MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

January 9-10, 2008

The twenty-second meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia was held in the Conference Room of the Bank on January 9, 2008.

Present were:

Momodou B. Saho	-	Governor, Chairman
Basiru A. O. Njai	-	First Deputy Governor, Member
Oumie Savage Samba	-	Second Deputy Governor, Member
Ousman Sowe	-	Director, Financial Supervision Dept., Member
Amadou Colley	-	Director, Banking Department, Member
Buah Saidy	-	Director, Economic Research Dept., Member
Yaya Drammeh	-	Economist, DOSFEA, Member
Baboucarr Jobe	-	Economist, DOSFEA, Member
Rohey Khan	-	Senior Economist, Economic Research Dept (Secretary)

In Attendance Were:

M.A. Ceesay	-	Adviser, Governor's Office
Omar Jaata	-	Director, Foreign Department
S. Bai Senghor	-	Director, Micro Finance Department
Momodou Mboge	-	Director, Internal Audit
Haddy Joof	-	Deputy Director, Admin. Department
Essa Drammeh	-	Deputy Director, Financial Supervision Dept.
Paul Mendy	-	Deputy Director, Financial Supervision Dept.
Alieu B. S. Gaye	-	Deputy Director, Risk Management Unit
Ousainou Corr	-	Deputy Director, Finance Department
Omar Janneh	-	Principal Personnel Officer, Admin. Dept
Mbaye Jammeh	-	Principal Officer, Banking Department

Ebrima A.C. Ndong	-	Principal Officer, Foreign Department
Seeku Jaabi	-	Principal Officer, Micro Finance Dept.
Anita Riley	-	Senior Banking Officer, BD
Buba Touray	-	Senior Economist, ERD
Nyakassi Sanyang	-	Statistician, ERD
Lamin Jarjue	-	Banking Officer, BD
Mustapha Samateh	-	Banking Officer, FSD
Sheriff Touray	-	Economist, ERD
Isatou Mendy	-	Economist, ERD
Yaya Cham	-	Economist, ERD
Fatou Suso	-	Banking Officer, FSD
Paul Solomon Bruce	-	Assistant Statistician, ERD

Before turning to its immediate policy decision, members of the MPC discussed and adopted the minutes of the previous meeting with few amendments. This was followed by presentations on international developments, balance of payments (BOP), foreign exchange, monetary developments, money market, financial stability, real sector, government fiscal operations, private sector business sentiment survey and inflation.

Developments in the International Economy

According to the World Economic Outlook published by the IMF, world output growth is estimated at 4.8 percent in 2007 down from the previous forecast of 5.0 percent. The economic slowdown is attributed to a number of factors including turbulence in the financial markets, surging oil and commodity prices and increasing risks from disorderly unwinding of global imbalances.

In the United States (US), economic activity accelerated to 4.9 percent in the year to the third quarter compared to 3.8 percent in the second quarter reflecting strong growth in exports which offset the slowdown in private consumption.

In the Euro zone and the United Kingdom, real GDP grew by 2.9 percent and 3.3 percent in the year to the third quarter compared to 1.2 percent and 2.5 percent in the second quarter respectively.

Growth in Emerging Asia remains strong. China's GDP eased slightly to 11.5 percent reflecting strong exports and increased domestic demand. Output in India rose by 9.3 percent driven by growth in services and manufacturing.

Economic activity in Sub-Saharan Africa is projected to grow by 6.9 percent and 6.4 percent in 2007 and 2008 respectively. The robust output growth is attributed, in the main, to high commodity prices and the improved macroeconomic environment.

Inflationary pressures increased in many countries driven by rising food and energy prices. However, core inflation which excludes prices of food and energy remains well-contained.

Surging oil prices which momentarily breached the USD 100 mark is attributed to a number of factors including: US refinery interruptions, declining crude oil stocks, the weak dollar, geopolitical tensions in the Middle East and strong demand particularly from China and India.

Although sugar prices continue to weaken, rice and wheat prices rose strongly in 2007, reflecting tight market conditions in key exporting countries and a rebound in import demand particularly in Asia.

The Committee observed that two key international developments should be of concern to The Gambia: (i) rising world inflation driven by high energy and food prices. Given The Gambia's high import propensity, this may lead to high import prices and (ii) the projected slowdown in world economic activity in general and in the Euro zone and United Kingdom in particular may lead to a decrease in tourist arrivals given the strong correlation between tourism and disposable income.

The MPC also noted the increase in the international price of groundnuts. However, members were of the view that the positive effect of the increase in prices was somewhat moderated by the marked decline in groundnut output.

External sector Developments

The overall balance of payments (BOP) is estimated at a surplus of USD3.99 million in 2007, but down from USD6.95 million in 2006. The current account deficit including official transfers is estimated to have narrowed to 10.1 percent of GDP in 2007 from 12.9 percent of GDP in 2006 owing to increased current transfers and services receipts.

The capital and financial account balance is estimated to decrease to D1.69 billion in 2007 from D2.04 billion in 2006 reflecting the decrease in foreign borrowing by Central Government and foreign direct investment, particularly equity investment.

Preliminary data indicate an overall BOP surplus of USD 4.52 million in the third quarter compared to a deficit of USD 8.41 million in the second quarter.

The Committee commended the Economic Research Department, particularly the BOP Unit for improvements in the compilation of BOP data but noted that more work needs to be done to enhance the quality of the data particularly with respect to the capital and financial account data.

The Committee also observed that the current account deficit may widen in the medium term if energy and food prices continue to increase. As such, prudent monetary and fiscal policies should be consistently implemented as countervailing measures.

Foreign Exchange Developments

The foreign exchange market continues to deepen. In the year to end-November 2007, transaction volumes increased to D36.5 billion, or 19.4 percent from a year ago. Supply of foreign currency in the inter-bank market, measured by purchases, grew by 10.6 percent while demand, measured by sales, increased by 29.6 percent. The marked increase in demand is attributed to the fact that a stronger domestic currency raises the real income of households thus fuelling domestic consumption including import consumption given the economy's high import propensity.

According to the Nominal Exchange Rate Index, the Dalasi appreciated by 29.4 percent in September 2007 from end–December 2006. However, in October and November 2007, the Dalasi depreciated by 1.4 percent and 10.4 percent from end-September 2007. The appreciation of the Dalasi is attributed to robust inflows from inward remittances, travel income, FDI and re-exports.

Looking ahead, the Dalasi is projected to appreciate in the near to medium term predicated on continued implementation of prudent fiscal and monetary policies, increased foreign inflows and the likelihood of reduced demand for foreign exchange given that The Gambia would receive substantial HIPC and MDRI debt relief to the tune of at least USD 22 million in 2008.

Central Bank's gross official reserves totalled D2.8 billion, or USD 106.19 million at end-November 2007, equivalent to 4.5 months of import cover.

The Committee observed the conflicting statements about the outlook for the Dalasi. On the one hand, the Dalasi is expected to be strong supported by increased foreign inflows, implementation of prudent fiscal and monetary policies and debt relief. On the other hand, given the expected increase in energy and food prices, the current account deficit may widen. A worsening of the current account deficit is usually followed by a depreciation of the domestic currency. Therefore, a better prediction is that the Dalasi should be relatively stable in the medium term. The view was also expressed that the most important anchor of the Dalasi is the stance of fiscal policy. And to the extent that fiscal authorities realised a budget surplus in 2007 explains to a large degree the appreciation of the Dalasi.

Government Fiscal Operations

The Government of The Gambia continues to implement prudent fiscal policies. According to the most recent data, in the eleven months to end-November 2007, total revenue and grants was D3.5 billion, an increase of 23.5 percent from the corresponding period in 2006.

Total expenditure and net lending, on the other hand, declined substantially to D3.0 billion, or 5.0 percent. The overall balance including grants was in a surplus of D477.7 million, or 3.0 percent of GDP. Excluding grants, the surplus narrowed to D195.6 million, or 1.2 percent of GDP.

The 2008 budget projects a deficit of about 4.2 percent of GDP to be fully financed by net external borrowing of D826.0 million and domestic debt repayment of D96.0 million.

The Committee noted that given that the budget deficit is to be financed by net external borrowing and domestic debt repayment instead of monetisation, should help contain inflationary pressures. Members, however, cautioned that monetary policy should be proactive particularly bearing in mind that Central Bank lending to Government is very close to the limit and the fact that food and oil prices are expected to increase in 2008. The view was also expressed that a domestic debt repayment of D96.0 million implies that the primary balance as a percentage of GDP should exceed the 8.0 percent of GDP in 2007.

Money Market Developments

As at end-September 2007, the domestic debt totalled D5.8 billion, but decreased to D5.6 billion in November 2007 reflecting, in the main, the decrease in outstanding Treasury bills by 3.2 percent. Net issuance of Treasury bills in November 2007 was a negative D180.0 million compared to negative D43.19 million in September 2007.

The commercial banks held the bulk of the interest bearing debt (58.0 per cent) and the non-bank (42.0 per cent). As at end-November 2007, outstanding 364-day bills increased by 81.23 percent, 182-day bills (25.5 percent) and 91-Day bills (87.7 percent).

The MPC noted that the average rollover ratio was 50 percent in 2007 which explains the marked decrease in the balance of the Treasury bills special deposit account. The challenge therefore is how to effectively roll over the debt without massive recourse to Central Bank financing in 2008 bearing in mind that the Bank's holding of Treasury bills increased from zero in September 2007 to D137 million in December 2007 of which D40.0 million was as a result of direct purchase in the market. Committee members also observed the noticeable shift from the long to the short end of the market attributed to uncertainty in the financial markets.

Monetary Developments

Money supply grew by 7.9 percent in the year to end–November 2007 significantly lower than the 21.9 percent a year ago. The substantial increase in the net domestic assets of the banking system by 40.8 percent was moderated somewhat by the 22.3 percent decline in the net foreign assets.

Quasi money, which comprised time and savings deposits, increased by a robust 16.2 percent while narrow money grew by a mere 0.3 percent. Correspondingly, the share of quasi money to broad money rose from 47.8 percent at end-November 2006 to 51.4 percent in November 2007.
Reserve money, the Bank's operating target, grew by a modest 4.0 percent, but well below the 13.2 percent a year earlier and the PRGF target of 6.5 percent.
The most recent data indicate that the end-December 2007 targets agreed with the Fund under the PRGF programme will be observed.

The Committee observed that growth in private sector credit of 5.7 percent in the year to end-November 2007 was not sufficient to support robust and sustained economic growth. This was attributed to the tightening of credit conditions by one of the large banks. The Committee also noted that the modest growth in money supply and reserve money are indications that monetary conditions were tight in 2007.

Financial Stability Report

The banking sector is well capitalized and highly liquid. The industry's risk-weighted capital adequacy ratio average 23.2 percent, higher than the minimum requirement of 8.0 percent. However, the industry continues to be saddled by poor asset quality evidenced by the high ratio of non-performing loans to total loans of 13.1 percent in September 2007.

The average liquid assets ratio of the industry was 85.0 percent in September 2007, significantly higher than the minimum requirement of 30.0 percent reflecting in the main the huge investment in Treasury bills. The ratio measures the availability of liquid assets to meet the demand for cash.

The Committee noted that though the sector is somewhat sound, the high non-performing loans as a percentage of gross loans calls for an urgent review of the Mortgages and Sheriffs Act and the speedy introduction of the Credit Reference Bureau.

The Committee also observed that the market share of the two largest banks decreased substantially reflecting increased competition. Importantly, deposit liabilities rose by a robust 11.0 percent in the year to end-November 2007 partly reflecting increased income and partly the effects of competition.

Real Sector Developments

Growth in GDP is estimated at 6.9 percent, lower than 7.7 percent in 2006. Value-added of the services and the agricultural sectors are estimated to increase by 11.3 percent and 1.3 percent respectively.

Industrial output, on the other hand, contracted by 0.4 percent owing to the decline in building and construction value-added. Given that the value-added of the industrial sector grew by 21.9 percent, the contraction of the industrial sector could be explained by the high base effect.

The Committee expressed the need to use at least two approaches in determining output, that is, the production and the expenditure approach to be better able to carry consistency checks and ultimately to obtain a more robust GDP estimation.

Private sector Business Sentiment Survey

According to the readings of the private sector business sentiment survey, economic activity at both the macro and the company level was higher in the third quarter compared to the second quarter. Expectations are that activity would be significantly higher in the fourth quarter relative to the third quarter. Capital expenditure, sales, employment and profits are also expected to be higher in the fourth quarter.

Although a higher number of respondents indicated higher current prices compared to those that viewed current prices to be lower, a very high percentage of respondents have very low expectations of inflation. The tourism and banking sectors are more bullish about the economy than manufacturing sector looking forward.

Inflation

According to the National Consumer Price Index (NCPI), end-period inflation was 6.04 percent at end-November 2007, an increase of 5.2 percent relative to November 2006. Average inflation rate was 4.9 percent compared to 2.4 percent a year earlier.

Food price inflation accelerated from 0.8 percent in November 2006 to 9.4 percent in November 2007. Non-food prices, on the other hand, grew marginally (1.6 percent). Core inflation which excludes prices of energy and volatile food items also accelerated from 1.1 percent in November 2006 to 6.1 percent at end-November 2007.

The Committee observed that there are upside risks to inflation, citing higher energy and food prices as key factors that could contribute to inflationary pressures. Committee members also noted that if the depreciation of the Dalasi were to continue, it could put upward pressure on prices.

Decision

Taking the above-mentioned factors into consideration, including the risks to the inflation outlook, the Monetary Policy Committee (MPC) decided to maintain the rediscount rate, the policy rate, at 15.0 per cent. The MPC would continue to monitor changes in economic conditions and respond appropriately in discharging its mandate to maintain price stability.