# MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

## JUNE 23, 2010

The second meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) in 2010 took place in the Conference Room of the Bank.

**Present were:**

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| Mr. Momodou B. Saho | Governor, Chairman, Member |
| Mr. Basiru A.O Njai | First Deputy Governor, Member |
| Mrs Oumie Savage Samba | Second Deputy Governor, Member |
| Mr. Amadou Colley | Director, Banking Department, (BD) Member |
| Mr. Essa Drammeh | Deputy Director, (FSD) Member |
| Mr. Ismaila Jarju | OIC, Research Department, (ERD) Member |
| Mr. Abdoulie Jallow | Deputy Permanent Secretary, Ministry of Finance |
| Mr. Momodou Sabally | Director of Budget, Ministry of Finance |
| Mr. Bakary Jammeh | Principal Economist, ERD (Secretary) |

**In Attendance were**:

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| Mr. Omar Jaata | Director Foreign Department |
| Mr. Ousainou Corr | Director, Finance Department |
| Mr. Bai Senghor | Director, Micro-Finance Department |
| Mr. Pa Alieu Sillah | Commissioner for Insurance |
| Mr. Mbye Jammeh | Deputy Director, Banking Department |
| Mr. Paul Mendy | Deputy Director, FSD |
| Mr. Abdoulie Jallow | Deputy Director, FSD |
| Mr. Ebrima Wadda | Principal Economist, ERD |
| Mrs Ida Fye-Touray | Principal Banking Officer, FSD |
| Mrs. Maimuna John-Sowe | Principal Economist, ERD |

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| Mr. Karamo Jawara | Principal Banking Officer, BD |
| Mr. Momodou Lamin Jarjue | Senior Banking Officer, BD |
| Mr. Karafa Jobarteh | Senior Officer, Foreign Department |
| Mr. Sheriff Touray | Economist, ERD |
| Mr. Sait Mboob | Economist, ERD |
| Mr. Paul Bruce | Economist/Econometrician/ ERD |
| Mr. Yaya Cham | Economist, ERD |
| Mr. Sulayman Ceesay | Economist/Statistician, ERD |
| Ms. Binta Beyai | Economist, ERD |
| Mr. Abdoulie Touray | Banking Officer, FSD |

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on Wednesday, June 23, 2010. In his opening remarks, the Governor and Chairman of the MPC welcomed all those present at the meeting. Thereafter, the Committee reviewed, amended and adopted the minutes of the previous meeting. This was followed by presentations and discussions on international economic developments, balance of payments, foreign exchange, monetary and money market developments as well as Government fiscal operations, inflation, financial stability report and private sector business sentiment survey.

## 1.0 International Developments

The global economy is evolving largely as expected with strong growth in many emerging economies and moderate recovery in most advanced economies.

According to the IMF, World output is projected to increase by 4.2 percent in 2010 compared to a contraction of 0.6 percent in 2009, reflecting stability in financial markets, strong consumer spending as well as exceptional monetary and fiscal stimulus which continue to provide important support in many countries.

US GDP is forecast to grow by 3.1 percent in 2010, significantly stronger than the 1.5 percent in 2009. Consumer spending, accounting for 70 percent of the US economy, increased by 3.6 percent in March 2010, higher than the initial forecast of 3.3 percent.

Growth in the UK is projected at 1.3 percent in 2010 after contracting by 4.9 percent in 2009. UK consumer confidence rose in January 2010 for the first time in three months and the depreciation of the Pound Sterling should boost exports looking forward.

Economic activity in the Euro area, which contracted by 4.1 percent in 2009, is projected to expand by 1.0 percent in 2010. Although private domestic demand continues to be very weak, government spending and stronger exports would provide important support.

The Chinese economy, the World's third biggest, grew by 8.7 percent in 2009, higher than the government's target of 8.0 percent. Output is projected to expand by 10 percent in 2010 predicated primarily to the swift, vigorous and massive government stimulus package.

The Japanese economy contracted by 5.2 percent in 2009 following a deceleration of 0.7 percent in 2008. The appreciation of the Yen and the resurgence of deflationary pressures are likely to be a drag on growth. Output is projected to expand by 1.9 percent and 2.0 percent in 2010 and 2011 respectively.

Output in sub-Saharan Africa is projected at 4.7 percent in 2010 from 2.1 percent in 2009. The slowdown was short lived owing mainly to the relatively good health of the region's economies before the crisis and partly the implementation of sound policies and rebound in the services and agricultural sectors.

Inflationary pressures are forecast to remain subdued, reflecting low levels of capital utilization and well-anchored inflation expectations. According to the IMF, headline inflation in advanced economies is expected to accelerate from zero percent in 2009 to 1.3 percent in 2010. In emerging and developing economies, inflation is forecast to increase to 6.3 percent in 2010 from 4.7 percent in 2009.

Reflecting primarily the rebound in global economic activity, commodity prices, particularly petroleum, metal and sugar prices continue to increase. At end 2009, the IMF Commodity Index rose by more than 40 percent.

Crude oil prices, that averaged US $40.7 a barrel in 2008, increased to an average of US $ 76.7 per barrel in 2009. In recent months prices breached the US $80 per barrel mark. The increase in prices was as a result of weaker US Dollar, stronger than expected demand and faster than expected global economic recovery.

The Committee noted that according to Western Union data obtained from Gambian banks, remittances most likely declined in 2009 compared to 2008. However, this development was inconsistent with the BOP projections of increased remittances in 2009. The point was made that remittances are sensitive to a number of factors including economic developments in the sending country and the exchange rate in the receiving country.

The Committee observed that the Greek crisis and to some extent adverse economic developments in Spain and Portugal are a sobering reminder that the global recovery is still soft and that a monetary union can be negatively impacted by begger-thy-neighbour policies. The Committee noted that to ensure a credible monetary union, it is critical that there is sustained convergence. Although the European Monetary Union has rules in the form of the Stability and Growth Pact, which sets limits on budget deficit and debt, they were not enforced which may have given the incentive to Greece and the other smaller countries in the Euro Zone to implement expansionary fiscal policies, resulting in the debt crisis.

## 2.0 External Sector Developments

Revised balance of payments (BOP) estimates indicate an overall deficit of US $6.8 million in 2009 compared to a surplus of US $23.4 million in 2008.

The current account was in a surplus of US $63.3 million in 2009 higher than the surplus of US $12.4 million in 2008. The merchandise trade account worsened from a deficit of US $68.2 million in 2008 to a deficit of US 85.0 million in 2009. Both imports and exports declined by 3.7 percent and 8.5 percent respectively.

The services account balance surplus fell from US $ 33.4 million in 2008 to US $21.7 million in 2009 owing in large part to the decline in travel income from US $ 73.5 million in 2008 to US $53.7 million in 2009.

The capital and the financial account balance deteriorated from a surplus of US $11.0 million in 2008 to a deficit of US $70.1 million in 2009 due to the marked decline in direct investment. Direct investment decreased to US $39.6 million in 2009 from US $70.1 million in 2008.

The Committee observed that the strong growth in current transfers of some 66.7 percent was the main driver of the current account surplus in 2009 but cautioned that transfers are volatile. The Committee, however, advised that more work needs to be done to improve the quality of data on the remittances.

The Committee commented that theoretically a deficit in the current account may lead to a depreciation of the domestic currency if it is not fully financed particularly by a surplus in the capital and financial account. It further noted that financing through foreign direct investment is desirable given its relative stability.

## 3.0 Developments in the Foreign Exchange Market

Volume of transactions in the domestic foreign exchange market, measured by aggregate sales and purchases of foreign exchange in the first five months of 2010, amounted to D16.69 billion (US$691.02 million) compared to D13.72 billion (US$520.50 million) in 2009.

From December 2009 to-date the Dalasi weakened against the US Dollar and Swedish Kroner by 6.6 percent and 1.5 percent respectively but appreciated against the British Pound by 9.1 percent, Euro (7.9 percent), CFA Franc (2.6 percent) and Swiss Franc (0.5 percent). The marked depreciation of the Dalasi was attributed to both domestic and external factors including the financial turbulence in the Euro area, which caused the U S dollar to appreciate in the international foreign exchange markets and increased domestic demand to pay for imports, particularly oil imports as well as lower-than-expected foreign inflows.

The Committee noted the flight to the US dollar in recent months despite the fact that the US economy is saddled by the twin deficits: fiscal and current account deficits. This is mainly attributed to the fact that the US remains the world's largest economy and the dollar is the main reserve currency. It was observed that domestic interest rates and developments in the international markets do have significant bearings on the exchange rate.

## 4.0 Fiscal Developments

The government's fiscal position weakened in the first 3 months of 2010 compared to the same period in 2009.

Total revenue and grants amounted to D1.26 billion (22.9 percent of GDP) relative to D1.22 billion (23.8 percent of GDP) in the first quarter of 2009. Tax revenue, which totaled D963 .1 million (17.6 percent of GDP), decreased by 1.28 percent from the first quarter of 2009.

Non-tax revenue increased to D159.2 million compared to D116.3 million in the first quarter of 2009 while grants rose from D130.5 million in the first quarter of 2009 to D134.4 million during the quarter under review.

Total expenditure and net lending increased to D1.24 billion in the first quarter of 2010, higher than the D1.15 billion in the same period last year.

The overall balance (including grants) narrowed from a surplus of D72.4 million (1.41 percent of GDP) in the first quarter of 2009 to D16.1 million (0.29 percent of GDP) during the quarter under review.

The fiscal deficit (excluding grants), however, widened markedly from D58.1 million (1.13 percent of GDP) to D118.3 million (2.16 percent of GDP) in the first quarter of 2010.

The basic and primary balance surpluses narrowed from D194.7 million (3.79 percent of GDP) and D396.4 million (7.71 percent of GDP) to D85.9 million (1.57 percent of GDP) and D290.6 million (5.31 percent of GDP) respectively.

The Committee noted the significant increase in expenditure and commented that the strong growth in the wage bill was as a result of the 20 percent increase in salaries. However, considering that the salary mass is increasing as fast as the other charges should be a cause for concern.

The Committee observed that to ensure long-term economic growth, there is a need to rebalance expenditure with a bias toward capital expenditure. However, the point was made that an increase in capital expenditure causes a rise in recurrent expenditure to, say, meet wage bills, maintenance costs etc.

The Committee indicated that it appreciated the difficulties involved in matching expenditure to revenue in a difficult external and domestic environment but advised on the need for fiscal prudence to sustain the macroeconomic stability.

## 5.0 Money Market Developments

As at end-March 2010, the stock of domestic debt stood at D7.53 billion (26.8 percent of GDP) compared to D6.3 billion (24.8 percent of GDP) in March 2009. The increase in the stock of domestic debt was mainly as a result of the marked increase in the Treasury Main Account ( TMA) overdrawn position.

Treasury bills and Sukuk-Al-Salaam, accounting for 70 percent of the domestic debt, increased to D5.37 billion compared to D4.76 billion in March 2009. However, from January to June 2010 net issuance was negative, implying a net debt repayment.

According to the data on the distribution of Treasury bills and Sukuk-Al-Salaam, one year bills accounted for 64.6 percent of the outstanding stock, 182-day bills (17.7 percent) and 91-day bills, (17.7 percent).

The yield on all the profiles declined. The yield on the 91-day, 182-day and 364-day bills decreased from 10.14 percent, 12.13 percent and 13.65 percent in June 2009 to 9.0 percent, 10.84 percent and 13.0 percent on June 1, 2010 respectively.

The volume of transactions in the domestic inter-bank market rose to D2.63 billion in the year to end-March 2010, or 110 percent from a year earlier.

The Committee commented that domestic debt sustainability should be viewed from the perspective of all the 3 primary benchmarks namely debt service/revenue, domestic debt stock/GDP and debt/revenue. Two of the ratios debt/GDP and debt/revenue indicate that the domestic debt is unsustainable. The Committee indicated that to ensure that the debt to GDP ratio is within the benchmark, growth in GDP should be higher than the interest rate of the debt on a sustained basis.

## 6.0 Financial Sector Developments

The banking industry remains concentrated with three banks accounting for 61 percent of the industry's total assets. According to financial soundness indicators, the industry continues to show signs of resilience. Total industry assets increased to D15.5 billion at end-March 2010 from D12.5 billion in March 2009. Deposit liabilities rose to D9.9 billion, an increase of D1.93 billion from end-March 2009.

Non-performing loans as a ratio of gross loans deteriorated from 12.0 percent in December 2009 to 16.9 percent in March 2010. This was mainly the result of the inclusion of restructured loans in the portfolio of non-performing loans. However, all loans were adequately provisioned. The risk-weighted capital adequacy ratio was 18.7 percent in March 2010, higher than minimum requirement of 8.0 percent. All the banks met the minimum capital requirement.

Loans and advances to the private sector, accounting for 51 percent of total domestic credit, increased to D4.7 billion in March 2010 from D3.7 billion in March 2009. Credit to agriculture, manufacturing and building and construction increased by 30.0 percent, 47.0 percent and 28.3 percent respectively. Similarly, credit to distributive trade and other commercial loans rose by 41.6 percent and 24.1 percent respectively during the same period. In contrast, loans and advances to fishing and tourism declined marginally by 0.25 percent and 0.1 percent respectively.

The industry reported earnings of D8.47 million in March 2010 compared to the loss of D47 million in December 2009. However, earnings were significantly lower than the D44.68 million reported in March 2009.

The return on assets improved from negative 2 percent in December 2009 to 0.3 percent in March 2010, but lower than the 1.6 percent reported in March 2009.

The Committee expressed concern over the increase in non-performing loans and advised that pressure be put on banks to improve credit administration and loan recovery. The view was expressed that lending rates are high which partly contributed to the increase in non-performing loans and that reducing interest rates to an appropriate level would require addressing structural issues such as the difficulty in realizing collateral and the high cost of banking, etc.

A suggestion was made that the CBG, as the custodian of the financial system, should consider putting a cap on interest rates as is done in some countries. The overwhelming view was that capital is best allocated if the price of money is discovered by the market rather than by administrative fiat.

## 7.0 Real Sector Developments

The Gambian economy is projected to grow by 5.0 in 2010 compared to 5.6 percent in 2009. Agricultural value-added is estimated at 4.4 percent, industry (5.1percent) and services (4.9 percent). In terms of sectoral contribution to GDP at factor cost, agriculture is expected to contribute 24.9 percent, industry (12.3 percent) and services (57.4 percent).

The Committee indicated that the projected robust growth in industry value-added is premised on strong mineral sands and building and construction output. However, attaining a high and sustained growth rate critical for poverty reduction hinges, to a large extent, on increasing agricultural output.

The Committee welcomed the Government's renewed commitment to raising agricultural production and productivity and advised that the entire value chain should be supported including policy, the supply of inputs, marketing and infrastructure if the potentials of the sector are to be fully realised.

## 8.0 Monetary Developments

Money supply grew by a robust 21.7 percent in the year to end-March 2010 compared to 19.4 percent a year earlier. The net foreign assets (NFA) and net domestic assets (NDA) of the banking system rose by 7.1 percent and 29.3 percent respectively.

Of the components of broad money, narrow money and quasi-money increased by 16.1 percent and 27.5 percent to D5.8 billion and D6.2 billion respectively.

Reserve money rose by 15.7 percent, higher than the 8.7 percent in March 2009. This was mainly due to the 24.5 percent increase in the NFA which more than offset the 60 percent decline in the NDA of the CBG.

The Committee observed that the expansionary fiscal policy has fed through into a strong growth in some of the monetary aggregates. And given the recent acceleration in inflationary pressures, the Committee agreed that policy should refocus on containing price pressures but in a manner consistent with the objectives set out in the draft Memorandum of Economic and Financial Policies (MEFP).

## 9.0 Private Sector Business Sentiment Survey

According to survey data, a higher percentage of respondents (26.0 percent) reported that economic activity was higher in Q1 of 2010 compared to 24.0 percent that reported lower activity. The resultant diffusion index of (+2 percent) was significantly lower than the index of (+23 percent) in Q4 2009. Industry firms reported higher activity (+35 percent) than service establishments (-12 percent). Respondents were quite pessimistic about prospects in Q2 of 2010 with a diffusion index of (-6 percent).

At the company level, 36.0 percent of the respondents indicated that activity was higher in Q1 of 2010 compared to 18.0 percent that reported lower activity. Both services and industry firms reported higher activity. While services establishments were optimistic about prospects in Q2 of 2010 with a diffusion index of (+ 5.0 percent), industry firms were pessimistic with a diffusion index of (-46.0 percent).

Respondents reported higher capital expenditure, employment, and sales in Q1 of 2010 relative to the previous quarter but profits were reported to be lower. The respondents expect inflation and the exchange rate of the Dalasis to be higher in Q2 of 2010 relative to the previous quarter.

The Committee, while acknowledging that respondents are chosen to reflect the composition of the economy, underscored that the sentiments of the respondents are a reflection of the challenging economic environment.

## 10.0 Inflation

Headline consumer price inflation, measured by the National Consumer Price Index, was 4.1 percent in April 2010 compared to 6.1 percent in April 2009. The average inflation (12 month moving average) also decelerated to 3.6 percent compared to 5.5 percent in April 2009.

Food prices increased by 5.3 percent but lower than the 7.8 percent in April 2009. Non-food inflation also decelerated to 2.5 percent in April 2010 from 4.5 percent in April 2009.

Core inflation, which excludes prices of energy, utilities and volatile food items, was 4.1 percent in April 2010 compared to 6.7 percent in April 2009.

The Committee noted the continued build up in inflationary pressures evidenced by the increase in headline inflation in six consecutive months. However, it was commented that inflation is expected to be within the Bank's target of 5 percent in 2010, but only if monetary policy continues to be proactive.

## 11.0 Decision

Taking into account domestic and external developments and the outlook for inflation, the MPC decided to leave the rediscount rate, the policy rate, unchanged at 14 percent.