MONETARY POLICY COMMITTEE

Press Release **November 2, 2012**

(1.0) Since the last Monetary Policy Committee (MPC) meeting in July, the global economic outlook has weakened further. According to the IMF's October 2012 Word Economic Outlook, growth in global output is forecast at 3.3 percent in 2012, down from the earlier projection of 3.5 percent attributed to the on-going Euro area crisis, the US fiscal cliff, possible food price increases arising from the drought in the US, and weaker stimuli from emerging market economies, especially China.

(2.0) Growth in advanced economies is projected at 1.3 percent in 2012 and 1.5 percent in 2013. After several years of very strong growth, economic activity in the major emerging markets decelerated in the face of weakening external demand.

(3.0) According to the Gambia Bureau of Statistics, the Gambian economy is projected to expand by 4 percent in 2012 following a contraction of 4.0 percent in 2011 caused by the severe drought which reduced agricultural output in several countries in the Sahel region. Real GDP is expected to expand by about 10 percent in 2013 premised on the expected recovery of crop production to the 2009 and 2010 levels and robust growth of the tourism sector.

(4.0) The pace of monetary expansion remains modest. In the year to end-September 2012, money supply grew by 7.0 percent, lower than the 11.5 percent a year ago. Both components of money supply increased, with narrow money growing at a slower pace of 4.7 percent and quasi money by 8.9 percent. Reserve money contracted by 3.1 percent, significantly lower than the growth rate of 13.0 percent a year earlier. Reserve money is programmed to increase by 5.8 percent by end-December 2012.

(5.0) Preliminary estimates of Government fiscal operations indicate that total revenue and grants in the first nine months of 2012 increased to D4.97 billion (17 percent of GDP) compared with D3.9 billion (13 per cent of GDP) in the corresponding period in 2011. Domestic revenue, comprising tax and non-tax revenue, rose to D3.65 billion, or 16.6 percent. Tax and non-tax revenue increased to D3.2 billion and D411.9 million, or 18.8 percent and 1.7 percent respectively.

(6.0) Total expenditure and net lending also rose, but at a slower pace of 3.9 percent to D4.97 billion (17.0 percent of GDP). Both current and capital spending increased by 1.2 percent and 7.0 percent respectively.

(7.0) The overall budget balance (including grants) on commitment basis was a surplus of D4.9 million (0.02 percent of GDP), compared to a deficit of D874.9 million (2.8 percent of GDP) during the same period in 2011.

(8.0) As at end-September 2012, the domestic debt increased to D10.2 billion (30 percent of GDP) compared to D9.2 billion (28 percent of GDP) in September 2011 Outstanding Treasury bills, accounting for

74.6 percent of the debt, rose to D7.6 billion in September 2012 from D6.6 billion in September 2011.

(9.0) Readings on the distribution of Treasury bills by maturity indicate that the 364-day bills, 182-day bills and 91-day bills accounted for 63.1 percent, 23.0 percent and 13.8 percent of the outstanding stock as at September 2012 compared to 66.6 percent, 19.7 percent and 13.7 percent in September 2011 respectively.

(10.0) The yield on all the maturities increased, albeit slightly. The yield on the 364-day, 182-day and 91-day Treasury bills rose to 10.68 percent, 9.59 percent and 8.5 percent in September 2012 from 10.01 percent, 8.71 percent and 7.98 percent respectively in September 2011.

(11.0) Preliminary balance of payments estimates for the first half of 2012 indicate an overall deficit of US$38.03 million compared to a surplus of US$46.67 million in the corresponding period of 2011. The current account recorded a surplus of US$17.34 million, lower than the surplus of US$61.65 million in the first half of 2011. The capital and financial account deficit widened to US$54.91 million from US$14.98 million in the first half of 2011 reflecting the decline in foreign direct investment and equity capital flows.

(12.0) The goods account deficit widened to US$89.38 million from a deficit of US$62.64 million in the corresponding period in 2011 due to the 34.8 percent increase in imports which more than offset the 21.2 percent growth in exports.

(13.0) Volume of transactions in the foreign exchange market in the year to end-September 2012 decreased to US$1.5 billion, or 1.1 percent from a year ago.

(14.0) The Dalasi depreciated against the US Dollar and Pound Sterling by 11.6 percent and 8.4 percent respectively in September 2012 compared to September 2011, but appreciated against the Euro by 0.6 percent. In nominal effective exchange rate terms, the Dalasi depreciated by 4.7 percent.

(15.0) As at end-September 2012, gross official reserves totaled US$171.3 million, equivalent to 5.0 months of imports of goods and services.

(16.0) The fundamentals of the banking industry remain strong. The average risk-weighted capital adequacy ratio was 26.4 percent in September 2012, higher than the minimum requirement of 10.0 percent.

(17.0) Total assets rose to D19.31 billion in September 2012, or 6.6 percent from September 2011. Gross loans and advances, accounting for 30.0 percent of total assets, rose to D5.8 billion, or 12.1 percent from a year ago. Credit to distributive trade, tourism and building and construction increased by 9.9 percent, 21.9 percent and 13.4 percent respectively. In contrast, loans and advances to agriculture, fishing and transportation declined by 15.0 percent, 39.1 percent and 18.8 percent respectively.

(18.0) The ratio of non-performing loans to gross loans declined to 12.7 percent in September 2012 compared to 13.4 percent in September 2011. The industry remains highly liquid. The liquidity ratio was 68.4 percent in September 2012, but lower than the 73.2 percent in September 2011. The industry recorded a profit of D67.6 million in the third quarter of 2012 against the loss of D8.15 million in the corresponding quarter of 2011.

(19.0) Global consumer price inflation remains subdued given weak demand, but supply-side shocks in the form of higher food prices due to droughts in the US and elevated crude oil prices pose risks to the outlook.

(20.0) End-period inflation, measured by the National Consumer Price Index (NCPI), was 4.2 percent at end-September 2012 compared to 4.1 percent a year earlier. Average inflation (12-month moving average), however, decreased from 5.2 percent in September 2011 to 4.2 percent in September 2012.

(21.0) Food inflation decelerated from 5.5 percent in September 2011 to 4.9 percent in September 2012. Consumer non-food inflation, on the other hand, rose from 2.2 percent in September 2011 to 3.4 percent in September 2012.

(22.0) Core inflation, which excludes prices of energy, utilities and volatile food items, rose minimally to 4.3 percent in September 2012 from 4.2 percent in September 2011.

23. Outlook for Inflation

Recent inflation outcomes were in line with expectations. In the remainder of the year, inflation is forecast not to exceed the target of 5.0 percent. There are, however, upside risks to the forecast emanating mainly from the recent depreciation of the Dalasi and higher commodity prices.

Decision

At the previous meeting, the MPC assessed that conditions justified the loosening of monetary policy. Although domestic economic growth has slowed and inflation contained, the MPC is of the view that further reduction of the policy rate is not appropriate. The MPC has, therefore, decided to leave the policy rate unchanged at 12.0 percent. Further actions going forward would depend on the impact of global and domestic developments on the inflation outlook.