MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

March 13-14, 2008

The twenty-third meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia was held in the Conference Room of the Bank on March 13, 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, Financial Supervision Dept., Member
Amadou Colley	-	Director, Banking Department, Member
Buah Saidy	-	Director, Economic Research Dept., Member
Ada Gaye	-	Deputy Permanent Secretary, DOSFEA, Member
Baboucarr Jobe	-	Economist, DOSFEA, Member
Rohey Khan	-	Senior Economist, Economic Research Dept (Secretary)

In Attendance were:

M.A. Ceesay	-	Adviser, Governor's Office
Omar Jaata	-	Director, Foreign Department
S. Bai Senghor	-	Director, Micro-Finance Department
Momodou Mboge	-	Director, Internal Audit
Haddy Joof	-	Deputy Director, Admin. Department
Ousainou Corr	-	Deputy Director, Finance Department
Alieu B. S. Gaye	-	Deputy Director, Risk Management Unit
Essa Drammeh	-	Deputy Director, Financial Supervision Dept.
Abdoulie Jallow	-	Deputy Director, Financial Supervision Dept.
Paul Mendy	-	Deputy Director, Financial Supervision Dept.
Omar Janneh	-	Principal Admin. Officer, Admin. Dept
Mbaye Jammeh	-	Principal Officer, Banking Department

Ebrima A.C. Ndong	-	Principal Officer, Foreign Department
Seeku Jaabi	-	Principal Officer, Micro-Finance Dept.
Anita Riley	-	Senior Banking Officer, Banking Dept.
Ismaila Jarju	-	Senior Economist, Economic Research Dept.
Buba Touray	-	Senior Economist, Economic Research Dept.
Lamin Jarjue	-	Banking Officer, Banking Dept.
Mustapha Samateh	-	Banking Examiner, Financial Supervision Dept.
Fatou Suso	-	Banking 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	-	Asst. Statistician, Economic Research Dept.

Before turning to its immediate policy decision, members of the MPC discussed and adopted the minutes of the previous meeting. 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, private sector business sentiment survey, inflation and the staff report.

In his opening remarks, the Chairman commended the Economic Research Department (ERD) for coming up with a staff report as recommended by the IMF Technical Assistance (TA) Mission. He, however, advised that future staff reports should not propose decisions for the MPC. The stance of policy looking forward should be left to the Committee to decide.

Developments in the International Economy

Global economic growth is expected to weaken in 2008. According to the International Monetary Fund (IMF), global growth is projected at 4.1 percent in 2008 down from the previous forecast of 4.8 percent. The expected slowdown is attributed to the on-going re-pricing of risk and the tightening of credit conditions in the industrialized countries largely stemming from problems in the US sub-prime mortgage market, increasing risks from disorderly unwinding of global imbalances as well as surging oil and commodity prices.

Annualised GDP growth in the United States (US) fell to 0.6 percent in the fourth quarter of 2007 compared to 4.9 percent in the previous quarter due mainly to the decline in residential property investment and slower growth in private consumption. In the Euro zone, real GDP grew by 1.5 percent in the fourth quarter compared to 2.9 percent in the third quarter.

Growth in Emerging Asia remains strong. Real GDP in China rose by 11.4 percent in the fourth quarter of 2007 driven primarily by exports and investment.

Economic activity in Sub-Saharan Africa is projected to grow by 4.1 percent in 2008 supported by high commodity prices and improved macroeconomic environment. The projected output growth, however, compares unfavourably with the 4.9 percent growth in 2007.

The continuing strong global demand for oil and little supply adjustments, coupled with inventory tightness, worldwide refining bottlenecks and ongoing geopolitical uncertainties have caused oil prices to move higher.

Prices for food continue to rise reflecting both strong demand from major emerging economies, unfavourable supply developments and increased bio-fuel production.

Although sugar prices continue to weaken, rice and wheat prices rose strongly in 2007, reflecting tight market conditions in key exporting countries and a rebound in import demand particularly in Asia.

Reflecting rising oil and food prices, global inflation accelerated increasing the risk of imported inflation in many countries, including The Gambia.

The Committee noted that the increase in oil and food prices may become a permanent fixture of the global economy in the short to the medium term. As a result, open economies like The Gambia should learn to cope by, say, building foreign reserves to cushion the economy from potential external shocks.

The Committee also observed that despite rising global inflationary pressures, the reaction of the monetary authorities have been mixed. Some of the central banks in the major industrialised countries notably the US Federal Reserve see sluggish growth as a major risk to the economy than inflation and have accordingly reduced their policy rates, while central banks of emerging economies continue to zero in on fighting inflation.

External sector Developments

The balance of payments (BOP) projection indicated an overall surplus of D108.6 million (USD 3.99 million) in 2007 from D195.1 million (USD6.95 million) in 2006. The current account balance including official transfers is expected to narrow from 12.9 percent of GDP in 2006 to 10.1 percent in 2007.

The capital and financial account balance is estimated to decrease to D1.69 billion in 2007 from D2.04 billion in 2006 reflecting primarily reduced recourse to external borrowing by Central Government.

Preliminary data indicate an overall BOP surplus of USD 4.52 million in the third quarter compared to a deficit of USD 8.41 million in the second quarter.

The Committee observed that the current account deficit was adequately financed in the recent past thanks to the benign global environment. But this cannot be relied on indefinitely particularly taking into account recent developments in the global economy. So while the benign environment last, we should take advantage to consolidate the prudent policy stance and to build-up reserves as the best assurance to reduce vulnerability to future shocks.

Foreign Exchange Developments

Total volume of transactions in the inter-bank market, measured by aggregate sales and purchase of foreign exchange, increased to USD1.7 billion in 2007, or 12.9 percent from 2006 reflecting the marked increase in foreign inflows from tourism, remittances, re-exports and foreign direct investment (FDI).

Reflecting the strong inflows and the tight monetary conditions, the Dalasi appreciated against all the major currencies in the inter-bank foreign exchange market. The dalasi strengthened by 19. 6 percent, 17.5 percent, 9.3 percent, 8.1 percent and 14.2 percent against the Dollar, Pound Sterling, Euro, CFA Franc and the Swedish Kroner respectively in 2007 relative to 2006.

The appreciation of the Dalasi continued in January 2008 after a slight depreciation in the fourth quarter of 2007. According to the nominal effective exchange rate index, the Dalasi appreciated by 16.9 percent in December 2007 relative to end-December 2006.

Looking ahead, the Dalasi is projected to remain stable in the short to the medium term underpinned by the implementation of prudent monetary policies, increased foreign exchange inflows, continued US Dollar weakness and reduced demand for foreign exchange to service external debts as the country starts to benefit from HIPC and MDRI debt relief.

The Committee noted that the Economic Research Department should continue to work with the Financial Supervision Department to improve the quality of data, particularly with respect to remittances and private transfers by re-engaging the commercial banks to not only understand the basic concepts, but to appreciate the essence of providing quality and timely data.

Government Fiscal Operations

Total revenue and grants increased to D3.6 billion in 2007 (22.9 percent of GDP), or 16.8 percent from 2006. Overall, total revenue and grants was below budget projection by D803.6 million. Domestic revenue rose to D 3.4 billion, or 13.7 percent and exceeded the target by D106.1 million. Grants, on the other hand, totalled only D181.4 million compared to the target of D1.09 billion.

Total expenditure and net lending amounted to D 3.59 billion (22.8 percent of GDP), or an increase of 5.4 percent from 2006. Total expenditure and net lending was below the budget projection by D857.0 million owing primarily to the lower-than-projected capital expenditure.

The overall budget including grants was in a surplus equivalent to 0.1 percent of GDP. Excluding grants, the budget was in a deficit of D161.2 million, or 1.0 percent of GDP. The deficit on cash basis amounted to D805.9 million and was financed by external and domestic borrowing amounting to D 661.6 million and D144.3 million respectively.

The Committee expressed concern about revenue not matching expenditure in the first two months of 2008 and the probable difficulties of financing the deficit bearing in mind the limit on external and CBG borrowing. The Committee urged the fiscal authorities to explore curtailing non-essential expenditures in the event of a serious mismatch between revenue and expenditure. The CBG should also be proactive and ready to take countervailing policy measures in the event that the fiscal situation deteriorates.

Money Market Developments

As at end-February 2008, the interest bearing domestic debt totalled D5.06 billion. Compared to end-December 2007, the debt rose marginally by 1.34 percent but declined by 4.72 percent compared to the same period a year ago. Treasury bills accounted for the bulk of interest bearing domestic debt (86.6 percent).

The commercial banks held the bulk of the Treasury bills (58.5 per cent), the non-bank including paratatals (38.1 per cent) and CBG (3.4 percent). Of the D161.6 million of Treasury bills held by the CBG, D131.6 million was acquired directly from the primary market.

The distribution of Treasury bills by maturity indicated that 364-day bills accounted for 67.3 percent of the outstanding bills, 182 day bills (22.3 percent) and 91 day bills (10.4 percent).

The Committee observed that the decline in the growth of the domestic debt should be qualified. As such, the decrease is not as a result of the fiscal authorities running a primary surplus sufficient to pay down the debt but owing to the dearth of subscriptions reflecting depressed dalasi liquidity. The liquidity shortage is glaringly manifested by low rollover ratios averaging 65-70 percent over the past two months.

Monetary Developments

Monetary policy in 2008 is aimed at containing inflation below 5 percent, maintaining exchange rate stability and a viable external position.

Growth in money supply in the year to end-January 2008 was 3.9 percent compared to 22.6 percent a year earlier. The expansionary impact of the 23.4 percent increase in the net domestic assets (NDA) was partly offset by the 10.9 percent contraction in the net foreign assets (NFA) of the banking system.

Although the NFA of the Central Bank rose by 9.7 percent to D3.9 billion, the NFA of deposit money banks declined to D1.0 billion, or 41.8 percent. The marked increase in the NDA of the banking system is attributed to a number of factors including revaluation losses which caused other items net to increase to negative D492.5 million from negative D977.2 million a year earlier. Domestic credit also rose by 7.0 percent of which credit to government and public entities rose by 0.5 percent and 15.7 percent respectively. Private sector credit also increased strongly by 14.0 percent.

Reserve money, the Bank's operating target, increased by a minuscule 0.1 percent, well below the growth target of 10.6 percent. This is attributed in the main to the marked contraction in the NDA of the Central Bank by 557.6 percent offsetting the 9.7 percent increase in the NFA. The CBG is poised to meet end-March 2008 quantitative targets agreed with the IMF.

The Committee noted that monetary conditions were quite tight in 2007 evidenced by the miniscule growth of both reserve money and money supply. The consensus was that some pump priming may be needed in the form of (i) purchasing foreign currency which should also lead to a build-up of reserves; (ii) reducing the reserve requirement ratio and (iii) possibly lowering the policy rate.

Financial Stability Report

Developments in the financial sector in 2007 were characterised by increased competition following the establishment of new banks. A discernible consequence of the increased competition is the decrease in the market share of the two largest banks in terms of both assets, deposits, loans and capital and reserves.

The banking sector remained sound and profitable. In December 2007, capital and reserves totaled D1.2 billion and the industry wide average riskweighted capital adequacy ratio was 23.9 percent, higher than the required minimum of 8.0 percent. Total assets of the industry increased to D10.4 billion from D9.2 billion in 2006. Cumulative profits before tax was D288.16 million, but lower than the D399.43 million in 2006.

The ratio of non-performing loans to total loans was unchanged at 13.0 percent. Partly reflecting the high percentage of non-performing loans, interest rate spreads remain high. The average lending rate at end-December 2007 was 22.5 percent whilst the average deposit rate stood at 9.0 percent.

The Committee noted that though the sector is sound, financial intermediation is low by even Sub-Saharan Africa standards. The Committee welcomed the strides made by the non-bank financial institutions in mobilising savings warranting monetary data from these institutions to be included in broad money.

Real Sector Developments

Growth in real GDP is estimated at 6.9 percent in 2007, lower than the 7.7 percent in 2006. Value added of the services and the agricultural sectors are estimated to increase by 11.3 percent and 1.3 percent respectively. Industrial output, on the other hand, contracted by 0.4 percent owing to the decline in building and construction value added. Given that the value-added of the industrial sector grew by a substantial 21.9 percent in 2006, the contraction of industrial output is partly as a result of high base effect. The Gambian economy is projected to grow by 6.5 percent in 2008 premised on strong growth in the services sector, particularly tourism and re-exports.

The Committee noted that though growth is expected to be strong looking forward, more needs to be done to generate quality and timely GDP data. As a result, the fact that the IMF is providing technical assistance to the Gambia Bureau of Statistics (GBoS) in this area is worthy of commendation.

Private sector Business Sentiment Survey

According to the readings of the private sector business sentiment survey, economic activity at both the macro and the company level were higher in the fourth quarter of 2007 compared to the third quarter. Services establishments reported higher business activity than industry firms and are more optimistic about prospects in quarter one of 2008. Not surprisingly, the majority of firms reported higher capital expenditure, employment, sales and profits.

Although about 29 percent of respondents indicated that current prices were higher in quarter four compared to two percent that reported lower prices, the vast majority (69.0 percent) reported no change in prices. Inflationary expectations are subdued with only 15 percent of respondents indicating that prices would be higher in quarter one of 2008.

Inflation

According to the National Consumer Price Index (NCPI), headline inflation in December 2007 was 6.02 percent, significantly higher than the 0.4 percent at end –December 2006. However, prices moderated in January 2008 declining to 5.1 percent.

In January 2008, food prices rose slightly by 0.05 percent compared to 1.04 percent in January 2007. Non-food prices, on the other hand, rose by only 0.06 percent relative to 1.97 percent in January 2007. Core inflation, which excludes prices of volatile food items and energy, decreased to 5.41 percent relative to 6.02 percent in December 2007 but significantly higher than the 0.82 percent recorded in December 2006.

Although the readings from the National Consumer Price Index indicate a deceleration of both headline and core inflation in January 2008 despite the increase in global oil and food prices, the Committee observed that there are risks to inflation looking forward. Higher energy and food prices and possible fiscal overruns were cited as key factors that could contribute to the build up of inflationary pressures.

Staff Report

The objective of the staff report is to facilitate the MPC's decision-making process by focusing on the implications of domestic and international developments and their likely impact on inflation. The Committee commended the ERD for the comprehensive report.

Decision

Taking the above-mentioned factors into consideration, including the risks to the inflation outlook, the Monetary Policy Committee (MPC) decided to maintain the rediscount rate, the policy rate, at 15.0 per cent. The Committee, however, reduced the reserve requirement ratio by two percentage points to 14 percent. The MPC would continue to monitor changes in economic conditions and respond appropriately in discharging its mandate to maintain price stability.