MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

January 30, 2012

The first meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) in 2012 took place in the Conference Room of the Bank.

Present were:

Mr. Amadou Colley	Governor, Chairman, Member
Mr. Basiru A.O Njai	First Deputy Governor, Member
Mrs Oumie Savage-Samba	Second Deputy Governor, Member
Mr. Essa Drammeh	Director, (FSD), Member
Mr. Ismaila Jarju	Director, Department, (ERD) Member
Mr. Alhagie Taal	Director, Macroeconomic Unit, MOFEA, Member
Mrs Amie Khan	Principal Economist, Macroeconomic Unit, MOFEA, Member
Mr. William Eunson	Director, Banking Department, Member
Mr. Bakary Jammeh	Deputy Director, ERD, (Secretary)

In Attendance were:

Mr. Momodou Ceesay	Senior Adviser, Governor's Office
Mr. Omar Jaata	Director, Foreign Department
Mr. Ousainou Corr	Director, Finance Department
Mr Pa Alieu Sillah	Commissioner of Insurance
Mr. Paul Mendy	Director, FSD
Mr. Mbye Jammeh	Deputy Director, Banking Department
Mr. Michael Barrai	Deputy Director, Finance Department
Mr. Momodou Njie	Principal Bank Examiner, FSD
Mr. Ebrima N. Wadda	Principal Economist, ERD
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mrs Ida Faye	Principal Bank Examiner, FSD
Mr. Momodou Lamin Jarjue	Principal Banking Officer, BD

Mrs. Annetta Railey	Principal Banking Officer, BD
Mr. Karafa Jobarteh	Senior Officer, Foreign Department
Mrs. Isatou Mendy-Volo	Senior Economist, ERD
Mr. Nyakassi sanyang	Senior Economist, ERD
Mr. Mustapha Samateh	Senior Bank examiner, FSD
Mr. Sherrif Touray	Senior Economist, ERD
Mr. Sulayman Ceesay	Economist/Statistician, ERD
Mrs. Binta Beyai	Economist, ERD
Mr. Abdoulie Janneh	Macroeconomist, ECOWAS NCC
Mrs Chilel Ceesay	Economist, MOFEA

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on Monday, January 31, 2012. In his opening remarks, the Governor and Chairman of the MPC welcomed all those present at the meeting. Thereafter, the Committee reviewed, amended and adopted the minutes of the previous meeting. This was followed by presentations and discussions on international economic developments, balance of payments, foreign exchange, monetary and money market developments, real sector as well as Government fiscal operations, inflation, financial stability report and private sector business sentiment survey.

World Economic Outlook

Since the preceding meeting of the Monetary Policy Committee (MPC), the outlook for the global economy has deteriorated. The sovereign debt crisis in the Euro zone has intensified, conditions in the international financial markets have tightened, and risk aversion has increased.

According to the latest World Economic Outlook (WEO) of the International Monetary Fund (IMF), global economic growth is forecast to decelerate to 3.25 percent in 2011, down by 1.1 percentage point compared to the earlier projection, reflecting mainly the deteriorating economic conditions in the Euro zone. Growth projections for the zone have generally been revised down amid widespread sovereign rating down grades.

Economic growth in the United States and Japan were stronger in the second half of 2011. Output growth in the US was 3 percent in the fourth quarter of 2011 and the unemployment rate declined to 8.5 percent. Both consumption and investment expenditures have shown signs of recovery, although downside risks relating to fiscal consolidation and continued weakness of the housing market remain.

Japan's economy was dragged into a recession after the earthquake, which caused severe supply disruptions. However, the latest figures show that exports are improving, helping economic growth to pick up. Notwithstanding, the Bank of Japan has lowered its economic forecast to 2 percent from the October estimate of 2.2 percent for 2012.

The outlook for the UK economy has worsened as household and business confidence declined. This, coupled with fiscal consolidation and falling household income, are likely to weigh heavily on the UK economy in 2012. The economy grew by 0.9 percent in 2011 from 2.1 percent in 2010.

Growth in emerging markets and developing countries though relatively strong, is expected to moderate somewhat partly due to contagion from the European debt crisis and policies aimed at curbing domestic demand pressures.

Economic activity in China is expected to slow but a hard landing is not anticipated. Economic growth decelerated to 8.5 percent in 2011 compared to 10.4 percent in 2010.

Growth in Sub-Saharan Africa is forecast at 5.3 percent in 2011 and 5.8 percent in 2012 reflecting a combination of sound economic policies and high commodity prices.

Global inflation is moderating as weaker demand pushed down food and commodity prices. Oil prices, on the other hand, remain elevated largely explained by risks to supply due to geopolitical factors.

In advanced economies, ample economic slack and well anchored inflation expectation kept inflationary pressures down. Inflation is projected to decline to 1.5 percent in 2012, down from 2.75 percent in 2011. In emerging and developing countries, inflation is projected to decline from 7.3 percent in 2011 to 6.3 percent in 2012.

According to the IMF, oil prices are expected to remain elevated for some time before easing marginally in 2012 despite subdued prospects of global economic activity. Prices are projected to average US$ 99.0 a barrel compared to earlier projections of US$100.0 a barrel.

The United Nations food and Agriculture Organization (FAO) Food Price Index averaged 228 points in 2011, 48 points and 28 points higher than in 2010 and the highest index recorded in 2008 respectively.

The Committee noted that going forward, food and energy prices, the output gap and the credibility of the policy makers would determine the path of inflation. The Committee welcomed the easing of global food prices and agreed that it should bode well for domestic prices considering that food accounts for 55 percent of the weight in the consumer price index.

The Committee commented that most of the economies in the WAMZ are poised to grow faster in 2012 owing to a combination of sound economic policies and strong commodity prices particularly prices of metals and oil. It was noted that the economy of Senegal has a bigger impact on The Gambia than any other country in the region given the importance of the re-export sector to the Gambian economy. Importantly, according to recent data and anecdotal evidence, The Gambia enjoys a trade surplus with Senegal.

The Committee indicated that the two great factors at the root of the financial crisis in the USA, namely the housing burst and excessive private debt, particularly household debt are easing thus supporting growth. In particular, household debt has decreased substantially as a percentage of GDP since the end of 2008. Additionally, exports of goods and services have also grown to some US$ 2.0 trillion in 2011 and accounted for 14.0 percent of GDP, the largest since 1929. The improvement in exports was on account of a confluence of factors including cheap dollar, and increased global demand for American products particularly electronic goods.

External Sector Developments

Preliminary balance of payments (BOP) estimates for the first nine months of 2011 indicated an overall surplus of US$20.06 million, lower than the US$52.49 million recorded in the corresponding period last year. The current account is estimated at a surplus of UD$38.29 million, higher than the surplus of US$17.66 million in the first nine months of 2010.

Of the components of the current account, the goods account deficit narrowed marginally to US$74.62 million from a deficit of US$77.68 million in the same period last year. The narrowing of the deficit was on account of increased exports to US$129.09 million, or 33.3 percent from the corresponding period in 2010. Imports also rose, but at a slower pace of 16.4 percent to US$209.1 million.

The services account surplus more than doubled from US$12.14 million in 2010 to US$24.83 million during the period under review attributed mainly to the 9.3 percent increase in tourism income.

The deficit in the income account worsened from US$5.1 million in the first nine months of 2010 to US$13.2 million during the period under review.

Current transfers, comprising transfers to general government and other sectors, rose to US$101.3 million relative to US$88.3 million in the corresponding period last year.

The capital and financial account was in a deficit of US$18.23 million relative to the surplus of US$34.83 million in the corresponding period in 2010. This was mainly on account of reduced drawings on new loans by central government, coupled with increased loan repayments.

The Committee was informed that the Gambia Groundnut Corporation (GGC), through the Government of The Gambia was granted a loan by the Islamic Development Bank for the purchase of groundnuts. However, the GGC could not take advantage of the facility in 2011 due to the crop failure in 2010.

The Committee indicated that external shocks could profoundly impact the Gambian economy in the form of reduced inflows given the openness of the economy. While agreeing that shocks cannot be totally eliminated, it can be mitigated by the implementation of sound macroeconomic policies.

The Committee commented that during the 2007/2008 financial crisis many countries implemented counter cyclical policies because they had the fiscal space. The Gambia, on the other hand, implemented procyclical policies in order to maintain the stability of the Dalasi.

Commenting on the determinants of external vulnerability it was pointed out that the key factors include the stock of reserves, short-term external debt, and the budget deficit as a percentage of GDP. The conclusion was that reserves in months of imports averaged 5 months, higher than the rule of thumb of 3 months of imports, short-term debt to reserves is negligible. Additionally the budget deficit including grants as a percentage of GDP was 2.8 percent in 2011. However, both the external and domestic debt remain high indicating high risk of debt distress.

Exchange Rate Developments

Volume of transactions in the foreign exchange market, measured by aggregate purchases and sales of foreign currency, decreased to US$1.43 billion in 2011, or 14.4 percent from 2010. Sales (demand) and purchases (supply) totaled US$0.72 billion and US$0.71 billion compared to US$ 0.85 billion and US$0.82 billion respectively in 2011.

The US Dollar continues to be the most traded currency in the foreign exchange market, accounting for 65.4 percent of the total market turnover in 2011 followed by the Euro (22.11 percent) and Pound Sterling (10.79 percent). The other currencies combined accounted for the remaining 1.68 percent.

The Dalasi, although broadly stable, depreciated against all the major currencies traded in the inter-bank market. The Dalasi weakened against the US Dollar by 7.7%, Pound Sterling (6.90%), Euro (8.84%) and CFA (3.61%). In nominal effective exchange rate terms, the Dalasi weakened by 6.5 percent, higher than the 1.9 percent depreciation recorded in 2010.

The Committee commented that the decrease in volume of transactions in 2011 could be attributed partly to the capital injection by foreign parent banks for their subsidiaries to meet the minimum capital requirement of D150 million in 2010. If the capital injections are discounted, volume of transactions shows little change in 2011 relative to 2010.

The Committee commented that the fact that the country has a flexible exchange rate regime implies that in many instances the exchange rate acts as a shock absorber. Notwithstanding, the outlook of the Dalasi depends on myriad factors including the stance of monetary and fiscal policies as well as developments in the international economy.

The Committee observed that given the marked decrease in agricultural production, there is a likelihood of a drawdown in reserves which could potentially put pressure on the Dalasi. It is therefore paramount to maintain healthy reserves going forward.

Fiscal Developments

Provisional data on government fiscal operations indicate an improved fiscal performance in 2011 relative to the preceding year.

Domestic revenue, comprising tax and non-tax revenue, rose to D4.2 billion, or 6.9 percent. Tax receipts amounted to D3.7 billion, of which D1.8 billion (47.8 percent of the total) was on account of international trade taxes. Non-tax revenue also rose to D499.6 million, or 7.4 percent.

Revenue and grants increased by D227.7 million to D5.2 billion (16.1 percent of GDP) compared to D5.0 billion (17.1 percent of GDP) in 2010.

Total expenditure and net lending rose to D6.1 billion (18.8 percent of GDP), or 1.5 percent from 2010. Current expenditure increased to D4.4 billion (13.6 percent of GDP), or 13.3 percent over 2010. In contrast, capital expenditure contracted to D1.7 billion, or 20.8 percent from 2010. About 59.2 percent of capital expenditure was financed by grants, external loans (23 percent) and Government Local Fund (17.8 percent).

The overall deficit (including grants) on a commitment basis was a deficit of D909.4 million (2.8 percent of GDP), lower than the D1.04 billion (3.5 percent of GDP) in 2010. The deficit was financed by domestic borrowing totaling D833.8 million and external borrowing (D50.8 million).

The Committee welcomed the narrowing of the budget deficit but raised concern over the level of the domestic debt and the composition of expenditure which was biased towards current expenditure. The wage bill in particular consumed 38.1 percent of the current expenditure compared to 37.7 percent in 2010. The Committee advised on the need for fiscal adjustment to rein in recurrent expenditure and free resources for capital expenditure as well as to stabilize and ultimately reduce the domestic debt.

Commenting on the financing of the deficit, it was indicated that although there was a net repayment to the non-bank sector of some D182.8 million, commercial bank financing continue to grow, crowding out the private sector.

The Committee expressed the fact that an important aspect in paying down the debt is to grow the economy at a more robust pace. It was noted that to grow the economy at the rate of, say, 8 percent requires an investment rate of about 25 percent.

Money market developments

As at end-December 2011, the total outstanding domestic debt was D9.5 billion compared to D8.7 billion in 2010. Treasury bills and Sukuk Al Salaam (SAS) combined and accounting for 75.1 percent of the debt rose to D7.1 billion, or 16.4 percent. Commercial banks held the bulk of the Treasury bills and SAS (83.5 percent), the non-bank (14.9 percent) and CBG (1.6 percent). The 30 year and 10 year Government bonds declined to D1.76 billion and D187.7 million compared to D1.83 billion and D208.5 million respectively in 2010.

According to data on the maturity structure of Treasury bills, the 364-day bills accounted for 65.1 percent of the stock, 182-day bills (20.5 percent) and 91-day bills (14.4 percent).

The yield on all the maturities declined in 2011. The yield on the 91-day, 182-day and 364-day bills decreased from 10.10 percent, 10.53 percent and 13.09 percent in December 2010 to 8.07 percent, 10.18 and 11.85 percent respectively in December 2011. Similarly, the yield on 91-day SAS fell from 9.44 percent in December 2010 to 9.07 in December 2011.

The Committee raised concern over the level and the rapid growth of the domestic debt. The Committee advised on a menu of options to restructure and pay down the domestic debt such as debt swaps, or the reprofiling of the debt to longer maturities, fiscal restraint and the use of grants purposely for debt repayment.

The Committee commented that to the extent that D7.1 billion of the debt would have to be refinanced in 2012, coupled with new borrowing may cause yields to increase, reversing the decline in yields in 2011. Notwithstanding, the Committee expressed the importance of the debt market in the conduct of monetary policy and to finance the budget deficit. In addition, a well functioning debt market will enable banks diversify their asset portfolio, critical for their long term health.

Real Sector developments

Data from the Gambia Bureau of Statistics (GBOS) showed that the Gambian economy grew by 5.4 percent in 2011, but lower than the revised estimate of 5.5 percent and 6.7 percent in 2010 and in 2009 respectively. Per capita GDP in 2011 is estimated at US $436, lower than the US $449 in 2010. Economic activity in 2011 was largely constrained by erratic rainfall which affected crop production. Agricultural output grew at a slower pace of 4.0 percent in 2011 compared to the 12.1 percent in 2010. Crops, livestock, forestry and fishing subsectors grew by 3 percent, 6.3 percent, 3.5 percent, 2.1 percent from 14.3 percent, 10.9 percent, 3 percent and 1.7 percent respectively in 2010.

The services sector, accounting for 54.3 percent of GDP in 2011, grew by 8.5 percent, higher than the 1.2 percent in 2010. Of the services subsectors, hotels and restaurants and wholesale and retail grew by 7.9 percent and 0.7 percent relative to the contraction of 0.4 percent and 35.7 percent respectively in 2010.

The industrial sector is estimated to have grown by 1.3 percent in 2011 compared to the revised growth rate of 2.6 percent in 2010 attributed to the decrease in the output of mining and quarrying and electricity, gas and water to 1.6 percent and 1.4 percent from 4.2 percent and 7.7 percent respectively in 2010. Manufacturing value-added, on the other hand, rose to 3.9 percent from 0.4 percent in 2010.

The Committee commented that the marked decrease in agricultural output negatively impacted household income particularly the rural poor who solely depend on agriculture for their livelihood.

The Committee noted that it expects the growth rate of 5.4 percent projected for 2011 would be revised downwards. And to the extent that crops contribute 60.3 percent to agricultural output implies that about 18.0 percent of GDP would be lost on account of the crop failure in 2011. The Committee advised on the need to scale up investment in agriculture including expanding the irrigation infrastructure to boost agricultural production. The Committee further noted that growing the overall economy at a more robust pace is predicated on a number of factors including maintaining the current environment of macroeconomic stability, scaling up infrastructural investment, and ensuring access to affordable finance.

The Committee agreed that high lending rates stifle growth and in an environment of decelerating inflation and slowdown in economic activity, the Taylor Rule should kick in. That is, interest rates including lending rates should be reduced.

The Committee indicated that the increase in the value-added of the construction subsector was as a result of the decline in the price of imported cement and the increase in the volume of remittances. The expectation is that if some of the public construction projects come on stream, value-added of the sector would be positive in 2012.

Monetary Developments

Monetary developments in 2011 were characterized by continued deceleration in the growth of the money supply. Money supply grew by 11.0 percent, lower than the 13.7 percent in 2010. Both narrow money and quasi money increased, albeit at a fairly modest pace.

Narrow money (M1) increased to D6.7 billion, or 10.7 percent from 2010. Of the components of narrow money, demand deposits and currency outside banks rose by 8.4 percent and 15.1 percent respectively. The ratio of narrow money to broad money decreased slightly from 45.3 percent in 2010 to 45.2 percent in December 2011.

Quasi money rose to D8.1 billion, or 11.2 percent from previous year. Both time and savings deposits increased by 5.5 percent and 16.3 percent respectively during the review period. The share of quasi money to broad money rose slightly from 54.7 percent in 2010 to 54.8 percent in 2011.

Regarding the determinants of money supply, the net foreign assets (NFA) of the banking system rose to D4.5 billion, or 13.1 percent from 2010. The NFA of the Central Bank increased to D3.1 billion, or 15.9 percent. Consequently, gross official reserves increased to D5.5 billion, or 19.6 percent from the previous year. Similarly, the NFA of commercial banks rose to D1.5 billion, or 7.7 percent. The increase in their foreign assets holdings more than offset the increase in foreign liabilities.

The net domestic assets (NDA) of the banking system rose to D10.2 billion, or 10.1 from the previous year. Domestic credit increased to D11.4 billion, or 13.3 percent compared to the 34.6 percent in 2010. The growth of private sector credit slowed steadily during the year under review. Private sector credit declined from 26.0 percent at the beginning of the year to 3.0 percent and 3.4 percent in May and October 2011 respectively.

The Committee commented that monetary policy was somewhat tight in 2011 contributed to deceleration in inflationary pressures. Fiscal policy was supportive of monetary policy evidenced by the fact that new Central Bank lending to Government was zero at the end of 2011.

The Committee emphasized that monetary policy is one instrument and should have one goal. That is, ensuring low and non-volatile inflation. Targeting, say, the exchange rate and inflation at the same time could cause the monetary authorities to lose control of both.

Financial Stability

According to key financial soundness indicators, the banking sector remains sound. The capital adequacy ratio decreased slightly to 25.4 percent in 2011 from 25.9 percent in 2010, but higher than the minimum requirement of 10.0 percent.

Total assets increased to D18.7 billion, or 5.3 percent from 2010. Gross loans and advances, accounting for 29.1 percent of total assets, rose slightly by 3.1 percent to D5.5 billion. The non-performing loans ratio improved to 12.9 percent, lower than the 14.5 percent recorded in 2010.

The industry remains highly liquid. The liquidity ratio was 70.3 percent, higher than the minimum requirement of 30 percent. Treasury bill holdings accounted for 67.3 percent of total liquid assets.

Deposit liabilities increased by 10.2 percent to D12.4 billion in 2011. Demand savings and time deposits accounted for 34.7 percent, 36.3 percent and 29.0 percent of deposit liabilities respectively.

The industry's net profit totaled D87.2 million in 2011 compared to D61.0 million in the preceding year. Return on assets improved to 0.1 percent compared to negative 0.5 percent in 2010.

The Committee noted that profitability of the banking industry improved in 2011 attributed in part to the reduction in overheads. It was indicated that the introduction of Guideline (9) "Technical Service Agreement" helped put a lid on overheads.

The Committee agreed that high lending rates make it exceedingly difficult for enterprises to access finance, thus stifling growth. It is therefore critical that factors identified as causes of high lending rates in The Gambia be addressed urgently and holistically.

Private sector Business sentiment survey

Readings of the private sector business sentiment survey revealed that most of the respondents (54 percent) reported that economic activity was higher in quarter 4, 2011 compared to only 4 percent that reported lower economic activity. Both industry and service establishments indicated higher economic activity with diffusion indices of (56 percent) and (38 percent) respectively. The respondents are optimistic about the prospects for quarter 1, 2012 with a diffusion index of (63 percent).

At the company level, 67 percent of the respondents reported higher economic activity in quarter 4, 2011 compared to 8 percent that reported lower activity. The majority of respondents reported higher sales, and higher capital expenditure, profits and employment.

Current prices and exchange rates are reported to be higher in quarter 4, 2011 compared to quarter 3, 2010. Prices and the exchange rate of the Dalasi are expected to be higher in quarter 1, 2012 relative to the preceding quarter.

The Committee noted that despite the deceleration in prices inflationary expectations remain high. High inflationary expectations tend to beget higher prices in a vicious cycle.

Inflation

The End-period consumer inflation, measured by the National Consumer Price index (NCPI), was 4.4 percent in December 2011 compared to 5.8 percent in December 2010. Average inflation (twelve months moving average) declined to 4.8 percent from 5.0 percent in the preceding year.

Food inflation decreased to 5.7 percent in December 2011 from 8.3 percent in December 2010. In contrast, non-food inflation rose to 2.5 percent in December 2011, higher than the 1.9 percent December 2010. Core inflation, which excludes the prices of energy, utilities and volatile food items, increased to 5.7 percent, higher than the 2.8 percent in December 2010.

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AMADOU COLLEY	**BAKARY JAMMEH**
CHAIRMAN	**SECRETARY**