

MINUTES OF THE INTERIM MONETARY POLICY COMMITTEE MEETING NO. 62 June 20, 2017

The Second meeting of the Monetary Policy Committee (MPC) in 2017, of the Central Bank of the Gambia (CBG) took place in the Board Room of the Bank on Tuesday June 20, 2017.

Present were:

Mr. Bakary Jammeh	Governor, Chairman
Mr. Essa Drammeh	Second Deputy Governor, Member
Mr. Abdoulie Jallow	Permanent Secretary 1, MOFEA, Member
Mr. Lamin Camara	Permanent Secretary 2, MOFEA, Member
Mr. Mbye Jammeh	Director Banking Department, Member
Mrs. Maimuna John-Sowe	Deputy Director/OIC, (ERD) Member
Mr. Amadou Koora	Deputy Director/OIC, FSD, Member

Mr. Khalilu Bah

Economist, ERD, Secretary

In attendance were:

Mr. Ousman .A. Sowe	Senior Adviser, Office of the Governor
Mr. Momodou Mboge	Director, Legal Department
Mr. Bai Senghor	Director, Microfinance Department
Mrs. F. Deen Touray	Deputy Director, Microfinance Department
Mr. Ebrima L.S Darboe	Director, Loans and Debt, MOFEA
Mr. Alaye Barra	Principal Officer, Loans and Debt Dept., MOFEA
Mrs. Wooday Marenah	Principal Accountant, Finance Department
Ms. Rohey R.S Khan	Deputy Director/OIC, Foreign Department
Mr. Abdou Ceesay	Deputy Director, Foreign Department
Mrs. Halima Singhateh	Principal Bank Examiner, FSD
Mr. Karamo Jawara	Principal Banking Officer, (Banking Department)
Mr. Yaya Cham	Senior Economist, ERD Department

Mr. Sulayman Ceesay	Senior Economist, Economic Research Dept.
Mr. Momodou O. Jallow	Economist, Economic Research Department
Mr. Alieu S. Ceesay	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Mrs. Mariama Bayo	Principal Accountant, Finance Department
Mr. Baba Darboe	Bank Examiner, FSD
Mrs. Mariama Sillah	Bank Examiner, FSD Department

The sixty-second meeting of the Monetary Policy Committee (MPC) was held at the Board Room of the Central Bank on June 20, 2017. The Governor and Chairman of the MPC called the meeting to order at 11:30am and welcomed the Committee members and other attendees to the meeting. This was followed by presentations and discussions on key areas including; real sector developments, government fiscal operations, exchange rate developments, money market developments, monetary developments, banking sector developments, and inflation outlook.

Real Sector Developments

1. Provisional data from the Gambia Bureau of Statistics (GBOS) indicate that the Gambian economy is projected to grow by 2.2 percent in 2016, lower than the 4.3 percent recorded in 2015, due mainly to the late and poor distribution of rain fall during the period coupled with the political impasse that affected the services sector particularly the tourism sector and related activities.
2. The Committee commented that the low level of economic growth in 2016 is worrisome and that efforts should be made to revive the economy in order to spur growth. The committee also noted that periods of boom are generally succeeded by episodes of recession, as the agricultural sector which is the main driving force of GDP continues to depend on rain feed agriculture.

Government Fiscal Operations

3. Government fiscal activities for the first four months of 2017, reflects its commitment to fiscal consolidation. This is evident in its efforts to reduce the domestic debt to sustainable levels by restraining expenditures and excessive borrowing from the domestic money market.
4. The meeting was informed of the expected budget support from the European Union (EU), African Development Bank (AfDB) and other agencies and the Rapid Credit Facility disbursement from the International Monetary Fund (IMF). The representatives from the Ministry of Finance also informed the meeting that plans were underway to take-up the component of debt owing to the deposit money banks by NAWEC of GMD9 billion and adding it to government's domestic debt stock with a possible haircut and debt restructuring. Talks were underway between CBG and MOFEA in this regard.
5. On the same token information was shared with the meeting that the 2017 budget was reviewed and was to be re-presented and discussed at the National Assembly by June 29th 2017, with a view to streamlining expenditures. The meeting was also informed that the authorities at the Ministry of Finance and Economic Affairs (MOFEA) have also contracted a loan of about GMD220.00 million purportedly for the procurement of specific items such as seeds, fertilizer for the agricultural sector and fuel for (NAWEC and GNPC) and is payable in three years.

Exchange Rate Developments

6. The volumes of transaction from January to May, 2017 amounted to \$342.04 million compared to \$640.07 million in the same period last year contracting by \$298.04 million or by 46.56percent. However, an excess supply of \$9.50 million between January and May was recorded and the dalasi depreciated moderately against all the major currencies. The biggest loss registered was against the EUR which depreciated by 9.20 percent, followed by the GBP by 8.53 percent, the USD by 6.78 percent and CFA (5000) by 3.46 percent.

7. However, latest weekly exchange rate data indicates that the dalasi appreciated against some major currencies, notably US dollar, British Pound and Euro. The Bank returned to the normal intervention practices in May 2017. The committee commented that there is need to be cautious in the FX intervention to avoid counterproductive policies.

Money Market Developments

8. As at end-May, 2017, outstanding domestic debt stock increased to D29.73 billion (63.03 % GDP), or by 34.95 percent from May 2016. However, from December 2016 to May 2017, it grew by a meager 0.83 percent, reflecting governments diminishing appetite for domestic borrowing. On the same token domestic interest payments declined from 1.5 percent of GDP in Q2-2016, to 1.22 percent of GDP in Q2 of 2017. The ratio of domestic debt to GDP is estimated at 6.49 percent or (D3.06 billion) or 39.71 percent of government revenue in 2017.
9. Total government new domestic borrowings in 2016 amounted to D976.47 million while for the 1st six months of 2017, new domestic borrowings totaled D310.63 million, further confirming government's effort in cutting down the domestic debt.
10. Interest rates on all the short-dated instruments in the money market continued to decline steadily in 2017. The yield on the 91-day, 182-day and 364-day Treasury bills declined from 17.57 percent, 17.95 percent and 21.83 percent in May, 2016 to 9.17 percent, 10.64 percent and 12.07 percent respectively in May, 2017.
11. The committee noted that the control in the float size in treasury bills is forcing participants to scramble over the limited issuance, thus causing the rates to decline, however a low level of participation is also observed despite the declining rates. Some committee members intimated that the only way to regularize this phenomenon is to go by the dictates of demand and supply increase the float size to appropriate levels.

Monetary Developments

12. Growth in the key monetary aggregates rose in the first 4-months of 2017. Broad money (M2) grew by 17.8 percent in April, 2017 compared to 16.6 percent in April, 2016. Narrow money (M1) grew by 13.8 percent in April 2017, weaker than the 21.8 percent growth in April 2016. However, the growth in money supply did not mirror economic activities as evidenced in the real GDP growth. It is rather as a result of the growth in currency in circulation which is the main driver of money supply and reflects CBG monetization of government deficits. Growth in quasi-money picked up around March, 2016 and persisted up to November, 2016 after which it declined due to lack of confidence in the economy as the presidential elections approached, but it has since picked up reflecting the regain in confidence in the economy. Quasi money grew by 22.3 percent in April, 2017 from a growth rate of 11.4 percent the same period last year.

13. The Net Foreign Assets (NFA) of the banking system improved to D1.3 billion in April, 2017 from D0.3 billion in April, 2016, registering a growth rate of 392.9 percent. CBG NFA improved by 5 percent to stand at negative D513.8 million from negative D541.04 in the same period last year. Deposit Money Banks NFA grew by 126.2 percent to D1.8 million after contracting by 70.2 percent in April, 2016.

14. The Net Domestic Assets of the banking system has been the main driver of liquidity injection in the system as government resorted to borrowing almost entirely from the domestic money market. However, as at end April 2017, NDA grew by 12.8 percent lower than the 14.2 percent in April, 2016 showing recent restraints in government borrowings. The NFA of the banking system up ticked after being subdued for some time. Claims on government net have been the main contributor to growth in NDA and has contributed immensely in crowding out the private sector. However, credit to public institutions is picking up slowly and is mainly attributable to the NAWEC bond held by various banks.

15. Reserve money grew by 18.1 percent yearer –on-year as central bank continues to finance government deficit. The growth in reserve money was supported by the growths in both currency in circulation and reserve of commercial banks which grew by 14.8 percent and 24.4 percent respectively during the period under review.

Banking Sector Developments

16. The financial soundness indicators revealed that the banking sector remains stable. The banking industry as at end May, 2017 comprises of twelve banks including one Islamic bank. It is dominated by four large banks which accounts for 69.99% of the industry's D34.99 billion total assets.

17. The banking industry's total assets grew by 4.56 percent to D34.99 billion, as at end May 2017 compared to the total assets recorded at end March 2017. This growth in assets in May, 2017 from March, 2017 was due to increased off-balance sheet exposures by 27.94 percent or D0.95 billion and other assets 51.37 percent or D0.47 billion.

18. Gross loans and advances stood at D4.43 billion as at end May, 2017, representing 12.67 percent of the industry's total assets an increase by D378.99 million or 9.34 percent relative to the previous quarter. The growth in gross loans was mainly due to an increase in loans and advances to government institutions and parastatals by 107.11 percent and 127.67 percent respectively. The overall banking industry over the period remains profitable and adequately capitalized.

Inflation Outlook

19. Consumer price inflation which is measured by the National Consumer Price Index (NCPI), reported headline inflation to be 8.4 percent in May, 2017, compared to 7.0 percent in May, 2016. Both Food and Non-food inflation increased to 5.2 percent in June, 2016 from 4.3 percent in the same period in 2015. Food inflation rose to 9.3 percent in May, 2017 from 8.1 percent in the same period of 2016.
20. Similarly, non-food inflation increased to 7.1 percent in May, 2017 from 5.2 percent in May, 2016, mainly due to the acceleration in consumer non-food prices which include clothing materials, garments and textiles, transportation, hotels, cafes and restaurants.
21. Central Bank of the Gambia's measure of core inflation, which excludes price effects of volatile items such as energy and utility, to reflect the underlying inflation, increased to 8.1 percent in May, 2017 compared to 6.9 percent in May 2016.

Decision

22. Taking into consideration the declining market interest rates and the downside inflationary pressures, the Committee considered it appropriate to normalize the policy rate to be consistent with market interest rates. Against this backdrop, the Committee decided to set the policy rate at 15 percent and will continue to closely monitor developments in the economy and take necessary action when needed.