MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.64

November 22, 2017

The fourth meeting of the Monetary Policy Committee (MPC) of the Central Bank of the Gambia (CBG) in 2017 took place in the Conference room of the Bank on Wednesday November 22, 2017. The decision and media press conference took place at the Bank's board room on Thursday November 23, 2017.

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Present were:

Mr. Bakary Jammeh	Governor, Chairman
Dr. Seeku Jaabi	First Deputy Governor, Member
Mr. Essa A.K Drammeh	Second Deputy Governor, Member
Mr. Abdoulie Jallow	Permanent Secretary 1, MOFEA, Member
Mr. Lamin Camara	Permanent Secretary 2, MOFEA, Member
Mrs. Maimuna John-Sowe	Deputy Director/OIC, ERD, Member
Mr. Amadou S. Koora	Deputy Director/OIC, FSD, Member
Mr. Karamo Jawara	Principal Banking Officer/OIC, BD, Member
Mr. Sulayman Ceesay	**Senior Economist, ERD, Secretary**

In attendance were:

Mrs. Haddy Joof	Director, Admin& H.R Department
Mr. Bai Senghor	Director, Microfinance Department
Mr. Momodou Njie	Director, Risk Management Unit
Ms. Rohey Khan	Deputy Director/OIC, Foreign Department
Mrs. Fatou Deen Touray	Deputy Director, Microfinance Department

Mr. Siaka Bah	Deputy Director, Microfinance Department
Mr. Abdou Ceesay	Deputy Director, Foreign Department
Mrs. Annetta Riley	Principal Banking Officer, Banking Department
Mr. Karafa Jobarteh	Principal Officer, Foreign Department
Mr. Mustapha Senghore	Principal Bank Examiner, FSD
Mr. Sheriff Touray	Principal Economist, Economic Research Department
Mr. Yaya Cham	Senior Economist, Economic Research Department
Mr. Amadou Barry	Senior Bank Examiner, FSD
Mrs. Fatou Susso Camara	Senior Bank Examiner, FSD
Mrs. Mariama Conateh	Senior Bank Examiner, FSD
Mrs. Binta Beyai Touray	Senior Economist, Banking Department
Mr. Alieu A. Ceesay	Economist, Economic Research Department
Mrs. Aji Adam Njie	Economist, Economic Research Department
Mr. Khalilu Bah	Economist, Economic Research Department
Mr. Alagie B. Sowe	Economist, Economic Research Department
Ms. Theresa Jatta	Bank Examiner, Financial Supervision Department
Mr. Bai Abe Jobe	Bank Examiner, Financial Supervision Department
Ms. Ya Maram Sosseh	Bank Examiner, Financial Supervision Department
Mrs. Awa Bayo	Bank Examiner, Financial Supervision Department
Mr. Baboucarr Jammeh	Bank Examiner, Financial Supervision Department
Mrs. Mariama Sillah	Bank Examiner, Financial Supervision Department
Ms. Ancha Ceesay	Bank Examiner, Financial Supervision Department
Mr. Kajally Jawara	Bank Examiner, Financial Supervision Department
Mr. Hamat Jawo	Bank Examiner, Financial Supervision Department
Mr. Babucarr Bojang	Accountant, Finance Department

Mr. Mawiyatou Suso	Assistant Statistician, Economic Research Dept.
Mrs. Mariama Ceesay	Assistant Statistician, Economic Research Department
Mrs. Fatou Sanyang	Assistant Banking Officer, Banking Department
Mr. Dawda Gaye	Assistant Auditor, Internal Audit Department
Mr. Yaya Jatta	Assistant Banking Officer, Banking Department

1. In his opening remarks, the Governor and Chairman of the MPC welcomed all those who were present at the meeting. He encouraged staff members to keep up the good work in order to sustain the gains made within the short space of time.

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

3. On matters arising, the Governor proposed a name change for the banking department from' Banking Department' to Financial Markets Department. This is necessitated by additional financial instruments such as bonds; the department now deals with.

4. Allocation of more time to respective presentations was suggested by a member of the committee. The reason advanced was to allow for effective deliberations and time management.

5. 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 Outlook and Monetary Policy Stance in that order.

World Economic Outlook (WEO)

6. From the last MPC, global growth momentum has continued to strengthen, evidenced by notable pickups in investment, trade, and industrial production supported by stronger business and consumer confidence. According to the International Monetary Fund (IMF) World Economic Outlook for October 2017, global economic growth is projected to rise for both 2017 and 2018 by 0.1 percentage points to 3.6 and 3.7 percent respectively, from its April (WEO, 2017) and July (WEO 2017) outlook with gains in most of the world offsetting sluggish outcomes in the United States, Britain and India.

7. Growth is projected to rise over this year and next in emerging market and developing economies, supported by improved external factors-a benign-global financial environment and recovery in advanced economies. Growth in China and other parts of emerging Asia remains strong.

8. In advanced economies, the notable 2017 growth pickup is broad based, with stronger activity in Canada, the Euro area, and Japan. However, the world recovery is still not complete. While the baseline Outlook is strengthening, growth remains weak in many countries and inflation is below target in most advanced countries and the still-difficult conditions faced by several commodity exporters especially fuel still ensues.

9. The broad-based slowdown in Sub-Saharan Africa is easing, but the underlying situation remains difficult. Growth is expected to reach 2.6 percent in 2017, but the pickup reflects mainly one-off factors, notably a recovery in oil production in Nigeria and the easing of drought conditions in eastern and southern Africa, and a somewhat improved external environment. Key downside risk to the region's growth Outlook is expected to emanate from the larger economies, where elevated political uncertainty and delay in needed policy adjustments and dampened investor and consumer confidence are a threat. A further pickup in growth to 3.4 percent is expected in 2018, but momentum is weak, and growth will likely remain well below past trends in 2019.

10. Global prices of industrial commodities continued to strengthen in the third quarter of 2017 (quarter-on-quarter), while most agricultural prices remained broadly stable. In the oil market, inventories continue to fall amid strong demand, OPEC production restraint, and stabilizing crude oil prices. Crude oil prices are expected to average $53 per barrel in 2017, (up from $43 per barrel in 2016) and rise to $56 per barrel in 2018. Metal prices are expected to surge 22 percent in 2017, due to strong demand and supply constraints, notably Chinese environmentally-driven supply cuts. With the exception of iron ore, metal prices are expected to increase moderately in 2018.

11. The Committee noted the favorable global projections by the IMF and commented that the US monetary policy normalization by hiking interest rates will benefit the Bank's investments in US treasury and stock markets. However, it was also noted that US interest rates hikes could lead to tapering effect of the dollar moving away from the developing economies. The Chinese economy's gradual shift to consumption away from investment and building debt was highlighted by some committee members. Some Committee members also commented that the new dispensation in the Chinese economy could be beneficial to the domestic economy, provided that the export sectors were strengthened to take advantage of the Chinese market. It was also mentioned that the dampening global commodity prices are hoped to further subdue domestic inflationary pressure.

12. The Committee noted that the slowdown in Sub-Saharan Africa (SSA) especially in Nigeria and South Africa appears to be easing, due to recovery in oil production and easing drought conditions.

Real Sector Developments

13. Provisional GDP estimates from the Gambia Bureau of Statistics (GBOS), indicates a growth rate of 2.2 percent in 2016, compared to 4.3 percent recorded in 2015. The decline was mainly attributable to late and inadequate rains which severely affected the agricultural sector particularly crop production. The political impasse following the December, 2016 elections also affected the tourism sector and trade flows.

14. However, IMF projection for 2017 is promising with growth estimated at 3.0 percent and medium-term growth forecast of 5.0 percent, premised on the rebound in tourism and agricultural sector, particularly crop production.

15 The committee noted and commented that the Gambia's growth episodes, mostly depicts weather patterns, where Sufficient and evenly distributed rainfall highly correlates with high GDP growth rates, whilst the reverse is true when rainfall is inadequate.

16 The importance of the agricultural sector to the growth and development of the Gambian economy was re-iterated, and the Committee advised that measures aimed at transforming the economy by migrating from rain-fed subsistence farming to export-oriented commercial agriculture, as enshrined in the current blue print of the 2018-2021 National Development Plan, should be given priority.

Banking Sector Developments

17 The key financial soundness indicators suggest that the banking sector continues to be stable and sound. Capital and reserves totaled D5.1 billion in the third quarter of 2017, unchanged from the second quarter with all banks above the minimum capital requirement. Capital adequacy ratio averaged 38.7 percent in the third quarter compared to 32.5 percent in the second quarter and higher than the minimum requirement of 10.0 percent.

18 As at end-September,2017 the assets of the banking industry stood at 36.4 billion, or by 2.0 percent and 16.2 percent higher than the previous quarter and corresponding period in 2016 respectively. Loans and advances, declined to D3.8 billion, or 19.8 percent in the third quarter of 2017, from a year ago. Non-performing loans (NPLs) ratio, increased to 10.3 percent in the review period from 9.4 percent in the second quarter, and was attributed to the restructured loans, which increased by 208.6% from D19.4 million as at end September 2016.

19 As at end-September, 2017 credit to the distributive trade sector, which accounted for 34.7 percent of total loans and advances, grew by 10.5 percent from the previous quarter to stand at D1.4 billion. Other commercial loans and advances accounted for 19.1 percent, while lending to the Agricultural sector accounted for 3.3 percent.

20 Total deposit liabilities increased by 7.1 percent in the third quarter of 2017 to stand at D21.0 billion. The industry remained highly liquid with a liquidity ratio of 99.5 percent during the review period, from 96.5 percent recorded in the second quarter of 2017, and was significantly above the statutory requirement of 30.0 percent.

21 As at end-September 2017, profitability of the industry declined by 34.6 percent relative to the same period in 2016, and the industry also reported a lower net income of D115.1 million as at end September 2017. The drop in profitability and low private sector lending could be explained by the decline in interest income from treasury bills. The return on assets (ROA) and return on equity (ROE) declined to 1.9 percent and 13.2 percent respectively in the third quarter of 2017 compared to 2.1 percent and 14.2 percent in the corresponding period a year ago.

22 The Committee expressed concern over the high l of Non-Performing loans (NPL) ratio which is in double digits and requested Financial Supervision Department to investigate the matter and give management feedback so that appropriate and timely mitigating actions can be taken.

External Sector Developments

23 The current account deficit narrowed to US$46.2 million compared to US$59.9 million a year ago. Imports and exports (including re-exports) increased by 26.6 percent and 38.6 percent to US$105.5 million and US$281.8 million respectively in 2017 explained by a rebound in regional and international trade.

24 The capital and financial account recorded a surplus of US$23.2 million in the first nine months of 2017 relative to US$7.1 million a year ago, mainly reflecting inflows of grants. The gross international reserves of the Bank stood at over 4 months of import cover of goods and services during the review period.

25 The Committee noted the pickup in merchandise trade activity as the political situation in the country normalized, leading to return of confidence and a boost in inter-regional trade. The level of gross official reserves was noted to have remained at comfortable levels of more than four months of imports cover during the review period.

Foreign Exchange Developments

26 In the year to end September 2017, volume of transactions in the domestic foreign exchange market totaled US$1.2 billion compared to US$1.4 billion the same period last year, reflecting the impact of the political impasse during the first quarter of 2017. On a quarterly basis, volume of transactions increased from US$299.1 million in the second quarter to US$403.8 million during the review period.

27 The dalasi remained stable in the domestic foreign exchange market. From September 2016 to September 2017, appreciating against the US dollar by 2.7 percent, Pound Sterling by 0.9 percent, and Euro by 4.7 percent.

28 The Committee indicated that the outlook for the Dalasi remained favorable given strong macroeconomic fundamentals. It is anticipated that the Dalasi would remain resilient against the major traded international currencies predicated on increased inflows from tourism related activities, trade and donor support. However, amid all the optimism the Committee pointed out that the high level of domestic debt continues to pose a major threat to the stability of the domestic currency.

Government Fiscal Operations

29 Preliminary fiscal data for the first nine months of 2017 points to fiscal consolidation through the reduction of the domestic debt. As at end September 2017, revenue and grants mobilized totaled D2.18 billion (4.9 percent of GDP) and was higher than D1.93 billion (4.5 percent of GDP) registered in the same period last year. Domestic revenue mobilized during the review period increased to D1.9 billion and accounted for (4.3 percent of GDP) or by 4.7 percent in the third quarter of 2017, from its 2016 level of D1.8 billion.

30 Indirect taxes recorded D1.36 billion at end-September 2017, compared to D1.23 billion in the corresponding period last year. Domestic tax on goods, services and taxes on international trade which are components of indirect taxes, increased by 9.2 percent and 11.1 percent respectively, and led to an overall increase in indirect taxes by 10.5 percent.

31 Expenditure and net lending in the third quarter of 2017, stood at D7.29 billion (16.4 percent of GDP) compared to D2.89 billion (6.7 percent of GDP) at end-September 2016. Recurrent expenditure which accounted for 38 percent of total expenditure and net lending grew by 5.6 percent to D2.79 billion (6.3 percent of GDP) compared to D2.65 billion in September 2016. Capital expenditure grew significantly to D4.49 billion (10.1 percent of GDP) compared to D0.24 billion (0.6 percent of GDP) in the same period of 2016.

32 Government financing through domestic sources reduced significantly during the review period to stand at a net repayment of D3.4 billion, compared to net borrowings of D500.17 million in the same period in 2016.

33 The Committee observed that fiscal prudence is critical in sustaining macroeconomic stability and welcomed the decision by the fiscal authorities to cut down on spending and their commitment to adhere to the fiscal consolidation plan.

34 However, the Committee expressed concerns over the lack of adequate and timely fiscal data for the preparation of the MPC reports and deliberation during the meeting and requested fiscal authorities to address the situation as a matter of urgency.

Money Market Developments

35 As at end October 2017, the total outstanding domestic debt stock increased to D29.1 billion or 1.6 percent from D28.67 billion a year ago. The composition of Treasury and SAS Bills by sector as at end-October, 2017 showed a sharp increase in the commercial banks' share rising to 78.1 percent from 67.7 percent in the corresponding period a year ago. The Non-banks holdings accounted for 21.9 percent at end October 2017 compared to 24.4 percent in October 2016. Central Bank holdings accounted for 0.03 per cent at end October 2017 compared to 7.90 percent due mainly to the dis-continuation of monthly securitization of government overdrafts.

36 The yields on all short-dated government securities continued to decline steadily from October 2016 through to October 2017.The yield on the 91-day Treasury bills declined from 15.3 percent in October 2016 to 3.7 percent in October 2017. The 182-day and 364-day yields also declined, respectively over the same period.

37 The Committee noted that although the overall domestic debt stock has grown, it is however at a declining and stable rate. The Committee commended the strategy of downsizing the domestic debt stock by gradually substituting short term securities for medium to long term maturities to reduce the high rollover risks.

38 The Committee also noted the continuous decline in treasury-bill rates which is due to low government appetite to borrow private funds. Nonetheless, the banking industry is said to be highly liquid and that the introduction of longer term debt instruments will provide banks the opportunity to invest their holdings of excess funds in the real sector and spur growth.

Monetary Developments

39 Money supply continued to exhibit strong growth rates in 2017. As at September 2017, it grew by 22.0 percent to stand at D26.3 billion, and was due to the significant growth in both narrow and quasi money, relative to the same period last year. Narrow and quasi money grew by 17.6 percent and 26.4 percent respectively in the third quarter of 2017, relative to the same period of 2016.

40 Net Domestic Assets (NDA) of the banking system which has been the main source of liquidity injection over the years declined during the period under review, as government's appetite for borrowing diminished. The NDA of the banking system contracted by 6.7 percent to D19.2 billion in review period compared to D20.6 billion a year ago.

41 Net claims on government grew by 3.2 percent to D18.2 billion compared to the growth of 24.4 percent in September 2016, and accounted for 94.6 percent of NDA. Private sector credit remained sluggish during the review period and contracted by 12.3 percent to D4.1 billion from D4.7 billion in September 2016.

42 Reserve Money (RM) which is the Central Bank's operating target grew by 29.3 percent in September, 2017 stronger than 15.8 percent a year ago driven by the strong growths in both currency in circulation and reserves of deposit money banks during the review period, relative to the same period last year.

43 The Committee expressed concern over the high reserve money growth rates in the first nine months of 2017, which is due to significant growth in both currency in circulation and reserves of deposit money banks. However, the money multiplier declined, indicating that money creation through the banking system is not at its optimal level, hence the high liquidity ratio in the banking system and low credit expansion to the private sector.

Business Sentiment Survey

44 Findings from the private sector and business sentiment survey conducted over the review period revealed that business activity at both the Company and country (macro) levels were higher in the review period relative to the previous quarter of 2017. However, 47 percent of the respondents at the macro level reported the same level of activity.

45 Most respondents expressed confidence on the prospect of economic activity in the last quarter of 2017, with 43 percent projecting a higher level of economic and business activities at a macro level compared to 27 percent of the respondents who predicted lower level of activities leading to a diffusion index of +16 percent.

46 The Committee noted with optimism the high level of activities in the construction and tourism subsectors of the services industry in the fourth quarter of 2017, as evidenced by the rebound in tourism and the pick-up in construction activity.

47 Some Committee members also noted and commented that business activity in general is picking up as confidence is restored and macroeconomic fundamentals continue to improve.

Inflation Outlook

48 Consumer price inflation as measured by the National Consumer Price Index (NCPI) is trending downwards. Headline inflation decelerated to 7.4 percent in October 2017, from a high of 8.8 percent in January 2017, due largely to the decline in food inflation from 10.1 percent to 7.9 percent. Non-food inflation also declined from 6.8 percent to 6.7 percent during the review period.

49 The Committee observed that the near-term outlook for inflation remains favorable against the backdrop of lower global commodity prices, stable exchange rate in the domestic foreign exchange market, increased inflows from tourism and remittances, and implementation of sound macroeconomic policies. The Committee observed, however that the risks to the macroeconomic outlook relates to the high public debt (120 percent of GDP) inherited from the past regime.

Monetary Policy stance

50 The paper on monetary policy stance revealed that current monetary policy stance is considered appropriate with government fiscal consolidation and discipline so far demonstrated, giving monetary authorities space to effectively carry out their mandate.

November 23, 2017

The second day of the meeting was attended by members of the MPC, Managing Directors of the Deposit money banks, staff of the Central bank and the press.

The Chairman of the MPC welcomed all present to the meeting.

A summary of the presentations and deliberations of the first day of the meeting was delivered by the second deputy Governor. A decision on the Monetary Policy Rate (MPR) was also reached by consensus after a round table consultation with members who backed their decisions on facts from the presentations and discussions such as the continuous decline in inflation both on the global and domestic front, relative stability in the domestic currency, rising food stock in the global markets, and rising fuel prices.

DECISION

Taken the above factors into consideration, the Committee decided to keep the policy rate unchanged at 15 percent. The Committee will continue to monitor developments in the domestic economy with and stands ready to act if the economic conditions change.