Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

PRESS RELEASE **JANUARY 21, 2011**

1. 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 measures are running their course suggesting that the burden of supporting growth and reducing unemployment will fall disproportionately on monetary policy. Growth in emerging market economies is also projected to ease to a more sustainable pace as fiscal and monetary policies are tightened. However, strong growth in Asia has underpinned commodity prices, contributing to the stronger trend in inflation in these countries.

2. The World Bank projects the global economy to expand by 3.3 percent in 2011 compared to 3.6 percent in 2010. Growth in Sub-Saharan Africa is projected at 5.3 percent in 2011, higher than the 4.7 percent in 2010.

3. Rising oil and non-oil commodity prices threaten the global economic recovery. Crude oil prices rose to an average of US$90 a barrel in December 2010, the highest in two years. According to the International Energy Agency, oil prices are expected to remain high in 2011 as the global economic recovery leads to higher demand.

4. International prices of most agricultural commodities have increased in recent months at a much faster pace than in 2007/08. The Food and Agricultural Organisation (FAO) Price Index rose by 34 points since the previous Food Outlook Report in June 2010 averaging 197 points in October 2010, only 16 points short from its peak in June 2008.

5. Global inflation has evolved largely as expected. Reflecting the economic recovery and the 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.

6. The Gambian economy is projected to grow by 5.5 percent in 2010 reflecting strong growth of agriculture and industry by 14.4 percent and 12.3 percent respectively. The robust growth is expected to be sustained in 2011.

7. Growth in the monetary aggregates decelerated in the year to end-December 2010. Money supply grew by 13.7 percent, lower than the growth rate of 19.4 per cent in the previous year. Quasi money increased by 19.3 percent and narrow money by 7.5 percent. Reserve money, the Bank's operating target, grew by 10.5 percent, slightly higher than the 9.3 percent a year ago.

8. The banking industry is fundamentally sound. The industry recorded 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.

9. Loans and advances, accounting for 29.8 percent of total assets, increased to D5.3 billion, or 8.6 percent. Credit to distributive trade increased by 29.3 percent, agriculture (5.7 percent), construction (9.6 percent), fishing (0.4 percent), tourism (4.0 percent) and other commercial loans (24.4 percent).

10. The ratio of impaired advances to gross loans and advances declined modestly to 14.0 percent in December 2010, lower than the 16.2 per cent in September 2010.

11. Deposit liabilities rose to D11.3 billion (39.8 percent of GDP) in 2010 compared to D9.48 billion (36.7 percent of GDP) in 2009. The average capital adequacy ratio increased to 46.3 percent, higher than the 33.2 percent in 2009 and over and above the minimum requirement of 8.0 percent.

12. Preliminary budget estimates indicate that revenue and grants totaled D4.3 billion (15.2 percent of GDP) in 2010, lower than the D4.9 billion (19.0 percent of GDP) in 2009, but 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 percent of GDP) in 2009.

13. Preliminary balance of payments (BOP) estimates for the first nine months of 2010 indicate an overall surplus of US$77.0 million compared to the deficit of US$32.7 million in the corresponding period in 2009. Exports and imports decreased to US$117.2 million and US$173.1 million, or 10.6 percent and 12.2 percent respectively.

14. 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. Similarly, the capital and financial account was in a surplus of US$34.8 million compared to a deficit of US$74.7 million in the corresponding period in 2009.

15. As at end-December 2010, gross international reserves amounted to US$163.5 million, equivalent to 5.1 months of import cover.

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

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

18. 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 domestic debt, increased to D5.9 billion, or 13.9 percent.

19. The yield of 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 14.30 percent respectively in December 2009.

20. 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 (18.9 percent).

21. According to the readings of the latest Business Sentiment Survey, majority of the

22. respondents indicated that economic and business activity were higher in the fourth quarter compared to the third quarter of 2010, but expect inflation to accelerate in the first quarter of 2011 reflecting in large part rising energy and food prices.

23. End-period inflation, measured by the National Consumer Price Index (NCPI), was 5.8 percent in December 2010, higher than the 2.7 percent in December 2009. The annual average inflation rate was 5.0 percent relative to 4.6 percent in 2009.

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

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

Inflation Outlook

26. The recent moderation in headline inflation is consistent with the deceleration in the monetary aggregates and the stability of the Dalasi. In the near-term, inflation is forecast to remain in single digit. However, there are risks to the outlook emanating mainly from cost-push factors such as rising food and energy prices.

27. Taking the above factors into consideration, including the inflation outlook, the MPC has decided to leave the policy rate unchanged at 15 percent.

I Thank you for your kind Attention.