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OMMITTEE MEETING

The meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) took place in the Conference Room of the Bank onJanuary 30, 2014.

Present were:

Mr. Amadou Colley	Governor, Chairman, Member
Mr. Basiru A.O Njai	First Deputy Governor, Member
Mrs Oumie Savage-Samba	Second Deputy Governor, Member
Mr. Essa Drammeh	Director, Financial Supervision Department (FSD), Member
Mr. Ismaila Jarju	Director, Economic Research Department (ERD), Member
Mr. MbyeJammeh	Deputy. Director, Banking Department (BD), Member
Mr. Modou Ceesay	Deputy Permanent Secretary (2), MOFEA, Member
Mr. Alhagie Taal	Director, Macroeconomic Unit, MOFEA, Member
Mr.BakaryJammeh	Deputy Director, ERD, (Secretary)

In Attendance were:

Mrs.HaddyJoof	Director, Administration
Mr. Omar Jaata	Director, Foreign Department
Mr. OusainouCorr	Director, Financial Department
Mr. Paul Mendy	Director 2, FinancialSupervision Department
Mr. Pa Alieu Sillah	Commissioner of Insurance
Mr. Omar Janneh	Deputy Director, Administration Department
Mr. MomodouNjie	Head, Risk management Unit
Mr. Ebrima N. Wadda	Principal Economist, ERD
Mrs.Maimuna John-Sowe	Principal Economist, ERD
Mr. Momodou Lamin Jarju	Principal Banking Officer, BD
Mr. AmadouCorra	Principal Bank Examiner, FSD
Mrs.AnnettaRailey	Principal Banking Officer, BD
Mr. Abdou Ceesay	Principal Officer, Foreign Department
Mr. BaboucarrJobe	Principal Economist, MOFEA
Mr. Sulayman Ceesay	Economist, ERD

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	Bank Examiner, FSD
	mist, ERD
Mrs. Isatou Mendy-Volo	Senior Economist, ERD
Mr. AbdoulieJanneh	Macroeconomist, MOFEA and ECOWAS NCC
Mr. Amadou Barry	Bank Examiner, FSD
Mr. Alieu Ceesay	Economist, ERD
Mr. MomodouJallow	Economist, ERD
Mr. Khalilu Bah	Economist, ERD

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on January 30, 2014. In his opening remarks, the Governor and Chairman of the MPC welcomed all those present at the meeting. Henoted that 2013 was a very challenging year for the Gambian economy, especially in the foreign exchange market. He was however, confident that the tight monetary policy stance should restore stability in the market. The Committee then reviewedand amended 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, real sector as well as Government fiscal operations, financial stability issues and inflation.

World Economic Outlook

Since the previous meeting of the Monetary Policy Committee, global growth is expected to strengthen over the next two years. According to the October 2013 World Economic Outlook, globaleconomic activity is projected to expand from 2.9 percent in 2013 to 3.7 percent and 3.9 percent in 2014 and 2015 respectively.

While the economic growth outlook for a number of emerging market economies has deteriorated somewhat in recent months, prospects in the advanced economies have improved, particularly in the US and UK. The IMF forecasts growth of 2.9 percent for the US from 1.9 percent in 2013. The improving US outlook is driven mainly by the diminishing fiscal drag, accommodative monetary policy and stronger household expenditure.

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in 2013,its strongest rate since 2007 according to the rowth is projected to accelerate to 2.4 percent in 2014.

The outlook for the Euro area remains fragile and uneven, particularly in the southern periphery where the combination of strong fiscal consolidation and weak banking sectors are stifling the recovery. Eurozone economy is projected to expand by only 1.0 percent from a contraction of 0.4 percent in 2013. The Japanese economy has maintained its positive growth rate, with economic activity expanding by 1.7 percent in 2013 from 1.4 percent in 2012. Output in 2014 is expected to expand by 1.7 percent.

Growth in emerging market and developing economies decelerated slightly to 4.7 percent in 2013 from 4.9 percent in 2012. The Chinese economy grew by 7.7 percent in 2013, the same as in 2012. The major challenge confronting the Chinese authorities is how to contain the marked increase in credit without adversely impacting growth. Although the outlook for the Indian economy improved, Brazil, Russia and Turkey are expected to underperform fromearlier projections.

Growth in Sub-Saharan Africa rose by 5.1 percent in 2013, slightly higher than the 4.8 percent in 2013 and the global output of 3.0 percent. Output is expected to accelerate further in 2014 expanding by 6.1 percent.

Global inflation remains benign despite abundant liquidity attributed to output gaps, which remain large, and the decline in commodity prices reflecting lower-than-expected economic activity in emerging market economies, notably China.

The FAO Food Price Index averaged 209.9 points in 2013, down 1.6 percent in 2012. Increased supplies pushed down prices of cereals (with the exception of rice), oils and sugar.

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rly stable, with Brent Oil trading at an average price

The Committee while agreeingthat there are three primary risks to the global economy:the debt crisis in Europe, high unemployment and political risk especially in North Africa, believed that low inflation is not only a challenge in Europe, but in US and Japan as well where the output gaps though shrinking remain large. The Committee agreed with the IMF's advice to the Europen Central Bank, in particular, to do all it can to anchor price expectations and boost demand in the Euro area whose southern countries continue to face weak demand.

The Committee noted the recent decision by the Federal Open Market Committee (FOMC) to taper the Fed's bond purchase to US$65.0 billion a month and its impact on emerging economies, especially India, Turkey and South Africa. The Committee broadly agreed that the action of the Fed has put pressure on the currencies of those countries but that it is necessary for the US to return to monetary policy orthodoxyin the light of recent economic developments in the US.

The Committee lamented the jobless growth phenomenon besetting some countries. It was broadly agreed that in the case of The Gambia, the key to growing jobs is by ensuring high quality growth; that is, growth emanating from all the sectors of the economy, especially the manufacturing sector. Therefore, economic policies and structural reforms should be geared towards creating an enabling environment for private sector led growth in particular and increasing productivity of the economy in general.

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DP) is estimatedat a deficit of US$32.9 million in the first nine months of 2013,lower than the deficit of US$41.7 million in the corresponding period in 2012.

The current account surplus increased to US$82.3 million compared to US$56.9 million in the same period in 2012. Of the components of the current account, the goods account deficit narrowed to US$90.4 million against the deficit of US$132.7 million in the same period in 2012.The services account balance also improved from a surplus of US$42.5 million in the first nine months of 2012 to a surplus of US$83.3 million during the period under review. In contrast, current transfers recorded a reduced surplus of US$100.4 million compared to the US$155.0 million in the same period in 2012. Also, the income account deficit widened to US$11.0 million relative to the deficit of US$8.9 million in the first nine months of 2012.

The capital and financial account deficit widened to US$49.4 million in the first nine months of 2013 compared to the deficit of US$15.2 million in the corresponding period of 2012.

The Committee observed that though the current account has been slow to react to the depreciation of the Dalasi, there has been some discernible impact evidenced by the narrowing of the goods account balance and the increase in the surplus of the services account, particularly tourism.

The Committee expressed concern of the marked decline in current transfers attributed mainly to the decline in transfers to general government. Workers remittances, in contrast, continue to increase despite the economic challenges in advanced economies.

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the BOP projections for the fourth quarter of 2013. arrow somewhat reflecting the combination of the shrinking of the trade deficit, increase in personal transfers and tourism income.

The Committee noted that domestic exports continue to be insignificant. To the extent that the depreciation of the Dalasi makes imports expensive implies that re-exports could be negatively affected by deviation of the exchange rate from its long-run trend.

The Committee commented that for several years, the current account has been in surplus thanks mainly to transfers and tourism receipts. Goods account had been in deficit although it narrowed in the first nine months of 2013 due to the declinein imports which more than offset the decrease in exports. The Committee noted that the BOP would require financing through non-debt creating flows to be sustainable.

EXCHANGE RATE DEVELOPMENTS

Volume of transactions in the foreign exchange market, measured by aggregate purchases and sales of foreign currency in the year to end-December 2013, decreased to US$1.3billion, or 17.0 percent from 2012. Although the Dalasi was broadly stable in the first half of 2013, it depreciated significantly in the second half of the year. In the year to December 2013, the Dalasi depreciated against the US Dollar by 14.8 percent, Euro (21.0 percent) and pound sterling (14.7 percent).In Nominal Effective Exchange Rate Terms, the Dalasi depreciated by 15.1 percent in 2013 compared to 13.5 percent and 7.3 percent in 2012 and 2011 respectively.

The Committee commented that in light of the substantial policy tightening and on-going measures to sanitise the foreign exchange market as well as the increase in net supply, the Dalasi is expected to be broadly stable and to even appreciate against same major currencies in the first half of 2014. However, the tendency in the recent past to fix the exchange rate of the Dalasi could engender considerable uncertainty around the outlook of the Dalasi.

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ternal sector policy is best anchored by the current ıvinced that the regime is better able to absorb shocks. It was also observed that to reduce vulnerability to future currency shocks, it is absolutely critical to implement prudent fiscal and monetary policies to manage demand, but at the same time carry out structural reforms to increase the supply of foreign exchange in the medium to long-term.

The Committee agreed that the fastest way to deface a currency is to monetise the budget deficit, but that the depreciation experienced so far could improve The Gambia's international competitiveness provided that it is not eroded by higher wages and input prices.

The Committee noted the considerable demand pressures in the foreign exchange market emanating from the energy sector and advised that the country should develop and implement a well-designed energy strategy to ensure that the sector is sustainable.

Fiscal Developments

Fiscal performance in 2013 deteriorated compared to 2012. Total revenue and grants decreased to D6.0 billion (17.5 percent of GDP),or 8.1 percent from 2012. Domestic revenue,comprising both tax and non-tax revenue, rose to D5.2 billion, or 10.6 percent.Both tax and non-tax revenue increased by 9.3 percent and 20.9 percent to D4.6 billion and D677.5 million respectively. Grants, on the other hand, declined significantly from D1.8 billion in 2012 to D725.1 million in 2013.

Expenditure and net lending rose to D8.7 billion (25.5 percent of GDP), or 11.8 percent from 2012. Current expenditure increased significantly by 22.4 percent to D6.4 billion. Of the components of current expenditure, wages and salaries increased by 15.1 percent, other charges (37.8 percent) and interest payments (7.4 percent). Capital expenditure, in contrast, declined to D2.3 billion from D2.6 billion in 2012.

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grants) increased to D2.7 billion (8 percent of GDP) cent of GDP) in 2012. Excluding grants, the budget deficit was D3.4 billion (10.5 percent of GDP), higher than the deficit of D3.1 billion in 2012. The primary balance contracted from a surplus of D455.7 million (1.8 percent of GDP) in 2012 to a deficit of D343.3 million (1.0 percent of GDP) in 2013.

The deficit was financed by the banking sector in the amount of D2.5 billion, non-bank sectors in the form of a repayment of D172.7 million and external sources (D578.8 million). Disturbingly,the bulk of the deficit was financed by the CBG (87 percent).

The Committee agreed that the large deficit is a cause for concern from the view point of overall macroeconomic stability. The Committee was informed by the fiscal authorities of policy measures to be implemented in 2014 to reduce expenditure, including rationalising the purchase and use of government vehicles.

The Committee advised that there is a need to address the domestic debt as a matter of urgency and that the starting point is to return to running a primary fiscal balance sufficient to pay down some of the debt. Running a primary deficit means increased new borrowing to finance existing debt. Besides,a sustainable debt level is pro-growth.

The Committee broadly agreed on the need to reorient expenditure from current to capital spending to support economic growth. Investment in roads, education and health should take precedence over certain expenditures such as subsidies.

The Committee noted the huge decline in grants, a vital source of foreign currency for the country. This is a sobering reminder of the need to improve the enabling environment, attract foreign investment and grow the economy sustainably. A fast growing economy should enable the government to raise additional revenue.

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Committee agreed that the evolution of domestic on the stance of fiscal policy. Prudent conduct of fiscal policy should reduce government borrowing and ultimately lead to lower interest rates.

MONEY MARKET DEVELOPMENTS

The domestic debt, mainly short-term debt, rose to D13.5 billion in 2013, an increase of 25.1 percent from2012. Treasury bills and Sukuk Al Salaam,accounting for 81.9 percent and 2.9 percent of the domestic debt, rose by 34.5 percent and 13.6 percent respectively.

Commercial banks' holdings of Treasury bills and Sukuk Al Salaam bills accounted for 64.8 percent of the stock, the non-bank (12.4 percent) and the CBG (22.8 percent) compared to 81.6 percent, 14.0 percent and 4.4 percent respectivelyin 2012.

According to the maturity structure of Treasury bills and Sukuk-Al-Salaam, 364-day bills accounted for 53.5 percent of the stock, 182-days bills (28.7 percent) and 91 – day bills (17.8 percent) compared to 56.4 percent, 24.5 percent and 19.1 percent respectivelyin 2012.

Reflecting the decision of the MPC to raise the policy rate to 20 percent, coupled with the increase in public sector borrowing requirement, Treasury bills and Sukuk-Al-Salaam yields increased significantly. The 91-day Treasury bill and Sukuk-Al-Salaam yields rose from 9.5 percent and 9.8 percent in December 2012 to 15.85 percent and 15.84 percent respectively in December 2013. Similarly, the yield on the 182-day and 364-day Treasury bills increased from 10.2 percent and 11.0percent in December 2012 to 17.0 percent and 18.5 percent in December 2013.

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l to take measures to stabilise the debt in the first e the stock in the medium to long-term through a combination of fiscal consolidation and acceleration of economic growth. This is more urgent in light of the decline in the average time to maturity to 8.7 months in 2013 from an average of 9 months over the past few years.

The Committee agreed that markets react when governments take too big a debt burden by either demanding a higher interest rate or divesting from government paper. In The Gambia, the current cost of short-term government debt at 15-18 percent is unsustainable given the likely growth rate of GDP and the high debt to GDP ratio.Some Committee members believed that yields on Government paper would have been higher if not for the purchase of bills by the monetary authorities when circumstances warranted.

REAL SECTOR DEVELOPMENTS

The Gambian economy is estimated to have grown by 5.6 percent in 2013, lower than the 6.1 percent in 2012. Growth in the value added of agriculture is estimated at 14.8 percent, industry (7.0 percent) and services (3.7 percent) compared to 8.5 percent, 6.4 percent and 5.8 percent respectively.

Commenting on the prospects of the Gambian economy, it was broadly agreed that the key to unleashing its potential lies with agriculture which accounts for 25.1percent of GDP and employs the majority of the population. It was further highlighted that for agriculture to take its pride of place wholesale transformation is warranted.More specifically, there is a need to minimize the exposure of the sector to the vagaries of the weather by promoting irrigation, providing quality inputs in sufficient quantities, shifting from subsistence agriculture to commercial agriculture, adding value to agriculture produce and ensuring that farmers have title to their land. It was also observed that to better support agriculture, emphasis should be placed on the farmer and not the farm by,inter alia,providing adequate extension services.

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support to the agricultural sector should be limited y. Like other sectors of the economy, agriculture needs certainty and stability.

MONETARY DEVELOPMENTS

Despite the tight monetary policy stance, broad money grew by 15.1 percent in 2013, higher than the target of 12.5 percent and the growth rate of 7.8 percent in 2012. The main driver of broad money growth was net domestic assets (NDA) which rose by 25.8 percent compared to 7.7 percent in 2012. Net foreign assets, on the other hand, contracted by 8.7 percent from a growth rate of 7.9 percent in 2012.

Of the components of broad money, narrow money, which comprised currency outside banks and demand deposits, increased by28.7 percent relative to 10.9 percent in 2012. Currency outside banks and demand deposits rose by 15.5 percent and 36.8 percent compared to 18.6 percent and 6.7 percent in 2012. As a result, the share of narrow money to broad money roseto52.0 percent in December 2013from46.5 percent in December2012.

Quasi money, which comprised savings and time deposits, grew but at a slower pace of3.3 percent in 2013, lower than the 5.2 percent in 2012. Savings deposits grew by 12.8 percent,lower than the 14.7 percent in 2012. The contraction in the growth of time deposits continued into 2013 from a negative growth of 6.7 percent in 2012 to negative 11.1 percent in 2013. Consequently, the ratio of quasi money to broad money declined to 48.0 percent from 53.5 percent a year ago.

Reserve money grew at a robust pace of 28.1 percent compared to 6.8 percent in 2012 and higher than the target of 10.9 percent. This was primarily attributed to the strong growth in the NDA of the CBG which expanded by 234.8 percent from a contraction of 9.9 percent in 2012. The NFA of the CBG, on the other hand, contracted by 17.6 percentcompared to the robust growth rate of 11.4 percent in 2012.

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he Dalasi was relatively stable in 2011 and 2012 enced in 2011 which spilled over into 2012. This is mainly explained by the fact that in 2011, the government was a net lender to CBG andin 2012 financing of the deficit accounted for only 1.2 percent of the total. However, in 2013 the bulk of the financing (87.0 percent) emanated from the CBG which, in turn, did put pressure on the Dalasi.

Regarding the increase in the ratio of money supply to foreign currency deposits, a measure of the degree of currency substitution, it was generally agreed that though the ratio has increased from an average of 14.3 percent between 2011 and 2012 to 17.4 percent in 2013, it should not be a source of concern given that it simply reflected current developments in the foreign exchange market. It was,however, underscored that more needs to be done to restore confidence in the Dalasi.

FINANCIAL STABILITY

According to the key financial soundness indicators, the bankingsector remains fundamentally sound. The industry'scapital and reserves totalled D3.0billion in 2013, a slight decrease of 0.13 percent from 2012. The risk weighted capital adequacy ratio averaged 28.0 percent, lower than the 30.0 percent in 2012. All the banks met the minimum requirement of 10.0 percent.

The industry's assets increased to D23.8 billion, or 12.5 percent from the previous year. Loans and advances, accounting for 23.4 percent of total assets, rose to D6.0 billion, or 9.4 percent from 2012. The non-performing loans ratio, however, increased to 19.0 percent, higher than the 12.1 percent in the preceding year.

Deposit liabilities rose toD15.1 billion,or 12.4 percent over the previous year driven mainly by the strong growth in demand and savings deposit. Time deposit, in contrast, recorded a decline of 11.1 percent. The liquidity ratio deceased slightly to 76.0 percent compared to 78.0 percent in 2012, but higher than the minimum requirement of 30.0 percent.

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n D17.5 million in 2012 to D106.5 million in 2013 ease in interest income by 21.4 percent. Interest expenses, on the other hand, rose by a slower pace of 13.5 percent.

The Committee commented that the banking sector is an excellent barometer of the general economic climate of the country. This is because the sector intermediates between the real, fiscal, monetary and external sectors of the economy. And to the extent that growth was robust in 2013 impacted positively on the banking industry.

The Committee expressed concern over the high lending rates and the lack of access to finance by the agricultural sector in particular. Committee members agreed that the key to affordable finance is macroeconomic stability. This, in turn, is predicated on a return to fiscal rectitude in the short to medium term.

Inflation

Inflation as measured by the National Consumer Price Index (NCPI) increased to 5.6 percent in December 2013 from 4.9 percent and 4.4 percent in 2012 and 2011 respectively. Food inflation, the main driver of headline inflation was 6.6 percent in December 2013 from 5.6 percent in December 2012. Non-food prices, on the other hand,declined to 3.7 percent in December 2013 from 4.0 percent in the preceding year.

Core inflation which excludes the prices of energy and volatile food items, increased to 5.7 percent during the review period from 4.9 percent in the previous year.

The Committee commented that due to significant policy tightening, inflation is expected to return to the target of 5.0 percent by the end of 2014.

In the light of the continuous adjustment of fuel prices and its impact on general prices, the Committee was of the view that the CPI should be rebased and the weights of individual components adjusted to reflect more effectively the economic realities of the country.