

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

April 26-27, 2007

The eighteenth meeting of the Monetary Policy Committee of the Central Bank of The Gambia was held in the Conference Room of the Bank on April 26, 2007.

Present were:

Famara L. Jatta	-	Governor, Chairman
M. B. Saho	-	First Deputy Governor, Member
Ousman Sowe	-	Director, Financial Supervision Department, Member
Mod Secka	-	Deputy Permanent Secretary, DOSFEA, Member
Amadou Colley	-	Director, Banking Department, Member
Buah Saidy	-	Deputy Director, Economic Research Dept, Member
Bakary Kolley	-	Principal Economist, Economic Research Dept (Secretary)

In Attendance Were:

Momodou A. Ceesay	-	Adviser to the Governor
Oumie Samba-Savage	-	Director, Finance Department
E. Jagana	-	Legal Adviser
Omar Jaata	-	Deputy Director, Foreign Department
S. Bai Senghor	-	Deputy Director, Micro Finance Department
W. M. Eunson	-	Deputy Director, Banking Dept.
Paul Mendy	-	Deputy Director, Financial Supervision Dept.
Abdoulie Jallow	-	Deputy Director, Financial Supervision Dept.
Omar Janneh	-	Principal Officer, Administration Department
Ebrima A.C. Ndong	-	Principal Officer, Foreign Department
Seeku Jaabi	-	Principal Officer, Micro Finance Dept.
Abdoulie Jarra	-	Senior Economist, ERD
Rohey Khan	-	Senior Economist, ERD
Ebrima Wadda	-	Senior Economist, ERD

Bakary Jammeh	-	Senior Econometrician, ERD
Maimuna John-Sowe	-	Senior Economist, ERD
Anita Riley	-	Senior Banking Officer, BSD
Karamo Jawara	-	Senior Banking Officer, Banking Dept.
Ida Faye	-	Senior Bank Examiner, FSD
Buba Touray	-	Senior Economist, ERD
Halima Singhateh	-	Bank Examiner, FSD
Nyakassi Sanyang	-	Statistician, ERD
Sheriff Touray	-	Economist, ERD
Sait Mboob	-	Economist, ERD
Lamin Jarjue	-	Banking Officer, BD
Yaya Cham	-	Economist, ERD
Isatou Mendy	-	Economist, ERD
Ousman Nicole	-	Bank Examiner, Financial Supervision Dept.

Before turning to its immediate policy decision, members of the Monetary Policy Committee discussed and adopted the minutes of the previous meeting with few amendments. This was followed by various presentations on the ensuing areas viz: international developments, balance of payments (BOP), foreign exchange, monetary developments, money market, financial stability, real sector, government fiscal operations, and inflation. These are detailed below:

(1.0) Developments in the International Economy

The IMF World Economic Outlook for April 2007 projected that the global economy will grow by 4.9 per cent in 2007 after a solid and broad-based growth of 5.1 per cent in 2006. The moderate pace of growth in 2007 is premised on the likely slowdown in growth in the U.S.A, the Euro-zone, U.K and the Asian economies. In addition, the robust economic growth enjoyed by the Middle East and Latin America in 2006 is expected to soften in 2007.

On the other hand, in Africa South of the Sahara, economic growth is forecasted to accelerate to 6.2 per cent in 2007 from 5.5 per cent in 2006. Improved economic policies in many countries, increased capital inflows, the continued boom in world commodity markets, and the beneficial impact of debt relief all contribute immensely to Africa's improving economic performance. In the same vein, Japan's economic recovery is expected to continue in 2007 on the back of growth in consumer spending.

The Committee noted the projected moderate growth of the global economy in 2007 and opined that concerted effort is needed to ensure that the World economy's underlying momentum remain robust to mitigate the uncertainties and risks to the global outlook. The major concerns relate to the fact that world commodity prices are highly volatile and oil prices are vulnerable to political risks. Furthermore, international payment imbalances continue to grow with a further widening of the US current account deficit (6.9 percent of GDP) and the huge increase in the Chinese current account surplus. Other risks include unpredictable geopolitical shocks and the possibility of a global assets market sell off as was seen in the Chinese stock market.

Inflation edged up slightly in advanced economies in the first quarter of 2007. Among advanced economies, the upsurge in prices was more pronounced in the U.K with prices unexpectedly jumping to 3.1 per cent in March 2007 from 2.7 per cent a month earlier. This rise in prices could be attributed largely to the higher petrol prices as well as increased food costs. However, in Japan core consumer prices declined whilst overall producer prices rose on account of costlier oil and non-ferrous metals such as copper.

The Committee applauded the policy plans of big economies to unwind the global trade imbalance in a prudent manner but judged that more commitments are needed to safe the solid global economic growth. It was the view of the Committee that the gradual unwinding has already begun,

with the weak U.S Dollar and China's plans to make its exchange rate more flexible in a gradual and controlled manner and cut rebates on its exports. However, the committee expressed concern that a weaker dollar and an appreciating Yuan could negatively affect The Gambia given the fact that most of our imports originate from China and also the extensive use of dollar to settle import bills.

Committee members were informed that at the spring meetings of the IMF and World Bank, the Fund expressed satisfaction with the Gambia's recent economic performance. The Fund however, expressed concern on the state of the groundnut sector, the huge domestic and external debt and the high interest spread.

(2.0) Balance Of Payments (BOP) Developments

The Committee noted the anticipated increase in the overall balance of payments surplus in 2007, attributed largely to the rise in travel income, communication services and investment income. On the basis of tourism and FDI's immense contribution to foreign exchange supply, employment creation and growth, members expressed the need to enhance the enabling environment to attract more visitors and FDI inflows.

The Committee expressed concern about the low re-exports profit (D5.63 million) estimated for 2007. The Economic Research Department (ERD) responded by reminding members that other than the advantage of being situated on the Atlantic Ocean, the Gambia's re-export trade strives on certain inefficiencies in neighbouring countries. As these nations address those inefficiencies in their economies, the Gambia's competitive advantage in the area will lessen which should directly impact the re-export trade sector.

The Committee welcomed the efforts of the ERD to broaden the data coverage of the BOP statistics to include other business services (comprising

consultancy fees and technical assistance) thanks to the assistance of the IMF PRGF Mission.

Members observed that insurance as a service item in the BOP has consistently registered a net outflow, meaning Gambian residents ceded more insurance services abroad, the bulk of which relates to insurance on imports of goods and services into the country. The Committee then concluded that the current capital augmentation programme for the insurance industry would consolidate their financial positions to gain the confidence of domestic importers.

(3.0) Foreign Exchange Developments

The Committee noted that the major development in the foreign exchange market during the first quarter of 2007 was the appreciation of the Dalasi against all the major international currencies except the Euro. The Committee opined that the continued stability and strength of the dalasi hinges on improved macro fundamentals, increased inflows of FDI, tourism receipts and remittances. Looking ahead, the committee indicated that despite approaching the lean period for foreign exchange inflows, the supply of foreign currency may continue to rise owing largely to the anticipated donor inflows and HIPC debt proceeds under the PRGF programme.

In the first three months of 2007, the Dalasi strengthened against the Pound Sterling, U.S dollar, Swedish kroner and CFA franc by 0.53 per cent, 2.8 per cent, 4.2 per cent and 1.02 per cent respectively. It depreciated vis-à-vis the euro by 0.2 per cent.

(4.0) Government Fiscal Operations

The Committee observed that government fiscal operations were prudently managed in 2006, and led to a healthy beginning in 2007. On the revenue side, the goal of improving tax collection is being realized due to improved tax administration and a broader tax base. With regards to expenditure,

emphasis has been placed on monitoring, accounting and control, which led to moderate expenditures during the first quarter.

Domestic revenue and grants amounted to D986.7 million in quarter one, 2007 and was 34.6 per cent higher than the fourth quarter of 2006. Tax and non-tax revenue both increased markedly by 29.8 per cent and 55.4 per cent respectively. Grants increased to D21.4 million, or 104 per cent over the last quarter. The general expectation were that grants will continue to grow with the commencement of a new PRGF programme with the IMF.

There was a discernible increase in expenditure and net lending by 19.3 per cent over the previous quarter to D755.2 million but was below projection by 33.7 per cent. The rise in expenditure and net lending was attributable entirely to the overshooting of capital expenditures. The improvements in the overall fiscal position to a surplus (D134.6 million) was welcomed by the committee. The better-than-projected revenue performance, reflecting improved revenue measures by the Gambia Revenue Authority explained the significant improvement in the gross fiscal position.

The huge domestic debt was a cause for concern because of its negative impact on the government's resource envelop. Members expressed the need for efforts to draw down the domestic debt to free some budget resources for more poverty and growth spending.

(5.0) Money Market Developments

Latest securities market data indicated that interest bearing debt outstanding at end-March 2007 rose marginally by 1.4 per cent to D5.06 billion. Deposit money banks held the bulk of the interest bearing debt (47.1 per cent) followed by the non-bank sector (46.3 per cent) and Central Bank (6.6 per cent).

The Committee pointed out that even though the rate of growth of the domestic debt is decreasing, the whole debt situation is unsustainable. It was highlighted that current activities in the treasury bills market are mainly geared towards rolling over maturing bills.

(6.0) Monetary Developments

Money supply growth increased to 23.2 per cent in the year to end-February 2007, significantly above the preceding year's growth rate of 12.1 per cent. However, money supply grew by 3.1 per cent from end-December 2006. Both components of money supply increased with quasi money growing at a slightly faster pace.

Narrow money (M_1) comprising currency outside banks and demand deposits increased to D4.3 million, or 21.5 per cent as at end-February 2007. Currency outside banks and demand deposits rose by 19.2 per cent and 23.2 per cent respectively. The ratio of narrow money to broad money however, decreased slightly to 54.1 per cent in February 2007 from 54.9 per cent in February 2006.

Quasi money grew to D3.7 billion, or 25.3 per cent in the year to end-February 2007. Correspondently, the share of quasi money to broad money increased from 45.1 per cent at end-February 2006 to 46.0 per cent in February 2007.

Of the factors affecting money supply, net foreign inflows have been the main source of growth in broad money supply. Between February 2006 and February 2007, broad money rose by 23.2 per cent and the contribution from net foreign inflows, net claims on government and private sector credit were 56.4 per cent, 21.4 per cent and 29.2 per cent respectively. The net foreign assets of the banking system increased to D4.5 billion, or 35.0 per cent at end-February 2007.

Credit to the private sector increased by 13.7 per cent, lower-than the 21.2 per cent growth rate in the preceding year. The moderation in the growth

rate of private sector credit is largely explained by the fact that some banks are not extending new loans as they review their existing loan portfolios and that almost all banks are long on foreign exchange holdings and short on dalasi liquidity.

Reserve money rose by 12.9 per cent, higher than the growth rate of 9.6 per cent a year ago and slightly above the 10.6 per cent projected for 2007. However, reserve money declined by 3.1 per cent from end-December 2006.

(7.0) Financial Stability Report

The Committee noted that the banking industry in the Gambia continued to be solid and sound. The industry's profitability, measured by the return on assets (ROA) and return on equity (ROE) improved to 3.15 per cent and 7.1 per cent in March 2007 from 0.94 per cent and 2.04 per cent respectively in the previous quarter.

The industry's total assets increased to D9.65 billion or 3.8 per cent from December 2006 and 12.7 per cent from the corresponding quarter of last year. Loans and advances which accounts for 23 per cent of banks' total assets, increased by 7.0 per cent from end-2006.

Non-performing loans decreased by D66.65 million to D285.55 million at end-March 2007. Similarly, the ratio of non-performing loans to total loans declined to 12.9 per cent from 14.8 per cent in the previous quarter. The reduction in non-performing loans is attributable to the level of recoveries and write-offs.

The Committee expressed concern over the low level of financial intermediation and concluded that with loan to deposit ratio of 36.9 per cent at end-March 2007, there exist more capacity for increase lending. Another concern to the committee was the continued wide spread between lending and deposit rates.

(8.0) Real Sector Developments

Based on higher-than expected strong growth in some key sectors, growth in gross domestic products (GDP) has been revised upwards to 7.7 per cent in 2006. For 2007, GDP growth is forecasted to be 7.0 per cent. Output growth was quite broad based with agriculture value added projected at 6.5 per cent, industry (21.9 per cent) and services (5.8 per cent).

The overwhelming sentiment of the committee was that the periodicity and quality of real sector data should be improved to enhance policy analysis and decision making. In response, members were informed that the Gambia Bureau of Statistics has begun work on a new sectoral GDP projection. It was further revealed that the Economic Research Department is currently working on the construction of a composite index of economic activity to estimate real sector activities on a quarterly basis.

(9) Inflation

End-period inflation, measured by the consumer price index of low income population of Banjul and Kombo St Mary area, declined from 1.7 per cent in February 2006 to 1.4 per cent at end-February 2007. Average inflation rate (12 month moving average) was 1.4 per cent compared to 2.4 per cent a year earlier.

Food consumer price inflation declined to 0.0 per cent compared to 0.8 per cent in February 2006. Non-food consumer price inflation rose to 4.3 per cent from 3.8 per cent at end-February 2006 as a result of a marked increase in the prices of housing to 32.5 per cent compared to 0.7 per cent in the preceding year.

The core measure of inflation (Core 1), which excludes energy prices (fuel, light and transportation) declined from 1.6 per cent at end-February 2006 to 1.5 per cent in February 2007.

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”) remained unchanged at 1.5 per cent in February 2007 compared to the preceding year.

The Committee was informed that the newly formulated National Consumer Price Index has not been used in the preparation of the report, as there are still issues to be addressed in the composition and allocation of weights in the CPI basket and the fact that data available on the new CPI is not enough for any meaningful analysis.

(10.0) Decision

Against this backdrop and in the light of the latest inflation projection, the MPC decided to maintain the rediscount rate, the Central Bank’s policy rate, at 14.0 per cent. The Committee would continue to monitor the situation and if the outlook changes, the MPC would review its stance.