

MEMORANDUM OF UNDERSTANDING

Between

**THE DEPARTMENT OF STATE FOR FINANCE
AND ECONOMIC AFFAIRS**

And

THE CENTRAL BANK OF THE GAMBIA

**In Respect of
Domestic Debt Management and Monetary Operations**

**MEMORANDUM OF UNDERSTANDING BETWEEN THE
DEPARTMENT OF STATE FOR FINANCE AND ECONOMIC AFFAIRS
AND THE CENTRAL BANK OF THE GAMBIA**

1. INTRODUCTION

This Memorandum of Understanding (MOU) establishes, inter alia, a framework for cooperation between the Department of State for Finance and Economic Affairs (DoSFEA) and the Central Bank of the Gambia (CBG) in the domain of domestic debt management and monetary operations. The MOU expounds the roles and responsibilities of each institution, and describes the coordination mechanism adopted to achieve their set objectives.

In The Gambia, the conduct of monetary policy is not carried out independently of debt and fiscal policies. The CBG implements monetary policy using indirect instruments that include the use of Government securities. Since 1986, the CBG has issued Treasury bills on behalf of Government with the main aim of absorbing excess liquidity, and to contain inflationary pressures following the introduction of a flexible exchange rate regime in the beginning of that year. Treasury bills have now become the most dominant component of the domestic debt constituting more than 80 percent of the debt.

The proceeds of Treasury bills issued are deposited in a special deposit account at the CBG. These proceeds were supposed to be sterilized or used only for specific expenditure outlays. However, since 1996, Treasury bills have become an important means of financing the country's budget deficit. Consequently, the divide between domestic debt management policy and monetary policy has now become blurred. The Authorities are also aware of the policy conflicts that could arise as a

result of the different objectives of domestic debt management and monetary policies. Debt management is mainly concerned with meeting the Public Sector Borrowing Requirement (PSBR) at a minimum long-term cost and an acceptable risk, whereas monetary policy is mainly concerned with attaining and maintaining price stability.

DoSFEA and CBG, recognizing the inter-linkages between fiscal and monetary policies, intend to design a framework that will assist in their coordination.

2. GUIDING PRINCIPLES

To enable the two institutions to achieve their objectives, there has to be a division of responsibilities. This is based on the following fundamental principles:

- *Clear lines of responsibility (Accountability):* Both DOSFEA and CBG must have clearly defined roles and responsibilities. This will make sure that each institution will be accountable for the consequences of its policy and operational actions.
- *Avoidance of duplication:* Each institution must endeavour to avoid duplication of efforts. Personnel of the two institutions should be able to focus on their core functional responsibilities, rather than attempt to perform the functions of the other. This may only lead to a situation where there is confusion as to which body is responsible for what.
- *Coordination of Policies:* The fiscal and monetary authorities should be able to understand, differentiate and appreciate each

other's core roles, responsibilities and objectives as well as their inter-linkages. In other words, there must be synergy.

- *Information sharing:* There will be regular exchange of relevant information between the two institutions unless such information sharing is prohibited by legislation or international agreement. This will help each institution to discharge its duties and responsibilities as efficiently and effectively as possible. Each institution will inform the other about any major policy changes. It will consult the other in advance on any policy changes which will impact on the responsibilities of the other.

3. DOSFEA's RESPONSIBILITIES

DOSFEA is responsible for setting the Government's overall economic policy objectives and the legal and institutional framework through which such objectives are achieved. DOSFEA will not be directly involved in the operational activities of the CBG, and it will not be accountable for the outcome of those activities. However, Section 36 of the CBG Act 2005 provides that where the Secretary of State for Finance and Economic Affairs is of the view that the policy being pursued by the CBG is not adequate for the achievement of the CBG's objectives, the Secretary of State shall inform the CBG of the change in policy, and that Government accepts responsibility for the outcome of such policy shift. The CBG shall implement the new policy as long as the directive remains in force.

There are also other related situations where the CBG should inform the Secretary of State about certain legitimate concerns, such as the possibility of a breach of the limitation on CBG lending to Government (Section 32 of the CBG Act 2005) or external reserves management (Part

IX of the CBG Act 2005) or on any other issue that is likely to affect the achievement of the CBG's objectives.

DoSFEA recognises the need for, and supports the implementation of monetary policy by the CBG. Given that low inflation will benefit fiscal policy in the long run, DOSFEA further accepts that the costs of maintaining low inflation are necessary, thus it will, for the time being, bear that cost.

DoSFEA undertakes to provide weekly forecasts of budget deficit financing requirements to CBG. The forecast should include details of planned receipts (revenue) and payments (expenditure).

DoSFEA undertakes to keep Government borrowings from the CBG within the limits stipulated by the CBG Act 2005.

4. CBG's RESPONSIBILITIES

The key policy objective of the CBG is to achieve and maintain price stability. As part of its monetary policy functions, the CBG has operational responsibility for setting interest rates as well. The CBG is also the banker, financial advisor and fiscal agent of the Government as stipulated under Part V of the CBG Act 2005.

Among its monetary policy responsibilities, the CBG may participate, weekly in the primary market for Government Securities, and daily in the secondary market, to manage the changes in liquidity and bring it back on track to levels consonant with the set monetary policy objectives.

When CBG uses debt instruments for liquidity management, it shall maintain a sterilized account and make a report to DoSFEA monthly. To

make monetary policy more robust, CBG shall ensure that proceeds from the sale of such instruments are placed in a separate blocked account. DoSFEA shall not have access to the balances in this account. As required by Section 38(4) of the Government Budget Management and Accountability Act 2004, CBG will submit to DoSFEA regular monthly reports on this account. DoSFEA and CBG will review the operation of the blocked account on a semi-annual basis.

CBG shall also maintain a separate account for the proceeds of debt instruments used for PSBR purposes. The balances on this account shall be available to DoSFEA for spending.

CBG undertakes to keep its lending to Government within the limits stipulated by the CBG Act 2005.

The CBG is responsible for both price stability and the regulation of the financial system. As banker to both Government and the banks, the CBG will stand at the centre of the settlement systems for Government securities. The CBG shall give advice to DoSFEA on the implications for financial stability of developments in the domestic and international markets and payments systems. Furthermore, the CBG shall be responsible for improvements in the payments and settlement infrastructure to enhance the development of domestic financial markets. By its actions, the CBG shall facilitate the provision of incentives for the development of an inter-bank money market.

The CBG also undertakes to implement adequate information systems to improve the recording and reporting of the domestic debt. However, as the Loan and Debt management Unit of DoSFEA enhances its capacity, DoSFEA will take a more proactive role on the reporting, recording and management of domestic debt.

Finally, the CBG shall strengthen public disclosure and improve transparency in its operations. Consequently, the CBG shall adopt an effective and regular reporting system on its activities to DoSFEA and the public. The CBG will sufficiently provide all necessary data relating to the domestic debt to DOSFEA as required.

5. STANDING COMMITTEES

Coordination of policies shall be at different stages through the following committees.

The Secretary of State and the Governor of the CBG both sit at the **High Level Economic Committee**. It is the principal forum for agreeing policy and/or coordinating action between the two institutions and other agencies of Government. It also a channel for discussing threats and/or crisis and their potential implications for macroeconomic or financial stability, as well as appropriate use of measures to ensure effective coordination of responses.

The Secretary of State and the Governor will meet regularly in the **Macro-Economic Committee** which is chaired by the Secretary of State. The Committee shall meet on a quarterly basis to discuss issues of significance and other developments. Meetings may be called at other times by any of the parties if it considers there to be issues which require urgent address.

In addition, DOSFEA will be represented by 2 (two) officials on the **Monetary Policy Committee (MPC)** of the CBG which is chaired by the Governor.

Staff of DOSFEA will also be members of the **Treasury Bills Committee** (see Annex A for Terms of Reference). DoSFEA and CBG will also establish a program of secondment of staff between them. This will help to improve understanding of each other's policies and improve co-operation.

Both DOSFEA and the CBG will make constant and regular mutual consultations on important policy issues

6. TERM, EFFECTIVE DATE AND REVISION

The memorandum and its annexes shall come into force as of its signing and will remain effective until one of the institutions notifies in advance the other in writing about its decision to terminate it. Amendments to this Memorandum of Understanding may be proposed by any one of the parties by giving notice to the other, and shall only be brought in force by agreement. DOSFEA and CBG further agree that any proposed amendment shall not suspend the operation of this framework until it is agreed or otherwise.

Agreed and signed this 28th day of September 2007.

For the Department of Finance
and Economic Affairs

For Central Bank of The Gambia

Mousa Gibril Balla-Gaye
Secretary of State for Finance and
And Economic Affairs

Momodou Bamba Saho
Governor
Central Bank of The Gambia

28 September 2007

28 September 2007

Annex A

THE TREASURY BILLS COMMITTEE

Terms of Reference

A. Purpose

- 1) The primary purpose of the Treasury Bills Committee shall be to meet the liquidity management objectives of the CBG in a manner consistent with the policy stance set by the CBG's MPC. Without prejudice to this objective, it shall also seek to meet Government's financing requirements at least possible cost given the prevailing policy stance of the Government.

B. Functions

- 2) Determine the public offering based on the CBG's monetary program and the borrowing needs of Government
- 3) Conduct auctions of Treasury bills and any other Government or CBG security.
- 4) Make recommendations as to the future management of the debt so as to maintain it at sustainable levels.
- 5) Ensure that, at all times, the rules and regulations that govern the Treasury and other securities issue properly reflect the requirements of DoSFEA and CBG.
- 6) Examine the issues posed by a new market development, determine its effects, considers various alternatives and, make appropriate recommendations to solve the problem.
- 7) Propose new or amended rules or regulations or, where legislation or government action is required, recommend a response

- 8) Design new products, amend rules and regulations to accommodate new practices, conventions and norms
- 9) Advise on developing and improving technical infrastructure
- 10) Ensure policies adopted are consistent with the development of an efficient government securities market.

The recommendations of the Committee shall be submitted to the Secretary of State and the Governor.

C. Membership

- 11) The membership of the Committee shall be drawn from the CBG, and
- 12) Three representatives of DoSFEA

D. Chair

- 13) The Deputy Governor of the CBG responsible for oversight of the CBG's Banking Department or her representative shall chair the meetings of the Committee

E. Meetings

- 14) The Committee shall meet at the CBG every week at 1.00 pm on a Tuesday or on any other day or time as the Chairperson may designate.
- 15) The Committee shall make its decisions on a consensus basis. To the extent that this is not possible, the Chair will make the decision, which shall be communicated to the Secretary of State and the Governor.