MINUTES OF THE MONETARY POLICY COMMITTEE MEETING

April 28, 2011

The first 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. Sereign Cham	Permanent Secretary 2, MOFEA, Member
Mr. William Eunson	OIC, Banking Department, Member
Mr. Ebrima N. Wadda	Principal Economist, ERD, (Secretary)

In Attendance were:

Mr. Momodou Ceesay	Senior Advisor, 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. Amadou Corra	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. Sait Mboob	Senior Economist, ERD
Mr. Mustapha Senghore	Senior Bank Examiner, FSD
Mrs. Isatou Mendy	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, April 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. Additionally, three research papers were presented by the Economic Research Department (ERD) during the meeting.

1. World Economic Outlook

Since the previous meeting of the Monetary Policy Committee (MPC), the global economic recovery is more firmly entrenched. According to the IMF, the global economy expanded by 4.9 percent in 2010 compared to 3.6 percent in 2009. Ongoing efforts to repair household, bank and sovereign balance sheets continue to dampen growth in many advanced economies while growth in emerging-market countries remains strong.

In the US, real growth exceeded its pre-crisis level supported by continued fiscal and monetary stimulus. Real GDP increased by 3.1 percent in the fourth quarter of 2010 and by 4.0 percent in the first quarter of 2011.

In the Euro area, real GDP grew modestly in the fourth quarter of 2010. Overall growth is estimated at 1.7 percent. Robust growth is projected in the first quarter of 2011 premised on strong domestic demand and continued solid exports especially in the core economies.

Real GDP in Japan declined in the fourth quarter of 2010 reflecting in part the expiration of tax incentives. Growth resumed in the first two months of 2011, before the disruptions caused by recent events led to severe output losses.

Growth in the UK contracted by 0.5 percent in the fourth quarter of 2010, but grew by 0.5 percent in the first quarter of 2011. Output is projected to expand by 2 percent and 2.3 percent in 2011 and 2012 respectively.

Economic growth in China remains strong. Output expanded by 10.3 percent in 2010 amid signs of overheating. Authorities have taken measures in an effort to suppress price pressures. The reserve requirement ratio was raised to 20 percent for large institutions and the benchmark one-year deposit rate increased to 3.25 percent. However, with inflation close to 5 percent, real interest rates in China remain negative.

Most countries in Sub-Saharan Africa have recovered quickly from the global financial crisis. The region is projected to grow by 5.5 percent and 5.8 percent in 2011 and 2012 respectively. Growing trade ties with Asia is an important driver of growth.

Global commodity prices remain elevated, driven by strong demand and supply shocks. Crude oil prices have surged in response to the unrest in North Africa and the Middle East and increased demand from emerging market economies principally those in Asia. Agricultural prices have also been boosted by strong demand from emerging Asia and more recently, by adverse weather conditions. The Food and Agricultural Organization (FAO) Food Price Index averaged 230 points in March 2011, down 2.9 percent from its peak in February 2011, but still 37 percent above the March 2010 level.

The Committee commented that the global economic recovery is getting more entrenched but highlighted that there are downside risks to the outlook including the elevated prices of commodities and build up in inflationary pressures particularly in the emerging economies.

The Committee noted that the price of oil in the domestic market has gone up reflecting partly the increase in the international price of oil and partly the decision by the Government to pass through the increase in prices to the consumers. It was observed that the pass through is necessary mainly because the Government cannot afford to provide subsidies given the current fiscal position and partly to encourage the efficient use of energy.

The Committee indicated that although international food prices are elevated, there has been a discernible decrease in food price inflation in The Gambia over the past three quarters. It was argued that this may have been as a result of the decrease in the international prices of some commodities, including rice and the increase in domestic food production.

2. External Sector Developments

Provisional balance of payments (BOP) estimates indicate an overall deficit of US$15.2 million compared to the revised surplus of US$54.6 million in 2009.

The current account deficit, including official transfers widened to US$119.4 million in 2010 compared to US$105.3 million in 2009.

Exports and imports increased by 5.0 percent and 6.0 percent to US$100 million and US$315 million respectively relative to 2009. Imports of oil products amounted to US$36.0 million and accounted for 12 percent of total imports in 2010 compared to US$30.7 million (10.3 percent of import bill) in 2009.

The capital and financial account surplus narrowed from US$152.0 million in 2009 to US$97.7 million in 2010, reflecting in the main, the contraction in direct investment. Of the components of direct investment, both equity and reinvested earnings declined by 6.1 percent and 6.8 percent respectively.

The Committee raised concern regarding data inconsistency presented in this report and what the IMF projects. The Fund estimated a current account deficit whereas the CBG estimated a surplus. Members advised on the need for more coordination to ensure that the BOP estimates tally. The meeting was informed that during the last BOP Technical Assistance Mission, it was agreed that a joint committee be set to look into data issues, especially the trade data.

3. Exchange Rate Developments

The volume of transactions, measured by aggregate sales and purchases, decreased to US$1.58 billion in the 12 months to end-March 2011 compared to US$1.65 billion a year earlier.

Year-on-year to end-March 2011, the Dalasi depreciated against the US Dollar by 5.8 percent, Pound Sterling (8.8 percent) and Euro (6.3 percent). In nominal effective exchange terms, the Dalasi depreciated by 1.9 percent compared to a depreciation of 9.4 percent a year earlier.

The Committee noted that the outlook for the Dalasi is not only premised on the quantum of foreign flows, but on the stance of fiscal and monetary policy as well. In an open economy, an expansionary monetary and fiscal policy should increase the demand for imports, thus putting upward pressure on the domestic currency.

The Committee indicated that the marked increase in collection items and currency shipments in the first quarter are largely attributed to the robust re-export trade. However, following the border closure by Senegal, currency shipments decreased significantly. It was observed that the re-export trade is largely self financing and that the bulk of the currency shipped abroad is used to finance imports. The Committee advised on the need to monitor the border closure and to take prompt action to address any adverse impact on the Gambian economy.

4. Fiscal Developments

Fiscal policy tightened moderately in the first quarter of 2011. The deficit narrowed to D58.3 million compared to a deficit of D84.0 million in the corresponding period in 2010.

Total revenue and grants rose to D1.75 billion in Q1, 2011. Revenue and grants increased by 35.2 percent to D1.1 billion and D618.5 million, or 0.6 percent and 263 percent respectively.

Expenditure and net lending also increased to D1.81 billion, or 31 percent from Q1, 2010. Current and capital expenditures rose by 21 percent and 50.7 percent respectively.

Consequently, the overall deficit (on commitment basis) narrowed to D58.3 million compared to D84 million in Q1, 2010.

The Committee welcomed the narrowing of the deficit and expressed the hope that this trend would be sustained in the quest to significantly reduce the growth of the domestic debt.

The Committee also noted that past expansionary fiscal policies and the financing of the deficit largely by the CBG have caused huge liquidity infusion into the economy. Indications are that the bulk of the liquidity was used by banks to purchase Treasury bills. The Committee advised that for yields on Treasury bills to decrease, the public sector borrowing requirement has to decline significantly.

The Committee commented that the Government's wage bill rose significantly in 2010 and accounted for over 40 percent of the budget. The rule of thumb is that the salary mass should not exceed 30 percent of the budget in order to ensure that a large chunk of the budgetary resources are used on capital investment.

5 Money Market Developments

The domestic debt rose to D9.3 billion in March 2011, or 23 percent from March 2010. Outstanding Treasury bills and Sukuk-Al-Salaam bills, accounting for 65 percent of the domestic debt, rose to D6.1 billion, or 12 percent from March 2010.

Data on the maturity structure of Treasury bills indicate that 364-day bills accounted for 70.4 percent of the outstanding stock, 182-day bills (19.2 percent) and 91-day bills (10.4 percent).

Treasury bill yields continue to decline, albeit at a slow pace. The yield on the 91-day, 182-day and 364-day bills decelerated from 10.01 percent, 10.6 percent and 13.18 percent in December 2010 to 9.58 percent, 10.46 percent and 13.09 percent in March 2011 respectively.

The Committee indicated that the domestic debt is an important 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 agreed on the need to carry out a study to comprehensively look at the options to pay down the debt. A number of options were proposed, including borrowing from bilateral and multilateral institutions as well as running a large primary surplus of around 6 percent of GDP.

6. Real Sector Developments

The Gambia's economy is projected to grow by 5.5 percent in 2011 higher than the 5.0 percent in 2010. Agriculture and telecommunications are expected to be the main drivers of growth.

The Committee noted the substantial decrease in tourist arrivals in 2010 compared to 2009 and indicated that it was primarily responsible for the low value added of services. Services value-added was only 0.5 percent. Agriculture and industry grew by a robust 14.5 percent and 12.7 percent respectively.

The Committee reiterated the importance of agriculture to drive growth and advised on the need for more mechanized agriculture to raise production and productivity.

7. Monetary Developments

In the year to end-March 2011, money supply grew by 14.9 percent compared to 21.7 percent a year earlier. Both the NFA and the NDA of the banking system increased by 4.6 percent and 19.5 percent respectively.

Of the components of broad money, narrow money, comprising currency outside banks and demand deposits, increased to D6.3 billion, or 7.8 percent.

Quasi money, comprising savings and time deposits, rose to D7.6 million, or 21.7 percent.

Reserve money, the Bank's operating target, grew by 15.9 percent in the year to end-March 2011 compared to 15.7 percent a year ago. The 26.2 percent contraction in the NFA was more than offset by the 1161.4 percent growth in the NDA of the CBG mainly reflecting the monetisation of the budget deficit.

The Committee observed that it would be helpful if the latest summary account of the Bank is presented to give a better picture of developments in the monetary sector. The view was expressed that the restrictive monetary policy stance helped reduce pressures on the exchange rate and hence, inflation.

8. **Financial Stability Report**

The key financial soundness indicators show that the average capital adequacy ratio of banks was 49 percent in March 2011 compared to 46 percent in December 2010 and significantly higher than the minimum requirement of 8 percent. All the banks met the minimum capital requirement.

Loans and advances rose to D5.4 billion in March 2011 compared to D5.2 billion in March 2010. Credit to all the sectors increased, particularly loans to agriculture (10 percent), building and construction (10.4 percent), distributive trade (25.9 percent) and other commercial loans (23.1 percent).

Despite the increase in credit, the non-performing loans ratio decreased slightly to 14 percent in March 2011 compared to 16.2 percent in the previous quarter.

Deposit liabilities increased to D11.5 billion in March 2011, or 16 percent from a year earlier. Demand, savings and time deposits rose by 5.9 percent, 20.5 percent and 23.0 percent respectively.

The industry assets rose to D17.7 billion, or 14 percent from March 2010. And owing to improved earnings, the return on assets and the return on equity rose to 1.74 percent and 3 percent in the first quarter of 2011, higher than the 0.22 percent and 0.5 percent respectively in March 2010.

The industry's liquidity ratio was 91.6 percent in March 2011, higher than the 62.5 percent in March 2010 and the minimum requirement of 30 percent.

The Committee commented that the fact that credit accounted for only 25 percent of the assets of banks and investment in Treasury bills about 34 percent suggest that the level of financial intermediation is dismally low. Some Committee members attributed the low ratio of credit to total assets and GDP to the high lending rates. It was argued that the high interest rates are as a result of confluence of factors including the high cost of banking business, difficulty in realizing collateral and the high reserve requirement.

The Committee noted that allocating credit to specific sectors may create distortions and is thus undesirable. The key to increasing lending to all sectors of the economy is to ensure that interest rates are affordable.

9. Private Sector Business Sentiment Survey

According to the readings of the private sector business sentiment, the majority of respondents (75 percent) indicated that economic activity in Q1, 2011 was unchanged compared to Q4, 2010. A modest 17 percent of the respondents indicated that economic activity was higher in Q1, 2011 and only 8 percent reported that it was lower.

At the company level, the majority of respondents (42 percent) indicated that activity was higher in Q1, 2011 compared to 29 percent that reported lower activity. The rest of the respondents (29 percent) indicated that activity at the company level was unchanged.

Regarding prices, the vast majority of respondents (79 percent) reported that prices in Q1, 2011 were higher than in Q4, 2010. Also, a large number of respondents (63 percent) expect prices to be higher in Q2, 2011 compared to only 8 percent that think prices would be lower.

The Committee observed that inflationary expectations remain elevated. This was attributed to a number of factors including rising global energy and food prices.

10. Inflation

Consumer price inflation, measured by the National Consumer Price Index, was 5.41 percent in March 2011, higher than the 3.97 percent in March 2010.

Food price inflation accelerated to 7.5 percent in March 2011 compared to 5 percent in March 2010, but lower than the 8.36 percent and 8.34 percent readings in September and December 2010 respectively.

Non-food prices, on the other hand, decelerated to 2.02 percent compared to 2.56 percent in March 2010.

Core inflation, which excludes prices of energy, utilities and volatile food items accelerated to 5.3 percent in March 2011 compared to 3.96 percent in March 2010.

The Committee directed the ERD to resume forecasting inflation bearing in mind that an accurate gauge of the inflation outlook would help the monetary authorities conduct policy better. The Committee attributed the persistent high rate of inflation over the past four months, averaging 5.4 percent, to external factors with high energy and food prices.