Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

Press Release **December 24, 2008**

(1.0) Since the last meeting of the MPC, growth prospects of the world economy have deteriorated. Consumer spending has continued to weaken and investment has fallen. Industrialized and emerging countries have put in place a series of fiscal and monetary policy measures to repair bank capital, ease liquidity conditions and boost demand. Despite these measures, financial markets in industrialized countries still remain frozen and the global economic downturn has accelerated. As a result, the International Monetary Fund revised downwards its global growth projections to 3.9 percent in 2008 and 2.2 percent in 2009.

(2.0) Economic growth in The Gambia is expected to decelerate in 2008. Real GDP growth is projected at 6.1 percent compared to a revised estimate of 6.3 percent in 2007. Given the global financial crisis and recession in many advanced economies, exports, remittances, foreign direct investment and tourism are expected to contract in both 2008 and 2009.

(3.0) Money supply grew by 19.8 percent in the twelve months to end-November, 2008 compared to 7.9 percent a year earlier. Reserve money grew by 3.9 percent compared to 4.0 percent during the same period last year.

(4.0) Total domestic credit increased to D6.5 billion in November 2008 or by 37.5 percent from a year earlier. Credit to the private sector rose to D3.3 billion or by 32.7 percent. Credit to distributive trade, building and construction and transportation increased by 52.0 percent, 56.0 percent, and 29.0 percent respectively from a year earlier. Loans and advances to agriculture, fishing and tourism, on the other hand, contracted by 27.0 percent, 12.0 percent and 12.0 percent respectively during the same period.

(5.0) The banking industry continues to show signs of strength as reflected in the growth in assets, capital and reserves and the declining trend in non-performing loans. Total industry assets increased to D12.0 billion at end-October 2008, or 25.0 percent from a year ago. Non-performing loans as a ratio of gross loans improved from 13.0 percent at end-September 2007 to 7.0 percent as at end-September 2008. The industry's average capital adequacy ratio stood at 23.0 percent as at end-September 2008, well above the minimum threshold of 8.0 percent.

(6.0) End-period inflation, measured by the National Consumer Price Index (NCPI), rose from 6.0 percent in November 2007 to 6.6 percent at end-November 2008. Annual average inflation rate was 4.9 percent compared to 3.9 percent a year earlier.

(7.0) Food consumer price inflation declined to 8.6 percent from 9.2 percent in November 2007. In contrast, non-food products and services consumer price inflation rose to 4.4 percent from 2.3 percent in November 2007. Core inflation also increased from 6.1 percent in November 2007 to 6.6 percent in November 2008.

(8.0) Preliminary fiscal data indicated that revenue and grants in the first eleven months of 2008 totaled D3.3 billion, lower than the D3.4 billion outturn in the corresponding period of 2007. The decline in revenue was due to the decrease in tax and non-tax revenue, and the less-than-expected grants receipts. Total expenditure and net lending amounted to D3.9 billion, an increase of 17.5 per cent. The overall budget balance (including grants) on commitment basis declined to a deficit of D553.0 million (3.1 percent of GDP) in the first eleven months of 2008 from a surplus of D149.2 million (0.9 per cent of GDP) in the corresponding period of 2007.

(9.0) The domestic debt increased to D5.9 billion (31.2 percent of GDP) in November 2008, or by 5.9 percent from November 2007. Treasury bills, accounting for 80.9 percent of total domestic debt, rose slightly by 0.1 percent to D4.8 billion. Distribution of Treasury bills by maturity indicate that the 364-day bills accounted for 70.8 percent of the outstanding stock, 182-day bills 17.6 percent and 91-dsay bills 11.5 percent.

(10.0) The yield on the 91-day and 182-day Treasury bills rose to 10.99 percent and 13.43 percent in October 2008 from 9.23 percent and 11.0 percent in September 2008. Similarly, the yield on the 364-day bills increased to 14.25 percent from 13.13 percent during the same period.

(11.0) The Dalasi depreciated against the major internationally traded currencies in the inter bank foreign exchange market reflecting in the main reduced inflows from remittances, foreign direct investment (FDI), and tourism. The Dalasi depreciated against the US dollar, CFA and Euro by 23.0 percent, 9.7 percent and 9.9 percent respectively but strengthened against the Pound Sterling by 7.0 percent between November 2007 and November 2008.

(12.0) Volume of transactions in the inter-bank foreign exchange market, measured by aggregate sales and purchases, of foreign currency in the year to end-November 2008 amounted to D34.6 billion compared to D40.0 billion a year ago.

(13.0) Balance of Payments (BOP) projections indicate an overall deficit of D1.3 billion (US$54.6 million) in 2008 compared to an estimated surplus of D796.8 million (US$32.0 million) in 2007, reflecting the deterioration in both the current and the capital and financial accounts. The merchandise trade balance is estimated to widen to a deficit of D5.3 billion in 2008, or by 23.5 percent from the previous year. Exports are projected to decline to D2.2 billion or by 5.1 percent from 2007. Total value of imports is projected to increase to D7.4 billion, or by 13.5 percent from 2007.

(14.0) **Outlook**

Even though The Gambia's financial system is not directly affected by the global financial crisis, it is evident that the economy may be impacted upon by the global slowdown. The volume of exports, travel income, remittances and foreign direct investment have started declining. The current account deficit widened, resulting in deterioration of the overall balance of payments position. All these have reflected in the projected decline in the growth of the economy.

(15.0) To mitigate the impact of the crisis on the economy, there is need for increased fiscal-monetary policy co-ordination. In this regard, the fiscal authorities have embarked upon more prudent fiscal management while the Central Bank will continue to be proactive in the conduct of monetary policy. In addition, the supervisory and regulatory framework of financial institutions has been strengthened. Furthermore, government should continue to improve the investment climate to attract more foreign direct investment. Also, substantial resource flows from our development partners in the form of balance of payments support and other forms of aid should be sought with more intensity.

(16.0) In the near term, economic growth is expected to moderate owing largely to developments in the global economy. End-period inflation is expected to exceed the December 2008 target of 6.0 percent. The risks to the outlook relates to the volatility in the international commodity markets and the uncertainties in the financial markets.

(17.0) Taking the above-mentioned factors into consideration, including the risks to the outlook, the MPC has decided to maintain the Rediscount Rate at 16.0 percent.

I Thank You for Your Kind Attention