MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

JUNE 18, 2009

The twenty-sixth 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 June 18, 2009.

Present were:

Momodou B. Saho	-	Governor, Chairman
Basiru A. O. Njai	-	First Deputy Governor, Member
Oumie Savage-Samba	-	Second Deputy Governor, Member
Ousman Sowe	-	Director, FSD, Member
Amadou Colley	-	Director, Banking Department, Member
Tamsir Cham	-	Economist, MOFEA, Member
Shuaibu Barry	-	Economist, MOFEA, Member
Ismaila Jarju	-	Principal Economist, ERD, Member
Momodou Sabally	-	Principal Economist, ERD (Secretary)

In Attendance were:

Omar Jaata	-	Director, Foreign Department
Ousainou Corr	-	Director, Finance Department
Alieu Gaye	-	Deputy Director, Risk Management Unit
Omar Janneh	-	Deputy Director, Admin. Department
Mbaye Jammeh	-	Deputy Director, Banking Department
Paul Mendy	-	Deputy Director, FSD
Bakary Jammeh	-	Principal Econometrician, ERD
Ebrima Wadda	-	Principal Economist, ERD
Maimuna John-Sowe	-	Principal Economist, ERD
Anita Riley	-	Senior Banking Officer, Banking Dept.

Momodou Lamin Jarjue	-	Senior Banking Officer, Banking Dept.
Mustapha Senghore	-	Bank Examiner, Financial Supervision Dept.
Amadou Barry	-	Bank Examiner, Financial Supervision Dept.
Nyakassi Sanyang	-	Economist, Economic Research Dept.
Sheriff Touray	-	Economist, Economic Research Dept.
Yaya Cham	-	Economist, Economic Research Dept.
Isatou Mendy	-	Economist, ERD
Paul Solomon Bruce	-	Econometrician, ERD
Sait Mboob	-	Economist, ERD
Binta Beyai	-	Economist, ERD
Saikouba Ceesay	-	Economist, ERD

Before turning to its immediate policy decision, 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, money market and financial stability developments as well as government fiscal operations and inflation.

Developments in the International Economy

According to the latest IMF projections, world output is projected to contract by 1.3 percent in 2009 compared to a growth rate of 3.2 percent in 2008. All the G8 countries are projected to record negative growth.

Growth in the US is forecast to contract by 2.8 percent in 2009 from an output growth of 1.1 percent in 2008. Although consumer spending grew by an annualised rate of 2.2 percent in the first quarter of 2009 after falling by an annualised 14.0 percent in each of the preceding two quarters, this was offset by the decline in business investment. Business investment decreased by an annualised rate of 38.0 percent in the first quarter of 2009, the steepest on record.

The GDP of the Euro Zone is projected to contract by 4.2 percent in 2009 compared to a growth rate of 0.9 percent in 2008. All the countries that make up the Euro Zone are expected to record a contraction in output.

The Japanese economy is expected to contract by 6.2 percent in 2009, the worst performance on record. Although strong fiscal response is expected to bring quarterly GDP back to positive trajectory in the second half of 2009, growth will remain weak as the collapse in exports spills over to private domestic demand.

Growth in the UK is forecast to contract by 4.1 percent. Manufacturing and services sector output declined by 6.2 percent and 1.2 percent respectively in the first quarter of 2009 compared to the previous quarter.

Economic output in China is projected at 6.5 percent in 2009. A number of indicators suggest that the economic recovery is showing signs of strength. For example, industrial production grew by 8.3 percent in March 2009 from 2.8 percent in January and February 2009.

Growth in Sub-Saharan Africa is forecast at 1.7 percent in 2009 from 5.5 percent in 2008. The food and fuel price shocks of 2007 and 2008 weakened the external position of net importers of food and fuel, causing inflation to accelerate and dampening growth. The situation was worsened by the on-going financial crisis which continues to negatively impact Foreign Direct Investment, remittances and tourism flows.

Global growth is projected to recover somewhat in 2010. Output is forecast to expand by 1.9 percent premised on: (i) the easing of financial conditions (ii) robust growth in China (iii) improving US jobs market (vi) an apparent bottoming out in US home sales and housing construction and (v) an increase in US consumer spending.

Owing to the decrease in real economic activity and lower commodity prices, headline inflation in the developed countries is projected to decrease from 3.5 percent in 2008 to 0.25 percent in 2009. In developing countries, prices are expected to decline to 5.0 percent in 2009, down from 9.5 percent in 2008.

Falling demand and high levels of inventory have caused oil prices to fall to as low as US $30.0 per barrel before edging upwards to about US $70.0 currently. According to the Food and Agricultural Organization (FAO), grain prices have fallen by about 30.0 percent from their peaks in mid-2008. For example, the price of Thai rice declined from US $1000 per tonne in May 2008 to about US $600.0 per tonne currently.

The Committee observed that there was no significant change in the outlook for the global economy and that the prospects for a return to robust growth in the short to the medium term remain uncertain. And given that The Gambia is a small open economy, the global slowdown would continue to put a drag on the economy.

The Committee commented that private consumption is the most important driver of growth of the US economy. And to the extent that consumer spending is too low, growing by only 2.2 percent in the first quarter of 2009 from a negative base, is an indication that the US economy is still not out of the woods.

The Committee noted that the decrease in private consumption in the US and the corresponding increase in savings may be due to the Ricardian effect. According to the Ricardian theory, increase in Government spending is largely offset by a reduction in private consumption, reflecting future anticipated tax increases. Accordingly, unless there is some roll back of public spending in the future and confidence restored consumer spending may remain low.

Balance of Payments Developments

According to the latest BOP data, the overall balance is projected at a surplus of US $0.5 million in 2009 compared to a deficit of US $30.3 million in 2008.

The trade and services deficit is projected to improve from D5.8 billion and D1.76 billion in 2008 to D5.6 billion and D1.1 billion respectively in 2009. The capital and financial account surplus, on the other hand, is projected to increase from D2.7 billion in 2008 to D3.8 billion in 2009.

The Committee noted the projected improvement in the BOP but commented that the estimated 20.0 percent decline in remittances may be too high and at variance with the 8.0 percent projected fall in remittances in the whole of Africa. Besides, data for the first quarter of 2009 showed a slight increase in remittances relative to the corresponding period in 2008 and an indication that remittance flows are likely to decrease slightly in 2009 if at all.

Exchange Rate Developments

Volume of transactions in the inter-bank foreign exchange market decreased to US $1.4 billion in the year to end-May 2009 compared to US $1.7 billion a year ago. This was mainly on account of reduced inflows from tourism and FDI.

Reflecting the decrease in the supply of foreign exchange and robust demand, the Dalasi depreciated in nominal terms by 20.3 percent against a basket of key currencies in May 2009 compared to a year ago. The Dalasi weakened by 1.5 percent, 29.5 percent and 15.3 percent against the Pound Sterling, US Dollar and Euro respectively. The marked depreciation of the Dalasi against the Dollar was in marked contrast with the unprecedented appreciation of the domestic currency against the dollar during the previous year.

The Committee noted that the increase in demand to pay for food and oil imports and the decrease in supply, reflecting reduced flows, caused the Dalasi to depreciate. Although receipts from groundnut exports rose in 2009 relative to 2008, it was not sufficient to fully offset the decline in tourism and FDI receipts. The Committee agreed that the decline in the foreign exchange value of the Dalasi in real effective exchange rate terms is likely to boost exports and thus support economic expansion.

Fiscal Developments

Preliminary data on Government fiscal operations showed an improved position in the first four months of 2009. Total revenue and grants amounted to D1.6 billion compared to D1.3 billion in the corresponding period in the previous year. Tax revenue rose to D1.3 billion, or 16.5 percent due largely to the significant increase in direct and indirect taxes.

Direct taxes increased to D430.2 million, or 3.8 percent. All the categories of direct taxes except capital gains recorded an increase. Indirect taxes rose to D897.5 million, or 23.8 percent with receipts from international trade taxes increasing substantially to D677.0 million, or 44.5 percent. Duty and sales tax from oil and non-oil products rose by 70.4 percent and 15.9 percent respectively.

Domestic taxes on goods and services, stamp and excise duties and domestic sales tax declined by 14.0 percent, 76.4 percent, 13.3 percent and 4.1 percent respectively.

Non-tax revenue increased to D122.1 million, or 4.7 percent while grants rose to D141.9 million compared to D67.2 million in the corresponding period in the previous year.

Expenditure and net lending totaled D1.6 billion compared to D1.2 billion in the same period in 2008. Current expenditure increased to D1.0 billion, or 5.1 percent while capital expenditure amounted to D512.2 million, or an increase of 113.3 percent over the outturn in the corresponding period in 2008. All categories of current expenditure rose, except interest payments which declined by 2.3 percent.

The overall budget balance (including grants) on commitment basis was in a surplus of D37.5 million, but lower than the surplus of D74.5 million in the same period in 2008. However, the budget balance (excluding grants) on commitment basis moved from a surplus of D7.3 million in the first four months of 2008 to a deficit of D104.4 million during the period under review.

The basic budget balance and the basic primary balance recorded surpluses of D230.3 million and D511.4 million respectively.

The Committee observed that the improved fiscal balance did not translate into an improvement in Government's position with the Central Bank. Central Bank claims on Government net deteriorated to a surplus of D192.6 million in April 2009 compared to a surplus of D833.04 million in April 2008. The consequent increase in Central Bank financing of the budget had made it difficult to control the size and composition of the Bank's balance sheet which, in turn, limited the ability to effectively influence overall liquidity.

Money Market Developments

As at end-May 2009, the domestic debt rose to D5.73 billion, or 2.1 percent from a year earlier. Treasury bills accounting for 83.3 percent of the debt, increased to D5.1 billion, or 1.5 percent. Commercial banks held 56.4 percent of the debt, the non-bank (36.2 percent) and CBG (7.4 percent). With respect to the maturity structure, the 364-day bills accounted for 66.0 percent of the stock, 182-day bills (16.0 percent) and 91-day bills (18.0 percent).

The yield of the 91-day bill, 182-day and 364-day Treasury bills rose from 9.38 percent, 11.67 percent and 13.49 percent in December 2008 to 12.50 percent, 13.15 percent and 15.24 percent respectively at end-May 2009.

The turnover of inter-bank placements rose from D575.0 million in 2007 to D2.2 billion in 2008, an increase of 289.0 percent. The average interest rate for the placements was 11.58 percent in 2008.

The Committee welcomed the increase in inter-bank placements which is an important indicator of financial sector deepening but advised that interest rates in the inter-bank market should be documented and analyzed because they can give an indication of the prevailing risk.

The Committee noted that shallow interbank markets interfere with the interest rate transmission mechanism. Money market operations are most effective when the liquidity operations of the Central Bank are disseminated through interbank activities.

The Committee commented that there is still confidence in the Treasury bills market and the tight liquidity conditions prevailing in the market were likely due to low real yields.

Real Sector Developments

Economic growth is projected to moderate to 3.6 percent in 2009 compared to 6.1 percent in 2008 mainly on account of the global financial crisis and the attendant slowdown in global economic activity. Exports, including re-exports, remittances, tourism and FDI flows are projected to decline in 2009.

Growth in agricultural output is projected at 6.0 percent in 2009, significantly lower than the 20.1 percent in 2008. Industrial value-added is expected to increase marginally to 2.4 percent from 0.7 percent in 2008.

Services sector output is forecast to expand by only 2.2 percent compared to 2.5 percent in 2008.

The Committee noted the increase in receipts from groundnut exports in 2009 compared to 2008 reflecting the fact that the Gambia Groundnut Corporation (GGC) purchased about 23,000 tonnes of groundnut in 2009 compared to about 5000 tonnes in 2008. The price of groundnut oil was as high as US $1450 per tonne in the beginning of the year but has since decreased to about US $1000 per tonne owing to the marked increase in supply emanating from large producers such as Argentina. The Committee commented on the need to time exports right to take advantage of the high prices at the outset of the marketing season.

The Committee observed that the prevailing global economic crisis would remain a drag on growth for some time and represented a significant downside risk to the economic outlook. However, better than expected agricultural output should help moderate the expected decline in GDP.

The Committee lamented that the Central Bank is yet to obtain a good handle on re-exports and agreed on the need to provide the necessary resources to the Economic Research Department to better collect re-exports data rather than rely on collection items and other anecdotal evidence to measure re-exports.

Monetary Developments

In the twelve-months to end-April 2009, money supply grew by 18.8 percent compared to 3.7 percent in the preceding year. The net domestic assets (NDA) and the net foreign assets (NFA) of the banking system grew by 27.5 percent and 5.6 percent respectively.

Quasi money, which comprised savings and time deposits, rose to D5.1 billion, or 18.7 percent. Time and savings deposits increased by 29.1 percent and 11.6 percent respectively. The share of quasi money to broad money decreased slightly to 51.3 percent in April 2009 from 51.4 percent in April 2008.

Narrow money, comprising currency outside banks and demand deposits, increased to D4.8 billion in April 2009, or 18.9 percent from a year earlier. Demand deposits and currency outside banks rose by 19.6 percent and 17.8 percent respectively.

The monetary base increased to D2.8 billion, or 11.1 percent compared to a contraction of 6.0 percent a year earlier and mainly reflected the strong growth in the net domestic assets of the Central Bank.

The Committee took note of the claim to rein in the robust increase in money supply in the quest to decelerate inflationary pressures.

The Committee agreed that the demand for money may be unstable. Thus it advised for a review of the stability of the money demand function.

Financial Stability Report

The banking sector remains fundamentally sound. The industry's capital and reserves increased to D1.54 billion in the year to end-March 2009, or 20.3 percent from March 2008. The average risk weighted capital adequacy ratio increased marginally to 34.8 percent from 33.1 percent in March 2008 but exceeded the minimum requirement of 30.0 percent.

The industry's assets rose to D12.5 billion owing mainly to the increase in loans and advances. Commercial bank credit rose to D3.74 billion in March 2009, or 40.2 percent from March 2008. Despite the strong growth in loans and advances, the non-performing loans ratio fell to 7.2 percent in March 2009 compared to 9.4 percent in December 2008 reflecting the combination of successful recoveries and write downs. All the non-performing loans were adequately provisioned.

Deposit liabilities rose to D8.0 billion in March 2009, or 20.0 percent from a year ago. All the banks recorded increases in deposit liabilities.

The industry's liquidity ratio increased to 99.7 percent in March 2009 compared to 88.0 percent in March 2008 and was higher than the minimum requirement of 23.0 percent.

The Committee observed that most of the indicators point to the fact that the banking system is sound and importantly has not been directly hit by the on-going financial crisis.

The Committee noted that the growth in deposit liabilities is faster than the growth in nominal GDP. An important structural bottleneck that stifles growth in The Gambia is the low domestic savings rate. Therefore, to the extent that deposit liabilities are growing at a strong pace should help increase domestic savings and ultimately economic growth.

The Committee lamented the high interest rate spread which is an indication of inefficiency. It was observed that the high spreads are also structural. And once the structural problems including asymmetric information are addressed, spreads should narrow.

Inflation

Readings of the National Consumer Price Index indicate that end-period inflation increased to 5.9 percent at end-May 2009 from 1.5 percent in May 2008, but was lower than the 6.3 percent recorded in April 2009. Both food and non-food prices increased.

Food price inflation rose to 7.2 percent in May 2009, higher than the 1.9 percent in May 2008. Non-food prices, on the other hand, increased to 4.2 percent in May 2009 from 1.2 percent a year earlier.

The Committee anticipated that inflationary pressures would continue to decrease provided that the expected increase in agricultural output and the continued moderation in energy prices were to prove correct. In essence, the risks to the outlook for sustained moderation in inflationary pressures are tilted to the downside.

Taking the above developments into consideration, including the risks to the inflation outlook, the Committee decided to maintain the rediscount rate, the policy rate, at 16.0 percent.