MINUTES OF THE MONETARY POLICY COMMITTEE MEETING
DECEMBER 23, 2008

The twenty-seventh meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) took place in the Conference Room of the Bank on December 23, 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, FSD, Member
Amadou Colley	-	Director, Banking Department, Member
Buah Saidy	-	Director, ERD, Member
Sering Cham	-	Permanent Secretary II, DOSFEA, Member
Amie Khan	-	Economist, DOSFEA, Member
Ismaila Jarju	-	Principal Economist, ERD, (Secretary)

In Attendance were:

Omar Jaata	-	Director, Foreign Department
Ousainou Corr	-	Director, Finance Department
Omar Janneh	-	Deputy Director, Admin. Department
Mbaye Jammeh	-	Deputy Director, Banking Department
Paul Mendy	-	Deputy Director, FSD
Bakary Jammeh	-	Senior Econometrician, ERD
Lamin Jarjue	-	Senior Banking Officer, Banking 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.
Paul Solomon Bruce	-	Econometrician, ERD
Binta Beyai	-	Economist, ERD
Saikouba Ceesay	-	Economist, ERD
Sulayman Ceesay	-	Statistician, ERD

Before turning to its immediate policy decision, the MPC reviewed and adopted the minutes of the previous meeting. This was followed by presentation of international economy, balance of payments developments, foreign exchange, fiscal developments, money market developments, real sector, monetary developments, financial stability and inflation reports.

(1.0) World Economic Outlook

Owing to the on-going financial crisis and the concomitant decline in consumer confidence, the IMF revised downwards its global growth projections. World output is now projected to expand by 3.9 percent in 2008 and only 2.2 percent in 2009. To stem the downward spiral and return the global economy to robust growth, many governments have instituted measures to support financial markets, provide fiscal stimulus and ease monetary policy.

The National Bureau of Economic Research officially declared that the US was in recession since December 2007, the longest downturn since the Great Depression in the 1930s. To help stimulate growth, the Federal Reserve cut its target for the overnight federal funds rate to a range of zero to 0.25 percent.

Recent data confirmed that the Euro Area slipped into a recession in the second quarter of 2008, the first time in the ten-year history of the Euro. Unemployment rose to 7.7 percent in October 2008 and prices fell dramatically stoking fears of deflation.

Real sector data indicate that the United Kingdom is in recession. Consumer prices fell to 4.1 percent in November 2008 from 5.5 percent in October 2008. The drop, though modest, did not damper expectations of a rapid deceleration in inflation given falling energy prices.

The Japanese economy shrank by 0.5 percent in the third quarter of 2008 after contracting by 0.9 percent in the second quarter. Consumer spending and industrial production fell by 3.8 percent and 3.1 percent respectively in year to end-October 2008. Accordingly, the Bank of Japan cut its policy rate to 0.1 percent in an effort to boost economic output.

Economic output in the emerging economies was revised downwards to 5.0 percent. The mark downs were sharper in commodity exporting countries and those with acute financial and liquidity problems.

China's economy grew by 9.0 percent in the third quarter compared to 10.1 percent in the second quarter. Consumer prices fell to 2.4 percent in November 2008, the lowest in twenty-two months thanks to the easing of energy and food prices.

Growth in Sub-Saharan Africa is projected to decline to 6.0 percent in both 2008 and 2009 reflecting the global food and energy price shocks as well as the financial crisis.

Inflation is expected to accelerate in 2008 to about 13.0 percent before decelerating to 10.0 percent in 2009 helped by commodity price declines.

Commodity prices continue to decline reflecting largely slowing global demand and partly a stronger US dollar. Oil prices have declined to as low as US $40.0 per barrel. In line with market developments, the IMF's baseline petroleum price projection for 2009 was revised downwards from US $100 to US $ 68 per barrel. Similarly, metal and food prices fell from their recent peaks. Rice prices continue to ease, but fared much better than those of wheat and maize and were more than 78 percent of their value in October 2007. Since September 2008, sugar prices have been on a trend decline and sold for US $13.09 per pound in October 2008.

The Committee observed that recent information which included weaker-than-expected data on employment suggested that the downside risks to growth had increased significantly since the last MPC meeting. The slowing of economic growth could lead to further decline in commodity prices which, in turn, could reinforce the economic slowdown.

The Committee members were generally of the view that in light of the marked slowdown in global output substantial additional policy easing might be necessary in many of the developed world to stave off deflation and support economic activity.

The Committee underscored that many African countries are better equipped to deal with the global crisis than they were, say, ten years ago because they are fiscally more prudent and their economies much healthier. For example, oil exporting countries have learnt from past experiences and some have ensured that their budgets balance at oil prices as low as US$40.00 per barrel even when prices were as high as US170.0 per barrel.

The Committee noted the draw down in the reserves of the Central Bank of The Gambia (CBG) to provide liquidity to the foreign exchange market. The Committee agreed that this policy action, coupled with the decline in global interest rates is likely to negatively impact the income of the CBG. However, expectations are that the CBG is likely to obtain BOP support from the IMF in the amount of SDR 6.215 million after the fourth Poverty Reduction and Growth Facility (PRGF) review is completed in February 2009.

(2.0) External Sector Developments

The overall balance of payments (BOP) is projected at a deficit of D1.30 billion (US $54.6 million) in 2008 compared to an overall surplus of D796.8 million (US $32.0 million) in 2007. The current account deficit, including official transfers is expected to widen to D3.33 billion (17 percent of GDP) in 2008 from D2.0 billion (12.3 percent of GDP) in 2007. The capital and financial account balance is also projected to deteriorate from a surplus of D2.83 billion in 2007 to a deficit of D2.04 billion in 2008.

The Committee acknowledged the effect of the on-going global financial crisis on The Gambia's external position mainly as a result of reduced tourism income and remittances. The deficit was financed by the draw down of reserves to the extent that the net usable reserves of the CBG only increased marginally to US$98.4 million in November 2008, compared to US$97.4 million in November 2007.

The Committee noted that compared to 2007 prices of imports are increasing at a much faster rate. Although, price increases partly reflect the depreciation of the Dalasi, high commodity prices significantly accelerated import price inflation.

The Committee agreed on the need to reduce the food import bill by increasing investment in agriculture, but observed that food security should be the overriding goal. This implies growing food in which The Gambia has a comparative advantage and having the wherewithal from export proceeds to import food that cannot be grown efficiently.

(3.0) Foreign Exchange Developments

Volume of transactions in the inter-bank foreign market totaled US $1.4 billion in the year to end-November 2008, significantly lower than the US $1.9 billion a year ago. The US dollar continues to be the most traded currency in the inter-bank market with a market share of 65.7 percent in November 2008, from 63.3 percent in November 2007. Correspondingly, the market share of the Pound and Euro fell from 13.5 percent and 20.9 percent in November 2007 to 12.5 percent and 17.6 percent respectively in the corresponding period in 2008.

In November 2008, the Dalasi depreciated against all the major currencies except the British pound relative to November 2007. The Dalasi weakened against the US Dollar and Euro by 23.0 percent and 9.9 percent respectively, but strengthened against the Pound Sterling by 7.0 percent. The weakening of the Dalasi was attributed to increased demand for foreign exchange to pay for the high cost of imports, reduced inflows from tourism and remittances and US Dollar rebound as investors, in search of safe haven, purchased dollars.

The Committee cited the decrease in foreign inflows from tourism and remittances in particular, consequent of the global financial crisis, for the reduction in the supply of foreign exchange. And given weakening growth prospects and tight credit markets, it is likely that foreign direct investment would decrease in the short to the medium-term putting additional pressure on the supply of foreign exchange. It was further observed that the financial crisis is not only putting pressure on individual incomes but on the Government budget as well.

(4.0) Fiscal Developments

Preliminary fiscal data indicated that revenue and grants totaled D3.3 billion in the first eleven months of 2008, lower than the D3.4 billion outturn in the corresponding period of the previous year.

Domestic revenue, comprising tax and non-tax revenue, declined to D3.2 billion (17.6 percent of GDP), or 3.3 percent from the corresponding period in 2007. Tax revenue declined marginally to D2.9 billion, or 0.1 by percent owing primarily to the 18.5 percent decrease in taxes on international trade. Revenue from direct taxes increased markedly to D1.1 billion, or 23.3 percent while indirect taxes decreased to D1.8 billion, or 10.0 percent.

Non-tax revenue declined significantly to D289.3 million, or 26.5 percent attributed in the main to the 17.7 percent and 47.0 percent fall in receipts from government services and charges and telecommunication license fees respectively.

Grants also fell to D146.5 million, or by 13.6 percent. There were no program grants. Project grants, on the other hand, totaled D165.6 million compared to D174.5 million a year earlier.

Expenditure and net lending amounted to D3.9 billion, or an increase of 17.5 percent. Current expenditure rose to D2.8 billion compared to D2.3 billion during the corresponding period of the previous year. All the components of current expenditure with the exception of interest payments rose. Interest payments fell to D637.7 million, or 15.5 percent mainly reflecting HIPC and MDRI debt relief. External interest payments declined by 41.7 percent while domestic interest payments fell a modest 4.7 percent. The proportion of interest payments to current expenditure declined to 22.8 percent from 32.4 percent a year ago.

Capital expenditure totaled D956.0 million, or an increase of 9.7 percent from the corresponding period of 2007. External financing of capital expenditure amounted to D486.9 million, down from D746.6 million while financing from Government local fund rose to D469.1 million from D124.7 million a year earlier.

The overall budget balance (including grants) on commitment basis decreased from a surplus of D149.2 million (0.9 percent of GDP) to a deficit of D553.0 million (3.1 percent of GDP).

The budget balance (excluding grant) on commitment basis was a deficit of D699.5 million (3.9 percent of GDP) compared to a deficit of D20.4 million (0.1 percent of GDP) in 2007.

The basic balance was in a deficit of D212.6 million (1.2 percent of GDP) while the basic primary balance recorded a surplus of D425.0 million (2.4 percent of GDP).

The Committee observed that fiscal prudence is critical in sustaining macroeconomic stability and welcomed the decision of the fiscal authorities in context of the 2009 budget to address the revenue shocks.

The Committee members noted the marked decreased in indirect taxes particularly tax on international trade despite in the increase in import volumes attributed mainly to the 20.0 percent and 16.9 percent decrease in duty and sales tax respectively and partly to the appreciation of the Dalasi in the latter of 2008.

Some Committee members expressed concern about the quality of the import data and urged for an improvement in the generation of trade data. Looking forward, the Committee noted that the slower pace of economic activity is likely to cause a reduction in Government revenue and a resultant increase in Government borrowing. This, in turn, could put upward on pressure interest rates further slowing economic activity.

(5.0) Money Market Developments

The domestic debt increased to D5.89 billion in November 2008, or 5.9 percent from November 2007 attributed largely to the 63.2 percent increase in government NIB notes. Treasury bills, accounting for 80.9 percent of the domestic debt, rose by only 0.08 percent.

The distribution of Treasury bills by maturity indicates that 364-day bills accounted for 70.84 percent of the outstanding stock, 182-day bills 17.64 percent and 91-day bill 11.52 percent.

The Committee noted the flight from longer dated instruments to shorter maturities and the fluctuation in the yield of Treasury bills. Probably, in response to the sizable rise in headline price indices, some indicators of near term inflation expectation have risen in recent months and may have caused the movement from longer to shorter maturities. The volatility in the yield of Treasury bills was partly explained by huge variations in the size of the float.

(6.0) Real Sector Developments

Economic growth is estimated at 6.1 percent in 2008 from 6.3 percent in 2007. Agriculture value-added is projected to increase by 28.4 percent, higher than the growth rate of 3.9 percent in 2007. Industrial output is projected at 0.7 percent, lower than the value-added of 3.0 percent in 2007 thanks in large part to the zero growth in construction output. The services sector output is estimated at 6.9 percent lower than the 11.3 percent in 2007.

The Committee members indicated that considerable uncertainty surrounds the outlook for economic growth in the short-term and that the risks to the outlook are skewed to the downside. As growth around the world has decreased so has demand for Gambia's exports, including tourism and re-exports. However, the Committee members agreed on the need for a better understanding of the dynamics of the re-export sector rather than rely on anecdotal evidence.

(7.0) Monetary Developments

Monetary policy focused on containing inflation below 6.0 percent. To achieve the inflation target, reserve money and money supply are programmed to grow by 7.3 percent and 8.5 percent respectively.

Money supply grew by 19.8 percent in the twelve months to end-November 2008 compared to 7.9 percent a year earlier. The net domestic assets (NDA) and the net foreign assets (NFA) of the banking sector rose by 24.4 percent and 12.1 percent respectively.

Narrow money, comprising currency in circulation and demand deposits, rose to D4.8 billion, or 26.4 percent from end-November 2007. Demand deposits and currency in circulation grew by 33.6 percent and 14.9 percent respectively. The ratio of narrow money to broad money rose from 48.6 percent in November 2007 to 51.3 percent at end-November 2008.

Quasi money, which includes savings and time deposits, rose to D4.5 billion, or 13.5 percent. Time deposits increased by 34.9 percent while savings deposits declined, albeit marginally by 1.6 percent. Correspondingly, the share of quasi money to broad money fell from 51.4 percent in November 2007 to 48.7 percent at end-November 2008.

Reserve money increased by 3.9 percent in the year to end-November 2008, slightly lower than the 4.0 percent a year earlier. The NFA of the Central Bank rose by 23.4 percent while the NDA contracted by 138.2 percent.

Some Committee members noted that growing evidence suggest that growth in the monetary aggregates are likely to exceed the end-December 2008 targets with ramifications on the exchange rate and inflation. The demand for money balance was supported by declines in the opportunity cost of holding money relative to other financial assets and by strong demand for liquid assets. Other members argued that the robust growth in money supply in particular should not be a source of worry given that it is likely to slowdown in the coming months when tax receipts are expected to increase, improving Government's position with the Central Bank.

Notwithstanding, the Committee advised on the need to monitor the growth of the monetary aggregates, and if necessary, use all the instruments at the disposal of the Central Bank to stem their rapid expansion.

(8.0) Financial Stability Report

The banking sector remains sound. The industry's capital and reserves increased to D1.5 billion in the year to end October 2008, or 28.0 percent from a year earlier. The average capital adequacy ratio was 25.0 percent at end-September 2008, significantly higher than the minimum capital requirement of 8.0 percent.

The industry's total assets also increased to D12.0 billion at end-October 2008, or 25.0 percent reflecting in large part the 40.0 percent growth in loans and advances to D3.46 billion. Despite the increase in credit, overall credit quality improved in recent months. The ratio of non-performing loans to gross loans declined significantly from 13.0 percent in September 2007 to 7.0 percent in September 2008.

The banking sector is quite liquid. The liquidity ratio was 91.0 percent in September 2008, significantly higher than the minimum requirement of 30.0 percent. Deposit liabilities increased to D7.3 billion in October 2008, or by 13.0 percent from a year ago. Earnings were, however, quite low totaling only D53.0 million in the third quarter of 2008 reflecting the increase in both interest and non-interest expenses, including overheads. Earnings were, however, an improvement over the net loss of D50.0 million in the third quarter of 2007 owing primarily to revaluation losses.

The Committee noted the improvement in the quality of credit attributed to the tightening of credit standards and vigorous loan recovery efforts. This is in marked contrast to the distress saddling many Western financial institutions caused by the on-going weakness in the real estate sector and slowing economic growth.

The Committee observed that banks were largely long on their net open positions in 2007 and the first half of 2008. The situation reversed in the latter part of 2008 when net open position of the industry was largely short, averaging negative 8.0 percent, reflecting the marked decrease in foreign inflows which impacted the foreign assets of the banking industry.

(9.0) Inflation

End-period inflation, measured by the National Consumer Price Index, increased from 6.0 percent in November 2007 to 6.6 percent in November 2008. The annual average inflation was 4.9 percent compared to 3.9 percent a year earlier.

Food consumer price inflation declined to 8.6 percent in November 2008 compared to 9.2 percent in November 2007. Non-food prices, on the other hand, rose to 4.4 percent from 2.3 percent in November 2007. Core inflation, excluding prices of energy and volatile food items rose from 6.05 percent in November 2007 to 6.56 percent in November 2008.

Although many expected that a leveling-out of prices of energy and other commodities would contribute to further moderation in inflationary pressures over time, the Committee advised on the necessity to monitor inflation developments carefully.

(10.0) **Decision**

The MPC, taking the above factors into consideration decided to maintain the Rediscount Rate, the policy rate at `16.0 percent. The MPC will continue to monitor developments and will respond appropriately.