

CENTRAL BANK OF THE GAMBIA



Monetary Policy Committee

PRESS RELEASE

JUNE 19, 2009

- 1.0 The global financial crisis has caused considerable slowdown in most economies around the world. The rate of contraction in global output is expected to moderate during the latter part of 2009 but the IMF projects that world output will decline by 1.3 percent this year and recovery is expected to begin in 2010 with a growth projection of 1.9 percent. For Sub-Saharan Africa, the IMF projects that growth will average 1.7 percent in 2009 before recovering to 4.0 percent in 2010. Global inflation had fallen recently due to sluggish real activity and lower commodity prices.

- 2.0 Even though the domestic economy was relatively insulated from the first round effects of the global financial crises, the protraction of the crisis has impacted the services and trade sectors. In particular, exports, tourism and foreign direct investment (FDI) have declined since the second half of 2008 due to weak global demand. As a result, economic growth in 2009 is expected to moderate to 3.6 percent.

- 3.0 Money supply grew by 18.8 percent in the year to end-April 2009 compared to the 3.7 percent growth in the preceding year. Reserve money increased by 11.1 percent compared to a contraction of 6.0 percent a year earlier.
- 4.0 Preliminary data on government fiscal operations showed that total revenue and grants amounted to D1.59 billion in the first four months of 2009 compared to D1.30 billion in the corresponding period of last year. Total expenditure and net lending stood at D1.55 billion or an increase of 24.5 percent from a year ago. The overall fiscal balance, including grants, was a surplus of D37.5 million.
- 5.0 As at end May 2009, the total outstanding stock of domestic debt increased to D5.73 billion (31.0 percent of GDP), or 2.1 percent from a year earlier. Treasury bills, which accounted for 83.3 percent of the total debt stock, increased by 0.5 percent to D4.8 billion. The yield on the 91-day, 182-day and 364-day treasury bills rose from 9.38 percent, 11.67 percent and 13.49 percent in December 2008 to 12.50 percent, 13.15 percent and 15.24 percent respectively in May 2009.
- 6.0 Provisional balance of payments estimates for the first quarter of 2009 indicate an overall deficit of D468.9 million (US \$17.9 million) compared to D7.42 million (US \$0.34 million) in the corresponding quarter of 2008. The current account deficit, including official transfers, amounted to D234.3 million compared to a surplus of D4.94 million a year ago. The capital and financial account widened from a deficit of D12.36 million in the fourth quarter of 2008 to D234.53 million during the quarter under review.

- 7.0 Revised balance of payments projections indicated an overall deficit of D13.8 million (US\$0.5 million) in 2009 compared to D811.30 million (US\$30.3 million) in 2008. The current account deficit, including official transfers is expected to widen to D3.8 billion (19.0 percent of GDP) in 2009 from D3.6 billion (17.8 percent of GDP) in 2008. The capital and financial account balance is expected to improve from a surplus of D2.7 billion in 2008 to D3.8 billion in 2009.
- 8.0 The volume of transactions in the inter-bank market for foreign exchange totaled D33.3 billion, or US\$1.4 billion in the year to end May 2009 from D36.5 billion or US\$1.7 billion a year earlier.
- 9.0 Between December 2008 and January 2009, the Dalasi appreciated against the British Pound, US dollar, Euro and Swedish kroner by 7.2 percent, 1.8 percent, 6.0 percent and 9.1 percent respectively. However, this trend was reversed somewhat in February, March and April with the domestic currency weakening slightly against these currencies. In May 2009, the Dalasi depreciated against the British Pound, Swedish Kroner, CFA Franc and euro by 6.0 percent, 1.4 percent, 1.4 percent and 4.8 percent respectively. In contrast, the domestic currency appreciated against the US dollar and Swiss franc by 0.2 percent and 2.6 percent respectively during the same period.
- 10.0 As at end-May 2009, gross international reserves stood at D2.6 billion or US\$119.7 million, equivalent to 4.0 months of import cover.

- 11.0 The performance of the Banking industry continues to be strong with sufficient capital and liquidity. The industry's risk-weighted capital adequacy ratio stood at 34.84 percent in March 2009, significantly above the statutory requirement of 8.0 percent. Total assets of the industry increased to D12.5 billion for March 2009, or 0.8 percent from December 2008.
- 12.0 Loans and advances totaled D3.74 billion in March 2009 from D2.7 billion in March 2008 reflecting increased credit to all major sectors of the economy. Credit to agriculture, fishing, manufacturing and building and construction increased by 66.2 percent, 17.8 percent, 76.0 percent and 39.3 percent respectively from a year ago. Similarly, loans and advances to transportation, distributive trade, tourism and financial institutions grew by 27.4 percent, 27.5 percent, 16.5 percent and 61.3 percent respectively during the same period. The ratio of non-performing loans stood at 7.2 percent in March 2009 and compares favourably with the 9.4 percent recorded in December 2008.
- 13.0 End-period inflation measured by the National Consumer Price Index (NCPI) increased from 6.8 percent in December 2008 to peak at 7.0 percent in February before declining to 6.3 percent in April 2009. As at end-May 2009, the rate of inflation decelerated to 5.9 percent. Average inflation rate (12-month moving average) inched up slightly to 5.8 percent compared to 4.9 percent a year ago.

14.0 Food inflation increased slightly from 8.8 percent in December 2008 to 8.9 percent in January 2009 before dropping to 8.3 percent and 7.8 percent in March and April 2009 respectively. In May 2009, food inflation decreased to 7.2 percent. Non-food inflation was 4.4 percent in December 2008 but rose to 4.9 percent in March 2009. In April and May 2009, non-food inflation decreased to 4.5 percent and 4.2 percent respectively.

15.0 Core inflation which excludes the prices of energy and volatile food items declined from 6.8 percent in December 2008 to 6.4 percent and 6.0 percent in April and May 2009 respectively.

Outlook

16.0 For the remainder of 2009, the outlook for the Gambian economy remains favourable. However, against the backdrop of weak global demand, a steady rise in the price of crude oil and uncertainties in the global financial situation, the risks to inflation is on the upside.

17.0 Decision

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