Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

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Global Economic Developments

1. Since the last Monetary Policy Committee (MPC) meeting, global growth is expected to strengthen over the next two years. The latest projections from the International Monetary Fund indicate global economic activity would expand from 2.9 percent in 2013 to around 3.7 percent and 3.9 percent in 2014 and 2015 respectively.

2. While the growth outlook in the emerging market and developing economies has deteriorated somewhat in recent months, the prospects in advanced economies have improved, particularly in the US and UK. The improving US outlook is driven mainly by the diminishing fiscal drag, accommodative monetary policy, stronger household balance sheets and recovery in the housing market.

3. The outlook for the Euro area remains fragile and uneven, particularly in the Southern periphery where the combination of strong fiscal consolidation and weak banking sector are stifling the recovery. Euro zone growth is expected to expand by only 1.0 percent in 2014 from a contraction of 0.4 percent in 2013.

4. Growth in emerging market and developing economies decelerated slightly to 4.7 percent in 2013 from 4.9 percent in 2012 but is expected to expand by 5.1 percent in 2014. The Chinese economy grew by 7.7 percent in 2013, the same as in 2012.

5. In Sub-Saharan Africa, economic activity remained strong and is expected to accelerate to 6.1 percent in 2014, supported in most countries by domestic demand. However, the weaker-than-expected external demand, coupled with capital outflows and subdued commodity prices could moderate the growth prospects.

6. Global inflation remains benign despite the abundant liquidity and averaged around 3.0 percent in 2013. This is mainly attributed to the output gaps which remain large in developed economies and the decline in commodity prices. The decrease in commodity prices mainly reflected improved supply and reduced demand from key emerging market economies, notably China.

7. The FAO Food Price Index averaged 209.9 points in 2013, down 1.6 percent from 2012. Increased supplies pushed down prices of cereals (with the exception of rice), oils and sugar. Prices of groundnuts and groundnut oil eased as forecast of a full rebound and possibly a record performance of oil seed production in 2012/13 allayed market concerns regarding global supply tightness.

8. Crude oil prices are forecast to average $108 per barrel in the first quarter of 2014. Oil prices were fairly stable in 2013, trading at an average price of US$106/barrel.

Domestic Economic Developments

Growth

9. Real GDP growth of The Gambian economy for 2013 is provisionally estimated at 5.6 per cent compared to 6.1 per cent in 2012 and the contraction of 4.3 per cent in 2011. Growth in the value-added of agriculture is estimated at 14.8 percent, industry (7.0 percent) and services (3.7 percent).

Government Fiscal Operations

10. Provisional data on the execution of the 2013 budget show that total revenue and grants amounted to D5.9 billion (17.5 percent of GDP), below the target of D7.7 billion (20.0 percent of GDP). Domestic revenue, comprising both tax and non-tax revenue, increased by 10.6 percent to D5.2

billion, D4.6 billion of which was on account of international trade taxes. Grants, on the other hand, declined significantly from D1.8 billion in 2012 to D725.1 million in 2013.

11. Total expenditure and net lending rose to D8.7 billion (25.5 percent of GDP), or 11.2 percent from 2012. Current expenditure increased significantly to D6.3 billion, or 22.4 percent. Of the main components of current expenditure, wages and salaries increased by 15.1 percent, other charges (37.8 percent) and interest payments (7.4 percent). Capital expenditure, in contrast, declined to D2.32 billion from D2.58 billion in 2012.

12. The overall budget deficit (including grants) was D2.7 billion (8.0 per cent of GDP) in 2013, higher than the deficit of D1.3 billion (5.9 per cent of GDP) in 2012. The deficit was financed mainly from domestic sources in the amount of D2.2 billion (6.0 percent of GDP). External financing amounted to D578.8 million and repayments (D172.7 million).

13. The domestic debt, mainly short-term debt, totaled D13.5 billion (39 percent of GDP), an increase of 25.1 percent from 2012. Treasury bills and Sukuk Al-Salaam, accounting for 81.0 percent and 2.9 percent of the debt, increased by 34.5 percent and 13.6 percent respectively.

14. Reflecting mainly the increase in the policy rate, the yield on Treasury bills and Sukuk Al-Salaam increased significantly. The yield on the 91-day Treasury bill and Sukuk Al-Salaam rose from 9.62 percent and 9.70 percent in December 2012 to 15.85 percent and 15.84 percent in December 2013. Similarly, the yield on the 182-day and 364-day Treasury bills increased to 17.0 percent and 18.51 percent from 10.20 percent and 10.97 percent respectively. The average Inter-Bank interest rate for the month of December 2013 was 15.81 percent compared to 9.57 percent a year ago.

Monetary and Banking Sector Developments

15. Broad Money grew by 15.1 percent in 2013, higher than the target of 12.5 percent and growth rate of 7.8 percent in 2012. The expansion in broad money was due entirely to growth in the net domestic assets (NDA) of the banking system which rose by 25.8 percent compared to 7.7 percent in 2012. Net foreign assets (NFA), on the other hand, contracted by 8.7 percent compared to the growth rate of 7.7 percent in the previous year. Reserve money, the Bank's operating target, grew by 28.1 percent in the twelve months to December 2013 compared to 6.8 percent in the preceding year and the target of 10.9 percent.

16. The Gambia's banking sector continued to be stable and sound. The industry's capital and reserves totaled D3.02 billion, a slight decrease of 0.13 percent from 2012. The risk-weighted capital adequacy ratio averaged 28.0 percent, slightly lower than the 30.0 percent in 2012. All the banks observed the minimum capital requirement of 10.0 percent.

17. Total assets of the industry rose to D23.8 billion, higher than the D22.8 billion in 2012. Loans and advances, accounting for 23.4 percent of total assets, rose to D6.04 billion, or 9.4 percent from 2012.

18. Data on the sectoral distribution of credit indicate that loans and advances to the tourism sector grew by 21.6 percent compared to a contraction of 10.5 percent in 2012. Advances to distributive trade, accounting for 31.6 percent of total credit, rose by 10.8 percent on top of the growth of 15.6 percent a year earlier. In contrast, credit extended to agriculture, fishing and manufacturing contracted by 37.5 percent, 16.7 percent and 9.4 percent in 2013 from the robust growth of 8.7 percent, 40.9 percent and 2.1 percent respectively in 2012.

19. The non-performing loans (NPLs) ratio increased significantly to 19.0 percent in 2013 compared to 12.1 percent a year ago.

20. Deposit liabilities rose to D15.05 billion, or 12.4 percent over the previous year driven mainly by the strong growth in demand and savings deposits. Time deposits, on the other hand, contracted. The liquidity ratio declined slightly to 76.0 percent compared to 78.0 percent in 2012, but higher than the minimum requirement of 30.0 percent.

21. Industry earnings increased significantly from D17.5 million in 2012 to D106.5 million in 2013. However, the return on assets declined slightly to 1.79 percent relative to 1.98 percent in 2012.

External Sector Developments

22. The overall balance of payments is estimated at a deficit of $32.9 million in the first nine months of 2013, lower than the deficit of $41.7 million in the corresponding period of 2012. The current account surplus increased to US$82.32 million compared to US$56.9 million in the same period in 2012. Of the components of the current account, the goods account deficit narrowed to $90.4 million compared to $132.7 million and $97.7 million recorded in the same period of 2012 and 2011 respectively.

23. The services account balance also improved from a surplus of US$43.54 million to a surplus of US$83.26 million during the period under review. In contrast, receipts from current transfers recorded a reduced surplus of $100.4 million, relative to the surplus of $154.9 million in the same period of 2012, mainly due to the marked decline in transfers to general government.

24. The capital and financial account deficit widened to US$49.4 million compared to the deficit of US$15.2 million in the corresponding period in 2012.

25. Volume of transactions in the foreign exchange market in the year to end-December 2013 decreased to US$1.31 billion, or 17.0 percent from 2012.

26. Gross international reserves amounted to US$170.3 million, equivalent to 4.1 months of import cover, down from US$195.8 million a year ago.

27. Although the Dalasi was broadly stable in the first half of 2013, it depreciated significantly in the second half of the year. As at end-December 2013, the Dalasi depreciated against the US Dollar by 14.8 percent, Euro (21.0 percent) and Pound Sterling (14.7 percent) from December 2012. In nominal effective exchange rate terms, the Dalasi depreciated by 15.1 percent compared to 13.5 percent and 7.3 percent in 2012 and 2011 respectively. The depreciation of the Dalasi was partly the result of reduced foreign exchange receipts, coupled with strong demand owing in part to the high level of liquidity in the economy.

Inflation

28. Consumer price inflation, measured by the National Consumer Price Index (NCPI), increased to 5.6 percent in December 2013 compared to the 4.9 percent recorded in 2012. Food prices, which remained the main driver of headline inflation, rose to a high of 7.3 percent in October 2013 before easing somewhat to 6.6 percent in December 2013. Non-food prices, broadly stable and non-volatile in 2010, 2011 and in the first half of 2013 averaged less than 2.0 percent, accelerated to a high of 4.6 percent in June 2013 before decelerating to 3.7 percent in December 2013.

29. Core inflation, which excludes prices of energy, utilities and volatile food items, accelerated to 6.2 percent in October 2013 before easing to 5.7 percent in December 2013.

Inflation Outlook

30. Real GDP growth is projected at 7.5 percent in 2014 predicated on robust expansion of agriculture and services, particularly tourism. This indicates that The Gambian economy is gradually growing close to potential. Inflation is forecast to moderate to within the target of 5.0 percent by end-December 2014 premised on prudent implementation of monetary and fiscal policies. The outlook to inflation is subject to several upside risks emanating both from the external environment and the domestic economy. The most important risks are higher-than-expected oil prices and fiscal and exchange rate pressures.

Decision

Against this backdrop, the MPC judged the current policy stance to be appropriate and therefore has decided to keep the policy rate unchanged at 20.0 percent. Nonetheless, the MPC recognizes that circumstances could change and is desirous to respond promptly to keep prices under control and ensure that inflation expectations are well anchored.