

Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA



Press Release

October 30, 2009

- 1.0 Recent indicators point to the start of a global recovery supported by monetary and fiscal stimulus, improving financial conditions and rising business and consumer confidence.
- 2.0 The International Monetary Fund (IMF) expects the global economy to contract by 1.1 percent in 2009 and to grow by 3.1 percent in 2010 but cautioned against premature exits from the fiscal stimulus and accommodative monetary policy measures. Growth in Sub-Saharan Africa is expected to slow to 1.0 percent in 2009 after nearly a decade of strong performance. Exports have been slashed and capital flows, severely disrupted. IMF projections for 2010 in the region are that growth will rebound to 4 percent, and more than 5 percent in later years.
- 3.0 The price of crude oil, which has more than doubled this year rose above US\$81 a barrel, a new high for the year, reflecting increased demand from China and other emerging countries.

- 4.0 International rice prices remained generally steady in July and August but fell across all market segments in September 2009, when the Food and Agricultural Organization's All Rice Price Index fell below its June 2009 level. The price of groundnuts, The Gambia's main cash crop, has been generally on a downward trend over the last year, although recent months have begun to show a recovery. September 2009 recorded a price of US\$990.91 per ton which is approximately 32.7 percent lower than what the price was one year before. The price of sugar on world markets rose by 57 percent in 2009 as parts of Brazil, the largest exporter, had rainfall four times more than normal, thereby disrupting supply.
- 5.0 According to revised forecasts from the Gambia Bureau of Statistics, real economic growth for 2009 is projected at 5.0 percent premised on continued growth in agriculture and a rebound in industrial growth. For two years in a row, agriculture has been one of the main drivers of growth in the Gambian economy.
- 6.0 Money supply grew by 20.7 percent in the year to end-September 2009, compared to 11.1 percent a year earlier. Both components of money supply increased, but quasi money grew at a faster pace of 27.1 percent and narrow money by 14.2 percent. Reserve money grew by 2.7 percent, higher than the 0.9 percent a year ago.
- 7.0 Government fiscal operations in the first nine months of 2009 indicated that total revenue and grants amounted to D3.2 billion compared to D2.8 billion in the corresponding period in 2008. Indirect tax revenue increased to D2.0 billion or by 32.0 percent. Direct taxes, on the other hand, decreased to D831.7 million. Non-tax revenue also declined to D290.0

million, or 1.0 percent. Expenditure and net lending rose to D3.6 billion, or by 23.3 percent reflecting the 15.9 percent and 48.7 percent increase in current and capital expenditure respectively.

- 8.0 The overall fiscal balance (on commitment basis) including grants was in a deficit of D349.8 million compared to a deficit of D109.4 million during the corresponding period of 2008.
- 9.0 As at end September 2009, the domestic debt decreased to D6.0 billion, (30.16 percent of GDP) compared to 6.2 billion (34.68 percent of GDP) in September 2008. This decrease was mainly driven by the 37.4 percent reduction in Government NIB Notes. Outstanding Treasury Bills, accounting for 83.3 percent of the debt stock, increased to D5.0 billion in September 2009 compared to D4.86 billion in September 2008.
- 10.0 The distribution of Treasury Bills by maturity as at end-September 2009 indicate that 364-day bills, 182-day bills and 91-day bills accounted for 64.99 percent, 17.02 percent and 17.99 percent compared to 70.47 percent, 16.84 percent and 12.69 percent in December 2008 respectively.
- 11.0 The yield on the 91-Day Treasury bill rate increased from 12.73 percent in June 2009 to 10.44 percent in September 2009. The yield on the 182-day and 364-day bills decreased from 13.83 percent and 15.59 percent in June 2009 to 11.72 percent and 14.25 percent in September 2009 respectively.

- 12.0 The volume of transactions in the inter-bank Dalasi market amounted to D220.0 million in September 2009 compared to D132.0 million a year ago. The interest rates applied are in the range of 7.39 percent – 13.5 percent and the credit period ranges from 3-30 days.
- 13.0 Preliminary balance of payments estimates for the first half of 2009 indicated that the overall deficit narrowed to D348.44 million in 2009 compared to D376.5 million in the corresponding period of 2008. The current account was in a surplus of D163.48 million in 2009 compared to a deficit of D276.1 million in the first half of 2008. The capital and financial account balance worsened to deficit of D511.92 million in the first half of 2009 from a deficit D100.4 million reflecting the decline in reinvested earnings and equity capital.
- 14.0 The goods account balance improved from a deficit of D1.4 billion in the first half of 2008 to D1.1 billion in 2009 attributed to the surge in exports which more than offset the increase in imports. Exports, including domestic exports rose to D2.2 billion in the first half of 2009 compared to D1.4 billion a year ago.
- 15.0 Volume of transactions in the domestic foreign exchange market contracted to US\$1.3 billion in the year to end-September 2009 from US\$1.6 billion a year earlier. The domestic currency depreciated by 7.9 percent on the overall nominal exchange rate index of currencies compared to an appreciation of 1.6 percent in the preceding year. From December 2008 to end-September 2009, the Dalasi depreciated against the British Pound, US Dollar, CFA Franc and euro by 7.1 percent, 17.5 percent, 9.4 percent and 8.2 percent respectively.

- 16.0 Gross official reserves, including Special Drawing Rights (SDR) allocation from the International Monetary Fund (IMF), as at end-September stood at US\$141.3 million, equivalent to 6.0 months of import cover.
- 17.0 The banking industry remains sound. The average risk weighted capital adequacy ratio (CAR) was 33.22 percent in September 2009, higher than the minimum requirement of 8.0 percent.
- 18.0 Total assets rose to D13.7 billion in September 2009 or 21.0 percent from September 2008. Gross loans and advances, accounting for 30 percent of total asset, rose to D4.1 billion, an increase of 27.4 percent from a year ago. The non-performing loans ratio stood at 7 percent compared to 9.95 percent a year ago. Deposit liabilities continue to increase and totalled D8.8 billion in September 2009, compared to D7.1 billion in September 2008, representing an increase of 23.0 percent.
- 19.0 Foreign currency deposits (FCDs) increased to D1.2 billion or by 42.7 percent in the first quarter of 2009 from the corresponding period last year. In the second quarter, FCDs more than doubled to D2.2 billion before declining to D1.3 billion or by 30.3 percent in the third quarter of 2009.
- 20.0 Loans and advances to the private sector amounted to D4.1 billion in September 2009, an increase of 31.3 percent from a year ago. Credit to distributive trade, tourism, transportation and building and construction increased by 12.0 percent, 50.5 percent, 26.3 percent and 49.6 percent respectively. Similarly loans and advances to manufacturing and fishing increased by 67.4 percent and 43.0 percent respectively during the same period. In contrast, advances to agriculture decline by 9.0 percent.

21.0 The forward-looking business sentiment survey indicated that economic and business activity in the third quarter of 2009 was lower relative to the second quarter, but expects that activity would be higher in the fourth quarter. Inflationary expectations were mixed but the majority of respondents expect the rate of inflation to remain unchanged.

22.0 End-period inflation, measured by the National Consumer Price Index (NCPI) declined to 2.4 percent in September 2009 compared to 6.4 percent in September 2008. Annual average inflation rate (12 months moving average), however rose to 5.6 per cent in September 2009 compared to 4.2 per cent a year ago. Food and non-food consumer price inflation declined to 2.6 percent and 1.9 percent compared to 8.3 percent and 4.0 percent in September 2008.

23.0 Core inflation, which excludes energy and volatile food items also declined to 2.3 percent in September 2009 from 6.3 percent in September 2008.

24.0 Outlook for Inflation

Although the outlook for inflation is favourable for the remainder of 2009, the steady rise in the price of crude oil and unforeseen external shocks are the risks to the outlook.

25.0 Decision

Taking the above developments into consideration, including the risks to the outlook, the Committee decided to maintain the rediscount rate at 16.0 percent.

I Thank You for Listening