MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

July 28, 2011

The second meeting of the Monetary Policy Committee (MPC) of the Central Bank of The Gambia (CBG) in 2011 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, Research Department, (ERD) Member
Mr. Alhagie Taal	Director, Macroeconomic Unit, MoFEA, Member
Miss Amie Khan	Principal Economist, Macroeconomic Unit, MOFEA, Member
Mr. William Eunson	OIC, Banking Department, Member
Mr. Bakary Jammeh	Deputy Director, ERD, (Secretary)

In Attendance were:

Mr. Momodou Ceesay	Senior Adviser, Governor's Office
Mr. Herbert Carr	Director, Admin Department
Mr. Omar Jaata	Director, Foreign Department
Mr. Ousainou Corr	Director, Finance Department
Mrs Haddy Joof	Director, Admin Department
Mr. Pa Alieu Sillah	Director, Insurance Department
Mr. Paul Mendy	Director, FSD
Mr. Mbye Jammeh	Deputy Director, Banking Department
Mr. Omar Janneh	Deputy Director, Admin Department
Mrs Fatou Deen-Touray	Deputy Director, Microfinance Department
Mr. Ebrima N. Wadda	Principal Economist, ERD
Mr. Amadou Kora	Principal Bank Examiner, FSD
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mr. Siaka Bah	Principal Microfinance Officer, MFD
Mr. Momodou Lamin Jarjue	Senior Banking Officer, BD
Mr. Karafa Jobarteh	Senior Officer, Foreign Department
Mrs. Annetta Railey	Senior Banking Officer, BD
Mr. Mustapha Senghore	Senior Bank Examiner, FSD
Mrs. Isatou Mendy-Volo	Senior Economist, ERD
Mr. Babucarr Jobe	Senior Economist, MoFEA
Mr. Paul Bruce	Economist/Econometrician, ERD
Mr. Sulayman Ceesay	Economist/Statistician, ERD
Ms. Binta Beyai	Economist, ERD

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on Thursday, July 28, 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.

1.0 World Economic Outlook

Global economic activity increased at a slower pace in the second quarter of 2011 as efforts to repair household, bank and sovereign balance sheets in advanced economies continue to dampen growth. However, economic growth continues to be strong in emerging-market economies.

According to the International Monetary Fund (IMF), the global economy is projected to grow by 4.5 percent in 2011, down from 4.9 percent in 2009 attributed to offsetting factors such as the effects of the earthquake in Japan that has disrupted production as well as low level of consumer sentiments and spending.

Growth in the advanced economies is projected to average 2.5 percent, slightly lower than the April 2011 World Economic Outlook projection. However, economic activity is projected to rebound in the second half of 2011 and to continue to grow at a steady pace through 2012 - 2013.

In the United States, economic growth is projected to moderate to 2.5 percent in 2011 compared to 2.8 percent in 2010. Accommodative monetary policy remains a fundamental driver of growth.

As a result of increase investment in France and Germany, economic activity in the Euro Zone was stronger than anticipated. Growth in the zone is projected at 2.0 percent in 2011, same as in the preceding year. However, fiscal challenges continue to significantly affect confidence.

The UK economy is expected to register a modest growth of 1.5 percent this year amid fears of contagion effect relating to the Euro zone debt crisis. As a result, consumer spending is projected to decline by 0.4 percent. Inflation at 4.2 percent in June 2010 exceeded the target by 1.2 percentage points on account of higher food and fuel prices as well as the increase in the country's standard VAT rate.

There are increasing signs of economic recovery in Japan following the March earthquake and Tsunami against the backdrop of easing supply constraints, steady restoration of electricity and confidence. Reconstruction spending is likely to further increase Japan's sizable public debt. Economic growth is projected at -0.7 percent this year but to expand 2.9 percent in 2012.

According to the IMF, emerging economies are forecast to grow by 6.5 percent in 2011 compared to 7.5 percent a year ago. In emerging Asia, growth is projected at 8.0 percent.

Growth in China is projected at 9.6 percent in 2011 from 9.8 percent in 2010. In the second quarter of 2011, growth is estimated at 9.5 percent, down from 9.7 percent in the preceding quarter. Inflation accelerated to 6.5 percent in June 2011.

Despite recent declines, global commodity prices remain high by historical standards, driven mainly by strong demand in emerging economies and tight supply conditions. Crude oil and metal prices have fallen sharply since the last MPC, reflecting market expectations for weaker economic activity, some unwinding of financial positions and in the case of oil, release of strategic petroleum reserves by the International Energy Agency.

Global inflation reached 4.0 percent in the first quarter of 2011 from 3.5 percent in the last quarter of 2010 owing to high food and energy prices as well as excess demand in emerging economies. Authorities in China have taken measures to curb inflation but monetary conditions remain accommodative, suggesting that inflationary pressures are likely to persist in the near term. Despite the rising commodity prices, inflationary pressures in advanced countries continue to be modest, reflecting smaller pass-through from commodity prices to core inflation and significant excess capacity. Policy interest rates remain considerably low in advanced countries.

The Committee commented that the pace of global recovery has slowed somewhat and the risks to the outlook are tilted to the downside mainly on account of rising debt in the US and the inability of the authorities to raise the debt limit, sovereign risks in the Euro zone periphery, higher commodity prices and excess demand in emerging market economies. The Committee expressed concerned about the debt crisis in the Euro zone and the attendant economic slowdown given that about 60 percent of The Gambia's trade is with the European Union. More importantly, tourism which is a major source of foreign exchange for the Gambian economy has slowed significantly. Tourist arrivals decreased by 9.4 percent in the first six months of 2011. However, arrivals from the UK, the most important source market, rose by 6.6 percent.

The Committee noted that higher international commodity prices particularly food and fuel pose significant risk to domestic inflation. In the light of the new fuel price formula being implemented by the Ministry of Finance and Economic Affairs to allow for a quicker pass-through of international prices to consumers, transportation costs have broadly increased by 21.5 percent in June 2011 compared to 6.2 percent in June 2010. Similarly, given the high marginal propensity to import, and the fact that food items constitute more than 50 percent of the basket of goods and services in the consumer price index, the Committee advised on the need to boost investment in agriculture to increase production in order to reduce imports and the attendant imported inflation.

2.0 External Sector Developments

The overall balance of payments deficit is projected to narrow to US$3.7 million in 2011 compared to a deficit of US$15.2 million in 2010. This is mainly on account of the expected increase in private capital and official inflows (net) which should offset the deterioration in the trade balance.

The merchandise trade deficit is projected to widen to UD$236.0 million from US$220.5 million in the previous year. Exports, including re-exports are expected to increase by 4.8 percent to US$ 104.3 million in 2011. Imports, on the other hand, is projected to increase to US$340.2 million, or 6.3 percent with food and fuel imports accounting for the bulk of the increase.

The balance in the services account is projected at a surplus of US$62.3 million in 2011 compared to US$58.9 million in the preceding year. Tourism income is projected to improve marginally to US$ 82.5 million compared to US$78.40 million in 2010 on account of the expected recovery in the country's main source market, the UK.

Capital and financial account surplus is expected to increase to US $115.5 million compared to US$97.7 million in 2010. Official loans and private capital flows are projected to increase robustly.

The Committee commented that a widening of the trade deficit would negatively impact GDP. Regarding the current account deficit, it was noted it would be financed mainly through official transfers. Therefore, in the short-term at least, the capital and financial account surplus should become more entrenched to ensure sustainable balance of payments position. The Committee agreed that grants and remittances may not be predictable but noted that they could support growth if invested judiciously.

3.0 Exchange Rate Developments

The volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency, in the 12 months to end-June 2011 contracted to US$1.58 billion from US$1.65 billion in the same period last year. Sales, indicating demand, totaled US$0.79 billion compared to US$0.82 billion during the corresponding period last year. Purchases, reflecting supply, was US$0.79 billion compared to US$0.83 billion in the preceding year.

The Dalasi depreciated against all the major currencies traded in the domestic foreign exchange market. The Dalasi depreciated against the US Dollar by 4.9 percent, Pound Sterling (8.4 percent), Euro (13.0 percent) and CFA (7.6 percent) during the period under review.

The Committee commented that the depreciation of the Dalasi is due to confluence of factors including increased demand to pay for imports in preparation of Ramadan and high liquidity injection on account of the monetization of the budget deficit. The Committee indicated that if the sharp weakening of the Dalasi continues, the appropriate policy action should be intensification of open market operations to stem the depreciation as it may pass-through to domestic prices at a time when inflation is stubbornly high. The Committee noted that the outlook for the Dalasi depends on myriad factors including foreign currency inflows, the stance of fiscal and monetary policy as well as developments in the international economy. Inflows are expected to increase in the fourth quarter of 2011, particularly remittances and tourism receipts.

4.0 Fiscal Developments

Fiscal policy was somewhat tightened in the first half of 2011. The fiscal deficit (including grants) narrowed to D90.0 million (0.3 per cent of GDP) from D403.9 million (1.4 per cent of GDP) in the same period last year.

Total revenue and grants amounted to D2.8 billion (8.5 per cent of GDP) compared to D2.5 billion (8.7 per cent of GDP) in the corresponding period in 2010.

Total expenditure and net lending rose to D2.9 billion (8.8 per cent of GDP), or 2.6 percent from the first half of 2010.

The Committee welcomed the narrowing of the fiscal deficit and observed that it was on account of the marked decrease in capital expenditure. It was noted that capital accumulation is essential for sustained long term growth and that if there is a need for fiscal adjustment, it should be biased towards reduction in current expenditure. The wage bill rose significantly in 2010 and accounted for 40 percent of the budget. The rule of thump is that the salary mass should not exceed 20 percent of the budget. The Committee agreed that a prudent fiscal policy stance should lead to a sustainable debt level. To the extent that the domestic debt service accounted for 18.3 percent of tax revenue in 2010 indicate that the authorities should take additional measures to first stabilize the debt and to reduce it thereafter.

The Committee noted that the net domestic borrowing ceiling, which is a prior fiscal action under the current arrangement with the Fund, is a challenge to the fiscal authorities in that it demands reining in expenditure and or increasing revenue.

5.0 Money Market Developments

Total outstanding domestic debt increased to D9.7 billion in June 2011, or 25.6 percent from June 2010. Outstanding stock of Treasury bills, accounting for 65.7 percent of the domestic debt, rose to D6.3 billion, or 21.9 percent.

Data on the maturity structure of Treasury bills indicate that a 364-day bills accounted for 67.5 percent of the total Treasury and Sukuk Al-Salaam (SAS) bills, 182 –day bills (19.8 percent) and 91-day bills and SAS bills (12.7 percent).

Treasury bill yields continue to decline during the period under review. The 91-day Treasury bill yield declined from 9.58 percent in June 2010 to 8.93 percent in June 2011. Similarly, the 182-day and 364-day bills declined from 10.49 percent and 13.03 percent to 9.65 percent and 11.50 percent respectively in June 2011. The yield on 91-day SAS bill also declined from 10.03 percent in June 2010 to 8.48 percent in June 2011.

The Committee indicated that the domestic debt is a weak link of the Gambian economy and that robust action should be taken to pay it down. A decrease in the stock of the debt and the resultant decline in interest rates would not only spur growth, but should lead to a sustainable domestic debt level.

The Committee commented that the decrease in Treasury and SAS yields was as a result of high demand for securities particularly by banks. Consequently, bank holding of Treasury bills and SAS accounted for 81.1 percent of the combined stock in June 2011 from 74.3 percent in June 2010.

The Committee attributed the decline in inter-bank placements from a total of D182 million in the first half of 2010 to D116 million in the first six months of 2011 to the fact that the banking sector is highly liquid. The liquidity ratio of the banking sector was 68.1 percent, significantly higher than the prudential requirement of 30 percent.

6.0 Real Sector Developments

According to revised estimates, growth in GDP moderated to 6.1 percent in 2010 from 6.3 percent in 2009 owing primarily to the decrease in value-added of agriculture and services. Industry, on the other hand, expanded robustly.

In 2011, real GDP is projected to expand by 5.5 percent premised on a gradual recovery of tourism and strong agriculture output.

The Committee indicated that the key driver of growth over the past three years was agriculture. However, strong and sustained agricultural growth is constrained by myriad factors, including reliance on rain fed agriculture, lack of quality inputs and the use of antiquated technology. It was, however, mentioned that under the Programme for Accelerated Growth and Employment (PAGE), some of the challenges saddling agriculture would be addressed.

The Committee commented that the authorities should do more to ensure broad based economic growth. In the case of services, the emphasis should be on revitalising the tourism sector. Arrivals could be increased by marketing The Gambia more vigorously particularly in non-traditional markets such as Germany. The meeting was informed that the World Bank has provided funding in the amount of US$3.0 million mainly for marketing in diverse European countries.

7.0 Monetary Developments

Money supply growth decelerated to 13.4 percent in June 2011 compared to 21.0 percent a year earlier. Both the net foreign assets and the net domestic assets of the banking system increased by 28.2 percent and 8.4 percent respectively.

Narrow money (M1) increased to D6.4 billion, or 13.9 percent from June 2010. Of the components of narrow money, demand deposits and currency outside banks rose by 12.4 percent and 16.6 percent respectively.

Quasi money, which comprises savings and time deposits, rose to D7.7 billion, or 12.9 percent. Both time and savings deposits increased by 6.1 percent and 19.9 percent respectively.

Year-on-year, reserve money growth was 8.1 percent at end-June 2011 relative to 21.9 percent in June 2010. The lower-than-expected growth in the monetary base could be explained by the significant decrease in the net domestic assets of the Central Bank of The Gambia.

The Committee noted that the growth in money supply of 13.4 percent is marginally below target, which should help contain inflation below 5.0 percent. However, the Committee expressed concern over the marked increase in the NDA of the CBG which rose to D1.6 billion in June 2011 and exceeded the target by D715.8 million. The monetization of the budget deficit accounted for the marked increase in the NDA of the CBG.

8.0 Financial Stability

According to the key financial soundness indicators, the banking sector remains strong. The average risk weighted capital adequacy ratio rose to 25.6 percent in June 2011 from 12.8 percent in June 2010 and significantly higher than the minimum requirement of 8 percent.

Loans and advances to major economic sectors rose to D5.4 billion in June 2011, or 10.2 percent. Distributive trade continues to account for the lion's share of loans and advances (29.2 percent), followed by other commercials (24.1 percent) and building and construction (10.4 percent). Agriculture accounted for only 6.2 percent of total loans and advances.

Despite the increase in loans and advances, non-performing loans declined from D436.9 million in March 2011 to D399.32 million in June 2011. Consequently, the ratio of non-performing loans to gross loans improved from 14.0 percent in March 2011 to 12.7 percent in June 2011.

The assets of the industry rose to D18.2 billion in June 2011, or 16.6 percent. Cumulative profits decreased to D14.9 million in June 2011 from D48.5 million in June 2010. Accordingly, the Return on Assets (ROA) declined from 1.4 percent in June 2010 to 1.2 percent in June 2011.

The liquidity ratio increased by 4.2 percentage points to 68.1 percent in June 2011 compared to 63.9 percent in June 2010. All the banks met the prudential liquidity requirement. The lowest ratio was 30.6 percent and the highest (203.3 percent).

The Committee commented that the decline in profitability was mainly on account of increased provisioning of non-performing loans (NPls). Restructured loans are considered NPLs and are accordingly provisioned for reasons of prudence.

The Committee commented that the fact that the private sector credit accounted for only 22 percent of GDP suggests that the level of financial intermediation is low. About 35.1 percent of banks' assets are investments in Treasury bills. Some Committee members attributed the low ratio of credit to GDP to the high lending rates. It was indicated that the high interest rates are as a result of confluence of factors including high overheads and difficulty in realizing collateral. The Committee was informed that plans are in place for the introduction of a Collateral Register which should make it easier for banks to realize collateral with out resorting to court action.

Some members commented that despite agriculture being the leading sector of the economy, it accounted for only 6.2 percent of loans and advances, As such, appropriate mechanisms should be put in place that would help increase credit to the sector. However, the Committee agreed that efficient allocation of resources could be best achieved through market forces. And that the key to increasing lending to all sectors of the economy is to ensure that interest rates are affordable.

9.0 Private Sector Business Sentiment Survey

According to the latest business sentiment survey, 28 percent of the respondents indicated that economic activity was higher in Q2, 2011 compared to 19 percent that reported that it was lower. The majority of respondents (53 percent) reported that economic activity was unchanged.

At the company level, the majority of respondents (42 percent) indicated that activity was lower in Q2, 2011 compared to 36 percent that reported higher activity. The rest (22 percent) reported that activity at the company level was unchanged.

On sentiments with respect to current prices and expected inflation, 65 percent of the respondents reported higher current prices compared to zero that reported lower prices. More respondents (52 percent) expect inflation to be higher in Q3, 2011 compared to 13 percent that think it would be lower.

The Committee indicated that the sentiments expressed by the respondents are not surprising given the projected slow down of the Gambian economy, depreciation of the Dalasi and the elevated price levels.

10.0 Inflation

Consumer price inflation, measured by the National Consumer Price Index (NCPI), was 5.4 percent in June 2011, higher than the 4.5 percent in June 2010. Food price inflation rose to 7.4 percent compared to 5.7 in June 2010. Non-food inflation, on the other hand, decelerated to 2.1 percent in June 2011 relative to 2.8 percent in June 2010. Core inflation, which excludes the prices of energy, utilities and volatile food items accelerated to 5.4 percent in June 2011 compared to 4.3 percent in June 2010.

The Committee attributed the surge in NCPI to the global increase in food prices and the depreciation of the Dalasis. However, the Committee believes the contractionary stance of monetary policy should help put inflation under the lid. The Committee expects inflation not to exceed 5 per cent in the reminder of 2011.