MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

June 28-29, 2007

The nineteenth meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia was held in the Conference Room of the Bank on June 28, 2007.

Present were:

Famara L. Jatta	-	Governor, Chairman
Momodou B. Saho	-	First Deputy Governor, Member
Ousman Sowe	-	Director, Financial Supervision Dept., Member
Amadou Colley	-	Director, Banking Department, Member
Buah Saidy	-	Deputy Director, Economic Research Dept, Member
Ansumana Sanneh	-	Senior Economist, DOSFEA, Member
Baboucarr Jobe	-	Economist, DOSFEA, Member
Bakary Kolley	-	Principal Economist, Economic Research Dept (Secretary)

In Attendance Were:

Oumie Savage-Samba	-	Director, Finance Department
Omar Jaata	-	Deputy Director, Foreign Department
S. Bai Senghor	-	Deputy Director, Micro Finance Department
Haddy Joof	-	Deputy Director, Administration Department
Essa Drammeh	-	Deputy Director, Financial Supervision Dept.
Paul Mendy	-	Deputy Director, Financial Supervision Dept.
Abdoulie Jallow	-	Deputy Director, Financial Supervision Dept.
Mbaye Jammeh	-	Principal Officer, Banking 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
Anita Riley	-	Senior Banking Officer, BSD
Karamo Jawara	-	Senior Banking Officer, Banking Dept.
Buba Touray	-	Senior Economist, ERD
Jainaba Saidy	-	Senior Officer, FSD
Halima Singhateh	-	Bank Examiner, FSD
Mustapha Senghore	-	Banking Officer, 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
Abdoulie Touray	-	Bank Examiner, FSD

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 presentations on international developments, balance of payments (BOP), foreign exchange, monetary developments, money market, financial stability, real sector, government fiscal operations and inflation.

(1.0) Developments in the International Economy

The global economy has been growing steadily since the beginning of 2007. The expansion has been broad-based with stronger-than-expected growth witnessed in Japan and China. In the Euro zone, economic conditions remained solid. The United State's (US) economy continues to grow but at a slower pace. In Latin America, indicators showed signs of moderation in some economies despite robust growth in the first quarter of 2007. For Africa, the projected economic growth of 6.2 per cent in 2007 is expected to be achieved.

The Committee noted and welcomed the expected expansion of the global economy in 2007 and observed that the projected higher prices may have implications for the Gambian economy as most of the items consumed are imported. The effect of interest rate adjustments by most Central Banks was also opined to have implications for the Gambia, being a small open economy.

Members observed that the unwinding of the global imbalances is becoming a major issue given that recent talks between USA and China have not been fruitful, as was promised at the last Spring Meetings of the IMF and the World Bank. It was observed that this could result in a trade war with far reaching consequences for developing economies. Other major risks facing the global economy are the high and fluctuating oil prices, the resurgence of protectionism in addition to the balance of payments imbalances.

Inflation has been on the increase in most advanced economies since the first quarter of 2007. Higher commodity and oil prices largely explain the surge in inflation in the world economy. Consumer price inflation (CPI) slowed in the United States through the second half of 2006 but picked up to 2.8 per cent in the first quarter of 2007. Inflation in the UK fell to 2.5 per cent in May 2007 compared to 2.8 per cent in April 2007.

Members observed that the recent increase in international commodity prices, rice in particular, may lead to an increase in the retail price of the product in the Gambia. Members were informed that the Department of State for Finance and Economic Affairs recently engaged the major importers of the staple food and is considering the reduction of sales tax. The Department was assured by the major importers that if their proposal were to come into effect, it would help to put a damper on the retail price of rice.

(2.0) Balance Of Payments (BOP) Developments

Preliminary balance of payments figures for the first quarter of 2007 showed an overall balance of payments deficit of D59.22 million ($2.11 million) as a result of lower-than-expected capital and financial account balance.

The Committee noted the high deficit of D678.73 million in the goods account. Total exports were estimated at D681.03 million, of which D624.23 million, or 91.6 per cent represented re-exports. Domestic exports amounted to only D56.8 million and accounted for 8.4 per cent of total exports. Goods procured in ports by carriers (comprising sale of bunker and jet fuel and catering services for foreign aircrafts) was D168.71 million.

Travel income amounted to D885.74 million compared to D2.42 billion projected for the entire 2007. Communication services balance recorded D1.62 million in quarter 1, 2007 relative to the annual projection of D305.86 million. Compared to 2006, communication services balance should almost double reflecting substantial increase in Gamtel's projected communication receipts in 2007.

External interest payments are estimated at D53.05 million. This includes the Central Bank's interest payments to the IMF of D2.24 million. Interest income, entirely from CBG investments abroad, was D24.49 million. Total Government drawings on new loans were estimated at D51.4 million.

Reflecting these developments, the current account deficit, including official transfers amounted to D58.68 million.

Foreign direct investment (equity capital) inflows amounted to D280.88million. Re-invested earnings, on the other hand, are estimated at D108.34 million.

The capital and financial account balance is projected at a deficit of D0.54 million. Foreign reserves totalled D3.1 billion (4 months of import cover) during the quarters under review.

The Committee observed that the overall balance of payments should be in surplus in 2007, premised on the projected increase in travel receipts, communication services and investment income. The Committee also commended the Economic Research Department for observing the end-June 2007 deadline for the publication of the Quarterly BOP data as agreed with the IMF under the PRGF programme.

(3.0) Foreign Exchange Developments

The dalasi appreciated against all the major international currencies except the CFA franc from end-December 2006. From the beginning of the year, the Dalasi strengthened against the Pound Sterling, U.S dollar, Swedish kroner and Euro by 1.2 per cent, 2.8 per cent, 0.7 per cent and 0.1 per cent respectively, but depreciated against the CFA franc by 1.1 per cent.

The Committee observed that the strengthening of the Dalasi did not translate into a fall in the domestic prices of imported goods owing, in the main, to the continuing increase in world commodity prices e.g. wheat, rice, etc and high domestic taxes on some of the imported items, notably cement. The improved macroeconomic fundamentals and increased inflows from FDI, tourism and remittances may lead to further strengthening of the dalasi in the short to medium-term.

(4.0) Government Fiscal Operations

The performance of public finances in the first half of 2007 was better-than-projected reflecting mainly the contraction in government expenditure and a substantial increase in domestic revenue. Domestic revenue, accounting for 12.0 per cent of GDP, increased to D1.89 billion, or 22.3 percent from the corresponding period of 2006. Domestic revenue also exceeded its projection of D1.68 billion by D212.4 million. Both tax and non-tax revenue increased.

Tax receipts totalled D1.64 billion, D163.7 million above projection, reflecting improvement in tax administration, delayed receipts of licence payments that were due in 2006 from GSM providers and increased revenue from international trade. Sales tax on imports totalled D352.6 million relative to D293.8 million in the first half of 2006. Import duties, on the other hand, amounted to D340.2 million, or a decrease of D76.9 million. Revenue from import duties was also below projection by D49.6 million, primarily on account of duty waivers.

Total expenditure and net lending amounted to D1.7 billion in the first half of 2007, D16.8 million lower than the figure recorded in the corresponding period of 2006. Total expenditure and net lending was also within the ceiling of D2.25 billion.

The Committee observed that the improved fiscal performance was mainly on account of expenditure controls following the introduction of the Integrated Financial Management Information System (IFMIS). For example, the IFMIS ensured that personnel emoluments were within budget appropriations. Although, wages and salaries were on track, other charges exceeded the projection of D391.1 million by D113.8 million. Consequently, current expenditure was over and above projection (ceiling) of D1.24 billion, albeit marginally, by D30.3 million.

Total interest payments, which constituted 23.5 per cent of domestic revenue, also exceeded the target (ceiling) of D423.2 million by D22.0 million mainly on account of increased domestic interest payments. Domestic interest payments totalled D339.2 million compared to the ceiling of D307.5 million.

The Committee noted that the high domestic interest payment was principally on account of the huge domestic debt. Members expressed the need to pay down the domestic debt in order to create the fiscal space to accommodate more poverty and growth oriented expenditure.

(5.0) Money Market Developments

Securities market data indicated that interest bearing debt outstanding as at end-May 2007 rose marginally by 0.2 per cent to D5.29 billion (72 per cent of GDP). Deposit money banks held 48 per cent of the stock, the non-bank sector (50.7 per cent) and Central Bank (1.3 per cent).

The Committee pointed out that although the rate of growth of the domestic debt decelerated, the debt was unsustainable. The slight increase in the stock is mainly explained by the fact that current activities in the treasury bills market are largely geared towards rolling over maturing bills.

(6.0) Monetary Developments

The key macroeconomic objectives in 2007 are to contain inflation below 5.0 percent, achieve real GDP growth rate of 7.0 percent and build-up gross official reserves to at least 4 months of import cover. To achieve the inflation target, reserve money and money supply are projected to grow by 10.6 percent and 13.3 percent by end-December 2007 assuming stable velocity and the money multiplier (mm) of 1.94 and 2.9 respectively.

Money supply grew by 18.4 per cent in the year to end-May 2007, higher than the target of 13.3 per cent. Money supply, however, grew by only 2.9 per cent from end-December 2006. Both components of money supply increased with quasi money growing at a slightly faster pace.

Net foreign inflows, net claims on government and private sector credit grew by 29.2 per cent, 51.4 per cent and 8.6 per cent respectively and were the main contributing factors to the growth in money supply.

Reserve money rose by 5.5 per cent, lower than the growth rate of 9.6 per cent a year ago. Reserve money grew by only 3.0 per cent from end-December 2006. Expectations are that reserve money growth would be within the end-December 2007 target of 10.6 percent.

(7.0) Financial Stability Report

There are strong prospects that two new banks would enter the market soon after they were granted approval-in-principle. In anticipation of the competition, there has been a flurry of activity within the industry epitomised by the introduction of new banking products and the opening of new branches/agencies, etc. Although the industry continues to be dominated by two banks, expectations are that the industry would be less concentrated in due course.

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 D9.99 billion, or 3.5 per cent from March 2006. Loans and advances, accounting for 23 per cent of total assets, rose to D2.22 billion, or 3.7 per cent.

The Committee expressed concern over the low level of financial intermediation evidenced by the low loan to deposit ratio of 36.9 per cent at end-March 2007. However, with increased competition and the resultant decrease in interest rate, coupled with robust economic growth, bank lending should increase in the medium to long-term. The Committee also observed that although non-performing loans decreased by about 2.0 percentage points to D285.55 million, it remains high, representing about 12.87 per cent of total loans and advances. The slight reduction in non-performing loans is attributable to recoveries and write-offs.

(8.0) Real Sector Developments

The robust GDP growth rates of 6.9 per cent in 2005, 7.7 per cent in 2006 and the projected output growth of 7.0 per cent for 2007 are higher than the population growth rate of 2.7 percent and within the 6 - 7 per cent range commonly used as a marker, if a country is to achieve the Millennium Development Goal of reducing poverty by 2015.

It was observed that despite the high growth rates of the economy over the past three years the majority of Gambians are poor. Members noted that due to the structural bottlenecks in the agricultural sector, poverty reducing expenditure to the sector have not achieved the desired results. To address the constraints, emphasis should be put on greater access to financial services, provision of farm inputs and extension to raise productivity and production as well as the promotion of small and medium enterprises (SME) to add value to the produce.

(9.0) Private Sector Business Sentiment Survey

Respondents indicated that activity at both country (macro) and company level were higher relative to Q1, 2007. Correspondingly, business activity indicators, that is, capital expenditure, employment, sales and profitability were reported to be higher in Q2, 2007 compared to Q1, 2007. Owing to the strengthening of the Dalasi, the majority of respondents (51.0 per cent) indicated that exchange rates were lower in Q2, 2007 relative to 11.0 per cent that indicate higher exchange rates. The Dalasi is expected to appreciate in the Q3, 2007 with 51.0 per cent of respondents indicating a lower exchange rate compared to 11.0 per cent that said it will be higher. Current prices were deemed lower and expectations are that prices would fall in Q3, 2007.

(10.0) Inflation

The inflation report was based on the new National Consumer Price Index (NCPI). The new index covers the whole country and the weights were determined following the 2003 household expenditure survey. It is noteworthy that the old index was based on a survey of low-income households in the Banjul and Kombo St. Mary area in 1976/77.

End-period inflation, measured by the NCPI, rose from 2.7 percent in May 2006 to 6.6 percent at end-May 2007. Average inflation rate (12 month moving average) was 2.3 percent compared to 3.3 percent a year earlier.

Food consumer price inflation rose to 10.0 percent compared to 2.1 percent in May 2006 as a result of the increase in consumer price inflation of “bread and cereals”, “fish”, “oils and fats”, “fruits and nuts”, “vegetables, root crops and tubers”, and other foods which rose from 3.9 percent, 0.4 percent, 2.4 percent, negative 6.7 percent, 3.7 percent, and negative 17.5 percent in May 2006 to 5.7 percent, 3.7 percent, 38.7 percent, 28.2 percent, 15.1 percent, and 6.5 percent respectively in May, 2007. On the other hand, prices of “meat” and “sugar, jam, honey and sweets” decelerated to 2.4 percent and1.9 percent in May 2007 compared to 7.3 percent and 5.1 percent in the preceding year.

The consumer price inflation of non-alcoholic beverages fell from 1.9 percent to 1.7 percent. Owing to the marked increase in food consumer price inflation, the combined inflation rate of food and non-alcoholic beverages rose by 7.7 percentage points to 9.8 percent in May, 2007.

Non-food products and services consumer price inflation declined to 2.7 percent from 3.3 percent at end-May 2006 as a result of a deceleration in the prices of “housing, water, electricity, gas and other fuels” and “transportation” to 2.0 percent and 0.4 percent compared to 10.5 percent and 4.2 percent in the preceding year. On the other hand, the consumer price inflation of ‘‘ clothing, textiles and footwear”, “clothing, garments and tailoring services”, “furnishings, household equipment, etc” “health care”, “communications”, ‘hotels, cafes and restaurants” and ‘miscellaneous items”, increased to 2.0 per cent, 3.7 per cent, 0.1 per cent, 0.9 per cent, 3.5 per cent and 8.3 per cent, respectively from end-May 2006.

Core measures of 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 (housing, water, electricity, gas, other fuels and transportation) rose from 2.7 percent in May 2006 to 7.1 percent in May, 2007.

Core 2, which strips out prices of energy and utilities and volatile food items” meat”, “fish’’, “bread and cereals”, ‘‘ alcoholic beverages and tobacco”, and ” milk, cheese and eggs‘‘ rose from 2.7 percent in May 2006 to 6.7 percent at end-May, 2007.

Members observed the noticeable difference between the inflation rate indicated by the NCPI and the old CPI index and expressed the hope that the inflation data would be published timely to enable the MPC make well informed monetary policy decisions.

(11.0) Decision

Against this backdrop and in the light of the latest inflation projection, the MPC decided to increase the rediscount rate, the Central Bank’s policy rate, by one percentage point to 15.0 per cent. The Committee would continue to monitor the situation and if the outlook changes, the MPC would review its stance.