MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

JANUARY 20, 2011

The first meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) in 2011 took place in the Board 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, Research Department, (ERD) Member
Mr. Sereign Cham	Permanent Secretary, MOFEA, Member
Mr. William Eunson	OIC, Banking Department, Member
Mr. Bakary Jammeh	Deputy Director, ERD (Secretary)

In Attendance were:

Mr. Herbert Carr	Director, Admin Department
Mr. Omar Jaata	Director Foreign Department
Mr. Ousainou Corr	Director, Finance Department
Mr. Paul Mendy	Director, (FSD)
Mr. Mbye Jammeh	Deputy Director, Banking Department
Mr. Amadou Corra	Principal Bank Examiner, FSD
Mr. Ebrima Wadda	Principal Economist, ERD
Mrs Ida Fye-Touray	Principal Bank Examiner, FSD
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mr. Momodou Lamin Jarjue	Senior Banking Officer, BD
Mr. Karafa Jobarteh	Senior Officer, Foreign Department

Mrs. Annetta Railey	Senior Banking Officer, BD
Mr. Sait Mboob	Senior Economist, ERD
Mrs. Isatou Mendy	Senior Economist, ERD
Mrs Halima Sighateh	Bank Examiner, FSD
Mr. Yaya Cham	Economist, ERD
Mr. Paul Bruce	Economist/Econometrician/ ERD
Mr. Sulayman Ceesay	Economist/Statistician, ERD
Ms. Binta Beyai	Economist, ERD
Mr. Abdoulie Janneh	Macroeconomist, NCC, MOFEA
Ms Chilel Ceesay	Economist, MOFEA
Alhagie Jallow	Economist, MOFEA

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on Thursday, January 20, 2011. 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 as well as Government fiscal operations, inflation, financial stability report and private sector business sentiment survey. Additionally, three research papers were presented during the meeting.

Developments in the International Economy

The global recovery is expected to proceed at a more gradual pace than previously anticipated. In advanced economies, factors that supported growth such as the coordinated fiscal stimulus and pent up demand are running their course. Growth in emerging market economies is also projected to ease to a more sustainable pace as fiscal and monetary policies are tightened.

The World Bank projects the global economy to expand by 3.3 per cent in 2011, lower than the 3.6 per cent in 2010. The US economy is expected to grow by 3.5 per cent compared to about 3.0 per cent in 2010 predicated on a pickup in consumer and business spending as well as the impact of the extension of the Bush era tax cuts.

The European central bank has raised its forecast of GDP growth in the Euro zone to between 1.4 per cent and 1.8 per cent for 2010 and between 0.5 per cent and 2.3 per cent in 2011. The German economy, the largest in the Euro zone, grew by 2.2 per cent in the third quarter of 2010 boosted by strong exports.

The UK economy is forecast to grow by 1.4 per cent in 2010 and 2.2 per cent in 2011, but growth could be stifled by the Government announcement to retrench more than 600,000 public sector workers.

China's economy grew by 9.6 per cent in the third quarter of 2010 compared to 10.3 per cent and 11.9 per cent in the second and first quarter respectively. Growth in Sub-Saharan Africa is projected at 5.5 per cent in 2011, higher than 5.0 per cent in 2010.

Rising oil and non-energy commodity prices threaten the global economic recovery. Crude oil prices rose on average to U$90 per barrel in 2010, the highest in two years. According to the International Energy Agency, oil prices are expected to remain high in 2011.

According to the Food and Agricultural Organisation, rising oil prices and crop failures in the major producing countries have pushed up food prices. Prices of both wheat and corn have accelerated owing primarily to adverse weather conditions in Russia and Australia. The two countries account for 20 per cent of global exports.

Reflecting the economic recovery and rising oil and non-oil commodity prices, inflation in emerging and developing countries has accelerated. Inflation in the developed countries, on the other hand, remains low. The upward pressure on inflation stemming from the reduction of excess supply in the developed economies has been largely offset by the easing of labour compensation.

The Committee commented that in previous MPC meetings, the view was that the increase in food and energy prices that prevailed in 2007 and 2008 was not a passing cloud despite the decrease in commodity prices in 2009. That prediction has come true. Both food and energy prices are on the rise.

The Committee indicated that the sustained rise in the prices of many commodities, especially oil and agricultural products also reflects strong growth in demand outstripping supply, particularly in emerging economies.

Committee members emphasized the need for agricultural policies to create the incentive for farmers to adequately respond to price signals and produce more food and for Gambian consumers to change their eating habits in favour of domestically produced food.

The Committee observed that demand for foreign exchange to pay for a higher import bill is likely to put downward pressure on the Dalasi. And given that the exchange rate is the most important price in The Gambia, inflation may accelerate.

The Committee noted the fiscal measures adopted by the authorities in the past, including reducing the import duty on rice, to mitigate the impact on consumers of rising food prices. The Committee indicated that in the short-term these measures can help cushion the impact of high food prices but advised on the need to avoid running a large budget deficit that could cause a domestic shock.

External Sector Developments

Preliminary Balance of Payments (BOP) estimates for the first nine months of 2010 indicated an overall surplus of US$77.0 million compared to a deficit of US$32.7 million in the corresponding period in 2009.

The current account surplus including official transfers increased to US$42.2 million, slightly higher than the surplus of US$41.9 million in the corresponding period in 2009.

The capital and financial account was also in surplus of US$34.8 million from a deficit of US$74.7 million in the corresponding period in 2009. As at end-December 2010, gross international reserves amounted to US$ 163.5 million, equivalent to 5.1 months of import cover.

The Committee noted the decrease in tourist arrivals over the past three years attributed largely to adverse economic conditions in the major source countries particularly the UK. The UK accounts for about 65 per cent of tourist arrivals.

The Committee observed that the marked increase in trade with countries in the sub-region is a strong indication that the Gambian economy is getting more integrated with that of its neighbours. Committee members agreed on the importance of trade openness, noting that countries that are open to trade grow faster. China was cited as an example of a country that hitherto to opening its economy, recorded miniscule economic growth. Growth rose significantly after the Chinese economy was opened to international trade.

Some Committee members agreed with the conclusion of the study that the impact of remittances on growth is somewhat ambiguous. If, say, remittances are invested to increase tradables, remittances should Impact growth. However, if used for the consumption of imports, the impact on growth is negative.

Exchange Rate Developments

The domestic foreign exchange market remains vibrant. The volume of transactions, measured by aggregate sales and purchases, increased to US$1.65 billion in 2010 compared to US$1.49 billion a year earlier.

In nominal effective exchange rate terms, the Dalasi depreciated by 5.7 per cent against a basket of currencies. Against individual currencies, the Dalasi weakened by 5.3 per cent and 1.3 per cent against the Dollar and the British Pound respectively but appreciated against the Euro by 4.7 per cent.

The Committee indicated that the outlook of the Dalasi is predicated on the macroeconomic fundamentals. An accommodating policy stance would likely put a downward pressure on the Dalasi. The outlook also depends on the evolution of global oil and food prices. A rise in the import price of commodities should increase the demand for foreign exchange and if not matched by supply, may lead to a depreciation of the Dalasi.

4) **Fiscal Developments**

Preliminary budget estimates indicate that revenue and grants totalled D4.3 billion (15.2 percent of GDP) in 2010, lower than the D4.9 billion (19.1 per cent of GDP) in 2009 and was 21.2 percent below the budget estimate.

Total expenditure and net lending, on the other hand, is estimated at D5.1 billion (18.1 percent of GDP) compared to D6.0 billion (23.2 percent of GDP) in 2009.

The overall budget balance (including grants) on commitment basis was a deficit of D834.6 million (2.9 percent of GDP), lower than the D1.1 billion (4.1 per cent of GDP) in 2009.

The Committee noted that 2010 was a difficult year for the fiscal authorities evidenced by the lower than-expected revenue and grants outturn. The slowdown in the growth of receipts was attributed to a weaker pace of economic activity. The Committee applauded the authorities for introducing measures to curtail expenditure which helped narrow the budget deficit. The Committee, however, expressed concern about the financing of the deficit by the Central Bank of The Gambia. Domestic financing of the deficit totalled D1.9 billion (97% of total financing) of which Central Bank financing amounted to D1.2 billion.

The Committee agreed that increasing expenditure to address the infrastructure deficit is critical for long-term economic growth and the ability to service debt obligations in the future, but advised on the need to strike the right balance between capital spending and sustaining the macroeconomic stability. Sustained low and non-volatile inflation reduces uncertainty thus creating the condition that supports economic growth.

The Committee noted that the study titled: "Fiscal Deficits, Inflation and Current Account Deficits: Which Causes Which? A look at The Gambia's Experience" is quite useful and should help the Committee make a well informed policy decisions. The Committee, however, advised on the need to do more work on the study.

5) **Money Market Development**

The domestic debt increased to D8.7 billion (40.8 percent of GDP) in 2010, or 18.9 percent from 2009. Treasury bills, accounting for 67.9 percent of the domestic debt, rose to D5.9 billion, or 13.9 percent.

The yield on the 91 day, 182 day and 364 day bills declined to 10.01 percent, 10.6 percent and 13.18 percent in December 2010 compared to 10.98 percent, 12.91 percent and 14.3 percent respectively in December 2009.

Data on the maturity structure indicate that the 364 day bills accounted for 64 percent of the outstanding Treasury bills, 182 day bills (17.1 percent) and 91 day bills (18.1 percent).

The Committee indicated that the stock of Treasury bills outstanding would have been higher, but for Government borrowing from the Central Bank of The Gambia. And for yields to decline, the quantum of Treasury bill issued has to decrease substantially which, in turn, is predicated on lower public sector borrowing requirement. Also, to substantially pay down the domestic debt, it was advised that a number of options are available including running a large primary balance surplus and using privatisation proceeds.

6) **Real Sector Developments**

In The Gambia, growth in GDP is estimated at 5.7 percent. Strong performance in agriculture and telecommunications offset the continued weakness in tourism. Exports of groundnuts are expected to be strong in 2011, boosted by the good harvest in 2010 and high prices.

The Committee observed that the growth potential of the economy estimated at 5.5 percent can be shifted upwards by investing in infrastructure, human capital and deepening the financial sector.

The Committee noted that less than half of The Gambia's productive land is cultivated. Agricultural production can be significantly increased by devoting more productive land into agriculture and investing in infrastructure, quality inputs, and labour saving technology as well as educating farmers on new and well tested farming techniques.

The Committee asserted that given that agriculture accounts for 30% of DGP, increasing agricultural production by 12% per annum should contribute about 4% to growth in GDP without even factoring the multiplier effect.

7) Monetary Development

In the twelve months to end-December 2010, money supply grew by 13.7 per cent, lower than the growth rate of 19.4 per cent in the previous year. Of the components of money supply, quasi money grew by 19.3 per cent and narrow money by 7.5 per cent.

Reserve money grew by 10.5 per cent, slightly higher than the 9.3 per cent in 2009 but was below the target of 15 per cent. The 17.5 per cent decline in the NFA was more than offset by the 149.5 per cent increase in the NDA of the CBG.

The Committee commented that on average, money supply growth was quite strong in 2010 about (19.0 per cent). To ensure inflation is at low single digit, it is critical to, *inter alia*, reduce the money supply growth to a level close to money demand.

8) Financial Stability

The banking sector is fundamentally sound. The industry recorded strong growth in assets, deposits, capital and profits in 2010.

Total assets of the industry increased to D17.8 billion, or 22.7 percent from 2009. Return on assets was 1.5 percent compared to negative 2.0 percent in the previous year.

Loans and advances increased to D5.3 billion, or 8.6 per cent. The ratio of non-performing loans decreased to 14 per cent in December 2010, lower than the 16.2% in September 2010. Deposit liabilities rose to D11.3 billion, or 19 percent from 2009.

The average capital adequacy ratio increased to 46.3 per cent, higher than the 33.2 per cent in 2009 and the minimum requirement of 8 per cent.

The Committee lamented the high NPLs ratio which remained in double digits and urged banks to implement measures to reduce the stock of bad debt, including decreasing lending rates and tightening credit administration. The Committee indicated that it is not surprising that building and construction sector accounted for the bulk of NPLs owing to the fact that land and house prices as well as rents have declined substantially.

The Committee applauded the decision to raise the minimum capital requirement to D200 million to be observed in 2012 given that it would reduce risk and by extension help enhance the safety and soundness of the banking system.

PRIVATE SECTOR BUSINESS SENTIMENT SURVEY

According to the readings of the latest Business Sentiment Survey, the majority of respondents indicated that economic and business activity were higher in the quarter 4 compared to quarter 3 of 2010, but expect inflation to accelerate in quarter 1 of 2011.

The Committee noted that inflationary expectations remain high probably reflecting the elevated level of actual headline inflation and depreciation of the Dalasi.

INFLATION

Headline inflation, measured by the National Consumer Price Index, was 5.8 per cent in December 2010, higher than the 2.7 per cent in December 2009. The annual average inflation was 5.0 percent relative to 4.6 per cent in 2009.

Food inflation increased significantly from 2.9 per cent in December 2009 to 8.3 per cent in December 2010. In contrast, non-food inflation decelerated to 1.9 per cent compared to 2.8 per cent in December 2009.

Core inflation, which excludes prices of energy, utilities and volatile food items, increased from 2.8 per cent in December 2009 to 5.7 per cent in December 2010.

The Committee indicated that the rapid acceleration in prices has boosted inflation expectations, a development that would require close monitoring in the period ahead.