MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

December 28 – 29, 2006

The sixteenth meeting of the Monetary Policy Committee of the Central Bank of The Gambia was held in the Conference Room of the Bank on December 28, 2006.

Present were:

M. B. Saho	-	First Deputy Governor, Chairman
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, Banking Department, Member
Buah Saidy	-	Deputy Director, Economic Research Dept, Member
Bakary Kolley	-	Senior Economist, Economic Research Dept (Secretary)

In Attendance Were:

Oumie Samba-Savage	-	Director, Finance Department
Omar Jaata	-	Deputy Director, Foreign Department
Haddy Joof	-	Deputy Director, Administration Department
F. Deen Touray	-	Deputy Director, Micro Finance Department
Essa Drammeh	-	Deputy Director, Financial Supervision Dept
Pa Alieu Sillah	-	Commissioner of Insurance
EAC Ndong	-	Principal Officer, Foreign Department
Paul Mendy	-	Principal Bank Examiner, F SD
Abdoulie Jallow	-	Principal Bank Examiner, FSD
Ebrima Wadda	-	Senior Economist, ERD
Bakary Jammeh	-	Senior Econometrician, ERD
Maimuna John-Sowe	-	Senior Economist, ERD

Anita Riley	-	Senior Banking Officer, BSD
Rohey Khan	-	Senior Economist, ERD
Jainaba Saidy	-	Senior Bank Examiner, FSD
Awa Jagne-Jarjusey	-	Senior Bank Examiner, FSD
Halima Singhateh	-	Bank Examiner, FSD
Nyakassi Sanyang	-	Statistician, ERD
Sheriff Touray	-	Economist, ERD
Sait Mboob	-	Economist, ERD
Lamin Jarjue	-	Banking Officer, BD

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 government fiscal operations, banking sector and international developments.

(1.0) Developments in the International Economy

Global economic output remains robust, despite moderate growth in several countries. In the third quarter of 2006, real gross domestic product (GDP) declined in both the United States and the Euro area compared to the second quarter. The Japanese and the Chinese economies, however, continued to expand. Growth in Sub-Saharan Africa is expected to remain on a firm footing after a third straight year of steady performance averaging 5.0 per cent.

The significant decrease in oil prices translated to some decline in consumer price inflation (CPI) in a number of countries. In the United States, latest figures released in September 2006 showed that CPI eased considerably. A similar trend was observed in several countries, notably, the Euro area, the United Kingdom, and Sweden.

United States

Following a strong growth of 3.5 per cent in the second quarter, U.S economic output slowed to 2.9 per cent in the third quarter. This was mainly due to the cooling of the housing market, coupled with moderation in the consumption of services, weak inventory investment and acceleration in imports.

Consumer price inflation eased considerably as a result of the decline in energy prices, coupled with a smaller but fairly broad-based moderation in the non-energy components. In the third quarter of 2006, the CPI decline to 2.1 per cent. However, members of the Federal Open Market Committee (FOMC) at their October 2006 meeting still considered inflation as "a dominant risk" given the tightness of the labour market and the fact that core inflation remains "uncomfortably high".

In the **Euro Area**, real GDP growth was 2.7 per cent in the second quarter compared to 2.1 per cent in the first quarter. Growth slowed slightly to 2.6 per cent in the third quarter of 2006. Economic growth in Germany slowed to 0.6 per cent in the third quarter, compared with 1.1 per cent in the second; in France, GDP growth was zero; Italy's economy expanded, but by only 0.3 percent, half the rate it managed in the second quarter.

Looking ahead, the President of the European Central Bank, Jean-Claude Trichet, in a press conference held on 7th December, 2006 revealed that "conditions remain in place for the euro area economy to grow close to potential and that the medium-term outlook for the economy remains favourable."

In the United Kingdom, economic activity continued to grow at a steady pace, as indicated by the solid GDP growth rate in the first, second and third quarters of 2006. The GDP growth in the third quarter was 2.8 per cent, higher than the 1.9 per cent in the corresponding quarter of 2005. Output in services weakened marginally, while manufacturing posted a third consecutive quarter of healthy growth.

Economic activity in **Japan** is expanding at a moderate pace. GDP grew by 0.5 per cent from the second quarter. Output was bolstered by strong exports and steady domestic demand supported by strong business investment.

Consumer price inflation continued to increase and reached 0.4 per cent in October 2006. Producer price inflation remains high by historical standards, edging up further in September 2006 to 3.6 per cent, reflecting high commodity and basic material prices as well as strong demand.

The **Chinese** economy continued to record rapid growth. GDP grew by 10.7 per cent in the third quarter. Monthly indicators of economic activity revealed that investment softened in the third quarter and that the sources of growth have shifted somewhat towards domestic consumption.

Inflationary pressures increased slightly in recent months, with annual CPI inflation rising to 1.5 per cent in September 2006 from 1.3 per cent in August 2006.

Growth in **Sub-Saharan Africa** is expected to reach 5.4 percent in 2006 attributed primarily to the strong performance of oil exporting countries. Real GDP is projected to increase to 5.9 percent in 2007, but inflationary pressures are expected to increase. Consumer prices rose from 8.0 percent in 2004 to 8.5 percent in 2005 and is estimated at 9.9 percent in 2006 reflecting rising cost of oil and commodities.

Commodity Prices

Oil prices declined substantially after reaching a historical high at the beginning of August 2006. The spot price of a barrel of Brent Crude oil fell to US$57 in the fifteen working days to November 7, 2006 approximately a 0.9

percent drop from a month ago according to The Economist Commodity price index.

Recent movements in oil prices could be related to a shift in demand conditions as well as diminished concern about the availability of oil supply. British Petroleum (BP) resumed production in Alaska ahead of schedule and crude oil stocks in the United States were unseasonably high in recent months.

World sugar prices continue to decline. In the third quarter of 2006, the International Sugar Agreement (ISA) daily price averaged US$13.86 per pound, 18 percent lower than the first quarter average of US$16.98 per pound. The decline is attributed to several factors; better than anticipated output; declining oil prices and reduced speculation by large trading groups.

(2.0) Balance Of Payments (BOP) Developments

Revised balance of payments projections indicate an overall balance of payments surplus of D850.6 million ($30.27 million) in 2006 from D1.7 billion ($61.74 million) in 2005, reflecting projected decline in the capital and financial account surplus.

The goods account balance is estimated at a deficit of D3.2 billion compared to D3.4 billion in the preceding year due in the main to higher oil-related imports. Exports are projected at D3.0 billion compared to D2.7 billion in 2005. Goods procured in ports by carriers are projected to increase to D277.74 million compared to D235.72 million in 2005. Re-exports are estimated to increase to D2.6 billion ($94.5), or 2.0 per cent relative to the previous year.

Total value of imports is estimated to increase to D6.5 billion, or 2.0 per cent from 2005. About 65.0 per cent of imports are classified as imports for domestic consumption and the balance for re-exports.

Tourism and private remittances continued to be the major source of foreign exchange for the Gambian economy. The value of travel income is estimated at D1.8 billion compared to D1.5 billion in 2005 reflecting projected increase in tourist arrivals and revised average daily out-of-pocket expenditure. Communication services are estimated to increase from D210.98 million in 2005 to D222.06 million in 2006 due largely to increased receipts from telecommunication services rendered to non-residents.

Private remittances continue to trend upwards largely as a result of the increase in the number of Gambians working abroad and improved data collection. Remittances are estimated at D1.8 billion compared to D1.7 billion in 2005. Net interest payment is estimated at D150.46 million relative to D187.85 million in the preceding year, owing to lower than projected interest payment.

The current account deficit, including official transfers is expected to narrow to D0.9 billion from D1.3 billion in 2005.

The capital and financial account balance is estimated to decrease from D3.0 billion in 2005 to D1.8 billion in 2006, largely on account of the decline in foreign liabilities. This, in turn, reflect lower-than-projected drawings on new loans. New loans are expected to decline from D1.7 billion in 2005 to 0.9 billion in 2006. Total loan repayments should increase to D653.81 million from D465.35 million a year ago. Foreign direct investment (equity capital) is expected to remain unchanged from its 2005 level of D1.3 billion. Re-invested earnings, on the other hand, is projected to increase from D255.98 million in 2005 to D308.44 million in 2006.

The gross foreign assets of deposit money banks’ is expected to increase by D89.57 million relative to a decrease of D401.39 million in 2005. On the other hand, liabilities of commercial banks is estimated to increase by D44.95 million compared to a decrease of D43.04 million in 2005. Gross official reserves is estimated to increase by D173.85 million relative to D285.84 million in 2005.

(3.0) Foreign Exchange Developments

The exchange rate of the Dalasi vis-à-vis major international currencies remained relatively stable. The inter-bank foreign exchange market continue to be vibrant, reflecting sharp rebound in tourism and re-exports coupled with increased remittances and foreign direct investment inflows.

The dalasi depreciated against all the internationally traded currencies except the U.S dollar. At the end of November 2006, the Dalasi depreciated by 6.3 percent, 10.8 percent, 5.9 percent and 5.2 percent against the Pound Sterling, Swedish Kroner, CFA franc and Euro respectively, but appreciated marginally by 0.4 percent against the U.S dollar from a year ago.

Volume of transactions, that is, total purchases and sales of foreign currencies in the inter-bank market totalled D33.50 billion compared to D21.82 billion a year earlier. In US dollar terms, transaction volumes increased by 34.5 percent.

Total purchases, reflecting supply, increased to D17.71 billion, or 63.57 percent while sales, indicative of demand amounted to D15.78 billion, or an increase of 43.61 percent from a year ago. The Central Bank intervened intermittently and purchased the equivalent of D0.71 billion worth of foreign currency to build up reserves.

The U.S dollar continued to be the dominant currency in the inter-bank market with a market share of 61.7 percent, higher than the market share of 59.9 percent in the corresponding period of last year. The Euro's market share increased to 20.1 percent from 19.9 percent while the Pound Sterling and CFA franc's market share decreased to 16.1 percent and 0.5 percent from 17.2

percent and 0.6 percent respectively in November 2005. Similarly, the market share of the Swedish Kroner and unclassified currencies combined declined to 0.5 percent and 1.1 percent from 0.8 percent and 1.6 percent respectively in November 2005.

With the commencement of the winter tourist season and groundnut-trading expectations are that foreign exchange inflows will increase. This, coupled with strong inflows from private remittances, foreign direct investment and adequate reserve cover should cause the Dalasi to remain firm in 2007.

Signals of the Federal Reserves for a halt to the tightening cycle combined with worries about the US current account deficit, point to a likely decline in the value of the dollar.

The recent strengthening of the Euro suggest that Euro/Dollar exchange rate is about to approach the infamous 1.3667 record high. Euro gains are expected to be sustained in 2007 owing to expectations of further tightening of fiscal and monetary policies.

Optimism about the UK economy and bearish sentiment on the USD has contributed to the appreciation of GBP against the USD to a 14-year high. UK growth and inflation are expected to moderate in 2007.

The Japanese Yen is likely to catch up with the weaker USD once the expected tightening by the Bank of Japan (BOJ) is actualised. Pressure from the government to keep monetary policy as loose as possible makes it hard to predict when the Bank of Japan will likely hike interest rates again. However, a member of BOJ policy board warns of the dangers of not tightening if the underlining inflation trend remains positive.

The Committee observed the growing market share of the Euro and sought clarification of the source of inflows and the reasons for the depreciation of the dalasi against the Euro. It was noted that the main source is the cross border trade, as most traders use the Euro as settlement currency. The dalasi's weakness against Euro is explained by the high demand for the currency. Most traders prefer to exchange their foreign currency, particularly their dollar holdings into dalasis and then into Euro to finance their cross border activities, including imports for re-export.

(4.0) Fiscal Developments

Although 2006 was fiscally challenging, efficient and prudent fiscal management contributed to an improved fiscal outturn.

Against a revised projection of D816.6 million, total revenue and grants was below the Q3, 2006 estimate by D42.3 million, or 5.0 per cent. Domestic revenue fell by 2.5 per cent from Q2, 2006 and was below projection by 1.2 per cent. Grants rose by 30.0 per cent, but fell short of the target by D33.6 million.

Total expenditure and net lending was D0.7 billion from D1.2 billion in Q2, 2006 and was below the ceiling by D0.3 billion.

The budget deficit on a cash-basis including grants improved from a deficit of D740.0 million in Q2, 2006 to a deficit of D252.2 million in Q3, 2006.

Total Revenue and Grants

Domestic revenue and grants decreased to D774.3 million, or 1.5 percent from Q2, 2006 and was below target by 5.5 percent.

Domestic revenue fell from D760.1 million in the Q2, 2006 to D740.8 million in Q3, 2006 owing to the decrease in tax revenue. Tax revenue, which accounted for 87.7 percent of domestic revenue, fell to D649.7 million, or 6.9 percent and was below target by 1.2 percent. Direct and indirect taxes fell by 15.7 percent and 2.4 percent respectively.

Non-tax revenue increased to D91.1 million from D62.4 million in Q2, 2006 and was below the budgeted figure of D102.7 million by D11.6 million. The growth in non-tax revenue was due in the main to increased revenue from telecommunications licenses, interests, dividends and property levies.

Grants increased to D33.4 million, or 30.0 percent, but was below target by D33.6 million. This was on account of the lower than expected project grants.

Expenditure and Net Lending

Total expenditure and net lending fell from D1.2 billion in Q2, 2006 to D0.7 billion in Q3, 2006 and was below projection by 29.2 percent. Current expenditure, accounting for 74.5 percent of total expenditure, fell to D546.1 million, or 33.8 percent and was below projection by 22.4 percent. Capital expenditure, accounting for 27.2 percent of total expenditure, decreased to D199.2 million, or 49.9 percent and was below the target by 40.3 percent.

Fiscal Balance

The overall balance on a commitment basis including grants amounted to a surplus of D1.5 million compared to a deficit of D462.6 million in the previous quarter and was above target by D296.1million. However, the overall balance on cash basis including grants totalled a deficit of D252.4 million relative to a deficit of D740.0 million in Q2, 2006. The deficit was financed by D21.5 million and D230.9 million of net external and domestic borrowings.

The Committee noted that fiscal policy was more supportive of monetary policy in Q3, 2006 relative to Q2, 2006 and expressed the hope that this trend would continue. The Committee also applauded Government for its commitment to rein in the fiscal deficit as reflected in the 2007 budget.

It was, however, suggested that subsequent fiscal reports should provide cumulative annual/end-period data of both revenue and expenditure to help the Committee make better judgement of performance.

(5.0) Money Market Developments

Data on total maturities (at face value) in comparison with issues (at book value) showed that maturities on average outstripped issues in 2006. In the months of November and December 2006 net liquidity withdrawal totalled D276.13 million. However, in the months of January, March, and May 2006 there were net injections of liquidity of D80.59 million, D55.0 million, and D25.0 million respectively, due to maturities exceeding issues. The huge positive net issuance in the months of November (D228.0 million) and December (D159.0 million) offset the negative net issuance experienced in the months noted above. Consequently, the stock of Treasury bills rose by D262.0 million.

Reflecting the return to macroeconomic stability, interest rates continue to trend downwards. Interest rates on the benchmark 91-day, 182-day and 364-day bills declined to 9.99 percent, 11.86 percent and 12.83 percent in December 2006 compared to 8.52 percent, 9.93 percent and 16.99 percent respectively in 2005.

The Committee commented that though nominal interest rates have fallen, real interest rates remain high. It was also observed that the Gambia's domestic debt is huge and unsustainable even though its rate of growth is decreasing. The debt grew at a compound annual rate of 0.3 per cent.

The Committee welcomed the operationalisation of the Integrated Financial Management Information System (IFMIS) project and expressed the hope that it would engender fiscal discipline. Under the system, Government's Treasury Main Account (TMA) cannot be overdrawn and this should force the fiscal authorities to ensure that expenditures match revenues and in the event of a mismatch to accurately measure the public sector borrowing requirement (PSBR).

(6.0) Monetary Developments

In 2006, monetary policy focused on sustaining the macroeconomic stability and ensuring that the country achieved a viable external position. The key macroeconomic objectives are to reduce inflation to 2.0 percent, achieve real GDP growth rate of 6.5 percent and build-up gross official reserves to at least 4.2 months of import cover.

During the twelve months ending October 2006, money supply increased by 19.7 per cent compared to 20.0 percent a year ago. However, money supply rose by 15.1 percent from 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 14.2 per cent. This was on account of the increase in the NFA of the Central Bank and deposit money banks by 14.2 percent and 8.8 percent to D2.3 billion and D1.3 billion respectively. Central Bank's gross official reserves rose to D2.8 billion, or 7.9 percent while foreign liabilities decreased to D0.5 billion, or 20.6 percent.

Deposit money banks' foreign assets increased to D1.4 billion, or 18.0 percent but their foreign liabilities rose more significantly to D144.4 million, or 351.2 percent.

The NDA of the banking system increased to D3.5 billion, or 25.7 percent reflecting strong domestic credit growth. Domestic credit grew to D4.3 billion, or 31.4 percent of which credit to the private sector and public entities rose by 32.7 percent and 31.1 percent to D2.4 billion and D270.4 million respectively. Claims on government rose to D1.6 billion, or 128.1 percent while advances to government in foreign currency fell to D74.7 million, or 87.0

percent. Compared to end-December 2005, the NDA of the banking system rose by 18.5 percent.

Reserve money grew by 17.9 percent, higher than the growth rate of 15.9 percent a year ago. Reserve money rose by 9.5 percent from end-December 2005. The growth in reserve money was on account of the increase in both the NFA and NDA of the Central Bank which rose by 17.4 percent and 22.7 percent to D2.3 billion and to D232.8 million respectively.

The increase in the NDA of the Central Bank was largely due to the significant decline in Government's surplus position with the Central Bank. Government's position decreased to D373.2 million, or 139.0 percent owing to the 54.8 percent decline in deposits. Advances to Government in foreign currency decreased to D74.7 million, or 87.0 percent following Government's retirement of more than half of the debt. Central Bank's claim on public entities at D136.9 million was unchanged while lending to the private sector increased slightly to D213.2 million, or 0.4 percent. Other items net totalled D187.5 million compared to D147.6 million in October 2005 attributable in the main to changes in the revaluation account.

The ratio of the Central Bank's NFA and reserve money is an important lead indicator of possible pressures on the exchange rate. A fall in the ratio could be due to excessive liquidity that could, in turn, give rise to rapid domestic credit expansion and because of the economy's high import propensity, to a net outflow of external reserves. The ratio was 90.8 relative to 91.3 at end-December 2005, indicating little or no pressure on the Dalasi.

In the deliberations that ensued, it was observed that growth in reserve money and money supply would likely exceed the end-December target. But given the low rate of inflation, it should not be a cause for concern.

(7.0) Financial Stability Report

The third quarter of 2006 was characterized by an increase in capital and reserves, deposits, and loans and advances compared to the preceding quarter. However, assets and profitability decreased.

Capital and Reserves rose to D1,016.16 million, or D62.42 million from the previous quarter. This was attributed to an increase in paid-up capital, statutory reserves and undivided profits. The industry's capital adequacy ratio stood at 44.49 percent, well above the 8.0 percent minimum requirement.

The total assets amounted to D8420.98 million, representing a decline of D6.47 million (0.08 percent) from the last quarter. However, compared to the corresponding quarter of the preceding year, assets rose by 16.6 percent.

Net income decreased by D14.53 million to D68.42 million. Return on assets also fell from 4.0 percent in June 2006 to 3.35 percent in September 2006.

Gross Loans and Advances increased to D2.38 billion, or by D35.68 million from last quarter. Compared a year ago, loans and advances rose by D533.65 million.

Non-performing loans rose to D302.39 million, or D71.18 million from the last quarter. This was as a result of a discovery of under reporting of non-underperforming loans amounting to D38.0 million during an on-site examination conducted on one of the banks in August 2006. The ratio of non-performing loans to total loans stood at 13.0 percent compared to 11.0 percent in the previous quarter and accounted for 29.7 percent of capital and reserves. About 19.8 percent of the loans to the agricultural sector was classified as non-performing.

Actual Provisioning amounted D198.51 million, representing 65.6 percent of non-performing loans. Recommended provisioning was D246.86 million, thus there was a deficiency in provisioning of D48.35 million.

Requests for waivers of Section 23 of the FIA 2003, which requires banks to seek Central Bank approval before extending credit over and above 25 percent of their net worth, decreased following the introduction of the minimum capital requirement of D60 million. Off balance sheet exposures totalled D831.89 million compared to D1.1 billion in the preceding quarter.

The industry recorded a net profit of D68.42 million relative to D82.95 million in the preceding quarter. Interest and non-interest income decreased while non-interest expenses rose, albeit slightly.

The Committee observed that though the industry is well capitalized and liquid, the increase in non-performing loans and deficiency in provisioning are a cause for concern. It was posited that Guide 1 titled: "Imposition of Penalties" is being reviewed. An important provision will be that banks must comply with the provisioning requirements and ensure no deficiencies occur. Failure to comply will result in a fine. Additionally, following the approval by the Boad of the examination policy and calendar all the banks except two would be examined in 2007. The two banks were last examined in the latter part of 2006. Examination of the banks would, inter-alia, enable the Central Bank to ensure that the provisioning guidelines are being adhered to.

(8.0) Real Sector Developments

Growth in gross domestic product (GDP) was revised upwards to 7.7 per cent in 2006 compared to 6.9 per cent in 2005 and higher than the population growth rate of 2.7 percent as well as the 6 – 7 percent commonly as a marker if a country is to achieve the MDGs. Output was broad based with agricultural value-added estimated at 6.5 per cent, industry (21.9 per cent) and services (5.8 per cent).

Industrial output is estimated at 21.9 per cent significantly higher than 4.7 per cent in 2005 reflecting strong growth of building and construction of 40 per cent, mining and quarrying (15.1 per cent), manufacturing (7.3 per cent), and electricity and water (6.0 percent). Industrial output is estimated to contribute about 12.2 per cent of GDP.

Data from the Gambia Ports Authority shows that export volumes in the eleven months to end-November 2006 totalled 112,166 metric tonnes, an increase of 41.8 percent compared to the corresponding period in 2005. Also, data from the Gambia Groundnut Corporation (GGC) revealed that revenue from groundnut exports totalled US$3.45 million in October 2006. In 2005, groundnut exports were minuscule owing to poor marketing arrangements.

Foreign currency deposits on collection basis, an indicator of the level of re-exports, increased to D7.55 billion relative to D7.22 billion in the corresponding period a year ago.

(9.0) Private Sector Business Sentiment Survey

A higher percentage of respondents (90.0 per cent) indicated that economic activity was higher in Q4, 2006 than those that indicated it was lower (2.0 per cent). Only 8.0 per cent of respondents reported same level of activity. This implied a diffusion index of (+88.0 per cent). Services establishments reported higher activity (+90.0 per cent) than Industry (+82.0 per cent). Respondents are optimistic about prospects in Q1, 2007 with an overall diffusion index of (+88.0 per cent).

About (63.0 per cent) of respondents indicated that capital expenditure was higher in Q4, 2006 compared to 2.0 per cent that reported lower capital expenditure. The implied diffusion index is (+61.0 per cent). Both services establishments and industry firms reported higher capital expenditure (+59.0 per cent) and (+67.0 per cent) respectively.

Prospects for sales, profit and employment in Q1, 2007 are favourable. The majority of firms (94.0 per cent) projected higher sales compared to none that expect lower sales, implying a diffusion index of (+94.0 per cent). Both services and industry firms are very optimistic about sales in Q1, 2007.

The majority of respondents (88.0 percent) reported higher profits compared to 6.0 per cent indicating lower profits, showing a diffusion index of (+82.0 per cent). Because of higher sales and profits, firms are quite optimistic about employment prospects.

About 6.0 per cent of the respondents expect inflation to be higher in Q4, 2006 compared to 20.0 per cent that think it would be lower. This implies a diffusion index of (-14.0 percent). Firms' anticipation of inflation, it is not a desirable as it can become a self-fulfilling prophecy.

More respondents (20.0 per cent) indicated that exchange rates were higher in Q4, 2006 relative to 4.0 per cent that reported lower exchange rates.

As a result of the declining trend in interest rates, 63.0 per cent of respondents reported lower interest rates compared to 2.0 per cent that indicated higher interest rates. However, 35.0 per cent of firms reported no change in interest rates.

About 82.0 per cent of the respondents indicated that interest rates would be lower in Q1, 2007 compared to none that think it would be higher. However, 18.0 per cent of respondents expect that interest rates would remain unchanged.

All the banks indicated that activity at the macro and company level were higher in Q4, 2006 and none reported lower activity. Not surprisingly, the sector reported higher capital expenditure, employment, sales and profits in Q4, 2006 relative to Q3, 2006. The sector is also quite optimistic about activity at both the country and company level and expects higher profits in Q1, 2007.

If capital is to be efficiently utilized it should be rightly priced. That is, interest rates should be at the appropriate level. It is now widely recognized that inflation stifles growth in the short and long-run. Thus, monetary policy should ensure that the economy is provided adequate credit without excessive money creation. Setting appropriate interest rates is the key to this balancing act.

Asked about the performance of CBG in setting short-term interest rates, the majority of respondents (98.0 percent) expressed satisfaction. The resulting diffusion index of +98.0 per cent was higher than in the previous survey (87 percent).

In discussing the report, members noted that the upbeat mood of the business community is not misplaced considering that economic performance in 2006 is projected to be strong. Regarding the construction sector's sentiment that prices were higher, this was attributed to the construction boom which caused prices of some building materials to increase.

(10.0) Inflation

The Inflation report was preceded by a presentation on Interest Rate Determination (uni-variate analysis). The aim of the exercise was to investigate the structure, risk and the band of interest rate using the uni-variate approach.

The uni-variate analysis of interest rates seeks to analyse the variability in interest rates over a period of time. Three time horizons were used in the analysis, that is, three months, six months and one year. The conclusion was that three months rates are the most volatile, followed by the one year rates and six months rates. As such, investors are more likely to invest in six months and one year assets. However, such a decision is likely to be skewed towards the six months asset given that they are the least risky.

End-period inflation, measured by the consumer price index of low income population of Banjul and Kombo St. Mary area, declined from 2.0 per cent in November 2005 to 1.4 per cent at end-November 2006. Average inflation rate (12 month moving average) was 1.5 per cent compared to 3.7 per cent a year earlier.

Food consumer price inflation declined to 0.1 per cent compared to 1.2 per cent in November 2005. Consumer price inflation of all food sub-groups declined. “Cereals and cereal products”, “roots, pulses, nuts and seeds”, “vegetables and fruits”, “meat, poultry, eggs and fish”, “milk and milk products’’ and other foods consumer price inflation decelerated to 0.1 per cent, 0.1 per cent, 0.1 per cent, 0.0 per cent, 0.1 per cent and 0.1 per cent compared to 1.0 per cent, 0.7 per cent, 1.6 per cent, 1.4 per cent, 1.1 per cent and 1.1 per cent respectively in the previous year.

Non-food consumer price inflation rose to 4.4 per cent from 3.8 per cent at end-November 2005 as a result of a marked increase in the prices of housing by 32.6 per cent compared to 0.5 per cent in the preceding year. On the other hand, the consumer price inflation of “fuel and light”, “clothing, textiles and footwear’’ and miscellaneous items, declined to 0.1 per cent, 0.1 per cent and 0.1 per cent compared to 4.6 per cent, 2.9 per cent and 5.1 per cent respectively in November 2005.

The measures of core inflation attempt to strip out the effects of temporary disturbances (noise) from the headline inflation in order to uncover underlying inflation.

The first measure of core inflation (Core 1), which excludes energy prices (fuel, light and transportation) declined from 1.9 per cent in November 2005 to 0.1 per cent in November 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) also declined from 1.8 per cent in November 2005 to 0.1 per cent in November 2006.

(11.0) Decision

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