MINUTES OF THE MONETARY POLICY COMMITTEE MEETING
AUGUST 30 -31, 2006

The Fourteenth meeting of the Monetary Policy Committee of the Central Bank of The Gambia was held in the Conference Room of the Bank on August 30, 2006.

Present were:

Famara L. Jatta	-	Governor, (Chairman)
Momodou B. Saho	-	First Deputy Governor, Member
Basiru Njai	-	Second Deputy Governor, Member
Ousman Sowe	-	Director, FSD, Member
Ada Gaye	-	Deputy Permanent Secretary, DOSFEA, Member
Momodou Ceesay	-	Principal Economist, DOSFEA, Member
Amadou Colley	-	Deputy Director, BSD, Member
Buah Saidy	-	Deputy Director/OIC, ERD, Member
Bakary Kolley	-	Senior Economist, ERD (Secretary)

In Attendance Were:

M.A. Ceesay	-	Adviser to Governor
Oumie Samba-Savage	-	Director, FISD
H. M. V. Carr	-	Director, AD
Omar Jaata	-	Deputy Director, FD
Haddy Joof	-	Deputy Director, AD
Ousainou Corr	-	Deputy Director, FISD
Pa Alieu Sillah	-	Commissioner of Insurance
Bai Senghor	-	Deputy Director, MFD
EAC Ndong	-	Principal Officer, FD
Paul Mendy	-	Principal Bank Examiner, FSD
Abdoulie Jallow	-	Principal Bank Examiner, FSD
Ebrima Wadda	-	Senior Economist, ERD
Bakary Jammeh	-	Senior Econometrician, ERD
Maimuna John-Sowe	-	Senior Economist, ERD
Karamo Jawara	-	Senior Banking Officer, BSD
Anita Riley	-	Senior Banking Officer, BSD
Rohey Khan	-	Senior Economist, ERD
Jainaba Saidy	-	Senior Bank Examiner, FSD
Ida Faye	-	Senior Bank Examiner, FSD
Buba Touray	-	Economist/Statistician, ERD
Nyakassi Sanyang	-	Statistician, ERD
Sheriff Touray	-	Economist, ERD
Sait Mboob	-	Economist, ERD
Lamin Jarjue	-	Banking Officer, BSD
Abdou Karim John	-	Supervisor, Internal Audit

Before turning to its immediate policy decision and against the background of the forward looking business sentiment survey, and the latest output and inflation projections, the Committee discussed balance of payments (BOP), Foreign Exchange, money market, monetary, banking sector and international developments.

(1.0) Developments in the International Economy

Growth in global GDP remains strong, but moderated in the second quarter compared to the first quarter, aided by the slow down in the US, the world's largest economy. Recovery continues in Japan and the euro zone with rising corporate investment and bank lending. Meanwhile, China continues to grow strong, registering a rate not seen in more than a decade. Global inflationary pressures were subdued in the second quarter attributed to the lagged effects of the rate hikes in the past.

In the **euro zone,** economic expansion is predicted in the second quarter of the year with growth in Germany accelerating while growth in France is forecast to rise marginally. The official growth estimate for the euro zone as a whole for the second quarter may beat the 0.6 percent recorded in the first three months of the year. The European Commission forecasts 2.1 percent growth in the euro zone in 2006 after 1.3 percent growth in 2005 but says it may raise the 2006 forecast in September.

With inflation in the euro zone at 2.5 percent over the past three months, above the bank's 2.0 percent target, the European Central Bank (ECB) has raised interest rates by a quarter of a percentage point to 3.0 percent.

In the **U.K,** the economy has been performing strongly, recording its strongest growth in two years between April and June, while the housing market has picked up significantly over the past year. But spiralling oil prices and rising energy costs have fuelled growing inflationary pressures. GDP growth averaged 0.7 percent in the final quarter of 2005 and the first three months of 2006 and picked up 0.8 percent in the second quarter of 2006.

The Bank of England at its last meeting increased interest rates by a quarter of a percentage point to 4.75 percent in an effort to keep inflation down. Inflation rose to 2.5 percent in June – above the government's 2.0 percent target – amid fears that energy costs may push prices up more.

In the **U.S,** GDP growth slowed in the second quarter of the year, on the back of rising interest rates and energy prices. Gross Domestic Product (GDP) grew at an annual rate of 2.5 percent in the three months to the end of June, compared to 5.6 percent in the preceding quarter. Similarly, the US dollar dropped, as analysts questioned their forecast for annual U S economic growth. The Federal Reserve predicts that the U S economy will grow by 3.5 percent this year, compared with a growth rate of 3.2 percent in 2005.

Japanese bank lending increased by 2.9 percent in July 2006, underpinned by demand for loans from small companies that have been starved of credit for 15 years. The Japanese economy until recently has been trapped in a vicious deflationary circle. The Bank of Japan raised interest rates for the first time in six years in July.

China's economy grew at its fastest in more than a decade in the second quarter, growing 11.3 percent year-on-year, fuelled by a trade surplus and a rapid expansion in investment. The main driver of the economy is investment which rose 30.8 percent in the second quarter as companies ploughed back earnings into new projects and local governments spend to foster growth.

Although less progress has been made in meeting the income poverty goal in **Sub-Saharan Africa (SSA),** macroeconomic outcomes have improved in many countries. Growth in Africa over the last two years is the highest it has been for more than a decade. Average inflation in the continent – excluding Zimbabwe – has been below 10.0 percent, the lowest in a quarter of a century. This is attributed, to a large extent, to efforts by the various governments in macroeconomic management. However, the stark reality is that in the region, too many countries are not on track to meet any of the Millennium Development Goals (MDGs).

While spiralling oil prices represent a unique opportunity for oil-exporting countries like Nigeria and Libya, these upward movements in prices pose a serious challenge for net oil importers in the continent, as their recent economic progress and development may be rolled back.

Commodity Prices

Oil Prices
In early July, the price of crude oil reached $78.40, although it has since fallen a little. In early August, prices picked up again on speculation that there would not be an immediate ceasefire ending the conflict between Israel and the Hezbollah forces in **Lebanon**. Other factors impacting oil prices include disruptions in Iraq and other oil producing regions such as the **Niger-Delta** in **Nigeria** as well as limited spare capacity.

Sugar
Global sugar surplus fears return as Asian countries are expected to scale down their import needs of sugar and this would be a key factor behind a likely shift from a deficit in 2005/06 to a surplus production phase in 2006/07.

The Committee noted that despite the expected surplus in world sugar output in the face of the fall in demand in Asia, the domestic price of sugar for The Gambia is not likely to fall significantly, since the predicted surplus in output is for the 2006/2007-production year. It was also posited that while this may be true, with the coming of the Ramadan, domestic price of sugar may decline as importers augment their stock leading to a fall in unit cost.

The view also expressed was that, in subsequent meetings, the report on developments on price of edible oil, give more focus on other close substitutes, oil and oil products, mainly consume in The Gambia, like Soya bean oil. It was also the committee's judgement that the International Developments Report should include a section on economic performance of neighbouring countries, which has similar economic characteristics like Gambia. This Committee said would enable it to properly deliberate on developments in the sub-region.

(2.0) Balance Of Payments (BOP) Developments

Preliminary BOP projections suggest an overall balance of payments surplus of D240.0 million ($8.0 million) in 2006, from D320.9 million ($11.2 million) in 2005, reflecting projected decline in the capital account surplus and a widening of the current account deficit. The gross external reserves is projected to total US $99.2 million, up from $93.7 million in 2005 and adequate to cover 4.5 months of imports.

The merchandise trade balance is projected at a deficit of D3.0 billion compared to D2.9 billion in the preceding year largely reflecting higher oil-related imports and shortfall in export receipts.

Travel income is projected to increase to D2.6 billion ($85.6 million), or 19.3 percent over 2005 on account of the projected 12.0 per cent increase in tourist arrivals.

Reflecting the increase in the external debt stock, net interest payments is expected to rise to D1.5 billion ($51.5 million) compared to D1.3 billion ($45.5 million) in 2005.

Remittances are projected at D1.0 billion ($34.1 million) in 2006 compared to D856.3 million ($29.8 million) in 2005. Private unrequited transfers should amount to D129.0 million relative to D117.3 million in the preceding year.

The current account deficit, excluding official transfers is projected to widen to D2.6 billion in 2006. Including official transfers, the current account deficit is projected at D1.7 billion, same as in 2005.

The capital account is estimated at a reduced surplus of D2.0 billion in 2006, or 2.9 percent from the preceding year. Net official loans is projected at D510.0 million relative to D489.2 million in 2005, reflecting higher inflows from project-related loans estimated at D1.2 billion, over and above the D911.4 million in 2005. Amortization is projected to increase significantly to D657.0 million, from D422.2 million and D431.0 million in 2005 and 2004 respectively.

Foreign direct investment (net) is projected to increase slightly by 1.0 per cent to D1.3 billion in 2006.

The Committee observed that the 2006 Balance of Payments projections were not revised to include the impact of upward revision of tourist arrivals, increased FDI from the sale of Senegambia Beach Hotel and the lower- than-projected groundnut exports in 2005/06. In order to get a better understanding of the external sector , the committee requested that in future the Balance of Payments analysis should contain a sensitivity analysis of the impact of the such developments.

Reacting to the Committee's observation, the Economic Research Department (ERD) informed the meeting that the Department was currently conducting a comprehensive data collection exercise to update the BOP and also migrate to the Fund's BPM5 framework. The Research Department promised the meeting that by the next MPC meeting, a more accurate and reliable BOP data will be available, in particular, remittances, portfolio investment, FDI and other investments for informed decision-making.

(3.0) Foreign Exchange Developments

The inter-bank foreign exchange market was quite vibrant in 2005 and the first half of 2006, owing to increased foreign direct investment inflows, tourism, re-exports and remittances. The substantial foreign inflows coupled with subdued inflationary pressures, improved business confidence and healthier macroeconomic fundamentals caused the Dalasi to remain stable in the eighteen months to June 2006.

Volume of transactions, that is total purchases and sales of foreign currencies in the inter-bank market totalled D8.1 billion in the quarter ending June 2006, compared to D7.6 billion in the previous quarter. Central Bank combined purchases and sales totalled D0.70 billion during the review period compared to D 0.22 billion in the previous quarter.

For the quarter ending June 2006, the dalasi depreciated against the Pound Sterling, Swedish Kroner (SEK), CFA franc and Euro by 3.61 percent, 0.29 percent, 4.18 percent and 3.16 percent respectively, but appreciated slightly by 0.32 percent against the U.S dollar.

Year-on-year analysis showed the dalasi appreciated against all the major currencies except the Pound Sterling and Euro. The Dalasi strengthened against the U.S dollar, SEK and CFA franc by 0.3 percent, 4.2 percent, and 1.6 percent respectively and depreciated against the Pound Sterling and Euro by 0.4 percent and 2.1 percent respectively.

(4.0) Fiscal Developments

The fiscal position of the government improved in the first four months of 2006 relative to the same period in 2005. Domestic revenue increased significantly while expenditure and net lending fell sharply.

Domestic revenue grew from D700.3 million in the second quarter, 2005, to D760.1 million in the corresponding quarter, 2006, or 8.5 percent. Tax revenue amounted to D697.7 million, an increase of D83.6 million, or 13.6 percent.

Total expenditure and net lending rose to D1.1 billion, or 14.2 percent during the second quarter of 2006, compared to the corresponding quarter last year. Expenditure and net lending was below the second quarter, 2006 projections by D78.2 million or 7.1 percent.

The fiscal deficit on commitment basis (excluding grants and HIPC assistance) widened to D336.9 million from D260.5 million. Similarly, the deficit including grants worsened to D328.2 million from D243.9 million.

The Committee noted that expenditure and net lending was lower-than-programmed in the second quarter of 2006. However, there were concerns that fiscal slippages could adversely affect macro-economic stability.

(5.0) Money Market Developments

The total outstanding stock of the interest bearing debt as at end-July 2006 declined to D4.84 billion or by 8.9 per cent from end-July 2005. Compared to end June 2006, interest bearing debt rose by 1.7 percent. Treasury bills accounted for 80.84 Percent of the total interest bearing debt.

The committee applauded the decision of the Government to pay half of the foreign currency loan obtained from the Central Bank. Members expressed optimism that the early retirement of half of this facility would help the fiscal consolidation process and at the same time improve the Banks financial position.

(6.0) Monetary Developments

Money supply grew by 18.1 per cent compared to 16.2 percent a year earlier. However, money supply increased by 12.8 percent when compared to end-December 2005. Both components of money supply increased with quasi money growing at a faster pace.

The net foreign assets (NFA) of the banking system rose to D3.6 billion, or 9.6 per cent. This was mainly on account of an increase in the NFA of the Central Bank by 19.0 percent to D2.3 billion. Gross official reserves rose to D2.8 billion, or 10.9 percent while foreign liabilities decreased to D0.5 billion.

The net domestic assets (NDA) of the banking system rose to D3.3 billion, or 29.0 percent. This was mainly on account of 28.0 percent increase in domestic credit. Credit to private sector and public entities rose by 23.9 percent and 12.5 percent to D2.3 billion and D252.8 million respectively. The banking system's net claims on Government rose significantly by 135.0 percent to D1.2 billion. Compared to end-December 2005, the NDA of the banking system rose by 11.2 percent.

Reserve money, the Bank's operating target, grew by 14.3 percent, higher than the growth rate of 11.3 percent a year ago. Reserve money rose by 5.5 percent from end-December 2005.

(7.0) Financial Stability Report

In the second quarter of 2006, the banking industry was characterised by an increase in capital and assets as well as improved asset quality. The average capital adequacy ratio increased to 64.0 per cent in June 2006 from 62.4 per cent in March 2006. Similarly, the banking sector's aggregate assets grew to D8.83 billion, or 3.2 per cent from end-March 2006. Return on assets was 4.0 per cent in May 2006. The industry's overhead ratio, which measures how much of the bank's income realised is spent on overhead expenses, declined from 43.0 per cent at end-December 2005 to 31 per cent as at end-May 2006.

Deposit money bank loans and advances declined to D1.89 billion, lower than the D2.16 billion in March 2006, owing to decreased lending to all sectors of the economy except agriculture. The bulk of agricultural lending went into ground-nut marketing.

The Non-performing loans to primary capital ratio declined by a percentage point, to 29.0 per cent from end-December 2005.

(8.0) Real Sector Developments

Real GDP is forecast to grow by 4.5 percent in 2006, premised on increased value-added of all the major sectors of the economy.

Agricultural output in 2006 for crops such as coarse grains, cereals and groundnuts are forecast to grow by 24.0 per cent, 40.9 per cent and 13.9 per cent respectively.

In 2006, industrial output is forecast to grow by 5.9 per cent relative 4.7 percent in 2005 whilst the services sector is estimated to grow by 4.6 percent compared to 7.0 percent.

The Committee hailed the news that the new facilities at the Gambia Groundnut Corporation will enable the country to export groundnut oil and cake in the coming season. Members underlined the importance of increasing output to reduce poverty.

(9.0) Private Sector Business Sentiment Survey

A higher percentage of respondents (69.0 percent) indicated that economic activity was higher in the second quarter, 2006 than those that indicated it was lower (2.0 per cent). However, 29.0 per cent of respondents reported same level of activity as in the first quarter, 2006. Respondents are optimistic about prospects in the third quarter, 2006.

The majority of respondents (64.0 per cent) reported that current prices are higher compared to none indicating lower prices. About 13.0 per cent of the respondents expect inflation to be higher in Q3, 2006 compared to 22.0 per cent that think it would be lower

Owing to the strengthening of the Dalasi in the foreign exchange market, more respondents (7.0 per cent) indicated that exchange rates were higher in Q2, 2006 relative to 5.0 per cent that reported lower exchange rates. The Dalasi is expected to appreciate in Q3, 2006 with 4.0 per cent of the respondents indicating a higher exchange rate compared to 67.0 per cent that said it will be lower.

As a result of the declining trend in interest rates, 16.0 per cent of respondents reported lower interest rates compared to none that indicated higher interest rates. The majority of firms, however, (84.0 per cent) reported no change in interest rates. About 76.0 per cent of the respondents indicated that interest rates would be lower in Q3, 2006 compared to 2.0 per cent that think it would be higher. However, 22.0 per cent of respondents expect that interest rates would remain unchanged

The Committee expressed the need for more private business compliance with the bank's mandate to collect economic information. In concluding the discussions on the Sentiment Survey, there was a suggestion that the Economic Research Department send the Business Sentiment Survey Report to all establishments covered in the survey to educate them on use of the information supplied. It was noted that this approach will build confidence between the Bank and the Business Community such that they would be willing to provide the Bank with any information requested.

(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 2.3 percent in June 2005 to 1.5 percent at end-June 2006. Average inflation rate (12 month moving average) was 1.8 percent compared to 8.1 percent a year earlier.

Food consumer price inflation declined to 0.5 percent compared to 2.5 percent in June 2005.

Core inflation (core1), which excludes energy and *volatile food items*, declined from 1.8 percent in June 2005 to 1.5 percent in June 2006. Core 2, which strips out prices of energy and utilities and volatile food items (‘‘ meat, poultry, eggs and fish’’, ‘‘tobacco and tobacco products’’, ‘‘cereals and cereal products’’, and ‘‘processed foods’’) rose from 1.3 percent in June 2005 to 1.4 percent in June 2006.

11.0 Prospects for Inflation

The outlook for inflation is good, despite high and volatile oil prices. Headline and underlying inflation should remain subdued in the near term owing to the following:

(i) Despite strong global growth and high and volatile oil prices, global inflationary pressures remain modest. While headline inflation has picked up in response to higher oil prices, core inflation remains contained and inflationary expectations well grounded;

(ii) The Dalasi exchange rate is expected to be stable underpinned by inflows from remittances, transfers and foreign direct investment;

(iii) Growth in the monetary aggregates would be modest and in line with projections.

Against this backdrop and in light of the latest inflation projection, the MPC decided to maintain the rediscount rate, the policy rate, at 15.0 per cent. The Committee would continue to monitor the situation and if the outlook changes, the MPC would review its stance.