# Monetary Policy Committee

## CENTRAL BANK OF THE GAMBIA

**Press Release** **June 3, 2010**

1. Since the last Monetary Policy Committee meeting, global output has expanded faster than anticipated with growth in many emerging economies accompanied by moderate recovery in most advanced economies. The global recovery is driven mainly by rising manufacturing activity, and the restoration of consumer confidence.

2. World output, which contracted by 0.6 percent in 2009, is projected to expand by 4.2 percent and 4.3 percent in 2010 and 2011 respectively. However, the strength of the global recovery is impaired by fiscal fragilities, massive government debt and increasing commodity prices.

3. The Gambian economy is projected to expand by 5.0 percent in 2010, lower than the revised estimate of 5.6 percent in 2009. Agricultural value added is estimated at 4.4 percent, industry (5.1 percent) and services (4.9 percent).

4. Money supply growth accelerated to 21.7 percent in the twelve months to end-March, 2010 compared to 19.4 percent a year earlier. Of the components of money, narrow money rose by 16.1 percent and quasi

money by a stronger 27.5 percent. Net credit to government and claims on public entities rose by 24.6 percent and 12.1 percent respectively while lending to the private sector increased by 16.7 percent. Reserve money grew by 15.7 percent compared to 8.7 percent in the preceding year.

5. Preliminary estimates of government fiscal operations indicate that total revenue and grants amounted to D1.3 billion (23.0 percent of GDP) in the first three months of 2010 relative to D1.2 billion (24.0 percent of GDP) a year ago. Government expenditure and net lending totalled D1.2 billion (22.7 percent of GDP), an increase of 6.0 percent from a year earlier.

6. The overall budget balance (including grants) was in a surplus of D16.1 million (0.3 percent of GDP) lower than the D72.4 million (1.4 percent of GDP) in the first three months of 2009.

7. As at end-March 2010, the outstanding stock of domestic debt increased to D7.5 billion (26.9 percent of GDP) compared to D6.3 billion (24.8 percent of GDP) in March 2009. Treasury bills, accounting for 70.0 percent of total domestic debt increased to D5.4 billion compared to D4.8 billion in March 2009. Distribution of Treasury bills by maturity indicate that 1-year bills accounted for 64.6 percent of the stock, 182–day bills (17.7 per cent) and 91–day bills (17.7 per cent).

8. The yield on the 91-day and 182-day Treasury bills declined to 9.19 percent and 10.24 percent in May 2010 from 10.14 percent and 12.13 percent in December 2009. Similarly, the yield on the 364-day bills decreased to 13.0 percent from 13.65 percent during the same period.

9. The weighted average interest rates applied in the interbank market dropped to 9.7 percent in May 2010 from 10.61 percent in December 2009. However, the monthly value of transactions increased from D240 million in December 2009 to D265 million in May 2010.

10. Revised balance of payments estimates for 2009 indicate a decline in the overall balance from a surplus of US$23.35 million in 2008 to a deficit of US$6.79 million. While the current account improved to a surplus of US$63.29 million relative to a deficit of US$12.35 million in 2008, the capital and financial account balance recorded a deficit over the period relative to the surplus recorded a year ago.

11. The goods account worsened from a deficit of US$68.25 million in 2008 to US$85.98 million in 2009, but below the 2009 projection of US$141.20 million. Exports and imports declined by 8.5 percent and 3.7 percent to US$170.91 million and US$261.10 million compared to a year ago.

12. From end-December 2009 to end May 2010, the Dalasi depreciated by 2.21 percent against the US dollar partly reflecting developments in the international foreign exchange market where the US Dollar was the comeback currency; appreciating against the major currencies. On the other hand, the Dalasi remained resilient against the Euro, Pound Sterling and CFA over the past five months. From end-December 2009 to end-May 2010, the Dalasi appreciated against the Euro by 2.03 percent and Pound Sterling by 1.3.

13. Volume of transactions in the domestic foreign exchange market, measured by aggregate sales and purchases of foreign exchange in the

first five months of 2010 amounted to D16.69 billion or US$691.02 million compared to D13.72 billion or US$520.50 million in 2009.

14. As at end-April 2010, gross international reserves, including the SDR allocations, stood at US$177.63 million, equivalent to 7.0 months of import cover compared to US$116.3 million or 4.9 months of import cover.

15. The banking industry continues to show increasing signs of resilience with growth in assets, capital and reserves. Total industry assets increased to D15.5 billion at end-March 2010 from D14.6 billion in December 2009. Non-performing loans as a ratio of gross loans deteriorated from 12.0 percent in December 2009 to 16.9 percent in March 2010. This was as result of the Central Bank's inclusion of restructured loans in non-performing. However, all loans were adequately provisioned. The risk-weighted capital adequacy ratio was at 18.7 percent in March 2010, higher than minimum requirement of 8.0 percent. All the banks met the minimum capital requirement.

16. Loans and advances to the private sector, accounting for 51 percent of total domestic credit, increased to D4.7 billion in March 2010 from D3.7 billion in March. Credit to agriculture, manufacturing and building and construction increased by 30.0 percent, 47.0 percent and 28.3 percent respectively. Similarly, credit to distributive trade and other commercial loans rose by 41.6 percent and 24.1 percent during the same period. In contrast, loans and advances to fishing and tourism declined marginally by 0.25 percent and 0.1 percent respectively.

17. End-period inflation, measured by the National Consumer Price Index, declined from 6.1 percent in April 2009 to 4.1 percent at end-April 2010.

At 2.4 percent in September 2009, end-period inflation edged to 2.6 percent and 2.7 percent in November and December 2009 respectively. It increased further to 3.6 percent, 3.8 percent and 4.0 percent in January, February and March 2010 respectively.

18. Food consumer price inflation declined to 5.3 percent in April 2010 from 7.8 percent in April 2009. Food inflation was 8.3 percent and 7.8 percent at end-March and end-April 2009 before declining to 6.7 percent and 2.7 percent in the second and third quarters of 2009. While consumer food inflation was below 3.0 percent in the fourth quarter of 2009, it surged to 5.0 percent at end-March 2010 before settling at 5.3 percent at end-April 2010.

19. Similarly, non-food products and services consumer price inflation declined to 2.5 percent at in April 2010 from 4.5 percent a year earlier. Non-food consumer price inflation was on the downward spiral, reaching 4.8 percent in March 2009 before declining to 3.9 percent and 1.9 percent at end June and September 2009 respectively. Non-food inflation rose slightly to 2.8 percent at end-December 2009 and remained largely unchanged at 2.6 percent in March 2010 but declined to 2.5 percent at end-April 2010.

20. Core inflation, which excludes the prices of energy, utilities and volatile food items, declined from 6.4 percent in April 2009 to 4.1 percent in April 2010.

21. Readings from the forward-looking private sector business sentiment survey indicate that economic activity was higher in the first quarter of

2010 compared to the preceding quarter but inflationary expectations were mixed.

22. **OUTLOOK**

The outlook of the Gambian economy for the remainder of 2010 remains positive reflecting increased global activity, expansion in agricultural production and moderate growth in residential construction. Inflation has begun to pick up slightly, but is expected to remain low in single digits. The risks to the outlook mainly relates to the strength of the global recovery, increase in volatility in the international commodities market, particularly oil prices and uncertainty in financial markets.

23.0 **DECISION**

Taking the above-mentioned factors into consideration, including the risks to the outlook, the MPC has decided to maintain the rediscount rate at 14.0 percent.

**I thank you for your kind attention.**