

**Monetary Policy Committee
Meeting**

CENTRAL BANK OF THE GAMBIA



PRESS RELEASE

NOVEMBER 2, 2007

1. The global economy continues to expand at a solid pace driven by strong growth in China, Russia and India. In most advanced economies, economic growth slowed but was most pronounced in Japan and the Euro Zone. In Africa, growth is projected at 6.2 per cent in 2007, higher than the projected global output of 5.0 per cent.

Consistent with the outlook for global growth, prices of non-energy commodities are likely to remain relatively high. Although prices of grains and oilseeds are expected to be higher than previously envisaged, world sugar prices continue to decline due mainly to higher than anticipated output.

Spot and futures prices of crude oil continue to move upwards. Oil prices rose to over US \$90.0 per barrel in October 2007 reflecting tighter market conditions, supply disruptions and persistent geopolitical uncertainties.

- 2.0 Economic growth for The Gambia is projected at 7.0 percent supported by increased value-added from all sectors of the economy: agriculture, industry and services.

- 3.0 Growth in the monetary aggregates decelerated somewhat. Broad money (M2) grew by 12.6 per cent in the year to end-September 2007, lower than the growth rate of 20.7 per cent a year earlier. Both components of money supply increased, but quasi money grew at a faster rate reflecting strong demand for Dalasi denominated assets. Reserve money grew at an annual rate of 10.2 per cent, slightly higher than 9.0 per cent a year ago. From end-December 2006, growth in money supply increased marginally by 1.8 per cent reflecting in large part the 8.1 percent contraction in reserve money.
- 4.0. The improved performance in public finances achieved in the first quarter of 2007 continued through the third quarter. Domestic revenue outturn in the third quarter amounted to D829.7 million and was above target by D44.8 million, or 5.4 per cent. Both direct and indirect tax revenue were above target by D51.2 million and D21.8 million respectively, while non-tax revenue was slightly below target by D6.4 million. Expenditure and net lending totalling D771.2 million was below target by D330.8 million reflecting mainly decreased capital expenditure and net lending. The overall fiscal balance (commitment basis) including grants was in a surplus of D81.1 million. And over the nine months to end-September 2007, the surplus totalled D380.7 million, or 2.4 percent of GDP.
- 5.0 The stock of interest bearing domestic debt rose to D5.17 billion in September 2007, or 13.2 percent from a year earlier. Treasury bills accounting for 85.75 percent of the interest bearing debt were held mainly by commercial banks (54.5 percent) and the remainder were held by the public and parastatals.

Reflecting the benign inflationary environment and the appreciation of the Dalasi the demand for Treasury bills increased. This, coupled with decreased supply, caused Treasury bills yields to decline and the maturity structure to continue moving from the short to the long end. As at end-September 2007, one year maturities accounted for 70.5 percent of outstanding Treasury bills, 182-days bills (19.6 percent) and 91-day bills (9.5 percent).

- 6.0 Preliminary balance of payments (BOP) data indicate an overall deficit of D264.62 million (US\$9.77 million) in the second quarter compared to D159.85 million (US\$5.74 million) in the first quarter. The current account including official transfers and the capital and financial account balance are projected to increase to D376.2 million and D111.6 million, or 51.1 percent and 34.2 percent respectively from the first quarter.

Against this backdrop, revised balance of Payments (BOP) projections indicated an overall surplus of D108.64 million (US\$3.99 million) in 2007 compared to D195.11 million (US\$6.95 million) in 2006. The current account balance including official transfers is expected to narrow to D1.59 billion (\$5.84 million) in 2007 (10.1 per cent of GDP) from D1.84 billion (\$6.76 million) in 2006 (12.9 per cent of GDP) on the back of projected increase in current transfers and services receipts. The balance in the capital and financial account which recorded a surplus of D2.04 billion (\$7.49 million) in 2006 is projected to decline to a surplus of D1.69 billion (\$6.21 million) in 2007.

- 7.0 The inter-bank foreign exchange market continued to be vibrant. Transaction volumes increased to D31.6 billion in the nine months to end-September 2007 compared to D23.9 billion in the corresponding period of the previous year.

The inter-bank foreign exchange market experienced an unprecedented appreciation of the Dalasi during the third quarter. The appreciation of the Dalasi against major currencies began in 2005 on the back of strong fiscal and monetary policies, rebounding economic growth and increased foreign exchange inflows. This appreciation continued against the US Dollar in 2006 but the Dalasi lost ground against the Pound Sterling and Euro in 2006. The Dalasi rebounded in 2007 and from March – April the rate of appreciation against the Dollar continued. However, between August and September there was a sharp appreciation of Dalasi against all major currencies. The Dalasi strengthened against the US dollar, Pound Sterling, Euro and CFA franc by 32.0 per cent, 25.8 per cent, 22.7 per cent and 21.9 per cent respectively.

The level of gross official reserves increased to \$152.4 million at end-September 2007.

Indications are that the Dalasi would continue to be relatively strong in the medium term. This is predicated on continued maintenance of fiscal and monetary discipline, continued US Dollar weakness, increased foreign capital inflows and reduced demand for foreign exchange to service external debts due to prospective debt relief.

8.0 The banking sector in The Gambia continues to function efficiently. Banks have sufficient capital and liquidity to meet their funding commitments. The average capital adequacy ratio was 23.2 percent in September 2007, higher than the minimum requirement of 8.0 percent. Although the average liquidity position of banks declined by 21.0 percent to 84.9 percent, it exceeds the regulatory requirement of 30.0 percent. However, the banking sector remains concentrated with two banks accounting for 71.0 percent and 66.0 percent of deposit liabilities

and assets respectively. Interest rate spreads are high reflecting partly the high percentage of non-performing loans to gross loans of 13.1 percent in September 2007.

- 9.0 Inflationary pressures continued to trend downwards and the outlook remains favourable. End period Inflation, measured by the National Consumer Price Index (NCPI), decreased slightly from 6.4 percent in August to 6.0 percent in September 2007. Average inflation (12 months moving average) for end September 2007 was 4.0 percent compared 2.96 percent in September 2006. Food consumer price inflation rose to 9.3 per cent in September 2007 compared to 1.1 per cent a year earlier but declined by 0.3 per cent in September from August 2007. Non-food and services inflation accelerated to 2.4 per cent from 1.7 per cent at end-September 2006. Core inflation which excludes prices of energy and volatile food items increased from 1.2 per cent in September 2006 to 5.0 per cent in September 2007.
- 10.0 The near term outlook for the Gambian economy is favourable. Macroeconomic fundamentals remain strong and the appreciation of the Dalasi is expected to contain inflationary pressures. However, there are risks to the forecast particularly relating to mark increase in oil prices.
- 11.0 Taking the above-mentioned factors into consideration, including the risks to the inflation outlook, the MPC has decided to maintain the rediscount rate, the policy rate, at 15.0 per cent. The MPC would continue to monitor changes in economic conditions and respond appropriately in order to discharge its mandate to maintain price stability.