CENTRAL BANK OF THE GAMBIA

MONETARY POLICY COMMITTEE

PRESS RELEASE July 27, 2012

1. Since the last Monetary Policy Committee (MPC) meeting, global growth prospects have weakened further amid continuing risks posed by the sovereign debt crisis in the Euro area, delayed or insufficient policy action especially in countries hard hit by the financial crisis and greater-than-anticipated deceleration of economic growth in China and other emerging economies.

2. According to the IMF's World Economic Outlook, global growth is projected at 3.5 percent in 2012 and 3.9 percent in 2013, marginally lower than in the April 2012 report.

3. Despite the difficult external conditions, output in sub-Saharan Africa grew by 5 percent in 2011. Most countries recorded robust expansion with the exception of countries in West Africa, including The Gambia affected by drought. For 2012, output in sub-Saharan Africa is projected at 5.5 percent.

4. The Gambia Bureau of Statistics revised GDP figures indicate a marked slowdown in the growth of the Gambian economy to 3.3 percent in 2011 compared to 5.5 percent in 2010 attributed primarily to the contraction in the value-added of agriculture. Real GDP growth is projected to contract by 1.7 percent in 2012, but to rebound to 9.7 percent in 2013 premised on improved agricultural output and continued rebound of the tourism sector.

5. Monetary developments were characterized by subdued growth of the key monetary aggregates. Money supply growth decelerated to 5.8 percent in the year to end-June 2012, significantly lower than the 14.9 percent a year ago and the target of 9.0 percent. Narrow money (M1), comprising currency outside banks and demand deposits, rose by only 3.4 percent compared to 13.9 percent a year earlier. Quasi money, comprising savings and time deposits, grew by 7.9 percent relative to 13.0 percent in the preceding year.

6. Reserve money, the Bank's operating target, increased by 4 percent, lower than the 8.1 percent a year ago and the target of 7.3 percent.

7. Preliminary estimates of government fiscal operations in the first six months of 2012 showed an improved position compared to the same period last year. Total revenue and grants amounted to D3.2 billion compared to D2.7 billion in the corresponding period in 2011. Domestic revenue, comprising tax and non-tax revenue rose to D2.5 billion, or 15.9 percent. Total expenditure and net lending also rose, albeit at a slower pace of 13.0 percent to D3.6 billion.

8. The overall budget balance (including grants) on commitment basis, was in a deficit of D418.6 million, lower than the deficit of D469.50 million in the

first half of 2011. The basic primary balance surplus rose to D534.7 million, significantly higher than the D275.7 million in the first half of 2011.

9. Preliminary balance of payments estimates for the first quarter of 2012 indicated an overall surplus of US$15.11 million, lower than the surplus of US$34.0 million in the corresponding period in 2011.

10. The current account, including official transfers, is estimated to narrow to a surplus of US$29.77 million from a surplus of US$45.55 million in the corresponding quarter of 2011. In contrast, the capital and financial account recorded a deficit of US$19.92 million, higher than the deficit of US$11.55 million in the first quarter of 2011.

11. As at end-June 2012, gross official reserves amounted to US$184.58 million, equivalent to 5.1 months of import cover.

12. The volume of transactions in the foreign exchange market, measured by aggregate sales and purchases of foreign currency, decreased to US$1.48 billion in the year to end-June 2012 from US$1.60 billion a year ago.

13. Consequent of the reduced foreign currency inflows and increased demand, the Dalasi depreciated in nominal effective exchange rate terms by 4.7 percent in June 2012 compared to the depreciation of 5.3 percent in June 2011. Against individual currencies, the Dalasi depreciated by 9.8 percent and 6.1 percent against the US dollar and Pound Sterling respectively but appreciated by 3.3 percent against the Euro.

14. According to the key financial soundness indicators, the banking industry remains sound. The average risk-weighted capital adequacy ratio (CAR) was 26.0 percent in June 2012, higher than the minimum capital requirement of 10.0 percent. The liquidity ratio rose to 73.7 percent

compared to 68.1 percent in June 2011 and above the minimum requirement of 30 percent.

15. The assets of the industry totaled D19.1 billion, representing an increase of 5.3 percent from June 2011. Loans and advances, accounting for 27.4 percent of total assets, decreased to D5.2 billion, or 0.6 percent from June 2011.

16. The ratio of non-performing loans to gross loans declined to 9.8 percent in June 2012 compared to 12.7 percent in June, 2011attributed to robust loan recovery efforts and the tightening of credit standards by commercial banks.

17. Deposit liabilities increased to D12.5 billion, or 5.2 percent from June 2011. However, the loan to deposit ratio, an indicator of financial intermediation, fell from 45.4 percent in June 2011 to 41.8 percent in June 2012.

18. As at end-June 2012, the total outstanding domestic debt stock rose to D9.9 billion, or 2.7 percent year-on-year. Outstanding Treasury bills, accounting for 72.9 percent of the debt stock, rose by 13.7 percent.

19. According to data on holdings of Treasury bills by sector, commercial banks held 81.4 percent of the stock, the non-bank (16.7 percent) and Central Bank of the Gambia (1.9 percent).

20. The yield on the 91-day, 182-day and 364-day bills rose slightly to 9.8 percent, 10.6 percent and 11.9 percent from 8.7 percent, 9.2 percent and 11.7 percent respectively in June 2011.

21. According to the readings from the latest Private Sector Business Sentiment Survey, the majority of respondents (62 percent) reported no

change in economic activity in the second quarter of 2012 compared to the preceding quarter. However, the majority of the respondents (76 percent) indicated higher economic activity at the company level compared to the first quarter of 2012. Also, the majority of respondents reported that prices in the second quarter were higher and expect inflation to be elevated in the third quarter of 2012.

Inflation

22. The slowdown in global economic activity has led to a sizeable reduction in commodity prices, although they remain elevated. Global food prices have fallen slightly from their historic peak, but the UN Food and Agricultural Organization indicate that high and unpredictable prices are likely to continue.

23. Average oil prices, the highest on record in 2011, appeared to be heading to new records due to fears over supply disruptions. However, constrained by weak global demand, Brent Crude oil prices fell to as low as $89 per barrel, well below the levels of almost $130 per barrel that prevailed earlier this year.

24. Consumer prices in the advanced and the emerging and developing economies is forecast to decelerate to 2.0 percent and 6.3 percent in 2012 from 2.7 percent and 7.2 percent respectively in 2011.

25. On the domestic front, headline inflation, measured by the National Consumer Price Index (NCPI), declined to 4.3 percent in June 2012 compared to 5.4 percent in June, 2011. Similarly, average inflation rate (12-month moving average) decelerated to 4.1 percent, lower than the 5.7 percent a year earlier.

26. Food price inflation declined to 5.3 percent in June 2012 compared to 7.4 percent in June 2011. Non-food inflation, on the other hand, rose to 2.6 percent in June 2012, higher than the 2.1 percent in June 2011. Core inflation, which excludes the prices of energy, utilities and volatile food items, decelerated to 4.2 percent in June 2012 compared to 4.3 percent in June 2011.

27. Outlook for Inflation

Given the confluence of subdued pace of monetary expansion and the improved fiscal position, coupled with the recent drop in energy and food prices, the MPC expects inflation to remain below the 5 percent target over the remainder of the year and sees the risks to the inflation forecast to be fairly balanced.

28. Decision

Taking into account these developments, the MPC views the prevailing condition to be appropriate to further ease monetary policy. The MPC has, therefore, decided to reduce the policy rate, the rediscount rate, by 1 percentage point to 12 percent.

Thank you for your attention