MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

JULY 10, 2008

The twenty-fourth meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) was held in the Conference Room of the Bank on July 10, 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
Baboucarr Jobe	-	Economist, DOSFEA, Member
Ismaila Jarju	-	Principal Economist, Economic Research Department (Secretary)

In Attendance were:

Omar Jaata	-	Director, Foreign Department
Momodou Mboge	-	Legal Adviser
Haddy Joof	-	Sup. Director, Admin. Department
Ousainou Corr	-	Director, Finance Department
Alasana Fati	-	Director, Internal Audit Department
Alieu B. S. Gaye	-	Deputy Director, Risk Management Unit
Essa Drammeh	-	Deputy Director, Financial Supervision Dept.
Abdoulie Jallow	-	Deputy Director, Financial Supervision Dept.
Omar Janneh	-	Deputy Director, Admin. Department
Mbaye Jammeh	-	Deputy Director, Banking Department
Sakou Jaabi	-	Principal Microfinance Officer, MFD
Anita Riley	-	Senior Banking Officer, Banking Dept.

Buba Touray	-	Senior Economist, Economic Research Dept.
Lamin Jarjue	-	Senior Banking Officer, Banking Dept.
Abdoulie Touray	-	Bank Examiner, Financial Supervision Dept.
Bernard Mendy	-	Bank Examiner, Financial Supervision Dept.
Nyakassi Sanyang	-	Economist, Economic Research Dept.
Sheriff Touray	-	Economist, Economic Research Dept.
Yaya Cham	-	Economist, Economic Research Dept.
Isatou Mendy	-	Economist, Economic Research Dept.
Paul Solomon Bruce	-	Econometrician, Economic Research Dept.

Before turning to its immediate policy decision, members of the MPC discussed and adopted the minutes of the previous meeting. 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 and inflation.

Developments in the International Economy

The pace and direction of global economic growth continue to be shaped by the financial crises in the developed countries and rising food and energy prices. Global economic growth, estimated at 4.9 percent in 2007 is projected to slow down to 3.7 percent in 2008.

The US economy is forecast to grow by only 0.5 percent in 2008, significantly lower than the 2.2 percent in 2007. In the first quarter of 2008, the US economy grew by a higher- than-expected 0.9 percent owing to strong exports and build-up in inventories. The strong export is expected to narrow the current account deficit to 4.3 percent of GDP in 2008 from 5.3 percent in 2007.

Economic growth in the Euro zone was 2.2 percent in the first quarter of 2008. Industrial production rose by 2.0 percent and the unemployment rate fell to a historical low of 7.1 percent in April, 2008. Consumer price inflation decelerated to 3.3 percent in April 2008 from 3.6 percent in March 2008, but exceeded the European Central Bank (ECB) target of 2.2 percent. The ECB raised its policy rate by a quarter point to 4.25 percent, the highest in 7 years.

The United Kingdom (UK) economy grew by 0.4 percent in the first quarter of 2008 compared to 0.6 percent in the previous quarter. Recent data suggest that industrial production fell by 0.5 percent in March 2008. Consumer price inflation rose to 3.0 percent in April 2008 from 2.5 percent in March 2008. The Bank of England cut the policy rate by a quarter percent to 5.0 percent at its April 2008 meeting to support growth.

The Japanese economy is forecast to grow close to the potential rate of 1.5 percent in the fiscal year ending March 2009, lower than the earlier estimate of 2.1 percent. Japan's core consumer prices rose to 1.2 percent in March 2008, in line with expectations.

Economic activity in emerging Asia continues to be strong. However, the strength of domestic demand, coupled with rising food and energy prices caused inflationary pressures to accelerate in a number of countries within the region.

Growth in China was a robust 10.6 percent in the year to the first quarter of 2008 reflecting strong investment and exports. Consumer price inflation rose by 8.5 percent in April, driven by the 22.1 percent increase in food prices. The People's Bank of China raised the reserve requirement ratio by 50 basis points to 16.0 percent to stymie inflationary pressures.

In Sub-Saharan Africa, economic growth is expected to decline slightly in 2008 from the 6.8 percent in 2007. Favourable international conditions such as strong commodity prices, robust foreign inflows, debt relief and an improved domestic policy environment continue to support growth. Inflation remains well contained owing in large part to restrictive monetary and fiscal policies as well as exchange rate appreciation.

Commodity prices continue to increase. Crude oil prices surged to over US$140.00 per barrel in June 2008 reflecting strong world demand, low spare production capacity, inventory tightness in developing countries and on-going geopolitical risks. Agricultural prices rose by 5.5 percent in March 2008 on the back of strong demand, low stock levels, poor weather conditions and rising biofuels production.

The Committee expressed concern about the impact of high oil and food prices on domestic economic growth and prices. And to the extent that the increase in oil prices was recently passed on to the consumers may feed through into a build-up of inflationary pressures sooner or later. The Committee advised on the need to sustain the liberal economic regime supported by implementation of prudent monetary and fiscal policies to contain inflationary pressures.

The Committee noted that revenue from international trade was lower-than-expected which was attributed to possible slow down in re-exports. It was observed that the re-export trade is a mature sector and hence the need to put more effort into diversifying the economy.

The Committee also expressed the need to review the tax regime in the quest to enhance the competitiveness of the Gambian economy. It was also noted that it is not only enough to review the marginal tax rate, but that the entire tax structure including local government taxes require an overhaul.

External Sector and Exchange Rate Developments

Balance of payments (BOP) projections indicate an overall surplus of USD15.74 million in 2008, lower than the revised estimate of USD 29.82 million in 2007. Both the current and the capital and financial accounts are expected to deteriorate in absolute terms. The current account deficit, including official transfers is projected to widen to D1.61 billion from D1.46 billion in 2007, while the capital and financial account surplus is expected to narrow to D1.98 billion from D2.2 billion in 2007.

Developments in the foreign exchange market were characterized by increased transaction volumes and continued strengthening of the Dalasi. Volume of transactions increased to US$1.6 billion in the year to end-June 2008 compared to US$1.4 billion in the corresponding period of the previous year. The Dalasi, strengthened against the Dollar, Pound Sterling and Euro by 3.2 percent, 8.3 percent and 2.3 percent respectively in June 2008 from December 2007.

The Committee recognized that an important objective of the CBG is to ensure that the exchange rate of the Dalasi is stable. And to the extent that the Dalasi has been less volatile bodes well for macroeconomic stability and economic growth.

The Committee also observed that given the appreciation of the real effective exchange rate of the Dalasi, there may be a loss of competitiveness. The view was, however, expressed that enhancing competitiveness goes beyond the exchange rate and that addressing the structural bottlenecks stifling the economy also matter. The point was also made that appreciation of the real exchange rate did not hurt exports in a number of developing countries, including Ghana and Uganda.

Fiscal Developments

In the first five months of 2008, revenue and grants totaled D1.6 billion compared to D1.7 billion in the corresponding period of the previous year. Domestic revenue, which comprised tax and non-tax revenue, amounted to D1.5 billion, lower than the D1.6 billion outturn a year ago, mainly on account of the 34.5 percent decrease in non-tax revenue. Grants totaled D46.1million, 14.4 percent increase from the corresponding period a year ago. Up to 98.8 percent of the expected grants is yet to be received.

Total expenditure and net lending amounted to D1.5 billion, an increase of 9.9 percent. Current expenditure rose to D1.2 billion compared to D1.0 billion in the same period last year. All components of current expenditure increased, with the exception of interest payments. The ratio of interest payments to current expenditure declined to 28.0 percent from 36.5 percent the same period last year. Capital expenditure amounted to D196.5 million, 19.4 percent lower than the outturn in the corresponding period of 2007. External financing of capital expenditure was D80.0 million and government local fund D116.5 million.

The overall budget surplus (including grants) on commitment basis was D110.5 million, significantly lower than the D320.6 million during the same period last year. The budget surplus (excluding grants) on commitment basis declined from D280.3 million to D64.2 million during the period under review.

The Committee welcomed the prudence exercised by the fiscal authorities and warned against increasing expenditure to the point that it would be monetized by the Central Bank at a time of rising oil and food prices.

The Committee noted the dilemma faced by the fiscal authorities in ensuring that there is a balance between revenue and expenditure. Raising revenue from taxation may not be feasible given the already high tax rates and cutting expenditure drastically may not be practical either given that there is little room to cut non-discretionary expenditures such as wages.

Money Market Developments

As at end-June 2008, the stock of domestic debt increased to D6.0 billion, or 6.0 percent from a year ago. The stock of Treasury bills increased by only 0.23 percent, Government NIB Notes (63.2 percent) and Sukuk –Alsalam from zero in June 2007 to 0.79 percent in June 2008. Of the stock of Treasury bills, deposit money banks held 63.9 percent and the non-banks sector 36.1 percent. The yield on all the debt profiles declined to 9.8 percent, 10.9 percent and 13.1 percent in June 2008 from 12.3 percent, 13.0 percent and 13.9 percent in June 2007 for the 91-day, 182-day and 364-day bills respectively. The bulk of the Treasury bills continue to be in one year maturities (70.2 percent), 6 months (21.0 percent) and 3 months (8.8 percent).

The Committee observed that it would be useful to express the domestic debt as a percentage of GDP to better appreciate its magnitude. For better presentation, the Committee advised that instead of using the expression “net issuance”, it would be more useful to express net issuance in terms of liquidity injection and withdrawal.

Real Sector Development

The Gambian economy is forecast to grow by 6.5 percent in 2008, slightly lower than the 6.9 percent in 2007. This is premised on strong growth in the services sector, particularly tourism and telecommunications.

The Committee noted that more effort should be put into introducing an economic activity index to serve as a leading indicator of economic activity. Given that most of the data is readily available from public sector sources, actualizing the index may not be difficult.

Monetary Developments

Monetary policy focused on containing inflation to below 6.0 percent amid rising food and energy prices.

Money supply grew by 7.5 percent in the year to end-May 2008 following a robust growth of 18.4 percent a year earlier. The modest growth in money supply was due entirely to the 50.9 percent increase in net domestic assets (NDA) which offset the 23.5 percent decline in the net foreign assets (NFA) of the banking system. On the demand side, quasi money which includes saving and time deposits rose by 10.6 percent and narrow money (5.7 percent).

Reserve money, on the other hand, contracted by 5.9 percent, reflecting the 0.9 percent increase in the NFA which was offset by the over 1000 percent decrease in the NDA of the CBG. While currency in circulation contracted by 11.2 percent, reserves of the commercial banks increased by 6.9 percent.

The Committee noted the modest growth in money supply which was consistent with the programme to put inflation under control. It was, however, observed that there was discernible shift from holding narrow money, which is associated with spending in the economy, to quasi money (savings and time deposits). The flight to quasi money and to longer dated instruments was attributed to the prevailing macroeconomic stability which encourages savings.

Financial Stability Report

The banking sector remains safe, sound and increasingly competitive. The industry's average capital adequacy ratio was 23.8 percent in March 2008, significantly higher than the minimum requirement of 8.0 percent. All the banks observed the prudential requirement.

Loans and advances increased to D3.0 billion in May 2008, or 7.6 percent from end-March 2008. The ratio of non-performing loans to gross loans was 10.0 percent in March 2008 compared to 13.0 percent in December 2007. The liquidity ratio was 73.9 percent, above the 30.0 percent minimum requirement. Deposits rose to D7.1 billion in May 2008, or 4.7 percent from end-March 2008.Compared to December 2007, deposits increased by 7.6 percent. Earnings, however, fell from D114.8 million in the fourth quarter of 2007 to D55.5 million in the first quarter of 2008.

The Committee noted the decrease in profitability of the banking industry which was attributed to increased competition and high overheads. For banks to remain as going concerns, it is essential that they become profitable. Notwithstanding, the reduction in fees and charges bodes well for the consumers.

Inflation

Headline inflation, measured by the National Consumer Price Index (NCPI), decelerated to 1.6 percent in May 2008, from 6.6 percent in May 2007. Both food and non-food consumer price inflation declined.

Food price inflation was 1.9 percent in May 2008, higher than the 1.7 percent in March 2008. Non-food prices decelerated to 1.06 percent in April 2008 before rising to 1.2 percent in May 2008.

Core inflation, which excludes prices of energy and volatile food items, decelerated to 1.62 percent at end-May 2008 from 4.66 percent in March 2008.

The Committee noted that core inflation may no longer be a useful pointer of inflationary pressures given that the high prices of energy and volatile food items may become a permanent rather than a temporal phenomenon. As a result, policy should be determined and influenced by headline inflation, forecast at 6.0 percent in December 2008.

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.