MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

March 8 – 9, 2007

The seventeenth meeting of the Monetary Policy Committee of the Central Bank of The Gambia was held in the Conference Room of the Bank on March 8, 2007.

Present were:

Famara Jatta	-	Governor, Chairman
M. B. Saho	-	First Deputy Governor, Member
Basiru Njai	-	Second Deputy Governor, Member
Ousman Sowe	-	Director, FSD, Member
Mod Secka	-	Deputy Permanent Secretary, DOSFEA, Member
Momodou Ceesay	-	Principal Economist, DOSFEA, Member
Amadou Colley	-	Director, Banking Department, Member
Buah Saidy	-	Deputy Director, Economic Research Dept, Member
Bakary Kolley	-	Principal Economist, Economic Research Dept (Secretary)

In Attendance Were:

Momodou A. Ceesay	-	Adviser to the Governor
Oumie Samba-Savage	-	Director, Finance Department
Omar Jaata	-	Deputy Director, Foreign Department
Bai S. Senghor	-	Deputy Director, Micro Finance Department
Pa Alieu Sillah	-	Commissioner of Insurance
F. Deen Touray	-	Deputy Director, Micro Finance Department
Essa Drammeh	-	Deputy Director, Financial Supervision Dept.
Abdoulie Jallow	-	Deputy Director, Financial Supervision Dept.
Omar Janneh	-	Principal Officer, Administration Department
Ebrima A.C. Ndong	-	Principal Officer, Foreign Department
Abdoulie Jarra	-	Senior Economist, ERD

Rohey Khan	-	Senior Economist, ERD
Ebrima Wadda	-	Senior Economist, ERD
Bakary Jammeh	-	Senior Econometrician, ERD
Maimuna John-Sowe	-	Senior Economist, ERD
Anita Riley	-	Senior Banking Officer, BSD
Jainaba Saidy	-	Senior Bank Examiner, FSD
Ida Faye	-	Senior Bank Examiner, FSD
Buba Touray	-	Senior Economist, ERD
Halima Singhateh	-	Bank Examiner, FSD
Nyakassi Sanyang	-	Statistician, ERD
Sheriff Touray	-	Economist, ERD
Sait Mboob	-	Economist, ERD
Lamin Jarjue	-	Banking Officer, BD
Yaya Cham	-	Economist, ERD

Before turning to its immediate policy decision, members of the Monetary Policy Committee discussed and adopted the minutes of the previous meeting with few amendments. This was followed by various presentations on the ensuing areas viz: international developments, balance of payments (BOP), foreign exchange, monetary developments, money market, financial stability, real sector, government fiscal operations, and inflation. These are detailed below:

(1.0) Developments in the International Economy

World economic growth is expected to moderate to 4.9 percent in 2007 after a solid and broad-based growth of 5.1 percent in 2006. It is expected that the slowdown in the global economy for 2007 will be mainly driven by the United States as a result of the cooling down of the housing boom, which is expected to cause a world-wide economic downturn in 2007.

On the macroeconomic policy front, 2006 has been characterized by a general trend of monetary tightening, as central banks of many economies continued to raise interest rates. However, monetary policy in some major economies remain accommodating, and the benchmark interest rates in world capital markets are still relatively low compared to historical levels.

The outlook for the global economy encompasses a number of uncertainties and serious risks. The major concerns relate to the likelihood of a burst of the housing bubbles in a number of countries, uncertainties regarding oil price developments and the mounting risk of a disorderly unwinding of the global imbalances. Other risks include the possible outbreak of avian influenza and unpredictable geopolitical shocks.

Economic growth in the United States (US), according to preliminary figures, has moderated slightly to 3.4 percent during the fourth quarter of 2006 after strong growth of 3.5 percent in the second quarter. Looking at the year as a whole, US Gross Domestic Product (GDP) grew by 3.4 percent, slightly higher than the 3.2 percent in 2005. In 2007, GDP growth in the USA is expected to decline to 2.2 percent.

Inflation accelerated notably in the first half of 2006, but has since stabilized to 2.5 per cent for the fourth quarter of 2006. For 2006 as a whole, consumer price index (CPI) is estimated at 3.3 per cent. Inflationary expectations remain tamed and inflation is expected to decelerate in 2007. After a two-year tightening cycle, the Fed has decided to pause the federal funds rate at 5.25 per cent since August 2006. Forecasters expect the Fed to hold the federal funds rate at 5.25 per cent until mid-2007, to be followed by a cut of 50 basis points.

GDP growth, which took off at a rapid pace in Latin American countries in 2004, is expected to accelerate further from 4.4 percent in 2005 to 4.8 percent in 2006, due to the strengthening of economic activity in Brazil (from 2.3 to 3.2 percent) and Mexico (from 3.0 to 4.4 percent); in Argentina growth should remain very rapid at 8.0 percent (9.2 percent in 2005). The acceleration in output in the area was mainly driven by domestic demand, which was boosted by expansionary economic policies.

In the Euro area, GDP growth accelerated significantly in 2006. Output growth according to European Union Statistics Office (Eurostat) is estimated to be 2.7 per cent for the third quarter of 2006. Analysis of growth figures of member countries revealed that growth rebounded strongly in Germany, Italy, the United Kingdom and Northern Ireland. Spain's growth performance, while decelerating, continued to be the strongest in the zone. Growth in the region has been anchored by domestic demand, particularly investment expenditure, and a strong export performance.

In the euro area, according to Eurostat's flash estimate, the Harmonized Index of Consumer Prices (HICP) was 1.9 percent in January 2007, the same as the previous quarter. Looking ahead, annual inflation rates are projected to hover around 2 percent this year and the next. The European Central Bank (ECB) raised its main policy rate to 3.5 per cent in November, it's fifth tightening of policy in 2006. It is assumed that monetary policy will continue to be restrictive in 2007.

China's GDP expanded more rapidly than expected throughout 2006, with growth averaging 10.7 percent in the first nine months, compared with 9.9 percent in 2005. The acceleration was driven mainly by capital investment, while the increase in consumption was virtually unchanged from the preceding year. Inflationary pressures in China continue to increase with annual CPI inflation rising to 2.8 per cent in December 2006 from 1.9 per cent in November 2006.

Economic growth in Sub-Saharan Africa (SSA) has reached 5.9 per cent and is expected to accelerate to 6.0 per cent in 2007, driven by increased FDI, (particularly in the hydrocarbon sector), continued expansion of agricultural production, and increased investment in infrastructure development.

Monetary policies in the SSA region have been cautious. Private-sector credit as a share of broad money declined slightly in many countries, suggesting a tightening of monetary policy to counter expansionary fiscal stances.

Commodity Prices

The oil price trend in 2006 was marked by both strong gains and considerable volatility. Oil prices reached a record high of nearly USD80 per barrel (pb) in August 2006. However, by late October, as growth in oil demand showed signs of moderating and supply-side fears calmed, the price fell by about 25 per cent to below USD60 per barrel. As at January 2007, the price of crude oil stood at USD 57per barrel, 15 percent below December 2005 levels. The main drivers behind the decline in prices have been the weaker demand, from unusually warm weather coupled with expected non-OPEC supply.

World sugar prices continue to decline. For the third quarter of 2006, the International Sugar Agreement (ISA) daily price averaged US¢13.86 per pound, 18 percent lower than the first quarter average of US¢16.98 per pound. The decline is attributed to several factors; such as higher than anticipated output, declining oil prices and reduced speculation by large trading funds.

Tight supplies keep rice prices on the rise. From 293 USD per metric ton ($/MT) in first quarter of 2006, international rice prices increased to 302 $/MT and 313 $/MT respectively in the second and third quarters of 2006.

Deliberating on the global economic outlook, the Committee observed that due to inflationary concerns, monetary policy has been generally tight in 2006. Also noted, was that some countries were not successful in combating inflation, whilst in other countries monetary policy was influenced by the balance of risks between inflation and growth. For example, China's tight fiscal stance was a major contributor to its success in fighting inflation, unlike

India, where in pursuance of growth objectives, the budget deficit was about 6 - 7 percent.

Another observation was that international oil price developments are a major risk to world economic growth despite maintaining growth momentum across regions. Oil prices are still considered high mainly to efforts on the part of USA to build its emergency reserves and the geopolitical tension in oil producing regions.

Responding to the question whether the supply of sugar in international markets is likely to lead to a drop in the domestic price of sugar, it was noted that due to the oligopolistic nature of the Gambia's sugar market, and the fact that the surplus reported is for 2007, domestic sugar price will not be much impacted in the short-term.

(2.0) Balance Of Payments (BOP) Developments

Revised Balance of Payments projections indicate an overall surplus of D525.11 million ($18.69 million) in 2006 from D960.48 million ($34.18 million) in 2005, reflecting a marked decline in service receipts and a fall in the capital and financial account surplus.

The merchandise trade balance improved from a deficit of D3.38 billion to a deficit of D3.19 billion in 2006, due to the moderate increase in exports and the decline in imports. Exports rose to D3.05 billion in 2006, or 2.3 per cent from 2005, reflecting strong domestic export growth. Domestic exports increased from D147.52 million in 2005 to D321.75 million in 2006, representing a rise of 118.1 per cent.

Tourism and private remittances continued to be a major source of foreign exchange for the Gambian economy. The value of travel income is estimated at D1.68 billion relative to D1.51billion in 2005, reflecting projected increases in tourist arrivals.

Private remittances continued to grow over the years largely as a result of the increase in the number of Gambians working abroad and improved data collection. Remittances are estimated at D1.8 billion in 2006, compared to D1.7 billion in 2005.

Consequent of the above developments, the current account deficit, including official transfers is expected to narrow to D0.6 billion from D1.24 billion in 2005.

The capital and financial account balance is estimated to decrease from D2.2 billion to D1.12 billion in 2006, largely on account of the decline in government's drawings on new loans. Government drawings on new loans declined from D1.7 billion in 2005 to D0.9 billion in 2006. Total government loan repayments, on the other hand, increased to D576.7 million in 2006 from D410.06 million a year ago. Foreign direct investment (equity capital) is estimated at D2.0 billion in 2006 from D1.28 billion in 2005. Similarly, re-invested earnings increased from D255.98 million to D308.44 million during the same period. Gross official reserves are estimated to increase by D526.01 million relative to D305.29 million in 2005.

Balance of Payments projections for 2007 indicate an overall surplus of D599.08 million ($21.32 million) in 2007 from D525.11million ($18.69 million) in 2006. This is premised largely on the successful implementation of the PRGF program, which should increase growth-promoting expenditure emanating from a rise in donor inflows.

The goods account balance is projected at a deficit of D4.02 billion compared to a revised estimate of D3.19 billion in 2006. Exports are projected at D3.59 billion compared to D3.05 billion in 2006.

The value of travel income is projected at D2.23 billion relative to D1.68 billion in 2006, reflecting a 30 per cent likely increase in tourist arrivals. Interest payments in 2007 is projected at D238.91 million compared to D247.75 million in 2006, reflecting expected HIPC debt relief under the PRGF program. Interest income on the other hand is projected to increase from D103.54 million in 2006 to D202.93 million in 2007, due largely to the expected increase in reserve accumulation.

Reflecting the above developments, the current account deficit, including official transfers is expected to narrow to D0.31 billion from D0.6 billion in 2006.

The capital and financial account balance is projected to decrease to D0.91 billion in 2007 from D1.12 billion in 2006. Government drawings on new loans are projected to decline to D0.70 billion from D0.9 billion in 2006. Foreign direct investment (equity capital) is projected to decline to D1.52 billion from D2.0 billion in 2006. Re-invested earnings, on the other hand, are projected to increase from D308.44 million to D433.36 million in 2007. The projected increase in gross official reserves for 2007 is D297.16 million.

The Committee took note of the fact that there was a marked increase in imports for 2006 due to the large scale imports of projects related to the hosting of the African Union Summit and the construction sector, in particular, hotel and infrastructural development projects. The growth rate of imports is expected to moderate in 2007, premised on the completion of major infrastructural and hotel construction projects by end-2006.

The meeting also noted the further improvement in the services account due mainly to increase inflows from communication services and to some extent improved data from institutions. Gamtel's service receipts continued to grow primarily due to increased calls and easy access to international lines with the proliferation of mobile phones in the Gambia.

The Committee welcomed the increase in travel income in 2006 and the projected 30 percent rise in tourist arrival for 2007. Members hailed the efforts of the Gambia Tourism Authority (GTA) in advertising the country's tourist product on CNN, which among other things, was responsible for the recent expansion in the number of visitors to the Gambia.

(3.0) Foreign Exchange Developments

The inter-bank foreign exchange market for 2006 showed continued stability of the Dalasi vis-à-vis the major international currencies. This was due to sustained macroeconomic stability, and a healthy reserve cover coupled with increased inflows of FDI, tourism receipts, private remittances, and growing confidence in the economy.

Transaction volumes grew by 24.2 percent to D10.2 billion from D6.7 billion last year. Total sales was D4.7 billion and accounted for 46.3 percent of the overall transaction volumes in quarter 4, 2006, relative to D3.5 billion in quarter 4, 2005. Aggregate purchases, which are indicative of supply in the inter-bank market amounted to D5.4 billion in the fourth quarter of 2006, reflecting an increase of 70.4 percent and accounted for 53.6 percent of total transaction volumes. In U.S dollar terms, transaction volumes increased to USD362.6 million, or 24.2 percent from the previous year. Central Bank net purchase amounted to D1.01 billion compared to D0.92 billion in 2005.

The Dalasi depreciated against all the major foreign currencies traded in the inter-bank market during the period under review except the U.S dollar, on the back of a weak dollar in the international currency markets and sustained supply in the domestic market. Between quarter 4, 2005, and quarter 4, 2006, the Dalasi depreciated by 8.2 percent, 7.3 percent, 10.5 percent and 10.1 percent against the Pound Sterling, Euro, Swedish Kroner and CFA Franc, respectively. In contrast, the Gambian currency strengthened against the U.S dollar by 0.3 percent.

During the ensuing discussions, a member asked why the growth in domestic liquidity did not translate to a significant depreciation of the dalasi against major international currencies traded in the inter-bank market. In response, the committee was informed that due to the pro-active monetary policy stance of the Bank, most of the Dalasi influx was absorbed through open market operation. In addition to the latter, it was further explained that some of the excess liquidity was also used to facilitate economic transactions.

(4.0) Government Fiscal Operations

The impressive performance of public finances that were achieved in 2004 did not continue in 2005 and 2006, mainly due to weaknesses on the revenue front. Consequently, the fiscal deficits for the last two years were larger than projected, by more than 2.0 percentage points of GDP, most of which was funded with domestic borrowing. As a result, domestic borrowing was higher than budgeted. However, revenue performance in 2006 registered an improvement over 2005.

Domestic revenue totalled D 2,995.4 million in 2006, but fell short of the 2006 Budget Estimate of D3,103.9 million. The bulk of the shortfall is attributable to the poor performance of taxes on non-oil imports.

Direct tax revenue at D803.2 million was above the budget figure of D744.4 million by D59.0 million (7.3 per cent). In contrast, indirect tax at D1888.1 million was lower than the target of D1986.9 million by 5.2 per cent. However, taxes on international trade which accounts for 74.8 per cent of indirect taxes, registered the largest revenue shortfall (D94.5 million or 6.7 per cent) relative to the 2006 budget.

For the year, non-tax revenue amounted to D304.1million compared to the budget estimate of D372.8 million. Compared to the 2006 budget, this revenue category fell below target by D40.1 million or 37.9 per cent.

Total expenditure and net lending stood at D3,434.2 million. This is lower than the 2006 budget figure of D3,760.9 million by D326.6 million or 9.5 per cent.

Capital expenditure, which constituted 26 per cent of total expenditure and net lending amounted to D892.8 million and was below target by D321.8 million or 36.0 per cent, largely on account of the lower-than-budgeted external loan repayments. External loan repayments amounted to D740.3 million, compared to a budgeted figure of D1091.5 million. In the same vein, the Gambia Local Fund (GLF) capital expenditure at D76.3 million was significantly lower than budget by D46.8 million or 61.3 per cent.

The overall budget deficit (including grants) amounted to D362.2 million, lower than the 2006 Budget estimate of D467.7 million by D105.5 million or 29.1 per cent.

Fiscal Projections for the Year 2007

Government's primary policy objective for 2007 is to substantially reduce poverty as highlighted in the new Poverty Reduction and Growth Facility (PRGF) program. The program draws on the recently completed Poverty Reduction Strategy Paper (PRSP) II, which integrates the Millennium Development Goals (MDGs) into its objectives.

The fiscal policy stance for 2007 will, by the same token, sustain macroeconomic stability and consolidate fiscal gains. The 2007 budget is also largely influenced by the PRGF program, which the IMF Executive Board approved for The Gambia on February 21, 2007.

The basic balance is expected to rise to D467.7 million, and the domestic borrowing requirement is targeted at D129 million. Both the basic balance and the domestic borrowing requirement targets are preconditions for a successful completion of the country's PRGF program with the IMF.

The overall fiscal deficit (including grants) is estimated to improve from D362.2 million in 2006 to D33.1 million in 2007. This contraction is consistent with the quest to consolidate macroeconomic stability and create fiscal space for poverty reduction.

During the discussion on the fiscal report, members observed the high grants projections for 2007 compared to 2006. It was opined that the forecast is based on the fact that Gambia is expected to receive substantial funds from the European Union for Road construction projects and also reach HIPC completion point in mid-2007 and be eligible for debt relief.

Committee members noted with concern the high government expenditures in the first two months of 2007 and observed that if this trend continues, government would not be able to meet the Basic Primary Balance target for end-March 2007, a PRGF Performance Criterion. It was also noted that this may worsen Central Bank's claim on government and consequently hamper the Bank's efforts to meet its NDA target for the first quarter of 2007.

(5.0) Money Market Developments

The total outstanding stock of the interest bearing debt as at end-January 2007 rose to D5.20 billion or by 4.37 per cent from end-December 2006. Compared to end January 2006, interest bearing debt rose marginally by 1.54 percent.

At end-January 2007, the deposit money banks held the bulk of the interest bearing debt (48.4 per cent) followed by the non-bank public, including parastatals (42.9 per cent) and CBG (8.7 per cent). The picture was somehow different from a year ago, when the non-bank sector held most of the interest bearing debt (41.50 per cent) followed by deposit money banks (39.30 per cent), and CBG (19.20 per cent).

Members lamented that, on the whole, the Gambia's domestic debt is huge and unsustainable even though the rate of growth is decreasing with a growth rate of 0.3 per cent per annum. On account of this fact, there is need to expend more efforts in retiring the domestic debt. Considering the fact that almost 30 per cent of the recurrent budget is utilised to service domestic debt, retiring such debt from expected HIPC debt relief would free up resources for more poverty-reducing expenditure.

The Committee did not lose cognisant of the fact that the balance in the Special Deposit Treasury Bills Account (D51.70 million) was dwarf by the Outstanding Treasury Bills book value of D4.3 billion.

(6.0) Monetary Developments

During 2006, money supply increased by 26.2 per cent compared to 13.1 per cent in 2005, well above the 13.0 percent projected for 2006. Both components of money supply increased with quasi money growing at a slightly faster pace.

The net foreign assets (NFA) of the banking system rose to D4.3 billion, or 36.4 per cent. This was on account of the increase in the NFA of the Central Bank and deposit money banks by 36.1 per cent to D2.9 billion and 37.0 per cent to D1.5 billion, respectively. Central Bank's foreign assets rose to D3.4 billion or 22.7 per cent while foreign liabilities decreased to D0.5 billion or 21.3 per cent. Similarly deposit money banks' foreign assets increased to D1.5 billion or 37.5 per cent while their foreign liabilities significantly rose to D56.4 million, or 50.1 per cent.

The NDA of the banking system increased to D3.4 billion, or 15.4 per cent reflecting a strong domestic credit growth during the review year. Domestic credit grew to D4.3 billion, or 21.3 per cent of which credit to the private sector and public entities rose by 26.8 per cent and 3.0 per cent to D2.4 billion and D267.5 million, respectively. Of the factors responsible for the growth in money supply, the level of claims on government at D1.5 billion, or 94.4 per cent was more significant. Advances to government in foreign currency fell by 87.0 per cent to D74.7 million.

(7.0) Financial Stability Report

The banking industry is well-capitalised as Capital and Reserves rose to D1.07 million marking a growth of D51.58 million against last quarter. In contrast, the Capital Adequacy Ratio has declined by 12.03 percentage points against the previous quarter and 21.15 percentage points compared to the same period last year. Notwithstanding, all the banks were well above the target of 8 per cent.

Total industry assets rose to D9.3 billion in end-period December 2006 reflecting an increase of 10.3 percent from end-September 2006 and 19.9 percent over December 2005. Gross loans and advances, accounting for 25.8 percent of total assets, increased to D2.39 billion (0.3 percent) as at end-December 2006, from end-September 2006. Non-performing loans amounted to D306.52 million or 3.3 percent of total assets. Actual provisioning of D242.48 million exceeded the minimum required provisioning by D26.01 million.

Total banking industry profit after tax declined from D68.42 million in September 2006 quarter to D23.42 million in the period under review. This is largely attributable to the net loss of D21.82 million recorded by one of the biggest banks. However, on annual basis, cumulative industry profit after tax increased to D271.98 million in 2006 from D267.38 million in 2005.

The industry's deposit base expanded by D300.25 million (5.4 per cent) from last quarter to level at D5.82 billion. Comparatively, it also increased by D1.1 billion (23.3 per cent) against the corresponding period last year. Foreign currency Deposits formed 13.6 per cent of Total Deposits which amounted to D793.13 million contracting by D107.26 million against last quarter.

Capital and Reserves for the industry has increased to D1.07 billion from D1.02 billion last quarter. It increased by 18.1 per cent (D904.36 million) against

December 2005. The expansion totalling D51.58 million is attributable to the new entrant in the industry.

(8.0) Real Sector Developments

Growth in Gross Domestic Product (GDP) has been revised upwards to 7.7 per cent in 2006, from 6.9 per cent in 2005. For 2007, GDP growth is forecasted to be 7.0 percent.

Output growth was quite broad based with agricultural value-added estimated at 6.5 per cent, industry (21.9 per cent) and services (5.8 per cent).

Agricultural output for 2006 was projected at 363,409 metric tonnes, representing an increase of 5.04 percent over the 2005 output of 345,986 metric tonnes. The increase is attributable to the output growth of 34.7 percent, 23.2 percent and 19.3 percent for swamp rice, new groundnut variety (73/33) and upland rice respectively. In contrast, the output in old groundnut production dropped by 2.2 percent from 74,675 metric tonnes to 73,063 metric tonnes.

Industrial output is estimated at 21.9 per cent in 2006, a rate far above the rate of 4.7 per cent realized in 2005. This stems from growth of Building and construction (40 per cent), mining and quarrying (15.1 per cent), manufacturing (7.3 per cent), and electricity and water (6.0 per cent).

The services sector is estimated to grow by 5.8 per cent, less than the rate of 7.0 per cent in 2005. Trade, hotels and restaurants output are estimated at 1.4 per cent and 6 percent respectively, less than the respective rates of 7 per cent and 31.2 per cent in the previous year. The services sector remains the primary contributor to the economy and accounts for 58 per cent of output growth in 2006.

(9.0) Private Sector Business Sentiment Survey

More respondents (59.0 percent) reported higher level of economic activity in Q1, 2007 than those that indicated it was lower (5.0 percent). However, the majority of respondents (36.0 percent) reported same level of activity relative to Q4, 2006. Respondents were quite optimistic about prospects in Q2, 2007. However prospects for employment in Q2, 2007 reported by the services sector were favourable while the industry establishments were unpropitious.

The majority of firms (76.0 percent) also reported higher business activity compared to 7.0 percent that reported lower activity. Both services and industry firms reported higher business activity and are optimistic about sales and profit in Q2, 2007.

Although inflation remain subdued about 32.0 percent of the respondent report it to be higher by end-March 2007 compared to some that think it will be lower. In the Gambia, the public expectation of inflation serves as a barometer to gauge the magnitude and direction of prices, which have far-reaching ramifications on the conduct of monetary policy.

The Dalasi is expected to depreciate in Q2, 2007 with 9.0 percent of the respondents indicating higher exchange rate compared to 44.0 percent that said it will be lower.

As a result of the declining trend in interest rates, 45.0 percent of respondents reported lower interest rates compared to 2.0 percent that indicated higher interest rates. However, more respondents (52.0 percent) reported no change in interest rates.

(10.0) Inflation

End-period inflation, measured by the consumer price index of low income population of Banjul and Kombo St Mary area, declined from 1.8 percent in December 2005 to 1.4 percent at end-December 2006. Average inflation rate

(12 month moving average) was 1.4 percent compared to 3.2 percent a year earlier.

Food consumer price inflation declined to 0.0 percent compared to 0.9 percent in December 2005. Consumer price inflation of all food sub-groups declined. Non-food consumer price inflation rose to 4.4 percent from 3.8 percent at end-December 2005 as a result of a marked increase in the prices of housing to 32.6 percent compared to 0.5 percent in the preceding year.

The first measure of core inflation (Core 1), which excludes energy prices (fuel, light and transportation) declined from 1.7 per cent in December 2005 to 1.5 per cent in December 2006.

Core 2, which strips out prices of energy and utilities and volatile food items declined from 1.6 percent in December 2005 to 1.5 percent in December 2006.

(11.0) Decision

Against this backdrop and in the light of the latest inflation projection, the MPC decided to maintain the rediscount rate, the Central Bank's policy rate at 14.0 percent. The Committee would continue to monitor the situation and if the outlook changes, the MPC would review its stance.