MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.65

February 28, 2018

The first meeting of the Monetary Policy Committee (MPC) of the Central Bank of the Gambia (CBG) for this year, took place on Wednesday 28 February, and Thursday 1st March, 2018.

Wednesday 28th February, 2018 was marked by opening remarks by the Honorable Governor and chairman of the Monetary Policy Committee (MPC at the conference room, which was followed by presentation of and technical discussions on the various reports.

Present were:

Mr. Bakary Jammeh	Governor, Chairman
Dr. Seeku Jaabi	First Deputy Governor, Member
Mr. Essa A.K Drammeh	Second Deputy Governor, Member
Mr. Lamin Camara	Permanent Secretary 1, MOFEA, Member
Mr. Momodou Taal	Director, Revenue and Tax Policy, MOFEA, Member
Mrs. Maimuna John-Sowe	Deputy Director/OIC, ERD, Member
Mr. Amadou S. Koora	Deputy Director/OIC, FSD, Member
Ms. Rohey Khan	Deputy Director/OIC Foreign Department
Mr. Karamo Jawara	Principal Banking Officer/OIC, BD, Member
Mr. Sheriff Touray	Principal Economist, ERD, (Secretary)

Report Presenters:

Mrs. Aji Adam Njie	Economist, Economic Research Department
Mrs. Fatou Susso Camara	Principal Bank Examiner, Financial Supervision Dept.
Mr. Karafa Jobarteh	Principal Officer, Foreign Department
Mrs. Binta Beyai	Senior Economist, Banking Department
Mr. Yaya Cham	Senior Economist, Economic Research Department
Mr. Alagie Sowe	Economist, Economic Research Department
Mr. Khalilu Bah	Economist, Economic Research Department
Mr. Mawiyatou Suso	Assistant Statistician, Economic Research Dept.
Mr. Sheriff Touray	Principal Economist, Economic Research Department

In attendance were:

Martin Fukac	Technical Assistant, AFRITAC West II (observer)
Ruby Randall	IMF Resident Representative (observer)
Mr. Bai Senghor	Director, Microfinance Department
Mr. Peter Prom	Director, Information Technology Department
Mr. Momodou Njie	Director, Risk Management Unit
Mrs. Fatou Deen Touray	Deputy Director, Microfinance Department
Mr. Siaka Bah	Deputy Director, Microfinance Department
Mr. Abdou Ceesay	Deputy Director, Foreign Department
Mrs. Saffie Secka	Deputy Director, Information Technology Department
Mrs. Anneta Riley	Principal Banking Officer, Banking Department
Mrs. Mariam Bayo	Principal Accountant, Finance Department
Mr. Atikan Dibba	Principal Accountant, Finance Department
Mr. Mustapha Senghore	Principal Bank Examiner, Financial Supervision Dept.
Mr. Bademba	Statistician, Economic Research Department

Mr. Saikou Jammeh	Economist, Economic Research Department
Mr. Dawda Gaye	Senior Supervisor, Internal Audit Department
Mr. Bai Abbi Jobe	Bank Examiner, Financial Supervision Department
Mr. Yaya Jatta	Assistant Banking Officer, Banking Department
Mrs. Fatou Sanyang	Assistant Banking Officer, Banking Department

1. In his opening remarks, the Governor and Chairman of the MPC welcomed members and attendees to the meeting. He noted the achievements made towards achieving macroeconomic stability and urged staff of the bank to continue to work hard to consolidate those gains.

2. The Chairman recognized the presence of two observers namely Mr. Martin Fukac, a technical assistant on macroeconomic and monetary analysis from the AFRITAC West II, and MS.Ruby Randall, IMF Resident Representative. He thanked Mr. Fukac on behalf of the management of the Bank for the hard work he is doing in enhancing the writing and presentation skills of ERD staff in macroeconomic and monetary policy analysis.

3. The agenda of the meeting was then adopted with minor amendments.

4. The meeting proceeded with presentations and discussions on the World Economic Outlook, Real Sector Developments, Banking Sector Developments, Balance of Payments (BOP), Exchange Rate Developments, Fiscal Developments, Money Market Developments, Monetary Developments, Business Sentiment Survey, Inflation Analysis and Outlook, and Assessment of Monetary Policy Stance in that order.

World Economic Outlook (WEO)

5. The global economy is reported to continue to strengthen, and is expected to be sustained over the medium term, supported by increased investments, manufacturing activity and trade, together with general accommodative monetary policies. Economic performance in 2017 has been broad-based with strong growth registered in advanced economies, and a pick-up in emerging markets and developing countries.

6. The International Monetary Fund (IMF) in January, 2018, revised upwards global economic growth for 2017 to 3.7 percent compared to 3.2 percent in 2016. The outlook for 2018 and 2019 is continued robust expansion with global growth revised up to 3.9 percent for both years, premised on expected favorable financing conditions, buoyant trade and investment. Downside risks to the projections include uncertainty in policy prescriptions in advanced economies, faster than expected interest rates hikes in some advanced economies, and increased trade barriers.

7. Economic activity in advanced economies was estimated at 2.2 percent in 2017, higher than 1.7 percent in 2016. The tax reform in the United States (U.S) is expected to stimulate activity in the near-term. The world's biggest economy is projected to grow from 2.3 percent in 2017 to 2.7 percent and 2.5 percent in 2018 and 2019 respectively.

8. Growth forecast for the Euro zone in 2018 and 2019 have been revised upwards based on the anticipated stronger domestic and external demand, and the accommodative monetary policy stance. Real GDP growth in the zone was projected at 2.2 percent and 2.0 percent in 2018 and 2019, respectively.

9. Growth in the United Kingdom (U.K) slowed from 1.9 percent in 2016 to 1.7 percent in 2017, due largely to the impact of Brexit. Activity is expected to slow further with projected growth of 1.5 percent for both 2018 and 2019 as the

decision to exit the European Union continued to weigh on private domestic demand.

10. Growth in emerging economies is also projected to pick up in 2018, driven mainly by the recovery in commodity prices and a pickup in global trade as well as sustained growth in China and India. In addition, recession has ended in large emerging economies such as Russia and Brazil. Economic growth in the region is projected to pick-up from 4.7 percent in 2017 to 4.9 percent in 2018 before rising further to 5.0 percent in 2019.

11. In Sub-Saharan Africa (SSA), recovery has been modest with real GDP growth of 2.7 percent in 2017 compared to 1.4 percent a year ago, driven by improvements in macroeconomic imbalances, particularly in Nigeria and South Africa. The region is projected to register higher growth in 2018 and 2019 as commodity prices recover, but remain lower than its long-term trend. Growth is expected to pick up to 3.3 percent and 3.5 percent in 2018 and 2019 respectively.

12. Global inflation remains subdued despite the upswing in economic activity. Global inflation is projected at 3.3 percent in 2018, slightly higher than 3.2 percent in 2016. In advanced economies headline inflation picked up in 2017 due to the rise in oil prices but core inflation remains weak. Inflation edged up slightly in emerging market economies but declined in sub-Saharan Africa reflecting the confluence of stable exchange rates and lower food price inflation.

13. Global commodity prices remain moderate although there seems to be upward momentum in global oil price as the anticipated global demand picks up. Average crude oil price is expected to range between US$56 and US$66 per barrel in 2018, driven largely by the continuation of the OPEC production cut agreement, geopolitics, supply disruptions in some countries, and the increasing global economic growth. However, global food prices are expected to keep

moderating on the back of ample supply. The FAO Food Price Index averaged 169.5 points in January 2018, nearly unchanged from December 2017 but almost 3 percent below the corresponding period a year ago.

14. The Committee noted the favorable global outlook and commented that the recovery in global trade and investment is expected to translate to favorable outlook for the Gambian economy. However, the Committee noted that the US monetary policy normalization could lead to capital moving away from the developing economies, including The Gambia to the U.S, which the Committee intimated will further strengthen the US dollar with the potential to exert depreciation pressures on the dalasi.

15. The Committee noted that the improvement in economic activity of our major trading partners is expected to translate to higher demand for goods and services, and therefore a boast in domestic exports. Tourism receipts, in particular, are likely to improve as the Eurozone economy ended 2017 with its strongest growth in almost seven years with stronger prospects for 2018. However this would be treated with caution pending the Brexit outcome.

16. The Committee observed that subdued global food prices will further dampen domestic inflationary pressures while cognizant of the rising trend in oil prices as a potential risk to domestic inflation outlook. The rising oil prices could be transmitted to domestic inflation through higher transportation costs and import prices.

Banking Sector Developments

17. The banking sector as a whole continued to be well capitalized, liquid and profitable with improved asset quality. The total asset base of banks increased to D37.8 billion in December 2017, indicating a year-on-year growth of 16.2 percent, compared to 23.2 percent in the same period last year. Treasury bills investment declined in the review period by 9.7 percent due to government's deliberate policy to minimize public domestic borrowing. Total investment in short-term Treasury bills stood at D11.8 billion or 31.2 percent of total assets

compared to D13.1 billion or 40.2 percent of total assets. However, the introduction of long-term government bonds has helped offset to some extent the impact of the decline in Treasury bills in the money market. As at end-December 2017, investment in bonds amounted to D1.2 billion. Gross loans and advances declined by 4.2 percent to D4.3 billion.

18. Capital Adequacy Ratio (CAR) of banks stood at 33.6 percent in December 2017, significantly higher than the statutory requirement of 10 percent. The Non-Performing Loans (NPLs) ratio, which is a measure of the industry's asset quality, declined to 7.8 percent in December 2017 from 10.2 percent in September 2016.

19. Total deposit liabilities increased by 21.1 percent in December 2017 to stand at D22.4 billion. The industry remained highly liquid with a liquidity ratio of 92.5 percent during the review period, significantly above the prudential requirement of 30.0 percent.

20. The Committee broadly agreed that the fundamentals of the banking system in the Gambia are sound with high capital adequacy ratio, high liquidity and the profitable. The industry has grown in terms of assets and all the banks met the key prudential requirements for December 2017.

21. Concerns were raised by some Committee members over the level of credit concentration. However, the Committee agreed that the risk is minimal as no single industry or individual has extremely high share of total credit.

22. Some Committee members noted the decline in private sector credit but commented that the decline in non-performing loans ratio is a positive development. It was lamented that there is potential to improve conditions in the credit market by enhancing information sharing through the Collateral Registry and the Credit Reference Bureau. It was also intimated that the development of the bond market will go a long way in helping the banks finance longer term projects.

Money Market Developments

28. Interest rates on short-term government securities broadly declined in 2017 in line with the decline in monetary policy rate, improved macroeconomic conditions and government policy to stabilize the domestic debt.

29. Outstanding domestic debt stock stood at D28.1 billion (63.1 percent of GDP) in 2017 from D28.7 billion (66.3 percent of GDP) in 2016, representing a decline of 2.0 percent. This development reflects government's strategy to stabilize the public debt to sustainable levels.

30. Of the components of domestic debt, stock of Treasury and Sukuk Al Salaam bills contracted by 13.4 percent to D15.5 billion in 2017. In line with its debt management strategy, government introduced bonds with the objective of restructuring domestic debt from mainly short-term Treasury bills to longer term securities. In 2017, government issued D2.3 billion in bonds with maturities of 3 and 3 years to re-profile the maturity structure of the debt.

31. Yields on all Treasury bills and Sukuk Al Salaam bills declined, reflecting reduced borrowing by government. The 91-day, 182-day and 364-day yields fell from 13.67 percent, 16.25 percent and 17.71 percent in December 2016 to 5.03 percent, 5.52 percent and 6.73 percent respectively in December 2017.

32. Average interbank rate, which is the rate at which commercial banks lend among themselves, declined to 5.24 percent in December 2017 against 13.57 percent in December 2016.

33. The Committee noted that the stock of domestic debt is stabilizing and is consistent with government's Medium Term Debt Strategy (MTDS). Members also commended the strategy to restructure the domestic debt to reduce the high roll-over risks and the costs of interest payments. The reduction in the cost of interest payments would free resources for other development expenditures.

34. The Committee agreed that the CBG and the Ministry of Finance and Economic Affairs (MOFEA) should collaborate and devise plans to separate monetary operations from issuance of Treasury bills to finance government's borrowing requirement in the near future..

External Sector Developments

35. The current account deficit deteriorated to US$173.1 million in 2017, compared to a deficit of US$95.6 million recorded in 2016. The widening of the current account is attributed largely to the deficit in the goods account, which registered a deficit of US$354.6 million in the review period from a deficit of US$210.0 million in 2016.

36. The deficit in the income account narrowed by US$23.8 million in quarter 4, 2017 from a deficit of US$53.8 million in 2016, to a deficit of US$30.0 million mainly on account of decreased interest expenses and improvements in investment income.

37. The Capital account balance stood at US$54.6 million in 2017 compared to US$18.4 million in 2016. The financial account balance recorded a surplus of US$22.7 million from a surplus of US$36.7 million a year ago.

38. The Committee lamented on the need to improve the quality of the Balance of Payments statistics. In this regard, the Committee was informed that plans are at an advanced stage in seeking for financial support from African Capacity Building Foundation (ACBF) for the conduct of a survey on foreign private capital flows in collaboration with West Africa Institute for Economic and Financial Management (WAIFEM) and the central bank of the Gambia (CBG). The objective of the survey is to firm up foreign direct investment (FDI) estimates obtained from previous surveys, as well as project recent trends in FDI and other financial flows to the Gambia. The ultimate objective is to improve the quality and reliability of the capital and financial accounts of the Balance of Payments statistics.

Exchange rate developments

23. The foreign exchange market has stabilized, and was mainly supported by improved market conditions and confidence. The significant improvement in reserves build up provided additional buffers to the domestic foreign exchange market.

24. Volume of transactions in the domestic foreign exchange market in the year to end-January, 2018 stood at US$1.5 billion compared to US$1.48 billion in the corresponding period in 2017. Purchases, indicating supply totaled US$758.4 million compared to US$737.8 million a year ago. Sales, indicating demand, increased by 1.0 percent to US$744.27 million.

25. The dalasi remained relatively stable against the major trading currencies throughout 2017, although demand pressures emerged due to increase in imports, particularly for construction materials. The exchange rate is expected to remain stable with continued implementation of sound macroeconomic policies, renewed confidence and improved supply conditions.

26. The Committee noted that with renewed confidence in the economy, supply conditions in the foreign exchange market will continue to improve. The Committee also commented that traditional sources of foreign exchange, including tourism, remittances and re-export have recovered and in some cases a strong recovery was registered during the review period.

27. The Committee indicated that the stability of the domestic currency reflects strong macroeconomic fundamentals. However, the predicted strengthening of the US dollar due to the anticipated hike in US Fed Funds rate has the potential to exert depreciation pressures.

Real Sector Developments

28. Provisional GDP estimates from the Gambia Bureau of Statistics (GBoS) indicated that the economy grew by 3.0 percent in 2017, higher than 2.2 percent in 2016. Economic activity is projected to gather strength in 2018 with projected real GDP

growth of 3.8 percent, underpinned by projected increase in agricultural production, construction and a strong performance of the tourism sector as well as improved business environment.

29. The Committee commented on the need for a higher frequency short-term indicator of economic activity to provide a snapshot of current economic activity relevant for policy making. Given the importance of such an indicator in policy making, the Committee tasked the Economic Research Department to devise measures to tackle the data challenges in the construction of the Composite Index of Economic Activity (CIEA). The Economic Research Department highlighted a number of challenges faced in terms of data availability.

Monetary Developments

30. The pace of monetary expansion accelerated in the year to end-December 2017. Money supply grew by 20.9 percent year-on-year to end-December 2017 compared to 15.3 percent a year ago. This was mainly as a result of the robust growth in the net foreign assets (NFA) of the banking system to D6.5 billion 396.4 percent from a contraction of 40.9 percent a year earlier. The net domestic assets of the banking system, on the other, hand contracted by 1.4 percent to D21.6 billion, reflecting government's policy to reduce borrowing from the domestic market. Net claims on government by the banking sector contracted to D19.3 percent or 5.3 percent in 2017 compared to a positive growth of 22.1 percent a year ago.

31. Of the components of money supply, narrow money, comprising currency outside banks and demand deposits, rose to D14.4 billion, or 17.2 percent in 2017. Quasi money, comprising savings and time deposits, grew at a faster pace of 25.0 percent to stand at D13.7 billion during the review period.

32. Growth in reserve money, the Bank's operating target, decelerated to 22.6 percent, lower than the 25.2 percent in 2017. This was mainly as a result of the 16.4 percent contraction in the NDA of the CBG. Similarly, CBG's net claims on government contracted by 19.2 percent in 2017 compared to a positive growth of 32.9 percent a year ago. In contrast, the NFA of the CBG increased at a strong pace of 625.3 percent to D2.8 billion at end-December 2017.

33. The Committee noted the strong growth in money supply and attributed it mainly to the significant increase in the net foreign assets of the banking system. Some members intimated that the strong growth in quasi money reflects confidence in the economy.

34. The Committee indicated that the Treasury Bills Committee should step-up sterilization efforts to control the growth in reserve money. The policy of the government to refrain from borrowing from the CBG was welcomed by members who intimated that this move will improve the effectiveness of monetary policy.

Government Fiscal Operations Continue from here

35. Government fiscal operations for the year ended 2017 recorded an improved overall deficit (including grants) of D3.5 billion (7.8 percent of GDP) compared to a deficit of D4.2 billion (9.8 percent of GDP) recorded in 2016. Similarly, the primary balance recorded a surplus of D701.8 million (1.6 percent of GDP) in 2017, higher than D270.0 million (0.6 percent of GDP) in 2016. These performances were due largely to cuts in governments spending and the significant increase in grants during the period.

39. Revenue and grants increased to D13.5 billion (30.3 percent of GDP) in 2017 compared to D8.4 billion (19.3 percent of GDP) recorded in 2016, representing an increase of 61.8 percent. The increase was due to the significant surge in grants to D5.6 billion in 2017 or by 692.0 percent, higher than the D707.6 million registered a year ago. Domestic revenue also increased slightly to D7.9 billion

(17.8 percent of GDP) or by 3.5 percent in 2017, from D7.6 billion (17.7 percent of GDP) in 2016.

40. Tax revenue increased from D7.0 billion (16.2 percent of GDP) in 2016 to D7.1 billion (16.0 percent of GDP), thanks to the increases in direct tax and non-tax revenues.

41. Expenditure and net lending for the year ended 2017, increased to D17.0 billion (38.1 percent of GDP) or by 35.0 percent, compared to D12.6 billion (29.1 percent of GDP) in 2016. Recurrent expenditure, which accounted for 57.6 percent of total expenditure and net lending in 2017, declined by 1.9 percent to D9.8 billion (22.0 percent of GDP) compared to D10.0 billion (23.1 percent of GDP) in 2016. The decline was on account of the drop in other charges (goods & Services and subsidies &transfers) by 7.3 percent, as government continues to pursue fiscal consolidation including prudent spending. Capital expenditure, on the other hand, increased significantly to D7.2 billion (16.1 percent of GDP) or by 177.9 percent in 2017, from D2.6 billion (6.0 percent of GDP) in 2016.

42. The Committee observed that fiscal policy is on a consolidation path to improve fiscal sustainability. Furthermore, the Committee noted that zero Central Bank (CBG) financing of fiscal deficit creates a favorable environment for the conduct of sound and effective monetary policy.

43. The Committee also observed the skew from recurrent expenditure towards capital expenditures which is expected to help accumulate capital for long-term economic growth and development and commented that it is a highly welcomed development.

Business Sentiment Survey

44. Findings from the private sector and business sentiment survey indicate improved business sentiments about the prospects of the economy. The optimism is broad based across sectors. Firms reported positive sentiment about current and

expected sales, profit and employment opportunities. Overall, the business sentiment points to strong economic activity (GDP growth) in 2017 and a strong start in 2018.

45. Majority of the respondents (65 percent) expressed satisfaction during the period under review with the Central Bank's performance in setting its short-term interest rate compared to the third quarter of 2017.

46. The survey also revealed that inflation expectations are well anchored given that inflation is trending down.

Inflation Outlook

47. Headline Inflation, measured by the National Consumer Price Index (NCPI) decelerated to 6.4 percent in January 2018 relative to 8.8 percent in the same period in 2017.

48. Food inflation decelerated to 6.2 percent in January 2018 from 10.1 percent in the corresponding period last year.

49. Non-food inflation, on the other hand, increased marginally to 6.9 percent compared to 6.8 percent in the review period, due mainly to the increase in prices of clothing, textile and footwear.

50. The Committee noted that headline inflation and inflation expectations have been broadly trending downwards. The trend is expected to continue with continued fiscal consolidation, moderate prices of imported goods and the continued stability of the exchange rate.

Outlook

51. There was a significant downward trend in the decline in headline and core inflation throughout 2017, and the outlook remains favorable. Subdued global inflation, stability in the foreign exchange market supported by favorable supply conditions, continued fiscal consolidation and declining inflation expectations

are all expected to support the continued decline in headline inflation towards the medium term target of 5.0 percent. The central bank financing of fiscal deficit was zero in 2017 and this translated to lower inflationary pressures. However, major risk to the inflation outlook is the rising global crude oil price which is likely to translate into hikes in domestic prices of goods and services via increase in cost of transportation and other related services. Moreover, the high level of domestic debt, though declining remains a major risk to macroeconomic stability.

52. The economic growth prospects have improved, premised on expected rebound in agriculture, construction, tourism and trade, and improved business sentiments.

Thursday 1st March, 2018

53. The Monetary Policy Committee (MPC) reconvened on March 01, 2018 following the technical meeting from the previous day to take a decision on the direction of monetary policy. The meeting was followed by a press conference by honorable Governor and Chairman of the MPC.

54. In his opening remarks, the Chairman welcomed members and attendees to the meeting. His opening remarks were followed by the summary of the reports and discussions of the technical meeting by the First Deputy Governor.

Decision

55. Members were unanimous in their decision which was informed largely by the outlook of inflation both in the global and the domestic front.

56. The Committee noted that headline inflation is expected to continue to trend towards the medium-term target of 5 percent. However, the Committee took cognizance of the fact that there are risks to the outlook including rising global oil prices and high level of domestic debt.

57. Taking these factors into consideration, the Committee judged that the risk to inflation outlook remains fairly moderate and decided to leave the Monetary Policy Rate (MPR) unchanged at 15 percent. The Committee would continue to monitor risks and take the necessary policy action to drive inflation towards the medium term target.

Next meeting of the MPC is scheduled for May 30, 2018 to be followed by decision and a press conference on May 31, 2018.