MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.71

August 28, 2019

The third 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, August 28, 2019. This was followed by a meeting to decide on the Monetary Policy rate and a press conference the next day. Presentations and discussions of technical papers were held on the first day of the meetings. All the nine (9) Committee Members were present.

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. Momodou Sissoho	Member
Mr. Baboucarr Jobe	Member
Mr. Paul John Gaye	Member
Mrs. Maimuna John-Sowe	Director, Economic Research Dept., Member
Mr. Amadou S. Koora	Director, Financial Supervision Dept., Member

Mr. Karamo Jawara	Director, Banking Dept., Member
Mr. Ebrima N Wadda	Deputy Director, ERD, Secretary

Report Presenters:

Mr. Sheriff Touray	Deputy Director, Economic Research Dept.
Mr. Yaya Cham	Principal Economist, Economic Research Dept.
Mr. Alieu Ceesay	Senior Economist, Economic Research Dept.
Mr. Khalilu Bah	Senior Economist, Economic Research Dept.
Mr. Ebrima Jane	Officer, Foreign Department
Mr. Alagie B. Sowe	Economist, Economic Research Dept.
Mr. Bademba Drammeh	Statistician, Economic Research Department
Mr. Saikou Jammeh	Economist, Economic Research Department
Mr. Mawiyatou Susso	Statistician, Economic Research Department
Mrs. Fatou Sanyang	Banking Officer, Banking Department
Mrs. Ramatoulie Sarr	Bank Examiner, Financial Supervision Dept.

In attendance were:

Mr. Buah Saidy	Senior Advisor, Office of the Governor
Mr. Bai Senghor	Director I, Microfinance Dept.
Mr. Modou 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.
Mr. Karafa Jobarteh	Deputy Director, Foreign Dept.
Mrs. Halima Singateh	Deputy Director, Financial Supervision Dept.
Mr. Mustapha Senghore	Principal Officer, Financial Supervision Dept.
Mr. Omar Sonko	Principal Auditor, Internal Audit Dept.
Mr. Amadou Touray	Principal Auditor, Internal Audit Dept.
Mr. Amadou Barry	Senior Bank Examiner, Financial Supervision Dept.
Mrs. Binta Beyai	Senior Economist, Banking Department
Mr. Hama Jawo	Bank Examiner, Financial Supervision Dept.
Mr. Ebrima Ceesay	Protocol & Communication Officer, Admin. Dept.
Ms. Sally Saine	Accountant, Finance Department

Mr. Yaya Jatta	Banking Officer, Banking Dept.
Mr. Dawda Gaye	Assistant Auditor, Internal Audit Department.
Mrs. Mariama Ceesay	Statistical Assistant, Economic Research Dept.

Observer:

Mr. Barnard Mendy	Economist, IMF Country Office

Adoption of Agenda:

The draft agenda was adopted as presented.

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 meeting of the Monetary Policy Committee (MPC), global economic growth remains subdued amid heightened policy uncertainty that continues to dent business confidence, investment, and trade. Consequently, the International Monetary Fund (IMF) in July 2019 revised downwards its projected global growth forecast to 3.2 percent in 2019, from 3.6 percent in its earlier projection. Although growth is expected to pick up to 3.5 percent in 2020, the risks to the outlook are largely tilted to the downside. In particular, elevated trade tensions remain a major risk to the global economy.

2. Output growth across advanced economies remained subdued and was projected to decelerate to 1.9 percent in 2019 from 2.2 percent in 2018. The downgrade was due mainly to subsisting trade tensions between the US and China; regional hostilities in the Middle East; rising debt levels; growing uncertainties around Brexit, and increasing political tensions between the US and Iran. In Emerging Market and Developing Economies, growth was expected to slow down to 4.1 percent in 2019 from 4.5 percent in 2018, on the back of the slowdown in global trade; however, output growth remained broadly mixed with some economies performing stronger than others. In sub-Sahara Africa, economic growth is projected at 3.4 percent in 2019 and 3.6 percent in 2020, supported mainly by strong growth in many non-resource rich countries.

3. Global inflation continued to soften across the major advanced and EMDEs as aggregate demand continually weaken, resulting in softening monetary policy by major central banks to address downward trending prices and to strengthen aggregate demand. Inflation was expected to average at 3.6 percent in 2019, from 3.6 percent in 2018. In sub-Saharan Africa, inflationary pressures have broadly softened, with annual inflation projected to ease to 8.6 percent in 2018, from 11.0 percent in 2017.

4. The Committee reviewed developments in the global economy and noted that the pace of global output growth continued to lose steam under the weight of a combination of factors including trade tensions and tariff hikes between the USA and some of her major trading partners; subdued investment in EMDEs; uncertainties around Brexit; vulnerabilities in major financial markets; rising public and private debt in some EMDEs, and increasing policy uncertainties across many countries.

5. The Committee also highlighted the need for sub-Saharan African countries to diversify their economies in the face of global uncertainties and softening of global growth. The Committee opined that with growth averaging 3.6 percent in sub-Saharan Africa, and population growth ranging between 2.0-3.0 percent in most African countries, per capita growth would be less than 1.0 percent; and this level of growth would not be sufficient to take the continent out of poverty. Thus, the Committee calls for efforts to promote inclusive growth in developing economies by being more innovative in terms of technology and skills development.

6. The Committee further noted the potential impact of rising energy prices on domestic inflation outlook. In this regard, the Committee highlighted the need to monitor the increase in inflation pressures that started in the past months, driven largely by both food and non-food inflation. The Committee also observed that the uneven rainfall and long dry spells experienced could significantly affect domestic food production, which would further put upward pressure on domestic prices.

B. Presentation on the Domestic Economic Outlook:

I. Banking Sector Developments

7. According to the financial soundness indicators, financial sector remains well capitalized, highly liquid, and profitable. As at end-June 2019, total assets of the banking industry increased by 25.4 percent to D47.5 billion. Asset quality continues to improve. The ratio of non-performing loans to gross loans declined to 2.3 percent from 2.7 percent a year ago, largely reflecting enhanced credit administration process and effective loan recovery measures.

8. The risk-weighted capital adequacy ratio stood at 29.0 percent, well above the minimum requirement of 10 percent. The ratio of liquid assets to total assets was 57.9 percent at end-June 2019 compared to 56.6 percent a year ago. Liquid assets to deposit ratio stood at 95.6 percent compared to the statutory requirement of 30.0 percent. Total deposits stood at D31.0 billion as at end-June 2019, an increase of 25.7 percent from June 2018.

9. The Committee noted with satisfaction that the banking system is showing greater resilience with sustained improvements in the non-performing loans (NPLs), capitalization, profitability, and other financial soundness indicators. Similarly, the Committee welcomed the increase in private sector credit and highlighted the need to channel more credit for activities with high growth and employment potentials.

10. The Committee underscored the need for the banking system to put more emphasis on cyber security with the advent of financial technology (fintech), which aims to compete with traditional methods in the delivery of financial services. The Committee was informed that various countries are trying different initiatives at country level and this is escalated at the regional level, especially at the WAMZ.

II. Money Market Developments

11. As at end-July 2019, stock of domestic debt stood at D32.5 billion (38.1 percent of GDP) from D31.2 billion (40.5 percent of GDP) in the corresponding period a year ago. Stock of Treasury and Sukuk-Al Salaam bills, which accounted for 58.3 percent of outstanding domestic debt, increased by 8.8 percent to D18.9 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-May 2018, consisting 8.4 percent of the total domestic debt stock.

12. The yields on Treasury bills all declined. From December 2018 to July 2019, the yields on the 91- day, 182-day, and 364-day Treasury bills declined to 3.98 percent, 6.87 percent, and 8.77 percent respectively from 5.06 percent, 7.04 percent and 9.48 percent in the same period last year.

13. The Committee observed that the stock of domestic debt remains high and unsustainable. The Committee was informed that there was hope that some of the budget support earmarked for the fourth quarter of this year would crystalize, and this would relief the expenditure pressures on Government. However, in the absence of the anticipated budget support, the tendency for the Government to increase borrowing is high.

14. The Committee also discussed the need for the country to lower its debt-to-GDP ratio and ensure that the debt is sustainable.

III. External Sector Developments

15. Preliminary balance of payments estimates for the first half of 2019 indicated that the external position of The Gambia continues to improve, attributed to the support from our development partners, and increases in remittances, tourism, and foreign direct investment.

16. The current account deficit narrowed to US$25.8 million (1.5 percent of GDP) in the first half of 2019 compared to a deficit of US$26.7 million (1.7 percent of GDP) in the corresponding quarter in 2018. The improvement in the current account balance is attributed to the increase in foreign inflows related to the support from development partners, diaspora remittances, and tourism.

17. The services account balance, on the other hand, registered a surplus of US$59.7 million in the first six months of 2019, higher than a surplus of US$40.5 million a year ago, explained largely by the increase in tourist arrivals.

18. The deficit in the goods account, however, widened to US$194.6 million (11.0 percent of GDP) in the first six months of 2019 compared to US$150.0 million (9.3 percent of GDP) in the corresponding period in 2018. This is due to the increase in imports to US$277.7 million or by 29.8 percent in the first half of 2019 from US$214.0 million in the same period in 2018. Exports also increased by 35.6 percent to US$74.4 million during the period under review.

19. The capital and financial account balance registered a higher surplus of US$7.5 million from a surplus of $4.6 million a year ago, mainly on account of official transfers. Gross international reserves stood at $197.8 million and it is projected to be equivalent to 4.0 months of next year's imports of goods and services.

20. The Committee welcomed the improvement in the external sector as reflected in the steady accretion to external reserves. The Committee observed that the improvement in the external sector in the review period was mainly due to the improved macroeconomic environment evident by increases in remittances, successful tourist season, and increased inflows from development partners. Commenting further, the Committee observed that the current account balance narrowed during the review period, which helped stabilized the exchange rate. However, the goods account worsened due to the marked increase in imports. The Committee directed that more work needs to be done in this area of the BOP to enhance the data quality.

21. The Committee expressed satisfaction on the findings of the report on the re-export trade survey conducted by the Economic Research Department (ERD). The key highlights of the report showed that re-export trade is still active. The findings also indicated that we need to improve our ports infrastructure to remain competitive.

IV. Exchange Rate Developments

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

23. Transaction volumes in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency, increased by 14.0 percent to US$1.3 billion from January to July 2019. During the period, purchases of foreign currency, which indicates supply, increased to US$666.7 million, or by 14.4 percent. Similarly, sales of foreign currency rose by 13.6 percent to US$662.6 million in the same period.

24. The exchange rate of the dalasi remains broadly stable. From December 2018 to July 2019, the dalasi appreciated against the pound sterling and euro by 0.6 percent and 1.2 percent, respectively. However, it depreciated against the U.S. dollar by 0.9 percent and CFA by 1.2 percent.

25. The Committee welcomed the stability of the exchange rate and the expectations are that the dalasi would remain stable on the back of the continued implementation of sound macroeconomic policies and improved market conditions. However, the Committee expressed concern that the collapse of Thomas Cook could have negative effects on the tourism industry. In this regard, the Committee was informed that the task force set up to work on Thomas Cook's withdrawal is working hard to put in place mitigating measures to minimize the potential effects. The Committee was further apprised that, in fact, it is Thomas Cook UK that withdrew from the Gambian market, but Thomas Scandinavia is flying in tourist to the Gambia.

V. Real Sector

26. The Gambian economy remained strong and the prospects are favorable. The Central Bank's Composite Index of Economic Activity (CIEA) suggests that economic activity remained robust in the first half of 2019 and points to stronger growth in the second half of the year.

27. Available output data from The Gambia Bureau of Statistics (GBoS) estimated the economy to have grown by robust 6.5 percent in 2018 compared with 4.8 percent in

2017. This performance was broad-base, driven mainly by the services sector including tourism and trade, financial services and insurance, transport and telecommunication. Agricultural production recovered from a contraction of 4.4 percent in 2017 to grow by 0.9 percent in 2018.

28. The Committee welcomed the economic recovery and the projected strong growth in the second half of 2019. The Committee observed that The Gambia experienced delayed rains for the 2019 rainy season which was further exacerbated by intermittent dry spells.

29. Commenting further, the Committee highlighted the fact that the structure of the economy is changing. While the services sector continues to lead in terms of contribution to GDP, contribution of the industrial sector is now larger than the agricultural sector.

VI. Monetary Developments

30. The Committee noted that as at end-June 2019, broad money grew by 24.4 percent, from 22.4 percent recorded a year earlier; this was largely driven by the increased net foreign asset position of both the Central Bank and commercial banks. The net foreign assets of the banking system increased from D8.2 billion in June 2018 to D13.6 billion during the period under review. Similarly, the net domestic assets of the banking system also increased by 9.2 percent to D23.7 billion during the review period.

31. Private sector credit growth continues to be strong in line with the Bank's deliberate policy to push credit to growth enhancing sectors of the economy. As at end-June 2019, private sector credit grew by 28.8 percent, higher than the 20.0 percent a year ago.

32. As at end-June 2019, reserve money growth decelerated slightly to 21.2 percent, from 21.9 percent recorded last year. The decline in reserve money growth was largely reflecting the slower pace of growth in the currency in circulation.

33. The Committee noted developments in the monetary aggregates, especially the 24.4 percent and 28.8 percent annual growth rates in money supply and credit to private sector respectively. The Committee also observed that reserve money growth is strong, attributed to the increase in the NFA of the Central Bank.

VII. Government Fiscal Operations

34. Preliminary data on government fiscal operations for the first half of 2019 indicated that the budget deficit (including grants) narrowed to D0.19 billion (0.2 percent of GDP) in the first six months of 2019 compared to a deficit of D2.3 billion (2.8 percent of GDP) in the corresponding period a year ago. The narrowing of the overall deficit was due mainly to the increase in revenue and grants by 25.3 percent during the review period.

35. Total revenue and grants during the period under review increased by 25.3 percent to D8.6 billion (9.8 percent of GDP) compared to D6.9 billion (8.6 percent of GDP) in same period last year. Domestic revenue, which comprises tax and non-tax revenues, rose by 23.9 percent to D5.7 billion (6.5 percent of GDP) in the first half of 2019, higher than D4.6 billion (5.8 percent of GDP) in the corresponding period a year ago.

36. Total expenditure and net lending for the first half of year declined by 4.0 percent to D8.8 billion (10.0 percent of GDP). Recurrent expenditure increased by 16.0 percent to D5.8 billion (6.6 percent of GDP) compared to D5.0 billion (6.3 percent of GDP) in the first half of 2018. In contrast, capital expenditure declined by 27.9 percent to D3.0 billion (3.4 percent of GDP), in the first half of 2019 on account of a decrease in grants.

37. The Committee noted the developments in the government fiscal operations, especially the significant increase in total revenue and grants. The Committee highlighted the need for comprehensive reforms aimed at debt sustainability as well as high and sustained economic growth.

VIII. Business Sentiment Survey

38. Presentation on the private sector business sentiment survey indicated strong business optimism in the prospects of the economy in Q2 and Q3 of 2019. The optimism was broad based and cuts 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 and the construction sector remained robust, evidenced by the boom in real estate activity. In addition, wholesale and retail sectors continued to thrive, reflecting strong domestic demand for imported products.

39. The survey also revealed that Inflation expectation is well anchored with about 53.0 percent of respondents expecting inflation to remain at current level or decelerate in the next quarter. The remaining 27.0 percent expected inflation to accelerate in the first quarter of 2019.

40. 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.

IX. Inflation Outlook

41. Headline inflation as measured by the national Consumer Price Index (NCPI) decelerated and stabilized at 7.3 percent in June and July 2019 from 7.5 percent in May 2019, following the sharp increase in postal charges in April, the effect of high demand in Ramadan in May and the recent increase in fuel prices. When compared to the same period last year, inflation remains 0.7 percentage point higher in July 2019.

42. Food inflation, which is the main driver of headline inflation, stood at 6.7 percent in July 2019, unchanged from the previous month but higher than 6.4 percent a year ago. Major drivers of food inflation during the period were Bread Cereals, Meat, Fish, and Vegetables.

43. Non-food inflation, on the other hand, decelerated slightly to 8.4 percent in July 2019 from 8.5 percent in June 2019, but higher than 7.0 percent in July 2018. Key drivers of non-food inflation in July 2019 were Clothing and Footwear, Housing, Fuel and Lighting, hotels and restaurants, Furniture, and Alcoholic Beverages.

44. The Committee observed that the increase in inflation experienced in April and May 2019 has reversed and the medium-term outlook is broadly unchanged, suggesting that inflation will continue to trend downwards. This will be supported by the moderate global inflationary pressures, stable exchange rate, well-anchored inflation expectations, and moderate global food prices. The Committee also noted the risks to outlook which included the domestic food supply situation considering the projected poor crop harvest due to delayed rainfall.

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

45. The Monetary Policy Committee (MPC) reconvened on Thursday, 29 August 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.

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

Deliberations

47. The Committee observed that the outlook for the global economy remains mixed with indications of continued softening of global output due to persisting policy uncertainties and sustained macroeconomic vulnerabilities. These are likely to be accentuated by the increasing trade tensions between the USA and its major trading partners, rising debt levels, and geo-political tensions. Global inflationary pressures moderated in the face of weak demand, subdued energy, and food prices.

48. On the domestic economy, there is increased optimism on the economic growth prospects. Economic activity is expected to strengthen in 2019, although climate-related factors such as late rainfall may affect agricultural production.

49. 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;

50. 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;

51. The Committee observed that the deficit in the current account balance of the balance of payments narrowed significantly in the first half of the year and contributed to the stability of the dalasi;

52. The overall budget deficit has narrowed in the first half of 2019, attributed mainly to the increase revenue and grants and the fiscal authorities are expected to stick to the path of fiscal consolidation in a bid to further narrow the fiscal deficit;

53. The financial soundness indicators (FSIs) indicated that the banking system remains stable, safe and sound, with adequate liquidity and high profitability;

54. The Committee observed that although inflation decelerated and stabilized at 7.3 percent in June and July 2019, there is need to monitor its trajectory in the coming months. The Committee believes that uptick in inflationary pressures is temporal and the effect will eventually dissipate as the underlying inflation remains subdued; and

55. 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

56. Taking the above factors into consideration, the Committee decided to maintain the policy rate at 12.5 percent. The Committee also decided to take an additional measure by increasing the overnight deposit rate facility to 2.5 percent, from 2.0 percent. The Committee will continue to monitor developments in the domestic and international economy and stands ready to act accordingly should economic conditions change.