CENTRAL BANK OF THE GAMBIA

ANNUAL REPORT 2012

TABLE OF CONTENTS

FORWARD BY THE GOVERNOR

Global prospects have improved slightly but the road to recovery in the advanced economies remains bumpy. Activity has stabilized in advanced economies and has picked up in emerging market and developing economies, supported by policies and renewed confidence. This pickup follows the slowdown in the first half of 2012, which was manifested in industrial production and global trade. Investment in major economies also dipped, whereas consumption evolved broadly as expected—sluggishly in many advanced economies, hobbled by low employment rates, and buoyantly in many emerging market and developing economies, where labor markets continue to perform well.

Strong actions by European policymakers helped improve confidence and financial conditions. U.S. policymakers avoided the fiscal cliff but have failed to find durable solutions to other short-term fiscal risks. Japan adopted more expansionary macroeconomic policies in response to a larger-than-expected slowdown. In the meantime, policy easing in key emerging market economies has supported internal demand. Moreover, the production and consumption dynamics in many economies may have primed them for an inventory-led rebound. Financial markets have led the reacceleration in activity. Since mid-2012, there has been a broad market rally. Policy rates have evolved broadly as expected, with a number of central banks in advanced and emerging market economies implementing modest rate cuts in response to the latest slowdown.

However, old dangers remain and new risks have come to the fore. In the short term, risks mainly relate to developments in the euro area, including uncertainty about the fallout from events in Cyprus and politics in Italy as well as vulnerabilities in the periphery. In the medium term, the key risks relate to adjustment fatigue, insufficient institutional reform, and prolonged stagnation in the euro area as well as high fiscal deficits and debt in the United States and Japan.

The Gambian economy continues to face significant challenges in 2012 on account of the crop failure in 2011. Crop production declined by about 62 percent, leading to a significant drop in exports and foreign exchange earnings of the country. As a result of the economic slowdown and the reduced foreign inflows, the domestic currency came under intense pressure in 2012. At the policy front, significant gains have been made under the ECF arrangement with the IMF in 2011 and during the first assessment period (June 2012). Unlike the 2003 episode during which policy slippages, especially excessive money growth led to a depreciation of the Dalasi by 32.3 percent and 46.3 percent against the US dollar and Pound sterling respectively, money supply growth (7.8 percent) in 2012 has been very moderate.

In assessing macroeconomic developments in the economy from year to November 2012, the Monetary Policy Committee viewed inflation outcomes to be in line with expectations. However, downside risks were identified mainly emanating from the depreciation of the Dalasi and higher global commodity prices. Given the subdued domestic economic activity, the MPC was of the view that leaving the interest rate unchanged was the right course of action while standing ready to act should the depreciation pressures on the domestic currency persist.

In the area of improving timely data submission and integrity, the CBG launched the electronic data submission platform for commercial banks called Regulatory Compliance Supervisory System (V-RegCoSS) in 2012. In addition all the components of the payments system funded by the African development Bank (AfDB) excepting the Securities Settlement System were operational by end-2012.

At this juncture, let me thank the staff and management of the Bank for their support cooperation, commitment and hard work towards our achievements as an institution. My appreciation also goes to the Board of Directors of the Bank for the guidance and policy advice and I am confident that together, we can contribute effectively to the macroeconomic stability and overall growth and development of the country.

Thank You

Amadou Colley
Governor

BOARD OF DIRECTORS

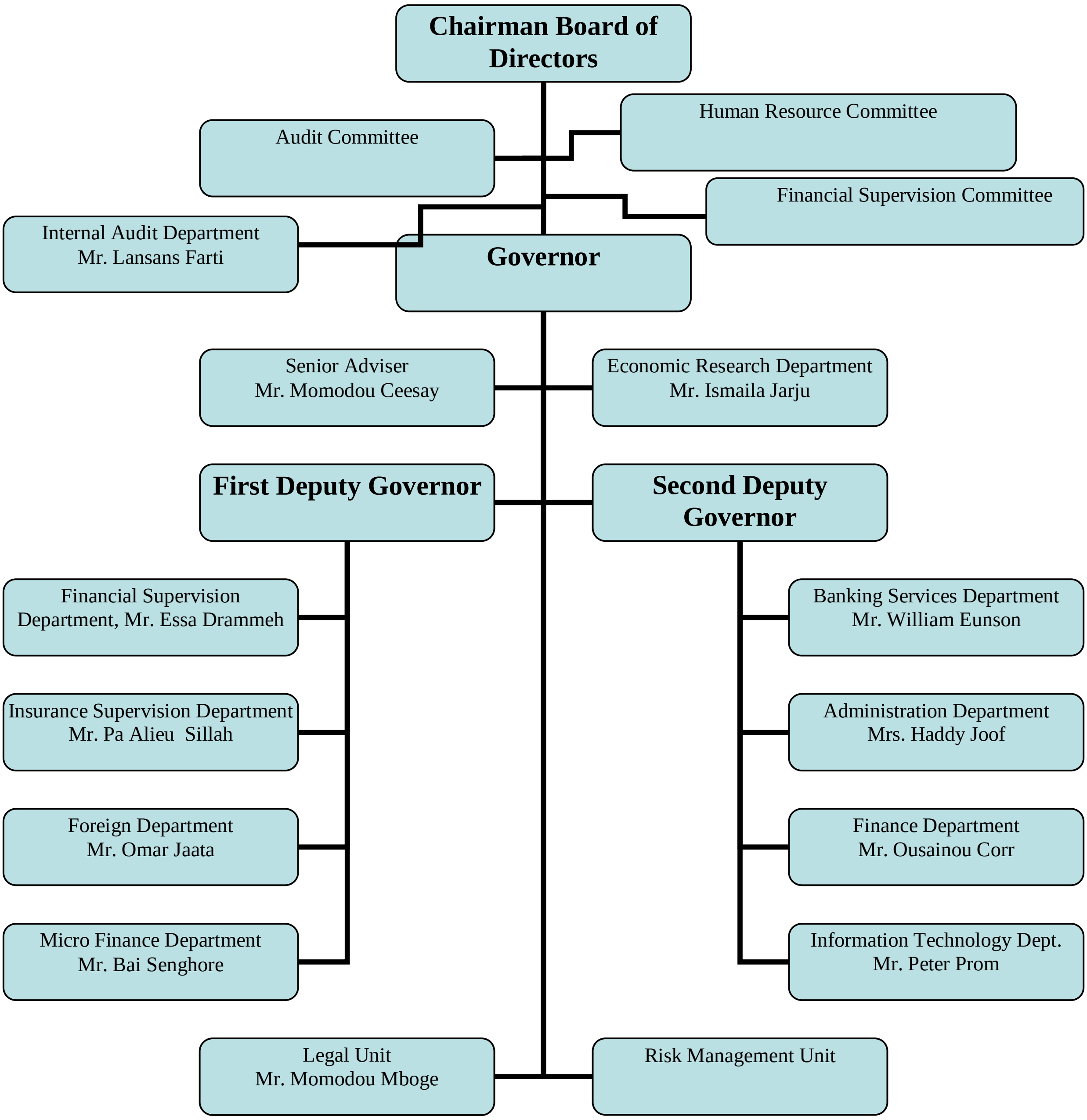
Amadou Colley
Governor/Chairman

Benjamin J. Carr

Mustapha A. Kah

Rene Geoffrey Renner

Mr. Momodou Mboge, Secretary of the Board


Chairman Board of Directors
Audit Committee
Human Resource Committee
Financial Supervision Committee
Internal Audit Department Mr. Lansans Farti
Governor
Senior Adviser Mr. Momodou Ceesay
Economic Research Department Mr. Ismaila Jarju
First Deputy Governor
Second Deputy Governor
Financial Supervision Department, Mr. Essa Drammeh
Insurance Supervision Department Mr. Pa Alieu Sillah
Foreign Department Mr. Omar Jaata
Micro Finance Department Mr. Bai Senghore
Banking Services Department Mr. William Eunson
Administration Department Mrs. Haddy Joof
Finance Department Mr. Ousainou Corr
Information Technology Dept. Mr. Peter Prom
Legal Unit Mr. Momodou Mboge
Risk Management Unit

1.0 GOVERNANCE

Overview

The Central bank of the Gambia (CBG) has varied responsibilities. It has responsibility for achieving and maintaining price stability, conducts research and analysis of domestic and external economic and financial matters as well as ensuring that the financial system is safe and sound. The Bank supervises banks, insurance companies, foreign exchange bureaus and microfinance institutions in addition to its oversight responsibility of the country's payments systems. The Bank also serves as fiscal agent for the Government and manages the domestic debt. Additionally, the Bank has sole responsibility for issuing banknotes and coins. The governance framework is set by the Central Bank of The Gambia Act (2005), which provides for a Board of Directors, Committees of the Board and a Monetary Policy Committee.

1.1 The Board of Directors

The governing body of the Bank as stipulated in the CBG Act (2005) S.10 (1), is the Board of Directors. The Board consists of the Governor, who is also the Chairman, and four other Executive Directors. Members of the Board shall be appointed by the President in consultation with the Public Service Commission, from among persons of standing and experience in financial matters. The Board members, other than the Chairperson, shall be appointed for a term of two years and are eligible for re-appointment for a further term.

The Board is responsible for formulating policies necessary for the achievement of the Bank's mandate which is:

- Achieve and maintain price stability;
- Promote and maintain the stability of the currency of the Gambia;
- Direct and regulate the financial, insurance, banking and currency system in the interest of the economic development of the Gambia; and

- Encourage and promote sustainable economic development and the efficient utilization of the resources of the Gambia through the effective and efficient operation of a financial system.

Among the issues discussed by the Board in 2012 include;

- Decisions of the MPC
- Impact of the global economic crisis on the Gambian economy.
- Progress on the execution of the Extended Credit Facility with the International Monetary Fund (IMF);
- Code of conduct for participants in the foreign exchange markets
- The increase in the minimum capital of banks and
- The Bank's adoption of International Financial Reporting Standard (IFRS) as a financial reporting framework

1.2 Committees of the Board

- Financial Supervision Committee
- Human Resource Committee
- Audit Committee

The Audit Committee

The CBG Act established the Audit Committee as a Committee of the Board. Under the Act, the functions of the Committee are to:

- Establish appropriate accounting procedures and controls;
- Monitor compliance with laws applicable to the Bank;
- Review the external auditor's report;
- Review the work of the Internal Audit Department;
- Make a decision on any matter brought to its attention by the Board or Bank Management.

The Financial Supervision Committee

The Committee is responsible for overseeing the functions of the Financial Supervision Department. The Committee reviews onsite examination reports of financial institutions and takes decisions on appropriate actions to address shortcomings. It also examines the Prompt Corrective Action (PCA) framework reports.

The Human Resources Committee

The Human Resources Committee has responsibility for recruitment of professional staff. During 2011, its mandate was expanded to include responsibility for staff retention, career development, and succession planning and remuneration policies.

The Monetary Policy Committee

The CBG Act 2005 provides for a Monetary Policy Committee (MPC) to enable the Bank discharge its core function of attaining price stability effectively. Price stability is an important pre-requisite to achieving balanced and sustainable growth. The MPC is responsible for:

- Providing the statistical data for the formulation of monetary policy
- Setting the policy interest rate to achieve the price stability objective of the Bank;

The MPC meets every two months. The membership comprises of the Governor, the two Deputy Governors, three other members from the Bank and two members appointed by the Minister of Finance and Economic Affairs. The MPC met four times in 2012. Members of the Committee were;

Amadou Colley	**-**	**Governor/Chairman**
Basiru Njai	-	First Deputy Governor, Member
Oumie Savage-Samba	-	Second Deputy Governor, Member
Ismaila Jarju	-	Director of Research, Member
Essa Drammeh	-	Director, Financial Supervision, Member
William Eunson	-	Director, Banking Department, Member
Mod A.K. Secka	-	Member, Permanent Secretary, MOFEA
Alagie Taal	-	Director, Macroeconomic policy, MOFEA, Member
Bakary Jammeh	-	Deputy Director, Research, Secretary

1.4 Departmental Overview

1.4.1 Administration Department

This Department performs critical support services including human resource management, coordinating training of Bank staff, procurement, protocol services as well as organizing meetings and conferences.

1.4.2 Banking Department

This Department is made up of the following Units:

- Banking and Payment Systems
- Open Market Operations
- Currency Unit

The Banking Unit is responsible for providing banking services to Government and commercial banks. The Unit is also responsible for ensuring that the payment and settlement systems are safe and efficient.

The Open Market Operations Unit plans and executes open market operations in line with the policy stance of the Bank. The frequent contact of the staff with money market participants enables them to contribute to the monetary policy formulation process. The Unit also manages the issue and redemption of the domestic debt.

The Currency Unit discharges the Bank's statutory obligation of ensuring that there are enough banknotes and coins to meet the demand of the public.

1.4.3 Economic Research Department

This Department is made up of the following Units:

- Money, Credit and Banking
- Balance of Payments
- Liquidity Forecasting and Public Finance
- Statistics
- Real Sector and Non-Bank Finance and a Library

The Economic Research Department (ERD) is responsible for providing the Bank with the economic analysis necessary to conduct monetary policy. Staff of the ERD performs research on developments in the Gambian and international economy and produce the quarterly Bulletins and Annual Reports. Staff of the Department also plays a key role in the Bank's relationship with the International Monetary Fund (IMF), West African Monetary Institute (WAMI) and West African Monetary Agency (WAMA). The Department provides reports for Monetary Policy Committee (MPC) meetings, in addition to conducting special studies for the Governor and the Board. The Statistics Unit compiles the monetary and other financial statistics.

1.4.4 Finance Department

This Department is made up of the following Units:

- Treasury
- Budget and Finance
- Verification and Implementation

The Department is responsible for financial planning. It prepares and monitors the budget to ensure that the financial transactions are consistent with the accounting procedures. Staff of the Department is also responsible for preparing the annual accounts, payroll and foreign currency budget as well as foreign currency payments and receipts and debt service payments on behalf of the Government.

Additionally, the Department provides back office services in the management of the external reserves, including settlement of interbank foreign exchange deals entered into by the Bank.

1.4.5 Financial Supervision Department

The maintenance of a sound and stable financial system is one of the most important functions of the Bank. The Financial Supervision Department is charged with this responsibility and also conducts on-site examination with a view to ensuring that the financial system as a whole is safe and sound.

Financial stability, a precondition for a strong and sustained growth, is achieved by regulating and supervising banks.

1.4.6 Insurance Department

This Department is responsible for evaluating application for insurance as well as preparing and implementing regulatory and supervisory guidelines but in a manner that does not stifle innovation and competition. The Department also conducts on-site examination with a view to ensuring that the insurance industry is safe and sound. The supervision of insurance companies was added to the mandate of the Bank by the 1997 Constitution.

1.4.7 Foreign Department

The Foreign Department is responsible, jointly with the Financial Supervision Department, for evaluating applicants to operate foreign exchange bureaus. The remit of the Department also includes the management of the foreign reserves portfolio in line with the Foreign Reserve Management Guidelines.

1.4.8 Internal Audit Department

The Internal Audit Department provides an independent appraisal of the adequacy and effectiveness of the Bank's internal control systems. The Department can delve into every aspect of the Bank's work with the aim of providing independent advice to the Board and senior management that the Bank is taking appropriate levels of risk. Although the head of the Department reports to the Governor, the Department reports to the Audit Committee of the Board.

1.4.9 Micro Finance Department

This Department is made up of the following Units:

- Development
- Supervision

The Department performs functions similar to the Financial Supervision Department, but with a focus on the microfinance sector. Microfinance currently accounts for a small part of the Gambian financial system but has been growing rapidly.

The Development Unit formulates the institutional and operational framework and regulatory guidelines for the Microfinance Institutions (MFIs). The Unit also works with the stakeholders to prepare strategic action plans for the sector.

The Supervision Unit is responsible for registration, licensing and supervision to ensure the safety and soundness of MFIs. The Unit is also mandated to collect, analyze and disseminate data relating to MFIs as well as prescribes corrective action.

1.4.10 Legal Unit and Risk Management Unit

The Legal Unit provides advice on legal matters and ensures maximum protection of the Bank's interest with respect to contracts.

The Risk Management Unit is the middle office for external reserves management purposes. It is responsible for risk identification, risk management and financial performance measurement.

1.4.11 Information Technology Department

The department responsible for the management of the Bank's information system, provides information technology support to the departments and coordinates the development of new information system projects. The Department is also charged with the responsibility to manage the Bank's website.

2.0 DEVELOPMENTS IN THE GLOBAL ECONOMY

2.1 Global Output Growth

The global economy has deteriorated further since the release of the July 2012 *WEO Update*, and growth projections have been marked down. Downside risks are now judged to be more elevated than in the April 2012 and September 2011 *World Economic Outlook* (WEO) reports. A key issue is whether the global economy is just hitting another bout of turbulence in what was always expected to be a slow and bumpy recovery or whether the current slowdown has a more lasting component.

Indicators of activity and unemployment show increasing and broad-based economic sluggishness in the first half of 2012 and no significant improvement in the second half. Global manufacturing has slowed sharply. The euro area periphery has seen a marked decline in activity, driven by financial difficulties evident in a sharp increase in sovereign rate spreads. Activity has disappointed in other economies too, notably the United States and United Kingdom. Spillovers from advanced economies and home grown difficulties have held back activity in emerging market and developing economies. These spillovers have lowered commodity prices and weighed on activity in many commodity exporters.

The result of these developments is that growth has once again been weaker than projected, in significant part because the intensity of the euro area crisis has not abated as assumed in previous WEO projections. Other causes of disappointing growth include weak financial institutions and inadequate policies in key advanced economies. Furthermore, a significant part of the lower growth in emerging market and developing economies is related to domestic factors, notably constraints on the sustainability of the high pace of growth in these economies and building financial imbalances. In addition, IMF staff research suggests that fiscal cutbacks had larger than-expected negative short-term multiplier effects on output, which may explain part of the growth shortfalls.

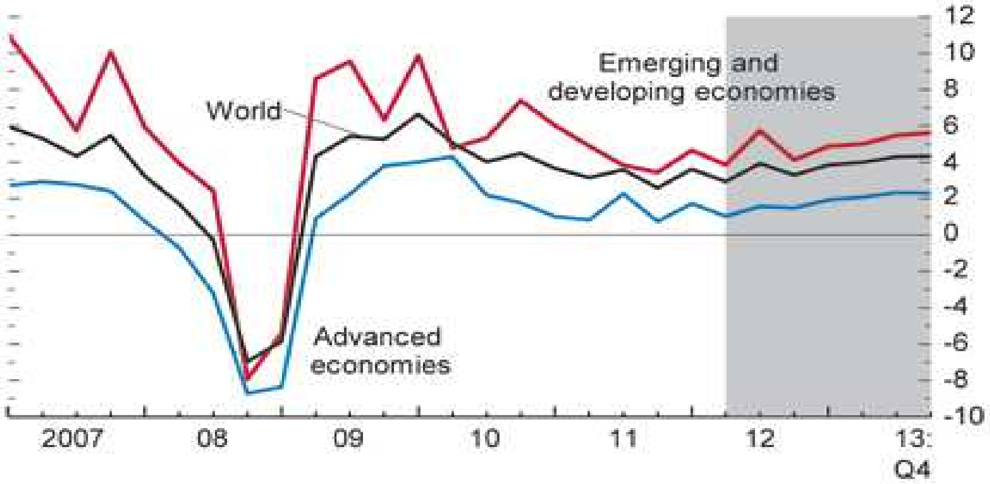
The recovery is forecast to limp along in the major advanced economies, with growth remaining at a fairly healthy level in many emerging market and developing economies. Leading indicators do not point to a significant acceleration of activity, but financial conditions have recently improved in response to euro area policymakers' actions and easing by the Federal Reserve.

In the **euro area**, real GDP is projected to decline by about ¾ percent (on an annualized basis) during the second half of 2012. With diminishing fiscal withdrawal and domestic and euro-area-wide policies supporting a further improvement in financial conditions later in 2013, real GDP is projected to stay flat in the first half of 2013 and expand by about 1 percent in the second half. The core economies are expected to see low but positive growth throughout 2012–13. Most periphery economies suffered sharp contraction in the last quarter of 2012, constrained by tight fiscal policies and financial conditions, and to begin to recover only in 2013.

In the **United States**, real GDP is estimated to have expanded by about 1½ percent during the second half of 2012, rising to 2¾ percent later in 2013. Weak household balance sheets and confidence, relatively tight financial conditions, and continued fiscal consolidation stand in the way of stronger growth. In the very short term, the drought will also detract from output.

Fundamentals remain strong in many economies that have not suffered a financial crisis, notably in many **emerging market and developing economies**. In these economies, high employment growth and solid consumption should continue to propel demand and, together with macroeconomic policy easing, support healthy investment and growth. However, growth rates are not projected to return to pre-crisis levels.

Figure 1. Global GDP Growth
(Percent; quarter over quarter, annualized)



Source: IMF staff estimates.

In **developing Asia**, real GDP accelerated to a 7¼ percent pace in the second half of 2012. The main driver was China, where activity received a boost from accelerated approval of public infrastructure projects. The outlook for India is unusually uncertain: For 2012, with weak growth in the first half and a continued investment slowdown, real GDP growth is projected to be 5 percent, but improvements in external conditions and confidence—helped by a variety of reforms announced very recently—are projected to raise real GDP growth to about 6 percent in 2013.

In **Latin America,** real GDP growth is projected to be about 3¼ percent for the second half of 2012. It is then expected to accelerate to 4¾ percent in the course of the second half of 2013. The projected acceleration is strong for Brazil because of targeted fiscal measures aimed at boosting demand in the near term and monetary policy easing, including policy rate cuts equivalent to 500 basis points since August 2011. The pace of activity elsewhere is not forecast to pick up appreciably.

Growth is projected to stay above 5 percent in **sub-Saharan Africa (SSA)** and above 4 percent in the Commonwealth of Independent States. In both regions, still-high commodity prices and related projects are helping.

Table 1. Overview of the *World Economic Outlook* Projections

(Percent change unless noted otherwise)

			Projections		Difference from April 2012 WEO Projections		Q4 over Q4 Estimates	Projections	
	2010	2011	2012	2013	2012	2013	2011	2012	2013
World Output	**5.3**	**3.9**	**3.5**	**3.9**	**–0.1**	**–0.2**	**3.2**	**3.4**	**4.1**
Advanced Economies	**3.2**	**1.6**	**1.4**	**1.9**	**0**	**–0.2**	**1.2**	**1.4**	**2.2**
United States	3	1.7	2	2.3	–0.1	–0.1	1.6	1.9	2.5
Euro Area	1.9	1.5	–0.3	0.7	0	–0.2	0.7	–0.2	1.2
Japan	4.4	–0.7	2.4	1.5	0.4	–0.2	–0.5	1.9	2.2
United Kingdom	2.1	0.7	0.2	1.4	–0.6	–0.6	0.5	0.8	1.2
Other Advanced Economies	5.8	3.2	2.4	3.4	–0.2	–0.1	2.5	3.2	3.3
Emerging and Developing Economies	**7.5**	**6.2**	**5.6**	**5.9**	**–0.1**	**–0.2**	**5.8**	**5.9**	**6.5**
Developing Asia	9.7	7.8	7.1	7.5	–0.3	–0.4	7.2	7.7	7.6
China	10.4	9.2	8	8.5	–0.2	–0.3	8.9	8.4	8.4
India	10.8	7.1	6.1	6.5	–0.7	–0.7	6.2	6.4	6.4
Middle East and North Africa	5	3.5	5.5	3.7	1.3	0	. . .	. . .	. . .
Sub-Saharan Africa	5.3	5.2	5.4	5.3	–0.1	0	. . .	. . .	. . .
European Union	2	1.6	0	1	0	–0.3	0.8	0.1	1.5
Consumer Prices									
Advanced Economies	1.5	2.7	2	1.6	0.1	–0.1	2.8	1.8	1.7
Emerging and Developing Economies	6.1	7.2	6.3	5.6	0.1	0	6.5	5.8	3.9

2.2 Inflation

The slowdown in global activity and ample slack in many advanced economies have meant that inflation has fallen. In advanced economies, lower commodity prices reduced headline inflation to about 1½ percent, down from more than 3 percent in late 2011. Core inflation has been steady at about 1½ percent. In emerging market and developing economies, headline inflation has declined by almost 2 percentage points, to slightly under 5½ percent, in the second quarter of 2012; core inflation too has declined, although to a lesser extent.

The forecast is for further easing of inflation pressure in the advanced economies, with headline inflation moving to about 1¾ percent in 2013. In emerging market and developing economies, headline inflation is projected to move broadly sideways. This inflation forecast assumes broadly unchanged commodity prices, but sharply rising food prices raise increasing concern. Thus far, price pressures do not encompass all major food crops, unlike in 2007–08. As discussed further below, monetary policy should not react to food-price-driven increases in headline inflation unless there are significant risks for second-round effects on wages.

Governments may need to scale up targeted social safety net measures and implement other fiscal measures (such as reducing food taxes) where there is fiscal space to do so. Also, countries should avoid any restrictions on exports, which would exacerbate price increases and supply disruptions. Over the longer term, broader policy reforms are necessary to reduce global food price volatility.

2.3. Unemployment

Amid sharply differing developments across advanced and emerging market and developing economies, the world unemployment rate is estimated to remain flat during 2012–13, near 6¼ percent. Unemployment rates have on average declined below pre-crisis levels in emerging market and developing economies, but they remain elevated in advanced economies and are not expected to fall significantly during 2012–13.

Unemployment rate in the Euro Area increased to 11.80 percent in November 2012 from 11.7 percent in October of 2012. Historically, from 1995 until 2012, Euro Area Unemployment rate averaged 9.26 percent reaching an all-time high of 11.80 percent in November of 2012 and a record low of 7.20 percent in February of 2008.

2.4. Commodity Prices

2.4.1. Oil

The **OPEC Reference Basket** fell marginally in December 2012 to settle at $106.55/b. In yearly terms, the Basket averaged $109.45/b in 2012, a gain of $1.99 over the previous year. In the crude futures markets, the front-month WTI contract rose in December but still registered its first annual loss since 2009, weighed down by rising US shale oil production. Despite slipping marginally in December, ICE Brent saw a further increase in 2012. Outages in the North Sea, geopolitical considerations, and increased trading volumes in the ICE Brent contract have all provided support for the Brent price.

The forecast for **world oil demand** growth in 2013 remains unchanged at 0.8 mb/d, in line with the growth seen in the previous year. In 2013, the impact of economic turbulence on oil demand should be considerably milder than in previous years. The OECD region is expected to continue to contract by 0.2 mb/d, although at only half the rate seen in 2012. The non-OECD region is projected to consume about 1 mb/d more than last year. Transportation and industrial sectors are expected to provide most of the consumption this year and to be the source of most of the growth.

Demand for OPEC crude in 2012 saw only a marginal revision from the previous assessment to stand at 30.1 mb/d, representing a decline of 0.2 mb/d from the previous year. Required OPEC crude in 2013 is forecasted to average 29.6 mb/d, down 0.4 mb/d from the previous year, following a downward adjustment of 0.1 mb/d from the previous report.

2.4.2. Rice

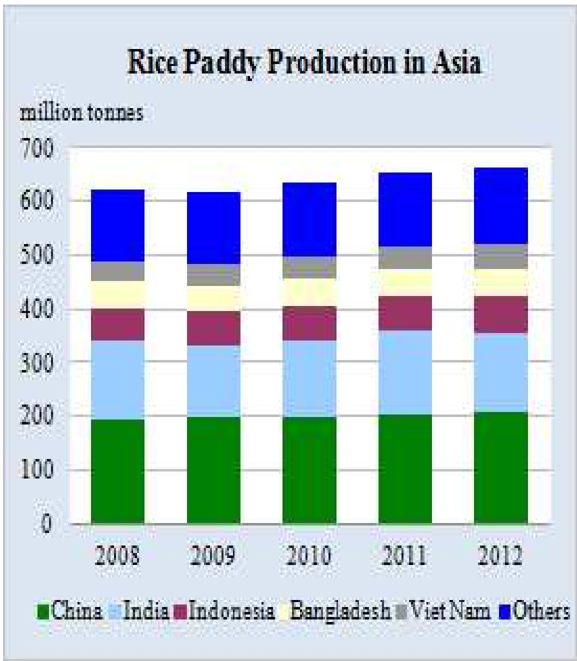
The FAO Food Price Index averaged 209 in December 2012, down 2 points (1.1 percent) from November and the lowest since June 2012, when the Index stood at 200. The decline in December was led by drops in the international prices of major cereals and oils/fats. For 2012 as a whole, the Index averaged 212, 7.0 percent less than in 2011, with the sharpest declines registered by sugar (17.1 percent), dairy products (14.5 percent) and oils (10.7 percent). The 2012 price falls were much more modest for cereals (2.4 percent) and meat (1.1 percent).

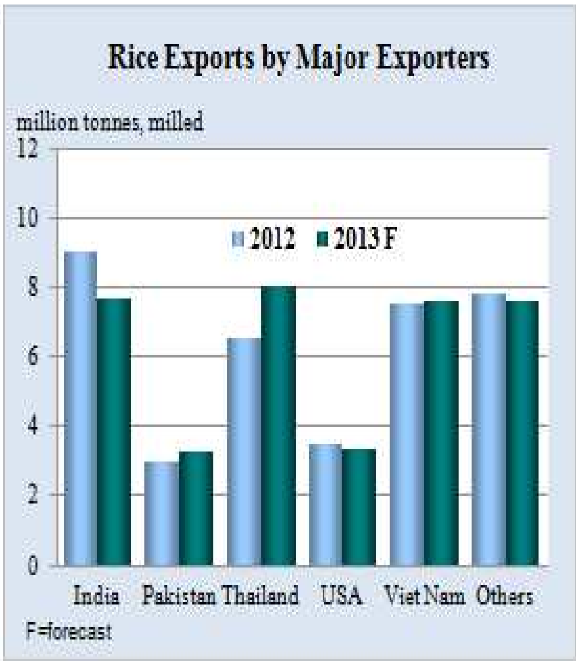
FAO Rice Price Indices (2002-2004=100)						
		All	Indica		Japonica	Aromatic
			High quality	Low quality		
		2002-2004 = 100				
2008		**294**	**296**	**287**	**314**	**251**
2009		**253**	**229**	**196**	**341**	**232**
2010		**229**	**211**	**212**	**264**	**231**
2011		**251**	**237**	**250**	**274**	**227**
2011	December	242	238	253	248	210
2012	January	235	221	238	252	215
	February	229	223	239	230	214
	March	235	229	242	242	214
	April	233	227	242	239	205
	May	238	233	243	246	214
	June	238	233	240	249	215
	July	239	230	241	254	216
	August	240	232	242	252	223
	September	245	236	248	259	219
	October	244	234	248	256	226
	November	242	235	244	254	221
	December	236	229	237	245	222
2011	Jan.-Dec.	251	237	250	274	227
2012	Jan.-Dec.	238	230	242	248	217
% Change		-5.2	-2.8	-3.2	-9.5	-4.3

Source: FAO

N.B. - The FAO Rice Price Index is based on 16 rice export quotations. "Quality" is defined by the percentage of broken kernels, with high (low) quality referring to rice with less (equal to or more) than 20 percent brokens. The Sub-Index for Aromatic Rice follows movements in prices of Basmati and Fragrant rice.

Table 2: Rice Index





World rice trade in 2013 is forecast to reach 37.5 million tonnes, marginally above the 2012 current estimate. Such a high volume reflects expectations of large draw downs from the huge inventories held by exporting countries, as they need to make space for the new crops, a move that could translate into more attractive world prices.

2.4.3. Groundnuts

World production of peanuts is forecast to slip by 0.7 percent in 2011-12 after drought reduced the crop in the U.S. and Senegal, causing a shortfall that will require global demand rationing this season.

The harvest of peanuts, or groundnuts, is forecast to decline to 24.8 million metric tons from 25 million tons, on top of "relatively low" carryover stocks, the Hamburg-based oilseed reported.

U.S. prices for peanuts, crushed to make cooking oil and used in Unilever's Skippy peanut butter and Mars Inc.'s Snickers bars, jumped 49 percent in the past 12 months to 33.7 cents per pound. Peanut butter retail prices jumped 8.6 percent to $2.43 a pound in December from a month earlier, the highest in records dating to 1984.

The Gambia's Agricultural Services & Producers' Association (ASPA), which is the Inter-professional body vested with the management of the Gambia Groundnut Sub-sector issued a press release which pegged the farm-gate groundnut producer price of D10,450 (ten thousand four hundred and fifty Dalasis) about (US$325) Dollars per metric tonne for the 2012/13 Groundnut Marketing season.

3.0 DEVELOPMENTS IN THE DOMESTIC ECONOMY

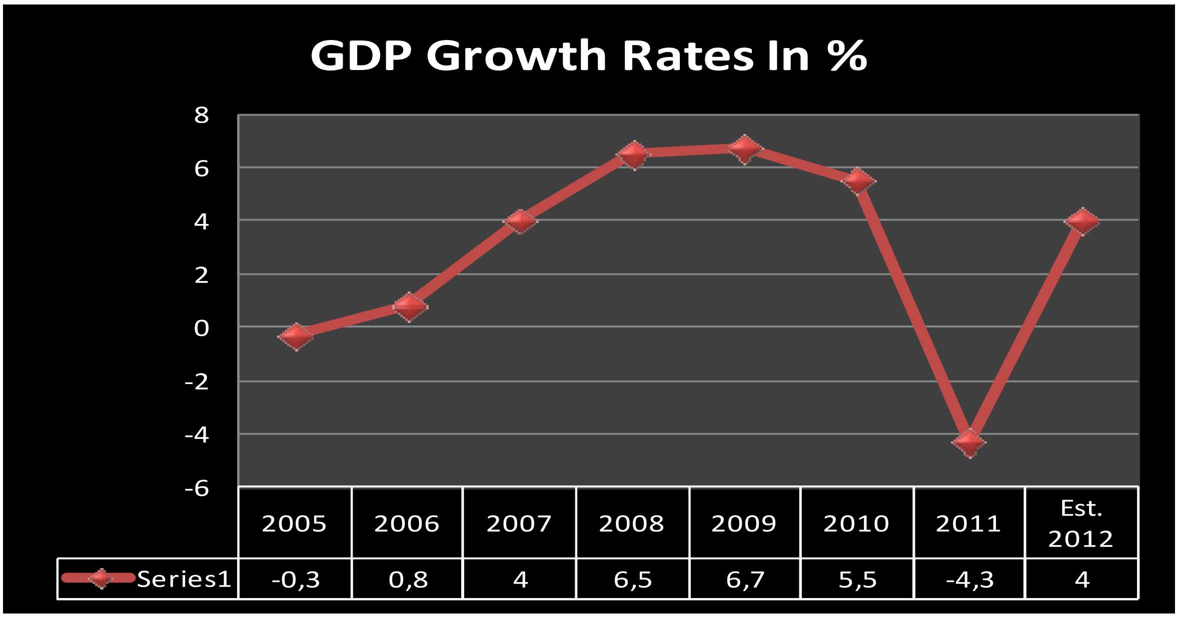
3.1 Overview

The Gambian economy faced significant challenges in 2012 on account of the crop failure in 2011. Crop production declined by about 62 percent, leading to a significant drop in exports and foreign exchange earnings of the country. Gross Domestic Product (GDP) growth was estimated at 5.0 per cent in 2012 on account of the moderate recovery of the agricultural sector from the 2011 drought that further weakened economic activity in the first half of 2012 and strong performance of the tourism sector. Tourism, which staged a strong rebound in 2011, continued to grow in 2012 (by about 10 percent), partly reflecting access to new markets in northern and eastern Europe. Manufacturing weakened in early 2012, especially groundnut processing, while construction remained soft throughout the year. Despite pressure on food prices and a weakening of the Gambian dalasi, inflation remained under control (4.9 percent year-on-year in December 2012).

Relief efforts initiated in March 2012 by Government, aid agencies, and donors mitigated the impact of the drought on vulnerable farmers and families and helped to maintain macroeconomic stability. The drought relief was estimated to require about USD23 million of spending on emergency imports of food, seeds, and fertilizer. Aid agencies and donors provided USD14.3 million in drought relief to meet immediate food shortages, as well as to support a recovery in rice production. The Government's drought relief efforts focused largely on supplying fertilizer and groundnut seeds to distressed farmers. The stepped-up donor assistance, together with a front-loaded initial disbursement from the ECF helped to maintain exchange rate stability during the first half of 2012, but beginning in the third quarter, the Dalasi came under intense pressures.

As a result of the economic slowdown, the domestic currency has come under intense pressure losing value against most of the currencies traded in the domestic foreign exchange market. For the year as a whole, the Dalasi depreciated by 14.0 percent against the U.S. dollar, 9.2 percent against the euro, and 12.2 percent against the British pound. Meanwhile, as of end-2012, official international reserves stood at about 4½ months of projected imports of goods and services in 2013.

Real GDP (at Factor Cost) Growth Rates



As mentioned earlier, the crop failure of 2011 led to shortfall in domestic food supply. As a result, imports increased significantly by 32.5 percent in 2012. In contrast, exports in trade statistics declined by 3.1 percent, leading to a wider trade deficit. In addition to demand pressures from the food import bill, the demand for foreign exchange from the oil sector was much larger in 2012 compared to the preceding year exerting additional pressure on the Dalasi. In the meantime, in the year to end-December 2012, volume of transactions in the domestic foreign exchange market expanded from US$1.4 billion in 2011 to US$1.6 billion in 2012.

The Government's 2012 budget focused on lowering net domestic borrowing (NDB) to 1.8 percent of GDP in 2012 (from 3.4 percent of GDP in 2011). However, NDB increased to 3.6 percent of GDP in 2012, partly because of Government's contribution to drought relief (over ½ percent of GDP). Other unanticipated expenditures late in the year included payments on domestic arrears for electricity and vehicles, purchases of equipment for implementation of the VAT, and emergency pharmaceuticals to counter outbreaks of meningitis and a highly contagious cattle disease. Because these mandatory payments were incurred so late in the year it was impossible to cutback on other spending to observe targets for NDB.

3.2. MONETARY DEVELOPMENTS

Monetary Policy Instruments

The Central Bank of the Gambia operates a money-targeting regime where reserve money is the operating target and broad money the intermediate target. The Bank sets targets for key monetary aggregates as well as end-of-year inflation. To meet the reserve money target, open market operations (weekly auctions of Treasury Bills) remains the major tool for liquidity management. Other complimentary policy tools including foreign exchange intervention and the statutory reserve requirement ratio may also be used. In addition, the Bank uses its rediscount interest rate to signal changes in the policy stance. The rediscount rate is set by the Bank’s Monetary Policy Committee (MPC) in its bi-monthly meetings.

Open Market Operations

The issuance of Gambia Government Treasury Bills is the primary instrument used for liquidity management in the Gambia. The amount of treasury bills to be auctioned each week is determined by the Treasury Bills Committee. Stock of Treasury bills, including Sukuk Al-Salaam (SAS) bills, at end-December 2012 stood at D8.6 billion from D7.1 billion in 2011. Commercial banks are the major holders of Treasury and Sukuk Al-Salaam bills, accounting for 81.7 percent of total stock compared to 83.5 percent a year ago. The Non-bank holdings accounted for 14.0 percent compared to 14.9 percent in December 2011.

Foreign Exchange Intervention

The Central Bank may intervene in the domestic foreign exchange market through buying and selling of foreign exchange to complement other monetary policy tools for liquidity management. The Bank may also intervene to achieve a desired level of international reserves and to maintain the stability of the local currency. In 2012, the Bank’s net sales and purchase of foreign exchange totaled US $701.4 million relative US $698.4 million in 2011.

Interest Rates

The Central Bank of the Gambia uses the rediscount rate as its policy rate to signal its policy stance. The Monetary Policy Committee (MPC) of the Bank meets periodically to set the policy rate. The rediscount rate was reduced twice during the year to 12 percent reflecting subdued inflationary environment.

Reserve Requirements

Deposit money banks are required by law to maintain reserve deposits with the Central Bank. Certain percentage of commercial bank deposits are kept with the Central Bank in line with statutory requirement. Interest is not paid on such deposits but a penalty equivalent to 3.0 percentage points above the policy rate may be charged on a daily basis on banks that fail to meet the reserve requirement. Of recent, the reserve requirement became an active monetary policy instrument to compliment open market operations. The reserve requirement was reduced by 200 basis points to 10 percent in the May sitting of the Monetary Policy Committee.

3.2 Monetary Policy

The focus of monetary policy remains the maintenance of stability and the support of Government's overall macroeconomic objective of sustaining high growth for poverty reduction. In 2012, the objective was to contain inflation below 6.0 percent.

Challenge for monetary policy in 2012 was the emergence of inflationary pressures from the high import demand resulting from the drought in 2011 and elevated prices in the global commodities market. The continued depreciation of the domestic currency vis-à-vis major international currencies and expansionary fiscal policy ensured continued presence of inflationary pressures. Nonetheless, monetary policy was able to achieve and maintain low and subdued inflation throughout the year. The decline in headline inflation was consistent with the deceleration in the growth of monetary aggregates.

Growth in monetary aggregates, including reserve money and broad money supply, remained generally under control. However, credit expansion in the economy was sluggish primarily due to the high lending rates (28 percent) as credit risks remain elevated coupled with structural and institutional weaknesses that, for instance, impede loan recovery.

To this end and with the expectation that inflation will remain in single digit in the face of easing of global food prices, the Bank's Monetary Policy Committee (MPC) relaxed its policy stance during the course of the year by reducing the rediscount rate twice as well as the reserve requirement ratio. The monetary policy committee voted to reduce key policy rate in January and July 2012 to 12.0 percent and as well reduced the reserve requirement in May 2012 by two (2) percentage points to 10 percent. Relaxing the monetary policy stance is a sensible move to support growth given low inflationary environment.

Although there was some progress on restraining Government's net domestic borrowing (NDB) during the first three quarters of 2012, which helped to ease pressure on T-bill yields, NDB increased sharply in the fourth quarter, leading to an uptick in yields and an increase in the stock of domestic debt. As of end-2012, Government's domestic debt stood at nearly 34 percent of GDP, an increase of about 1 percentage point of GDP from the previous year. Overall, there was some lowering of interest costs relative to Government revenues. Interest on domestic debt consumed nearly 17 percent of government revenues in 2012, down from 18½ percent in 2011. Including external debt, interest consumed nearly 21 percent of government revenues in 2012, down from 22½ percent in 2011. There has also been some progress with external debt. Preliminary results from an updated analysis prepared by IMF and World Bank staffs indicate that external debt sustainability has improved.

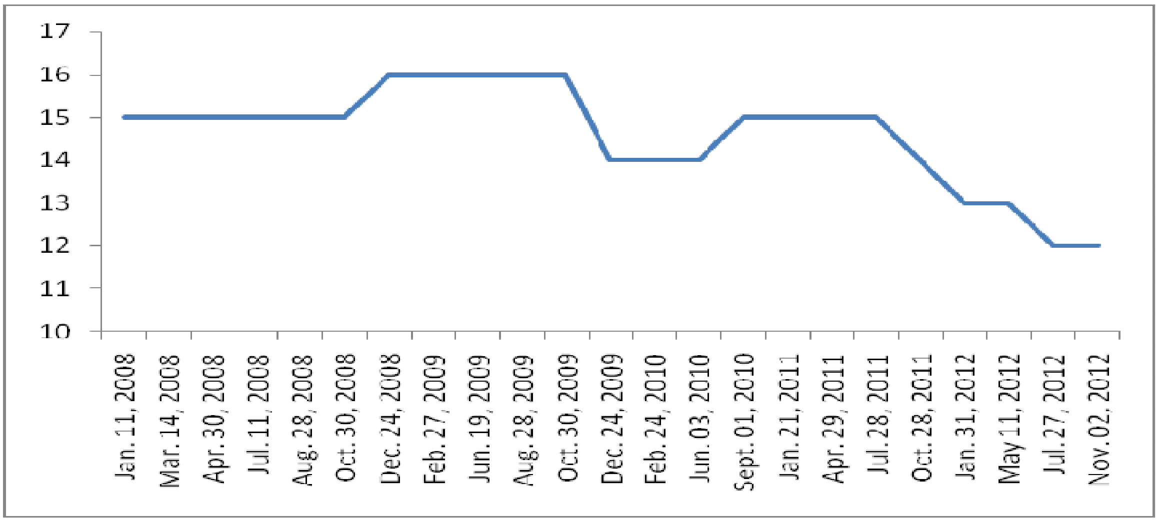
Monetary Policy Committee Meetings and Policy Decisions

Monetary Policy Committee (MPC) is the Bank's apex policy decision making body. The committee met four times during the year in January, May, July and November to review major domestic and international economic developments and monetary policy decisions were taken. Voting at the MPC is mainly by consensus. The decisions of the Committee were communicated to the public through a press briefing by the Governor who is the chairman of the Committee. The minutes of the meetings were also posted on the Bank's website. The Committee adjusted the policy rate and reserve requirement in response to changing economic fundamentals and outlook in the various economic parameters.

Table 3.1. MPC Decisions in 2012

Date	Policy Decision	Rate(%)
January 31, 2012	Policy rate reduced by 100 basis points	13
May 11, 2012	Policy rate left unchanged Reserve Requirement reduced by 200 Basis points	13 10
July 27, 2012	Policy rate reduced by 100 basis points	12
November 2, 2012	Policy rate left unchanged	12

Chart 3.1. Monetary Policy Committee Decisions Since 2008



January Meeting

The first meeting of the year of the monetary policy committee took place on January 29, 2012. The Committee reviewed the conditions and challenges that confronted the domestic economy in 2011 as well as in the fragile global economy. Major challenges for policy was the emergence of inflationary pressures from elevated global commodity prices and the rising import demand resulting from the drought in 2011. The continued depreciation of the domestic currency against major international currencies exerted renewed pressure on inflation.

Nonetheless, authorities observed that despite the challenges, domestic inflation was expected to remain low and subdued in the short to medium term. Global consumer price inflation was projected to ease as demand softens and commodity prices recede. In addition, growth in monetary aggregates was expected to remain moderate and demand pressures were assessed to remain weak as a result of the slowing domestic economy following bad weather that affected harvests. Risk from the financial sector was also projected to remain weak given strong macro-prudential indicators.

A major risk to the inflation outlook was the uncertain fiscal situation. The Committee noted that developments in 2012 were characterized by slight improvements in Government public finances and did not envisage large unforeseen increases in fiscal spending. However, should they occur, they would add to the inflationary pressures.

In light of the developments, the committee reassessed short-term monetary policy options and reduced the key policy rate by 1.0 percentage point to 13.0 percent. The expectation was that other interest rates, particularly lending rates, would follow to boost private sector lending. Meanwhile, inflation was expected to remain in low single digit predicated on prudent implementation of monetary and fiscal policies as well as easing of global food prices.

May Meeting

The Monetary Policy Committee met on May 10, 2012 to review developments in the first quarter of 2012 and to assess policy options going forward. The developments were broadly in line with expectations. The committee observed a marked decline in headline inflation to 3.9 percent at end-March 2012 from 5.4 percent in March 2011, thanks to the deceleration in food price inflation.

Global inflationary pressures eased amid slow economic activity and the declining trend in food prices. However, supply disruptions and accommodative monetary policy indicate elevated inflation outlook in Sub-Saharan Africa.

Owing to the subdued state of the economy and moderation in the growth of the monetary aggregates, coupled with the stability of the Dalasi, inflation was expected to remain contained below the target of 5.0 percent. The Dalasi was expected to remain stable albeit with slight depreciation during the year. Financial sector continued to be safe and sound with strong fundamentals. However, there are upside risks to the outlook mainly emanating from increases in global oil prices and the stance of fiscal policy.

The Committee was of the view that it was appropriate for monetary policy to support the real economy while at the same time maintaining its commitment to contain inflation. By this time, the effects of the 2011 drought had started taking its toll on the economy and growth prospects had become slimmer. The reserve requirement of commercial banks was reduced by two percentage points to 10.0 percent while the policy rate was left unchanged.

July Meeting

The monetary policy committee met in July 2012 to review developments in the first half of 2012 as well as prospects going forward in the domestic and global economy. Policymakers reassessed the short-term policy options in light of slow activity in the domestic economy and the volatile global economic environment.

Global economic recovery continued to be fragile leading to a sizeable reduction in commodity prices, although they remained elevated. Global food prices fell slightly from their historic peak. However, growth in the emerging market economies and Sub-Sahara African countries continued to show resilience.

Growth in the Gambia, according to the Gambia Bureau of Statistics, contracted markedly in 2011 and expected to recover moderately in 2012 to reflect the effects of poor harvests due to bad weather in 2011 cropping season.

Headline inflation declined to 4.3 percent in June 2012 compared to 5.4 percent in June, 2011. Monetary developments were characterized by subdued growth of key monetary aggregates with money supply growth decelerating to 5.8 percent and reserve money to 4.0 percent in the year to end-June 2012. Given the confluence of subdued pace of monetary expansion and the improved fiscal position, coupled with the decrease in energy prices, inflation was forecast to remain below the 5 percent target over the remainder of 2012 and the risks were assessed to be fairly balanced.

However, consequent of the reduced foreign currency inflows and increased demand for imports, the Dalasi depreciated in nominal effective exchange rate terms by 4.7 percent in June 2012. 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. Continued depreciation of the domestic currency posed risk to the inflation outlook.

The Committee viewed the prevailing condition at the time to be appropriate to further ease monetary policy and reduced the rediscount rate further by one percentage point to support the economy.

November Meeting

Reviewing developments in the economy from year to November 2012, the Committee viewed inflation outcomes to be in line with expectations. However, downside risks were identified mainly emanating from the depreciation of the Dalasi and higher global commodity prices.

The Dalasi depreciated against the US dollar and Pound Sterling by 11.6 percent and 8.4 percent and 4.7 percent in nominal effective exchange rate terms. Similarly, the MPC observed that volume of transactions in the domestic foreign exchange market decreased in the year to end-September 2012 to US$1.5 billion, or 1.1 percent.

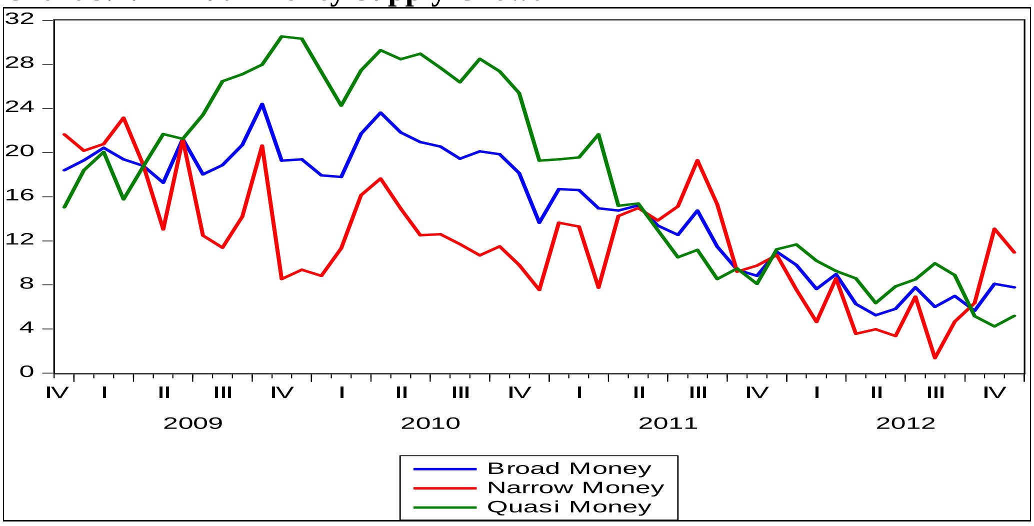
Given the subdued domestic economic activity, the MPC was of the view that leaving the interest rate unchanged was the right course of action while standing ready to act should the depreciation pressures on the domestic currency remain.

3.3 Monetary Developments

Monetary policy was aimed at price stability and the support of Government's overall macroeconomic objective of sustained growth for poverty reduction. Monetary policy was tight for most of 2012 especially in the second half of the year to rein in inflationary pressures and the depreciation of the Dalasi. In 2011, the Gambian economy experienced a severe drought which led to crop failure and spilled over into 2012. As a result, monetary policy was conducted under a challenging environment characterised by depreciation of the Dalasi and uptick in inflationary pressures. To achieve the objectives of monetary policy which was to maintain inflation at or below 5 percent, the CBG relied heavily on open market operations as a major tool for liquidity management. Despite the aforementioned challenges, the policy measures yielded the desired results as the ultimate objective of maintaining low single-digit inflation was achieved throughout the year. In addition, growth in monetary aggregates, including reserve money and broad money supply, remained generally within programmed targets.

Annual money supply growth declined to 7.8 percent in December, 2012 compared to 11.0 percent in the corresponding period a year earlier. Growth over the 12-month period was supported by both the net foreign assets and the net domestic assets of the banking system.

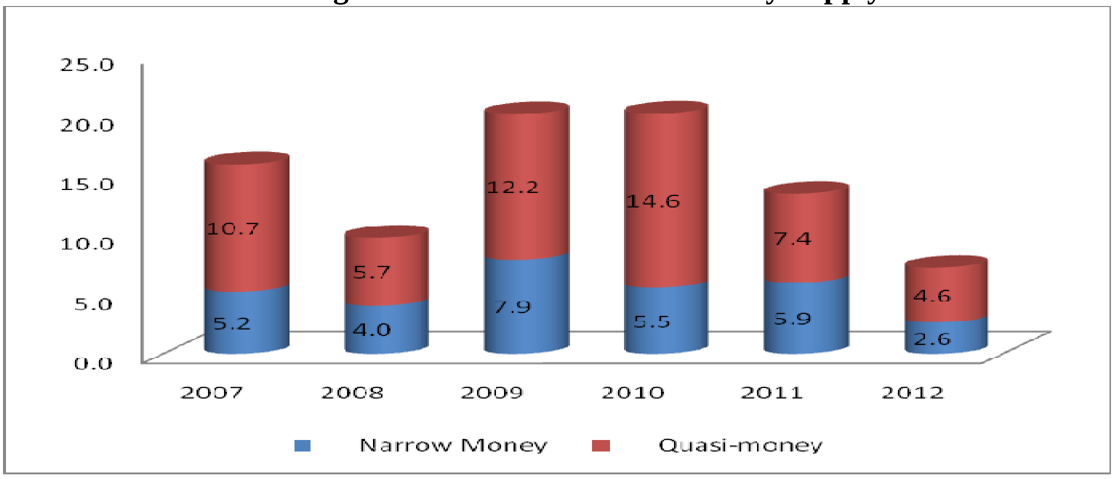
Chart 3.2: Annual Money Supply Growth



Narrow money (M1) rose to D7.4 billion or 10.9 percent in 2012 compared to 10.7 percent in a year earlier. The ratio of narrow money to broad money increased from 45.2 percent to 46.5 percent. As a result, narrow money contributed 5.0 percentage points to the annual growth of total money supply.

Currency outside banks rose to D2.8 billion or 18.6 percent in December 2012 compared to 15.1 percent a year earlier. Demand deposits increased to D4.6 billion or 6.7 percent relative to 8.4 percent in the corresponding period a year earlier.

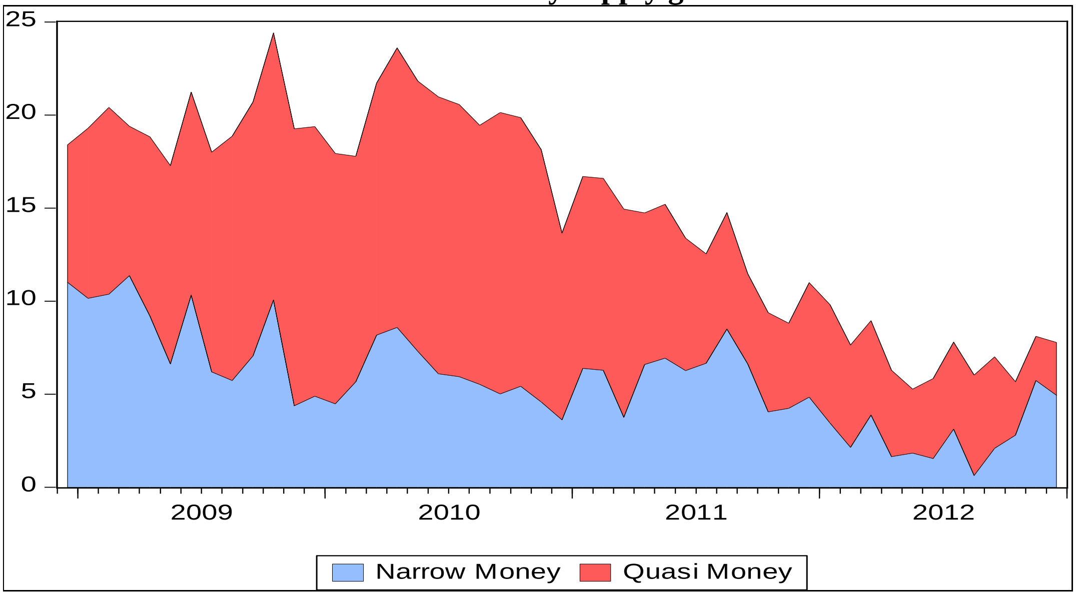
Chart 3.3: Annual Average Contributions to Broad Money Supply Growth



Quasi money rose by an annual rate of 5.2 percent in December 2012 to D8.5 billion compared to 11.2 percent a year ago. The ratio of quasi money to broad money decreased from 54.8 percent to 53.5 percent. As a result, quasi money contributed about 2.8 percentage points to the overall annual money supply growth.

Year-on-year, savings deposits rose to D5.2 billion or 14.7 percent in 2012, down from 16.3 percent in 2011. Time deposits contracted to D3.4 billion or 6.7 percent in 2012 from a positive growth of 5.5 percent in 2011.

Chart 3.4: Contributions to annual money supply growth

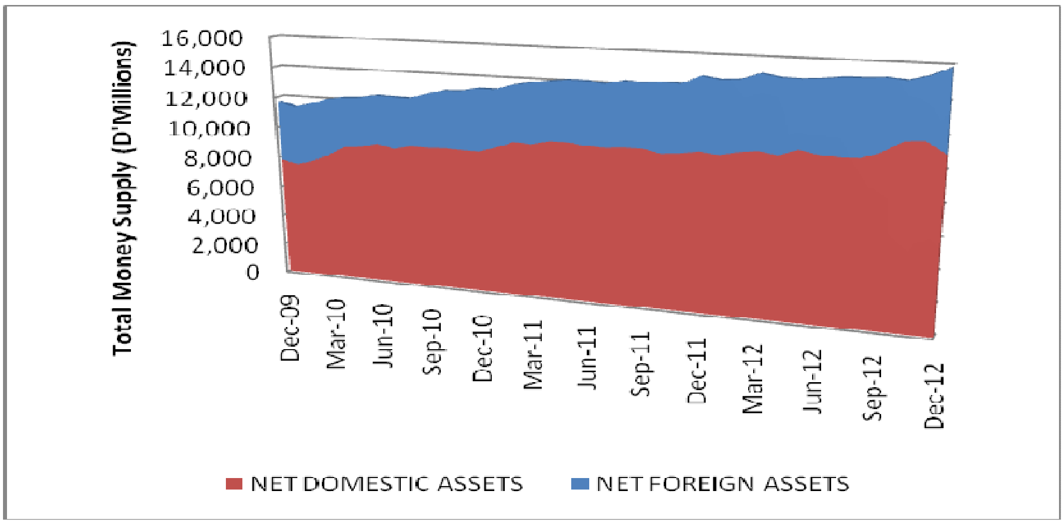


Net Foreign Assets (NFA)

The net foreign assets of the banking system rose to D4.9 billion or 7.9 percent in December, 2012 relative to 13.1 percent in the corresponding period last year, due largely to the increase in the net foreign assets of the Central Bank.

The net foreign assets of the Central Bank rose to D3.0 billion or 11.4 percent in 2012 compared to 15.9 percent in 2011. Foreign assets of the Bank increased to D6.6 billion or 20.3 percent while foreign liabilities increased to D3.2 billion or 31.7 percent.

Chart 3.5: Sources of liquidity



The net foreign assets of deposit money banks rose slightly to D1.5 billion or 0.6 percent in 2012 compared to 7.7 percent in 2011. The sluggish growth in the net foreign assets of commercial banks is due, in the main, to the substantial increase in their foreign borrowing.

Foreign assets of commercial banks rose markedly to D2.7 billion or 39.9 percent in December, 2012 compared to 14.3 percent in the corresponding period a year earlier. Balances held with foreign banks, including head offices and branches, rose to D2.2 billion or 58.5 percent whilst foreign currency holdings and other foreign investments decreased to D264.1 million and D274.7 million or 7.4 percent and 3.0 percent, respectively.

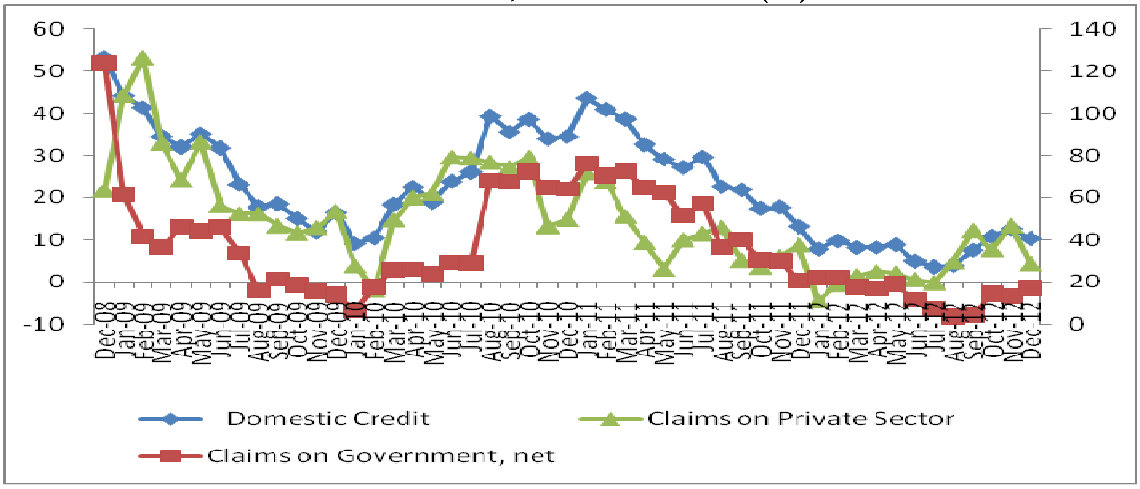
Similarly, foreign liabilities of commercial banks increased substantially to D1.3 billion in 2012, from D493.5 million in 2011, an increase of 156.5 percent over the period. Balances held for foreign banks stood at D72.5 million in December 2012 compared to D59.4 million in December 2011. Foreign borrowing rose to D1.2 billion in December 2012 from D434.0 million in December 2012.

Net Domestic Assets (NDA)

The net domestic assets of the banking system rose to D11.0 billion or 7.7 percent in December 2012 relative to 10.1 billion in 2011. Domestic credit grew to D12.6 billion or 10.4 percent, down from 13.3 percent in the corresponding period a year earlier. The increase in domestic credit mainly reflects the substantial increase in the banking system's net claims on government. Private sector credit growth, on the other hand, continues to be modest.

Growth in the banking system's net claims on government rose markedly from last reported in September 2012. Year-on-year, the banking system's net claims on government rose to D7.0 billion or by 17.3 percent at end-December 2012, higher than 4.2 percent reported in September 2012 but lower than 20.6 percent in 2011. Government's share of overall credit in the economy remains high at 55.8 percent compared to 52.5 percent a year earlier.

Chart 3.6: Annual Growth in Private Sector Credit, Claims on Government (net) and Overall Domestic Credit



Reserve Money

Reserve money grew faster than the forecast of 5.8 percent for the year. Year-on-year, reserve money rose by 6.8 percent in December, 2012 relative to 12.3 percent in the corresponding period a year earlier. The slow growth in the monetary base compared to the previous year could be explained by the substantial decrease in the net domestic assets of the Central Bank.

Chart 3.7: Actual reserve money versus target

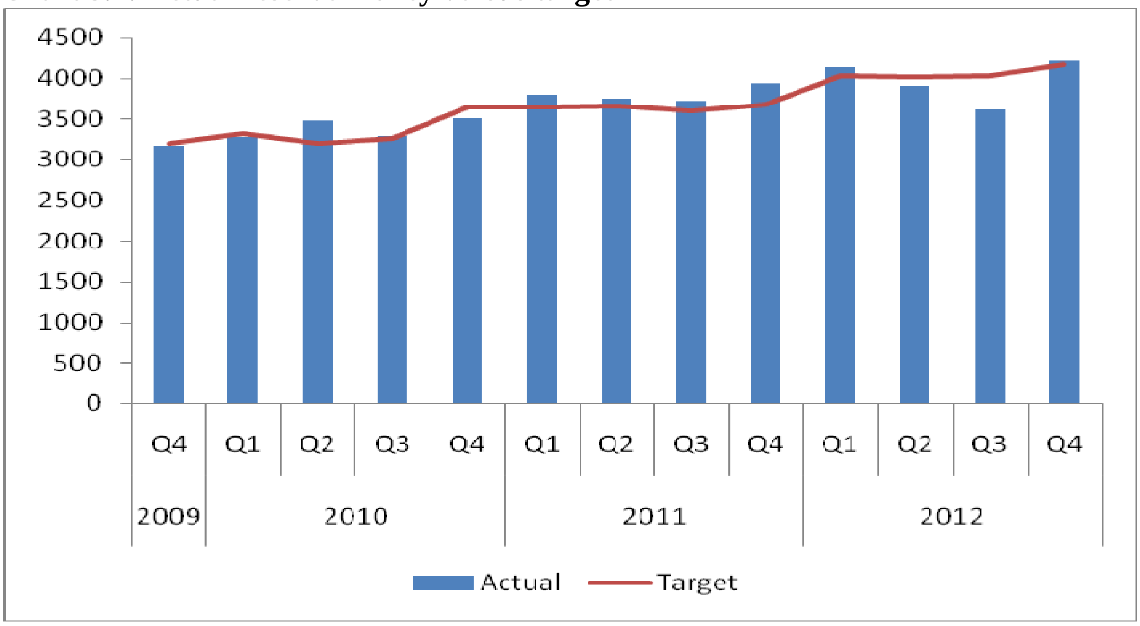
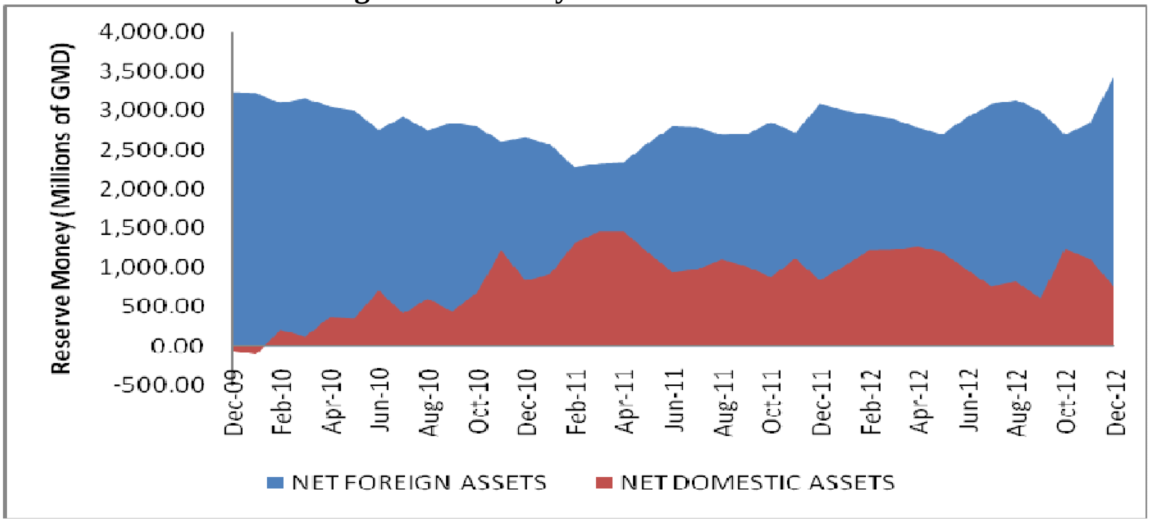


Chart 3.8: Factors affecting reserve money



The net foreign assets of the Bank rose to D3.4 billion or 11.4 percent relative to 15.9 percent in December 2011. Foreign assets rose to D6.6 billion or 20.3 percent relative to the corresponding period a year earlier. Foreign liabilities as well increased to D3.2 billion, or 31.7 percent.

The net domestic assets of the Bank declined to D761.2 million or 9.9 percent in December, 2012 compared to an increase of 0.8 percent in the corresponding period a year earlier. Central bank's net claims on government rose to D529.5 million, or 2.7 percent whilst other items net contracted by 38.7 percent to D168.6 million.

Developments in Deposit Money Banks' Credit

Private sector credit expansion slowed significantly in 2012. Year-on-year, the banking system's claims on private sector rose by 13.4 percent in November 2012 after growing by 7.6 percent and 12.1 percent in October and September 2012, respectively. However, private sector credit growth slowed substantially to 4.3 percent in December 2012 compared to 8.8 percent a year earlier. As a result, private sector credit accounted for about 38.1 percent of overall domestic credit compared to 40.3 percent a year earlier.

The period preceding 2009 was characterized by rapid credit expansion, especially to the private sector. However, since then the banking system cut back lending to the private sector to absorb the large amount of non-performing loans and to reduce risk by tightening credit standards. The ratio of non-performing loans to gross loans, although declining recently, is still considered to be high. The Central Bank's effort to boost lending by reducing reserve requirement by 2 percentage points to 10 percent did not translate to increased credit to private sector.

Banks tightened credit standards to reduce loan losses in the face of high level of non-performing loans and institutional weaknesses related to loan recovery. A Credit Reference Bureau and a collateral registry were set up by the Central Bank to improve the situation by providing one-stop-shop database of lenders and borrowers. Once fully functional, these will allow banks to prove credit worthiness of their customers and thus lower risk and transaction costs by improving transparency. Overcoming information asymmetries that deter banks from assessing risk profiles of their clients is critical for credit expansion in the economy.

Other factors contributing to slow private sector credit growth include large public sector debt and the slowdown in economic activity. Large public debt crowds out private sector and keeps lending rates high that discourages private borrowing. Further, economic conditions weakened in 2011 and 2012 that recently reduced demand for credit. Tight monetary conditions during the year are also contributing factors.

Commercial Banks' outstanding gross loans and advances to major sectors of the economy contracted by 0.05 percent to D5.4 billion in December 2012 compared to a growth rate of 3.6 percent in 2011. Sectorial allocation of credit flow shows no major shifts in the pattern of distribution among key economic sectors. Distributive trade and other unclassified loans absorbed more than half (51.3 percent) of overall commercial loans and advances. Credit to all sectors of the economy contracted with the exception of building and construction, transport, and distributive trade.

Chart 3.9. Growth in outstanding loans and advances to major economic sectors

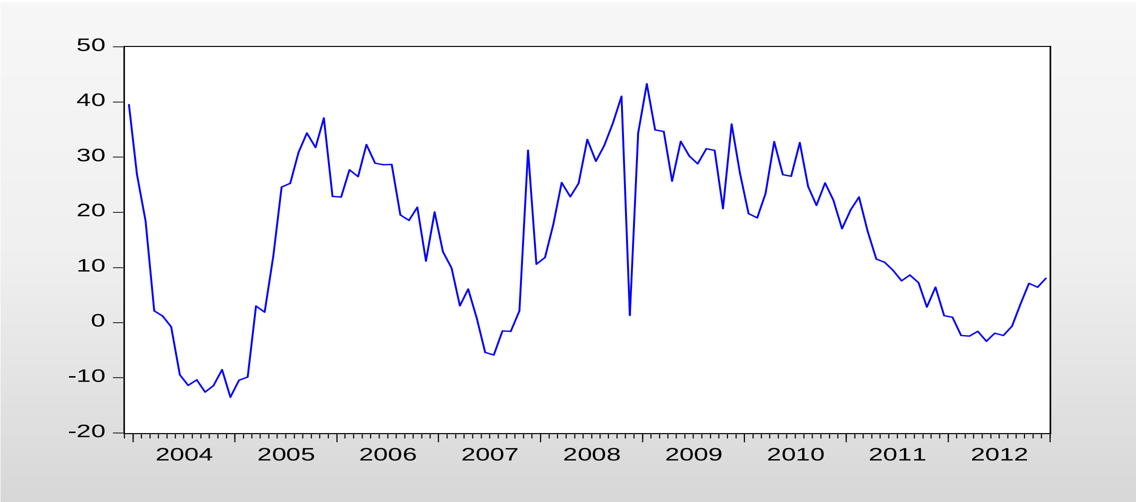
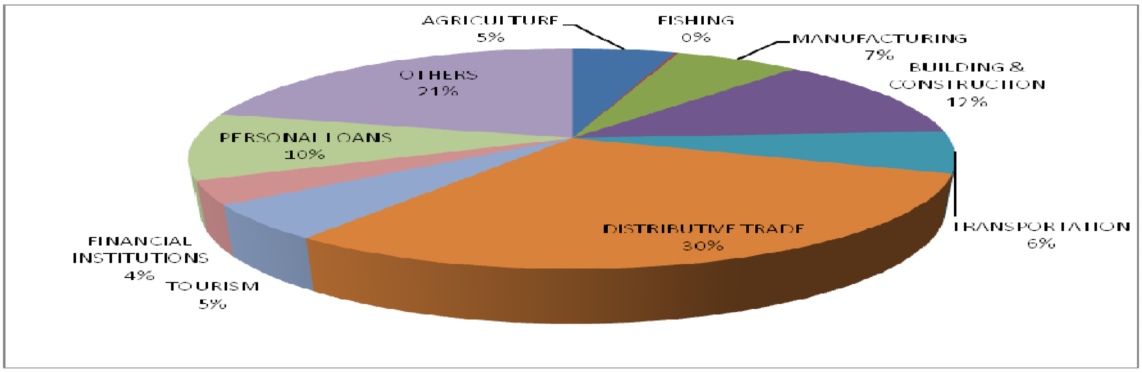


Figure 10.0: Distribution of Commercial Banks' Loans and advances



Agriculture, the second biggest contributor to GDP after services sector, continues to be the least recipient of credit from commercial banks. The sector attracted 5.2 percent of overall credit in 2012 compared to 5.7 percent in 2011. Total credit to the sector, mainly for production and marketing, contracted to D284.3 million or by 8.6 percent in 2012 compared to 7.3 percent in 2011. Agricultural production declined substantially in 2011 due to poor rains during the year.

Similarly, lending to the manufacturing sector contracted to D344.1 million, or 2.1 percent compared to a positive growth of 25.7 percent in 2011. The sector absorbed 6.3 percent of overall credit relative to 6.5 percent and 5.3 percent in 2011 and 2010 respectively. Manufacturing sector in the Gambia is small and undeveloped and contributes less than 5 percent of gross domestic product.

Outstanding Loans and Advances to Major Sectors of the Economy

	2010			2011			2012		
	In million	Share (%)	Annual Change (%)	In million	Share (%)	Annual Change (%)	In million	Share (%)	Annual Change (%)
Agriculture	289.8	5.5	10.4	311	5.7	7.3	284.3	5.2	-8.6
Fishing	19.6	0.4	16.4	14.5	0.3	-26.3	8.5	0.2	-40.9
Manufacturing	279.6	5.3	30.5	351.5	6.4	25.7	344.1	6.3	-2.1
Building & Construction	513.4	9.8	2.2	492.7	9	-4	670.8	12.3	36.1
Transportation	361.6	6.9	7.5	330.4	6.1	-8.6	334.6	6.1	1.3
Distributive Trade	1547.2	29.4	29.5	1418.5	26	-8.3	1640.3	30.1	15.6
Tourism	285	5.4	35.1	318.3	5.8	11.7	284.9	5.2	-10.5
Financial Institutions	195.8	3.7	25.9	242	4.4	23.6	188.7	3.5	-22.0
Personal Loans	476.1	9.1	-34.4	576.6	10.6	21.1	535.5	9.8	-7.1
Others	1292.8	24.6	47.5	1395.7	25.6	8	1157.0	21.2	-17.1
Total	5,261.00	100	17	5,451.30	100	3.6	5448.7	100.0	-0.05

Credit extended to building and construction rebounded from a contraction of 4.0 percent in 2011 to grow by 36.1 percent to D670.8 million in 2012. Consequently, the share of credit to the sector rose to 12.3 percent from 9.0 percent and 9.8 percent in 2011 and 2010 respectively.

Distributive trade sector remains the dominant sector in the credit market accounting for 30.1 percent of total credit from 26.0 percent a year ago. Total loans and advances extended to the sector rose to D1.6 billion or 15.6 percent in 2012 from a contraction of about 8.3 percent in 2011.

Total credit to the tourism sector declined to D284.9 million or 10.5 percent compared to a positive growth of 11.7 percent in 2011. Tourism sector contributed about 6.3 percent of GDP in 2012 but attracted only 5.2 percent of overall credit compared to 5.8 percent and 5.4 percent in 2011 and 2010 respectively. The sector provides employment opportunities for many Gambians.

Commercial banks' loans and advances to other financial institutions also declined to D188.7 million or 22.0 percent compared to a positive growth of 21.1 percent a year ago. Personal loans, which accounted for 9.8 percent of overall credit, contracted to D535.5 million or 17.1 percent in 2012.

The fishing industry attracted a minuscule 0.2 percent of overall commercial bank credit. Credit to the sector contracted markedly in 2012 by 40.9 percent compared to 26.3 percent in 2011.

A substantial portion of commercial banks loans and advances (21.2 percent in 2012) is unclassified. Unclassified loans and advances decreased to D1.2 billion or 17.1 percent in 2012.

The industry registered improvements in asset quality. The level of non-performing loans stood at D633.74 million, representing 11.63 percent of gross loans and advances in December 2012 from D718.71 million or 12.7 percent in September 2012. The level of non-performing loans, although gradually declining, remains one of the challenges in the banking industry, thus impeding the profitability of the sector. The restructured credits accounted for 37.43 percent of banks' impaired assets, compared with substandard, doubtful and loss categories constituting 18.40 percent, 17.7 percent and 26.47 percent respectively. Thus, the bulk of the NPLs were in the restructured loan category.

3.4. Interest Rates Developments

The CBG's policy rate generally trended downwards during the year under review reflecting subdued economic activity and diminishing inflation expectations. The rediscount rate, the policy rate of the CBG, was reduced twice (in January and July) to support the economy. In addition, the MPC lowered the reserve requirement by two percentage points to boost private sector credit and rein in on high lending rates.

The weighted average interest rate on the 91-day Treasury bills and 182-day bills which stood at 8.07 percent and 9.63 percent in December 2011 increased to 9.53 percent and 10.20 percent in December 2012 respectively. The weighted average rate on the 364-day Treasury bills rate declined from 11.53 percent to 10.98 percent during the same period.

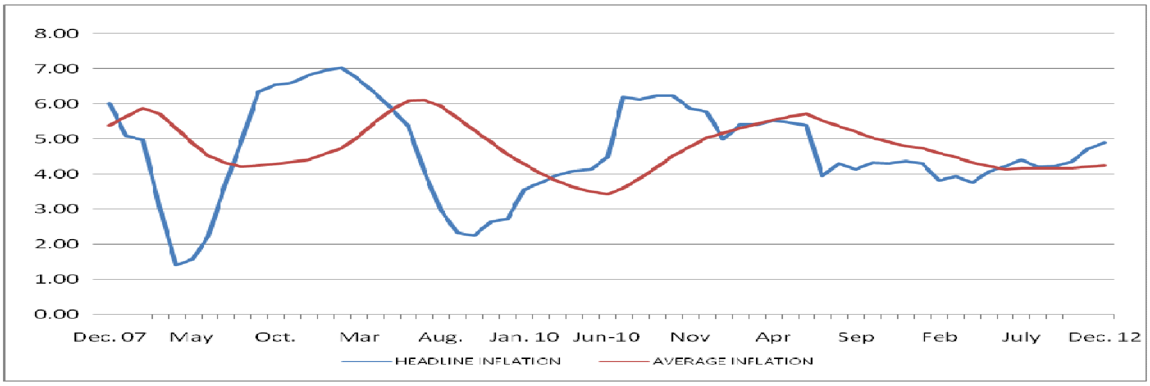
The minimum rate on 3-month time deposit rate increased from 4.5 percent in December 2011 to 5.0 percent in December 2012 whilst the maximum 3-month time deposit rates declined to 11.5 percent from 12.0 percent in the preceding year. A 6-month time deposit attracted a minimum rate of 6.0 percent as at end-December 2012 compared to 4.5 percent a year earlier. Maximum interest rate on a 6-month time deposit increased to 13.0 percent from 12.5 percent in December 2011. Time deposits for duration of nine and 12 months attracted maximum interest rates of 10.0 percent and 16.0 percent respectively. Deposit money banks' average lending rate to the major sectors of the economy declined from an average of 22.0 percent in 2011 to 21.5 percent in 2012.

3.5. Price Developments

Headline Inflation

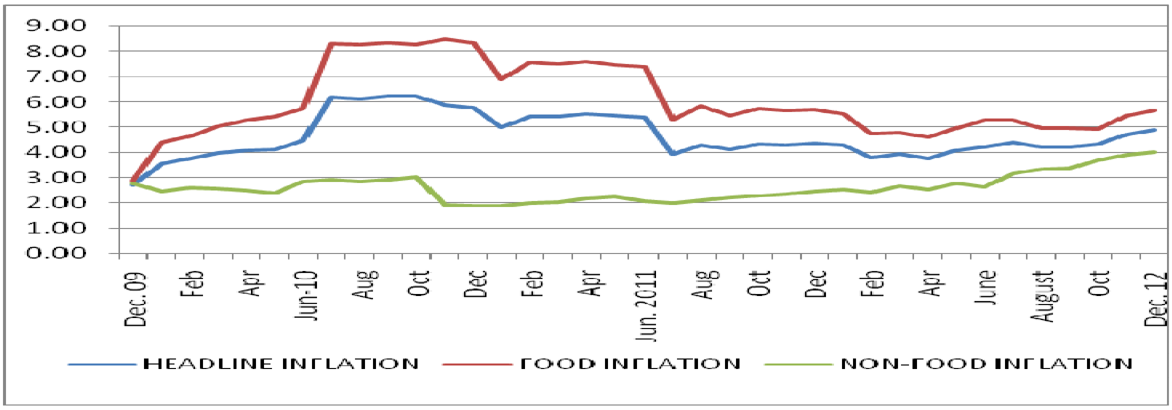
Consumer price inflation measured by the National Consumer Price Index (NCPI) increased modestly to 4.9 percent in December 2012 compared to 4.4 percent a year earlier. The increase in headline inflation was due, in the main, to the increase in the consumer price inflation of non-food items. Average inflation (12-month moving average) also declined from 4.8 percent in 2011 to 4.3 percent in 2012.

Chart 1: Annual Movements; Headline vs Average Inflation



Source: Central Bank of The Gambia

Chart 2: Movements in the Determinants of Headline Inflation



Food items, which make up more than half the weight of the basket of goods and services, continued to be the main driver of headline inflation. Consumer food inflation decreased from 5.3 percent in June to 4.9 percent in September before increasing to 5.7 percent in December. The increase in food price inflation was due to the increases in the prices of bread cereals which accounts for nearly a quarter of the weight of the food basket.

Consumer non-food inflation has been largely low and stable at below 2.0 percent in 2010 and 2011. However, non-food inflation rose to 3.0 percent in July 2012 and continued the upward trend to reach a record high of 4.0 percent December 2012, thanks to the marked increase in prices of clothing, textile and footwear and the depreciation of the dalasi.

The Central Bank’s core measure of inflation excludes the prices of products that can have temporary price disturbances. The first measure of underlying inflation, which strips out energy and utility prices, declined from 4.2 percent in January 2012 to 3.6 percent in April but inched slightly to 4.3 percent in June and increased to 5.0 percent in December 2012.

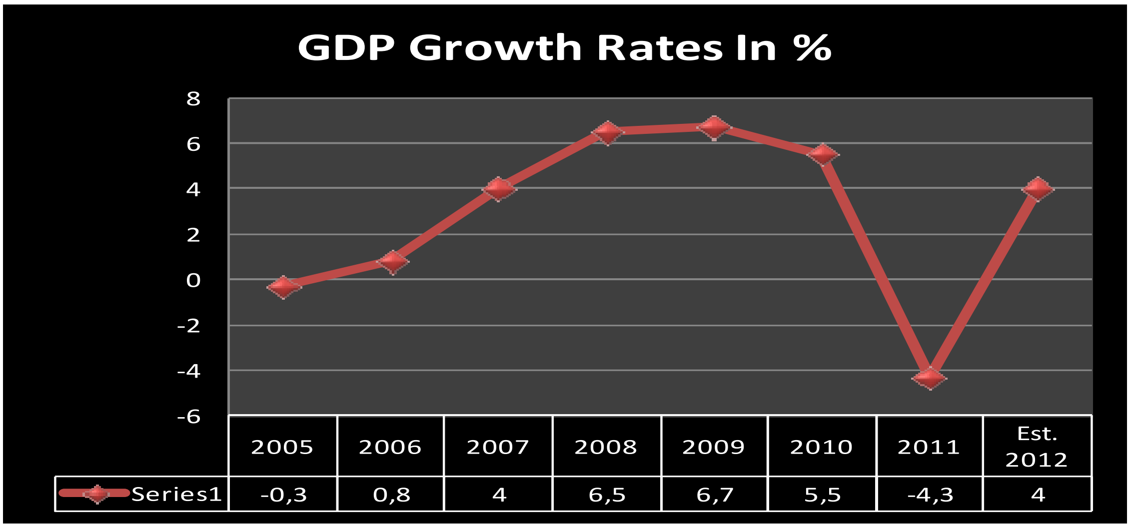
The measure which further excludes prices of volatile food items, also declined from 4.4 percent in January 2012 to 4.0 percent in March before increasing slightly to 4.2 percent in June. In the second half of the year, this measure of inflation trended upwards, though at a minuscule pace to reach 4.9 percent in December.

3.6. Real Sector Developments

The Gambian economy suffered severe drought in 2011 that led to massive crop failure. Crop production was estimated to have fallen by 60.0 percent. As a result, the Gambia Bureau of Statistics estimated real GDP growth to have contracted by 4.3 percent in 2011 compared to an average growth of 6.1 percent in 2009 and 2010. However, real growth turned positive in 2012 and was estimated at 5.3 percent, driven by a strong performance in the tourism sector and a partial rebound in agriculture. Emergency assistance from donors in response to the crop failure helped mitigate the full impact of the drought and also helped in the recovery process by delivering inputs to farmers in time for the planting season.

Strong GDP growth is expected in 2013 after full recovery in agriculture and sustained growth in other major sectors of the economy. Growth outlook in the near-term is positive contingent upon implementation of sound macroeconomic policies including targets of the Government for the agricultural sector as articulated in the Programme for Accelerated Growth and Employment (PAGE) and the Agriculture and Natural Resource Policy (ANRP) strategic documents. Downside risks to the near-term growth outlook include fragile commodity prices and weather-related shocks as well as the spillovers from developments in the global economy especially through tourism and remittances. Policies geared towards reducing exposure to the downside risks is for sustained growth.

Real GDP: 2005 - 2012

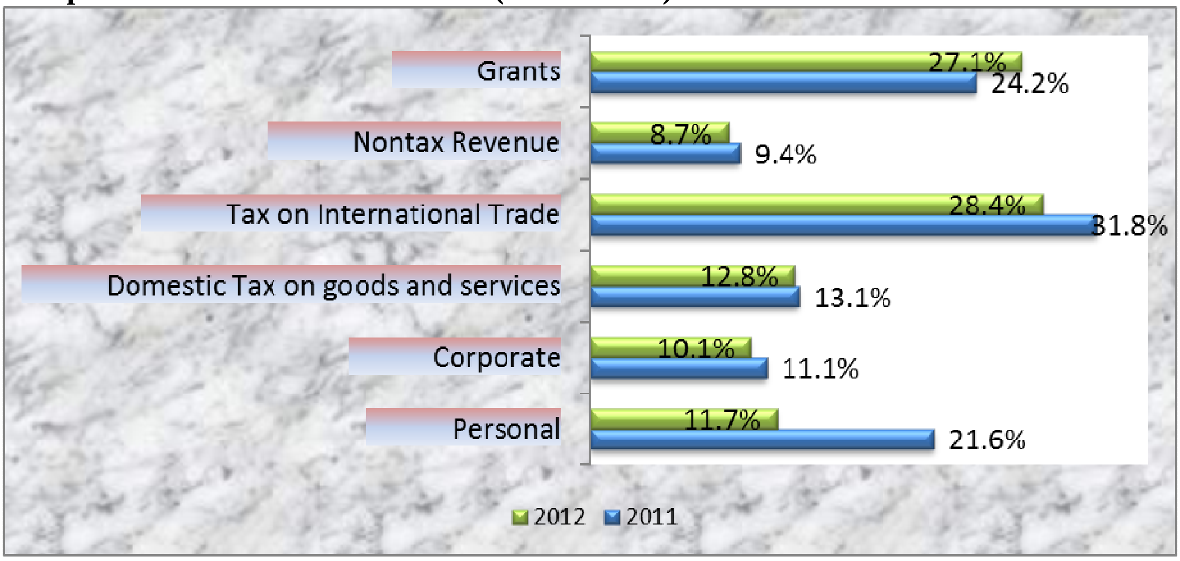


3.7. Government Fiscal Operations

Preliminary estimates of government fiscal operations in 2012 showed a lower fiscal deficit compared to 2011. Total revenue and grants in 2012 fell short of its projected target by only 1.9 percent mainly on account of less-than-expected grants. Government expenditure also increased significantly during the review period.

Overall revenue and grants generated in 2012 is estimated to have grown by 15.7 percent to D6476.9 million (22.5 percent of GDP) over the 2011 outturn of D5597.2 million (21.1 percent of GDP). Domestic revenue exceeded target by 1.6 percent and was higher than the 2011 outturn by 11.4 percent due, in the main, to the increase in direct tax collection as well as upswing in non-tax revenue from Customs and Excise Department.

Components of Revenue and Grants (2011& 2012)



Tax revenue generated in 2012, amounted to D4163.4 million (14.5 percent of GDP) surpassing its target by D50.0 million and higher than the 2011 outturn by 12.0 percent. Direct taxes surged by 24.0 percent relative to its 2011 outturn thanks to increase in corporate, payroll and personal taxes by 28.1 percent, 20.9 percent and 22.2 percent respectively. Similarly, indirect taxes, constituting 64.0 percent of tax revenue, increased slightly by D154.8 million or 6.2 percent from its 2011 outturn. The expansion in indirect taxes mirrored the surge in domestic tax on goods and services by 13.2 percent and international trade taxes by 3.3 percent.

Non-tax revenue collections from Customs and Excise Department amounted to D560.4 million or an increase of 7.1 percent, thanks to the increase in receipts from telecommunication licenses and government service charges. Grants rose significantly to D1753.2 million or by 29.3 percent compared to 2011 mainly due to donor support for the crop failure in 2011. Grants, however, fell short of its projection by 10.1 percent.

Revenue and Grants in D'millions

	Outturn	Outturn	Outturn	y-o-y % Δ		Outturn	Outturn	Q-on-Q
.	2010	2011	2012	2011	2012	Q3 2012	Q4 2012	% Δ
Revenue and grants	5,011.2	5,597.2	6,476.9	11.7	15.7	1,579.9	1,089.6	-31.0
% of GDP	18.8	21.1	22.5			5.4	3.8	
Domestic Revenue	3,945.8	4,242.0	4,723.8	7.5	11.4	1,215.2	1,038.0	-14.6
% of GDP	14.8	16.0	16.4			4.2	3.6	
Tax Revenue	3,480.6	3,718.6	4,163.4	6.8	12.0	1,080.6	935.6	-13.4
% of GDP	13.1	14.1	14.5			3.7	3.2	
Direct Tax	1,108.7	1,207.6	1,497.5	8.9	24.0	432.2	296.3	-31.5
Personal	559.6	620.2	758.0	10.8	22.2	217.0	145.7	-32.9
Corporate	447.5	510.0	653.2	14.0	28.1	201.0	140.2	-30.3
Capital Gains	40.9	44.8	43.5	9.5	-2.8	12.0	9.6	-20.0
Payroll	39.7	35.2	42.6	-11.3	20.9	2.2	0.8	-65.1
Indirect Tax	2,371.9	2,511.0	2,665.8	5.9	6.2	648.4	639.3	-1.4
Dom. Tax on goods & ser	607.3	732.9	829.6	20.7	13.2	176.1	182.2	3.5
Tax on Inter Trade	1,764.6	1,778.1	1,836.2	0.8	3.3	472.3	457.1	-3.2
Sales tax on imports	892.4	938.0	981.2	5.1	4.6	255.4	240.8	-5.7
Non-tax Revenue	465.2	523.4	560.4	12.5	7.1	134.6	102.4	-23.9
% of GDP	1.7	2.0	1.9			0.5	0.4	
Govt Ser. and Charges	53.9	85.9	77.1	59.3	-10.2	24.9	14.1	-43.4
Non-Tax Rev from CED	120.3	128.0	181.9	6.4	42.1	51.4	39.4	-23.3
Telecom License	131.0	103.1	125.7	-21.3	21.9	40.1	32.4	-19.1
Other	105.6	127.4	168.3	20.7	32.1	17.6	12.7	-27.8
Grants	1,065.5	1,355.2	1,753.2	27.2	29.4	364.7	51.6	-85.9
% of GDP	4.0	5.1	6.1			1.2	0.2	
Projects	1,065.5	1,355.2	1,753.2	27.2	29.4	364.7	51.6	-85.9

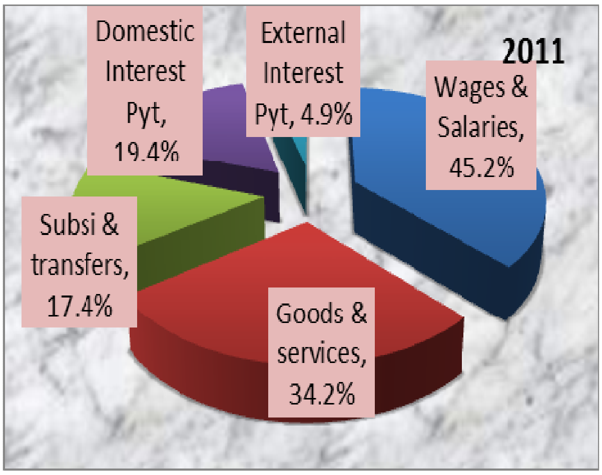
Expenditure and Net Lending

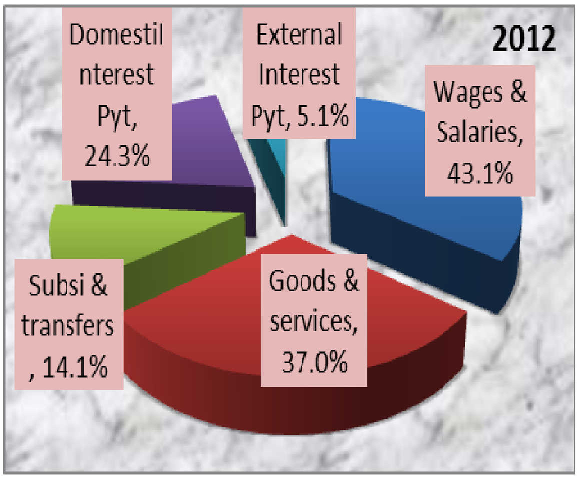
Total government expenditure and net lending in 2012 is estimated to have reached D7.7 billion (26.9 percent of GDP) relative to D6.8 billion (25.7 percent of GDP) in 2011. Total current spending amounted to D5.1 billion (17.9 percent of GDP), an increase of 14.2 percent from last year's level. The wage bill for the year rose by 6.6 percent to D1.8 billion or 43.1 percent of the annual tax revenue. Other charges constituted the largest component of current budget amounting to D2.1 billion or 10.8 percent over the previous year's level.

Interest on debt continued to consume a large share of government revenues (25.9 percent) in 2012, much of which was in the form of interest on short-term domestic debt. Interest payments, which constituted 23.8 percent of current spending compared to 18.4 percent in 2011, amounted to D1.2 billion in 2012 or 35.7 percent over 2011 level. In recent years, government's borrowing pattern has skewed towards the domestic market rather than the traditional external sources. Domestic interest payments rose by 40.3 percent to D1.0 billion while external interest payments inceased by 17.3 percent to D214.0 million.

Development expenditure rose to D2.5 billion (8.8 percent of GDP) or by 10.7 percent in 2012. External financing continued to be the major source of capital investments in the Gambia. In 2012, about 88.2 percent of development spending by government was externally funded through grants (69.1 percent) and loans (19.2 percent). Government local fund financed just 11.8 percent of public investment in 2012.

Components of Current Expenditure as a percentage of Tax revenue





Expenditure and Net Lending in D'millions

	Outturn	Outturn	Outturn	y-o-y % Δ		Outturn	Outturn	Q-on-Q
	2010	**2011**	**2012**	**2011**	**2012**	**Q3 2012**	**Q4 2012**	**% Δ**
Exp. & Net Lending	6,049.0	6,807.4	7733.2	**12.5**	**13.6**	1,952.9	1,708.1	**-12.5**
% of GDP	**22.7**	**25.7**	**26.9**			**6.7**	**5.9**	
Current Exp	3,902.9	4,514.4	5,155.3	**15.7**	**14.2**	1,264.2	1,428.4	**13.0**
% of GDP	**14.6**	**17.1**	**17.9**			**4.3**	**5.0**	
Personnel Emoluments	1,515.9	1,693.1	1,804.2	**11.7**	**6.6**	433.0	554.8	**28.1**
o/w Wage, Salaries & Al.	1,520.4	1,682.4	1,793.3	**10.7**	**6.6**	445.4	473.2	**6.2**
Other Charges	1,614.7	1,918.5	2,126.3	**18.8**	**10.8**	531.6	612.4	**15.2**
Interest Payments	772.4	902.8	1,224.8	**16.9**	**35.7**	299.6	261.2	**-12.8**
External	136.6	182.5	214.0	**33.6**	**17.3**	77.9	49.6	**-36.3**
Domestic	635.7	720.3	1,010.8	**13.3**	**40.3**	221.8	211.6	**-4.6**
Capital Expenditure	2,178.0	2,292.9	2,539.0	**5.3**	**10.7**	688.6	279.7	**-59.4**
% of GDP	**8.2**	**8.7**	**8.8**			**2.4**	**1.0**	
Externally Financed	1,807.8	1,985.2	2,240.3	**9.8**	**12.8**	597.6	167.8	**-71.9**
Loans	742.3	630.0	487.1	**-15.1**	**-22.7**	232.9	116.2	**-50.1**
Grants	1,065.5	1,355.2	1,753.2	**27.2**	**29.4**	364.7	51.6	**-85.9**
GLF Capital	370.3	307.8	298.7	**-16.9**	**-2.9**	91.1	111.9	**22.8**
Net Lending	-32.0	0.0	38.9			0.0	0.0	

Fiscal Deficit and Financing

Since 2007 when the overall budget balance recorded a surplus of D27.7 million, overall government fiscal position has been on a deficit year after year. In 2012, the overall fiscal balance (including grants) on commitment widened to a deficit of D1.3 billion compared to a deficit of D1.2 billion in 2011. Budget deficit excluding grants on commitment basis deteriorated to D3.0 billion (10.4 percent of GDP) compared to D2.6 billion (9.7 percent of GDP) a year ago. Consequently, both the primary balance (including interest payments) and basic balance (excluding interest payments) at D455.7 million and D769.1 million were above their preceding year’s level by D161.3 million and D188.9 million respectively.

Fiscal Balance and Sources of Financing in D'millions

	Outturn	Projection	Performance	Proportion
	2012	2012		
Revenue and grants	6,476.9	6,601.0	-124.1	98.1
Expenditure and Net Lending	7,733.2	8,144.5	-411.3	94.9
Current Expenditure	5,155.3	5,341.6	-186.3	96.5
Capital Expenditure	2,539.0	2,833.1	-294.1	89.6
Net Lending	38.9	-30.0	68.9	-129.6
Budget balance including Grants	-1,256.2	106.7	-1,362.9	-1,177.3
% of GDP	-4.4	0.4		
Basic balance	-769.1	-1,139.5	370.4	67.5
Financing	1,208.2	1,553.1	-344.9	77.8
External (net)	-48.0	463.5	-511.5	-10.4
Borrowing	487.1	867.3	-380.2	56.2
Project	487.1	867.3	-380.2	56.2
Amortisation	-535.1	-403.7	-131.4	132.5
Domestic	1,256.2	1,079.1	177.1	116.4
Borrowing	1,183.6	1,124.1	59.5	105.3
Bank	1,047.6	1,058.1	-10.5	99.0
Nonbank	135.9	66.8	69.1	203.5
Change in Arrears (- decrease)	72.7	-45.0	117.7	-161.5

The Overall Balance in D'millions

	2007	2008	2009	2010	2011	2012
Expenditure	3634.8	4332.4	5631.9	6049.0	6807.4	7733.2
Revenue	3662.5	3744.5	4893.0	4888.3	5597.2	6476.9
Overall Balance	27.7	-587.9	-739.0	-1160.6	-1210.2	-1256.2

Domestic Debt

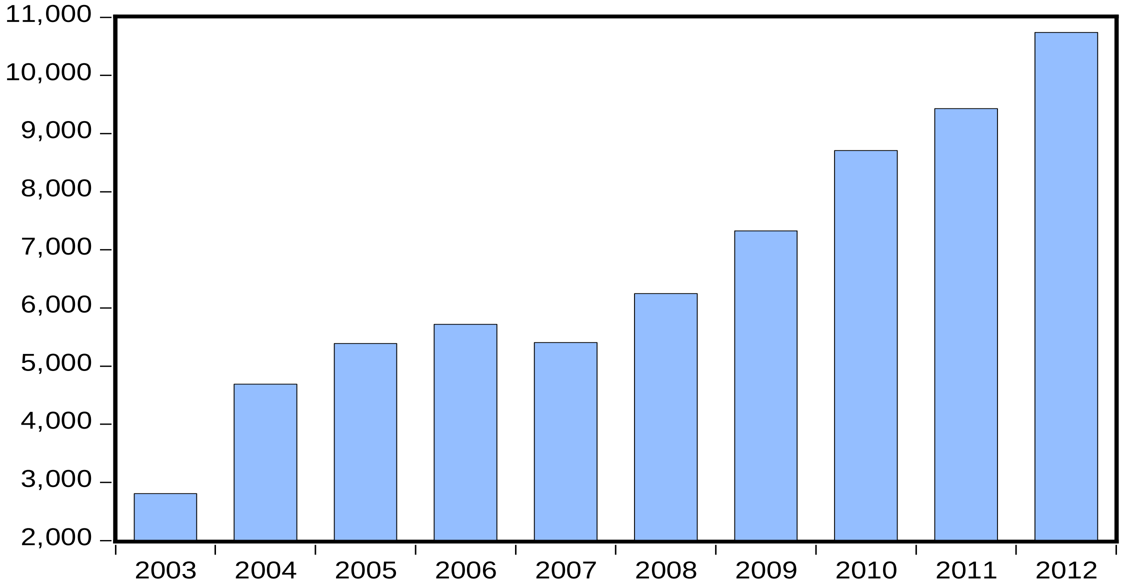
Government's attempt to rein on the domestic debt in 2012 could not be sustained as borrowing from the banking system in the twelve months to end December 2012 ballooned to D1.2 billion or by 41.0 percent compared to a contraction of 52.1 percent in 2011. The huge rise in domestic borrowing was attributed largely to increased issuance of short-term treasury bills. As a result, outstanding stock of domestic debt increased to D10.7 billion (37 percent of GDP) or 14.3 percent over the preceding year. Total interest bearing debts, which constituted 98.0 percent of total debt stock, rose to D10.4 billion or by 0.3 percent over the previous year.

Interest bearing debts constitutes treasury bills, sukuk Al-salam and government bonds of varying maturity. Treasury bills constituting 76.74 percent of total marketable interest bearing debt increased to D8.2 billion, or 22.01 percent from the previous year. Sukuk Al-salam also rose to D0.4 billion, or to 1.95 percent. However, 30-year government bond and 10-year government bond decreased to D1.7 billion or by 3.44 percent and D0.2 billion, or by 11.1 percent respectively whilst 3-year government bond remained the same.

Stock of Domestic Debt (GMD millions)

SECURITY TYPE	DEC. 2011	DEC. 2012	% CHANGE
Treasury Bills	6,753.60	8,239.62	22.01
Sukuk Al-Salam Bills	345.56	352.30	1.95
3 Year Govt. Bond	25.00	25.00	0.00
Govt. Bond	250.00	250.00	0.00
30 Year Govt. Bond	1,764.16	1,703.32	-3.44
10 Year Govt. Bond	187.61	166.77	-11.10
Redeemable Interest Bearing Notes	70.68	0.00	-100.00
TOTAL	**9,396.61**	**10,737.01**	**14.26**

Domestic Public Debt in millions of GMD



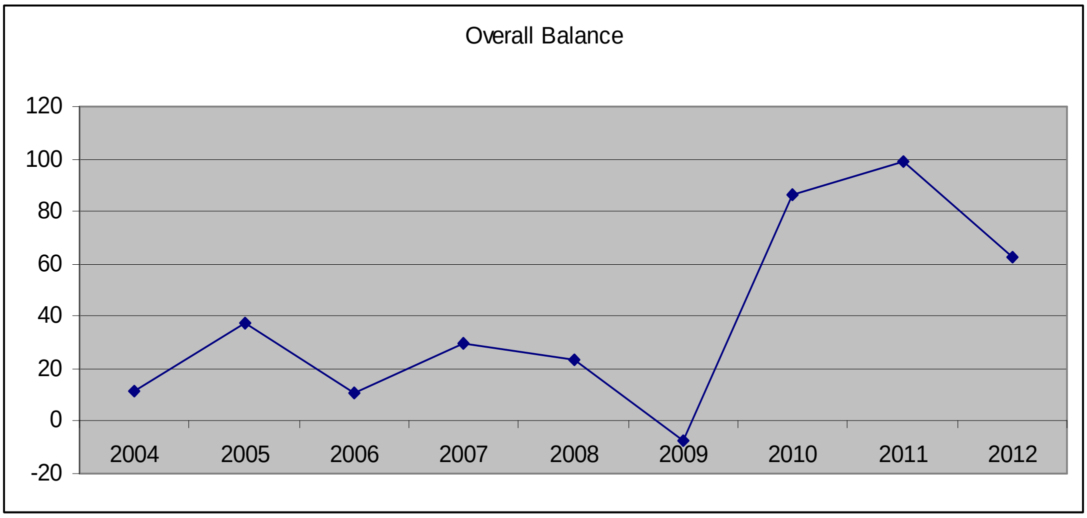
3.8 External Sector Developments

Balance of Payments estimates for the year ending 2012 indicate an overall surplus of US$62.31 million relative to a surplus US$98.74 million in 2011. The current account was in surplus of US$66.29 million, lower than US$119.41 million a year ago. The deficit in the capital and financial account narrowed from US$20.66 million in 2011 to US$3.98 million in 2012.

Summary of Balance of Payments Developments 2011-2012

Millions of USD	2011	2012	% Change
Current Account Balance	119.41	66.29	-44.5
Goods Account	-133.49	-176.43	32.16
Exports of which	153.88	176.49	14.69
Re-exports	120.47	146.59	21.68
Exports in Trade Statistics	33.41	29.89	-10.53
Imports	-294.97	-358.95	21.69
Services Account	75.59	71.19	-5.82
Current Transfers	183.71	181.88	0.99
Capital Account Balance	-20.66	-3.98	80.73
Change in Reserve Assets	-23.16	-34.49	48.92
Overall Balance	98.75	62.31	36.89

Figure 1: Overall Balance 2004- 2012



Merchandise Trade

The deficit in the goods account worsened by 32.16 percent to US$176.43 million in 2012 relative to US$133.49 million last year. The widening of the goods account balance was due mainly to the increase in import bill in the face of rising commodity prices and depreciation of the domestic currency vis-a-vis major trading partner currencies. Import bill rose from US$294.97 million in 2011 to US$358.95 million in 2012.

Total exports rose to US$176.49 million in 2012 from US$153.88 million last year, an increase of 14.69 percent. Re-export trade amounted to US$146.59 million relative to US$120.47 million in 2011, an increase by 21.68 percent. Exports in trade statistics recorded US$29.89 million in 2012 relative to US$33.41 million in 2011, a drop by 10.53 percent.

Proceeds from goods procured in ports dropped during the review period to US$6.03 million from US$7.60 million last year or by 20.65 percent. The decline was mainly on account of the huge decline in proceeds from catering services to US$ 0.64 million in 2012 relative to US$ 2.97 million last year. However, there was an improvement in proceeds from both the sale of bunker fuel in the fourth quarter of 2012.

Services, Income and Current Transfers

The services account balance contracted on a net basis by 5.82 percent, from a surplus of US$75.59 million in 2011 to US$71.19 million in 2012 reflecting the contraction in almost all the other line items under the services account particularly the transportation services in 2012 relative to 2011.

Proceeds from transportation services declined from a surplus of US$ 4.62 million in 2011 to a deficit of US$ 1.53 million in 2012, due mainly to the widening of the deficit in sea transportation from US$24.59 million in 2011 to US$35.45 million in 2012. Proceeds from air transportation increased from US$29.21 million in 2011 to US$33.92 million in 2012, thanks to mainly to the rise in Air - Chartered flights in 2012 by 10.5 percent

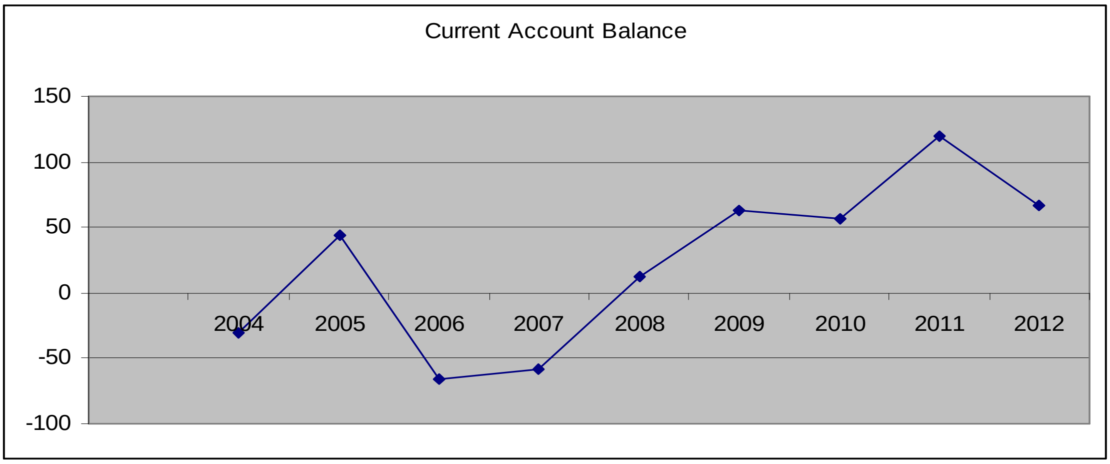
Transfers due to business related travel expenditures indicate a narrower deficit of US$3.46 against US$5.57 million in 2012. Education related expenditures also declined by 10.7 percent. However, proceeds from tourism increased in 2012 to US$87.67 million from US$83.31 million last year or by 5.23 percent, mainly on account of the increase in the number of visitors in 2012.

Receipts from communication services to non residents during the review period declined from US$ 5.47 million in 2011 to a much lower surplus of US$0.88 million in 2012. Proceeds from Insurance services deteriorated on a net basis from a deficit of US$6.59 million to US$8.71 million. Income from construction services also declined from US$2.91 million to US$0.99 million or by 65.97 percent during the review period

The Income Account –The deficit in the income account widened from US$6.41million in 2011 to US$10.35 million in 2012, due largely to the increase in interest payments on portfolio investments which increased from US$ 2.61million in 2011 to US$5.86 million in 2012. Income payments on equity increased slightly from US$1.94 million to US$1.96 million, compensation of employees also increased from US$1.85 million to US$ 2.53 million in the review period.

Current transfers declined to US$181.88 million against US$183.71 million last year. Transfers to general government increased by 15.19 percent from US$61.23 million to US$70.53 million. Transfers to other sectors which comprises workers' remittances and other unclassified transfers registered US$111.35 million in 2012 relative to US$122.48 million in 2012, a drop by 9.08 percent and was mainly due to the decline in other transfers, which according to data obtained from the banks and bureaus declined from US$49.27 million in 2011 to US$15.39 million or by 68.76 percent. Remittances however, increased from US$73.22 million to US$95.96 million or by 31.05 percent during the review period.

Current Account Balance 2004- 2012 in millions of US$)

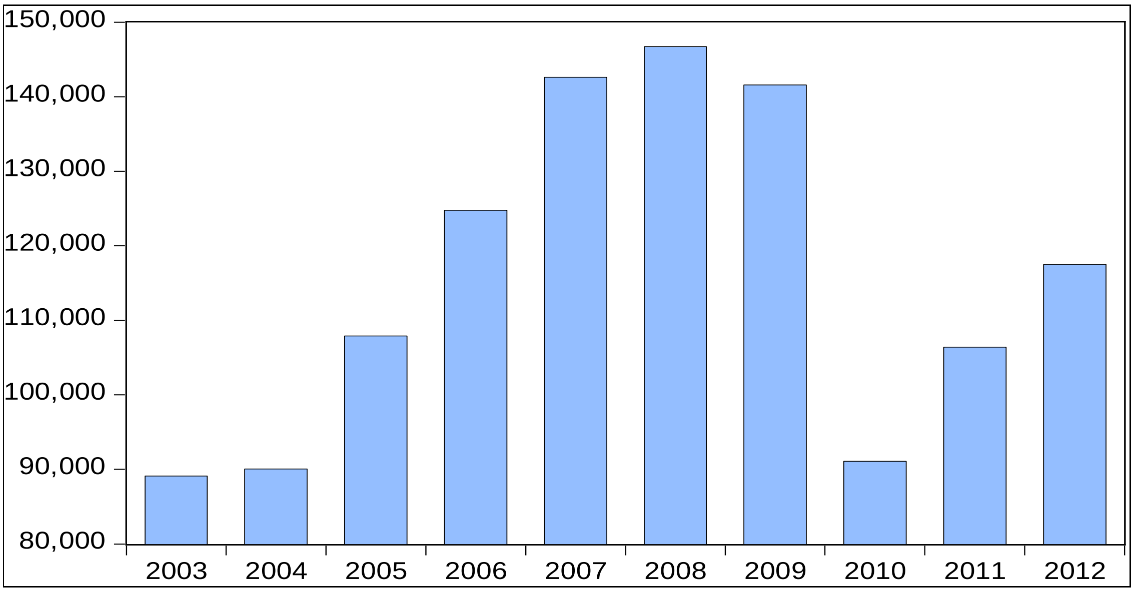


Tourism

The Government of the Gambia identified tourism as a priority due to the sector's direct impact on reducing poverty, avenue for boosting employment opportunities and providing much needed foreign currency. Of recent, the sector has experienced recovery of tourist arrivals largely emanating from recovery of the financial crises in the Euro area.

Between 2005 and 2008, the industry recorded average growth of 11.0 percent. In contrast between 2008 and 2010, average growth rate declined to negative 7.8 percent reflecting the period of global economic crisis. However, tourist arrival registered a record declined of 35.7 percent in 2010 but recovered to a growth of 16 percent in 2011 before easing to 11 percent in 2012.

Tourist Arrivals from 2003 - 2012

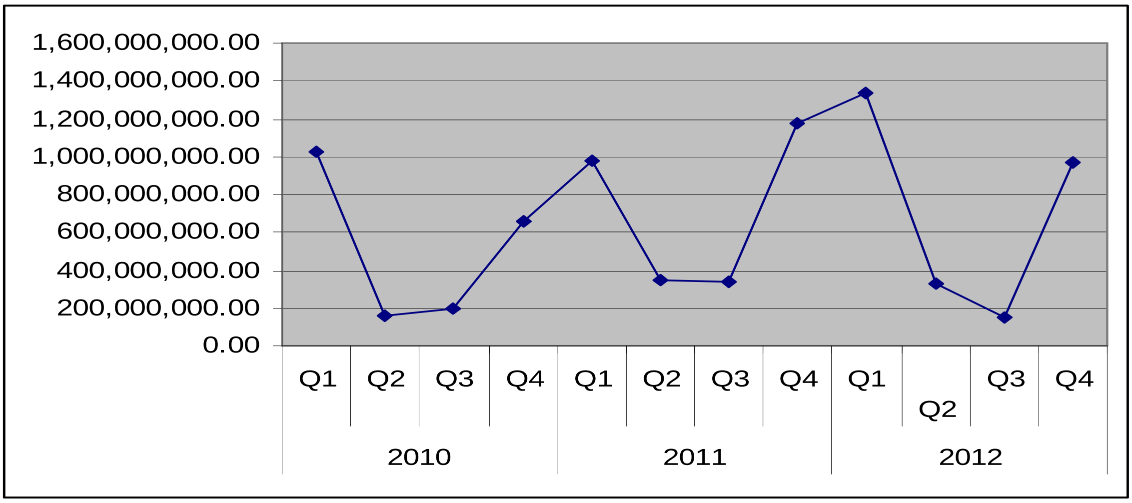


Income from Tourism

	2011	2012	% Change
Number of Air-Chartered Visitors	106,393	117,537	10.47
Average out of pocket expenditure (dalasi)	1200	1200	0
Average length of stay (days)	13	13	0
Hotel rate per night(GBP)	12	12	0
Departure fees (Dalasi)	170	170	0
Tourists arrival Tax(GBP)	5	5	0
Average Exchange Rate(DAL/GBP)	46.30	49.67	7.27
Income from Hotel Beds	768,496,854.00	910,737,795.00	18.50
Total Out of Pocket Expenditure	1,659,730,800.00	1,833,577,200.00	10.47
Income from Arrival Fees	24,631,309.00	29,190,314.00	18.50
Income from Departure Fees	18,086,810.00	19,981,290.00	10.47
Total Income from Air-Chartered Tourists	2,470,945,773.00	2,793,486,599.00	13.05

Data from the Gambia Tourism Authority indicate that Air-Chartered arrivals totalled 117,537 in 2012 compared to 106,393 last year, an increase of 10.47 percent. Income from tourism increased to D2.79 billion relative to D2.47 billion or by 13.05 percent, mainly on account of the higher arrival numbers relative to last year.

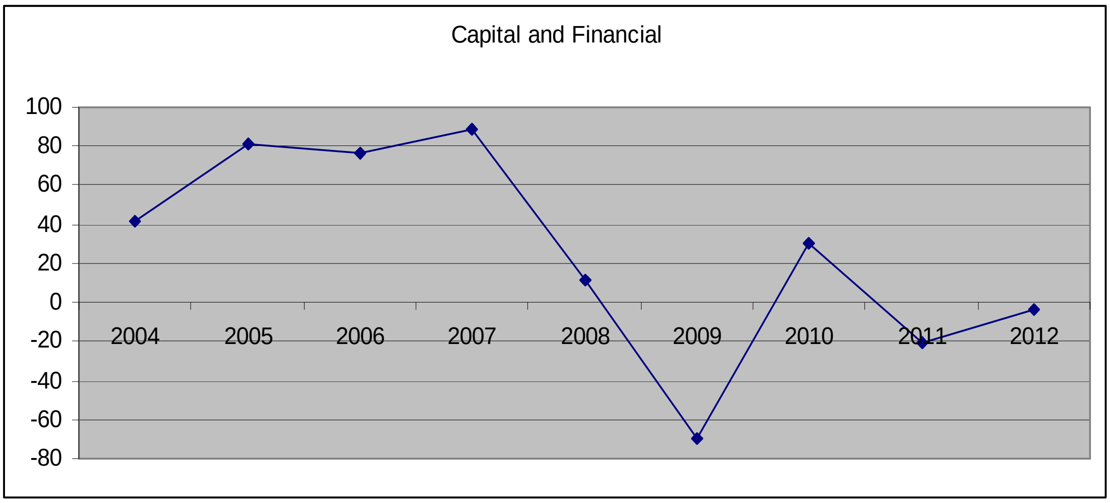
Income from Tourism Q1 2010 to Q4 2012 in D'millions



The Capital and Financial Account registered a lower deficit of US$3.98 million in 2012 relative to US$20.66 million recorded in 2011. This improvement was on account of the increase in other investment (assets of the deposit money banks) from a deficit of US$28.76 million to a surplus of US$5.47 million. Change in reserve assets also increased from US$23.16 million in 2011 to US$34.49 million in 2012.

Gross international reserves of the Bank at the end of 2012 stood at US$184.5 million, equivalent to 5.0 months of imports of goods and services

Capital and Financial Account 2004- 2012 (D'millions)

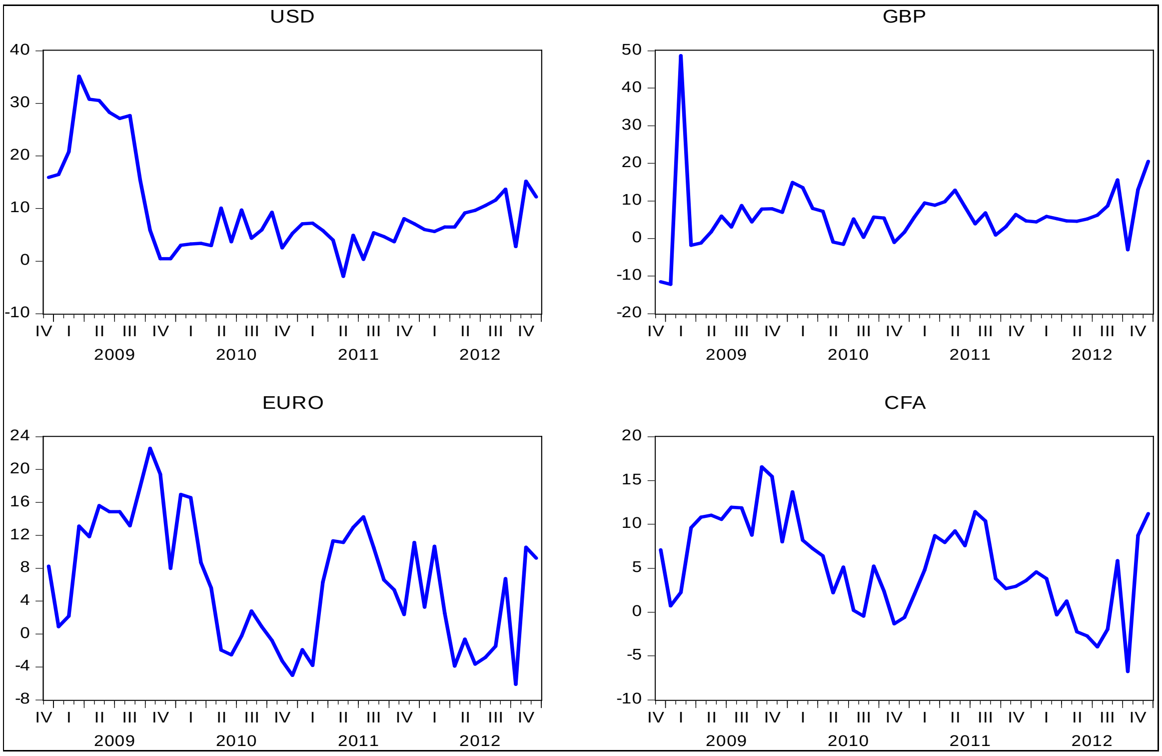


Foreign Exchange Developments

Developments in the domestic foreign exchange market in the year to end-December 2012 were characterised by exchange rate volatility despite the increase in activity volumes. Volume of transactions, measured by aggregate sales and purchases of foreign currency, increased to US$1.61 billion from US$1.43 billion in 2011. Supply of foreign currency in the domestic foreign exchange market, measured by total purchases, increased to US$802.4 million from US$663.8 million in 2011. Similarly, demand for foreign currency, gauged by total sales, increased to US$807.4 million compared to US$681.6 million.

Reflecting reduced inflows following the 2011 drought, the Dalasi depreciated in 2012 against all major currencies traded in the domestic foreign exchange market. Depreciation pressures were largely driven by larger deficits in the trade account of the balance of payments as import bills surged arising from the crop failure in 2011 while exports of major cash crops almost collapsed. Year-on-year, the domestic currency depreciated against the US Dollar by 12.2 percent, Euro by 9.2 percent, Pound Sterling by 20.6 percent and CFA by 11.2 percent.

Annual Exchange Rate Movements



External Debt

The Government continued to mobilize foreign loans from development partners and international financial institutions to complement its efforts to finance development programmes.

Disbursed outstanding debt (DoD) amounted to $313.99 million, $339.15 million and $357.76 million in 2010, 2011 and 2012 respectively. Total external debt service comprising principal and interest payments was US $19.54 million in 2012 relative to US $18.54 million in 2011, an increase of 5.4 percent.

Principal repayments amounted to $12.52 million, $13.44 million and $13.94 million in 2010, 2011 and 2012 respectively.

Foreign interest payments amounted to $4.81 million, $5.11 million and $5.60 million in 2010, 2011 and 2012 respectively.

Year	2010	2011	2012	2011	2012
				Growth rate	
Principal	12,518,744.02	13,435,916.89	13,937,538.73	7.3%	3.7%
Interest rate	4,814,033.95	5,106,650.39	5,598,762.65	6.1%	9.6%
sub Total	***17,332,777.97***	***18,542,567.27***	***19,536,301.38***	**7.0%**	**5.4%**
DoD	**313,991,300.00**	**339,146,700.00**	**357,758,300.00**	**8.0%**	**5.5%**
Total in millions US($)	**331,324,077.97**	**357,689,267.27**	**377,294,601.38**	**8.0%**	**5.5%**

An analysis of debt by creditors indicate that, International Development Association (IDA) registered 18.2 percent from the total loan disbursement, African Development Fund (ADF) 15.5 percent, Arab Bank for Economic Development in Africa (11.5 percent), Islamic Development Bank (11.2 percent) and Republic of China (Taiwan) 10.5 percent and the rest to other institutions.

Debt Indicators and Debt Sustainability

The standard debt indicators show that the Gambia's external debt burden remains high. Although The Gambia received extensive relief under the highly indebted poor countries (HIPC) Initiative and the Multilateral Debt relief Initiative (MDRI) in December 2007, the country remains at high risk of distress on its external debt.

As a percentage of total revenue, total external debt service recorded 11.4 percent in 2012 against 10.1 percent in 2011and as a percentage of GDP, it increased slightly to 2.1 percent from 2.0 percent in 2011.

Year	2010	2011	2012
Total External Debt In millions US($)	**313,991.30**	**339,146.70**	**357,758.30**
	In Percent	**In percent**	**In Percent**
External debt service to export of Goods & Services	13.15	12.48	11.81
External debt stock to GDP	39.62	41.24	42.1
External Debt Service in percentage of Total revenue	9.86	10.06	11.4
External debt service in percenet of GDP	**1.85**	**1.97**	**2.09**

Total external debt service to exports amounted to 11.8 percent relative to 12.5 percent a year earlier, and was below the threshold of 20-25 percent, placing the Gambia under moderately indebted countries under the Pre-HIPC debt indicators and threshold.

4.0 DEVELOPMENTS IN BANKS AND NON-BANK FINANCIAL INSTITUTIONS

4.1. Recent Developments in the Financial Sector

The financial sector in the Gambia continues to flourish. Thirteen (13) commercial banks operated in the country in 2012. In January 2013, the operational license of Prime Bank (Gambia) Ltd was withdrawn after failing to fulfill the minimum capital requirement by December 2012. The financial sector also consists of three (3) fast growing Savings and Credit Companies (SCCs), 50 active Village and Credit Associations, insurance companies and foreign exchange bureaus.

4.2. The Banking Sector

As at December 31 2012, the industry consisted of thirteen banks (twelve commercial banks and one Islamic bank). However, all banks met the new D200 million minimum capital requirements except Prime Bank Gambia ltd whose parent decided to divest its investments in the Gambia. Thus, the bank applied for voluntary liquidation and upon approval, its auditors (PKF) were appointed liquidator. The process is smoothly on-going. In effect, the number of banks (commercial and Islamic) now stand at twelve.

The system continues to be stable but there are concerns over concentration of investments and level of non-performing loans during the review period. However, banks continue to strengthen their marketing strategies in other to sustain and gain market share within the system.

Assets and Liabilities

Total assets of commercial banks increased to D20.6 billion or 10.5 percent in 2012 compared to 9.2 percent in 2011. All asset components increased except local and foreign currency holdings, balances held with banks abroad, and other assets.

Commercial banks' foreign assets, comprising foreign currency holdings, balances held with banks abroad and foreign investments rose to D2.7 billion or by 39.9 percent in 2012. Foreign currency holdings declined to D264.07 million or 7.4 percent. Similarly, foreign investments fell to D274.7 million or 3.0 percent. However, balances held with banks abroad, which accounts for the bulk of foreign assets rose to D2.2 billion or 58.5 percent.

Assets of Commercial Banks

	2009		2010		2011		2012	
	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change
Gambian Notes & Coins	211,910	-2.5	371,768	75	324,157	-12.8	365,219	12.7
Total Foreign Currency	348,035	-13.3	401,732	15	285,314	-29	264,066	-7.4
Balances Held With Banks	1,221,897	43	1,259,689	3	-	19	1,146,674	-23.5
O/W: Held With CBG	999,248	17.3	1,116,224	12	1,385,562	24.1	1,039,935	-24.9
Balances Held With Banks Abroad	959,116	26.5	1,152,870	20	1,384,629	20.1	2,194,525	58.5
Head Office & Branches	173,744	-33.2	378,881	118	515,076	35.9	653,729	26.9
Other Banks Abroad	785,372	57.6	773,989	-1	869,553	12.3	1,540,796	77.2
Bills Purchased & Discounted	74,285	81.6	20,083	-73	220	-98.9	105,000	47627.3
Loans And Advances	4,101,802	25.7	4,906,574	20	5,068,699	3.3	5,138,148	1.4
Public Sector	679,922	108.8	870,371	28	811,284	-6.8	764,924	-5.7
Private Sector	3,421,880	16.5	4,036,203	18	4,257,415	5.5	4,373,224	2.7
Investments	3,998,189	23.7	5,164,752	29	6,213,195	20.3	7,305,768	17.6
Gambia Gov't Tbills	3,683,928	24.9	4,735,486	29	5,617,945	18.1	6,750,726	20.3
Others	152,338	8.9	137,942	-9	312,003	126.2	280,357	-10.1
Foreign Investments	161,923	14.3	291,324	80	283,247	-2.8	274,685	-3.0
Fixed Assets	1,140,843	35.8	1,112,085	-3	1,136,917	2.2	1,232,829	8.4
Acceptances, Endorsements & Guarantees	1,764,152	22.9	2,472,952	40	1,909,432	-22.8	2,099,248	9.9
Other Assets	985,368	-30.9	944,338	-4	833,981	-11.7	767,437	-8.0
Total Assets	14,805,597	18.7	17,806,843	20	18,655,014	4.8	20,618,914	10.5

Holdings of Gambian notes and coins increased to D365.2 million or by 12.7 percent. Balances held with local banks, including the Central Bank, fell to D1.1 billion or 23.5 percent while commercial banks' net loans and advances outstanding at the end of the year was D5.1 billion, an annual increase of 1.4 percent.

Commercials banks' holdings of government commercial papers, including Treasury bills and bonds, rose by 20.3 percent to D6.7 billion. Other investments locally contracted to D280.4 million or 10.1 percent. Fixed assets of banks grew by 8.4 percent to D1.2 billion.

Liabilities of Commercial Banks

	2009		2010		2011		2012	
	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change
Capital And Reserves	**1,586,091**	**9.5**	**2,580,427**	**63**	**2,657,902**	**3.0**	**3,064,629**	**15.3**
Demand Deposits	**3,594,958**	**9.4**	**3,957,348**	**10**	**4,290,486**	**8.4**	**4,577,183**	**6.7**
Residents	2,737,107	3.1	3,569,913	30	3,904,773	9.4	4,242,595	8.7
Non Residents	443,923	3.20	41,834	-91	39,909	-4.6	53,427	33.9
Government Entities	413,928	-30.3	345,601	-17	345,804	0.1	281,161	-18.7
Savings Deposits	**3,281,017**	**19.8**	**3,864,843**	**18**	**4,494,099**	**16.3**	**5,154,189**	**14.7**
Residents	3,181,314	20.6	3,740,422	18	4,327,111	15.7	4,915,014	13.6
Non Residents	90,660	20.9	115,929	28	149,790	29.2	197,957	32.2
Government Entities	9,043	-62.4	8,492	-6	17,198	102.5	41,218	139.7
Time Deposits	**2,814,213**	**45.1**	**3,405,423**	**21**	**3,592,475**	**5.5**	**3,351,994**	**-6.7**
Residents	2,058,211	48.5	2,477,303	20	2,637,934	6.5	2,731,459	3.5
Non Residents	63,809	251.9	58,219	-9	23,148	-60.2	53,361	130.5
Government Entities	692,193	29.5	869,901	26	931,393	7.1	567,174	-39.1
TOTAL DEPOSITS	**9,690,188**	**21.7**	**11,227,614**	**16**	**12,377,060**	**10.2**	**13,083,366**	**5.7**
Balances Held For	**233,509**	**70.4**	**41,265**	**-82**	**59,442**	**44**	**72,486**	**21.9**
Head Office & Branches	189,703	118.7	15,819	-92	23,928	51.3	14,070	-41.2
Other Banks Abroad	8,784	-82.5	25,446	190	35,514	39.6	58,416	64.5
Borrowings From	**594,717**	**43.4**	**488,710**	**-18**	**454,017**	**-7.1**	**1,214,996**	**167.6**
O/W: Head Office & Branches	451,894	124.8	307,783	-32	221,911	-27.9	1,095,047	393.5
O/W: Other Banks Abroad	112,823	-44	140,927	25	212,106	50.5	97,949	-53.8
Acceptance Endorsement & Guarantees	**1,764,152**	**22.9**	**2,472,952**	**40**	**1,909,432**	**-22.8**	**2,099,248**	**9.9**
Other Liabilities	**936,940**	**-12.4**	**995,872**	**6**	**1,197,158**	**20.2**	**1,084,192**	**-9.4**
Total Liabilities	**14,805,597**	**18.7**	**17,806,840**	**20**	**18,655,011**	**4.8**	**20,618,917**	**10.5**

Total deposit liabilities rose by 5.7 percent to D13.1 billion in 2012 compared to 10.2 percent in 2011. Demand and Savings deposits rose D4.6 billion and D5.2 billion or 6.7 percent and 14.7 percent respectively. Time deposits amounted to D3.6 billion, a decrease of 6.7 percent from 2011. Deposit liabilities accounted for 63.5 percent of total liabilities compared to 66.1 percent in 2011.

Total bank borrowing during the year declined to D1.2 billion or by 167.6 percent. Commercial banks' borrowing in 2012 were mainly from their parent banks and other banks abroad. Borrowing from head offices and branches rose markedly to D1.1 billion from D221.9 million mainly to augment capital to meet the minimum requirement by December 2012. However, borrowings from other banks abroad declined to D97.9 million from D212.1 million in 2011.

As a result of the introduction of the new requirement, the industry's capital and reserves grew by 15.3 percent to D3.1 billion. Balances held for other banks rose to D72.5 million or 21.9 percent whilst other liabilities contracted by 9.4 percent to D1.1 billion in 2012.

Financial Soundness Indicators

Without credible financial information and appropriate analysis, a financial system can quickly run into difficulties. Thus, this report will adopt selected financial soundness indicators, which are key elements in determining a financial system's actual and potential standing. These are primarily derived by aggregating data on soundness of individual financial institutions. The industry Prompt Corrective Action (PCA) ratings as at December 2012 are as shown in the table below.

Code	Core Financial Soundness Indicators	Period Under Review			Industry Rating	Performance Definition
		Dec-12	**Dec-11**	**Dec-10**		
1	**Capital**				1	**Strong**
	- RBC Ratio	33.0%	25.1%	25.36%		
	-Paid-up Capital	3,199,006	2,574,592	2,543,511		
	Gearing Ratio	3.03	4.0	3.94		
2	**Gross NPL Ratio**	11.6%	12.6%	14.52%	4	**Unsatisfactory**
3	**Liquidity Ratio**	78.78%	70.20%	69.77%	1	**Strong**
4	**Return on Assets**	1.98%	0.26%	0.12%	3	**Marginal**
5	**Overall FX Open Position**	42.48%	-0.96%	1.35%	5	**Unsatisfactory**

Capital Adequacy Ratio (CAR)

The industry average risk-weighted capital adequacy ratio increased to 33.0 percent compared to 25.1 percent in 2011 and the minimum requirement of 10 percent. The gearing ratio was only 3.03 times, lower than the 4.0 times in 2011 and the prudential ceiling of 10 times.

During the year to December 31, 2012, the resilience of the banking system was further strengthened. The industry's capital and reserves increased to D3.06 billion in December 2012 compared to D2.63 billion in 2011. The increase of D392.4 million was mainly on account of capital injections to meet the new minimum capital requirement of D200 million by end December 2012.

All banks, except one, met the minimum capital requirement of D200 million. As for the exception (Prime Bank Gambia ltd) its parent, Société General De Lebanon, decided to divest its investments in the Gambia and applied for voluntary liquidation. Upon CBG approval, PKF (Auditors) were appointed liquidator and the process is smoothly ongoing.

Assets & Quality

During the review period, total industry assets increased to D20.6 billion, or 10.5 percent from 2011. This assets growth was mainly on account of significant increases in T-bills investments (up 21.0 percent) and foreign bank placements/Nostro balances (also rose by 105.5 percent).

In contrast, credits (loans and advances), accounting for 26.4 percent of total assets, decreased to D5.3 billion, or 2.4 percent from a year ago reflecting a fall in risk appetite of banks. Credit to distributive trade, building and construction and other commercial loans increased by 5.0 percent, 11.0 percent and 26.0 percent respectively. In contrast, advances to agriculture, transportation and tourism declined by 3.0 percent, 6.0 percent and 5.0 percent respectively.

The industry non-performing loan ratio also decreased to 11.6 percent of gross loans, lower than the 12.6 percent in 2011. However, adequate allowances for loan losses were made in excess of prudential minimum requirements. Nonetheless, the double digit NPL to gross loan ratio remains a cause for concern.

Comparing level and growth rates of credit and T-Bills it is obvious that banks have shifted their core banking business/investment from credits to T-Bills. The implication is that credit is not being appropriately channelled to the economy, particularly the private sector.

The graph below depicts the levels and trends of (A) Gross loans and advance, (B) Bad debts/non-performing credit and (C) Provision for loans losses/loss allowance over the past three years.

Credit Concentration

In banking, the concentration of lending to a particular sector or clients is deemed high credit risk since a single default can have huge impact on capital. Credit concentration can also result in systemic crises, which have macroeconomic implications.

The banking industry has significant concentration of credits which resulted directly from the other commercial loan and distributive trade sector. Credit to distributive trade accounted for the largest share of credit (30.1 percent) during the review period. This was followed by other commercial credits (21.2 percent) and credit to building and construction (12.3 percent). Manufacturing accounted for 6.3 percent, followed by Agriculture (5.2 percent) of total credit. Tourism was same as agriculture accounting for 5.2 percent while fishing attracted the lowest credits during the review period (0.2 percent).

It is evident from above that credit allocated to all the key sectors of our economy such as agriculture, fishing, tourism and construction industry remain very low. There is an urgent need to align banks credits with the government’s development objectives such as the Programme for Accelerated Growth and Employment (PAGE).

Earnings and Profitability

The industry's net profit rose from only D12.2 million in 2011 to D102.2 million in 2012. The return on assets and return on equity increased to 1.98 percent and 3.33 percent compare to 0.26 percent and 0.46 percent respectively in 2011.

Total interest income increased slightly by D9.7 million from December 2011 to stand at D406.7 million this review period. Net interest margin to gross income ratio decreased from 50.0 percent in December 2011 to stand at 43.8 percent end December 2012. Interest income remains the industry's highest source of earnings. Other income (non-interest) also increased by D86.2 million from December 2011 to level at D320.1 million this review period. The increase in other income was largely due to increases in Fees and charges on FX transactions and unrealised foreign currency translations gains during the review period.

Non-interest expenses stood at D405.8 million in December 2012 compared to D375.5 million a year ago. Further analysis of this component against gross income revealed a decline of 9.1 percent from December 2011 to stand at 71.2 percent in this reported period. This is an indication of decrease in overhead expenses in the Gambian banking system.

Liquidity

The loan to deposit ratio decreased to 41.6 percent against 44.1 percent in 2011. The liquidity ratio was 78 percent in 2012, or an increase of 4.0 percent from 2011. Liquid asset ratio of 78.8 per cent represents excess liquidity of 48.89 percent over the minimum requirement of 30.0 percent. T-bills remained banks' favourite liquid asset investment, accounting for 68 per cent of industry liquid assets. The sector's ability to meet short-term liabilities is clearly visible. Indeed, much of the funds invested in liquid assets (T-Bills) were sourced from shareholders capital injections and growth in mobilised deposits.

However, the excess liquidity within the system is a cause for concern and depicts a lack of support to private sector development. Banks should influence development by providing finance to both the public and private sector through lending. Consequently, maintaining a financial system with excess liquidity is not favourable to economic prosperity. Thus, there is a need to create a platform for the effective trading of financial instruments particularly T-Bills as well as encourage banks to resume lending to the private sector.

Market Risk Analysis

Despite the high growth in deposit-taking, of critical importance is the share of liabilities in foreign currency. A high preference for foreign-currency-assets on the part of depositors would indicate general uncertainties surrounding exchange rate stability. The share of foreign currency deposits in total deposit decreased from 17.1 percent in 2011 to 15.5 percent during the review period.

Financial Intelligence Unit

Review of the Money Laundering Act 2003 was concluded with the final enactment of the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Act 2012, by the National Assembly on June 28, 2012. Implementation of the Act has already commenced with the inauguration of the FIU Board. Plans are at an advanced stage for the establishment of an operationally independent FIU as required by the AML/CFT Act 2012, which shall continue to be housed within the Central Bank of The Gambia.

With the assistance of the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), the FIU received and installed an analytical software during 2012 to enhance the staff analytical capabilities.

Credit Reference Bureau

The Credit Reference Bureau is functional and has proven useful for banks to make credit enquiries and assessments of their customer requests within the banking industry. However, the system has encountered some challenges which have been identified by the banks. As a result, negotiations are currently underway between the CBG and Valtech to modify and enhance the CRB in order to improve its functionality.

GAMSWITCH

The Central Bank, in collaboration with stakeholders, embarked on the development of a nationwide switch, aimed at providing a platform for retail transactions. The system will provide connectivity between the Automated teller Machines (ATMs) of commercial banks, point of sale terminals etc.

The following milestones have been achieved:

1. Incorporation of the Company (GAMSWITCH), with an authorized Capital of USD5 million, of which the CBG is to hold 40 percent, the technical partners (Unique Solution and InterSwitch) to hold 20 percent each, and the remaining 20 percent is offered to the commercial banks;
2. The CBG has since provided seed capital for the purchase of equipment and implementation has progressed smoothly, except for delayed arrival of SYSCO items from the USA
3. The main servers, routers, position software and other key equipment have already been installed
4. The Project is scheduled to star test run by end-May 2013. The test will initially focus on the two pilot banks (GTB and TBL), and to roll-out to the remaining banks

4.3. The Non-Bank Sector

4.3.1. The Insurance Industry

In May 2012, The Central Bank granted operational license to Enterprise Life Assurance Company (Gambia) Limited or ELAC Gambia bringing to twelve the number of insurance companies operating in The Gambia. This company is wholly owned by Enterprise Life Assurance Company (Ghana) Limited or ELAC Ghana, the second largest life insurer in that country.

The establishment of ELAC Gambia also brought to three the number of life insurers and significantly contributed to boosting life insurance premiums to D10 million in December 2012 from D4.8 million in 2011. The tax exemption on life policies under the newly enacted Value Added Tax (VAT) Act which takes effect in 2013 is also expected to have a positive impact on the development of the life insurance sector, which hitherto remained largely untapped.

Structure of the Industry

The insurance industry comprises 12 companies, 8 brokers and 68 agents. Nine (9) of the insurance companies including a Takaful/Islamic operator are general insurers (operating in non-life), one (1) is a composite insurer (operating life and non-life insurance business) and two (2) wholly life insurance. The industry continues to be regulated and governed by the Insurance Act 2003, the Insurance Regulations 2005 and the Insurance Amendment Act 2006 which provides for the operation of Takaful (Islamic Insurance). A branch network of 27 branch offices of the 12 insurers is spread across all the six administrative regions of the country. In terms of ownership structure, 6 out of the 12 companies are 100 percent locally owned, 4 are of mixed ownership and 2 are of 100 percent foreign ownership. The level of foreign participation in our industry currently stands at 45.3 percent.

Assets and liabilities of Insurance Industry

	2011	2012	Percent Change
	D'000	**D'000**	
Land & Buildings	190,246	198,301	4
Outstanding Premiums	79,381	93,260	17
Investment in T-Bills	48,215	24,873	-48
Fixed Deposit Investments	52,186	64,785	24
Due from Reinsurers	13,945	16,903	21
Cash	19,700	10,550	-46
Total Current Assets	240,054	242,666	1
Total Assets	**490,075**	**519,589**	**6**
Outstanding Claims	28,954	15,501	-46
Short-term Loans	23,583	29,560	25
Due to Reinsurers	16,890	28,633	70
Total Liabilities (External)	**192,243**	**196,516**	**2**
Net Assets	**297,832**	**323,073**	**8**

The table above indicates an improvement in the industry's balance sheet. Total assets rose by 6 percent from D490 million in 2011 to D520 million in 2012. However, total external liabilities also rose marginally by 2 percent from D192 million in 2011 to D196 million in 2012.

Cash liquidity remained low with combined cash balances for all 12 companies standing at D10.5 million. However, the industry's liquidity position was favourable considering the D106 million recorded by other instruments of short-term maturity such as treasury bills, fixed deposit investments as well as outstanding amounts due from overseas reinsurers.

Income and Expenditure

Gross premium income of the insurance industry increased from D194 million in 2011 to D210.1 million in 2012, or by 8 percent. The top three insurance companies accounted for only 46 percent of gross premium income. This is an indication of an easing in market concentration compared to earlier periods when only three companies would account for about 80 percent of the total written premium.

Industry performance

	2011 D'000	2012 D'000
Gross Premium Income	194,817	210,117
Retained Premium	146,310	141,868
Reinsurance Outgo	46,809	47,892
Claims Paid	61,309	49,262
Administrative Expenses	127,281	100,330
Operating profit	(14,573)	(2,177)
GDP (Real)	20,679,585	
Penetration Rate of the sector	0.94%	

Profitability

Expenses in terms of reinsurance, claims and administrative overheads combined, contracted by 16 percent from D235.4 million in 2011 to D197.5 million in 2012. The rise in income and the corresponding drop in expenditure resulted in a combined average industry loss of D2.1 million in 2012 thereby easing the burden of higher losses experienced earlier.

Ratio Analysis

The combined ratios measure the underwriting performance by comparing the total loss/claims and expenses with premiums. This is to enable establish the extent to which the total cost of claims and expenses (loss) is covered by premiums. Normally, a combined ratio below 100 percent generally indicates good underwriting performance and one above 110 percent indicates a poor underwriting performance. Given the fact that industry expense ratio was 70 percent and loss ratio 35 percent in 2012, combined ratio (which is a sum of these two) stood at 105 percent. This is 5 percentage points above the 100 percent benchmark and it indicates a slightly higher than acceptable level of underwriting performance

Insurance Penetration

Insurance penetration which is a measure of the contribution of the sector to GDP and expresses gross premium output/income as a percentage of GDP stood at just below 1 percent in both 2011 and 2012.

4.3.2 Microfinance Industry

The microfinance sector comprised of 65 active Credit Unions, 61 Village Savings and Credit Associations (VISACAs) and 2 Finance Companies. Recently, the Bank has actively participated in the drafting of the National Microfinance Policy to further enhance the development of sustainable microfinance institutions and promote the agenda for inclusive finance. The IFAD funded Rural Finance Project (RFP) and ADB funded Social Development Fund (SDF) continued to support the sector in the area of capacity building and financing.

Village Savings and Credit Associations (VISACAs)

Village Savings and Credit Associations (VISACAs) registered significant growth in 2012 both in terms of membership and size of deposit liability as well as amount of loan extended to members. Membership rose from 35,031 in 2011 to 38,389 in 2012, an annual increase of 9.6 percent. Total deposit liabilities increased to D15.2 million in 2012 or by 15.2 percent.

Total loans extended to members in 2012 grew by 1.8 percent to D28.2 million from D27.7 million in 2011.

Managerial quality has generally improved as a result of renewed support from the IFAD funded Rural Finance Project and technical backstopping from the VISACA APEX founded two years ago. This intervention has revived several VISACAs that have been dormant for several years. Financial innovation has also improved as many of them are now involved in money transfer services some in very remote communities. A few of VISACAs have also started selling shares as part of efforts towards building their capital base. Eleven VISACAs have now met the revised minimum capital requirement of D100, 000 which has been reduced from D300,000 previously.

Village Savings and Credit Association Indicators

Year	Total Membership	Total Savings(GMD)	Loans Outstanding(GMD)	Capital
Dec. 2011	35,031	13.2 million	27.7 million	3.2 million
Dec. 2012	38,389	15.2 million	28.2 million	3.6 million
Growth%	9.6%	15.2%	1.8%	12.5%

Credit Unions

Credit Unions are directly supervised by the National Association of Cooperative Credit Unions (NACCUG). However, in a bid to ensure increased safety and soundness of the financial system, NACCUG is also being supervised by the Central Bank. During the year, a total of sixty five (65) Credit Unions were active while twenty one (21) were inactive. Eleven (11) are being prepared for full registration.

The 65 active Credit Unions registered an increase of 4.9 percent in membership from 44,849 in December 2011 to 47,065 by end-December 2012. Total savings and loans outstanding increased significantly by 19.0 percent and 22.5 percent from D366.7 million and D277.5 million in December 2011 to D436.1 million and D340.0 million by end-December 2012 respectively as shown in the table below:

Credit Unions Indicators

No. of Credit	Total	Total	Loans	INVESTMENTS(GMD)	
Unions (65)	Membership	Savings(GMD)	Outstanding(GMD)	T.Bills/Others	CFF
Dec. 2011	44,847	366,652,704	277,480,919	40,374,618	12,253,807
Dec. 2012	47,065	436,142,702	339,954,091	46,263,108	20,738,790
Growth%	**4.95**	**18.95**	**22.51**	**14.58**	**69.24**

Finance Companies

The Central Bank, this year renewed the operating licenses of two out of three finance companies operating in 2011. Notwithstanding, the overall performance of the finance companies improved during the year with increases in total deposits, total assets and capital base. Total deposits increased by 13.7 percent to D228.0 million in 2012 while total assets rose to D357.8 million in 2012.

Finance companies are also well capitalized with capital and reserve increasing by 38.8 percent to 55.5 million in 2012. The two companies have met both the minimum capital requirement of D10 million and Capital Adequacy Ratio (CAR) of 16 percent. However, one of the two companies was asked to augment its capital to D50 million in view of the huge deposits mobilized from the public.

In contrary, aggregate loans outstanding decreased by 22.2 percent to D73.7 million in 2012 from D94.7 million in 2011. This was in line with the overall decline in private sector credit in the economy in 2012.

Finance Companies Statement (D'millions)

Deposits		Loans		Total Assets		Capital & Reserves	
2011	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
183.9	206.0	90.2	72.2	235.6	310.6	20.3	33.0
12.7	22.0	2.2	1.5	42.3	47.2	24.3	22.5
3.9	-	2.3	-	17.7	-	-4.6	-
200.5	**228.0**	**94.7**	**73.7**	**295.6**	**357.8**	**40.0**	**55.5**

5.0 OPERATION AND ADMINISTRATION OF THE BANK

5.1 Board of Directors

The composition of the Board of Directors remained unchanged as mentioned in the 2011 report. The Board held four (4) regular meetings for the year 2012.

5.2 Staff Component

The staff strength of the Bank totalled 273 as at December 31, 2012 of which 170 are male and 103 are female corresponding to 60 percent and 40 percent respectively. There is a slight increase as compared to 2011 with the recruitment of more qualified staff at officer level.

For the year 2012, 23 members of staff were recruited; six officers and the rest as support staff. In terms of turnover, fifteen members of staff are no longer with the Bank as a result of the following:

- 7 retirements
- 1 voluntary retirement
- 4 resigned
- 1 contract not renewed
- 1 deceased
- 1 dismissal

5.3 Staff Training

The Bank continues to uphold the value of excellence in staff performance and continues to play an active role in building capacity by providing relevant academic and professional training both locally and overseas. For the 2012 academic year, three members of staff were offered sponsorship for post graduate training in the areas of Human Resource Management, Banking and Finance, and Economics.

A significant proportion of the clerical staff continue to benefit from local sponsorship by pursuing professional courses such as AAT, CAT, Banking and Finance, ACCA, Auditing and Purchasing and Supply Management. Also several members of staff benefited from short term courses tenable in UK, USA, Europe and the West Africa Sub Region.

5.4 Supports to the Social Sector

The Bank continues its active participation in the discharge of its corporate social responsibility through the provision of financial assistance in the areas of health, education, sports, and other various social activities

5.5. Currency Issued

At end 2012, currency in circulation increased to D3.1 billion or 17.9 percent from 2011. Dalasi notes accounted for 98.7 percent of currency issued and coins 1.3 percent. The D100 note was the most popular, accounting for 67.5 percent of bank notes in circulation, followed by D50 note (25.6 percent and D25 note 4.8 percent). The D10 and D5 notes, on the other hand, accounted for 1.2 percent and 0.9 percent respectively of bank notes in circulation. Currency in circulation was at a seasonal high in the fourth quarter of 2012 coinciding with a period when economic activity was at its peak.

Amongst the family of Gambian coins, the 1 Dalasi coin accounted for 64.3 percent of coins in circulation, the 50 Butut coin (21.3 percent) and the 25 butut and the rest (14.5 percent).

5.6. Commemorative Coins

The Central Bank of the Gambia continued to sell gold and silver commemorative coins during the year under review. The coins are issued to commemorate important events and to stimulate interest in the Gambia. The Bank also derives substantial income from royalties on the sale of these coins worldwide.

The last occasion celebrated and honoured with issue of Commemorative coins was the African Union Summit hosted by The Gambia in 2006. It is a gold coin available in stock for sale together with other commemorative coins as follows:

- The 25th Independence anniversary- The Gambia Silver Jubilee
- Papal visit Gold & Silver
- UN 50th Anniversary
- World Wildlife Conservation Coin
- African Union Summit- Gold coin

5.7. Deposits

Government deposits increased by 7.7 percent to D1,912.98 million, compared to D1,776.53 million as at end-2011. Commercial banks' deposit at the Central Bank decreased by 17.4 percent to D1019.14 million compared to D1,233.72 million in 2011 million.

5.8. Investments

As at end-2012, investments in Gambia Government securities held by the Central Bank of the Gambia stood at D2,469.12 million relative to D2,291.84 million in 2011, indicating an increase of 7.7 percent. The increase mainly reflected increased Treasury bills holdings. There were principal repayments of D60.84 million and D20.84 million in the 30-year and 10-year government bonds respectively in 2012.

6.0 INTERNATIONAL CO-OPERATION

6.1. Overview

The Bank maintained its international co-operation at both the regional and international level in enhancing economic policy formulation and implementation. The Bank participated in the meetings of the West African Monetary Zone (WAMZ) and West African Monetary Agency (WAMA) in harmonizing their policies and statistics critical for the convergence and establishment of a long-lasting monetary union in West Africa. The Bank also attended several fora of the Bretton Woods Institutions, notably the World Bank (WB) and International Monetary Fund (IMF) and continued to co-operate with the African Development Bank, Islamic Development Bank and the Commonwealth.

6.2. West African Monetary Zone (WAMZ)

The Bank participated in the bi-annual meetings of the West African Monetary Institute (WAMI) (charged with the responsibility of laying the foundation for a single currency in the WAMZ) in Monrovia and Abuja respectively. Macroeconomic developments in the zone in 2012 were characterized by strong growth driven by increased activities in the agricultural, services and industrial sectors in most Member States. Real GDP growth was estimated at 6.8 percent in 2012, compared to 5.9 percent in 2011, led by Nigeria on the back of firm oil prices. The average rate of inflation for the region receded to 6.97 percent in 2012, from 8.4 percent in 2011 aided by a let-up in average food and fuel prices due to political difficulties in passing-on the full price of fuel to consumers.

On the other areas of convergence, WAMI continued to co-operate with the ECOWAS Commission under the auspices of the WAMZ Trade Ministers' Forum and the ECOWAS-UEMOA Joint Management Committee on the Common External Tariff (CET). The WAMZ Payments System funded by the AfDB also registered significant strides in 2012 with the Gambia having all four components operational at end-2012 and progress in Guinea, Sierra Leone and Liberia. The completion date was extended to June 2014 by the AfDB to enable solution providers fully implement their outstanding assignments.

On financial sector integration in the WAMZ, capital market integration activities were progressing satisfactorily, characterized by regular stakeholder consultations and the establishment of a charter for the integration of the capital markets in West Africa. The WAMZ College of Supervisors had regular exchanges of information, views and assessments on the state of commercial banks in the region for efficient and effective supervision.

6.3. West African Institute for Financial and Economic Management (WAIFEM)

As a founding member of WAFEM, the Bank participated in all courses organized by the Institute in 2012 on macroeconomic management and financial sector issues. The Institute continued to be a centre of excellence in the execution of its training and capacity building programmes drawing expertise from member central banks, core economic ministries, public and private sector agencies and the legislature. The Bank also participated in the bi-annual meetings of the Institute dilating on key issues such as the approval of the Institute's training programmes for 2013 and the budget for the Institute.

6.4. International Monetary Fund (IMF)

As a member of the global financial architecture, the Bank continued its collaboration with the IMF in the areas of macroeconomic policy formulation and access to finance for infrastructural projects. During the review period, progress was made in the execution of the Three-Year Extended Credit facility (ECF) which was approved by the IMF Board for the Gambia in 2012. All of the end-June 2012 quantitative performance criteria (PCs) for the First Review of the ECF were met. However, one continuous PC was breached late in the year. The indicative floor on poverty reducing expenditures was met for end-June while the indicative target on total government revenues was missed narrowly at end-June.

Accordingly, corrective actions were taken to address the non-observance of the continuous PC on external payment arrears. After contacting the creditor, the Gambia Government cleared the debt arrears in December 2012. On the structural reform front, the VAT bill was submitted to the National Assembly in June and passed two weeks later. Also, GBoS started posting various data on its external website. The Government submitted the budget framework paper for 2013 to the National Assembly in November, together with the draft budget.

During the 2012 spring and Annual Meetings of the IMF and World Bank, held in the USA and Japan respectively, the International Monetary and Finance Committee and the Development Committee observed that the global economy was recovering gradually. Important policy actions have been taken in the euro area, both at the national and regional levels, including through an enhancement of the European firewall. Economic indicators in the United States have improved. Emerging market and developing countries on the whole remain a source of strength for the world economy. But more remains to be done. The outlook remains one of moderate growth globally, and risks remain high.

Global collaboration was key to sustaining growth everywhere and ensuring stability. Further actions are needed to build on the progress made to date in reducing global imbalances. In general, deficit countries need to continue with their efforts to strengthen national saving while enhancing export competitiveness and surplus countries need to continue to implement structural reforms to strengthen domestic demand, supported by continued efforts that achieve greater exchange rate flexibility. Member countries reaffirmed the urgency of making the 2010 quota and governance reforms effective by the 2012 Annual Meetings, to enhance the Fund's legitimacy and credibility. Members were urged to ratify these reforms expeditiously and call on the Fund to monitor progress transparently and more frequently.

Finally, members welcome recent initiatives on Fund surveillance, and agreed that the current surveillance framework should be significantly enhanced. Of much importance was the progress by the Fund in advancing consideration of an integrated surveillance decision and commitment to support the decision process. Strengthening surveillance should bring together bilateral and multilateral perspectives in Fund policy advice and enable better assessment of global and country level risks and spillovers to economic and financial stability, and engage more effectively with policymakers. The IMFC has a key role to play in regularly guiding strategic and operational priorities for Fund surveillance.

6.5. Association of African Central Banks (AACB)

The Bank participated in the 36th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (MCB) held at Hilton Hotel, Algiers, Algeria on August 30, 2012. The meeting was attended by thirty-one Central Banks, the African Union Commission (AUC) and regional and international institutions.

As usual, the meeting of the Assembly of Governors was preceded by a Symposium which was held on August 29, 2012 on the theme: "Challenges of Commodity Prices and Capital Flow Volatility to African Central Banks.

During the meeting, Governors endorsed the following decisions:

• The need to circulate the study to ail the Sub-regional Committees of the MCB for comments to be communicated to the Study Group and the Executive Secretariat by the end of November 2012;

• Transmission by the Study Group of a new version of the study, based on Sub-regions' comments to the MCB by the end of December 2012;

• Consideration by the MCB's Bureau of the new version of the study at its February 2013 meeting. If necessary, the Chairman can convene a meeting of the Bureau before the Ordinary Meeting of the Assembly of Governors;

• The need to ensure that the Study Group keeps on working. In this regard, AUC will downsize the number of members of the Study Group from the current 6 to 2 in order to contain the budget 2012 by its last term;

The Governors took note of the progress status of the publication of the report on the implementation of the African Monetary Cooperation Programme (AMCP) in 2010, and of the draft report on the implementation of the AMCP in 2011. In this regard, the Assembly urged members to transmit by mid October 2012 the missing information needed for the completion of the report for the year 2010. It also expressed concerns about the impact of external shocks on countries' performance under the convergence criteria in 2011. It observed that it was not necessary to modify the criteria and encouraged member countries to continue efforts to reinforce macroeconomic convergence.

Governors also noted the revised terms of reference of the Community of African Banking Supervisors (CABS) and invited the Executive Secretariat and the Secretariat of Making Finance Work for Africa (MFW4A) to organize the inaugural meeting of CABS as soon as possible.

6.6. Commonwealth Finance Ministers' Meeting

The Commonwealth Finance Ministers Meeting 2012 was held in Tokyo, Japan, on October 10, 2012. The main ministerial meeting was preceded by sessions for senior finance officials, central bank governors, and ministers from Commonwealth small and vulnerable economies on 9 October. The meeting's primary objective was for ministers and officials to discuss practical ways of addressing current challenges faced by their respective economies. The meetings took place at the Tokyo International Forum, venue of the 2012 Annual Meetings of the International Monetary Fund and The World Bank Group.

Key issues discussed included: high levels of youth unemployment; managing increasing volatility and building resilience to deal with exogenous shocks; tracking the progress of managing debt among Commonwealth countries; and strengthening the relationship between the Commonwealth and the G20.

Senior finance officials examined new ways of partnering and harnessing the potential of the private sector and sought to find a common approach to shaping the post-2015 development framework ahead of the target year for the achievement of the Millennium Development Goals. Central bank governors also discussed the challenges associated with managing long-term reserves and sovereign wealth funds.

6.7. Africa-Export-Import Bank (Afreximbank)

During the review period, Afreximbank's operations and activities were carried out in line with the targets outlined in the Annual Budget for 2012, which represented the first year of implementation of the Bank's Strategic Plan, 2012-2016 and within the context of developments in the global and African economic environments. Despite the multiplicity of challenges that emerged in the global and African operating environments, the rate of expansion of Africa which averaged 2.4 percent in 2011, strengthened to 4.7 percent in

2012 buoyed by firm oil prices, gradual but steady pick-up in FDI flows, continued recourse to sound macroeconomic policies, sustained improvement in quality of political governance across the continent; and continued recovery in remittances and tourism receipts. These developments impacted the focus and slant of the Bank's lending operations and activities during the review period.

The Bank's operational performance in 2012 was also affected by a number of internal factors. In this regard, during the review period, Management commenced implementation of the Bank's Fourth Strategic Plan. The 2012 Budget was therefore derived from the Plan document and themed ***"Leveraging Internal Strengths and Recent Gains for Operational Efficiency"***. As a result, the 2012 Budget attempted to consolidate the achievements made under The Third Strategic Plan (Plan III) as foundation for the realization of the objectives of Plan IV.

Specifically, the Plan sought, among other key objectives, to strategically promote intra-African trade through the introduction of an intra-African Trade Facility Programme (INTRAFAP), strengthen risk management systems by installing relevant Enterprise Risk Management (ERM) instruments, enhance operational efficiency through process improvements via continued, proactive implementation of the SAP Enterprise Planning and Resource Software, improve the geographic distribution of the Bank's loan assets, strengthen the human resource capacity of the Bank to equip it for robust growth envisaged under Plan IV, advance the Bank's drive towards diversification of its funding resources and intensify on-going shareholder mobilization efforts to ensure that the Bank is sufficiently capitalized to facilitate attainment of the target growth in assets.