MINUTES OF THE MONETARY POLICY COMMITTEE MEETING NO.63

August 24, 2017

The sixty-third meeting of the Monetary Policy Committee (MPC) and 3rd in 2017 of the Central Bank of the Gambia (CBG) took place in the Conference room of the Bank on Thursday August 24, 2017.

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 Momodou Taal	Director, Revenue and Tax Policy, MOFEA, Member
Mrs Maimuna John-Sowe	Deputy Director,OIC, ERD, Member
Mr Amadou S. Koora	DeputyDirector,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, Administration Department
Mr Bai Senghor	Director, Microfinance Department
Mr Momodou Njie	Director, Risk Management Unit
Mrs Fatou Deen Touray	Deputy Director, Microfinance Department
Mrs Saffie Secka	Deputy Director, Information Technology Department
Mr Abdou Ceesay	Deputy Director, Foreign Department
Mrs Annetta Riley	Principal Banking Officer, Banking Department
Mr Karafa Jobarteh	principal Officer, Foreign Department
Mrs Mariam Bayo	Principal Accountant, Finance Department
Mr Mustapha Senghore	Principal Bank Examiner, Financial Supervision Department

Mr Sheriff Touray	Principal Economist, Economic Research Department
Mr Yaya Cham	Senior Economist, Economic Research Department
Mr Amadou Barry	Senior Bank Examiner, Financial Supervision Department
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 Momodou Jallow	Economist, Economic Research Department
Mr Khalilu Bah	Economist, Economic Research Department
Mr Alagie B. Sowe	Economist, Economic Research Department
Mr Baba Darboe	Bank Examiner, Financial Supervision Department
Mrs Yamarram Sosseh	Bank Examiner, Financial Supervision Department
Mrs Awa Bayo	Bank Examiner, Financial Supervision Department
Mr Babucarr Jammeh	Bank Examiner, Financial Supervision Department
Mr Karamo Sawaneh	Bank Examiner, Financial Supervision Department
Mr Adama Joof	Bank Examiner, Financial Supervision Department
Mr Mawiyatou Susso	Assistant Statistician, Economic Research Department
Mrs Mariama Ceesay	Assistant Statistician, Economic Research Department
Mrs Fatou Sanyang	Assistant Banking Officer, Banking Department

The Governor and Chairman of the MPC welcomed the Committee members and attendees to the 3rd meeting of the MPC in 2017. He noted with satisfaction the recent economic developments with much improvedmacroeconomic indicators. He reported that foreign reserves increased significantly toa comfortable level of more than four (4) months of imports cover, fiscal consolidation is taking shape, national consumer price inflation decelerated, foreign exchange market stabilized and confidence returns. He thankedthe development partners especially the International Monetary Fund (IMF), the World Bank, European Union (EU) and the African Development Bank (AFDB) for their support. He commended the staff of the Bank for the hard work and encouraged them to keep up the momentum.

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

On matters arising, the Governor proposed changes to the structure of the Monetary Policy Committee meetings. He suggested the meeting to be held in two days instead of one long meeting. The first day will be a technical meeting where reports on recent economic developments and prospects will be presented. The second day will see presentations by the Secretariat on the summary of all the reports in day-one to be followed by presentations on inflation and the assessment of monetary policy stance before decision is taken. This will allow MPC members more time to reflect on the presentations and form their opinions for decision on the secondday.He noted that this is standard practice in most central banks.

He also suggested that a draft of the minutes of the MPC meeting be available to Committee members for comments and approval to be published within two weeks after the meeting. He said this will be more efficient than the current practice of waiting until the next meeting before minutes are reviewed and adopted.

Both suggestions by Chairman were unanimously accepted by members of the Committee as good initiatives that will enhance the decision making process. The Secretariat was then requested to take note of the changes and effect thembefore the next meeting.

The meeting proceeded with presentations and discussions on the Banking sector developments, world economic outlook, balance of payments (BOP), exchange rate developments, fiscal developments, real sector developments, money market developments, monetary developments, business sentiment survey, inflation outlook and monetary policy stance in that order.

Banking Sector Developments

The banking sector continues to be stable and sound. Capital and reserves totaled D5.1 billion in the second quarter of 2017, higher than the D4.9 billion recorded in the first quarter. However, capital adequacy ratio averaged 32.5 percent in the second quarter compared to 37.8 percent in the first quarter and higher than the minimum requirement of 10.0 percent.

The assets of the industry stood at D35.6 billion, or 6.5 percent higher than the previous quarter. Loans and advances, constituting 11.8 percent of total assets increased to D4.2 billion, or 3.7 percent from the preceding quarter owing in part to increase lending to the public sector. Non-performing loans (NPLs) ratio, declined to 9.4 percent in the review period compared to 9.7 percent in the first quarter.Sectoral credit distribution is concentrated in distributive trade sector which accounted for 31 percent of total loans and advances followed by other commercial loans and advances accounting for 24 percent, transportation 10 percent, building and construction 9 percent, tourism 5 percent, Agricultural lending 6 percent while fishing and manufacturing recorded less than 1 percent each. Balancesheld with other banks abroad increased by 15.4 percent to D8.4billion in the second quarter of 2017 from D7.3 billion in March 2017 reflecting strong investment with banks abroad.

Deposit liabilities increased to D19.6billion or 4.0 percent from the first quarter, attributed to the 4.6 percent, 4.8 percent and 1.2 percent increase in demand, savings and time deposits respectively. Banks remain highly liquid with a liquidity ratio of 96.5 percent in the second quarter of 2017, over and above the statutory requirement of 30.0 percent.

The industry recorded a net profit of D0.17 billion in the second quarterof 2017, a decrease of 9.0 percent from the previous quarter. The drop in profitability could be explained by the decrease in interest income from treasury bills as government winds down domestic borrowing and the upsurge in operating costs. The return on assets (ROA) and return on equity (ROE) respectively declined to 0.9 percent and 6.6 percentin the second quarter of 2017 compared to 2.2 percent and 14.8 percentin the last quarter.

The Committee broadly agreed that overall the banking system is stable and sound with strong capital base, ample liquidity and relatively profitable. However, some members expressed concern on the high exposure of the industry to the public sector, which is already manifesting itself with the decline in profitability.

The Committee also noted the low level of loans and advances to productive sectors such as agriculture, manufacturing and fisheries sectors, and commented that banks should be encouraged to direct more credit to the real sector of the economy to spur growth.

World Economic Outlook (WEO)

According to the International Monetary Fund (IMF) World Economic Outlook for April 2017, global output is projected to grow by 3.5 percent in 2017 and 3.6 percent in 2018. Growth in advanced economies is projected to rise from 3.2 percent in 2016 to 3.5 percent in 2017. In the United States projections are lower in the April 2017 WEO reflecting the assumption that fiscal policy will be less expansionary than anticipated.

Emerging Markets and Developing Economies are projected to grow by 4.6 percent in 2017, higher than 4.3 percent in 2016. Growth in Sub-Saharan Africa (SSA) is forecast to increase from 1.3 percent in 2016 to2.7 percentin 2017. Nigeria and South Africa, two biggest economies in the region are expected to be the drivers of growth. The Nigerian economy is projected to exit from the recession experienced in 2016 to grow by 0.8 percent in 2017. South Africa is projected to grow by 1.0 percent in 2017 compared to 0.3 percent in 2016 premised on bumper crop production and increase in mining activities, to be strengthened by a moderate rebound in commodity prices.

International oil prices recovered in July 2017 to US$46.93 per barrel on the back of solid seasonal demand that soaked up glut on the market.Commodity prices continued to increase with the FAO Food Price Index averaging 162.2 points in July 2017,up by 8.0 points (5.1 percent) from the previous month and about 14.1 points (9.5 percent) from July 2016.

The Committee noted the favorable global projections by the IMF and commented that the pick-up in output growth in the US and Euro area will positively impact the domestic economic activity. However, growth forecast in the UK economy, the principal source of tourist to the country, was lowered following a less than expected performance in the first quarter of 2017. However, it was observed that the anticipated rise in US interest rates could lead to stronger dollar which will have implications for capital movingaway from developing countries with attendant implication on exchange rates of these countries.

The Committee noted and commented on development inSub-Saharan Africa (SSA) especially in Nigeria and South Africa. Some committee members commentedthat policy implementation in SSA was strong in the past but the challenge has been how to respond to shocks. The region is vulnerable to commodity price shocks as was evidenced in Nigeria which almost entirely depends on oil for her revenue. Some SSA countries were noted for the quality of their policy implementation serving as a base for economic growth.

External Sector Developments

Balance of Payments (BOP) estimates for the first half of 2017 indicated an overall surplus of US$3.2 million, higher than the surplus of US$1.0 million in the corresponding period of 2016.

The current account deficit narrowed to US$ 36.8 million in the first half of 2017 from a deficit of US$38.4 million in the first half of 2016.Of the components of the current account, the merchandise trade deficit declined to US$97.1 million compared to the deficit of US$104.3 million in the first half of 2016. Imports decrease to US$ 142.7million or 6.8 percent whilst exports contracted to US$45.7 million, or by6.5 percent.

The cumulative Services, Income and Current transfer account declined to a surplus of $60.3 million in June 2017 compared to a surplus of $65.8 million in June 2016.Outflows from the income account declined from $33.4 million in June 2016 to $31.3 million in June 2017. Official capital transfers improved from a net outflow of $5.3 million in 2016 to a net inflow of $18 million in June 2017 associated with increase in loans and grants.

Capital and financial accounts increased from a surplus of $16.8 million in June 2016 to a surplus of $29.8 million in June 2017 due largely to the increase in the capital and investment accounts.

The Committee attributed the decline in trade activity to the political impasse which negatively impacted on trade, tourism and related activities in the first quarter of 2017.The Economic Research Department wasasked to make efforts to improve on balance of payments compilation and presentation.

The Committee expressed delight that in August 2017, gross official reserves improved to 4.2 months of projectedimports of goods and services.Some members of the committee commented on the importance of creating the right environment to attract FDI, including a predictable policy regime, macroeconomic stability, solid property rights and good infrastructure.

Foreign Exchange Developments

Year to end-July 2017, volume of transactionsin the foreign exchange market, measured by aggregate purchases and sales, remained unchanged at US$1.2 billion compared to the corresponding period a year ago.

The Dalasi appreciated against all the major trading currencies in the domestic foreign exchange market. It appreciated against the US Dollar by 0.9 percent and 0.4 percent against the British Pound Sterling but depreciated against the Euro and CFA by 4.3 percent and 4.2 percent respectively.

Committee members observed that the foreign exchange market is stabilizing on the back of improved market conditions and confidence, which is translating to stability in the exchange rate.It isanticipated that the dalasi would remain stable in the near to medium term with government sticking to its fiscal consolidation plans. In addition, expected improved remittances inflow,rebound in tourism and re-export trade, and increased international donor support will continue to support the supply of foreign currency in the domestic market. However, the high level of domestic debt was singled out as a major risk tomacroeconomic stability.

Government Fiscal Operations

Preliminary data on government fiscal operations indicate that in the first half of 2017, total revenue and grants amounted to D2.3billion (4.8 percent of GDP), higher than D2.1 billion (4.4 percent of GDP) in the same period of last year. Domestic revenue, comprising tax and non-tax revenue totaled D2.0 billion (4.1 percent of GDP), a decline of 4.4 percent from the outturn in the first half of 2016. Grants increased to D327.0 million compared to D22.8 million in the corresponding period of last year.

Total expenditure and net lending in the first half of 2017 amounted to D3.6billion (7.5 percent of GDP), more than D2.6 billion (5.5 percent of GDP) a year ago. Current expenditureaccounting for 68.0 percent of total expenditure and net lending, declined by 9.2 percent to D2.2 billion as at end-June 2017 from D2.4 billion in June 2016 attributed mainly to the 8.9 percent decline in other charges. Interest payments contracted by 19.0 percent mainly due to marked decline in external interest payments by 55.8 percent. Capital expenditure increased to D1.4billion (2.9 percent of GDP) in the first half of 2017compared to D170.9 million (0.4 percent of GDP) in the same period of last year. Capital expenditure was principally externally financed and the remainder was funded by Gambia Local Fund (GLF).

The overall budget deficit (including grants) reached D1.3 billion (2.7 percent of GDP) in the first half of 2017 compared to a deficit of D529.2 million (1.1 percent of GDP) in the same period last year.The deficit was financed by both external and domestic sources.

The Committee observed that although the overall budget deficit widened, Central Bank financing of the fiscal deficit was noted to have declined after a significant jump in 2015, pointing to government’s commitment to the fiscal consolidation plan. In addition, the fact that the primary balance is in surplus will help in stabilizing the debt.

The Committee was informed that tax revenue is expected to improve as businesses and corporations are expected to settle arrears. The Committee was also informed that there are no plans for a supplementary budget this year.The Committee welcomed the significant increase in capital expenditures and addedthat increased spending on infrastructural development is in line with government’s long term sustainable strategic development plan. Some committee members noted that higher capital expenditure correlates with improved performance of grants and loans disbursements.A strong fiscal position will support monetary policy implementation as well as reduce external vulnerability, improve resilience and dampen inflationary pressures.

Real Sector Developments

The Gambia Bureau of Statistics (GBoS) estimated the Gambian economy to have grown by 2.2 percent in 2016, down from 4.3 percent in 2015 due largely to limited availability of foreign exchange that affected trade, the impact of poor rainfall on agriculture, and the effect of the political impasse on tourism and related activities during the high season. However, output is projected to expand by 3.0 percent in 2017 premised on the expected rebound in tourism, trade and agriculture as well as improved macroeconomic policy environment.

The Committee indicated thatthe real sector has been growing below potential. The negative output gap implies no inflationary pressure emanating from aggregate demand.

The Economic research Department were asked to make efforts to update the Composite Index of economic Activity (CIEA) and present the findings at the next meeting.

Money Market Developments

As at end-July 2017, the domestic debt stock moderates to D28.8billion (61.1 percent of GDP) from D29.0 billion (67.1 percent of GDP) a year ago, reflecting contraction in Treasury billsissuance.

Deposit money banks held 76.5 percent of total treasury and SAS bills compared to 65.9 percent held in the same period last year. Central Bank holdings of short-term government securities amounted to D5.6 million in the review period relative to D1.3 billion a year ago.

Yields on all Government short-dated securities declined. The yields of 91-day, 182-day and 364-day Treasury bills declined to 7.68 percent, 8.92 percent and 10.59

percentrespectively in August 2017.Inter-bank placements reached D1.41 billion in July 2017 relative to D1.82 billion in same periods of 2016. Total proceeds from auction amounted to D13.3 billion in July 2017 with maturity totaling D13.18 billion relative to D10.65 billion with maturity of D10.8 billion a year ago.

The Committee noted that although the domestic debt position indicated improvements in the first half of 2017, it remained elevated accounting for 61.1 percent of GDP. It is also noted that the money market is highly skewed to the long-dated security (364-day) which accounts for 75.49 percent of total marketable securities. This is expected to reduce the high rollover risk associated with short term debt and create more fiscal space.

The committee also noted that maintaining a healthy fiscal position and macro-economic stability by matching revenue to expenditure is crucial to streamlining domestic debt to sustainable level.

Monetary Developments

At end-June 2017 money supply grew by 21.2 percent compared to a contraction of 0.2 percent a year ago. This was mainly as a result of the robust growth in quasi money reflecting a return of confidence in the economy. Both quasi and narrow money recorded strong growth of 24.2 percent and 18.5 percent respectively.

Of the factors affecting money supply, net domestic assets (NDA) of the banking system have been the main source of liquidity mainly mirroring financing of government activities. NDA of the banking system grew by 18.8 percent in the first half of 2017 compared to a growth rate of 10.6 percent a year ago.Net claims on government by the banking sector largely accounted for the growth in NDA. Claims on the private sector contracted by 12.5 percent to D4.01 billion. Growth in reserve money, the Bank's operating target, decelerated to 16.2 percent as at end-June 2017, lower than the 18.6 percent in June 2016.

The Committee noted that the strong growth in money supply mainly attributed to quasi money which reflects confidence in the economy.

Business Sentiment Survey

The forward looking private sector and business sentiment survey reported that business activity at both the country (macro) and company (micro) remained unchanged. The majority (50 percent) of the respondents at the macro levelreported the same level of activity, 14 percent reported higher activity and 31percent reported lower activity leading to a diffusion index of negative 17 percent. At the micro level, 31 percent reported higher activity, 36 percent reported unchanged and 33 percent reported lower activity leading to a diffusion index of negative 2.0 percent.

Most respondents expect improved activity at macro and micro level in the third quarter of 2017. 50 percent of respondents predict higher activity, 36 percent reported unchanged and 14 percent reported lower activity at country level.At the micro level, 47 percent expects high activity, 28 percent reported same and 25 percent reported lower activity, manifesting the potentials of the economy.

The financial and tourism subsectorsof the services industry were optimistic about activity in the third quarter of 2017 with subdue inflationary pressures.

Some committee members noted that business activity was indeed higher in the second quarter of 2017 compared to the first quarter given the fact that the domestic economy was negatively impactedby the political impasse during the first quarter.

Inflation Outlook

Consumer price inflation, measured by the National Consumer Price Index (NCPI), is trending downwards. Headline inflation declined to 8.0 percent in July 2017 from a high of 8.8 percent in January 2017 due largely to the decline in food inflation from 10.1 percent in January 2017 to 8.7 percent during the review period.On the other hand, consumer price inflation of non-food products and services increased slightly to 6.9 percent from 6.8 percent in January 2017

The Committee noted that economic conditions continue to improve in 2017 and the outlook remains broadly favorable against the back drop of projected increase in agricultural production, increased inflows, rebound in tourism and trade and restoration of confidence in the domestic economy. Moreover, monetary and fiscal policies would remain prudent and well-coordinated. International reserves of the Bank have reached comfortable levels. Foreign exchange market conditions are expected to continue to improve and the Dalasi would remain stable. In light of these developments, inflation is projected to continue to decline in the near term.

The major risk to macroeconomic outlook is the level of debt (120 percent of GDP) inherited from the past regime.

Monetary Policy stance

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.

DECISION

Taking all of the above into consideration, including inflation expectations which remained subdued, the MPC considered the current stance of monetary policy appropriate and decided to maintain the policy rate at 15%. The MPC will continue to monitor developments in the economy and stands ready to act in the interim if the economic conditions change.