

## MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

November 1, 2012

The 45<sup>th</sup> 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 November 1, 2012.

### **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
Mr. Abdoulie Jallow	PS 2 MOFEA, Member
Mrs. Amie Khan	Principal Economist, MOFEA Member
Bakary Jammeh	Deputy Director, ERD Secretary

### **In Attendance were:**

Mr. Ousainou Corr	Director, Finance Department
Mr. Omar Jaata	Director Foreign Department
Mr. Omar K. Janneh	Deputy Director Admin
Mr. Mbye Jammeh	Deputy Director, Banking Department
Mrs. Fatou Deen Touray	Deputy Director, MFD
Mr. Modou Njie	Deputy Director, FSD
Mr. Amadou Corra	Principal Bank Examiner, FSD
Mr. Ebrima N. Wadda	Principal Economist, ERD
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mr. Momodou Lamin Jarju	Principal Banking Officer, BD

Mrs. Annetta Railey	Principal Banking Officer, BD
Mrs. Isatou Mendy-Volo	Senior Economist, ERD
Mr. Sherrif Touray	Senior Economist, ERD
Mr. Paul Bruce	Senior Economist, ERD
Mr. Yahya Cham	Economist, ERD

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on November 1, 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, financial stability report and inflation.

### **Developments in the International Economy**

Since the previous meeting of the MPC the global growth outlook has weakened further. According to the latest World Economic Outlook of the International Monetary Fund (IMF), global output is projected at 3.3 percent in 2012 from the earlier projection of 3.5 percent attributed in the main to the on-going Euro area crisis, the US fiscal cliff, possible food price increases arising from the drought in the US and expected weaker stimuli from emerging economies, especially China.

Growth in advanced economies is projected at 1.3 percent in 2012 and 1.5 percent in 2013. The US economy grew at an annualised rate of 1.7 percent and 2.0 percent in the second and third quarter of 2012 respectively. Although the US economy has been growing for more than 3 years since June 2009, the outlook is clouded by the risk of a severe fiscal contraction and tax increases early next year, *a la* the fiscal cliff.

The Euro zone economy contracted by 0.2 percent in the second quarter, 2012 having recorded zero growth in the first quarter. Expectations are that growth would contract in the third quarter with the possibility of pushing the zone back into recession.

The UK economy contracted for three consecutive quarters before growing by 0.6 percent in the third quarter of 2012 while Japanese economic growth moderated to 0.3 percent in the second quarter.

Growth in the major emerging market economies, particularly China, Brazil and India decelerated in the face of weakening external demand. A number of countries have responded by easing monetary policy and in the case of Brazil by introducing measures to stimulate domestic demand and competitiveness.

Global inflation remains relatively subdued given the weak demand, but supply side shocks in the form of higher food prices due to drought in the US and some parts of Eastern Europe and elevated crude oil prices pose risks to the outlook.

In advance economies, headline inflation decelerated to 1.5 percent in July 2012 down from 3.0 percent in late 2011. In emerging market economies, headline inflation declined by 2 percentage points to 5.5 percent in the second quarter. In Sub-Saharan Africa the combination of lower oil prices and improved rains, which have boosted agricultural output, helped to reduce inflationary pressures.

After a robust acceleration in 2009 and 2010, commodity price indices were essentially flat in 2011. In the second quarter of 2012, commodity prices fell before increasing in the third quarter of 2012. Food and oil prices are the main upside risks to the global inflation outlook. Following a sharp spike in July, global grain prices

stabilized and then moderated in later part of 2012, but remained at elevated levels.

The price of Brent crude oil continued its recent upward trend reaching US\$117 per barrel in September 2012, or US\$14 per barrel higher than at the time of the previous MPC meeting.

The Committee agreed that monetary easing is not a substitute for fiscal adjustment in the Euro Zone's quest to address economic imbalances. Additionally, both monetary policy and fiscal adjustments are not substitutes to structural reforms. Monetary and fiscal policies are demand management policies while structural policies are concerned with competitiveness, growth and employment which are needed in the Euro area. Furthermore, the Committee noted that uncertainty is also weighing on confidence and sentiment in the Euro area thanks to policy inaction on the part of the authorities.

The Committee observed that many countries are pursuing beggar-thy-neighbor policies which is also undermining the global recovery and advise on the need for concerted action to address imbalances in a mature and holistic manner.

The Committee indicated that the key to reducing global food prices is to increase production by growing food crops that adapts to the changing weather pattern. It was indicated that more research and the intensive use of bio-technology are the keys to addressing the challenges of climate change.

The Committee observed that economic activity has been somewhat sluggish in the UK, The Gambia's biggest source market for tourist. The slowdown in economic activity could have a drag on The Gambian economy given that the vast majority of tourist arrivals come from the UK. The Committee was informed of efforts to diversify the source market with emphasis on the Nordic and German markets.

The Committee commented that the risks to global economic outlook include the Euro zone debt crisis, US fiscal cliff, volatility in commodity prices and weaker growth in emerging economies particularly China. High commodity prices in particular are not only a risk to inflation, but could be a drag on growth.

### **External Sector Developments**

The balance of payments estimates indicate an overall deficit of US\$54.56 million in Q2, 2012 from a surplus of US\$12.67 million in the corresponding quarter in the previous year.

The current account was in a deficit US\$13.86 million in Q2, 2012. The goods account deficit widened to US\$51.78 million in the second quarter of 2012 from a deficit of US\$32.60 million a year earlier. Exports rose to US\$48.41 million, higher than the US\$39.93 million in Q2 2011. Imports also rose significantly to US\$100.96 million in the second Q2, 2012 from US\$74.89 million in Q2, 2011.

The services account surplus narrowed from US\$11.0 million in Q2, 2011 to US\$4.03 million in Q2, 2012.

The Committee noted that the worsening trade balance was mainly on account of the crop failure in 2011, with groundnut production in particular declining by 60 percent. The Committee was informed that estimates indicate 50 percent recovery of the sector in 2012, that is, to pre-drought levels and full recovery to be attained in 2013.

The Committee commented that due to weak exports and stronger imports, the current account deficit has emerged as the key risk to the exchange rate outlook. The forecast is that the current account deficit would widen further in the remainder of the year.

The Committee was informed that there is a significant difference between the BOP compiled by the CBG and that of the IMF. Consequently, future technical assistance from the IMF would be geared in part to reconciling the two estimates.

While acknowledging that food and fuel constitute the bulk of imports the Committee requested ERD to disaggregate imports into its principal components for better analysis.

The Committee agreed that compiling quality and timely BOP data remain a challenge particularly with respect to the capital and financial accounts despite the discernible improvement registered over the past few years.

### **Exchange Rate Developments**

The volume of transactions in the foreign exchange market in the year to end-September 2012 increased to D3.1 billion or 30 percent from a year earlier.

Year-on-year to end-September 2012, the Dalasi depreciated by 11.6 percent and 8.4 percent against the US Dollar and Pound Sterling respectively but appreciated slightly by 0.6 percent against the Euro.

The US Dollar remains the major trading currency accounting for 61.7 percent of the market turnover, the Euro (26.8 percent), Pound Sterling (10.5 percent) and the rest (1.1 percent).

The Committee noted that the depreciation of the Dalasi was fundamentally the result of demand exceeding supply. Supply decreased owing to reduced inflows from re-exports, private remittances, groundnut and cashew exports. Demand, on the other hand, rose precipitously to pay for increased imports, particularly energy and food imports.

Concerning the recent press release from the office of the President, the Committee was reminded that (I) the Government sets the exchange rate regime and that CBG is only responsible for exchange rate policy (II) the Gambia is signatory to Article VIII Sections 2,3 and 4 of the IMF's Articles of Agreement. And by this compact, The Gambia agrees to an open current and capital accounts.

### **Fiscal Developments**

Preliminary estimates of Government fiscal operations in the first nine months of 2012 indicate an improved fiscal position compared to the same period in the previous year.

Total revenue and grants increased to D4.97 billion (17 percent of GDP), or 26.7 percent higher than the outturn in the corresponding period in 2012.

Domestic revenue, comprising tax and non-tax revenue rose to D3.64 billion, or 16.6 percent from the same period in the previous year. Tax revenue (direct and indirect taxes), accounting for 88.7 percent of domestic revenue, increased to D3.22 billion or 18.8 percent. Non-tax revenue, on the other hand, rose to D411.9 million, or D1.7 percent. Grants increased significantly to D1.34 billion, or 65.4 percent mainly on account of the drought relief assistance from donors.

Total expenditure and net lending (17 percent of GDP) also rose, but at a slower pace of 3.9 percent to D4.97 billion. Both current and capital expenditures rose by 1.2 percent and 7 percent respectively.

The overall budget balance (including grants) on commitment basis was a surplus of D4.9 million (0.02 percent of GDP). The fiscal balance (excluding grants) on commitment basis improved to a deficit of D1.33 billion (4.6 percent of GDP) from a deficit of D1.68 billion (5.3 percent of GDP) over the same period in 2011. The basic primary balance recorded a surplus of D1.08 billion compared to a surplus of D294.4 million in the corresponding nine months of 2011.

The Committee noted that although reorienting expenditure from current to capital is desirable for the long-term growth of the economy, it is primarily contingent on reducing the wage bill and interest payments. It was commented that although fiscal adjustment is necessary to return to fiscal sustainability, the key to reducing the debt also hinges on strong growth of the economy, with the increase in revenue implied.

The Committee observed that although the Government's fiscal position has improved, if the grants are stripped out, the deficit narrows slightly from 5.3 percent of GDP in the first nine months of 2011 to 4.6 percent during the period under review. Considering that grants are not sustainable, a budget deficit of 4.6 percent may be difficult to finance.

The Committee commented that the biggest risk to the fiscal adjustment exercise is the direct budget support to projects and the timing of donor loans and grants and that usually in the last quarter of each year, there are expenditure over runs, financed mainly by domestic borrowing. The Committee advised for sustained fiscal restraint to ensure that new borrowing target of about 2 percent of GDP in 2012 agreed in the programme with the IMF is achieved.

### **Money Market Developments**

As at end-September 2012, the domestic debt rose to D10.12 billion, or 10.3 percent from a year ago. Outstanding Treasury bills and Sukuk Al Salam (SAS), accounting for 74.6 percent and 3.4 percent of the domestic debt, rose by 15.9 percent and 34 percent respectively. All the other debt instruments contracted.

According to data on the holdings of Treasury bills by sector, commercial banks held 81 percent of the stock, non-bank (17.2 percent) and CBG (1.8 percent).



Readings on the distribution of Treasury bills and SAS by maturity indicated that 364-day bills accounted for 63.1 percent of the outstanding stock, 182-day bills (23.0 percent) and 91-day and SAS (13.8 percent).

The yield on all the maturities increased, albeit slightly. Yield on the 364-day, 182-day, 91-day Treasury bills and 91-day SAS rose to 10.68 percent, 9.59 percent, 8.5 percent and 8.27 percent in September 2012 from 10.01 percent, 8.71 percent, 7.98 percent and 8.15 percent respectively in September 2011.

The Committee noted that the up tick in the yield is attributed mainly to the increase in the supply of Treasury bills to finance fiscal operations and is a sobering reminder of the urgent need for fiscal consolidation.

The Committee commented that in as much as it is desirable to address the debt problem to return it to sustainability, a debt market is essential for the conduct of monetary policy, to finance the budget deficit and to enable financial institutions, particularly banks diversify their portfolio.

### **Real Sector**

According to the Gambia Bureau of Statistics, the Gambian economy is projected to expand by 4 percent in 2012 following a contraction of 4 percent in 2011. Owing to the expected recovery of crop production in 2012 and 2013, real GDP is expected to expand by about 10 percent in 2013 and 6.5 percent in 2014 before returning to its long term trend growth of about 5.5.

The Committee was informed that the estimates of GDP growth for 2011 and 2012 were revised in light of the considered decision to include agricultural production in the GDP of the same calendar year. In this case, the full impact of the drought was felt in 2011, leading to a contraction of about 4.0 percent. However, GDP is projected to grow by 4 percent in 2012 on account of a 50 percent recovery of agriculture.

## **Monetary Developments**

The pace of monetary expansion remains modest. In the year to end-September 2012, the growth in broad money decelerated to 7 percent from 11.5 percent in the previous year.

Both components of money supply declined. Narrow money, comprising currency outside banks and demand deposits, grew by 4.7 percent, lower than the 15.3 percent in September 2011. Growth in currency outside banks and demand deposits slowed to 9.4 percent and 2.3 percent from 17.9 percent and 14.0 percent respectively in September 2011. Quasi money, comprising savings and time deposits, grew by 8.9 percent in September 2012 compared to 8.6 percent in September 2011. Savings and time deposits grew by 14.8 percent and 1.6 percent from 19 percent and a contraction of 1.9 percent in September 2011 respectively. The ratio of quasi money to broad money increased from 55.2 percent in September 2011 to 56.1 percent in September 2012. Correspondingly, the ratio of narrow money to broad money decreased from 44.5 percent in September 2011 to 43.9 percent in September 2012.

Reserve money contracted by 3.1 percent in September 2012 compared to a robust expansion of 13 percent in September 2011 reflecting the 12.7 percent contraction in the net domestic assets of the CBG. The NFA of the CBG, on the other hand, expanded by 5.1 percent.

The Committee noted that monetary conditions remains tight but are consistent with the inflation target of 5 percent and the slow down in economic activity in 2012.

The Committee commented that the modest growth in money supply was largely as a result of increased private sector credits which rose by 12.1 percent in September 2012 from only 5.1 percent in September 2011. Private sector credit grew by only 14.8 percent and 8.8 percent in 2010 and 2011 respectively.

### **Financial Stability Report**

Overall, the banking industry reported robust results in the third quarter 2012 relative to the previous quarter. Capital and reserves rose to D2.63 billion in September 2012 from D 2.53 billion in the second quarter of 2012. The risk weighted capital adequacy ratio also increased, albeit marginally to 26.4 percent, or 0.4 percentage points over the second quarter.

Total assets rose to D19.31 billion in September 2012, or 1.3 percent from June 2012. Loans and advances, accounting for 30 percent of total assets, amounted to D5.8 billion from D5.4 billion in June 2011. The non-performing loans ratio decreased to 12.7 percent of total loans and advances from 13.8 percent in June 2012.

The industry remains highly liquid. The liquidity ratio was 68.4 percent in September 2012, slightly lower than the 73.7 percent in June 2012.

The industry recorded a net profit of D67.6 million in the third quarter or an increase of 13.6 percent from the second quarter. This is particularly noteworthy considering that the industry recorded a loss of D8.15 million in the third quarter of 2011. The return on assets and return on equity rose to 1.6 percent and 10.9 percent respectively.

The Committee noted the decline in NPL ratio from 13.8 percent in June to 12.7 percent in September 2012 but agreed that more effort is needed to lower NPL ratio to a low single digit.

The Committee observed that the slow growth in credit largely mirrors the subdued economic conditions of the country particularly during the first half of 2012. Additionally, the fact that lending rates remain high discourages good borrowers. The Committee agreed that more needs to be done to reduce lending rates including addressing the domestic debt problem.

### **Inflation**

The year-on-year inflation measured by the National Consumer Price Index rose slightly to 4.2 percent in September 2012 from 4.1 percent in September 2011. Average inflation (12-month moving average) was 4.2 percent in September 2012, lower than the 5.2 percent in September 2011.

Consumer food price inflation decelerated slightly to 4.9 percent in September 2012 from 5.5 percent in September 2011. Consumer non-food inflation, on the other hand, rose from 2.2 percent in September 2011 to 3.4 percent in September 2012.

Core inflation which excludes the prices of energy, utilities and volatile food items rose minimally to 4.3 percent in September 2012 compared to 4.2 percent in September 2011.

The Committee noted that the key upside risks to the inflation outlook are imported food and energy prices, particularly in light of the depreciation of the Dalasi. The Dalasi is expected to remain sensitive to unfolding domestic developments and risk perceptions. Accordingly, projections indicate further weakening of the Dalasi from current levels in the short term posing an increased risk to the inflation outlook

The Committee welcomed the decision to rebase the national Consumer Price Index based on the 2010 Integrated Household Survey. This is particularly important for the CBG given its price stability mandate.

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**Amadou Colley**  
Governor, Chairman

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**Bakary Jammeh**  
Deputy Director ERD  
Secretary