MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

October 29, 2009

The thirtieth 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 October 29, 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. Ousman Sowe	Director, Financial Supervision Dept., Member
Mr. Amadou Colley	Director, Banking Services Dept., Member
Mr. Ismaila Jarju	OIC, Economic Research Department, Member
Dr. Tamsir Cham	Director, Ministry of Finance, Member
Mr. Serign Cham	PS 2, Ministry of Finance, Member
Mr. Momodou Sabally	Principal Economist, ERD, Secretary

In Attendance were:

Mr. Momodou Ceesay	Adviser to Governor
Mr. Ousainou Corr	Director, Finance Department
Mr. Bai Senghor	Director, Micro-Finance Department
Mr. Pa Alieu Sillah	Commissioner for Insurance
Mr. Mbye Jammeh	Deputy Director, Banking Department
Mr. Paul Mendy	Deputy Director, FSD
Mr. Abdoulie Jallow	Deputy Director, FSD
Mr. Ebrima Wadda	Principal Economist, ERD
Mr. Bakary Jammeh	Principal Economist, ERD
Mr. Momodou Lamin Jarju	Senior Banking Officer, BD

Mr. Karafa Jobarteh	Senior Officer, Foreign Department
Mr. Abdou Ceesay	Senior Officer, Foreign Department
Mr. Mustapha Samateh	Bank Examiner, FSD
Mr. Amadou Barry	Bank Examiner, FSD
Mr. Sheriff Touray	Economist, ERD
Mr. Sait Mboob	Economist, ERD
Mr. Paul Bruce	Economist, ERD
Mr. Yaya Cham	Economist, ERD
Mr. Sulayman Ceesay	Economist/Statistician, ERD
Ms. Binta Beyai	Economist,ERD

The MPC reviewed 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 as well as government fiscal operations, inflation and financial stability report.

1. DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

Recent indicators point to the start of a global recovery supported by monetary and fiscal stimulus, improving financial conditions and rising business and consumer confidence. The IMF projects the global economy to contract by 1.1 percent in 2009 before growing by 3.1 percent in 2010.

In the US, growth is projected to contract by 2.6 percent in 2009 and to expand by 0.8 percent in 2010. Credit conditions remain tight resulting in low consumer spending. The pace of economic growth is unlikely to reduce the unemployment rate, which is projected to reach 10.1 percent in 2010.

Growth in the UK contracted by 0.4 percent in the third quarter reflecting in the main contraction in the services sector particularly retail trade and hotels as well as a decline in industrial output.

The Bank of Japan (BOJ) gave an upbeat assessment of the Japanese economy and hinted it may soon withdraw some of the emergency support measures. Like most other central banks in the developed world, the BOJ has been pumping money into the economy to stimulate demand. In September 2009, the Bank decided to keep interest rates at 0.1 percent and indicated that a stronger Yen could support the Japanese economy in the long run despite making exports more expensive.

The Chinese economy grew by 8.9 percent in the year to the third quarter compared to 7.9 per cent in the previous quarter underpinned by strong retail sales and recovery in global trade.

Growth in Sub-Saharan Africa is expected to expand by only 1.0 percent in 2009, but to grow by 4 percent in 2010 if policies remain supportive.

Prices of commodities were mixed. According to the FAO All Rice Price Index, rice prices fell in the first 9 months of 2009 relative to the corresponding period in 2008. Groundnut prices also fell to USD$990.9 per tonne in September 2009, or 32.8 percent from September 2008. Sugar prices, on the other hand, rose by 57 percent reflecting reduced output in Brazil and a decline in stocks in the USA.

Oil prices rose to US$81.0 a barrel in October 2009, the highest so far this year reflecting mainly increasing demand in Asia, particularly China buoyed by signs of a pick up in global economic activity.

The Committee noted that the global economy has improved since the last MPC and that technically a large number of the developed and emerging economies are no longer in recession. However, there are still uncertainties particularly relating to the fact that the economies are growing from a low base, consumer confidence is subdued and global imbalances persist. On balance, the Committee members were generally of the view that continued easing is necessary to support economic activity and reduce the downside risk to growth.

The Committee observed that despite the increase in oil prices, the risk to inflation is skewed to the downside reflecting subdued global economic activity. However, it is critical for the policy makers to be proactive and to take measures to curb inflationary pressures as soon as there are signs of acceleration in prices.

2. EXTERNAL SECTOR DEVELOPMENTS

The balance of payments (BOP) estimates for the quarter ended-June 2009 indicate an overall surplus of D120.4 million.

The current account surplus is projected at D397.8 million compared to a deficit of D281.0 million in the corresponding quarter of 2008. The goods account deficit narrowed from D612.0 million in the second quarter of 2008 to D398.9 million in the quarter under review. The service account balance declined to D19.7 million from D57.0 million in second quarter of

2008 reflecting mainly the decline in tourism receipts to D190.1 million, or 3 percent from the second quarter of 2008. The income account, which includes interest payments on the external debt, was in a deficit of D57.5 million, significantly lower than the deficit of D176.0 million in the second quarter of 2008 thanks to debt relief.

Current transfers increased from D450.0 million in the second quarter of 2008 to D834.6 million in the quarter under review reflecting increased grants from the European Union, African Development Bank and the World Bank. Remittances also rose to D434.2 million, higher than D249.1 million in the second quarter.

The capital and financial account worsened from a deficit of D88.1 million in the second quarter of 2008, to a deficit of D277.4 million during the quarter under review. Foreign direct investment declined to D262.3 million, or 36.2 percent from the second quarter of 2008.

The net usable reserves increased to US$141.30 million in September 2009, equivalent to 6.0 months of import cover.

The Committee commented that the BOP position is not as dire as was initially forecast thanks to budgetary support and grants from traditional donors. Also, non-traditional exports, particularly horticulture, cashew and mineral sands are on the increase which caused the goods balance deficit to narrow.

The Committee emphasised the importance of diversification within the agricultural sector into crops in which The Gambia has a comparative advantage bearing in mind that the policy challenge going forward is to improve the BOP in particular and to attain food security in general.

3. FOREIGN EXCHANGE DEVELOPNMENTS

Volume of transactions in the foreign exchange market declined to US$1.3 billion in the year to end-September 2009, lower than the US$1.6 billion a year ago. This was mainly as a result of reduced inflows particularly from tourism and FDI.

Reflecting the decline in foreign inflows, the Dalasi depreciated in Nominal Effective Exchange Rate terms by 7.9 percent in September of 2009 compared to an appreciation of 1.6 percent in September of 2008. Against individual currencies, the Dalasi depreciated by 3.2 percent, 16.6 percent and 16.9 percent against the Pound Sterling, US Dollar and Euro respectively from September 2008.

Some Committee members commented that if the supply of foreign currency exceeds demand, the Dalasi should appreciate. And to the extent that this did not happen indicate that other factors impact the exchange rate, including the stance of monetary and fiscal policies and expectations. Moving forward and to better gauge demand, the Committee advised on the need to obtain high frequency data on the country's oil import bill, which is of the main sources of demand for foreign exchange.

4. **FISCAL DEVELOPMENTS**

Provisional data indicate an improved fiscal position in the first 9 months of 2009 compared to the corresponding period of 2008 reflecting the increase in revenue, particularly indirect taxes.

Total revenue and grants amounted to D3.2 billion compared to D2.8 billion in the first 9 months of 2008. Tax revenue increased to D2.8 billion, or 16.1 percent from the corresponding period in 2008. Whilst indirect taxes increased by 32.4 percent, direct taxes, in contrast, recorded a decline of 9.9 percent.

Non tax revenue and grants totalled D290.05 million and D175.98 million compared to D293.10 million and D120.40 million respectively in the corresponding period in 2008.

Expenditure and net lending rose to D3.6 billion from D2.9 billion in the corresponding period of 2008. Current and capital expenditure increased by 15.9 percent and 54.3 percent respectively

The basic primary balance was in a surplus of D578.01 million compared to D690.80 million in the corresponding period in 2008. In contrast, the basic balance was in a deficit to the tune of D8.49 million compared to a surplus of D143.60 million in the corresponding period of 2008.

The fiscal balance (including grants) on commitment basis was a deficit of D349.78 million relative to a deficit of D109.0 million in the same period the previous year.

Similarly, the budget balance (excluding grants) on commitment basis was in a surplus of D525.76 million relative to a deficit of D229.40 million recorded during the corresponding period of 2008.

The Committee observed that recent data indicate that grants are significantly higher than what was reported in the fiscal data. However, since grants impact both the revenue and expenditure by the same magnitude, revising the data upwards would only change the composition of the fiscal data and not the outcome.

The Committee highlighted that there is evidence of fiscal buoyancy given that the increase in revenue collected exceeded the growth in nominal GDP but that the increase in revenue was offset by the strong growth in expenditure.

The Committee welcomed the report indicating that the fiscal deficit outturn in the first 9 months of 2009 including grants was D645.0 million, lower than the initial projection of D780.0 million and an indication that the budget deficit as a percentage of GDP is likely to be lower in 2009 compared to 2008.

The Committee noted the study on comprehensive tax reforms being undertaken by the Ministry of Finance and Economic Affairs in collaboration with the IMF and agreed that it is timely in light of the fact that according to some studies The Gambia is classified as a high tax country.

5. MONEY MARKET DEVELOPMENTS

As at end-September, 2009, the domestic debt decreased to D6.0 billion (32.2 percent of GDP) from D6.23 billion (34.7 percent of GDP) in September 2008. This was mainly as a result of the decrease in Government NIB Notes and the CBG loan to The Gambia National Petroleum Company by 37.4 percent and 38.2 percent respectively.

Treasury bills, accounting for 83.3 percent of the debt stock, increased to D5.0 billion compared to D4.86 billion in September 2008. Commercial banks held 69.3 percent of the debt and the non-bank the remainder.

According to the data on maturity structure of Treasury bills, the 364-day bill accounted for 64.99 percent of the stock, the 182-day bill (17.02 percent) and the 91 day bill (17.99 percent).

The yield on the 364-day, 182 day and 91 day bill increased to 14.25 percent, 12.72 percent and 10.44 percent in September 2009 compared to 13.08 percent, 10.97 percent and 8.93 percent respectively in September 2008.

The Committee expressed the view that the domestic debt is under reported because it excluded CBG overdraft to Government. Accordingly, the Banking Department was requested to henceforth include the stock of the overdraft to the domestic debt.

The Committee was informed of the increase in volume of transactions in the inter-bank Dalasi market and indicated that it is a sign of banking sector deepening which, in turn, is critical for monetary policy making. To the extent that banks resort to borrowing from the market to meet short-term liquidity needs instead of re-discounting bills or borrowing from the discount window, helps the CBG have better control of its balance sheet. However, borrowing from the market consistently may portend distress and hence the need to monitor the market carefully.

The Committee advised on the need to publish the inter-bank interest rates which should help provide the market with a comprehensive interest rate structure.

The Committee noted the shift from longer to shorter dated Treasury bills. This was attributed partly to the appetite of the newly established banks to the 90-day bills and partly to the decision by a major public corporation to invest in time deposits with the banks that attracted higher interest rates compared to the 364-day bill.

6. **FINANCIAL SECTOR DEVELOPMENTS**

According to the Banking Sector Soundness Indicators, the industry remains sound. The risk-weighted capital adequacy ratio was 33.2 percent in September 2009, slightly lower than the 33.9 percent in June 2009. All the banks observed the minimum requirement of 8 percent.

Total assets rose to D13.7 billion in third quarter of 2009, or 2.0 percent from September 2008. Loans and advances, accounting for 30 percent of total assets, increased to D4.1 billion, or 31.3 percent. Lending to all the sectors increased, with the exception of loans to agriculture which declined by 9 percent. Despite the marked increase in credit, the non-performing loans ratio was 7 percent, the same as in the previous two quarters of 2009.

Deposit liabilities continue to increase and totalled D8.8 billion in September 2009 compared to D7.1 billion in September 2008. Foreign currency deposits accounted for 14 percent of the deposit liabilities. The overall net open position of the industry was 7.7 percent in September 2009, below the prudential threshold of 25 percent. Earnings declined to D28.0 million in the third quarter compared to D54.0 million in the second quarter of 2009.

The Committee observed that the driver for the increase in capital and reserves was mainly paid up capital by the new banks and partly reserves build-up from profits.

The Committee indicated that though the non-performing loans ratio of the industry was in single digit, the ratio of some sectors such as fishing and building construction were in double digits and expressed the hope that the loans recovery efforts would be ratcheted up further to reduce the stock of bad debts. Also, while acknowledging that soundness indicators are favourable, it was agreed that the CBG, as the regulator, should not rest on its laurels given that the situation of a bank may change rapidly.

The Committee expressed the fact that banks continue to rely on domestic sources to mobilise savings which explains the low ratio of foreign borrowing to total borrowing of only 3 percent.

7. **MONETARY DEVELOPMENTS**

Money supply grew by 20.7 percent in the year to end-September 2009 compared to 11.1 percent a year earlier. The NFA and the NDA of the banking system increased by 32.7 percent and 12.7 percent respectively.

Of the components of money supply, narrow money and quasi money rose by 14.2 percent and by 27.1 percent respectively. Correspondingly, the share of quasi money to broad money increased to 53.0 percent while that of narrow money declined to 47 percent.

Reserve money grew by 2.7 percent in the year to end-September 2009, higher than the growth of 0.9% a year ago. The NFA of the CBG was the main driver of growth.

The Committee commented that merely looking at the stock of foreign currency deposits as a percentage of total deposits may tell little about currency substitution. Probably, the best gauge is to observe the velocity of M2+ and M2. If, say, the velocity M2+ is trending downwards and there is a corresponding increase in M2 velocity, this may signal currency substitution. The velocity data shows that both M2+ and M2 are moving in the same direction suggesting that there is no currency substitution.

8 REAL SECTOR DEVELOPMENTS

According to the revised estimates from the Gambia Bureau of Statistics, economic growth is forecast at 5.0 percent higher than the earlier projection of 3.6 percent. Agriculture is expected to grow by 5.5 percent largely because of the good and well distributed rainfall and the successful expansion of rice production. Industry output is projected to expand by 3.6 percent and services (5.7 percent).

The Committee highlighted the weakening of economic activity, but emphasised that the outlook is more favourable than was initially forecast. The Committee agreed that the key to attaining high and sustained economic growth, critical to poverty reduction, is to increase investment in agriculture along the entire value chain.

9. BUSINESS SENTIMENT SURVEY

Overall, sentiment was quite subdued. According to the survey, 57 percent of the respondents indicated that economic activity was lower in Q3, 2009 compared to 10 percent that reported high activity indicating a diffusion index of (-47.0 percent). Industry firms and services establishments also reported lower business activity in Q3, 2009 with a diffusion index of (-50.0 percent) and (-48 percent) respectively. However, both industry and services firms were optimistic about prospects in Q4, 2009 with a diffusion index of (+34 percent) and (+70 percent) respectively.

About 37 percent of the respondents indicated that prices are higher and none reported lower prices, showing a diffusion index of (+37 percent). Also, about 34 percent of the respondents expect inflation to be higher in Q4, 2009 compared to 14 percent that think it would be lower. This implied a diffusion index of (+20 percent).

The Committee noted that although inflationary pressures have decelerated, it is important to monitor inflation developments carefully in light of the high inflation expectations.

The Committee commended the Economic Research Department for the improvement in the response rate and indicated that the key to obtaining high responses is persistence and ensuring that business establishments understand the essence of the survey.

10. INFLATION

End period inflation, measured by the National Consumer Price Index, was 2.4 percent in September 2009 compared to 6.4 percent in September 2008. Both food and non-food consumer price inflation decelerated from 8.3 percent and 4.0 percent in September 2008 to 2.7 percent and 1.9 percent in September 2009 respectively.

Core inflation, which excludes the prices of energy and volatile food items, also decelerated to 2.3 percent in September 2009 from 6.3 percent a year earlier.

Commenting on the inflation report, some members questioned the low threat assessment of M2 growth, which was quite strong, given that studies indicate that an important driver of inflation in The Gambia is the stance of monetary and fiscal policy. Other members held the view that money supply alone may not explain inflation bearing in mind that The Gambia's small open economy makes it vulnerable to external shocks. However, the overwhelming sentiment was that the monetary targeting framework has worked well for The Gambia and did help the CBG attain its price stability objective.

11. DECISION

Having considered the economic and financial developments including the inflation outlook, the MPC decided to maintain the policy rate, the rediscount rate, at 16.0 percent.