MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

December 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 in December, 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. Amadou Colley	Director, Banking Services Department, Member
Mr. Ismaila Jarju	OIC, Economic Research Department, Member
Dr. Tamsir Cham	Director, Ministry of Finance, Member
Mr. Serign Cham	PS II Ministry of Finance, Member
Mr. Bakary Jammeh	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. Momodou Foon	Deputy Director, Special Duties
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
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mr. Momodou Lamin Jarjue	Senior Banking Officer, BD
Mr. Karafa Jobarteh	Senior Officer, Foreign Department

Mr. Abdou Ceesay	Senior Officer, Foreign Department
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
Mrs. Isatou Mendy	Economist, ERD
Mr. Sulayman Ceesay	Economist/Statistician,ERD
Ms. Binta Beyai	Economist, ERD

After welcoming the Committee to the last meeting of the MPC in 2009, the Chairman indicated that setting interest rates involves a delicate balancing act. Although the pursuit of low and stable inflation is the primary remit of monetary policy, interest rates should, if conditions permit, be at a level that supports sustained economic growth. Put differently, inflation control is not an end in itself; it is a means whereby monetary policy contributes to solid economic performance. Low inflation that engenders affordable interest rates allows the economy to function more effectively and contributes to stronger and sustained economic growth over time.

Thereafter, the MPC 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 as well as Government fiscal operations, inflation and financial stability report.

1.0 **World Economic Outlook**

Recent indicators point to the start of the global recovery following the deep global recession. Economic and financial developments have been somewhat more favourable than expected since the last MPC meeting in October 2009.

Vigorous and coordinated implementation of fiscal and monetary policy measures to support the flow of credit have been sustaining aggregate demand.

Led primarily by Asian economies, the turnaround in global output began in the second quarter, slightly earlier than anticipated. And according to the IMF, global growth is projected to contract by 1.9 percent in 2009, lower than the earlier estimate of 1.0 percent. Growth is projected at 3.1 percent in 2010.

The US economy is projected to contract by 2.7 percent in 2009 and to grow by 1.5 percent in 2010. Between July and September 2009, the U.S. economy grew at an annualised rate of 2.8 percent, but lower than the Department of Commerce (DOC) estimate of 3.5 percent. According to DOC, imports were much higher than anticipated. Consumer spending, which accounts for more than two-thirds of the US economy, grew by 0.7 percent in October 2009. Labour Department figures indicated that unemployment in the US eased to 10 percent in November 2009 from 10.2 percent in October 2009.

The Japanese economy is forecast to contract by 5.4 percent in 2009 and to grow by 1.7 percent in 2010. The recovery in exports is expected to be sustained, owing to strong demand from China.

The UK economy, which contracted by 4.4 percent in 2009, is projected to expand by 0.9 percent in 2010. The Bank of England held UK interest rates at a record low of 0.5 percent and announced no changes to its programme of quantitative easing. Inflation picked up pace in November 2009, driven largely by higher petrol prices. The CPI rose faster than expected to 1.9 percent year-on-year compared with 1.5 percent in October 2009. According to the Office for National Statistics, the unemployment rate was 7.9 percent in the third quarter, unchanged relative to the second quarter of 2009.

Economic activity in China is expected to increase by 8.5 percent in 2009 and 9.0 percent in 2010. Industrial output rose by a robust 19.2 in November 2009 from a year earlier, the strongest expansion since June 2007. Reflecting in part the increase in economic activity and strong growth in retail sales in particular of some 15.8 percent, consumer prices rose by 0.6 percent in November 2009, higher than the earlier projection of 0.4 percent. Exports fell by 1.2 percent in November 2009. Imports, on the other hand, rose by 26.7 percent. As a result, the trade surplus narrowed to $19.9 billion in November 2009 compared to $24.0 billion in October in 2009.

Growth in Sub-Saharan Africa was revised upwards to 1.7 percent in 2009. Economic activity is expected to increase by 4.0 percent in 2010 reflecting rising commodity prices and supportive policies. Oil prices and to a lesser extent non-energy commodity prices have firmed since their trough in the first quarter of 2009, but nonetheless remain well below the levels reached in mid-2008. Strong demand in China, was the key contributor to recent rise in commodity prices.

After increasing to a high of US$81.0 a barrel in October 2009, oil prices fell to about US$70.0 a barrel in November 2009. It is projected that oil prices would trade in the US $70-80 range in 2010.

International rice prices were generally stable in July and August 2009, but fell in September 2009. Although expectations of below average production in major exporting countries and the weakening of the US dollar is giving some support to international rice prices, the arrival of new supplies in the coming months may cause prices to slide further. Sugar prices rose thanks to reduced production in India, the diversion of huge quantities of the cane crop to make ethanol by Brazil and demand increasing faster than supply.

As expected, consumer price inflation has fallen sharply around the world since mid 2008 reflecting subdued economic activity and the associated decline in oil and other commodity prices through early 2009.

The Committee noted that the outlook for 2010 has strengthened since the last MPC but that considerable fragilities surround the outlook, particularly bearing in mind that it may take a while for private demand to pick-up considerably. Also, over the medium term, global macroeconomic imbalances continue to pose significant risks to the outlook.

The Committee observed that quantitative easing has helped spur the economic recovery but that it is critical to get the timing right as to when to exit. A late exit may put pressure on prices while an early exit could slow the recovery.

Commenting on commodity prices, the Committee asserted that fuel prices are easing and that future prices for early 2010 are lower than the current spot price of about US$70.0 per barrel. However, a larger than expected global growth and weak dollar could cause oil prices to rise at a strong pace. The Committee welcomed the projection that rice prices would remain steady in the short to the medium term, but observed that the projected decline in the export price of groundnuts could worsen the terms of trade and negatively impact the merchandise account of the balance of payments.

The Committee indicated that macroeconomic indicators point to the fact that the Gambian economy weathered the global recession better than many countries in the sub-region. However, given that the U.K. economy continues to be weighted down by the recession, there is the risk that tourist arrivals from the U.K. may continue to decline putting a significant drag on the Gambian economy.

2.0. Balance of Payments (BOP)

Preliminary BOP estimates indicate that the current account was in a surplus of D572.2 million in the third quarter of 2009 higher than the revised estimates of D412.8 million in the previous quarter.

The goods account deficit widened to D564.9 million in the third quarter from D398.9 million in the previous quarter reflecting in the main the decline in exports.

The services account deteriorated to a deficit of D87.7 million in the quarter under review compared to a surplus of D34.7 million in the last quarter mainly reflecting the 20 percent decline in travel income.

The income account deficit worsened to D68.0 million relative to D57.5 million in the preceding quarter. Current transfers increased to D1.3 billion, or 54.9 percent while workers remittances declined to D333.9 million, or 23.1 percent.

The capital and financial account balance worsened from a deficit of D277.4 million in the second quarter of 2009 to a deficit of D1.31 billion in the quarter under review.

Reflecting these developments, the overall balance was in a deficit of D740.8 million in the third quarter of 2009 compared to D344.8 million in the corresponding quarter of 2008.

Commenting on the data projecting a current account surplus in the second and third quarters of 2009, the Committee observed that if this trend were to continue in the fourth quarter, it is likely that the current account deficit would narrow in 2009 compared to 2008. In the third quarter of 2009, the goods, services and income deficits narrowed significantly while the current transfer surplus increased markedly.

Some Committee members indicated that the narrowing of the current account deficit may explain the slowing down of the depreciation of the Dalasis against the major currencies. However, to better inform policy and taking into account that BOP is a flow rather than stock variable, the Committee advised that henceforth the BOP data to be presented to MPC should cover the entire period for which data is available.

3.0 Foreign Exchange Developments

The volume of transactions in the foreign exchange market increased to D38.5 billion in the year to end-November 2009, or 11.3 percent from a year ago. However, in US Dollar terms, transaction volumes declined to US$1.4 billion, or 12.5 percent.

According to the Nominal Effective Exchange Rate index, the Dalasi depreciated by 9.4 percent in November 2009 compared to an appreciation of 8.5 percent in November 2008. Against individual currencies, the Dalasi depreciated against the British Pound, US dollar and the Euro by 8.2 percent, 2.5 percent and 20.6 percent respectively.

The Committee noted that although the Dalasi has depreciated against all the major currencies, the rate of depreciation has since slowed. The sharp depreciation of the Dalasi against the Euro is largely explained by the fact that the Euro strengthened against all the major currencies particularly the US dollar. And to the extent that the Euro is irrevocably fixed to the CFA partly explained the appreciation of the CFA against the Dalasi.

It was observed that the demand for foreign exchange by the services sector grew strongly particularly in the third and fourth quarter of 2009. Re-stocking by the tourism sector in preparation for the high tourist season was the main driver of the strong demand. Although demand of foreign exchange to pay for the importation of commodities such as rice, sugar, flour, etc. moderated, demand to pay for oil imports rose reflecting the increase in the price of oil.

The Committee commented that the Dalasi can best be supported by the Central Bank if monetary policy is conducted in a manner that keeps inflation low which, in turn, would engender confidence in the Dalasi. Besides, low and non-volatile inflation should help improve the competitiveness of the Gambian economy, particularly exports.

4.0 <u>Fiscal Developments</u>

Provisional data indicate fiscal overruns in the first ten months of 2009 compared to the corresponding of 2008. The revenue intake was more than off-set by the expenditure outturn.

Revenue and grants in the first ten months of 2009 totaled D4.3 billion (23.4 percent of GDP) compared to D3.1 billion (20.7 percent of GDP) in the same period in 2008.

Tax revenue increased to D3.0 billion, or 14.5 percent. Although direct taxes declined to D878.8 million, or 11.4 percent, indirect taxes increased to D2.14 billion, or 30.2 percent. Tax on international trade in particular grew by 49.7 percent.

Non tax revenue and grants rose to D324.0 million and D957.5 million, or 4.7 percent and 572.9 percent respectively.

Expenditure and net lending increased to D4.5 billion (24.8 of GDP), or 31.9 percent compared to the same period in 2008. Current and capital expenditure rose to D2.9 billion (16.1 percent) of GDP and D1.52 billion (8.3 percent of GDP), or 17.5 percent and 79.9 percent respectively.

Reflecting these developments, the fiscal deficit (including grants) on commitment basis narrowed to D246.0 million (1.3 percent of GDP). However, the fiscal deficit (excluding grants) on commitment basis widened to D1.2 billion (6.6 percent of GDP).

The basic balance worsened from negative D58.5 million in the first 10 months of 2008 compared to negative D172.5 million during the period under review. The primary balance surplus also fell from a surplus of D535.8 million in the first 10 months of 2008 to D452.0 million during the period under review.

Commenting on the 2010 budget, the Committee indicated that if the budget deficit including grants projected at 1.39 percent of GDP is actualised it should create conditions for easing of monetary policy assuming inflationary pressures remain well contained.

The Committee observed that 2009 was a difficult year for budget implementation owing to the global economic and financial crisis. CBG lending to Government exceeded the threshold enshrined in the CBG Act 2005. Some Committee members indicated that budgetary allocations to capital investment is low and that to improve the business environment and support economic growth, the stock of capital investment should be substantially increased.

The Committee noted that according to the Doing Business Index prepared by the World Bank, The Gambia was ranked a poor performer with regards to tax policy reinforcing the importance of the tax review being conducted by the fiscal authorities.

5.0. **Money Market Developments**

As at end-November 2009, the domestic debt totaled D7.09 billion (28.3 percent of GDP) compared to D6.5 billion (28.9 percent of GDP) in November 2008. Treasury bills, accounting for 71.9 percent of the debt stock, increased to D5.1 billion, or 5.5 percent

According to the data on maturity structure of Treasury bills, the 364-day bill accounted for 65.1 percent of the stock, the 182-day bill (17.75 percent) and 91 – day bill (17.16 percent).

Data on average time to maturity (ATM) indicated that in the 9 months from end-November 2009, about 75 percent of the Treasury and Sukut Al Salam (SAS) bills issued would mature running the risk of high refinancing costs if interest rates were to increase.

Data on total maturities (at face value) plus transfer to the Special Deposit Account in relation to issues (at book value) in the eleven months of 2009 indicated that liquidity withdrawals (issues) exceeded injections (maturities) by about D331.9 million.

The yield on the 364 day, 182-day and 91 day bill, increased to 15.0 percent, 13.5 percent and 11.34 percent compared to 14.25 percent, 13.43 percent, and 10.99 percent in November 2008 respectively.

Inter-bank placements that ranged from D216.0 million to D338.0 million per month attracted an interest rate between 9.68 percent and 12.16 percent per annum. The tenor ranged from 1 day to 31 days. Total placements amounted to

D1.8 billion, or an increase of 103 percent compared to the first 11 months of 2008.

The Committee advised on the need to publish inter-bank interest rates which should help provide the market with a comprehensive interest rate structure as well as the transaction amounts and tenure of the placements.

The Committee noted that Government is looking into the possibility of issuing medium term bonds. This would lengthen the maturity profile of the debt and at the same time help restructure the domestic debt.

In addition, under the advice of the IMF, the CBG is looking into reverting to forth nightly issuance of Treasury bills, but to be complemented with the introduction of repos to manage liquidity in between auctions.

6.0. **Financial Sector Developments**

The banking sector is highly concentrated with 3 banks accounting for 61 percent of the industry's total assets.

According to the Banking Sector Soundness Indicators, the banking sector remains sound. The industry's capital and reserves increased to D1.64 billion in September 2009, or 4 percent from June 2009. The main driver of growth was paid-up capital which rose by 37 percent to D286.0 million. Reserves, on the other hand, declined to D141.0 million, or 19.5 percent.

The average risk weighted capital adequacy ratio was 32.2 percent in September 2009, slightly lower than the 33.9 percent in June 2009. All the banks observed the minimum capital requirement of 8 percent.

Total assets increased to D13.7 billion thanks to the continued growth in loans and advances. 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 increased in credit, the non-performing loans ratio was unchanged at 7 percent in September 2009 relative to end June 2009.

Earnings, however, declined in September 2009 relative to June 2009. Net income totaled D28.0 million in September 2009 from D54.0 million in June 2009.

The Committee commented that based on the soundness indicators, the industry as a whole could be characterized as safe and sound. However, this does not mean that as regulators the Bank should lower its guards given that conditions of individual banks can change rapidly.

The Committee observed that the average liquidity ratio for the industry at 162 percent is quite high, but expectations are that as the new banks build up their deposit base, the ratio should fall.

7.0 **Real Sector Developments**

According to the most recent data from The Gambia Bureau of Statistics, real GDP growth is projected at 5 percent in 2009, lower than the output growth of 6.3 percent in 2008. Agricultural output is projected to increase by 5.5 percent, industry (3.5 percent) and services (5.7 percent).

An important driver of growth is exports. According to data from the Gambia Port's Authority, export volumes in the first eleven months of 2009 increased to 197,554 metric tonnes, or 60.4 percent compared to the corresponding period in 2008.

The Committee noted that despite the global economic crisis, the Gambian economy remained resilient and grew at a faster pace than earlier projected. The Committee agreed that the key to attaining high and sustained growth, critical to poverty reduction, is to increase agricultural investment along the entire value chain.

The Committee observed that policy formulation requires timely and quality data. As such, the Economic Research Department (ERD) was advised to actualize the composite index of real economic activity to better gauge economic activity on a quarterly basis. The point was also made that the index should mirror the structure of the Gambian economy to be meaningful.

8.0 **Monetary Developments**

Monetary Developments were characterized by strong growth in the monetary aggregates. Money supply grew by 19.3 percent in the year to end-November 2009, slightly lower than the 19.8 percent a year earlier. Both the NFA and the NDA of the banking system grew robustly by 27.9 percent and 15.0 percent respectively.

Of the components of money supply, quasi money grew by 30.5 percent and accounted for 53 percent of broad money while narrow money rose by a modest 8.6 percent and accounted for 47 percent of broad money.

Reserve money increased by 18.4 percent compared to 3.9 percent a year earlier. Although the NDA of the CBG contracted by 158.1 percent, the NFA rose by 25.1 percent.

Some Committee members noted that monetary targeting has worked relatively well for The Gambia given the fact that the regime has by and large delivered low inflation. Other members were of the view that velocity is unstable, owing in part to financial sector deepening. As a result, monetary targeting may not be as effective as in the past. The point was made that because policy making is a complex undertaking, the CBG is using a hybrid policy regime in the form of monetary targeting and implicit inflation targeting.

Commenting on the monetary aggregates, some Committee members were of the view that the strong growth in the money supply of 19.3 percent in the year to end-November 2009 should not be source of concern because there is the likelihood that the growth would slowdown. Other members argued that the strong growth in the aggregates portents a build-up in inflationary pressures with a time lag of 12 to 18 months.

9.0 **<u>Inflation</u>**

The latest inflation data point to the continued deceleration in inflationary pressures. According to the National Consumer Price Index, consumer price inflation was 2.6 percent in November 2009. The decline in inflation was largely as a result of the deceleration in food consumer price inflation which fell by 5.7 percentage point to 2.7 percent and partly by the 2.7 percentage points fall in non-food prices to 2.7 percent.

Core inflation, which excludes prices of energy and volatile food items, decelerated to 2.8 percent.

The Committee noted that the near term outlook for inflation remains favorable thanks to the good harvest and expectations are that end-period inflation would be well contained below the end-December target of 6.0 percent. The main upside risks to inflation are associated with strong growth in the monetary aggregates and the possibility of a stronger-than-anticipated global recovery. It is possible that the recovery in global demand could be more vigorous than projected resulting in a marked increase in commodity prices.

10.0 **Decision**

Having considered external and domestic financial and economic developments and the inflation outlook, the MPC decided to reduce the rediscount rate, the policy rate, by 2 percentage points to 14 percent.