

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.69

May 29, 2019

The second 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, May 29, 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. Seven (7) of the eleven (11) 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:

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| 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. Muhammed Sissoho | 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:

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| Mr. Abdou Ceesay | Deputy Director, Foreign Dept. |
| Mr. Sheriff Touray | Deputy Director, Economic Research Dept. |
| Mr. Yaya Cham | Senior Economist, Economic Research Dept. |
| Mr. Adama O. Joof | Bank Examiner, Financial Supervision Dept. |
| Mr. Yaya Jatta | Assistant 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 | Economic Research Department |

In attendance were:

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| Mr. Buah Saidy | Senior Advisor, Office of the Governor |
| Mr. Bai Senghor | Director I, Microfinance Dept. |
| 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. Annetta Riley | Deputy Director, Banking Dept. |
| Mrs. Mariam Bayo | Principal Accountant, Finance Dept. |
| Mr. Omar Sonko | Principal Auditor, Internal Audit Dept. |
| Mr. Amadou Touray | Principal Auditor, Internal Audit Dept. |
| Mr. Abdoulie Barry | Senior Bank Examiner, Financial Supervision Dept. |
| Ms. Therese Jatta | Senior Bank Examiner, Financial Supervision Dept. |
| Mr. Lamin Bah | Officer, Risk Management Unit |
| Mr. Hama Jawo | Bank Examiner, Financial Supervision Dept. |
| Mr. Ebrima Ceesay | Protocol & Communication Officer, Admin. Dept. |
| Mrs. Fatou Sanyang | Assistant Banking Officer, Banking Dept. |
| Mr. Mawiyatou Susso | Assistant Statistician, Economic Research Dept. |
| Mrs. Mariama Ceesay | Statistical Assistant, Economic Research Dept. |

Observer:

Mr. Barnard Mendy

Economist, International Monetary Fund 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), growth prospects of the world economy have deteriorated and uncertainties are persisting. Global trade continues to decline due to rising protectionism but financial conditions are easing on account of the accommodative monetary policy stance by most advanced economies. In the April 2019 World Economic Outlook, the International Monetary Fund (IMF) revised downwards global growth projection for 2019 to 3.3 percent compared to 3.6 percent in 2018 and 3.8 percent in 2017.
2. Economic growth in advanced economies is projected to decelerate to 1.8 percent in 2019 from 2.2 percent in 2018. The downgrade was due mainly to the further escalation of trade tensions between the US and China; imposition of new rounds of sanctions on Iran; breakdown of BREXIT negotiations; and a new wave of tension on the Korean Peninsula. In emerging market and developing economies, growth is expected to slow down to 4.4 percent in 2019 from 4.5 percent in 2018, on the back of vulnerabilities in major financial markets and rising public and private debt in some Emerging Market and Developing Economies (EMDEs). In sub-Saharan Africa, economic recovery continues but there are variations in growth performance and prospects of countries across the region. Real GDP growth for the region is projected to increase from 3.0 percent in 2018 to 3.5 percent in 2019, and expected to reach 4.0 percent over the medium term.

3. Global inflation remains subdued and is expected to average at 3.6 percent in 2019, from a record low of 2.8 percent in 2016, driven largely by rising energy prices. However, inflationary pressures in advanced economies remained subdued and largely below their 2.0 percent long-run targets. 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 weakening global output growth continued amidst prevailing uncertainties including: the further escalation of trade tensions between the US and China; imposition of new rounds of sanctions on Iran; breakdown of BREXIT negotiations; and a new wave of tension on the Korean Peninsula; vulnerabilities in major financial markets and rising public and private debt in some Emerging Market and Developing Economies (EMDEs).
5. The Committee also highlighted the disparities between the quality of growth in advanced and developing economies, and called for efforts to ensure that growth be more inclusive in developing economies. The Committee observed that developing countries are currently growing faster than developed economies, but that the pace of improvements in well-being outcomes are much slower for the same rate of economic growth. Thus, the Committee opined that economic growth must therefore be matched by investments and policy efforts that improve well-being outcomes and ensure sustainability.
6. The Committee further noted the potential impact of rising energy prices on domestic inflation outlook. In this regard, the Committee called for a close monitoring of the uptick in inflationary pressures that started in April 2019, driven largely by non-food inflation. The Committee also 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 financial sector remains well capitalized, highly liquid, and profitable. As at end-March 2019, total assets of the banking industry expanded by a robust 18.6 percent to D47.34 billion

and asset quality continues to improve. The ratio of non-performing loans to gross loans declined to 2.9 percent from 7.9 percent a year ago, reflecting largely enhanced risk management in the industry and effective loan recovery measures.

8. The risk-weighted capital adequacy ratio stood at 28.7 percent, well above the minimum requirement of 10 percent. The ratio of liquid assets to total assets was 45.1 percent and the liquid assets to deposit ratio stood at 90.6 percent compared to the statutory requirement of 30.0 percent. Total deposits stood at D28.92 billion as at end-March 2019, higher than D24.3 billion in March 2018.
9. The Committee welcomed with satisfaction the developments in the banking system, especially the sustained increase in private sector credit and the marked decline in non-performing loans. However, the Committee cautioned and tasked the Financial Supervision Department to pay attention to the rapid expansion of credit in the economy which could pose a systemic risk to the economy in the event the credits translate into non-performing loans. The Committee also highlighted the need to be mindful about the increased activities of real estate companies in the country and the need to ensure due diligence in the provision of credit to this sector.
10. Commenting on the distribution of credit by banks to the various sectors of the economy, the Committee observed that important sectors like agriculture, fishing and manufacturing are not attracting enough credit, thus highlighting the need to reform these sectors. Members opined that once these sectors are reformed, banks may redirect their lending activities to them to avoid concentration of credit to the traditional sectors.

Money Market Developments:

11. In May 2019, stock of domestic debt increased to D31.8 billion (41.9 percent of GDP) from D31.2 billion (39.2 percent of GDP) in the corresponding period a year ago. Stock of Treasury and Sukuk-Al Salaam bills increased by 6.1 percent to D18.4 billion during the period under review from D17.4 billion a year ago. 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 were mixed. The 91- day Treasury bills declined from 5.87 percent at end-April 2018 to 4.73 percent at end-April 2019. In contrast, the 182-day and 364-day Treasury bills rates increased from 5.93 percent and 9.23 percent to 6.85 percent and 9.51 percent, respectively.
13. The Committee noted that the stock of domestic debt although high, has somewhat stabilized, as the rate of growth during the review period declined compared to the previous periods. In this regard, the Committee welcomed the significant reduction in debt service expense to Government, which was as a result of the reduction in the interest rate – T/bills rate.
14. The expenses on interest payment had reduced from 41.9 percent as at end-March 2018 to 20.2 percent in March 2019.
15. The Committee also discussed the need to make the Sukuk-al Salaam instrument more Sharia compliant in order to meet the expectation of those who subscribe to the instrument. In view of this, the Committee was informed that a taskforce had been set up to look into the modalities of making the Sukuk fully Sharia compliant.

II. External Sector Developments:

16. Preliminary balance of payments estimate for the first quarter 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.
17. The current account balance registered a surplus of US\$4.1 million (0.2 percent of GDP) in the first quarter of 2019 compared to a deficit of US\$7.3 million (0.5 percent of GDP) in the corresponding quarter in 2018. The surplus in the services account increased by 47.3 percent to US\$46.5 million in the first quarter of 2019, compared to US\$31.6 million in the comparable period a year ago, explained largely by the increase in the number of tourist arrivals.

- 18.** The deficit in the goods account, however, widened to US\$85.1 million (4.8 percent of GDP) in the first quarter of 2019 compared to US\$72.0 million (4.5 percent of GDP) in the corresponding period in 2018. This is due to the increase in imports to US\$125.3 million or by 23.8 percent from US\$101.2 million in the same period in 2018. Exports also increased to US\$35.8 million or by 45.3 percent during the period under review.
- 19.** The capital and financial account balance registered a lower surplus of US\$2.6 million from a surplus of \$7.5 million a year ago, mainly on account of financing imports, loan repayments and other transfers on behalf of government. Gross international reserves stood at \$196.8 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 and the steady accumulation of external reserves. The Committee observed that the improvement in the external sector during the review period was mainly due to the improved macroeconomic environment as evidenced in a successful tourist season and increased inflows from development partners, complemented by strong remittance inflows.
- 21.** The Committee also enquired about the proposed re-export survey to be undertaken by the Economic Research Department (ERD). The Committee was informed that approval was already granted and arrangements are already underway for staff of the department to start the field work immediately after the MPC meeting. The department further informed the Committee that preliminary findings might be shared with the Committee in the next MPC meeting (August 2019).

III. Exchange Rate Developments

- 22.** 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.

- 23.** Transaction volumes in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency, increased to US\$2.1 billion in the year to end-March 2019 compared to US\$1.7 billion in the corresponding period a year ago. From January to March 2019, volume of transactions amounted to US\$638.5 million compared to US\$507.9 million in the fourth quarter of 2018, registering an increase of 25.7 percent.
- 24.** In the year to end-March 2019, purchases of foreign currency, which indicates supply, increased to US\$1.02 billion or by 18.1 percent from a year ago. Similarly, sales of foreign currency rose significantly by 20.0 percent to US\$1.03 billion in the same period. From January to March 2019, purchases increased to US\$320 million or by 28.3 percent, while sales expanded to US\$318.0 million or by 23.2 percent from the previous quarter.
- 25.** The exchange rate of the dalasi remains broadly stable. From April 2018 to April 2019, the dalasi appreciated against the pound sterling, euro and CFA by 2.3 percent, 2.6 percent and 0.9 percent, respectively. However, it depreciated against the U.S. dollar by 4.8 percent.
- 26.** 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 continued implementation of sound macroeconomic policies and improved market conditions. However, the Committee expressed concerns over the number of Gambians deported from Europe and the United States of America as this could have a negative impact on the level of remittances inflows from the aforementioned countries. The Committee also observed that most of the neighboring countries within the WAMZ were dealing with exchange rate volatility, which puts a lot of pressures on their exchange rate.
- 27.** Further commenting on the exchange rate, the Committee noted that arbitrage positions existed during the review period, in particular, the price differentials between the CFA in the Gambia and Senegal. The Committee was informed that most traders would convert Euros into dalasi, then use the dalasi to buy CFA in the Gambia, because it is cheaper for them, then resell the CFA in Senegal at a higher price.

IV. Real Sector

- 28.** The Gambian economy has rebounded strongly in 2018 and the prospects for 2019 are favorable, attributed to the sustained implementation of sound macroeconomic policies and reforms. Indicators show that private investment in the construction and tourism sectors had picked-up significantly with the return of confidence in the economy. Early economic indicators show that growth will remain robust in 2019. However, climatic factors such as delayed rain fall, flooding and long dry spells continue to pose upside risks to the outlook.
- 29.** Available output data from The Gambia Bureau of Statistics (GBoS) estimated the economy to have grown robustly by 6.5 percent in 2018 against 4.8 percent in 2017. This performance was broad-based, driven mainly by the services sector including tourism, trade, financial services and insurance, transport and telecommunications. Agricultural production recovered from a contraction of 4.4 percent in 2017 to grow by 0.9 percent in 2018.
- 30.** The Committee welcomed the economic recovery and the projected strong growth in the medium-term. The Committee observed that actual output remains below potential, implying that the economy still has room for non-inflationary growth. Overall, the Committee highlighted the need to reform other sectors of the economy for the economy to reach its potential, especially the services sector since it the main driver of growth, even though, the Agricultural sector is gradually picking up.

V. Monetary Developments

- 31.** The Committee noted that as at end-April 2019, broad money grew by 21.9 percent, from 28.4 percent recorded a year earlier; this was largely driven by the increase in net foreign assets of both the Central Bank and commercial banks. The net foreign assets of the banking system increased from D8.3 billion in April 2018 to D13.9 billion during the period under review. Similarly, the net domestic assets of the banking system increased but at a slower pace. As at end-April 2019, the net domestic assets of the banking system increased by 4.9 percent to D23.7 billion.

32. Private sector credit growth continues to be strong in line with the Bank's deliberate policy to push credit to the growth enhancing sectors of the economy. As at end-April 2019, it expanded by 35.7 percent, higher than 13.8 percent a year ago.
33. As at end-April 2019, reserve money grew by 18.8 percent, lower than 26.4 percent recorded last year. The growth in reserve money was as a result of the growth in both currency-in-circulation and reserves of commercial banks, as private investment picked up during the review period leading to a continued growth in private sector credit.
34. The Committee noted developments in the monetary aggregates, especially the 21.9 percent and 35.7 percent growth in money supply and credit to private sector respectively. The Committee also observed that currently real interest rates are negative, as the rate of inflation is above 7.0 percent, and the bench mark treasury bills rate (3-month) is below 5.0 percent; and this has the possibility of not attracting investment in the locally denominated assets.

VI. Government Fiscal Operations (Continue from hear)

35. Preliminary data on government fiscal operations for the first quarter of 2019 indicated that the budget deficit (including grants) narrowed to D0.8 billion (1.0 percent of GDP) from D1.0 billion (1.4 percent of GDP) recorded in the first quarter of 2018. The narrowing of the overall deficit was due to the increase in revenue and grants by 22.1 percent during the review period.
36. Total revenue and grants during the quarter under review increased by 22.0 percent to D3.3 billion (4.2 percent of GDP) from D2.7 billion (3.9 percent of GDP) in the same period last year. Domestic revenue, which comprises tax and non-tax revenues, stood at D2.8 billion (3.6 percent of GDP) in the first quarter of 2019, higher than D2.4 billion (3.4 percent of GDP) in the corresponding period a year ago.
37. Total expenditure and net lending for the first three months of 2019 increased by 11.2 percent to D4.1 billion (5.2 percent of GDP). Recurrent expenditure increased by 2.4 percent to D3.0 billion (3.8 percent of GDP) compared to D2.6 billion (3.7 percent of GDP) in the first quarter of 2018. Capital expenditure declined by 3.3 percent to D1.1 billion (1.4 percent of GDP), on account of the decrease in grants

38. The Committee noted the developments in the government fiscal operations, especially the increase in total revenue and grants. It highlighted the need to consider expenditure switching policies in an effort to improve local investment through capital formation. Commenting further, the Committee also raised concern over the level of other charges in the budget and intimated that this budget line item be disaggregated to better understand its various components.

VII. Business Sentiment Survey

39. Presentation on the private sector business sentiment survey indicated favorable growth prospects of the economy in Q1 and Q2 of 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. Developments in the tourism and construction sub-sectors remained robust, evidenced by the increase in tourists' arrival numbers and the boom in real estate activity. In addition, wholesale and retail sectors continued to thrive, reflecting strong domestic demand for imported products.

40. The survey also revealed that Inflation expectation is well anchored with about 52.0 percent of respondents expecting inflation to remain at current level. The remaining 26.0 percent expected inflation to accelerate in the first quarter of 2019.

41. The Committee noted that the sentiments expressed by the survey respondents are consistent with the economic realities on the ground , and confirms the fact that confidence is restored in the economy and people are prepared to invest and hold on to the domestic currency.

VIII. Inflation Outlook

42. Headline inflation as measured by the national Consumer Price Index (NCPI) accelerated to 6.9 percent in April 2019 from 6.1 percent in April 2018, reflecting the marked increase in non-food inflation. Non-food inflation accelerated to 8.7 percent from 6.0 percent during the

period under review. This is mainly as a result of the one-off increase in postal charges from D30 to D350, which led to the increase in the communication index by 60.2 percent.

43. Food inflation, on the other hand, decelerated to 6.3 percent in April 2019 from 6.4 percent in April 2018, reflecting the stability of the exchange rate and moderate global food prices. All subcomponents of food inflation decelerated with the exception of “Fish”, “Milk”, Cheese and “eggs”, and “oils and fat”.
44. All measures of core inflation increased during the period relative to the corresponding period a year ago. Core-1 measure of inflation which excludes price effects of energy and utility items in the CPI basket increased to 7.7 percent at end-April 2019, from 6.6 percent in the same period in 2018. Similarly, core-2 inflation, which strips out prices of volatile food items rose to 6.6 percent in the review period from 6.5 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
45. The Monetary Policy Committee (MPC) reconvened on Thursday, 30 May, 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 meetings, followed by a summary of the presentations and discussions of the technical meeting by the first Deputy Governor.

Deliberations

- 47.** The Committee noted that the overall macroeconomic environment continues to improve and the early economic indicators show that the growth outlook remains favourable. In addition, growing business confidence and the rapid credit expansion to the private sector are supportive of the growth outlook;
- 48.** According to the private sector business sentiment survey, majority of respondents indicated that Inflation expectations are well anchored and projected to either remain at current level or decline;
- 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 external reserves level;
- 50.** The Committee noted that the current account balance of the balance of payments has improved significantly and that has contributed to the stability of the dalasi.

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

- 51.** The financial sector soundness indicators (FSIs) indicated that the banking system remains stable, safe and sound, with adequate liquidity and high profitability;
- 52.** The Committee called for close monitoring of the uptick in inflationary pressures in April 2019, which reflected the marked increase in non-food inflation. The Committee believes that this uptick in inflationary pressures is temporal and the effect will eventually dissipate as the underlying inflation remains subdued; and

53. 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

54. Taking the above factors into consideration, the Committee decided to maintain the policy rate at 12.5 percent. The Committee also decided to maintain the overnight deposit rate at 2.0 percent and the overnight lending rate at 1.0 percentage point above the Monetary Policy Rate. The Committee will continue to monitor developments in the domestic and international economy, and stands ready to act accordingly should economic conditions change.