, Office of the Governor
Mr. Bai Senghor	Director I, Microfinance Dept.
Mr. Pa Alieu Sillah	Commissioner, Insurance Dept.
Mr. Momodou Njie	Director, Risk Management Unit
Mrs. Fatou Deen-Touray	Director II, Microfinance Dept.
Mrs. Rohey Khan	Director, Foreign Dept.
Mr. Saikou Touray	Deputy Director, Insurance Dept.
Mrs. Annetta Riley	Deputy Director, Banking 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. Abdoulie Barry	Senoir Bank Eximiner, Financial Supervision Dept.
Mrs. Arokey Drammeh	Officer, Risk Management Unit
Mr. Yaya Loum	Officer, Risk Management Unit
Ms. Ramatoulie Sarr	Bank Examiner, Financial Supervision Dept.
Mr. Ebrima Ceesay	Protocol & Communication Officer, Admin. Dept.
Mrs. Aji Amie Njie	Legal Officer, Office of the Governor
Mr. Ebrima Jain	Officer, Foreign Department
Mr. Lamin Bittaye	Legal Officer, Office of the Governor
Mr. Mawyatou Susso	Assistant Statistician, Economic Research Dept.
Mrs. Mariama Ceesay	Statistical Assistant, Economic Research Dept.

Adoption of Agenda:

The draft agenda was adopted after few minor amendments.

Review and Adoption of the Minutes of the Previous Meeting

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 slowed in 2018 and the balance of risks remains tilted to the downside, amid increasing trade tensions, tightening financial conditions, and policy uncertainty. In its January release of the World Economic Outlook, the International Monetary Fund (IMF) estimated a decline in global growth to 3.7 percent in 2018, compared to the growth rate of 3.8 percent 2017, reflecting persistent decline in growth rates of advanced economies and temporary decline in emerging markets and developing economies.

2. Economic growth in advanced economies is projected to slow down to 2.0 percent in 2019 from 2.3 percent in 2018 and 2.4 percent in 2017. The downgrade was on the back of revision in some individual countries in the euro area particularly Germany, Italy, and France. In emerging market and developing economies, activity is estimated to have grown by 4.6 percent in 2018 before moderating to 4.5 percent in 2019, due largely to the moderation of growth in China. Economic activity in sub-Saharan Africa remains robust supported mainly by domestic policy adjustments, improved external environment, and favorable commodity prices. The region is projected to grow on average at 3.5 percent in 2019 from 2.9 percent in 2018.

3. Global inflation remains elevated on average at 3.8 percent in 2018, from a record low of 2.8 percent in 2016, 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 11.0 percent in 2017.

4. After presentation of the report, the Committee noted the downside risks to the global economy posed by the softening of growth in advanced economies in 2019. A particular cause for concern is the trade tension between the United States (US) and the world, as this poses a threat to the world economy especially with the US president's erratic behavior. The Committee also noted the advent of populist governments in Europe and rising inequalities, which are emerging phenomena that needs to be checked. In this regard, the Committee stressed the need to reorient economic policies and improve skills to ensure that inequality is controlled.

5. The Committee also observed that the European Central Bank's (ECB) interest rate is at zero, and that the ECB is not expected to increase its policy rate any time soon as economic recovery is yet to be sustained. They have also embarked on quantitative easing (QE) coupled with negative interest rates to an extent that investors who invest in their instruments are charged interest, instead of paying them interest. The Committee noted that if the negative interest rates persist, the Bank should revisit the FRM Guidelines as a matter of urgency to militate against the impact of negative interest rates on reserves. Furthermore, the Committee expressed concern that some of the French colonies are coming under pressure from France not to go ahead with the proposed ECOWAS wide single monetary project.

6. On sub-Saharan Africa growth prospects, the Committee observed that although growth remains elevated, but uneven across countries. This reflects domestic policy adjustments, supportive external environment and higher commodity prices. The Committee also highlighted the need for a continued implementation of sound macroeconomic policies as well as the diversification of African economies to mitigate the effects of the global slowdown to ensure macroeconomic stability.

7. The Committee expressed concern over the destabilizing effects of the tax on alcohol and cement, as well as the spillover effects this could have on the domestic economy. The Committee was informed that the Ministry of Trade, Industry and Employment (MOTIE) came up with such measures to protect local industries. However, in the ensuing discussions, the Committee was informed that the measures were reversed temporarily to ease the shortage of cement in the country.

8. 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:

9. According to the financial soundness indicators, the banking sector remains fundamentally sound. Total assets of the industry expanded by 15.3 percent to D43.6 billion as at end-December 2018. The asset quality has improved significantly with the non-performing loan ratio down to 3.3 percent, lower than 7.2 percent a year ago.

10. Furthermore, the industry is well capitalized and highly liquid. The risk weighted capital adequacy ratio stood at 31.7 percent, significantly above the statutory requirement of 10 percent. Similarly, the liquidity ratio stood at 94.8 percent compared to the statutory requirement of 30 percent. Liquid assets to total asset ratio stood at 57.4 percent in December 2018, higher than 52.9 percent in December 2017.

11. 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 enhanced risk management in the industry and effective use of the credit reference bureau. The Committee welcomed the growth in all categories of deposits, as this signifies confidence in the banking system and the appropriateness of the Bank's macro-policies.

12. Regarding the significant reduction in non-performing loans in the review period, the Committee was informed that in 2018, all commercial banks were instructed to clear their non-performing loans by way of provisioning in the profit and loss account, and then recover any unpaid loan balance through the normal recovery process. The Committee was also informed about the emergence of mobile money operators in the country for the past two years, and that currently, Eco bank is able to help facilitate the transfer of funds for their customers, which helps to deepen financial intermediation in the country.

13. Commenting on banks sources of earnings, the Committee observed that banks income from T/bills dropped from 44.8 percent to 28.1 percent, while non-interest income rose from 31.7 percent to 40.9 percent in the review period. However, the scenario could change once T/bills rates pick up, which might see banks make most of their income from T/bills, which is also risk free. 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.

II. Money Market Developments:

14. The stock of domestic debt increased to D31.2 billion (40.5 percent of GDP) as at end-December 2018 from D29.7 billion (42.7 percent of GDP) in the corresponding period a year ago. Stock of Treasury and Sukuk-Al Salaam bills increased by 12.5 percent to D17.4 billion in 2018 from D15.5 billion in 2017. Outstanding government bonds with maturities of three (3) and five (5) years totaled D2.5 billion as at end-December 2018, consisting 8.4 percent of the total domestic debt stock.

15. Yields on all Treasury bills increased. The 91- day, 182-day, and 364-day Treasury bills rates increased from 5.03 percent, 5.52 percent, and 6.73 percent as at end-December 2017 to 5.06 percent, 7.04 percent, and 9.48 percent, respectively as at end-December 2018. The rise in treasury bills rates are largely due to government's increase borrowing from the domestic market.

16. 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.

17. The Committee noted that the level of domestic debt remains high, but has stabilized and highlighted the need for corrective measures to make the debt sustainable. The Committee was informed that more than six hundred million (D600 million) dalasis was raised from the market in the first two months of the year, just to serve as a buffer in the Treasury Main Account (TMA). It was noted that this was necessary given the fact that huge payments were made on behalf of Government to IFTC and crop finance, which virtually drained the twenty five million euros (€25 million) budget support received from the European Union (EU).

18. Commenting on the D600 million raised from the market, the Permanent Sectary (PS I), Ministry of Finance and Economic Affairs (MOFEA), raised concern over the amount involved. He argued that the Bank should not have raised such an amount from the market without the consent of the Ministry. It was at this stage that the Chairman urged the PS to be sending senior officials of the Ministry to the treasury bills Committee meetings, so that those officials could take appropriate decisions in terms of Public Sector Borrowing Requirement (PSBR) when auctions are to be floated.

19. The Committee noted that some of the budget support earmarked for 2019 are premised on a set of reforms initiated by the country, and would require some hard and tough decisions to implement them. Key amongst the reforms to be implemented are SOEs audit, vehicle policy, repatriation of some embassy staff and restructuring of the debt stock. The Committee was informed that a consultant was hired to help restructure the external debt component of the debt stock.

III. External Sector Developments:

20. Preliminary balance of payments estimate for 2018 indicated that the current account deficit has narrowed compared to 2017, attributed largely to improvement in the services and current transfers.

21. The current account deficit narrowed to US$69.7 million in 2018 compared to US$98.8 million in 2017. The services account balance surged to a surplus of US$106.9 million or by 73.7 percent in 2018 from US$61.6 million a year ago. Performance in the services account is attributed, in the main, to the increase in travel income reflecting strong tourist season. Similarly, current transfers which constitute largely of private remittance rose significantly during the review period.

22. The deficit in the goods account widened to US$354.4 million or 22.0 percent of GDP in 2018 from US$ 331.2 million or 21.5 percent of GDP in 2017. Exports rose to US$135.3 million or by 15.5 percent in 2018. Similarly, imports increased to US$519.4 million or by 11.9 percent, reflecting the increase in economic activities.

23. The surplus in the capital and financial account improved to US$53.3 million in 2018 compared to a surplus of US$8.5 million in the same period a year ago. Gross international reserves are at 4.3 months of current imports of goods and services and it is projected at 4.0 months of next year's imports of goods and services.

24. The Committee noted the developments in the external sector and highlighted the need to address the undervaluation of trade, especially re-exports in the Gambia's balance of payments. In view of this, the Committee directed the Economic Research Department (ERD), to undertake a survey on re-exports with the main objective to address the challenges in the goods account in order to improve the quality of balance of payments statistics. The Committee further directed the ERD to present their findings during the next MPC meetings.

25. The Committee was informed that Microfinance Department (MFD) had a meeting with the World Bank on a proposal regarding financial inclusion, and the issue of remittances was highlighted. The Committee was also informed that the Bank was working with the African Institute for Remittances (AIR) and already two Bank staff attended a workshop on remittances organized by AIR in Rabat, Morocco. The purpose of the workshop was to train staff to better understand the issue of remittances, broaden their understanding of the Moroccan experiences in legal/ regulatory reforms of the remittances market as well as supervision, reporting, and data collection.

26. The Committee expressed satisfaction on the findings of the report on Tourists' Out-of-Pocket Expenditure survey conducted by the ERD. The key high lights of the report indicated that tourists' Out-of-Pocket expenditure was observed to be quite significant in recent periods, as well as the number of tourist that visited the country, and that there is a steady rise in the length of stay. Also, the hotel rate per night showed that the tourists who visit the country are low spending tourist.

27. Commenting on the findings of the report, the Committee noted that the report indicated the need to attract high spending tourists, and that there is need to unbundle the all-inclusive packages of tourists for more benefits to accrue to the economy of the country. The Committee commended the ERD for a job well done, and encouraged them to keep up the momentum.

IV. Exchange Rate Developments

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

29. Volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency stood at US$2.0 billion in the year to end-December 2018, higher than US$1.3 billion in the same period last year. The strong performance reflects growing market confidence and improved supply conditions. Aggregate purchases of foreign currency (indicating supply) increased markedly by 43.6 percent to US$975.8 million in the year to end-December 2018 from US$679.6 million in 2017. Similarly, sales of foreign currency, which indicates demand, increased significantly by 46.4 percent to US$979.7 million in the review period.

30. The exchange rate of the dalasi remains broadly stable. From January 2018 to January 2019, the dalasi appreciated against the pound sterling, Euro and CFA by 1.4 percent, 2.9 percent, and 3.9 percent respectively but depreciated against the U.S. dollar by 4.2 percent. 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.

31. The Committee welcomed the stability of the 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. However, the Committee expressed concern regarding Brexit uncertainty and the negative impact it might inflict on the economy. Commenting on the uncertainty surrounding Brexit, some members intimated that the Gambian economy could be affected in the form of tourism, as Britain is our main tourist market, and also some of the support the country receives from Britain could be affected as well. The Committee therefore, highlighted the need for measures to mitigate against such negative impacts.

V. Real Sector

32. Economic activity in the Gambia continues to gather strength evidenced by increased activity in construction, tourism, distributive trade, and financial intermediation. Growing business confidence and sound macroeconomic policies were key contributing factors to growth during the period under review

33. 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.

34. The Committee welcomed the economic recovery and the projected strong growth in the medium-term. However, the Committee noted that a positive output gap may translate into inflationary pressures in the economy. Positive output gap means there is excess capacity in the economy and that aggregate demand is outpacing aggregate supply- with the attendant risk of creating inflation.

VI. Monetary Developments

35. As at end-December 2018, money supply grew by 20.0 percent, lower than 20.9 percent recorded a year earlier. The net foreign assets of the banking system expanded to D10.4 billion or by 61.0 percent during the period. Similarly the net domestic assets of the banking system increased to D23.3 billion or by 7.8 percent.

36. Reflecting the increased demand from almost all the economic sectors, private sector credit continued to expand at a robust pace. As at end-December 2018, it expanded significantly by 32.9 percent compared to a contraction of 1.2 percent a year ago.

37. As at end-December 2018, reserve money grew by 16.5 percent, lower than 22.6 percent recorded last year. The growth in reserve money was largely reflecting the growth in both currency in circulation and reserves of commercial banks, as real sector activities picked up resulting in a rebound in private sector credit. Central Bank financing of the fiscal deficit remains zero in November 2018.

38. The Committee noted developments in the monetary aggregates, especially the 20.0 percent and 32.9 percent growth in money supply and credit to private sector respectively. The

Committee also observed that money velocity is on a downward trend, meaning that people are prepared to hold the domestic currency, implying there is confidence in the banking system.

VII. Government Fiscal Operations

39. Preliminary data on government fiscal operations for 2018 indicate a budget deficit (including grants) of D3.9 billion (4.9 percent of GDP) in 2018 compared to a deficit of D3.7 billion (5.3 percent of GDP) in 2017. The increase in the overall deficit was due to the decline in revenue and grants by 19.8 percent compared to last year.

40. Total revenue and grants stood at D10.7 billion (13.4 percent of GDP) in 2018, lower than D13.3 billion (19.2 percent of GDP) in 2017. Domestic revenue, comprising tax and non-tax revenues, rose by 13.7 percent to D8.8 billion or 11.0 percent of GDP.

41. Total expenditure and net lending declined by 14.0 percent to D14.6 billion (18.3 percent of GDP) in 2018 compared to D17.6 billion (24.5 percent of GDP) in 2017, reflecting mainly the marked drop in domestic interest payments by 34.5 percent.

42. 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 also highlighted that since budget support in the form of grants are so unpredictable, it would be prudent to tie some of the programs exclusively to the grants to be received, and not be included in the normal government budget for execution. If the funds crystalizes, such programs could be implemented, otherwise, they should be left out. This would bring in certainty in the execution of the government budget in any given year.

43. The Committee was also informed that the final estimates of GDP for 2017 and 2018 would be released soon by the Gambia Bureau of Statistics (GBoS), following the rebasing exercise with 2013 as the base year. Commenting on the rebasing of GDP, some members pointed out that the exercise would only make the debt situation look better, but the fundamental ratios such as debt to export, debt to total revenue, etc., would still remain the same.

44. The Committee expressed concern over the financial viability of some state owned enterprises (SOEs), such as National Water and Electricity Corporation (NAWEC). The Committee argued that some of the SOEs are a drag on the budget and some of the funds spent by government to bail-out some SOEs could be used for some other developmental priorities in the country.

VIII. Business Sentiment Survey

45. Presentation on the private sector business sentiment survey indicated optimism in the prospects of the economy in Q4 of 2018 and Q1, 2019. The optimism was broad based and cut across all the sectors. Majority of firms reported positive sentiments about current and expected level of business activity.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.

46. The survey also indicated that Inflation expectation is well anchored with about 74 percent of respondents expecting inflation to either remain at current level or decline. The remaining 26.0 percent expected inflation to accelerate in the first quarter of 2019.

47. The Committee noted that the sentiments expressed by the survey respondents are consistent with the economic reality on the ground and that confidence is restored in the economy as people are prepared to invest and hold the domestic currency.

IX. Inflation Outlook

48. Inflation has been broadly subdued attributable largely to stable exchange rate. End-period Inflation, as measured by the National Consumer Price Index (NCPI), decelerated to 6.1 percent in January 2019 compared to 6.4 percent in the corresponding period in 2018. Average inflation rate (12 months moving average) stood at 5.9 percent in December 2018, from 7.1 percent a year ago.

49. Food inflation, edged up to 6.2 percent in January 2019 compared to 6 .1 percent a year ago. Non-food inflation, on the other hand, decelerated to 5.9 percent from 6.9 percent during the review period.

50. All measures of core inflation declined in December, 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 6.3percent at end-December 2018, from 7.0 Percent in the same period in 2017. Similarly, core-2 inflation, which strips out prices of volatile food items decelerated to 6.4 in the review period from 6.9 percent a year ago.

Agenda for Day-2 of the MPC Meeting

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

51. The Monetary Policy Committee (MPC) reconvened on Thursday, 28 February, 2019 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.

52. 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

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

54. According to the private sector business sentiment survey, majority of respondents indicated that Inflation expectations are well anchored and projected inflation to either remain at current level or decline;

55. The Committee observed that the current account deficit is narrowing supported by private remittances and travel income from tourism. Similarly, the Committee observed that the Bank continues to maintain a comfortable level of external reserves;

56. The exchange rate is expected to remain stable supported by prudent monetary and fiscal policies, as well as market confidence and improved supply conditions;

57. The banking system remains stable, safe and sound, with adequate liquidity and high profitability;

58. Against this backdrop, the Committee expected inflation to continue to trend downwards and to further decelerate toward the Bank's medium term target of 5.0 percent.

Decision

59. Taking the above factors into consideration, the Committee decided to reduce the policy rate by 100 basis points to 12.5 percent. The Committee also took an additional measure by increasing the maintenance period for the reserve requirement from one (1) week to two (2) weeks. The Committee will continue to monitor developments in the domestic and international economy, and stands ready to act accordingly should economic conditions change.