MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

July 26, 2012

The 42nd 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 July 26, 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. Alhagie Taal	Director, Macroeconomic Unit, MOFEA, Member
Mr. Baboucarr Jobe	Senior Economist, MOFEA Member
Mr. Bakary Jammeh	Deputy Director, ERD, (Secretary)

In Attendance were:

Mr. Momodou Ceesay	Senior Adviser, Governor's Office
Mr. Ousainou Corr	Director, Finance Department
Mr Pa Alieu Sillah	Commissioner of Insurance
Mr. Paul Mendy	Director 2, FSD
Omar K. Janneh	Deputy Director Admin
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 Korra	Principal Bank Examiner
Mrs. Annetta Railey	Principal Banking Officer, BD

Mr. Abdou Ceesay	Principal Officer FD
Mr. Karafa Jobarteh	Senior Officer, Foreign Department
Mrs. Isatou Mendy-Volo	Senior Economist, ERD
Mr. Sherrif Touray	Senior Economist, ERD
Mr. Paul Bruce	Senior Economist, ERD
Mr. Abdoulie Janneh	Macroeconomist, ECOWAS NCC
Nicole Ousman	Bank Supervisor, FSD

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on July 26, 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 previous meeting of the Monetary policy Committee, global growth prospects have weakened amid the continuing risks posed by the banking and sovereign debt crisis in the Eurozone, delayed or insufficient policy action and uncertainties in US Government finances as well as greater than anticipated deceleration of economic growth in China and other emerging economies.

According to the IMF's World Economic Outlook, global growth is projected at 3.5 percent in 2012 and accelerating to 3.9 percent in 2013, but marginally lower than the forecast in the April 2012 Report.

The economic expansion in the United Stated continues at a slow pace. After rebounding in the second half of 2011, growth slowed to around 2 percent in the first half of this year. Growth is expected to be a modest 2 percent in 2012 and about 2¼ percent in 2013 reflecting continued household deleveraging, fiscal restraint and subdued global demand.

Euro area real GDP growth was flat in the first quarter of 2012, following a decline of 0.3 percent in the previous quarter. Indicators for the second quarter of 2012 point to continued weakening of economic activity amid heightened uncertainty. At least seven Euro-member states are in recession and Germany's economy, the largest in the Euro area, is cooling.

Growth in the UK, which is currently in recession, is projected to increase to 1.4 percent in 2013, a 0.6 percentage point decrease from the previous 2 percent forecast reflecting fiscal tightening by the Conservative Government and the slowdown in the Eurozone, UK's biggest trading partner.

In China and other emerging economies, the deceleration in growth has been greater than anticipated, reflecting past policy tightening and weaker external demand. Latest official statistics showed that the Chinese economy expanded by 7.6 percent in the year to the second quarter, which was below 8 percent for the first time in three years.

Despite difficult external conditions, output in Sub-Saharan Africa grew by 5 percent last year. Most countries recorded robust expansion with the exception of South Africa, slowed by weak demand in Europe and countries in West Africa affected by drought and civil conflict. For 2012, output is projected at 5.5 percent.

The slowdown in global economic activity has led to sizeable reduction in commodity prices, although they remain elevated. Global food prices have fallen slightly from their historic peak, but the UN Food and Agriculture Organization indicates that high and unpredictable prices are likely to continue.

Average oil prices were the highest on record in 2011 and earlier this year and appeared to be heading for new records due to fears over supply disruptions from Iran's standoff with the West over its nuclear programme. However, constrained by weak global demand, Brent crude oil prices fell to as low as US$89 per barrel, well below the levels of almost US$130 per barrel that prevailed earlier this year.

Consumer prices in the advanced economies and the emerging and developing economies is forecast to decelerate to 2 percent and 6.3 percent in 2012 from 2.7 percent and 7.2 percent respectively in 2011 reflecting the confluence of global economic slowdown and decrease in commodity prices.

The Committee observed that the sovereign debt crisis in the Eurozone, worries about the US government finances in the light of disagreements in Congress relating to the path of fiscal policy and falling growth rates in China are the major downside risks to global economic growth. The fact that about 24 percent of Gambia's trade is with the EU means that the country cannot be totally insulated from the impact of the Eurozone crisis.

The Committee noted that there is increasing likelihood that the Federal Reserve would resort to more quantitative easing to support the US economy against the backdrop of a larger-than-expected slowdown in economic activity and stubbornly high unemployment rate. The view was expressed that despite the fact that American banks have ample liquidity, growth in private sector credit remains minuscule attributed to continued deleveraging by corporations and consumers.

The Committee indicated that the UK economy continues to be in recession following the larger-than-expected contraction of economic output by 0.7 percent. As a result, the projected growth of 0.2 percent in 2012 may not even materialize. The Committee expressed concern that the contraction in economic activity may have a drag on the Gambian economy given that 41.7 percent of tourist arrivals in to the country were from the UK in 2011.

The Committee observed that given the openness of the Gambian economy the easing of food and oil prices should positively impact domestic prices. However, considering that Sub-Saharan Africa largely comprise commodity exporting countries, lower commodity prices could lead to reduction in export earnings and a slowdown in growth.

EXTERNAL SECTOR DEVELOPMENTS

The balance of payments (BOP) estimates for the first quarter of 2012 indicate an overall surplus of US$15.1 million, lower than US$34.0 million in the corresponding quarter of 2011.

The current account surplus decreased to US$29.77 million from a surplus of US$45.55 million in the first quarter of 2011. The goods account deficit widened to US$39.05 million relative to the deficit of US$30.05 million in the first quarter of last year reflecting in the main increased imports to US$85.93 million, or 10 percent. Exports, on the other hand, rose to US$45.69 million, or 7.0 percent.

The services account surplus rose significantly to US$41. 38 million, or 64.7 percent owing mainly to the strong growth in tourism income to US$43.51 million, or 31.8 percent.

The capital and financial account recorded a deficit of US$14.66 million, higher than the deficit of US$11.55 million in the corresponding period of 2011.

The stock of official reserves totaled US$176.29 million in June equivalent to 4.7 months of import of goods and services.

The Committee commented that the increase in imports could be explained largely by the crop failure in 2011. Output of major crops declined by 62 percent, causing food imports to rise to about US$85.93 million, or 10 percent in the first quarter of 2012.

The Committee noted that the surplus in the current account was caused largely by the robust increase in transfers and tourism receipts. Tourism receipts rose to D1.33 billion, or 36.3 percent. However, while acknowledging the huge impact of the tourism sector on the Gambian economy, the Committee agreed that agriculture and its associated multiplier has a much bigger impact.

EXCHANGE RATE DEVELOPMENTS

The volume of transactions in the foreign exchange market in the year to end-June 2012 decreased to US$1.48 billion from US$1.6 billion a year ago. The US Dollar continues to be the most dominant currency in the foreign exchange market accounting for 64.8 percent of the market share, followed by the Euro (21.9 percent), Pound Sterling (11.7 percent) and other currencies (1.6 percent).

The Dalasi depreciated against the US Dollar and Pound Sterling by 9.8 percent and 6.1 percent respectively from the corresponding period last year, but appreciated against the Euro by 3.32 percent. In nominal effective exchange rate terms, the Dalasi depreciated by 6.7 percent.

The Committee agreed that the depreciation of the Dalasi was a result of decreased foreign exchange inflows from agricultural exports and higher-than-expected demand for foreign exchange to pay for imports. The expectation is that the depreciation is likely to reverse when the high tourist season starts in earnest. Some Committee members advised that the depreciation of the Dalasi should not be viewed with trepidation considering that under a floating exchange rate regime, the exchange rate serves as a shock absorber thus insulating the real economy from shocks. Besides, the depreciation of the real effective exchange rate should give a boost to tourism and agricultural exports.

The view was also expressed that the exchange rate remains an important sign of overall macroeconomic stability as well as determinant of inflation expectation. For example, data from the Business Sentiment Survey revealed a clear correlation between movements in the exchange rate and inflation expectations, if not inflation itself.

FISCAL DEVELOPMENTS

Preliminary estimates of Government fiscal operations in the first half of 2012 indicate an improved fiscal position compared to the corresponding period in 2011.

Total revenue and grants rose to D3.2 billion, or 17.2 percent from the outturn recorded in the first half of 2011 reflecting the combination of improved tax administration and increased donor assistance in response to the 2011 crop failure. Domestic revenue, comprising tax and non-tax revenue, rose to D2.47 billion, higher than the D2.13 billion in the first half of 2011. Tax revenue, accounting for 86.9 percent of domestic revenue, increased to D2.14 billion, or 17.6 percent. Non-tax revenue also rose to D324.4 million from D305.8 million in the corresponding period in 2011. Grants totaled D682.6 million, higher than the D559.5 million recorded in the first half of 2011.

Total expenditure and net lending was D3.57 billion, higher than the D3.16 billion in the corresponding period in 2011. Both current and capital expenditure rose by 12 percent and 9.8 percent respectively.

Against this backdrop, the budget deficit narrowed to D418.6 million from D469.5 million in the corresponding period a year ago. The basic primary balance surplus also rose to D534.7 million compared to D275.7 million in the first half of 2011. The deficit was financed wholly from domestic sources. There was a net external repayment of D41.6 million.

The Committee noted that despite the improved fiscal position, the last time the Government had a net claim on the banking system was in 2007. And because fiscal policy was exceedingly tight in 2007, the Dalasi appreciated sharply against all the major currencies, particularly the US Dollar, a reminder that run away depreciation is usually the result of fiscal excesses financed by printing money.

The Committee indicated that continued implementation of prudent fiscal policy is necessary to stabilize the debt and to ultimately pay it down. In this regard, reducing expenditure is a better policy action than raising taxes given that a reduction in spending is associated with bigger declines in interest rates.

The Committee expressed concern over the ballooning salary mass and advised on the need to reorient expenditure away from current to capital expenditure in order to address the infrastructure deficit which has stymied growth.

MONEY MARKET DEVELOPMENTS

As at end-June 2012, the domestic debt rose to D9.65 billion, or 2.6 percent from a year ago. Outstanding Treasury bills and Sukuk Al Salaam (SAS), accounting for 72.9 percent and 3.6 percent of the domestic debt, rose by 13.7 percent and 53.8 percent respectively. All the other debt instruments recorded a contraction.

According to data on holdings of Treasury bills by sector, commercial banks held 81.4 percent of the stock, non-bank (16.7 percent) and CBG (1.9 percent).

Readings of the distribution of Treasury bills and SAS by maturity indicated that 364-day bills accounted for 63.2 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 rose, albeit slightly. Yield on 364-day, 182-day and 91-day Treasury bills rose to 11.77 percent, 10.4 percent and 9.7 percent in June 2012 from 11.5 percent, 9.65 percent and 8.93 percent respectively in June 2011.

The Committee raised concern over the size of the domestic debt which reached 34.9 percent of GDP in June 2012 and consumed about 18.5 percent of Government revenue in 2011. The Committee urged that urgent action be taken to at least reduce the growth rate of the debt in the short-term.

The Committee commented that domestic credit totaled D11.5 billion in June 2012, of which D6.2 billion, or 54.4 percent was claims on Government. To the extent that outstanding private sector credit was only D4.6 billion (40.2 percent of total domestic credit) points to crowding out of the private sector, the economy's engine of growth. Going forward, the Committee directed the Financial Supervision Department to collect data on loans and deposits by size of account to better inform policy.

The Committee noted that despite the improved fiscal position, Treasury bills and SAS yields were higher in June 2012 compared to June 2011. Further tightening of fiscal policy should reduce the supply of Treasury bills and SAS and by extension cause yields to decelerate. And considering that yields remain high, it is not opportune to issue longer dated bonds necessary to broaden the maturity structure of the debt. However, a debt swap, that is, buying short-term debt in exchange for longer dated bonds could be explored. In some countries where debt swaps have been introduced, yields declined.

Real Sector Developments

The Gambia Bureau of Statistics revised GDP figures indicate that the Gambian economy grew by 3.3 percent in 2011, lower than the 5.5 percent in 2010 attributed primarily to the contraction in value–added of agriculture. Crop production, accounting for 56.4 percent of agricultural output, contracted by 12.0 percent from a robust growth of 14.3 percent in 2010. Livestock, forestry and fishing, on the other hand grew by 6.3 percent, 3.5 percent and 2.1 percent in 2011compared to 10.9 percent, 13.0 percent and 1.7 percent respectively in 2010.

Industry value-added grew by 1.3 percent in 2011, lower than the 2.6 percent in 2010. Manufacturing and mining and quarrying grew by 42.5 percent and 21.6 percent compared to 20.0 percent and 10.4 percent respectively in 2010, but construction value-added decreased by 2.9 percent on top of the 3.7 percent contraction in 2010. Services value-added grew by 9.5 percent compared to 1.1 percent in 2010 attributed in the main to the strong performance of the tourism sector whose output rose by 34.2 percent.

Real GDP growth is projected to contract by 1.7 percent in 2012, but to rebound to 9.7 percent in 2013 premised on improved agricultural output and continued rebound of tourism.

The Committee commented that agriculture should be seen not only as a business to feed people, but to grow economies. As such, investment should be focused across the entire agriculture value chain. Investing in irrigation in particular would ensure year round agricultural production.

The Committee noted that the marked decline in agricultural production was not only as a result of the early cessation of rains but decrease in area under cultivation as well. Area under cultivation declined by 71 hectares. Although rainfall in 2012 is so far adequate and well distributed, it is too early to forecast with certainty agricultural output. Besides, some studies show that it takes 2-3 years for some poor countries to recover fully from droughts.

MONETARY DEVELOPMENTS

Monetary developments were characterized by a slowdown in the growth of key monetary aggregates. In the year to end-June 2012, money supply grew by only 5.8 percent compared to 13.4 percent a year ago. Both components of money supply increased, albeit at a modest pace. Narrow money, comprising currency outside banks and demand deposits, rose by 3.4 percent compared to 13.9 percent a year earlier. Growth in currency outside banks and demand deposits slowed to 6.5 percent and 1.7 percent compared to 16.6 percent and 12.4 percent a year ago. Quasi money, comprising savings and time deposits, rose by 7.9 percent relative to 13 percent in the preceding year. Savings deposits grew by 15.1 percent from 19.9 percent a year ago. Time deposits, on the other hand, contracted by 0.2 percent from an expansion of 6 percent a year earlier.

Reserve money grew by 4 percent, lower than the 8.1 percent a year ago reflecting primarily the modest 4 percent and 3 percent increase in the net foreign assets (NFA) and the net domestic assets (NDA) of the CBG respectively.

The Committee noted the subdued credit growth of only 0.6 percent attributed to the confluence of tightening credit standards by banks, sluggish economic activity, high lending rates and crowding out as a consequence of increased Government borrowing from the banking sector. The view was, however, expressed that although the growth rate of the key monetary aggregates point to the fact that monetary conditions remain tight, they are consistent with the slowdown of the economy.

FINANCIAL STABILITY REPORT

According to key financial soundness indicators, the banking industry remains sound. The average risk weighted capital adequacy ratio rose slightly to 26 percent, or 0.2 percent from March 2012. However, compared to June 2011, the ratio increased by 3.2 percent.

The assets of the industry totaled D19.06 billion, representing an increase of 2.6 percent from March 2012. Treasury bills, accounting for 31 percent of total assets, increased to D5.83 billion, or 4.1 percent. However, gross loans and advances, representing 27.4 percent of total assets decreased to D5.2 billion, or 1.1 percent.

Non performing loans increased from D447.8 million in March 2012 to D516.4 million in June 2011. The non-performing loan ratio also rose slightly to 14.3 percent in June 2012 compared to 8.7 percent in March 2012.

Deposit liabilities totaled D12.5 billion, a decrease of 1.3 percent from March 2012. However, compared to June 2011 deposits rose by 5.2 percent. The loan to deposits ratio was 41.8 percent in June 2012 compared to 41.7 percent in March 2011.

The industry remains highly liquid. The liquidity ratio was 73.7 percent, significantly higher than the minimum requirement of 30 percent.

The industry's net profit rose to D59.4 million in June 2012, higher than the D46.6 Million and D14.7 million in March 2012 and June 2011 respectively. The return on assets and return on equity rose to 1.25 percent and 2.35 percent respectively in June 2012.

The Committee, while agreeing that the fundamentals of the banking industry are strong, expressed concern of the increase in the non-performing loan ratio. The Committee was informed that the increase in the NPL ratio was primarily as a result of the decision by one of the banks to clean its books.

PRIVATE SECTOR BUSINESS SENTIMENT SURVEY

According to the readings of the Private Sector Business Sentiment Survey, 24 percent of the respondents indicated that economic activity was higher in Q2 relative to Q1 of 2012 compared to only 14 percent that reported lower economic activity. However, the majority of respondents (62 percent) indicated no change in economic activity.

At the company level, 76 percent reported higher activity in Q2, 2012 compared to 10 percent that reported lower activity. A higher percentage of respondents indicated that capital expenditure, employment, sales and profit were lower in Q2 2012 than those who reported an increase.

The majority of respondents indicated that exchange rates in Q2, 2012 were higher relative to none reporting lower exchange rate. Also, the majority of respondents expect inflation to be higher in Q3 2012.

INFLATION

Consumer price inflation, measured by the National Consumer Price Index, was 4.2 percent in June 2012, lower than the 5.4 percent in June 2011. Average inflation (12-month moving average) also decelerated to 4.1 percent from 5.7 percent in June 2011.

Food prices, the main driver of inflation in The Gambia, decreased to 5.3 percent in June 2012 from a high of 7.4 percent in June 2011.

Non-food consumer prices remain low and stable. Non-food inflation was 2.6 percent in June 2012, a slight increase from the 2.1 percent reading in June 2011.

Core inflation, which excludes the prices of volatile food items as well as energy and utility prices declined to 4.2 percent in June 2012 compared to 5.4 percent in June 2011.

Some Committee members commented that with growth slowing and inflation decelerating, there is need for monetary policy to support growth. It was also averred that what ultimately drives sustained economic growth are policies that spur domestic and foreign investment. And for the Gambian economy to grow by 8 percent needed to significantly reduce poverty, investment rate of at least 25 percent of GDP per annum is required. Currently, the investment rate is estimated at 19 percent of GDP.