MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

May 10, 2012

The second meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) in 2012 took place in the Conference Room of the Bank.

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, Economic Research Department, Member
Mr. Alhagie Taal	Director, Macroeconomic Unit, MOFEA, Member
Mrs Amie Khan	Principal Economist, Macroeconomic Unit, MOFEA, Member
Mr. William Eunson	Director, Banking Department, Member
Mr. Bakary Jammeh	Deputy Director, ERD, (Secretary)

In Attendance were:

Mr. Momodou Ceesay	Senior Adviser, Governor's Office
Mr. Omar Jaata	Director, Foreign Department
Mr. Ousainou Corr	Director, Finance Department
Mr. Mbye Jammeh	Deputy Director, Banking Department
Mr. Michael Barrai	Deputy Director, Finance Department
Mr. Momodou Njie	Deputy Director, FSD
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mr. Momodou Lamin Jarjue	Principal Banking Officer, BD

Mrs. Annetta Riiley	Principal Banking Officer, BD
Mr. Karafa Jobarteh	Senior Officer, Foreign Department
Mrs. Isatou Mendy-Volo	Senior Economist, ERD
Mr. Nyakassi Sanyang	Senior Economist, ERD
Mr. Sherrif Touray	Senior Economist, ERD
Mr. Sulayman Ceesay	Economist/Statistician, ERD
Mrs. Binta Beyai	Economist, Banking Department
Mr. Abdoulie Janneh	Macroeconomist, ECOWAS NCC

The second meeting of the Monetary Policy Committee (MPC) in 2012 was held at the Bank's Conference Room on Thursday, May 10, 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.

Developments in the International Economy

The global economy continues to face significant challenges. According to the IMF's World Economic Outlook, global economic growth is projected to moderate to 3.5 percent in 2012 from 4 percent in 2011 amid doubts about the strength of the US recovery, recession in Europe, economic slowdown in China and high international oil prices. In the advanced economies, growth is projected at 1.5 percent in 2012, lower than the 1.6 percent in 2011.

US real GDP is projected to grow by 2.5 percent in 2012 from 2.2 percent in 2011. Recent economic developments have been largely positive. On average and until recently, monthly employment gains have strengthened and consumer and business confidence have shown more resilience than expected.

The Euro area was in recession in the fourth quarter of 2011 with real GDP contracting by 1.2 percent. The zone is projected to be in recession through the third quarter of 2012 as fiscal consolidation, bank deleveraging, tight financial conditions and negative confidence lead to significant drop in domestic demand. A modest recovery in economic activity is projected in the fourth quarter supported by a pick-up in export growth in response to a gradual strengthening in external demand.

The UK economy grew by 0.8 percent in 2011 despite the 0.2 percent contraction in the fourth quarter of 2011. Services growth was flat, manufacturing and construction output decelerated, consumer spending remained constrained while the Euro zone crisis dampened exports and discouraged business investment. Although economic output contracted in the first quarter of 2012, GDP is projected to grow by 0.6 percent overall in 2012.

Growth in emerging markets was generally more subdued and the policy tightening that had been a feature of many of these economies in 2011 has either stopped or been reversed.

Real GDP growth in China moderated to 8.1percent in the first quarter of 2012 as a result of lower external demand and the effects of previous tightening of monetary and macro prudential policies. Growth in real GDP is forecast to average 8 percent through 2014. A modest appreciation of the Yuan and the government's announced plan to boost household spending are expected to support a gradual shift of demand away from exports and investment towards consumption.

Sub-Saharan Africa is one of the regions least affected by the developed world's financial turmoil and attendant slowdown in global economic activity. Economic activity in the region is projected to expand by 5.4 percent in 2012 from 5 percent in 2011 reflecting the combination of sound policies and high commodity prices.

Global commodity prices have generally stayed at elevated levels. Heightened geopolitical tensions in the Middle East, coupled with supply disruptions in some jurisdictions and an improvement in the outlook for global economic activity have combined to keep oil prices high.

The United Nation's Food and Agriculture Organization (FAO) Food Price Index averaged 214 points in April 2012 down 3 points from March reflecting improved supply conditions.

Global inflation appears to be broadly contained amid slowing growth and declining food price trends. In the Euro zone, increases in commodity prices and a rise in indirect taxes due to fiscal consolidation caused inflation to rise to 2.6 percent in March 2012. Inflationary pressures are, however, expected to moderate in the medium-term.

Given the modest pace of US economic growth, excess supply conditions are expected to recede only gradually. As a result, underlying inflation pressures are projected to remain subdued.

In emerging Asia, headline inflation is decelerating, but is expected to stay elevated in some countries, notably, India. In Sub-Saharan Africa, inflation is expected to remain elevated, reflecting accommodative macroeconomic policies and supply-side constraints.

The Committee noted that despite signs of economic recovery, the global economy continues to face significant challenges and uncertainty owing mainly to economic events in the Euro zone. In particular, peripheral countries such as Greece, Spain and Portugal continue to be a drag on economic activity in the area.

The Committee indicated that the implementation of sound policies that led to the accumulation of healthy reserves and sufficient fiscal space helped many emerging countries absorb the shocks that emanated from the recent financial crises. The view was that some of these buffers are no longer readily available. It is therefore critical to rebuild the buffers when conditions permit.

Commenting on the relationship between growth and poverty reduction, it was observed that the strength of the correlation depends on other factors such as income disparity and the initial income level of the country.

The Committee indicated that China is taking what appears to be the first steps to the eventual liberalization of the country's capital account. For instance, the Yuan is currently being traded in selected jurisdictions, such as Hongkong. In addition, China has entered into an agreement with some countries to pay for Chinese imports in the domestic currency.

Regarding prices in The Gambia, the Committee commented that going forward, food and energy prices, the output gap and credibility of policy makers would determine the path of inflation. To the extent that food prices, which account for 55 percent of the consumer basket, are easing and fiscal policy is supportive, inflation should remain low and within target.

Balance of Payments Developments

Balance of Payment (BOP) estimates indicate a reduced overall surplus of US31.73 million in 2011 from US$86.52 million in 2010.

The current account surplus increased to US$66.86 million, higher than the surplus of US$56.25 million in 2010. Of the components of the current account, the goods account deficit widened to US$133.49 million relative to the deficit of US$105.61 million in 2010 reflecting primarily the 20.4 percent increase in imports to US$294.94 million. In contrast, exports rose to US$153.88 million, or 14.4 percent.

The surplus of the services account rose to US$84.39 million, or 46.8 percent over 2010 owing mainly to the marked increase in tourism income to US$95.6 million, or 29.9 percent.

The deficit in the income account worsened from US$8.05 million in 2010 to US$15.63 million in 2011 reflecting, in the main, increased interest payments.

Current transfers recorded an increased surplus of US$131.59 million, or 16.8 percent from 2010. Transfers to general government rose to US$44.78 million, or 29.2 percent. Transfers to other sectors, comprising workers' remittances and other transfers rose to US$86.84 million, or 11.3 percent.

The capital and financial account recorded a deficit of US$35.12 million from a surplus of US$30.27 million in 2010.

The Committee noted that in the recent past, the current account was reported to be in deficit averaging 12 – 13 percent of GDP. However, the most recent data provided by the ERD indicated that the current account was actually in a surplus of 5.9 percent and 6.9 percent of GDP in 2010 and 2011 respectively. This was attributed to better data, particularly tourism data following the recent survey. The Committee, however, directed that ERD conduct consistency checks to validate the data, bearing in mind that the balance in the current account should equal the savings-investment gap.

Commenting on the sustainability of the external debt, it was noted that the debt rose to US$400.1 million in 2011, or 6.1 percent from 2010. But more worrying, the external debt as a percentage of total exports at 260.2 percent in 2011, exceeded 250 percent threshold, suggesting that the external debt may be unsustainable. It was also observed that given the relationship between the current account and the level of debt, studies indicate that running a current account deficit over and above 3 percent of GDP should cause the debt to increase unsustainably.

The Committee noted that bearing in mind that short-term debt to foreign reserves ratio is a critical indicator of vulnerability, the country should continue to contract soft loans, in particular, long-term project loans that would generate returns sufficient to repay the loans.

Exchange Rate Developments

Volume of transactions in the foreign exchange market, measured by aggregate sales and purchases, totalled US$1.45 billion in the year to end-April 2012, lower than the US$1.59 billion a year earlier.

Year-on-year to end-April 2012, the Dalasi depreciated against the US Dollar and Pound Sterling by 6.7 percent and 4.6 percent respectively, but strengthened against the Euro by 4.5 percent. In nominal effective exchange rate terms, the Dalasi depreciated by 5 percent year-on-year to end –March 2012.

The Committee indicated that despite the external and domestic shocks, the Dalasi remains broadly stable consistent with the prudent implementation of monetary policy.

The Committee noted that slight movements in the exchange rate should not be a source of worry in that it is in many instances transitory. And commenting on contrasting fortunes of the Dalasi vis-à-vis the Ghanaian Cedi and the Nigerian Naira, the sentiment was that despite the huge foreign inflows in those two countries their currencies depreciated markedly primarily as a result of expansionary fiscal policy.

The Committee noted that the crisis in the Euro zone, a key trading partner of The Gambia and political instability in some countries in the sub-region could negatively impact foreign inflows to the country, particularly flows relating the cashew nuts trade and tourism.

The Committee indicated that inflows relating to groundnut exports would significantly contract in 2012 against the back drop of the crop failure in 2011. However, the Committee was informed that production of groundnut oil and groundnut cake is continuing at Gambia Groundnut Corporation (GGC) plant at Denton Bridge apparently from the 2010 groundnut stocks.

Fiscal Developments

Preliminary estimates of government fiscal operations in the first three months of 2012 indicate a narrowing of the deficit to D58.1 million compared to the deficit of D69.2 million in the corresponding period in 2011.

Revenue and grants increased to D1.6 billion, or 23.8 percent from the first quarter of 2011. Domestic revenue, which comprised both tax and non-tax receipts, rose to D1.2 billion, or 10.3 percent. Tax revenue increased to D1.06 billion compared to D934.3 million in the corresponding quarter of 2011. Both direct and indirect taxes increased by 8.9 percent and 16.9 percent respectively. Taxes on international trade accounted for 41.2 percent of tax revenue.

Non-tax revenue declined to D174.8 million, or 7 percent while grants rose significantly to D313.6 million compared to D130.6 million in the first quarter of 2011.

Government expenditure and net lending increased to D1.61 billion, higher than the D1.32 billion in the first quarter of 2011. Current expenditure rose to D1.13 billion, higher than the D1.07 billion in the corresponding quarter of 2011. Capital expenditure also rose to D475.2 million relative to the D255.6 million in the first quarter of 2011.

The Committee noted that over the past few years the balance sheet of the CBG ballooned mainly as a result of the monetization of the budget deficit. However, the balance sheet has now stabilized and the CBG is deriving income from the loans to Government. It was indicated that central banks are advised to shrink their large balance sheets by off loading holdings of government paper to the private sector. The view was, however, expressed that the success of this proposed exercise is contingent on fiscal tightening and the attendant decline in budget deficit financing.

The Committee commented that although capital expenditure rose, it was mainly financed by grants. The Committee expressed the importance of putting a lid on the wage bill and allocating more resources to The Gambia Local Fund in order to scale up infrastructure investment critical to long-term growth and development.

The Committee raised concern over the size and pace of growth of the domestic debt. The external and domestic debt combined constituted nearly 90 percent of GDP in 2011. The Committee advised on the urgent need for al targeted fiscal adjustment in order to stabilize the debt in the first instance and to pay it down thereafter.

Money Market Developments

The domestic debt increased to D9.43 billion in March 2012, or 5.3 percent from a year ago. Treasury bills and Sukuk-Al-Salaam combined and accounting for 78.8 percent of the debt stock, rose to D7.43 billion, or 21.6 percent. Both the 10 year bond and the 30 year bond decreased to D187.6 million and D1.76 billion, or 10 percent and 3.3 percent respectively.

According to data on the maturity structure of Treasury bills, the 364 – day bills accounted for 62.9 percent of the stock, 182 – day bills (23.1 percent) and 91 – day bills (14.0 percent).

Treasury bill yields increased in March 2012 with the exception of the 364 – day bills. The yield on the 91 – day and 182 – day rose to 10.23 percent and 11.52 percent from 9.58 percent and 10.46 percent respectively in March 2011. The yield on the 364 – day bill declined slightly to 12.8 percent from 13.0 percent in March 2011. The yield on the 91 – day Sukuk-Al-Salaam also rose from 9.57 percent in March 2011 to 10.03 percent in March 2012.

The Committee took note of the increase in yield of some of the maturities attributed partly to the refinancing of maturing Treasury bills and Sukuk-Al-Salaam and partly to increased domestic borrowing on the part of central government.

The Committee observed that the interbank interest rate appears to mirror the 91 – day Treasury bill yield. The rate rose to an average of 9.79 percent in March 2012 from an average of 8.91 percent in January 2012.

The Committee agreed that increased holdings of Treasury bills and Sukuk-Al-Salaam by banks may have crowded out the private sector. Commercial banks' loans and advance to major economic sectors declined from D5.39 billion in March 2011 to D5.26 billion in March 2012.

Real Sector Developments

According to data from the Gambia Bureau of Statistics, real GDP growth decreased to 3.3 percent in 2011 from 5.5 percent in 2010 mainly on account of the erratic rainfall which affected agriculture.

Agriculture value-added is estimated to have contracted by 5.2 percent. Crop production, accounting for 56.4 percent of agricultural output, contracted by 12 percent from a robust growth rate of 14.3 percent in 2010. The value added of livestock also fell from 10.9 percent in 2010 to 6.3 percent in 2011. The forestry and fisheries sub-sectors, on the other hand, grew from 3 percent and 1.7 percent in 2010 to 3.5 percent and 2.1 percent respectively in 2011.

The industrial sector is estimated to have grown by 1.3 percent, lower than the revised growth rate of 2.6 percent in 2010. The value-added of mining and quarrying, manufacturing and electricity, gas and water supply grew by 1.6 percent, 3.9 percent and 1.4 percent compared to 14.2 percent, 0.4 percent and 7.7 percent respectively in 2010. Construction value-added contracted by 2.9 percent on top of the contraction of 3.7 percent in 2010.

Services grew by 9.5 percent, significantly higher than the 1.1 percent in 2010. All the subsectors of services grew at a robust pace. In particular, whole sale and retail trade, hotels and restaurants and communication grew by 9.7 percent, 34.2 percent and 14 percent from negative 0.4, 35.7 percent and 15 percent respectively in 2010.

The Committee indicated that the marked slowdown of growth in 2005, and 2006 were as a result of vagaries of weather which reduced agricultural output. Similarly, the crop failure in 2011 is a major drag on the Gambian economy underlining the urgent need to reduce the dependency on rain fed agriculture. It is estimated that about 1/3 of the impact of crop failure was felt in 2011 and 2/3 would be felt in 2012. Consequently, GDP growth is projected to contract by 1.7 percent in 2012. In 2013, growth in GDP is projected at 8 – 9 percent, premised on above average and well distributed rainfall.

Commenting on the potential growth rate of the Gambian economy, the view was expressed that the growth potential could be shifted outwards primarily by the implementation of structural policies on a sustained basis. And whilst agreeing that the output gap has a bearing on inflation, the stance of fiscal and monetary policy has a bigger impact on prices in the developing countries, including The Gambia.

Monetary Developments

Monetary developments in the year to end-March 2012 were characterized by a deceleration in the growth of the key monetary aggregates.

Money supply grew by 9 percent, lower than the growth rate of 14.9 percent in March 2011. Both components of money supply grew. Narrow money, comprising currency outside banks and demand deposits, rose by 8.6 percent, slightly higher than the 7.8 percent in March 2011. The growth of currency outside banks slowed to 3.9 percent from 11.2 percent in March 2011. Demand deposits, on the other hand, grew by 6.2 percent, higher than the 5.9 percent in March 2011.

Quasi money, comprising savings and time deposits, grew at a slower pace of 9.3 percent from 21.7 percent in March 2011. Savings and time deposits rose by 3.5 percent and 14.9 percent from 23 percent and 20.5 percent respectively a year ago.

Growth in reserve money also decelerated to 8.7 percent, from 15.9 percent in March 2011. The net foreign assets of the CBG rose by 24.4 percent from a contraction of 26.6 percent a year earlier. Net domestic assets, on the other hand, decreased to D1.2 billion, or 16.1 percent from a year ago.

The Committee noted that the deceleration in the growth of the monetary aggregates is consistent with the growth outlook in 2012 and the inflation target. In setting its monetary targets, the CBG took into consideration the growth projection of -1.7 percent and an inflation target of 5 percent for 2012. Money supply growth was set at about 3 percentage points above the expected level of economic activity. This should ensure that inflation is within target while at the same time providing enough liquidity to the economy.

Financial Stability Report

The key financial soundness indicators suggest that the banking sector remains sound.

The capital adequacy ratio increased slightly to 26.6 percent in March 2012 from 25.9 percent in March 2011.

The assets of the industry rose to D18.76 billion in March 2012, or 4.5 percent from a year ago. Loans and advances totaled D5.26 billion, lower than the D5.39 billion in March 2011. Similarly, the loans to deposit ratio declined to 41.5 percent compared to the 46 percent in March 2011. The non-performing loans ratio decreased significantly to 8.7 percent compared to 13.3 percent in March 2011. The net profit of the industry totaled D46.6 million in the first quarter of 2012, higher than the D17.4 million in the same quarter in 2011.

The Committee applauded the marked decrease in the non-performing loans to single digit which bodes well for the financial stability objective. The Committee, however, lamented the sharp decrease in private sector credit attributed to myriad factors including high real interest rates which reduced demand, the impact of the Credit Reference Bureau which helped weed out serial defaulters and the stance of banks to clean their balance sheet at the urging of the CBG.

Private Sector Business Sentiment Survey

Readings of the Private Sector Business Sentiment Survey indicate that the majority of respondents (50 percent) reported that overall economic activity was higher in quarter 1, 2012 compared to those that reported lower activity (23 percent) relative to quarter 4, 2012.

Both industry and services establishments reported higher economic activity with diffusion indices of (+ 60 percent) and (+5 percent) respectively. Respondents are also optimistic about prospects in quarter 2, 2012 with an overall diffusion index of (+ 20 percent).

At the company level, 57 percent of the respondents reported that activity was higher in quarter 1, 2012 compared to 23 percent that reported lower activity. Both industry and services firms reported higher business activity in quarter 1, 2012 with diffusion indices of (+ 20 percent) and (+ 50 percent) respectively. Although services establishments were optimistic about prospects in quarter 2, 2012 with a diffusion index of (+ 10 percent), industry firms were pessimistic with a diffusion index of – 20 percent.

The majority of respondents reported lower capital expenditure and employment in quarter 1, 2012. However, the majority of respondents reported higher sales and profit in quarter 1, 2012 with diffusion indices of (+ 4 percent) and (+ 7 percent) respectively.

On current prices and expected inflation, 70 percent of the respondents reported higher current prices in quarter 1, 2012 compared to only 7 percent that indicated lower prices. Also, about 33 percent of respondents expect inflation to be higher in quarter 2, 2012 compared to only 7 percent that expect lower inflation.

Inflation

End-period consumer price inflation, measured by the National Consumer Price Index, decelerated to 3.9 percent at end-March 2012 from 5.4 percent in March 2011. Average inflation (12 – month moving average) was 5.4 percent in March 2012, same as a year ago. This favourable outcome was primarily the result of a moderation in food price inflation.

Food price inflation, the most important determinant of inflation in The Gambia, decelerated from 7.5 percent in March 2011 to 4.8 percent in March 2012.

Non-food inflation, on the other hand, increased slightly to 2.7 percent compared to 2 percent in March 2010.

Core inflation, excluding the prices of energy, utilities and volatile food items decreased to 4 percent relative to the 5.3 in March 2011.

Inflation expectations as reflected in the Private Sector Business Sentiment Survey, though high, is an improvement on the previous survey.