

CENTRAL BANK OF THE GAMBIA



Monetary Policy Committee

Press Release

August 5, 2015

Global Economic Developments

1. Since the last Monetary Policy Committee(MPC)meeting, the outlook of the global economy has been characterized by heightened uncertainty relating to the debt crisis in Greece, sharp decline in equity prices in China and slowdown in economic activity. The International Monetary Fund (IMF) has lowered its forecast for global economic growth for 2015from what was predicted in the April 2015 World Economic Outlook. Global economic activity is now projected to grow by 3.3 percent in 2015 compared with 3.4 percent in 2014 and down from the estimate of 3.5 percent.
2. Growth in the advanced economies is projected to expand from 1.8 percent in 2014 to 2.1 percent in 2015. US economic growth accelerated in the second quarter owing primarily to the pick-up in consumer spending. Also, first quarter GDP, previously reported to have contracted by 0.2 percent was revised upward to a growth of 0.6 percent. The steady, but slow improvement in the Euro area continued, following better-than-expected output in the first quarter. The Euro area is forecast to grow by 1.5 percent in 2015unchanged from the April2015 forecast. However, the outlook for the region would depend on avoiding negative spillovers from the Greek debt crisis.

3. Growth in emerging markets and developing economies is projected to moderate from 4.6 percent in 2014 to 4.2 percent in 2015. The Chinese economy grew by 7 percent year-on-year in the second quarter, but some moderation is expected in the coming quarters. Output growth in Sub-Saharan Africa is projected at 4.2 percent from 5.0 percent in 2014 owing in part to the marked decline in commodity prices and rising geopolitical tensions in some countries.
4. The FAO Food Price Index averaged 165.1 points in June 2015, down 1.5 points (0.9 percent) from the previous month and almost 44 points (21.0 percent) from June 2014. Price movements diverged with pronounced decline in the prices of sugar and milk products while cereals and edible oil prices firmed somewhat. Except for a lull in October 2014, the overall Food Price Index has declined every month since April 2014.
5. International oil prices moved within a relatively tight range between US\$58 per barrel and US\$62 per barrel throughout June 2015. On average, oil prices fell by 3.1 percent in June, but rose a significant 19 percent for the quarter. Recently, prices dropped as global supplies remained plentiful. Higher output by Saudi Arabia, the prospects of resumption of oil exports by Iran and slowdown in global output caused prices to decrease to about US\$50 per barrel in the beginning of August 2015.
6. Global inflationary pressures, particularly in advanced economies, remain benign reinforced by declining commodity prices, including oil. As a result, monetary policy in most advanced and emerging market economies have either remained unchanged or have become more accommodative.

The Domestic Economy

Real GDP Growth

7. The Gambia Bureau of Statistics (GBOS) has revised downwards the real GDP growth estimate for The Gambia from an earlier estimate of 1.6 percent to 0.5 percent in 2014, citing weaker growth of 3.3 percent in the transport and communication sectors than previously estimated. Growth in the services sector was thus revised to 5.2 percent, lower than the 8.1 percent in 2013 and earlier projection of 6.9 percent.

8. Agricultural output is estimated to have contracted by 8.4 percent in 2014 compared to the decline of 1.8 percent in 2013. Growth of the industrial sector was estimated at 6 percent, higher than the 4.5 percent in 2013.

Money and Banking Sector Developments

9. In the year to end-June 2015, money supply grew by 11.6 percent compared to 8.2 percent a year earlier. The increase in the growth of broad money was mainly the result of the faster pace of expansion of the net domestic assets (NDA) of the banking sector by 30.4 percent compared to 12.6 percent a year ago. The net foreign assets (NFA) of the banking sector, on the other hand, contracted by 40.1 percent from a smaller contraction of 2.5 percent in June 2014.

10. Of the components of money supply, narrow money, comprising currency outside banks and demand deposits, grew by 14.7 percent compared to 14.2 percent a year ago. Quasi money also rose by 8.4 percent, higher than the 2.4 percent in June 2014.

11. Growth in reserve money decelerated to 11.9 percent from 19.7 percent a year ago reflecting the contraction in the NFA of the CBG by 84.0 percent. The NDA of the CBG, on the other hand, rose by 134.7 percent, significantly higher than the 97.2 percent growth in June 2014. CBG's net claims on government, the main driver of liquidity, rose to D4.3 billion, or 97.8 percent from a year ago.
12. Total assets of the banking industry increased to D29.04 billion in the year to end-June 2015, or 14.0 percent. However, gross loans and advances, representing 20 percent of total assets, declined to D5.81 billion, or 3 percent. The ratio of non-performing loans to gross loans fell to 11.0 percent in June 2015 from 15.0 percent in June 2014.
13. Capital and reserves totalled D3.95 billion, higher than the D3.41 billion in June 2014. Capital adequacy ratio averaged 38 percent and all the banks met the minimum capital adequacy requirement of 10 percent. Deposit liabilities increased to D16.95 billion, or 12 percent from June 2014. The liquidity ratio stood at 86 percent, significantly higher than the statutory minimum requirement of 30.0 percent
14. The Return on Assets and Return on Equity declined marginally from 2.5 percent and 15.9 percent respectively in the first quarter to 2.3 percent and 15.4 percent in the second quarter of 2015.
15. In the year to end-June 2015, the domestic debt rose to D19.1 billion (49.6 percent of GDP), or 30.4 percent from a year earlier. Treasury bills, which accounted for 69 percent of the domestic debt, increased by 9.9 percent whilst the stock of outstanding Sukuk Al Salaam (SAS) contracted by 4.5 percent.

16. The yields on all short dated government securities increased. The yield on the 91-day, 182-day and 364-day Treasury bills increased from 14.31 percent, 15.95 percent and 18.12 percent in June 2014 to 17.19 percent, 18.46 percent and 21.45 percent in June 2015 respectively. Also, the yield on the 91-day, 182-day and 364-day SAS rose to 17.58 percent, 18.44 percent and 20.54 percent compared to 14.86 percent, 16.40 percent and 18.34 percent respectively in June 2015. Additionally, the weighted average inter-bank rate rose to 16.56 percent at end-June 2015 compared to 14.5 percent a year ago.

Government Fiscal Operations

17. Provisional data on government fiscal operations for the first half of 2015 indicates that total revenue and grants amounted to D5.23 billion (29.8 percent of GDP) compared to D4.34 billion (24.7 percent of GDP) in the corresponding period a year ago. Domestic revenue, comprising tax and non-tax revenue, amounted to D3.8 billion (21.8 percent of GDP), or an increase of 17.0 percent from the corresponding period in 2014.

18. Tax revenue increased to D3.46 billion, or 27.0 percent higher than the outturn in the corresponding period in 2014. Non-tax revenue, on the other hand, contracted to D630.0 million, or 33 percent.

19. Total expenditure and net lending amounted to D6.1 billion (34.5 percent of GDP) compared to D5.1 billion (28.8 percent of GDP) in the first half of 2014. Recurrent expenditure increased to D3.9 billion, or 17.1 percent from the outturn in the first half of 2014 attributed mainly to the 81 percent increase in interest payments. Capital expenditure also rose to D2.5 billion, higher than the D1.72 billion in the first half of 2014.

20. The overall budget deficit on cash basis, including grants, is estimated at D829.4 million (5 percent of GDP), slightly higher than the deficit of D729.8 million (4 percent of GDP) in the first half of 2014. The budget deficit, excluding grants is estimated at D2.23 billion (13 percent of GDP).

External Sector Developments

21. Provisional balance of payments (BOP) estimates for the first half of 2015 indicate an overall deficit of US\$30.5 million, significantly higher than the US\$19.0 million in the corresponding period in 2014. The Current account deficit widened to US\$65.7 million compared to the deficit of US\$11.0 million in the first half of 2014. Of the components of the current account, the goods account deficit rose to US\$114.7 million compared to the deficit of US\$104.0 million in the corresponding period in 2014. Imports rose to US\$179.0 million, or 3.2 percent while exports declined to US\$54.1 million, or 0.6 percent.

22. The services account surplus decreased to US\$36.4 million compared to US\$59.3 million in the corresponding period a year ago, reflecting in large part the decline in income from tourism. The income account also worsened with the deficit widening to US\$14.6 million compared to US\$10.7 million in the first six months of 2014 owing primarily to higher external interest payments. Current transfers are estimated at a surplus of US\$27.1 million, lower than the surplus of US\$45.0 million in the first half of 2014. Although transfers to general government increased by 6.2 percent to US\$11.9 million, worker's remittances decreased significantly to US\$35.4 million.

23. As at end-June 2015, gross international reserves amounted to US\$97.1 million, equivalent to 3.5 months of imports of goods and services compared to US\$163.5 million or 5.5 months of imports at end-June 2014.

24. Volume of transactions in the domestic foreign exchange market increased to US\$1.28 billion, or 2.4 percent from a year earlier. In the year to end-June 2015, the Dalasi appreciated against the US dollar by 5.6 percent, Euro (24.4 percent) and British Pound (8.1 percent).

Inflation Outlook

25. Consumer price inflation, measured by the National Consumer Price Index (NCPI), accelerated to 7.2 percent in June 2015, from 5.4 percent in June 2014. Food inflation increased to 9.1 percent from 6.2 percent whilst non-food inflation decreased slightly to 4.3 percent from 4.4 percent in June 2014. Core inflation, which excludes volatile food and energy prices, accelerated to 7.6 percent in June 2015 from 5.5 percent in June 2014.

Decision

The MPC is concerned that consumer price inflation continue to exceed the target of 5 percent and inflation is forecast to remain at elevated levels. Failure to act against these heightened pressures may cause prices to accelerate further and the high inflation expectations to become more entrenched.

Against this backdrop, the MPC has decided to continue the tight monetary policy stance by: (i) Keeping the policy rate unchanged at 23 percent; and (ii) maintain the reserve requirement at 15 percent of deposit liabilities, but to eliminate cash-in-vault of commercial banks as a reserve asset for the calculation of cash reserve requirement (CRR) with effect from September 01, 2015. The MPC would continue to

monitor domestic and international developments and take action as appropriate.