MINUTES OF THE MONETARY POLICY COMMITTEE MEETING
FEBRUARY 26, 2009

The 28th meeting of the Monetary Policy Committee (MPC) of the Central Bank of the Gambia was held in the Conference Room of the Bank on February 26, 2009.

Present were:

Momodou B. Saho	Governor, Chairman, Member
Basiru A.O Njai	First Deputy Governor, Member
Oumie Savage Samba	Second Deputy Governor, Member
Mr. Momodou Ceesay	Adviser to the Governor
Mr. Ousman Sowe	Director, FSD, Member
Mr. Amadou Colley	Director, BD, Member
Mr. Ismaila Jarju	OIC, ERD, Member
Mr. Serign Cham	PS II DOSFEA, Member
Mr. Alhagie Tall	DOSFEA, Member
Momodou Sabally	Senior Economist, ERD, Secretary

In Attendance were:

Mr. Herbert Carr	Director, AHRD
Mr. Ousainou Corr	Director, Finance Department
Ms. Haddy Joof	Sup. Director, AHRD
Mr. Omar Jatta	Director, Foreign Department
Mr. Alieu Gaye	Deputy Director, RMU
Mr. Mbye Jammeh	Deputy Director, BD
Mr. Omar K.Janneh	Deputy Director, Admin
Mr. Paul Mendy	Deputy Director, FSD
Ms. Annetta Riley	Senior Banking Officer, BD
Mr. Karamo Jawara	Senior Banking Officer, BD
Mr. Lamin Jarjue	Senior Banking Officer, BD
Mr. Bakary Jammeh	Senior Economist, ERD

Mrs. Maimuna John Sowe	Senior Economist, RED
Mr. Ebrima Wadda	Senior Economist, ERD
Mr. Karafa Jobarteh	Foreign Department Officer, FD
Mr. Alhagie Darboe	Bank Examiner, FSD
Mr. Sulayman Ceesay	Statistician, ERD
Mrs. Isatou Mendy	Economist, ERD
Mr. Saikouba Sisay	Economist, ERD

Before turning to its immediate policy decision, the members of the MPC discussed and adopted the minutes of the previous meeting as amended. This was followed by presentations on international, foreign exchange, real sector, money market, monetary and financial sector developments as well as the business sentiment survey and the inflation outlook.

(1) Developments in the International Economy

Global output, in purchasing power parity terms, is projected to expand by only 0.5 percent in 2009 from 3.9 percent in 2007. However, when measured in market exchange rate terms, output is expected to contract, the worst economic performance since the Second World War.

Output in advanced economies is projected to contract by 2.0 percent in 2009, the first annual contraction during the post-war period. The contraction is expected to be more severe in Japan.

Economic growth in the US is forecast to contract by 1.6 percent in 2009 compared to 1.1 percent in 2008. The U.S unemployment rate rose to 7.6 percent in January 2009, the highest since 1992. U.S consumer prices increased by only 0.3 percent in January 2009 after declining by 0.8 percent in December 2008. To stimulate economic growth and stave off deflation, the Federal Reserve announced in January 2009 that the cost of borrowing would remain low for the foreseeable future.

Growth in the Euro area averaged 1.0 percent in 2008. However, economic output is expected to contract by at least 2.0 percent in 2009 before expanding by 0.2 percent in 2010. Inflationary pressures decelerated to 1.6 percent in December 2009 from 1.2 percent in November 2008. The European Central Bank (ECB) cut its policy rate to 2.0 percent in October 2008 to support economic growth.

Growth in the U.K averaged 0.7 percent in 2008, but is expected to contract by 2.8 percent in 2009. Consumer prices, that rose to 5.2 percent in September 2008, fell to 3.0 percent in January 2009. The deceleration in inflationary pressures and the slowdown in economic activity caused the Bank of England Monetary Policy Committee to reduce the policy rate to 2.0 percent in February 2009.

Japan's economy contracted by 3.3 percent in the fourth quarter of 2008, much steeper than the contraction experienced in the U.S and Europe. Inflation remains very low and as a result, the Bank of Japan continues to hold the policy rate close to zero.

Growth in Emerging and developing economies is projected at 3.3 percent in 2009 from 6.3 percent in 2008 reflecting slow growth in the developed world and the consequent fall in export demand and tighter external financing.

Growth in China is expected to increase by 8.0 percent in 2009 from 9.0 percent in 2008. Inflation was 1.0 percent in January 2009 prompting fears of deflation. The Chinese authorities are expected to reduce the policy rate and increase public spending to expand economic activity.

Growth in Sub-Saharan Africa is forecast at 3.5 percent, lower than the 5.4 percent in 2008. The on-going financial crisis continues to negatively impact FDI, remittances and tourism flows while major commodity exporting countries suffered terms of trade shocks.

Owing to high inventory levels and low demand, oil prices averaged US $40.0 in January 2009. Prices are expected to remain weak through the first half of 2009 and to rebound in 2010 when global economic activity is forecast to recover somewhat. Prices of metals and other commodities such as grains and sugar are also expected to be under downward pressure in 2009 reflecting the combination of reduced demand and higher output.

The Committee observed that the remittances data from the forex bureaux and anecdotal evidence suggest that remittances increased in 2008 relative to 2007. However, considering that remittances are largely a function of income, protracted slowdown in the developed world should lead to a decrease in remittances. While reiterating the need to collect firm data on remittances from the banks rather than rely on anecdotal evidence, the Committee underscored that data from a number of African countries indicate a decrease in remittances.

The Committee noted that the outlook for the global economy has deteriorated since the last MPC meeting with the intensifying financial crisis spilling over into the real economy. Heightened uncertainty is undermining business and household confidence worldwide and further eroding domestic demand. Commodity prices especially energy prices, have fallen as a result of the substantially weaker global demand.

The Committee agreed that stabilization of the global financial system is a precondition for economic recovery and welcomed the bold and concerted policy actions being implemented by governments and central banks to normalize financial conditions and return the global economy to growth.

The Committee underscored that global developments pose significant downside risks to inflation. Because financial conditions may take longer to normalize, the global recession, could be deeper and more protracted. This, coupled with a wider output gap should put downward pressure on prices.

(2) Exchange Rate Developments

The volume of transactions in the inter-bank foreign exchange market totaled US $1.3 billion in the year to end-January 2009, lower than the US $1.7 billion a year ago. This mainly reflected reduced inflows from tourism and FDI. According to the balance of payments (BOP) data, tourism and FDI receipts decreased to D1.62 billion and D1.56 billion, or 13.1 percent and 18.2 percent respectively from 2007.

In January 2009, the Dalasi depreciated against all the major currencies with the exception of the Pound Sterling relative to January 2008. The Dalasi weakened against the US Dollar and Euro by 16.7 percent and 1.9 percent, but appreciated by 15.9 percent against the Pound Sterling.

Commenting on the foreign exchange development report, the Committee called for more rigorous analysis of market developments to better inform policy. Also, the Committee underscored that a better measure of the performance of the Dalasi is the nominal effective exchange rate index. And according to the index, the Dalasi depreciated by 6.0 percent in January 2009 compared to January 2008 and fared better than many of the currencies in the sub-region.

(3) Fiscal Developments

Fiscal performance deteriorated in 2008 relative to 2007. Total revenue and grants amounted to D 3.6 billion (20.4 percent of GDP) in 2008 and was lower than the D 3.7 billion (23.3 percent of GDP) in 2007.

Tax revenue rose to D3.2 billion, or 3.6 percent from 2007 but was below target by D201.3 million. Direct taxes increased significantly to D1.1 billion, or 29.0 percent reflecting substantial increase in personal, corporate, capital gains and payroll taxes by 24.2 percent, 15.2 percent, 288.1 percent and 19.6 percent respectively. Indirect taxes, on the other hand, decreased to D2.0 billion, or 6.8 percent from 2007. Although domestic taxes on goods and services rose by 16.9 percent, revenue from international trade taxes fell by 14.8 percent reflecting the 14.0 percent and 15.6 percent decrease in duty and sales tax on imports respectively.

Non-tax revenue declined to D317.7 million, or 23.6 percent attributed to the 19.3 percent and 37.7 percent decrease in government services and charges receipts and telecommunication licenses respectively.

Grants fell to D165.6 million, or 14.6 percent from 2007. Project grants totaled D1.1 million in 2008 and there were no programme grants.

Expenditure and net lending increased to D4.1 billion (23.1 percent of GDP), or 13.8 percent from 2007. Current expenditure rose to D3.0 billion, higher than the outturn of D2.6 billion in 2007. All components of current expenditure rose with the exception of interest payments. Interest payments fell to D708.4 million, or 13.1 percent reflecting mainly HIPC and MDRI debt relief. External interest payments declined by 33.5 percent and domestic interest payments by 5.0 percent. Correspondingly, the proportion of interest payments to current expenditure declined to 23.5 percent from 31.5 percent in 2007.

Capital expenditure increased to D1.0 billion, or 9.7 percent from 2007. Externally financed development expenditure decreased to D505.2 million, or 35.3 percent while financing from Government local fund rose to D511.4 million, or 165.6 percent from 2007.

The overall budget balance (including grants) on commitment basis deteriorated from a surplus of D27.7 million (0.2 percent of GDP) in 2007 to a deficit of D490.2 million (2.7 percent of GDP) in 2008.

The budget balance (excluding grants) on commitment basis was a deficit of D655.8 million, or 3.7 percent of GDP compared to a deficit of D166.7 million, or 1.1 percent of GDP.

The basic balance was a deficit of D150.6 million (0.8 percent of GDP) while the basic primary balance was in surplus in the amount of D557.8 (3.1 percent of GDP).

The Committee commented that the significant decrease in indirect taxes, particularly taxes on international trade was not only as a result of a decrease in import volumes but also reflected government fiscal measures, including the reduction of import duty on rice, aimed at softening the impact of the global food and energy prices on the Gambian population, particularly the poor. However, the Committee expressed concern that the expansionary fiscal policy stance has spilled into strong growth in the monetary aggregates. For example, the banking system's claims on government rose by a robust 87.6 percent and contributed significantly to 19.3 percent growth in money supply.

The Committee agreed with the policy action taken by government to maintain the retail price of petroleum, despite the marked decrease in oil prices. It is critical that government rebalances the budget to support monetary policy. The Committee, however, advised that maintaining a very high retail price over a long period may result in a loss of competitiveness.

(4) Money Market Developments

As at end-January 2009, the domestic debt rose to D5.9 billion (26.2 percent of GDP), or 7.5 percent from January 2008 attributed primarily to the 63.2 percent increase in the stock of non-interest bearing (NIB) notes. The stock of outstanding Treasury bills, accounting for 79.7 percent of the domestic debt, contracted by 1.2 percent. Commercial banks held 65.2 percent of Treasury bills, the non-bank (30.7 percent) and the Central Bank of The Gambia (4.1 percent).

Regarding the distribution of Treasury bills by maturity, the 364-day bills accounted for 70.6 percent of the stock, 182-day bills (16.0 percent) and 91-day bills (13.4 percent).

The yield of the 91-day bill declined to 10.53 percent in January 2009 from 10.61 percent in January 2008 while that of the 182-day and 364-day bills increased to 12.09 percent and 14.41 percent in January 2009 from 11.43 percent and 13.6 percent respectively in January 2008.

The Committee observed that the less than 100 percent rollover ratio of Treasury bills in the year to January 2009 was not as a result of a decreasing appetite for debt by Government, but because commercial banks and non-bank investors were unable to fully pick up the bills that were floated. To help finance the budget deficit, the Central Bank entered into an agreement with Government raising the limit on Central Bank financing from 10 to 20 percent of the previous year tax revenue for the period November 2008 to June 2009 but on condition that: (i) the Central Bank shall not breach the net domestic assets ceiling (NDA) agreed with the IMF under the PRGF Arrangement (ii) the Central Bank shall endeavour to transfer the debt to the private sector (iii) Government shall restrain expenditure as much as possible and (iv) Government to expedite receipt of programme grants from the World Bank and the African Development Bank. And to better monitor the sustainability of the domestic debt, the Committee advised that subsequent reports should include debt sustainability thresholds.

(5) Monetary Developments

In the twelve months to end-January 2009, money supply grew by 19.3 percent, significantly higher than the 3.9 percent a year ago and the target of 5.7 percent under the PRGF Arrangement agreed with the Fund. The strong growth in money supply is attributed solely to the 49.4 percent increase in the net domestic assets (NDA) which offset the 12.4 percent contraction in the net foreign assets (NFA) of the banking system.

Quasi money, comprising savings and time deposits, rose to D4.8 billion in January 2009 from D4.0 billion at end-January 2008.Time and Savings deposits increased by 42.5 percent and 5.1 percent respectively. The share of quasi money to broad money decreased, albeit slightly from 49.6 percent in January 2008 to 49.3 percent in January 2009.

Narrow money, comprising currency outside banks and demand deposits, increased to D4.9 billion, or 20.2 percent from January 2008. Demand deposits and currency outside banks rose by 25.4 percent and 12.6 percent respectively. The ratio of narrow money to broad money increased slightly from 50.4 percent in January 2008 to 50.7 percent at end-January 2009.

The monetary base rose by 12.7 percent, significantly higher than the growth rate of only 0.1 percent a year earlier. This mainly reflected the 226.6 percent increase in the NDA which dwarfed the 4.4 percent contraction in the NFA of the Central Bank.

The Committee agreed that if the strong growth in the monetary aggregates is not contained, it is likely to feed through into higher prices. To ensure that the monetary aggregates are within target, it is important that the Central bank continues to maintain the tight monetary policy stance and Government to take action to address the fiscal shocks and rebalance the budget.

(6) Financial Stability Report

The performance of the banking sector in 2008 was mixed. Capital and reserves increased to D1.4 billion, or 18.2 percent from 2007. The average risk weighted capital adequacy ratio was 35.9 percent in 2008, higher than the 23.7 percent in 2007.

Total assets rose to D12.5 billion, or 19.5 percent with net loans and advances increasing to D3.5 billion, or 35.5 percent from 2007. Deposit liabilities also rose to D8.0 billion, or 21.2 percent from 2007. Correspondingly, the loan to deposit ratio, an indicator of financial deepening, rose from 39.5 percent in 2007 to 45.3 percent in 2008.

The non-performing loans ratio increased from 7.3 percent in September 2008 to 9.5 percent in December 2008. Earnings weakened with net profit after tax decreasing to D151.7 million in 2008, or 16.8 percent from 2007.

The Committee observed that the strong growth in private sector credit mainly reflected robust economic activity and generally improving credit market conditions. The banking sector remains generally sound. All the banks observed the capital requirements: minimum capital requirement of D60.0 million; risk weighted capital adequacy ratio not below 8.0 percent and gearing ratio not exceeding 12.5 times.

(7) Real Sector Developments

Economic growth is estimated at 6.1 percent in 2008 compared to 6.3 percent in 2007. The slight decrease in output was mainly due to reduced activity in the services sector, particularly tourism.

Economic growth in 2009 is forecast to slowdown to the range of 4.6 – 6.0 percent. The expected decline in tourism activity should exert a significant drag on growth, but this drag should diminish in 2010 as the global economy gradually recovers.

(i) Business Sentiment Survey

Sentiment on economic and business activity was subdued. The majority of respondents indicated that economic and business activity in the fourth quarter was lower relative to the third quarter of 2008 with a diffusion index of negative 14 percent and negative 16 percent respectively. Correspondingly, sales and profits were reported to be lower but capital expenditure and employment were higher.

A higher percentage of respondents indicated that current prices were lower in the fourth quarter compared to the third quarter but expect inflation to be higher in the first quarter of 2009 with a diffusion index of positive 12.

The Committee underscored that inflationary expectations have moved up since that last survey probably reflecting the elevated level of headline inflation. Therefore, should prices decrease in the later part of 2009 as expected, inflationary expectations would likely dissipate. To improve the quality and timeliness of the survey, the Committee advised that Bank staff build a stronger relationship with the respondents as well as explore obtaining high frequency data to better inform policy.

(8) Inflation

End-period inflation, measured by the National Consumer Price Index, rose to 7.0 percent in January 2009 from 5.1 percent in January 2008. The annual average inflation, however, decreased to 4.6 percent in the year to end-January 2008 compared to 5.7 percent a year earlier.

Food price inflation rose to 8.8 percent in January 2009 from 8.4 percent in January 2008. Non-food prices also accelerated to 4.7 percent from 1.4 percent in January 2008.

Core inflation, which excludes prices of energy and volatile food items, rose from 5.4 percent in January 2008 to 6.9 percent in January 2009.

The Committee believed that the increase in headline inflation in 2008 was largely caused by high food and energy prices but that the price pressures may have been accentuated by the strong growth in the monetary aggregates. Although inflation is expected to edge lower over the course of 2009, the Committee underscored the view that this assessment is conditioned upon continuing decrease in the import price of food and energy and inflationary expectations remaining well anchored.

(9) Decision

Taking the above-mentioned factors into consideration, including risks to the inflation outlook, the MPC decided to maintain the rediscount rate at 16.0 percent.