CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

Press Release **February 24, 2015**

Ladies and Gentlemen of the Press, Chief Executive Officers of the Banks, staff of the Central Bank of The Gambia and Ministry of Finance and Economic Affairs, it is my honour to welcome you to this press briefing following the meeting of the Monetary Policy Committee (MPC) held yesterday. The Committee reviewed the domestic economy against the backdrop of developments in the global economy and the outlook for inflation.

Global Economic Developments

1.0 Since the previous meeting of the MPC, global economic growth outlook remains mixed, despite the strong performance of the US economy, lower international oil prices and quantitative easing announced by the European Central Bank. In the latest update of the IMF's World Economic Outlook (WEO), global growth is projected at 3.5 percent and 3.7 percent in 2015 and 2016 respectively, a downward revision of 0.3 percent relative to the October 2014 WEO projections. The revisions reflect a reassessment of prospects in China, Russia, the Euro area, and Japan as well as weaker activity in some major oil exporters because of the sharp drop in oil prices.

2.0 Among major advanced economies, growth in the United States is projected to expand by 3.6 percent in 2015, higher than the 2.4 percent in 2014 and after the contraction in the first quarter of 2014. The growth is expected to become increasingly self-sustaining supported by declining unemployment, low inflation and the large positive impact from oil price declines, despite the drag from the appreciation of the US Dollar. In other advanced economies, particularly the Euro area and Japan, growth is expected to remain weak despite additional policy stimulus.

3.0 In emerging markets and developing economies, growth is projected to remain broadly stable at 4.3 percent in 2015 and to increase to 4.7 percent in 2016. Growth in China is expected to moderate to 6.8 percent from 7.4 percent in 2014 as the economy rebalances towards domestic consumption.

4.0 Sub-Saharan Africa's growth improved for the second consecutive year, to 4.5 percent in 2014 compared with 4.2 percent in 2013. Despite headwinds, regional GDP growth is projected to remain steady at 4.6 percent in 2015 and rise gradually to 5.1 percent in 2017 supported by infrastructure investment, increased agriculture production, and buoyant services. However, there are downside risks to the outlook mainly arising from the Ebola epidemic, violent insurgencies, lower commodity prices, and volatile global financial conditions.

5.0 Global inflation has remained subdued in 2014, especially in the advanced economies, an indication that many of these economies have substantial output gaps. In the Euro area, inflation declined further and in several countries mild deflation in consumer prices continues. In emerging market economies, inflation remained high, but broadly stable. In Sub-Saharan Africa inflation accelerated slightly, but remained in single digits in most countries thanks in part to softer commodity prices

6.0 In the international commodity markets, crude oil prices have fallen by more than 55 percent since their recent peak in June 2014. Prices of non-energy commodities also softened, albeit modestly on average, with the pick up in grain prices mostly offsetting lower prices for other commodities.

7.0 The FAO Food Price Index averaged 202 points in 2014, down 3.7 percent from 2013, with the sharpest year-on-year falls registered by cereals (12.5 percent), followed by dairy products (7.7 percent), oils (6.2 percent) and sugar (3.8 percent).

These developments will have implications for the domestic economy.

The Domestic Economy

Real GDP Growth

8.0 The latest estimates from the Gambia Bureau of Statistics (GBoS) indicate that real GDP contracted by 1.4 percent in 2014, compared to the growth of 4.6 percent and 5.9 percent in 2013 and 2012 respectively. The deceleration in economic activity in 2014 was primarily due to lower agricultural production which declined by 22.0 percent due to late and insufficient rains and the negative impact of the Ebola epidemic on the tourism sector.

Money and Banking sector Developments

9.0 Broad money grew by 11.2 percent in the year to end-December 2014 compared with the growth of 15.1 percent in the previous year. The decline in the growth of broad money was mainly the result of slower pace of expansion in the net domestic assets (NDA) of the banking sector by 14.2 percent compared to 25.8 percent in 2013. The net foreign assets (NFA) of the banking sector, on the other hand, increased by only 2.2 percent following a contraction of 8.7 percent in 2013.

10.0 Growth in reserve money decelerated to 11.9 percent in 2014, substantially lower than the growth of 28.1 percent a year ago. The slowdown in the pace of expansion of reserve money was mainly the result of the contraction in the NFA of the Central Bank by 47.4 percent on top of the earlier contraction of 17.7 percent in 2013. The NDA of the Central Bank, on the other hand, increased significantly to D4.5 billion, or 77.8 percent.

Central Bank net claims on government rose from D2.5 billion in 2013 to D4.4 billion in 2014.

11.0 The banking industry ended 2014 with strong fundamentals. The industry risk-weighted capital adequacy ratio averaged 30.0 percent in 2014, over and above the required minimum of 10.0 percent. All the banks met the minimum requirement.

12.0 Total assets of the industry increased to D24.5 billion, or 16.4 percent from 2013. Loans and advances, accounting for 22.1 percent of total assets, decreased to D5.4 billion, or 10.4 percent owing primarily to the 9.0 percent decline in private sector credit.

13.0 The ratio of non-performing loans to gross loans declined substantially from 20.0 percent in 2013 to 7.0 percent in 2014.

14.0 Deposit liabilities rose to D16.8 billion, higher than the D15.2 billion in 2013. The liquidity ratio stood at 85.0 percent, over and above the statutory minimum requirement of 30.0 percent.

15.0 The banking industry recorded a net profit of D680.0 million in 2014. The return on assets and return on equity rose to 11.0 percent and 71.0 percent compared to 2.0 percent and 14.0 percent respectively in 2013.

16.0 In the year to end-December 2014, the domestic debt rose to D18.7 billion, or 38.7 percent from a year earlier. Treasury bills and Sukuk-Al Salaam, accounting for 78.1 percent and 3.2 percent of the domestic debt stock, increased by 32.2 percent and 48.5 percent respectively.

17.0 The yield on the 91-day and 182-day decreased from 15.95 percent and 17.11 percent in 2013 to 14.01 percent and 16.34 percent in December 2014 respectively. In contrast, the yield on the 364-day bills rose from 18.54 percent to 19.08 percent during the same period. The weighted average inter-bank rate also decreased from 15.67 percent in December 2013 to 14.16 percent in December 2014

Government Fiscal Operations

18.0 Preliminary data on the execution of the Government budget for 2014 indicate that total revenue and grants increased to D7.6 billion (22.4 percent of GDP), or 26.3 percent from 2013. Domestic revenue, comprising tax and non-tax revenue, amounted to D6.4 billion higher than the D5.3 billion in 2013 attributed to the 20.8 percent and 21.5 percent increase in tax and non-tax revenue respectively.

19.0 Total expenditure and net lending amounted to D11.8 billion (35.1 percent of GDP), higher than the outturn of D8.8 billion (27.0 percent of GDP) in 2013. Current and capital expenditure rose to D7.8 billion and D2.8 billion compared to D6.5 billion and D2.3 billion respectively in 2013.

20.0 The overall budget balance (including grants) recorded a deficit of D4.3 billion (12.6 percent of GDP) which was financed by both domestic and external sources.

External Sector Developments

21.0 Preliminary balance of payments (BOP) estimates for the first nine months of 2014 indicate an overall deficit of US$12.80 million, lower than the surplus of US$13.84 million in the corresponding period last year. The current account deficit rose to US$97.48 million compared to a deficit of US$50.38 million during the corresponding period in 2013. Of the components of the current account, the goods account deficit widened to US$158.0 million compared to a deficit of US$131.86 million in the same period in 2013. Merchandise exports rose slightly to US$83.15 million, or 2.1 percent whilst imports increased at a stronger pace to US$259.88 million, or 14.9 percent.

22.0 The surplus in the services account declined from US$59.11 million in the first nine months of 2013 to US$37.97 million during the period under review. The deficit in the income account widened from US$16.19 million in the first nine months of 2013 to US$18.21 million during the review period, reflecting in the main, higher external interest payments. The capital and financial account surplus increased to US$84.34 million, higher than the surplus of US$60.85 million in the corresponding period in 2013. Both the capital and financial account surpluses rose to US$29.77 million and US$54.58 million from US$17.24 million and US$43.61 million respectively in the corresponding period in 2013.

23.0 At end-December 2014, gross international reserves totalled US$111.9 million, equivalent to 4.0 months of import cover compared to US$161.06 million, or 5.5 months of import cover in December 2013.

24.0 Volume of transactions in the domestic foreign exchange market increased to US$1.42 billion in 2014, or 8.4 percent from a year earlier. In the year to end-December 2014, the Dalasi depreciated against the US dollar by 16.28 percent, Euro (4.14 percent) and British Pound (12.73 percent).

Inflation Outlook

25.0 Consumer price inflation, measured by the National Consumer Price Index (NCPI), accelerated to 6.9 percent in December 2014, from 5.6 percent in December 2013. Both food and non-food inflation rose to 8.43 percent and 4.83 percent from 6.72 percent and 3.74 percent in December 2013 respectively. Similarly, core inflation, which excludes the prices of volatile food items and energy, rose to 6.86 percent in December 2014 compared to 5.86 percent a year ago.

26.0 At the last sitting of the MPC in November 2014, the Committee decided to leave the policy rate unchanged at 22.0 percent. Although headline inflation exceeded the end-December 2014 target of 5.0 percent, policy actions take time to work their way through the economy and to impact inflation. The MPC judges the stance of monetary policy appropriate for now and therefore, decided to keep the policy rate at 22.0 percent.

I thank you for your kind attention.