MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

31 January, 2013

The 46th meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) took place in the Conference Room of the Bank on January 31, 2013.

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, (ERD), Member
Mr. William Eunson	Director, Banking Department, Member
Mr. Alhagie Taal	Director, Macroeconomic Unit, MOFEA, Member
Mr. Bakary Jammeh	Deputy Director, ERD, (Secretary)

In Attendance were:

Mr. Momodou A. Ceesay	Senior Adviser, Governor's Office
Mrs. Haddy Joof	Director, Admin
Mr. Omar Jaata	Director, Foreign Department
Mr. OusainouCorr	Director, Finance Department
Mr. Pa Alieu Sillah	Commissioner of Insurance
Mr. Mbye Jammeh	Deputy Director, Banking Department
Mr. Ebrima N. Wadda	Principal Economist, ERD
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mr. Momodou Lamin Jarju	Principal Banking Officer, BD
Mr. Amadou Koora	Principal Bank Examiner, FSD
Mrs. Annetta Riley	Principal Banking Officer, BD
Mr. Abdou Ceesay	Principal Officer, Foreign Department
Mr. KarafaJobarteh	Senior Officer, Foreign Department
Mr. Siaka Bah	Senior Officer, Micro Finance Department
Mrs. Isatou Mendy-Volo	Senior Economist, ERD
Mr. Sherrif Touray	Senior Economist, ERD

Mr. Paul Bruce	Senior Economist, ERD
Mr. AbdoulieJanneh	Macroeconomist, ECOWAS NCC
Mr. Alieu Ceesay	Economist, ERD
Ms.Aji Adam Njie	Economist, ERD

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on January31, 2013. 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 issues and private sector business sentiment survey.

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World Economic Outlook

Since the previous meeting of the MPC, the global economic environment remained challenging with slowing growth in several regions.

According to the IMF's October 2012 World Economic Outlook, global economic growth is projected to decelerate to 3.2 percent in 2012 from 3.9 percent in 2011 reflecting the combination of declining industrial output, continued uncertainty regarding US fiscal policy and resurfacing of concerns relating to the resolution of the crisis in the Eurozone.In2013, world output is projected to strengthen gradually, averaging 3.5 percent. Afurther strengthening to 4.1 percent is expected in 2014. There are, however, downside risks to the outlook including slow recovery in the Euro area and excessive near-term fiscal consolidation in the United States.

Economic expansion in the United States continues at a gradual pace in the year to the thirdquarter of 2012.In the third quarter, the US economy expanded by 3.1 percent, but contracted by an unexpected 0.1 percent in the fourth quarter due in part to the sharp decrease in defence spending and weather related factors, particularly floods.

Europeremains in recession. Following a contraction of 0.2 percent in the second quarter of 2012, Euro area real GDP declined by 0.1 percent in the third quarter. Available data indicate further weakness in activity in the fourth quarter, which is expected to extend into 2013 reflecting weak consumer spending and investor sentiment as well as subdued foreign demand.

The UK economy is projected to contractby0.2 percent in 2012after expanding by only 0.1 percent in 2011. The Bank of England expects the recovery to be ''slow and protracted'' and only to get back to pre-crisis growth in 2015.

Growth in Asia moderated further reflecting weak external demand. China'seconomy is projected to expand by 7.8 percent in 2012,lower than the 9.3 percent in 2011. Growth is,however,expected to accelerate to 8.2 percent in 2013 on the back of strong domestic demand, especially investment.

Sub-Saharan Africa is expected to continue growing at a strong pace despite difficult external conditions, reflecting the confluence of sound macroeconomic policies, increased investment and high commodity prices.

Global inflation decelerated in 2012 thanks mainly to the slowdown in the global economy. In advanced economies, headline inflation decreased to 1.5 percent in 2012 from 2.3 percent in 2011. In emerging and developing economies, headline inflation also declined to 5.9 percent from 7.5 percent in 2011.

The United Nations Food and Agricultural Organisation data show that on average food and commodity prices were 7 percent lower in 2012 from 2011, but remain at historically high levels.

International oil prices were relatively unchanged since the last MPC, largely influenced by global growth and partly political developments in the Middle East.

The Committee agreed that the 0.1 percent contraction in economic activity in the US in the fourth quarter of 2012 was as a result of massive cuts in defence spending and weather related factors following floods in the eastern part of the country. It was observed that although the headline data showed a contraction, the underlying data is quite encouraging. For example,consumer spending and construction, the main drivers of growth of the US economy, grew robustly.

The Committee welcomed the expected pick-up in global economic activity and the decrease in risks thanks in part to the actions by the authorities to stabilise the financial sector, but noted that access to credit remains a challenge.

The Committee noted that although growth is strong in sub-Saharan Africa, the main driver is the extractive industry which does not create many jobs. Therefore, policy should be geared to diversification in favour of employment creating industrialisation and services. It was also underscored that proceeds from the extractive industry should be used to finance the key sectors of the economy in order to ensure sustained and balanced growth.

The Committee commented that due to the high unemployment rate in the US, the Fed recently made a policy pronouncement to use monetary policy to target unemployment. More specifically, the policy states that monetary policy would continue to be accommodativeuntil the unemployment rate declines to 6.5 percent. Some members noted that targeting unemployment fits neatly with the Fed's broad mandate to support US economic growth and employment generation.Others were of the view that the essence of monetary policy is price stability which, in turn, indirectly supports economic growth by removing uncertainty.

EXTERNAL SECTOR DEVELOPMENTS

Balance of payments estimates in the first nine months of 2012 indicate an overall deficit of US$8.19 million, compared to a surplus of US$64.14million in the corresponding period of 2011.

The current account recorded a surplus of US$19.16millionlower than the surplus of US$64.47million in the same period in 2011. The goods account deficit widened to US$132.66 million compared to the deficit of US$97.74 million.The services account surplus narrowed to US$44.25 million from US$50.35 million in the corresponding period in 2011 despite the increase in the surplus of travel income. Current transfers surplus of US$117.49 million in the first nine months of 2012 was slightly below the US$117.76 million recorded in the corresponding period in 2011. Although transfers to general government decreased to US$27.69 million, or 36 percent, remittances rose to US$73.41 million, or 36.5 percent.

The surplus in the capital and financial account decreased to US$28.35 million compared to US$30.55 million in the first nine months of 2011.

The Committee noted that there are indications that the recovery of the tourism sector is poised to continue given that hotels are operating at almost full capacity thanks to the increase in arrivals from particularlyfrom Eastern and North European markets. The Committee re-emphasised the needfor policy to be focused on ensuring year round tourism,if the sector is to have a more profound impact on the Gambian economy.

The Committee indicated that the strong growth in remittances may be due to several factors including the prevailing exchange rate of the Dalasi, improving economic conditions in some of the advanced countries and possibly the increase in the number of players engaged in the international money transfer business.

The Committee commented that the increase in re-exports is a welcome development but expressed concern that the Gambia is increasingly losing competitiveness to neighbouring countries particularlySenegal.

These developments notwithstanding, the BOP was under considerable stressin the first nine months of 2012 and if transfers were to decrease significantly, the stock of foreign reserves may decline.Considering that the foreign reserves serve as an achor for the Dalasi, decrease in reserves could put additional pressure on the Dalasi.

The Committee noted the country'sincreased trade with the ECOWAS. The view was, however,expressed that this was mainly influenced by increasedoil imports from Cote D' voire and thatEurope continues to be themost important trading partner of The Gambia.

EXCHANGE RATE DEVELOPMENTS

Volume of transactions in the foreign exchange market increased significantly to US$1.61 billion in 2012 compared to US$1.43 billion in 2011.

According to data on market share by participants, deposit money banks accounted for 84.3 percent of the transaction volumes and bureaux (15.7 percent) compared to 87.7 percent and 12.3 percent respectively in 2011.

Year-on-year to end- December 2012, the Dalasi depreciated against all the major currencies. The Dalasi depreciated against the US Dollar by 11.6 percent, Euro (11.5 percent) and pound sterling (18.0 percent).

The Committee underscored that owing to increased foreign inflows particularly from tourism and remittances, the depreciation of the Dalasi which accelerated in the beginning of the fourth quarter has decelerated. Expectations are that the Dalasi would continue to be stable in the remainder of the first quarter of 2013, albeit contingent on the stance of fiscal policy.

The Committee commented that the exchange rate largely reflects the macroeconomic fundamentals and that policy should continue to be directed at creating the environment for businesses to thrive, particularly export oriented businesses.

The Committee indicated that the depreciation of the Dalasi against the US dollar by 11.6 percent does not mean a currency crisis. Currency crisesare mainly characterised by a combination of depleting foreign reserves and steep depreciation.The view was expressed that the depreciation of the Dalasi is merely a response to short-term demand pressures, particularly to pay for oil imports and should stabilise and even appreciate once the bills are settled.

FISCAL DEVELOPMENTS

Preliminary estimates of Government fiscal operations including grants showed a reduced deficit in 2012 compared to 2011.

Total revenue and grants is estimated at D6.48 billion (22.5 percent of GDP), or an increase of 15.7 percent over 2011. Domestic revenue, comprising tax and non-tax revenue, rose to D4.72 billion (16.4 percent of GDP), or 11.4 percent from 2011. Tax revenue amounted to D4.16 billion (14.5 percent of GDP), or an increase of 12 percent from 2011. Both direct and indirect taxes rose by 24 percent and 6.2 percent respectively.Non-tax revenue and grants also increased to D560.4 million and D1.75 billion, or 7.1 percent and 29.4 percent respectively.

Government expenditure and net lending rose to D7.73 billion (26.9 percent of GDP), or 13.6 percent from 2011. Recurrent expenditure, accounting for 66.8 percent of total expenditure and net lending, increased to D5.16 billion (17.9 percent of GDP), or 14.2 percent. Capital expenditure also rose to D2.54 billion (8.8 percent of GDP), or 10.7 percent over 2011. Net lending increased from zero in 2011 to D38.9 million in 2012.

The overall fiscal balance (including grants) on commitment basis was in a deficit of 4.4 percent of GDP slightly lower than the 4.6 percent of GDPin 2011. The budget deficit (excluding grants) on commitment basis, on the other hand, rose to 10.4 percent of GDP from 9.7 percent of GDP in 2011. The primary balance and the basic balance were in surplus of D455.7 million and D769.1 million compared to D161.3 million and D188.9 million respectively in 2011.

The Committee was informed that grants were significantly understated and as a result, the fiscal deficit (including grants) is lower than what was reported. The implication is that the budget deficit (excluding grants) should be significantly higher and a sober reminder of the need for domestic resource mobilisation to reduce dependency on transfers.

The Committee indicated that considering the very high expenditure to GDP ratio there is a need for urgent fiscal adjustmentbiased towards reduction in spending. Expenditure reduction is associated with a decrease in interest rates which, in turn, supports growth.The Committee was informed that over D300 million budgeted for capital expenditure was unspentattributed primarily to challenges in project implementation.

The Committee noted that the private sector is the creator of wealth. And to the extent that credit to the private sector isfallingcould stifle private sector led growth.

MONEY MARKET DEVELOPMENTS

As at end-December 2012, the domestic debt rose to D10.74 billion, or 14.3 percent from 2011reflectingmainly the 22 percent and 1.9 percent increase in the stock of Treasury bills and Sukuk Al Salaam (SAS)respectively. The stocks of other debt instruments were either unchanged or decreased.

According to data on the distribution of Treasury bills and SAS by sector, commercial banks held 81.4 percent of the stock, the non-bank (14.0 percent) and Central Bank (4.3 percent)

Readings on the maturity structure of Treasury bills and SAS indicated that 364-day bills accounted for 56.4 percent of the stock, 182-day bills (24.5 percent) and 91-day bills and SAS (19.1 percent) compared to 65.1 percent, 20.5 percent and 14.4 percent respectively in 2011.

The yield on the shorter dated 91-day and 182-day bills increased to 9.53 percent and 10.2 percent from 8.07 percent and 10.18 percent respectively. In contrast, the yield on 364-day bill decreased to 10.95 percent from 11.85 percent in 2011.

The Committee noted that it is apparent from the data that the net issuance of Treasury bills amounting to D1.49 billion (face value)was used primarily to finance the budget deficit.

The Committee expressed concern over the growth in domestic debt and indicated that in the absence of fiscal adjustment, the monetary authorities may be compelled to tighten monetary policy to ensure that the price stability objective is achieved and sustained.Noting that the average time-to-maturity declined from about 9 months to 7 months since the last MPC meeting,the Committee underscored that the fiscal deficit is increasingly financed by costly short-term securities. Besides, domestic interest payments grew by 49.5percent in 2012 thus curtailing the capacity of Government to adequately fund poverty reducing programmes.

MONETARY DEVELOPMENTS

The pace of monetary expansion continues to be moderate in line with expectations.Money supply grew by 7.8 percent in 2012, lower than the 11.0 percent in 2011. Both the net foreign assets (NFA) and the net domestic assets (NDA) of the banking system increased but at a slower pace of 7.9 percent and 7.7 percent from 13.1 percent and 10.1 percent respectivelyin 2011.

Of the components of broad money, narrow money, which comprised currency outside banks and demand deposits, rose to D7.4 billion, or 10.9 percent.Currency outside banks increased by 18.6 percent and demand deposits by 6.7 percent. As a result, the ratio of narrow money to broad money increased from 45.2 percent in 2011 to 46.5 percent in 2012. Quasi money, which comprised savings and time deposits, also rose, but at a slower pace of 5.2 percent to D8.5 billion. Savings rose to D5.2 billion, or 14.7 percent while time deposits contracted to D3.4 billion, or 6.7 percent from 2011.

Reserve money rose by 6.8 percent in 2012, lower than the 12.3 percent in 2011. Of the components of reserve money, currency in circulation rose by 17.9 percent whilst reserves of commercial banks declined by 17.4 percent.

The Committee indicated that the modest growth of the monetary aggregates, coupled with a policy rate exceeding the rate of inflation suggest that monetary conditions remain tight despite previous easing of policy.

The Committee observed that there has been a discernible shift from quasi money to narrow money. This shift is normally associated with increase in inflationary pressures. The point was made that there was a slight increase in headline inflation in December 2012 which may explain the shift.

FINANCIAL STABILITY REPORT

In order to ensure effective transmission of monetary policy, it is essential to continue strengthening the resilience of banks. The soundness of banks is also critical to protect depositors and other creditors as well as ensuring an appropriate provision of credit to the economy.

Following the capital augmentation at end-2012, 12 of the 13 banks met the minimum capital requirement of D200 million. The parent of Prime Bank, Societe General de Banque Liban (SGBL), decided to divest its investment in The Gambia and therefore did not meet the minimum capital requirement.

The industry's capital and reserves increased to D3.07 billion in 2012compared to D2.6 billion in 2011 mainly reflecting capital injection totalling D392.4 million. The average capital adequacy ratio also increased to 33 percent compared to 25.1 percent in 2011 and the minimum requirement of 10 percent. The gearing ratio was only 3.03 times, lower than the 4.0 times in 2011 and within the threshold of 10 times.

The assets of the industry increased to D20.6 billion from D18.6 billion in 2011. Loans and advances, accounting for 30.1 percent of total assets, decreased to D5.4 billion, or 1.8 percent from 2011. The quality of assets improved. The non-performing loan ratio declined to 11.6 percent of gross loans relative to 12.6 percent in 2011.

Deposit liabilities rose to D13.08 billion,or 2.1 percent over 2011. The loan to deposit ratio decreased to 41.6 percent against the 44.1 percent in 2011. The liquidity ratio was 78 percent in 2012, or an increase of 4 percent from 2011.

The industry's net profit rose from only D12.2 million in 2011 to D102.2 million in 2012. The return on assets and return on equity increased to 1.98 percent and 3.33 percent compare to 0.26 percent and 0.46 percent respectively in 2011.

The Committee noted the decline in NPLs ratio but advised that more effort is needed including better loan administration and vigorous loan recovery effortsto reduce the ratio to a low single digit.

The Committee commented that private sector credit growth remains sluggish and even contracted in 2011 attributed in part to high lending rates, tight credit standards, and slowdown of the domestic economy.

REAL SECTOR DEVELOPMENTS

The domestic economy grew by 4 percent in 2012 following a contraction of 4.3 percent in 2011. In 2013, output is projected to expand by 10 percent premised on strong growth of tourism and continuing recovery of the agricultural sector.

Commenting on the potential growth rate of the economy, it was underscored the trajectory can be shifted upwards by increasing the rate of investment. In the case of The Gambia, given the importance of agriculture to GDP, raising agricultural investment should lead to robust and sustained growth and by extension potential output.

BUSINESS SENTIMENT SURVEY

According to the readings of the Private Sector Business Sentiment Survey, a higher number of respondents (52 percent) reported higher level of economic activity in Q4, 2012, compared to only 6 percent that reported lower activity. A high percentage of respondents (22 percent) indicated no change in the level of economic activity. At the company level, 61 percent of the respondents reported higher business activity in Q4, 2012 compared to 31 percent that indicated lower business activity.

The majority of respondents (65 percent) reported higher current prices in Q4, 2012 compared 22 percent that indicated lower prices relative to Q3, 2012.Also, a significant (91 percent) of respondents expect prices to be higher in Q1, 2013. Additionally, 65 percent of the respondents indicated a higher exchange rate in Q4, 2012 compared to Q3, 2012. Almost the same number of respondents (61percent) expects the Dalasi to weaken in Q1, 2013 compared to only 13 percent that expect a strengthening of the domestic currency.

The Committee noted that the survey provided useful information on inflationary expectations necessary in determining the stance of monetary policy. Inflationary expectations have remained high attributed to the weakening of the Dalasi against most of the major currencies. The point was also expressed that the survey could be used to validate GDP quarterly data if it were available.

The Committee re-emphasised the importance of using high frequency data to assist in economic policy formulation.Accordingly, the Economic Research Department was tasked to restart work on introducing the composite index of leading economic indicators.

Inflation

Consumer price inflation, measured by the National Consumer Price Index, accelerated slightly to 4.9 percent in December 2012 relative to 4.4 percent in December 2011. Average inflation (12-month moving average) was 4.3 percent in December 2012 compared to 4.8 percent in December 2011.

Consumer food inflation fell slightly to 5.6 percent in December 2012 from 5.7 percent in December 2011. Non-food inflation, which was the main driver of headline inflation, rose from 2.4 percent in December 2011 to 4.0 percent in December 2012.

Core inflation, which excludes the prices of energy and volatile food items, increased slightly to 4.89 percent from 4.32 percent in December 2011.

The Committee noted that the general increase in prices was the result of two factors, the depreciation of the Dalasi and the introduction of the Value Added Tax (VAT). The Committee agreed that transitory factors such as VAT should not cause a change in the monetary policy stance unless there are significant risks for second-round effects on wages.