Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

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1. Since the previous meeting of the Monetary Policy Committee (MPC), the outlook for the global economy has deteriorated. The sovereign debt crisis in Europe has intensified, conditions in international financial markets have tightened and risk aversion has risen.

2. According to the IMF's latest World Economic Outlook, global growth is forecast at 3.25 percent in both 2011 and 2012, down from the earlier projection of 4.3 percent and 4.5 percent respectively.

3. Although growth in emerging and developing economies remain robust, it is expected to moderate somewhat due to contagion from the European crisis as well as policies aimed at curbing domestic demand pressures.

4. Global consumer price inflation is projected to ease as demand softens and commodity prices stabilize or recede. In major advanced economies, ample economic slack and well anchored inflationary expectations kept prices subdued. Inflation is projected to decelerate to 1.5 percent in 2012, down from the peak of 2.8 percent in 2011. In

emerging and developing economies, inflationary pressures are also expected to decline slightly from 7.3 percent in 2011 to 6.3 percent in 2012. Going forward, three factors will determine the path of inflation namely energy and food prices, output gaps and the credibility of policy makers.

5. Data from The Gambia Bureau of Statistics indicate that the Gambian economy grew by 5.4 percent in 2011, slightly lower than the 5.5 percent and 6.7 percent in 2010 and 2009 respectively. Agricultural output grew at a slower pace of 4 percent compared to 12.1 percent in 2010. Industry value-added is estimated at 1.3 percent, lower than the 2.6 percent in 2010 attributed to the decrease in the output of mining and quarrying and electricity, gas and water to 1.6 percent and 1.4 percent from 14.2 percent and 7.7 percent respectively in 2010. Manufacturing value-added rose to 3.9 percent from 0.4 percent in 2010. Construction output shrank by 2.9 percent on top of the contraction of 3.7 percent in 2010. Services value-added grew by a robust 8.5 percent, significantly higher than the 1.2 percent in 2010. All the services sub-sectors grew strongly with the highest growth rates recorded by communication (14.0 percent) and wholesale and retail (9.7 percent).

6. Broad money increased by 11.0 percent in 2011, lower than the 13.7 percent in 2010 and the target of 13.1 percent. Of the determinants of broad money, the net foreign assets (NFA) and the net domestic assets (NDA) of the banking sector grew by 13.1 percent and 10.1 percent compared with 3.9 percent and 19.0 percent respectively in 2010. Reserve money, the Bank’s operating target, increased by 12.3 percent, higher than the 10.5 percent in 2010 and the target of 5.0 percent.

7. Provisional data indicate an improved Government fiscal position in 2011. Revenue and grants increased to D5.2 billion (16.1 percent of GDP), higher than the D5.0 billion (17.1 percent of GDP) in 2010. Domestic revenue, comprising tax and non-tax revenue rose to D4.2 billion, or 6.9 percent. Tax receipts amounted to D3.7 billion of which D1.8 billion was on account of international trade taxes. Non-tax revenue also rose to D499.6 million, or 7.4 percent. Total expenditure and net lending amounted to D6.1 billion compared to D6.0 billion in 2010. Current expenditure totaled D4.4 billion, or an increase of 13.3 percent. In contrast, capital expenditure contracted to D1.7 billion, or 20.8 percent from 2010.

8. The overall budget balance, including grants, was a deficit of D910.0 million (2.8 percent of GDP), lower than the D1.04 billion (3.5 percent of GDP) in 2010.

9. Preliminary balance of payments estimates for the first three quarters of 2011 indicate an overall surplus of US$20.1 million, lower than the US$52.5 million recorded in the corresponding period of 2010. The current account is estimated at a surplus of US$38.3 million, higher than the surplus of US$17.7 million in the first nine months of 2010. The capital and financial account balance registered a deficit of US$18.2 million relative to the surplus of US$34.8 million in the corresponding period in 2010.

10. As at end-December 2011, the gross international reserves of the Central Bank of The Gambia was US$182.50 million, equivalent to 5.1 months of import cover.

11. Activity in the domestic foreign exchange market continued to be vibrant, despite the contraction in the volumes of transactions in 2011. In the year to end-December 2011, volume of transactions totaled US$1.43 billion, lower than the US$1.67 billion in 2010.

12. The Dalasi, though broadly stable, depreciated against all the major currencies. As at end-December 2011, the Dalasi weakened against the US Dollar by 7.7 percent, Pound Sterling (6.9 percent) and Euro (8.8 percent) from December 2010. In nominal effective exchange rate terms, the Dalasi weakened by 6.5 percent, higher than the 1.9 percent in 2010.

13. According to key financial soundness indicators, the banking sector remains sound. The average capital adequacy ratio decreased slightly to 25.4 percent in 2011 from 25.9 percent in 2010, but was significantly higher than the minimum requirement of 10 percent.

14. Total assets increased to D18.7 billion (64.0 percent of GDP), or 5.3 percent from 2010. Gross loans and advances, accounting for 29.2 percent of total assets rose modestly to D5.45 billion (18.7 percent of GDP), or 3.1 percent. The non-performing loans ratio decreased to 12.9 percent, lower than the 14.5 percent in 2010.

15. The industry remains highly liquid. The liquidity ratio was 70.3 percent compared to 69.8 percent in 2010 and higher than the minimum requirement of 30 percent. Treasury bills holdings accounted for 67.3 percent of the liquid assets. Deposit liabilities rose robustly to D12.4 billion, or 10.2 percent from 2010.

16. The industry's profits totaled D12.2 million compared to a loss of D17.7 million in 2010. The return on equity and return on assets was 3.0 percent and 0.3 percent compared to 1.8 percent and -0.5 percent respectively in 2010.

17. According to readings of the Private Sector Business Sentiment Survey, most respondents (54 percent) reported that economic activity was higher in the fourth quarter of 2011 relative to the third quarter compared to only 4 percent that reported lower activity resulting in a diffusion index of (+50 percent). At the company level, 67 percent of respondents indicated that activity was higher compared to 8 percent that reported lower activity.

18. As at end-December 2011, the outstanding domestic debt increased to D9.4 billion, or 8.6 percent from 2010. Treasury bills and Sukuk-Al-Salaam bills combined, accounting for 75.1 percent of the debt stock, rose to D7.1 billion, or 15.9 percent.

19. According to data on the maturity structure of Treasury bills, the 364-day, 182-day and 91-day bills accounted for 65.1 percent, 20.5 percent and 14.4 percent of the outstanding stock respectively.

20. The yield on all the maturities declined in 2011. The yield on the 91-day, 182-day and 364-day bills declined to 8.07 percent, 10.18 percent and 11.85 percent from 10.10 percent, 10.53 percent and 13.09 percent respectively.

21. Consumer price inflation, measured by the National Consumer Price Index (NCPI), decelerated to 4.4 percent in December 2011, lower than the 5.8 percent in December 2010. Average inflation (12-month moving average) also declined, albeit slightly to 4.8 percent from 5.0 percent in December 2010. Food price inflation decreased to 5.7 percent, lower than the 8.3 percent in December 2010. Non-food prices, on the other hand, rose to 2.5 percent from 1.9 percent in December 2010.

22. Core inflation, which excludes the prices of energy, utilities and volatile food items, declined to 4.3 percent from 5.7 percent in December 2010.

23. **Inflation Outlook**

The decline in headline inflation is consistent with the deceleration in money supply and the stability of the Dalasi. Inflation is expected to remain in single digit in 2012 predicated on prudent implementation of monetary and fiscal policies as well as the easing of global food prices.

24. Decision

Taking the above factors into consideration, including the inflation outlook and the lack of demand pressures from the slowing of the domestic economy, the MPC has decided to reduce the policy rate by 1.0 percentage point to 13 percent. The expectation is that other interest rates, particularly lending rates, would be reduced.