

Monetary Policy Committee
CENTRAL BANK OF THE GAMBIA



PRESS RELEASE

APRIL 29, 2011

- (1.0) Since the previous meeting of the Monetary Policy Committee (MPC), the global economic recovery is more firmly entrenched. According to the IMF, the global economy expanded by 4.9 percent in 2010 compared to 3.6 percent in 2009. Ongoing efforts to repair household, banks and sovereign balance sheets continue to dampen growth in many advanced economies while growth in emerging market countries remains strong.

- (2.0) Global commodity prices remain elevated, driven by strong demand and supply shocks. Crude oil prices have surged in response to the unrest in North Africa and the Middle East and increased demand from emerging market economies, principally those in Asia. Agricultural prices have also been boosted by strong demand from emerging Asia and more recently by adverse weather conditions. The Food and Agriculture Organization Food Price Index averaged 230 points in March 2011, down 2.9 percent from its peak in February 2011, but still 37 percent above the March 2010 level.

- (3.0) The rise in commodity prices has pushed prices in advanced, emerging and developing countries. In particular, inflationary pressures are building rapidly in emerging markets reflecting in part the large share of food in their Consumer Price Index (CPI) baskets.

- (4.0) Revised estimates from the Gambia Bureau of Statistics (GBoS) indicate that the Gambian economy grew by 5.0 percent in 2010 driven by the strong growth of the agricultural sector. Growth in real GDP is projected at 5.5 percent in 2011. Strong performance in agriculture and telecommunications is expected to offset the continued weakness in tourism. Exports of groundnuts are projected to be strong boosted by good harvest in 2010 and higher prices.
- (5.0) In the year to end-March 2011, money supply grew by 14.9 percent, lower than the 21.7 percent a year earlier. Of the components of money supply, quasi money rose by 21.7 percent and narrow money by 7.8 percent. Reserve money, the Bank's operating target, grew by 15.9 percent relative to 15.7 percent a year ago.
- (6.0) The banking industry remains fundamentally sound. The key financial soundness indicators show that the average capital adequacy ratio was 49.0 percent in March 2011 compared to 46.3 percent in December 2010, and over and above the minimum requirement of 8.0 percent. All the banks met the requirement.
- (7.0) The industry's assets increased to D17.7 billion, or 14.0 percent from March 2010. Deposit liabilities also surged to D11.5 billion or 16.0 percent. And owing to improved earnings, the return on assets and the return on equity rose to 1.74 percent and 3.0 percent compared to 0.22 percent and 0.5 percent in March 2010.
- (8.0) Commercial banks' loans and advances increased to D5.4 billion, or 17.4 percent from March 2010. Credit to all sectors increased with loans to distributive trade, agriculture and building and construction increasing by 25.9 percent, 10.0 percent and 10.4 percent respectively. Similarly, credit to transportation, tourism and other commercial loans rose by 6.3 percent, 5.0 percent and 23.1 percent respectively. Despite increased lending, impaired

advances to gross loans and advances declined to 14 percent in March 2011 compared to 16 percent in December 2010.

- (9.0) Preliminary estimates indicate that the fiscal deficit narrowed to D58.3 million (0.18 percent of GDP) in the first quarter of 2011 compared to D84.0 million (0.3 percent of GDP) in the corresponding quarter in 2010. Total revenue and grants amounted to D1.75 billion (5.4 percent of GDP), or 35.2 percent over the outturn in the first quarter of 2010. Expenditure and net lending also increased to D1.8 billion (5.6 percent of GDP), or 31.2 percent from the first quarter of 2010.
- (10.0) Provisional balance of payments estimates indicate an overall deficit of US\$15.2 million in 2010 compared to the revised surplus of US\$54.6 million in 2009. The current account balance, including official transfers widened to a deficit of US\$119.4 million relative to US\$105.30 million in 2009. Exports and imports increased to US\$100 million and US\$315 million, or 5 percent and 6 percent respectively. The capital and financial account surplus narrowed from US\$152.0 million in 2009 to US\$97.7 million in 2010.
- (11.0) As at end-March 2011, gross international reserves amounted to US\$164.6 million, equivalent to 4.9 months of import cover.
- (12.0) The domestic debt increased to D9.3 billion (28.7 percent of GDP) in March 2011, or 23.9 percent from a year ago. Treasury bills, accounting for 63.0 percent of the debt, rose to D5.9 billion, or 12.4 percent.
- (13.0) The yield on the 91-day, 182-day and 364-day bills decelerated from 10.01 percent, 10.60 percent and 13.18 percent in December 2010 to 9.58 percent, 10.46 percent and 13.09 percent respectively in March 2011.

- (14.0) Data on the maturity structure of Treasury bills indicate that the 364-day bills accounted for 70.4 percent of the debt stock, the 182-day bills (19.2 percent) and 91-day bills (10.4 percent).
- (15.0) Although the domestic foreign exchange market remains vibrant, the volume of transactions decreased slightly to US\$1.58 billion in the twelve months to end-March 2011 compared to US\$1.65 billion a year earlier.
- (16.0) Year-on-year to end-March 2011, the Dalasi depreciated by 1.9 percent in nominal effective exchange rate terms. Against individual currencies, the Dalasi weakened by 5.3 percent and 1.3 percent against the US dollar and the British Pound but appreciated by 4.7 percent against the Euro.
- (17.0) The exchange rate remains an important indicator of macroeconomic stability as well as determinant of inflation expectations. Data from the latest Business Sentiment Survey indicate that inflationary expectations remain high. The readings also revealed a clear correlation between movements in the exchange rate and inflation expectations if not on inflation itself.
- (18.0) End-period inflation, measured by the National Consumer Price Index (NCPI), was 5.4 percent in March 2011 compared to 4.0 percent in March 2010. Annual inflation (12 - month moving average) was 5.4 percent, higher than the 3.8 percent a year earlier.
- (19.0) Food price inflation accelerated to 7.5 percent in March 2011 compared to 5.0 percent in March 2010, but lower than the 8.4 percent and 8.3 percent readings in September and December 2010 respectively. Non-food inflation, on the other hand, decelerated to 2.0 percent compared to 2.6 percent in March 2010. Core inflation, which excludes the prices of energy, utilities and volatile food items, increased from 4.0 percent in March 2010 to 5.3 percent in March 2011.

(20.0) Inflation Outlook

Headline inflation was slightly below the Bank's inflation target of 6 percent, reflecting in the main, the deceleration in food prices. Although the outlook for inflation is uncertain, high energy and food prices as well as elevated inflationary expectations remain upside risks.

(21.0) Decision

The MPC has accordingly decided to leave the policy rate unchanged at 15 percent. The MPC has also taken cognizance of the high lending rates in The Gambia and decided to reduce the reserve requirement ratio by 2 percentage points to 12 percent. The expectation is that a corresponding reduction in commercial bank interest rates would increase investment and growth.

Thank you for your kind Attention.