

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

NOVEMBER 1-2, 2007

The twenty-first meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia was held in the Conference Room of the Bank on November 1, 2007.

Present were:

Momodou B. Saho - Governor, Chairman
Basiru A. O. Njai - First Deputy Governor, Member
Amadou Colley - Director, Banking Department, Member
Buah Saidy - Director, Economic Research Dept, Member
Yaya Drammeh - Economist, DOSFEA
Bakary Kolley - Principal Economist, Economic Research
Dept (Secretary)

In Attendance Were:

Momodou.A.Ceesay - Adviser, Governor's Office
Omar Jaata - Director, Foreign Department
S. Bai Senghor - Director, Micro Finance Department
Essa Drammeh - Deputy Director, Financial Supervision Dept.
Paul Mendy - Deputy Director, Financial Supervision Dept.
Alieu B. S. Gaye - Deputy Director, Risk Management Unit
Omar Janneh - Principal Personnel Officer, Admin. Dept
Mbaye Jammeh - Principal Officer, Banking Department
Ebrima A.C. Ndong - Principal Officer, Foreign Department
Seeku Jaabi - Principal Officer, Micro Finance Dept.
Rohey Khan - Senior Economist, ERD
Buba Touray - Senior Economist, ERD
Nyakassi Sanyang - Statistician, ERD
Isatou Mendy - Economist, ERD
Lamin Jarjue - Banking Officer, BD

Mustapha Samateh	-	Banking Officer, FSD
Sheriff Touray	-	Economist, ERD
Abdoulie Touray	-	Banking Officer, FSD
Alagie Darboe	-	Banking Officer, FSD
Alagie Sowe	-	Banking Officer, FSD
Amadou Barry	-	Banking Officer, FSD
Paul Solomon Bruce	-	Assistant Statistician, ERD

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 and inflation.

Matters Arising

The Chairman of the Committee informed members that the Central Bank of The Gambia (CBG) and the Department of State for Finance and Economic Affairs (DOSFEA) have signed a memorandum of understanding (MOU) in the area of domestic debt management and monetary operations.

Developments in the International Economy

The global economy continues to expand, albeit at a slow pace relative to 2006, driven by strong growth in China, Russia and India. Growth in China is estimated at 12.0 per cent in the second quarter of 2007 relative to a year ago, driven by high levels of liquidity, increased investment activity and strong corporate earnings. The measures introduced by the monetary authority of China to slow economic activity and by extension inflation is yet to have a significant effect. GDP growth in India increased to 9.3 per cent on an annualized basis in the second quarter of 2007 and inflationary pressures continued to decline.

Growth in the US is estimated at 4.0 per cent in the second quarter. Growth in Africa is projected at 6.4 per cent and 6.9 per cent in 2007 and 2008 respectively reflecting strong commodity prices and improved domestic policy environment.

Although inflationary pressures remained benign in the major industrial countries, inflation accelerated in many parts of the developing world owing to higher oil and food prices. Oil prices rose to over US \$90.0 per barrel in October 2007 per barrel reflecting tighter market conditions, supply disruptions and persistent geopolitical uncertainties.

The Committee noted that two important developments that could potentially have a negative impact on the Gambian economy are the increase in global oil and food prices. Although oil price increases are mitigated somewhat by the appreciation of the Dalasi and the fact that they are administered, an oil price increase to over US\$ 100 projected in 2008 may feed through to higher domestic prices if passed on to consumers.

Balance Of Payments (BOP) Developments

The overall balance of payments is projected at a surplus of US \$3.99 million in 2007, lower than US \$6.95 million in 2006. The current account balance including official transfers is expected to narrow to 10.1 per cent of GDP from 12.9 per cent of GDP in 2006, reflecting projected improvement in the services account balance from a deficit of D56.0 million in 2006 to a surplus of D318.3 million in 2007. Income from travel and communication services is expected to increase by 10.0 per cent and 68.0 per cent respectively from 2006. In contrast, the capital account and financial account balance is projected to decrease to D1.69 billion in 2007 from D2.04 billion in 2006 owing to decrease drawing on new loans.

The Committee commended the Economic Research Department for timely production of the quarterly BOP Statistics. The availability of timely and

reliable external sector data should immensely improve policy analysis and decision making.

Commenting on the sustainability of the current account deficit it was noted that adjustments have been made following the downward revision of re-export earnings kept abroad. Notwithstanding, the current account deficit is being fully financed and expectations are that the deficit would narrow in 2008. And should the narrowing of the deficit pan out it should have a strengthening impact on the Dalasi.

Foreign Exchange Developments

Foreign exchange developments in the first nine months of 2007 were characterised by marked increase in transaction volumes and a sharp appreciation of the dalasi. The volume of transactions increased to D31.6 billion relative to D23.9 billion in the corresponding period of the previous year. Year-on-year, the performance of the Dalasi was at a four-year high. As at end-September 2007, the Dalasi appreciated against the US Dollar, Pound Sterling and Euro by 32.0 per cent, 25.8 per cent and 22.7 per cent respectively.

The Committee observed that the presentation on foreign exchange developments should have dwelled more on the causes and effects of the appreciation of the dalasi and that more focus should be put on collecting hard data particularly with respect to current transfers, remittances and other transfers rather than relying on anecdotal evidence. As such, the Committee recommended that the Bank should look into the possibility of expanding the Regulatory Reporting Requirement which penalised banks for none or late submission of certain returns to include BOP data. Also, given the revaluation losses incurred by banks, the Committee commended the Central Bank for writing to all the banks requesting them to strictly observe their overnight net open positions per currency and overall.

Government Fiscal Operations

The impressive fiscal performance which started in the first quarter of 2007 continued through the third quarter. Domestic revenue outturn in the third quarter amounted to D829.7 million, and exceeded the target by 5.4 per cent. Direct and Indirect tax outturn was over and above projection while non-tax revenue was slightly below target. Total expenditure and net lending amounting to D771.2 million was below projection by D330.8 million reflecting decreased capital expenditure and net lending.

The overall fiscal balance was in a surplus of D81.1 million in the third quarter and over the nine months to end-September 2007, the surplus totalled D380.7 million, or 2.4 per cent of GDP.

The Committee noted that the fiscal authorities should be commended for implementing prudent fiscal policies which was supportive of monetary policy. Commenting on the low outturn of grants, it was observed that there is a strong correlation between grants and capital expenditure. To the extent that grants were significantly below target, capital expenditure which is mainly financed by grants also fell below projection.

Money Market Developments

The stock of interest bearing debt rose to D5.17 billion in September 2007, or 13.2 per cent from a year earlier. The commercial banks held the bulk of the interest bearing debt (54.5 per cent) and the public and parastatals the remainder.

Reflecting the benign inflationary environment and the appreciation of the Dalasi, the demand for Dalasi assets increased which, in turn, caused the Treasury bill yields to decrease. The maturity structure of Treasury bills continue to move from the short to the long end. As at end-September 2007, 364-Day maturities accounted for 70.98 per cent of outstanding Treasury bills, 182-Day bills (20.04 per cent) and 91-Day bills (8.98 per cent).

Commenting on the pronouncement made by the recent IMF Technical Assistant Mission that there may be a conflict in monetary policy making in that the Bank may be using two operating targets, reserve money and a short-term interest, i.e. the rediscount rate, an observation was made that the policy rate is more of a soft target than an operating target. The other point of view was that the policy rate should merely be viewed as an instrument to influence the Bank's explicit operating target, that is, reserve money.

Monetary Developments

Monetary developments in the year-to-end-September 2007 were characterised by a marked decrease in the growth of money supply. Money supply grew by 12.6 per cent compared to 20.7 percent a year earlier. From end-December 2006, money supply rose by only 1.8 per cent. Both components of money supply increased, but quasi money grew at a faster rate reflecting strong demand for dalasi denominated assets.

Reserve money, the Bank's operating target, grew by 10.2 per cent, slightly above the growth rate of 9.0 per cent a year ago. From end-December 2006, reserve money growth was negative 8.1 per cent.

The Committee observed that the huge revaluation losses of the banking sector had an expansionary impact on money supply. Central Bank's revaluation loss alone amounted to D595.5 million.

Regarding the PRGF performance targets agreed with the Fund for end-September 2007, the Committee noted that all the benchmarks were satisfactorily observed.

Financial Stability Report

The number of commercial banks increased to nine following the granting of an operating license to Ecobank (Gambia) limited. Anecdotal evidence

such as the introduction of myriad banking products as well as increasing number of branches suggests rising competition.

Although some key fundamentals of the banking sector remain solid such as the average capital adequacy (23.2 per cent in September 2007 above the minimum requirement of 8.0 per cent), there were a number of discernible weaknesses. The banking industry's assets contracted to D9.7 billion or 2.3 per cent from end-June 2007. Non-performing loans as a percentage of gross loans remain high at 13.1 per cent. And owing to marked appreciation of the Dalasi, revaluation losses mounted and gnawed at profitability of banks. The return on assets fell to negative 1.97 per cent in the third quarter of 2007 compared to 4.0 per cent in the corresponding period in 2006.

The decrease in profitability of banks prompted debate on whether The Gambia is over-banked. Although financial deepening indicators suggest otherwise, the Committee agreed on the need for a thorough study before decision is taken to put a lid on the licensing of new banks.

Real Sector Developments

Economic growth is projected at 7.0 per cent in 2007 supported by increased value-added from agricultural, construction, communications and tourism sectors.

The Committee noted that though the agricultural sector accounts for only 30.0 per cent of GDP, its impact on the Gambian economy is pervasive bearing in mind that (i) about 70.0 per cent of Gambians are employed in the sector and (ii) agricultural activity and the income of farmers have a strong influence on the services sector, particularly transportation and the trade sub-sectors.

The Committee emphasised that more work needs to be done to better measure economic activity, including introducing an economic activity

index. The introduction of the index is hampered by the lack of responses from firms.

Inflation

The monetary condition index indicates that monetary policy eased over the past fourteen months relative to end-September 2005, reflecting the combination of a decline in real interest rates and appreciation of the real effective exchange rate of the Dalasi.

Inflation, measured by the National Consumer Price Index (NCPI), rose from 1.3 per cent in September 2006 to 6.0 per cent at end-September 2007. Average inflation was 4.0 per cent compared to 2.6 per cent a year earlier.

Food consumer price inflation rose to 9.3 per cent relative to 1.1 per cent in September 2006. In contrast, non food prices rose to 2.4 per cent, from 1.7 percent at end-September 2006. Core inflation, which excludes energy and volatile food prices accelerated to 6.1 per cent from 1.3 per cent in September 2006.

Members observed that readings of current inflation figures have not demonstrated a sustainable moderation of inflationary pressures notwithstanding the appreciation of the dalasi, miniscule growth in money supply and supportive fiscal policies over the past nine months. The Committee made no revisions to the near term outlook for inflation, convinced that the downside risks to inflation, driven by the marked appreciation of the Dalasi, outweigh the upside risks.

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 MPC would continue to monitor changes in economic conditions and respond appropriately in discharging its mandate to maintain price stability.