MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

October 27, 2011

The third 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
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. Omar Jaata	Director, Foreign Department
Mr. Bai Senghor	Director, MFD
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
Mr. Momodou Njie	Principal Bank Examiner, FSD
Mr. Ebrima N. Wadda	Principal Economist, ERD
Mr. Amadou Kora	Principal Bank Examiner, FSD
Mrs. Maimuna John-Sowe	Principal Economist, ERD
Mrs Ida Faye	Principal Bank Examiner, FSD
Mr. Abdou Ceesay	Principal Officer, FD
Mr. Momodou Lamin Jarjue	Senior Banking Officer, BD
Mr. Karafa Jobarteh	Senior Officer, Foreign Department
Mrs. Annetta Railey	Senior Banking Officer, BD
Mr. Abdourahman Barrow	Senior Accountant, FD
Mr. Babucarr Jobe	Senior Economist, Ministry of Finance
Mrs. Isatou Mendy-Volo	Senior Economist, ERD
Mr. Nyakassi Sanyang	Senior Economist, ERD
Mr. Paul Bruce	Economist/Econometrician, ERD
Mr. Sulayman Ceesay	Economist/Statistician, ERD
Mrs. Binta Beyai	Economist, ERD
Mr. Amadou Barry	Bank Examiner, FSD
Mr. Abdoulie Janneh	Macroeconomist, ECOWAS NCC

The Monetary Policy Committee (MPC) meeting was held at the Bank's Conference Room on Thursday, October 27, 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

Since the last MPC meeting in July 2011, global economic growth has become more uneven. Growth in some of the advanced economies has weakened against the backdrop of financial market turbulence generated in large part by the unresolved European sovereign debt crisis. Although economic growth in emerging markets is expected to continue to outperform that of the advanced economies, they are unlikely to emerge unscathed from the challenging global environment.

IMF revised estimates indicate a decline in global economic growth to 2.4 percent in the second quarter of 2011 from 3.5 percent in the preceding quarter. Strong performance in emerging and developing economies was offset by higher-than-expected weaknesses in the advanced countries and debt concerns in the United States and Europe. Against this backdrop, indications are that global growth will moderate to about 4 percent in 2011, down from 5.0 percent in 2010.

Real GDP in advanced economies is expected to expand at a slow pace of 1.5 percent in 2011 and 2.0 percent in 2012, principally on account of the unwinding of the Euro zone debt crisis and global financial market volatility.

Growth in emerging and developing economies is projected at 6.4 percent in 2011 from 7.3 percent in 2010. Economic activity in this region is expected to expand by 4.1 percent in 2012.

In Sub-Saharan Africa, economic performance during the pre-crisis decade was strong owing to the implementation of sound economic policies and far reaching structural reforms. However, recent developments in the global economy slowed activity in most sub-Saharan African countries. Growth in the region is projected to increase from 5.0 percent in 2010 to 5.5 percent in 2011. Low income countries and oil exporters are expected to grow by 6 percent and middle income countries by 3.5 percent.

Owing to strong growth in emerging economies, commodity prices remain at elevated levels. The Global Food Price Index of the United Nations Food and Agriculture Organization (FAO) reached a historic peak of 238 points in February, well above the peak of 213.5 points reached in 2008. Prices have since eased and in September 2011 the Index declined to 225 points but still 15 percent higher when compared to the same period last year. Crude oil prices remain elevated despite recent decline in prices. Prices declined by 9.4 percent in September, the largest since May 2010.

High commodity prices combined with persistent excess demand in major emerging economies contributed to broader inflationary pressures. In advanced economies, inflationary pressures remain subdued reflecting ample economic slack and well anchored inflationary expectations. However, projections are that the accommodating monetary stance would accelerate inflation from 1.6 percent in 2010 to 2.2 percent in 2011.

The Committee commented that economic management has improved significantly in Sub-Saharan Africa and as a result, the region was better prepared during the 2007/2008 crisis compared to previous downturns. Most countries had the fiscal space, healthy reserves and an improved business environment that mitigated the impact of the crisis.

The Committee noted that countries in the West African Monetary Zone (WAMZ) grew faster than those in the West African Economic and Monetary Union (WAEMU). However, in terms of inflation control, WAEMU countries tend to perform better. The Committee indicated that WAEMU countries have a fixed exchange rate regime (CFA Franc fixed to Euro) and thus import the low inflation of the Euro zone. However, unlike the WAMZ countries, WAEMU countries cannot independently use monetary policy to support growth.

The Committee observed that although The Gambia's ratio of public debt to GDP of 72. 1 percent is higher than the ratio in most countries in the ECOWAS and the internationally accepted threshold of 60 percent, this worrying development should be put into context. The ratio exceeded 100 percent of GDP prior to the debt relief under the Highly Indebted Poor Countries (HIPC) Initiative, in 2007.

The Committee noted the significant increase in portfolio investment in Sub-Saharan Africa but indicated that that could be destabilising. However, in the case of The Gambia, portfolio investments are quite minuscule. The Committee advised that the region should continue to provide the enabling environment to attract foreign direct investment for sustained long-term growth.

The Committee advised that monetary policy should be tightened in countries with overheating economies. However, higher interest rates could encourage inflows, leading to appreciation of the domestic currency which, in turn, could hurt growth.

The Committee commented that the debt crisis in the Euro zone is the main downside risk to the global output particularly in an environment of high uncertainty, on-going tensions in some sections of the financial markets in the Euro area and the still higher energy prices, protectionist pressures and the possibility of disorderly correction of global imbalances. The Committee advised that measures aimed at attaining broad fiscal solvency in the zone should be implemented urgently.

2.0 External Sector Developments

Balance of payments estimates for the first half of 2011 indicate an overall surplus of US$39.29 million compared to a surplus of US$39.94 million in the corresponding period of 2010. The marginal decline was on account of the decrease in capital and financial account surplus.

The current account surplus improved to US$43.52 million compared to a surplus of US$20.71 million in the corresponding period of last year. Of the components of the current account, the goods account recorded a deficit of US$55.17 million relative to a deficit of US$49.02 million in the same period last year on account of the increase in imports. Imports rose to US$138 million, which more than offset the US$80.19 million rise in exports.

The surplus in the services account rose significantly to US$24.73 million relative to US$11.43 million in the same period last year, reflecting the increase in tourism income. Tourism receipts rose to US$46.39 million, or 12.4 percent owing to the increase in tourist arrivals and out-of pocket expenditure. Following the recent survey, average daily out-of-pocket expenditure was revised upwards to D1200, significantly higher than the D500 estimated in the 1996 survey. Tourist arrivals in the first half of 2011 totaled 45,719 compared to 56,395 in the corresponding period of 2010.

The capital and financial account recorded a deficit of US$4.23 million relative to a surplus of US$19.23 million in the first half of 2010.

The Committee noted that most of the major traders finance their imports, including imports for re-export, by short-term suppliers' credit. And since re-exports are mainly self-financing, it puts little pressure on the country's foreign reserves.

The Committee welcomed the recent survey on out-of-pocket expenditure but observed that income from tourism, particularly departure fees may have been understated. The Committee advised that more work needs to be done to improve the quality of the services data.

The Committee commented that tourism is mainly a function of income and due to the global economic crisis, tourist arrivals declined in many countries. According to the income elasticity of travel expenditure, 1.0 percent decrease in income in real terms decreases travel expenditure by 2-3 percent. Since advanced countries are the main source markets, the expected economic recovery in Britain, which accounts for over half of arrival, bodes well for the sector in 2012. This, in turn, should further improve the services account balance, support growth and employment creation.

3.0 Exchange Rate Developments

In the year to end-September 2011, volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales of foreign currency, contracted marginally to US$1.56 billion from US$1.68 billion a year earlier. Sales (demand) and purchases (supply) totaled US$0.79 billion and US$0.77 billion compared to US$0.84 billion and US$0.83 billion a year ago.

The US Dollar continues to be the most traded currency, accounting for 63 percent of the volume in September 2011, higher than the 59 percent in September 2010. The Euro and Pound Sterling accounted for 25 percent and 11 percent of the trading volume relative to 31 percent and 8 percent respectively in September 2010. The decrease in the market share of the Euro could be attributed to the decline in cross border trade.

The Dalasi depreciated against all the major currencies traded in the domestic foreign exchange market. The domestic currency depreciated against the US Dollar by 4.67 percent, Pound Sterling (0.95 percent) and Euro (6.58 percent). In nominal effective exchange rate terms, the Dalasi weakened by 5.0 percent against the basket of major currencies.

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 the tourist season and high liquidity injection on account of the monetization of the budget deficit. The Committee indicated that if the weakening of the Dalasi continues, the appropriate policy action should be intensification of open market operations but in a manner that would not lead to significant worsening of domestic debt.

The Committee noted that the outlook for the Dalasi depends on myriad factors including foreign currency inflows, particularly foreign direct investment, tourism receipts and remittances, 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. It was observed that despite the increase in remittances, they have not reached their pre-crisis level.

4.0 Fiscal Developments

Fiscal policy was somewhat expansionary in the first nine months of 2011 relative to the same period in 2010, reflecting lower-than-expected tax revenue and expenditure overruns.

Total revenue and grants in the first nine months of 2011 amounted to D3.9 billion (12.0 per cent of GDP) compared to D3.8 billion (13.1 percent of GDP) in the corresponding period in 2010.

Domestic revenue, comprising tax and non-tax receipts, amounted to D3.1 billion, representing a decrease of 0.4 per cent. Tax revenue amounted to D2.7 billion (8.3 percent of GDP), representing 56.1 percent of the projected outturn and was 2.3 percent lower than the outcome in the same period last year. Non-tax revenue, on the other hand, increased to D404.9 million, or 14.3 per cent.

Total expenditure and net lending rose to D4.6 billion (14.2 per cent of GDP), or 6.3 percent from the same period in 2010.

The budget balance (excluding grants) was a deficit of D1.5 billion (4.7 percent of GDP) compared to a deficit of D1.2 billion (4.2 percent of GDP) in the corresponding period of 2010. The budget deficit (including grants) widened to 2.2 percent relative to 1.8 percent in the corresponding nine months of the previous year.

The Committee raised concern over the decline in all the components of tax revenue. From a peak of 17.5 percent of GDP in 2007, government revenues declined steadily reaching a low of 14.0 percent of GDP in 2011. The Committee indicated that spending overruns, coupled with revenue shortfalls caused the larger-than-expected fiscal deficit which was financed mainly by costly domestic borrowing. To the extent that the interest on the domestic debt is expected to reach 17 percent of tax revenue in 2011 calls for urgent action to first stabilize the debt and to reduce it thereafter. Put differently, there is a need for urgent fiscal adjustment but with a bias towards expenditure cut. A reduction in expenditure enhances the credibility of the fiscal authorities in the eyes of the central bank and could lead to a reduction in interest rates. However, the fact that the basic primary balance is expected to be in deficit of about 0.4 percent of GDP implies that borrowing, particularly domestic borrowing, would increase.

The Committee welcomed the decision of the authorities to embark on a wholesale tax reform including the introduction of a value-added tax (VAT) in 2013. The introduction of the VAT should help broaden the tax base and allow for a significant reduction of personal and corporate taxes.

5.0 Money Market Developments

The domestic debt, mainly short-term debt, rose to D9.23 billion in September 2011, or 11.9 percent from September 2010. However, the debt to GDP, which rose to 40.5 percent in 2010 is projected to decrease to 29.3 percent of GDP in 2011.

Outstanding Treasury bills and Sukuk-Al-Salaam combined, accounting for 73 percent of the debt stock, rose to D6.82 billion, or 24 percent from September 2010.

Commercial banks' holdings of Treasury bills and Sukuk-Al-Salaam rose to D5.6 billion, or 33.8 percent while those held by the non-bank decreased to D1.1 billion, or 14.7 percent.

According to the maturity structure of Treasury bills, 364-day bills accounted for 66.3 percent of the stock, 182-day bills (19.7 percent) and 91-day bills (13.7 percent).

The yields on Treasury bills and Sukuk-Al-Salaam bills continue to decline. The 91-day Treasury bill and Sukuk-Al-Salaam yields declined to 7.98 percent and 8.5 percent in September 2011 from 9.57 percent and 10.08 percent respectively in September 2010. Similarly, the yield on the 182-day and 364-day Treasury bills decreased to 8.71 percent and 10.01 percent from 10.24 percent and 13.37 percent respectively in September 2010.

The Committee noted that the increase in the debt stock was partly as a result of the intensification of open market operations but deemed it necessary to contain inflation within the target.

Some Committee members commented that they expect the yields to continue to decline given the large Dalasi liquidity in the market. However, others argued that if the Government fiscal position were to deteriorate, the decrease in yields may be reversed. Therefore, the Government should take advantage of the current low yields by issuing longer dated instruments such as bonds.

The Committee indicated that there was a significant net repayment to the non-bank sector over the past nine months. However, bank holdings of Treasury bills and Sukuk-Al-Saalam rose correspondingly, crowding out the private sector. Private sector credit rose by 6.0 percent in the year to end-September 2011 from 27.3 percent a year earlier.

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 by 12.1 percent and 2.4 percent respectively. Industry on the other hand, expanded by a robust 5.1 percent.

In 2011, real GDP is projected to expand by 5.5 percent premised on a gradual recovery in tourism. Agriculture, the main driver of growth in the recent past, continues to record a steady decline in value-added. Agriculture output decreased from 28 percent in 2009 to 14.0 percent in 2010 and is projected to decrease further to 4.0 percent in 2011. The decline in value-added in 2010 was attributed mainly to the statistical (high base) effect and in the case of 2011, poorly distributed rainfall. Some members indicated that some of the problems surrounding agriculture such as paucity of irrigation infrastructure will be addressed by the Programme for Accelerated Growth and Employment (PAGE), and The Gambia National Agricultural Investment Programme (GNAIP).

The Committee welcomed the study on the relationship between financial sector development and economic growth in The Gambia and concluded that financial sector development supports growth, but the correlation was somewhat weak. Some members attributed the weak correlation to the fact that capital may not be appropriately priced by Gambian banks, particularly lending rates.

7.0 Monetary Developments

Reflecting the tight monetary stance, broad money grew by 11.5 percent in the year to end-September 2011 compared to 20.1 percent a year ago. Both the net foreign assets (NFA) and net domestic assets (NDA) of the banking system grew by 16.9 percent and 9.5 percent respectively. Of the components of money supply, both narrow money and quasi money increased, but narrow money grew at a faster pace.

Narrow money, which comprises currency outside banks and demand deposits, totaled D6.4 billion compared to D5.5 billion a year ago. Currency outside banks and demand deposits rose by 17.9 percent and 14.0 percent to D2.2 billion and D4.2 billion respectively.

Quasi money, which comprises savings and time deposits, amounted to D7.8 billion compared to D7.2 billion a year earlier. Savings deposits rose to D4.3 billion, or 19.0 percent while time deposits declined to D3.5 billion, or 1.9 percent.

Reserve money grew by 13.0 percent relative to 20.8 percent a year earlier. The NDA of the Central Bank increased by a modest 8.5 percent while the NFA contracted by 3.6 percent.

The Committee attributed the marked increase in the NFA of the commercial banks partly to the capital augmentation by foreign banks in response to the increase in the minimum capital requirement and partly to robust remittance inflows.

The Committee also noted that the velocity data indicate some level of currency substitution given that the velocity of M2+ decreased from 2.27 in the first quarter of 2011 to 2.21 in the third quarter 2011. In contrast, M2 velocity rose from 2.53 in the second quarter, 2011 to 2.58 in the third quarter of 2011.

The Committee agreed that the decrease in the growth rate of monetary aggregates is as a consequence of the tight policy stance of the CBG and is consistent with the stance to rein in inflation to below the target of 6 percent.

8.0 Financial Stability

According to the key financial soundness indicators, the banking sector remains fundamentally sound.

The industry's capital and reserves rose to D2.6 billion in the third quarter of 2011, or 4.9 percent from the second quarter. Compared to the corresponding quarter in 2010, capital and reserves increased by 36.9 percent.

The risk weighted capital adequacy ratio averaged 27.1 percent, higher than the 24.8 percent in the previous quarter, but lower than the 31.3 percent a year ago. All the banks met the minimum capital requirement of 10 percent.

The industry's assets decreased slightly to D18.1 billion, or 0.12 percent from the previous quarter. However, compared to the corresponding quarter of 2010, assets decreased by 8.5 percent. Loans and advances, accounting for 30 percent of total assets, rose by only 6.5 percent in the year to end-September 2011. Loans to agriculture, building, tourism and other loans and advances contracted by 21 percent, 0.3 percent, 14.9 percent and 29.1 percent respectively.

The NPL ratio, at 13 percent, was the same as in the previous quarter, but below the 16.2 percent in the third quarter of 2010.

Deposit liabilities rose to D11.9 billion, or 0.04 percent over the second quarter. However, compared to the corresponding quarter in 2010, deposit liabilities increased by 10.2 percent. The liquidity ratio averaged 66.6 percent, significantly higher than the minimum requirement of 30 percent.

Earnings declined from a surplus of D14.6 million in the second quarter to a loss of D23.3 million in the third quarter attributed mainly to high overheads. Overheads rose by 29.3 percent from the previous quarter.

The Committee noted that most of the key financial soundness indicators point to the fact that the banking sector is fundamentally sound. The fact that the industry as a whole realized a loss in the third quarter was primarily due to the losses booked by four banks. The Committee advised on the need for banks to rein in overheads and to manage their foreign assets prudently in order to be sustainably profitable.

9.0 Private Sector Business Sentiment Survey

According to the readings of the Private Sector Business Sentiment Survey, 16 percent of the respondents indicated that economic activity was higher in the third quarter of 2011, compared to 5 percent that indicated that activity was lower. The vast majority of respondents (79 percent) reported the same level of activity. However, the plurality of respondents (59 percent) are optimistic about prospects in the fourth quarter of 2011.

At the company level, 30 percent of the respondents indicated that activity was lower in the third quarter compared to 22 percent that reported higher activity. The majority of respondents (48 percent) reported that the level of activity was unchanged. Services establishments reported lower activity with a diffusion index of negative 12 percent while the industrial sector were evenly divided resulting in a diffusion index of zero. The majority of respondents (59 percent) were optimistic of prospects in the fourth quarter in 2011. Additionally, the majority of respondents reported lower capital expenditure, employment, sales and profits in third quarter of 2011.

About 60 percent of respondents reported that current prices are higher compared to zero that indicated lower prices. Also, the vast majority of respondents (57 percent) expect inflation to be higher in the fourth quarter of 2011.

More respondents (43 percent) reported high level of exchange rates in the third quarter compared to the second quarter of 2011. However, 30 percent of the respondents think the Dalasi would appreciate in the fourth quarter of 2011 compared to 19 percent that expect the domestic currency to depreciate.

The Committee noted that it was not surprising that the majority of respondents expect economic activity to be higher in quarter 4, 2011 given that economic growth is usually stronger in the fourth and first quarters reflecting a confluence of factors including the high tourist arrivals and the groundnut trading season.

10.0 Inflation

Consumer price inflation, measured by the National Consumer Price Index, was 4.1 percent in September 2011 from 6.2 percent in September 2010.

Consumer food inflation decelerated from 8.4 percent in September 2010 to 5.5 percent in September 2011. Non-food inflation also declined to 2.2 percent in September 2011 from 2.9 percent in September 2010.

Core inflation, which excludes the prices of energy, utilities and volatile food items, increased to 6.2 percent in September 2010 from 2.3 percent a year earlier.

The Committee welcomed the deceleration in headline inflation and indicated that it was as a result of the tight stance of monetary policy. The Committee noted that fiscal dominance constraints the ability of the CBG to conduct monetary policy and contain inflation to low single digit and emphasized the need for fiscal adjustment going forward.

11.0 Inflation Outlook

Given the decline in global food and fuel prices, coupled with the projected increase in domestic food production and the prudent stance of monetary policy, inflation is expected not to exceed 5 percent in the remainder of 2011. There are, however, upside risks to the outlook mainly emanating from exogenous price shocks and the stance of fiscal policy.

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CHAIRMAN **SECRETARY**