



CENTRAL BANK OF THE GAMBIA



ANNUAL REPORT 2011

TABLE OF CONTENTS

Forward by the Governor.....	6
Board of Directors.....	9
Organisational Chart.....	10
1.0 GOVERNANCE.....	11
Overview.....	11
1.1 The Board of Directors.....	11
The Audit Committee.....	12
1.2 Committees of the Board.....	12
The Financial Supervision Committee.....	13
The Human Resource Committee.....	13
1.3 The Monetary Policy Committee.....	13
1.4 Departmental Overview.....	14
1.4.1 Administration Department.....	14
1.4.2 Banking Department.....	14
1.4.3 Economic Research Department.....	15
1.4.4 Finance Department.....	16
1.4.5 Financial Supervision Department.....	16
1.4.6 Insurance Department.....	16
1.4.7 Foreign Department.....	17
1.4.8 Internal Audit Department.....	17
1.4.9 Micro Finance Department.....	17

1.4.10	Legal Unit and Risk Management.....	18
1.4.11	Information Technology Department.....	18
2.0	DEVELOPMENTS IN THE GLOBAL ECONOMY.....	19
2.1	World Output Growth.....	19
2.2	Unemployment.....	25
2.3	General Price Level.....	25
2.4	Global Financial Markets.....	26
2.5	Commodities Markets.....	27
2.6	Outlook for 2012.....	28
3.0	DEVELOPMENTS IN THE DOMESTIC ECONOMY.....	29
3.1	Overview.....	29
3.2	Monetary Policy.....	30
3.3	Monetary Development.....	34
	Net Foreign Assets (NFA).....	37
	Net Domestic Assets (NDA).....	37
	Developments in Deposit Money Banks' Credit.....	38
3.4	Interest Rates Developments.....	39
3.5	Price Developments.....	41
3.6	Real Sector Developments.....	42
3.7	Fiscal Developments.....	42
	Revenue and Grants.....	43
	Expenditure and Net Lending.....	44
	Budget Balance.....	45
	Domestic Debt.....	45

3.8	External Sector Developments.....	46
	Merchandise Trade.....	47
	Services, Income and Current Transfers.....	48
	International Reserves.....	51
	Foreign Exchange Market.....	51
3.9	External Debt.....	52
	Debt Indicators and Debt Sustainability.....	52
4.0	DEVELOPMENTS IN BANKS AND NON-BANK FINANCIAL INSTITUTIONS.....	54
4.1	Overview.....	54
4.2	The Banking Sector.....	56
	Asset and Liabilities.....	56
	Profitability.....	58
	Liquidity.....	59
	Solvency.....	59
	Credit Reference Bureau.....	60
	Compliance and Risked-Based Supervision.....	60
	Financial Intelligence Unit.....	60
4.3	The Non-Bank Sector.....	61
4.3.1	Insurance Industry.....	61
	Assets and Liabilities.....	61
	Income and Expenditure.....	61
	Local and Foreign Ownership.....	62
	Insurance Penetration.....	62
4.3.2	Microfinance Industry.....	63
	Overview.....	63

	Village Savings & Credit Associations (VISACAs).....	63
	Finance Companies.....	64
5.0	OPERATION AND ADMINISTRATION OF THE BANK.....	66
5.1	Board of Directors.....	66
5.2	Staff Component.....	66
5.3	Staff Training.....	66
5.4	Support to the Social Sector.....	66
5.5	Currency Issued.....	67
5.6	Commemorative Coins.....	67
5.7	Deposits.....	67
5.8	Investments.....	68
6.0	INTERNATIONAL CO-OPERATION.....	69
6.1	Overview.....	69
6.2	West African Monetary Zone (WAMZ).....	69
6.2.1	College of Supervisors.....	69
6.3	West African Institute for Financial and Economic Management (WAIFEM).....	70
6.4	International Monetary Fund and World Bank.....	70
6.5	Association of African Central Banks (AACB).....	72
6.6	Common Wealth Finance Ministers' Meeting.....	73
6.7	Afrieximbank.....	73
	STATISTICAL TABLES.....	75

FORWARD BY THE GOVERNOR



The global economy began a steady decline in 2011 despite moderate recovery in some advanced economies and strong performance in emerging and developing economies. Growth was stalled by a heightening of global economic uncertainties caused by escalation in sovereign default risks in the Euro area, the shock of the Japanese earthquake and tsunami and the effects of the unrest in the Middle East and North Africa. In addition, the disorderly roll-back of fiscal stimulus programmes which were begun in 2009/10 as a result of concerns regarding fiscal sustainability across many OECD economies, especially in Europe contributed to the faltering of the global economy in 2011.

However, it is worthy to mention that despite the aforementioned challenges,

growth continued even if at a decelerating rate attributed to the continued recourse to accommodative monetary policies in the form of low policy rates across the OECD countries, continued expansion of developing economies and bold and co-ordinated global macroeconomic policy interventions.

The Gambian economy faced considerable policy challenges coming into 2011. First, the fiscal policy expansion in the final quarter of 2009 and in 2010 contributed to an increase in the interest rates on Treasury bills in early 2011, causing interest costs to exceed budget allocations. Second, extra budgetary spending demands emerged during the year, including from an increase in fuel subsidies to cushion the impact of rising international oil prices and additional pressures from the wage bill. Third, the monetary expansion in 2009 and 2010, coupled with increasing food and fuel prices made it difficult to bring inflation down to its target in the first half of 2011 as envisaged. As a result, monetary policy was tightened during the first half of 2011 and

into the third quarter, mainly by mopping up liquidity through increased net sales of Treasury bills.

Responding to these challenges in the second half of the year, the government implemented measures to bring economic policies back on track. These measures include fiscal tightening, particularly in the second half of 2011 which reduced bank and non-bank financing and increased domestic revenue mobilization which registered a significant growth. As a result of the improved fiscal position, interest rates on Treasury bills declined and inflationary pressures receded. Assessing these developments on the outlook for inflation, the Monetary Policy Committee was able to relax monetary policy towards the end of the year and the monetary policy rate was reduced from 15.0 percent to 14.0 percent in October 2011. The objective was to boost investment demand and growth.

The year also witnessed major developments in the payments system with the introduction of new processes for clearing cheques and other payment methods. The Real-Time Gross Settlement

System (RTGS) and the Automated Cheque Processing and Clearing House (ACP/ACH) were launched in December 2011. The Core Banking Application (CBA) and the Securities Settlement System (SSS) will go live in 2012. Work has progressed on the National Switch, which is also expected to be operational by the end of 2012.

The interface of government's Integrated Financial Management Information Systems (IFMIS) with CBG's national payments system became operational in December 2011. It will ensure that government spending does not exceed available resources by enabling the Directorate of the National Treasury to access, in real time, government accounts and the automated Securities Settlement System.

In a bid to improve data submission and integrity, the CBG initiated a process to develop electronic data submission platform for commercial banks called Regulatory Compliance Supervisory System (V-RegCoSS). In addition, in collaboration with the Money and Capital Markets Department of the IMF, the CBG conducted a stress testing of the Gambia's banking

industry during 2011. The results of the stress test revealed that the banking industry is well capitalized and highly liquid.

Finally, I would like to thank the staff and management of the Bank for their support cooperation, commitment and hard work towards our achievements as an institution.

Thank you.

Amadou Colley
Governor

Equally, my appreciation goes to the Board of Directors for the policy advice and I am confident that with the excellent human capital available at the Bank, we have a strong team that can contribute effectively to the macroeconomic stability and overall growth and development of the country.

BOARD OF DIRECTORS



Amadou Colley

Governor/Chairman



Benjamin J. Carr
Member



Mustapha A. Kah
Member



Rene Geoffrey Renner
Member

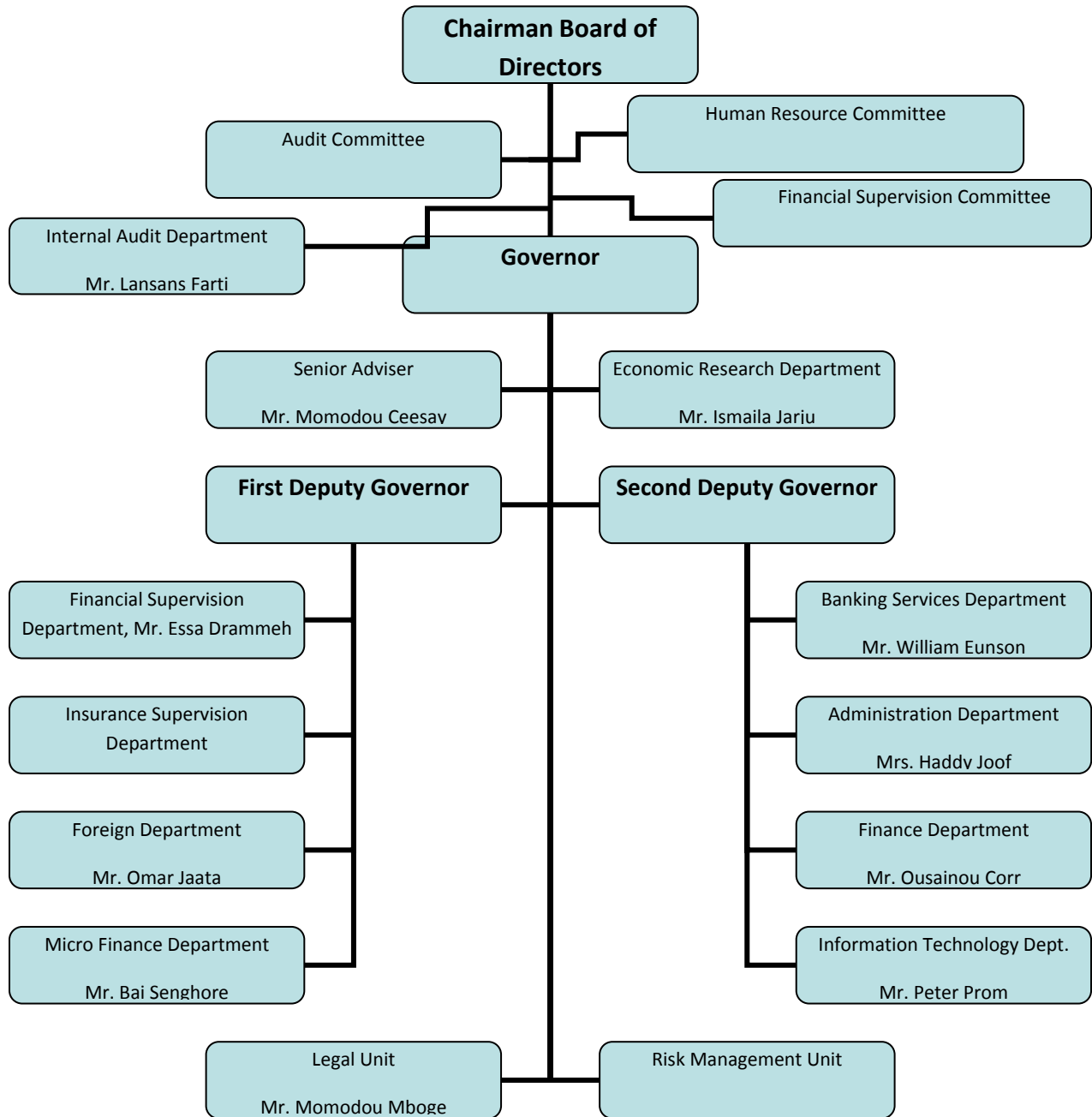
Mod A.K. Secka, Member
Permanent Secretary, MOFEA



Mr. Momodou Mboge, Secretary of the Board

CENTRAL BANK OF THE GAMBIA

ORGANISATIONAL CHART



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 2011 include;

- Decisions of the MPC
- Impact of the global economic crisis on the Gambian economy.
- Progress on the discussions for a new Extended Credit Facility with

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;

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

- 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.

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:

- Setting the policy interest rate to achieve the price stability objective of the Bank;

- Providing the statistical data for the formulation of monetary policy

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 2011. 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
- 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), 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

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

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

1.4.7 Foreign Department

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.

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.

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.

The Foreign Department is responsible, jointly with the Financial Supervision Department, for evaluating applicants to operate foreign exchange bureaus. The

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

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

remit of the Department also includes the management of the foreign reserves portfolio in line with the Foreign Reserve Management Guidelines.

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.

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 Unit is 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 World Output Growth

Growth in the global economy has been steadily declining despite moderate recovery in some advanced economies and strong performance in emerging and developing economies, consistent with earlier forecasts of a possible faltering of the global recovery in 2011. In this regard, the rate of growth of global output, which recovered from -0.7 percent in 2009 to 5.2 percent in 2010, decelerated to 3.8 percent in 2011. Global economic growth is being stalled by a heightening of global economic uncertainties caused by escalation in sovereign default risks in the Euro area, the shock of the Japanese earthquake and tsunami, the effects of the unrest in the Middle East and North Africa, coupled with disorderly roll-back of fiscal stimulus programmes which were begun in 2009/10

as a result of concerns regarding fiscal sustainability across many OECD economies, especially in Europe.

However, it is worthy to mention that despite the aforementioned challenges, growth continued even if at a decelerating rate. The fragile recovery seen so far owed a lot to continued recourse to accommodative monetary policies in the form of low policy rates across the OECD countries; continued expansion of developing economies, as a group led by China (9.2 percent) and India (7.4 percent); bold and co-ordinated global macroeconomic policy interventions led by the Group of 20 (G20) economies, which contributed in calming global markets, especially during the first half of 2011. The concerted efforts by the leaders in Europe to find a lasting solution to the debt crises also helped to avert the collapse of the Euro and a possible financial crisis that would have had worse global consequences.

Table 1. Overview of the World Economic Outlook Projections*(Percent change unless noted otherwise)*

	Year –on-Year		Projections			
	2010	2011	2012	2013	2012	2013
World Output	5.2	3.8	3.3	3.9	-0.7	-0.6
Advanced Economies	3.2	1.6	1.2	1.9	-0.7	-0.5
United States	3	1.8	1.8	2.2	0	-0.3
Euro Area	1.9	1.6	-0.5	0.8	-1.6	-0.7
Japan	4.4	-0.9	1.7	1.6	-0.6	-0.4
United Kingdom	2.1	0.9	0.6	2	-1.0	-0.4
Emerging and Developing Economies	7.3	6.2	5.4	5.9	-0.7	-0.6
Sub-Saharan Africa	5.3	4.9	5.5	5.3	-0.3	-0.2

Source: IMF WEO

UNITED STATES OF AMERICA The U.S. economy is struggling to gain a strong foothold, with sluggish growth and a protracted job recovery. Downside risks weigh on the outlook given fiscal uncertainty, weakness in the housing market and household finances, renewed financial stress, and subdued consumer and business sentiment. Bold political commitment to put in place a medium-term debt reduction plan is imperative to avoid a

U.S. economic activity lost steam in 2011. Growth slowed from an annual rate of 2¼ percent in the second half of 2010 to 1 percent in the first half of 2011. Real GDP growth was estimated at 1¼ percent in 2011, down from 3.0 percent in 2010.

sudden collapse of market confidence that could seriously disrupt global stability.

At the same time, renewal of some of the temporary stimulus measures—within the medium-term fiscal envelope— and accommodative monetary policy can partly cushion private activity. The prompt implementation of the Dodd-Frank Act will minimize risks to financial stability from a prolonged period of low interest rates.

However, the damage to consumer and business confidence from the ongoing equity market losses, weak house prices and the pressure to deleverage imply that growth will be modest relative to historical averages for years to come. Growth will

suffer if the temporary payroll tax cuts and increased unemployment insurance are not continued into 2012. Also, failure to reach political consensus on the design of debt reduction before the beginning of 2012 will result in more front-loaded deficit cuts than currently assumed, with attendant negative effects on growth. More fundamentally, delays in accomplishing an adequate medium term debt-reduction plan could suddenly induce an increase in the U.S. risk premium, with major global ramifications.

EUROPE Europe is grappling with renewed market volatility and sharply elevated risks to financial stability. Spreads have risen to new highs in sovereigns and banks in the euro area periphery (especially Greece). Strains have proved contagious, with elevated spreads even in economies that had not been affected thus far (Belgium, Cyprus, Italy, Spain, and to a lesser extent France), and markets further differentiating sovereign risks within the euro area on the basis of individual countries' economic and fiscal challenges and their banks' exposure to sovereigns and banks in the periphery. Global risk aversion, as measured by the Chicago Board Options Exchange Market

Volatility Index (VIX), recently surpassed levels reached at the onset of the Greek debt crisis in spring 2010. The European Banking Authority's July 2011 stress tests did little to stabilize bank stocks in the short term. Investors remain concerned, notwithstanding recent modifications to the European Financial Stability Facility (EFSF), the July 2011 package of measures to help Greece address its debt crisis, and extension of the European Central Bank's (ECB's) unconventional measures.

After a strong first quarter, growth in the euro area fell sharply in the second quarter of 2011, in part due to the pressure of high commodity prices on real disposable incomes and to ongoing fiscal tightening, but also because of the effect of the crisis on consumer and business confidence across the region, including in the core economies. In 2011 as a whole, real GDP growth was estimated at 1.6 percent, lower than the 1.9 percent recorded in 2010. The ongoing financial turbulence will be a drag on activity through lower confidence and financing, even as the negative effects of temporary factors such as high commodity prices and supply disruptions from the

Japanese earthquake diminish. However, the projections assume that European policymakers will contain the crisis in the euro area periphery, consistent with their commitments at the July 2011 EU summit.

CHINA China's economy grew by 8.9 percent in the fourth quarter of 2011 over the same quarter, last year. China's economy expanded at its weakest pace in 21/2 years in the fourth quarter, with the sagging real estate and export sectors heralding a sharper slowdown in coming months and fresh pro-growth measures from the government. On a quarterly basis, China expanded by 2 percent in the fourth quarter of 2011 over the previous quarter. Historically, from the first quarter of 2011 until quarter four of 2011, China's average quarterly GDP Growth was 2.15 percent reaching an historical high of 2.20 percent in June of 2011 and a record low of 2.10 percent in March of 2011.

China recorded a trade surplus of \$17.03 billion in October, as exports rose 15.9 percent year-on-year to \$157.49 billion, while imports increased 28.7 percent to \$140.56 billion, according to the General Administration of Customs. The trade

surplus was \$14.51 billion in September. China's trade surplus narrowed in November, but was higher than expected, indicating the euro-zone crisis is having a real but still limited impact on Chinese exports.

UNITED KINGDOM The prospects for the UK economy have worsened. Global demand has slowed, and concerns about the solvency of several euro-area governments intensified, increasing strains in banking and some sovereign funding markets. Household and business confidence fell, both at home and abroad. These factors, along with the fiscal consolidation and squeeze on households' real incomes, are likely to weigh heavily on UK growth in the near term. Thereafter, the recovery should gain traction, supported by continued monetary stimulus and a gentle recovery in real incomes. Implementation of a credible and effective policy response in the euro area would help to reduce uncertainty and so support UK growth, but its absence poses the single biggest risk to the domestic recovery.

The British economy shrank by 0.2 percent in the fourth quarter of 2011, edging closer

to a recession (defined as two or more consecutive quarters of contraction). This is slightly worse than economists expected – most had expected a 0.1 percent contraction. In the third quarter, the economy grew by 0.6 percent. In 2011 as a whole, the UK economy grew by 0.9 percent compared to the 2.1 percent in 2010 and growth is forecast to expand by 0.6 percent in 2012.

JAPAN Japan's economy rebounded in the third quarter of 2011, growing for the first time since a deadly earthquake in March 2010. Gross domestic product grew by 1.5 percent in the three months to the end of September, compared with the previous three months. The gain comes after three quarters of contraction, and indicates an annualised rate of growth of 6 percent. Real GDP growth was a contraction of 0.9 percent in 2011 relative to the 4.4 percent growth in the preceding year reflecting the impact of the Tsunami on economic activity.

Japan's economy was dragged into a recession after the earthquake, which caused severe damage to the northeast of the country. It also damaged factories and

disrupted supply chains. However, the latest figures show that exports are improving, helping economic growth pick up. Japan announced its first trade deficit since 1980. For decades the country has used an export policy to build up brand names such as Toyota, Sony and Canon, but official trade figures are expected to show a deficit caused by energy imports to cover the loss of nuclear power after the Fukushima disaster.

AFRICA The slowdown of the global and advanced economies negatively impacted the level of economic activity in Africa. The rate of growth of Africa's real GDP, which strengthened to 5.3 percent in 2010 from 2.8 percent in 2009, moderated slightly to 5.25 percent in 2011. The continued firm growth in Africa was supported by strong commodity prices, which lifted economic receipts and economic activity of many commodity dependent African economies. Significant price gains were recorded in ***agriculture, energy and minerals/metals*** of 16 percent, 39 percent and 28 percent during the review period compared to their average levels in 2010. Others factors that positively impacted growth included

increased foreign direct investments (FDI) and other forms of capital flows as international investors continued their endless search for safe haven assets in frontier and emerging markets; continued recourse to sound macroeconomic policies by many African governments; sustained improvement in democratic governance across the continent and sturdy pick-up in tourism receipts and migrant remittance flows.

On a sub-regional basis, the economies in **North Africa** registered a slowdown with the rate of growth of GDP weakening to 2.3 percent in 2011, from 4.4 percent in 2010 reflecting the impact of the uprising on tourism receipts, FDI and exit of private equity. As a result of these difficulties, inflation for the region rose to 8.7 percent in 2011, from a level of 7 percent in 2010. This price development derived from significant hikes in average levels in Sudan and Libya which sustained respective inflation rates of 20 percent and 10 percent in 2011 compared to 13 percent and 2.5 percent respectively in 2010.

The rate of expansion of the economies in **Southern Africa** which was 4.1 percent in 2010, weakened slightly to 3.8 percent in 2011 despite strong growth performance of the South African economy, the flagship economy of the region. The lower-than-expected growth resulted from slack in performance in a number of countries in the region, including Botswana, Namibia, Zambia and Zimbabwe compared to 2010.

During the review period, the rate of growth of the economies of **West Africa** moderated to 4.9 percent from a level of 5.2 percent in 2010. The slowdown in activity in the region could be attributed to the weakening of growth performance of many of the economies in the region, including Nigeria, the flagship economy, and a contraction of the Ivorian economy due primarily to the election-related political difficulties that prevailed during the first half of 2011.

The economies of **Eastern and Central Africa** witnessed deceleration in economic activity as a result of the overall weakening of the global and advanced economies. Real GDP growth which strengthened from

4.6 percent in 2009 to 5.81 percent in 2010 remained barely unchanged at 5.78 percent in 2011.

2.2 Unemployment

With regards to unemployment, the OECD area unemployment rate was stable at 8.2 percent in 2011. The rate has hovered at this level since January 2011. However, stability at the aggregate level masks different national situations.

The Euro area's unemployment rate remained at 10.3 percent in 2011 - the highest rate recorded since the start of the global financial crisis. This reflected ongoing increases in the unemployment rates for Portugal (at 13.2 percent), Spain (at 22.9 percent), Ireland (at 14.6 percent) and more lately the Netherlands (at 4.9 percent) offset by sustained declines in the unemployment rates for Germany (at 5.5 percent) and more recently Belgium (at 7.2 percent). Germany's rate has now regained its 1991 reunification level, down from the peak of 11.5 percent in April 2005.

Much of the decline in German unemployment occurred early in the year,

when the economy's export machine was running hot.

The US unemployment rate was 9 percent in 2011 having dropped slightly in the third quarter. The lack of inflationary pressure means the Fed can focus on other areas of the economy, such as trying to reduce the unemployment rate.

2.3 General Price Level

Although price levels remained relatively low, inflationary pressures increased during the period resulting in a rise in the general level of prices around the world. The global rate of inflation maintained its upward trend to reach 4.95 percent in 2011, from an average level of 3.67 percent in 2010. These price developments were largely attributed to the continued rapid increase in global commodity prices, especially energy and food in particular. Natural disasters and political difficulties across the Middle East, a major source of oil, tightened global oil inventories in 2011.

In the major advanced economies, domestic inflation pressure, as measured by the GDP deflator, is low. In emerging market

economies, pressure varies widely but is generally projected to recede modestly.

In various emerging market economies, notably China, real estate markets are cooling down, which implies slowing investment in construction. Despite appreciable slack in the major advanced economies, other economies will operate close to or above full capacity, and thus inflation dynamics will vary.

Commodity price hikes have held up headline inflation in major advanced economies. At the same time, core inflation and wage gains have remained low. In the United States and the euro area, unit labor costs have receded or stagnated, respectively, over the past few years. As labor markets improve only very gradually, headline inflation in the United States is projected to fall to about 2 percent in 2013. The projection for the euro area is about 1½ percent for 2013. Prices in Japan are projected to move broadly sideways. The average rate of inflation for African economies, as a group, rose from 7.5 percent in 2010 to 8.4 percent in 2011 mainly due to the strong increase in global commodity prices during the period.

2.4 Global Financial Markets

The financial crisis has seen continued concerted efforts at addressing perceived risks to sustainable expansion of global output through proactive co-ordination of macroeconomic policies, particularly among major developed and developing economies under the auspices of the G7 and G20 economies.

In addition, multilateral agencies such as the International Monetary Fund (IMF), World Bank, and regional development banks such as the African Development Bank (AfDB), stepped up their intervention through deployment of various emergency funding programmes. These co-ordinated efforts were geared towards addressing growing uncertainties in global markets, including the rapidly evolving sovereign debt crisis of the Eurozone and US economies, which were regarded as major threats to global economic expansion. Through international co-ordinated efforts, policy rates were kept at record low levels with a view to encouraging lending and investment to sustain the recovery of the global economy.

The pursuit of accommodative monetary policies meant that short term interest rates were kept at low levels across all G7 economies during the review period, with the exception of the US and Canada where marginal increases in rates were seen at the end of 2011 compared to 2010. In the UK, short term interest rates declined marginally from 0.8 percent in 2010 to 0.5 percent in 2011, as the government sought to stimulate economic growth.

Short term interest rates in the Eurozone also declined marginally from 1.01 percent in 2010 to 1.0 percent in 2011. Interest rates in the United States and Canada rose marginally to respective levels of 0.25 percent and 1.0 percent at the end of 2011, from their levels 0.22 percent and 0.89 percent at the end of 2010.

With respect to international exchange rate movements, with the exception of the Japanese Yen and the British pound, the US dollar appreciated against all major currencies traded in the international foreign exchange market compared to their rates at the end of 2010. The US dollar appreciated against the Euro by 3.0 percent

reflecting the worsening of the European debt crisis coupled with a more dismal near-term outlook for the Eurozone economies and better prospects for sustainable recovery of the US economy.

2.5 Commodities Market

Most commodities recorded impressive nominal gains in 2011 fuelled primarily by strong global demand and supply-side rigidities that negatively impacted production and thus global supplies of agriculture and metals/minerals coupled with political difficulties in major oil producing countries. **Agriculture, Energy and Metals/Minerals** recorded impressive gains of 16 percent, 39 percent and 28 percent in 2011 compared to their average levels in 2010. On individual basis, significant nominal gains were recorded for copra (53 percent), coffee (49 percent), crude oil (39 percent), cotton (38 percent), maize (36 percent), rubber (30 percent), tin (29 percent) and gold (28 percent).

Largely as a result of the growing uncertainties in the world economy and volatility in asset markets, 2011 was characterized by the continued use of

commodities and precious metals in particular, as safe-haven assets by investors. In this regard, activity levels on major commodity exchanges in the developed and developing worlds reportedly rose significantly in 2011 compared to 2010.

2.6 Outlook For 2012

Looking forward, available forecasts point to continued improvements in the global economy on the back of forecast recovery of the US economy and the expected resolution of the Eurozone debt crisis. However, some downside risks remain including political instability in North Africa, potential growth dampening effect of the Eurozone debt crisis and rising international tensions over Iran's nuclear programme.

Expectations are that growth will be driven by improvements in international credit markets, which would spur activity in the syndications and bond markets. Real GDP growth in the global economy is forecast to slow to about 3½ percent in 2012, and to return to 4 percent in 2013. In the advanced economies, growth is projected at about 1½ percent in 2012 and 2 percent in

2013. Because of weak confidence, fiscal consolidation, and still-tight financial conditions in a number of economies, euro area GDP is forecast to contract by about ¼ percent in 2012.

Real GDP growth in the emerging and developing economies is projected to slow from 6¼ percent in 2011 to 5¾ percent in 2012 but then to re-accelerate to 6 percent in 2013, helped by easier macroeconomic policies and strengthening foreign demand.

Among the advanced economies, U.S. real GDP growth is projected to strengthen somewhat relative to 2011, at about 2 to 2½ percent during 2012–13, implying only modest change in the 5 percent of output gap. In Japan, real GDP growth is projected at about 2 percent in 2012, recovering from the output losses in 2011 related to the earthquake and Thai floods. The euro area is still projected to go into a mild recession in 2012 as a result of the sovereign debt crisis and a general loss of confidence and the effects of bank deleveraging on the real economy.

3.0 DEVELOPMENTS IN THE DOMESTIC ECONOMY

3.1 Overview

Economic activity in the Gambia remains strong despite the global economic crises. Real GDP growth was 3.3 percent in 2011 compared to 5.5 percent in 2010. Agricultural output grew at a slower pace of 4 percent compared to 12.1 percent in 2010 reflecting the protracted and inadequate rains that affected crop production. Consumer price inflation decelerated to 4.4 percent in 2011 relative to 5.8 percent in 2010 on account of lower global food prices and less Government recourse to Central Bank financing of the fiscal deficit. Average inflation (12-month moving average) also declined, albeit slightly to 4.8 percent in 2011 from 5.0 percent in 2010, helped by the tight monetary policy. The Dalasi was broadly stable, losing only 7.7 percent of its value against the US dollar.

The Gambian economy faced considerable policy challenges coming into 2011. First, the fiscal policy expansion in the final quarter of 2009 and in 2010 contributed to an increase in the interest rates on Treasury

bills in early 2011, causing interest costs to exceed budget allocations. Second, extra budgetary spending demands emerged during the year, including from an increase in fuel subsidies to cushion the impact of rising international oil prices and additional pressures from election related spending and the wage bill. Third, the monetary expansion in 2009 and 2010, coupled with increasing food and fuel prices made it difficult to bring inflation down to the 5.0 percent target in the first half of 2011 as envisaged. Annual inflation was 5.4 percent in June 2011.

Responding to these challenges, the government implemented measures to bring economic policies back on track. First, fiscal tightening, particularly in the second half of 2011 reduced bank and non-bank financing to 2.3 percent of GDP in line with projections compared to 3.8 percent in 2010. This was achieved through restrained spending which fell below target by 21.0 percent and increased domestic revenue mobilization which registered a growth of 6.9 percent. The increase in domestic revenue was driven by higher personal and corporate income taxes, international trade

taxes as well as increases in domestic taxes on goods and services.

3.2 Monetary Policy

The primary objective of monetary policy remains the pursuit of price stability and the support of Government's overall macroeconomic objective of sustaining high and non-inflationary growth for poverty reduction. Monetary policy was tightened during the first half of 2011 and into the third quarter to rein in inflationary pressures, including by mopping up liquidity through net sales of Treasury bills.

As a result of the improved fiscal position, interest rates on 91-day Treasury bills declined by more than 2 percentage points to about 8.07 percent at end-2011. The Central Bank was able to relax monetary policy towards the end of the year and the monetary policy rate was reduced from 15.0 percent to 14.0 percent in October 2011. Reserve money growth also declined during the same period.

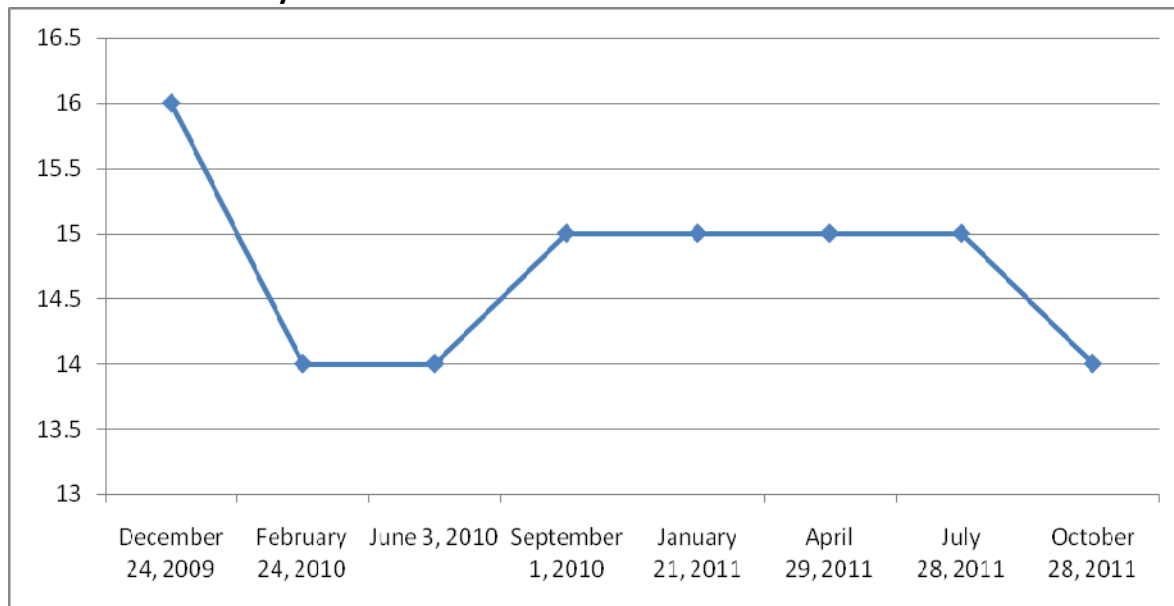
MPC Meetings

During the year under review, the MPC held four meetings and adjusted the Policy Rate in response to changing economic fundamentals and outlook in the various economic parameters.

Table 3.1. MPC Decisions in 2011

DATE	POLICY DECISION	RATE (%)
Jan. 20 – 21	Policy rate remained unchanged	15.0
April 28- 29	Reserve Requirement reduced by 200 basis points	12.0
July 27 – 28	Policy rate remained unchanged	15.0
Oct. 27 – 28	Policy rate reduced by 100 basis points	14.0

Chart 3.1. CBG Policy Rate



January Meeting

In the first meeting of the year, the Committee reviewed developments in the domestic economy to mold their decision bearing in mind new threats that were resurfacing from the global economy. The committee left the policy rate unchanged at 15.0 percent after long deliberations. Growth in monetary aggregates was moderate during the year reflecting tight monetary policy stance of the Bank.

The Committee noted that developments in 2010 were characterized by strong economic fundamentals including low inflation, stable exchange rate, viable external position and improved business sentiments.

However, despite improved fiscal situation in 2010, the re-emergence of increased Central Bank financing of Government deficit due to decline in revenue performance (as a percent of GDP) was a concern to the Committee given the inflationary implications of monetizing budget deficits.

The Committee forecast inflation to remain low in the near-term but was aware of risks emanating from rising global food and energy prices. Therefore, the policy rate was left unchanged at 15.0 percent.

April Meeting

In the April meeting, the Committee was still aware of existing risks to inflation outlook and therefore, remained cautious in its policy decisions despite subdued inflationary environment. The policy rate was left unchanged from the previous meeting at 15.0 percent.

Regarding risks to the outlook, the Committee noted the persistence of high commodity prices in the international commodities market, driven mainly by strong demand and supply shocks. In addition, findings from the Central Bank survey indicated elevated inflation expectations. However, on the positive side, the fiscal situation improved in the first quarter of the year as indicated by a reduction in budget deficit to 0.2 percent of GDP from 0.3 percent in the corresponding period in 2010. It was

expected that this will reduce fiscal dominance and allow Central Bank to concentrate on its key mandate of price stability.

The MPC decided to leave the policy rate unchanged at 15 percent. In addition, the policy makers reduced the reserve requirement by 200 basis points to 12.0 percent after taking cognizance of the high lending rates in the country. It was expected that the move will result in a corresponding reduction in commercial bank interest rates to boost investment demand and growth. The reserve requirement was last reduced in March 2008 by 200 basis points to 14.0 percent.

July Meeting

In the July 2011 meeting, the Committee left the rediscount rate unchanged for the third time during the year. Monetary conditions remained tight during the first half of the year in response to the persistent high global food prices. Year-on-year, reserve money growth was 8.1 percent at end-June 2011 relative to 21.9 percent in June 2010.

Despite experiencing a nominal effective depreciation of 8.0 percent at end-June 2011 compared a depreciation of 1.9 percent in June 2010, the Dalasi remained stable with no substantial threat to inflation expected in the near-term. However, acceleration in food and energy prices as well as a higher-than-expected fiscal deficit posed risk to the inflation outlook.

Meanwhile, credit expansion in the economy was gradually slowing down. Growth in private sector credit continued to plummet during the period reaching a trough of 3.0 percent in May 2011.

Based on the foregoing, the MPC decided to maintain the rediscount rate at 15.0 percent.

October Meeting

Reviewing developments in the economy from year to end October 2011, the Committee projected headline inflation to be within the target of 6.0 percent in the remainder of the year as global food and energy prices continue to decline posing low threat to inflation. However, there remained potential risks to the outlook

mainly emanating from unforeseen exogenous price shocks and the stance of fiscal policy.

The Committee noted the decline in inflation to 4.1 percent at end-September 2011, from 6.2 percent in September 2010. Consumer food inflation decelerated from 8.4 percent in September 2010 to 5.5 percent in September 2011.

Furthermore, business confidence remained elevated as reflected in the Central Bank survey of business sentiments. However, anchoring inflation expectations was still a challenge mainly as a result fragile global

3.3 Monetary Developments

Over the years, sustaining price stability has been the prime focus of monetary policy in the Gambia. In 2011, the objective was to contain inflation below

It should also be noted that in 2011, monetary policy was conducted in a highly challenging global economic environment, including larger-than expected rise in

economic environment, especially in the commodities market.

Meanwhile, the economy continued to grow at a robust pace based on solid fundamentals. These include low and subdued inflation, stable exchange rate and a viable external sector.

Taking the above developments into consideration, including the risks to the inflation outlook, the MPC decided to reduce the rediscount rate by 100 basis points to 14.0 percent.

6.0 percent. To achieve this objective, open market operations remained the major tool for liquidity management.

commodity prices in the first half of the year.

Nonetheless, 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 under control.

Reflecting the tight monetary policy stance of the Bank, growth in broad money supply has been trending downwards since October, 2009. In November 2011, annual growth in money supply declined to 8.8 percent, the lowest recorded since June 2008. However, in December 2011, money supply growth rose slightly to 11.0 percent but still lower than the growth rate of 13.7 percent in December, 2010. Both narrow money and quasi money increased and at a fairly equal pace.

Narrow money (M1) grew to D6.7 billion or 10.7 percent compared to 7.5 percent in the corresponding period a year earlier. Year-on-year, demand deposits and currency outside banks rose by 8.4 percent and 15.1 percent respectively. The ratio of narrow money to broad money decreased slightly from 45.3 percent at end-December 2010 to 45.2 percent at end-December 2011.

Quasi money rose by an annual rate of 11.2 percent in December 2011 compared to a growth rate of 19.3 percent in the corresponding period a year ago. Both time and savings deposits increased by 5.5 percent and 16.3 percent respectively during the review period.

Chart 3.2. Annual Money Supply Growth

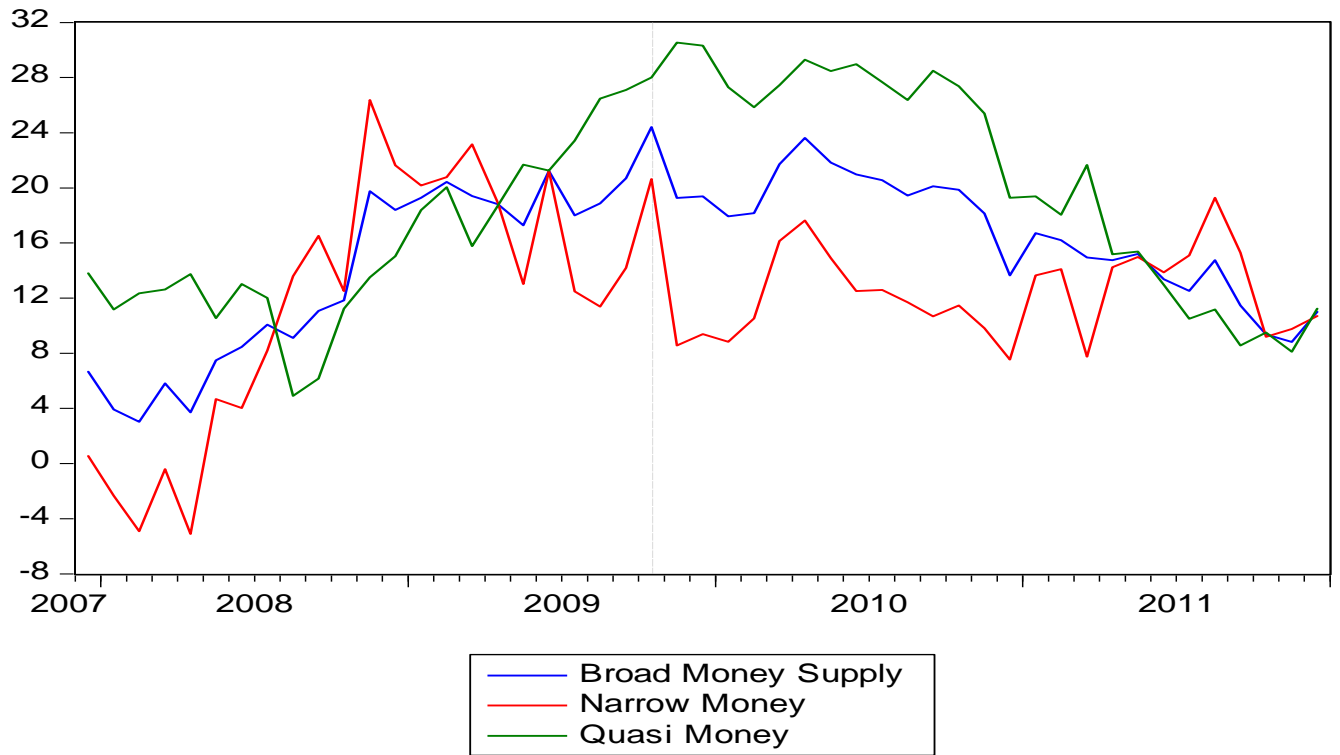
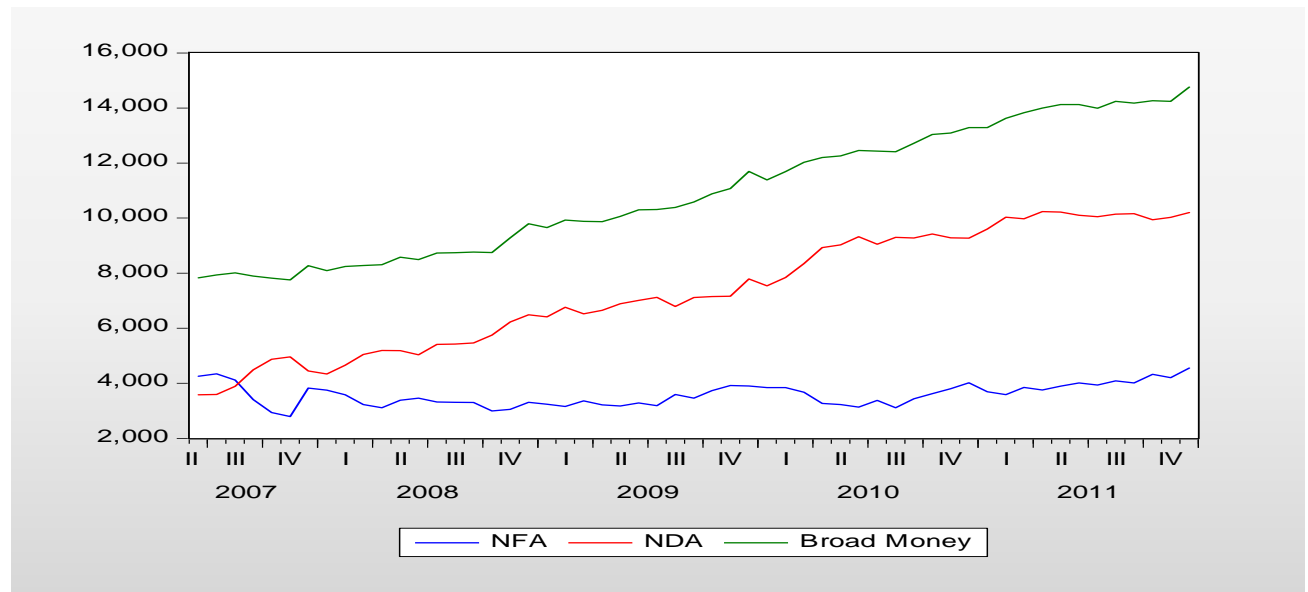


Chart 3.3 Sources of Liquidity



Net Foreign Assets (NFA)

The net foreign assets of the banking system rose to 4.5 billion or 13.1 percent in 2011 relative to the corresponding period last year. The net foreign assets of both the Central Bank and commercial banks increased.

The net foreign assets of the Central Bank rose to D3.1 billion or 15.9 percent in 2011 compared to a contraction of 17.5 percent a year earlier. Gross official reserves increased to D5.5 billion or 19.6 percent while foreign liabilities increased to D2.4 billion or 24.5 percent.

Similarly, the net foreign assets of commercial banks rose to D1.5 billion or 7.7 percent in 2011 but lower than the increase of 102.1 percent in 2010. The increase in net foreign assets of commercial banks is due, in the main, to the increase in their foreign assets holdings coupled with a minimal increase in foreign liabilities.

Foreign assets of commercial banks rose to D2.0 billion or 5.8 percent in 2011 relative

to 25.7 percent in 2010. Balances held with foreign banks, including head offices and branches, was the main driver of the increase in foreign assets. Balances held with foreign banks rose to D1.4 billion or 20.1 percent in December, 2011 whilst foreign currency holdings as well as foreign investments declined by 29.0 percent and 2.8 percent respectively.

Foreign liabilities of commercial banks increased to D493.5 million or 0.7 percent compared to a decline of 38.6 percent a year earlier. Balances held for foreign banks rose by 44.1 percent whilst foreign borrowing declined by 3.3 percent.

Net Domestic Assets (NDA)

The net domestic assets of the banking system rose to D10.2 billion or 10.1 percent in 2011 relative to 19.0 percent a year earlier. Domestic credit grew to D11.4 billion or 13.3 percent compared to the growth of 34.6 percent in 2010.

Developments in Deposit Money

Banks' Credit

Available data for 2011 show that deposit money banks' outstanding credit to the private and public institutions stood at D5.45 billion, compared to D5.2 billion in 2010.

Private sector credit expansion continued to slow down steadily during the period under review. Growth declined from 13.8 percent in March 2011 to 8.8 percent in December 2011. The sluggish growth in private sector credit could be explained, in part, by the continued increase in the size of the government thereby crowding out private investment. High lending rates as well as tight monetary conditions are also

Distributive trade which contributed significantly to the credit boom period from 2007 to 2010 accounted for the largest decline in credit allocation in the recent past.

The non-performing loan levels in all major sectors improved in 2011 compared to 2010. Non-performing loans represented

contributing factors. The scenario is also reflective of the general slowdown in economic activity during the period.

Loans and advances to Agriculture and Tourism increased by 7.3 percent and 11.7 percent in 2011 compared to 10.4 percent and 35.1 percent in 2010 respectively. In contrast, advances to Fishing, Building and Construction and Distributive Trade contracted by 26.3 percent, 4.0 percent and 8.3 percent relative to the expansion of 16.4 percent, 2.2 percent and 29.6 percent in 2010 respectively.

12.9 percent of total loans at end-December 2011 compared to a ratio of 14.5 percent in December 2010, in part, an indication of improving asset quality. Provision for credit losses stood at D388.20 million at end-December 2011 compared to D314.66 million at end-December 2010 and represented an excess of D71.6 million above required level. This provides

sufficient cushion to absorb significant amounts of loan losses. Despite the decrease in the level of non-performing

loans and high levels of provisions, the double digit gross NPL to gross loan ratio remains a cause for concern.

Deposit Money Banks' Loans and Advances to Major Sectors of the Economy (D'millions)

	2007	2008	2009	2010	2011
Sectors	December	December	December	December	December
Agriculture	189.39	195.48	262.41	289.76	311.03
Fishing	16.24	15.87	16.87	19.64	14.47
Building & Construct	302.17	435.73	502.38	513.42	492.69
Transportation	325.60	267.82	336.55	361.64	330.37
Distributive Trades	719.77	960.76	1,194.28	1,547.18	1,418.55
Tourism	202.27	201.01	210.93	285.01	318.27
Personal Loans	449.46	609.07	725.32	476.14	576.61
Other	426.73	850.51	1,246.49	1,768.20	1,989.26
Total	2631.63	3536.25	4,495.23	5,260.99	5,451.25

3.4. Interest Rates Developments

Developments in interest rates during the year under review were mixed, generally trending upwards in the first half and edging downwards in the second half, reflecting diminishing inflation expectations and policy rate easing. Having left the policy rate unchanged in the first half, the MPC lowered the policy rate from 15.0 percent to 14.0 percent in October where it stayed until year-end. Earlier, in April 2011, the MPC, cognizant of the high lending rates

in the economy, decided to reduce the reserve requirement by 2.0 percentage points to 12.0 percent.

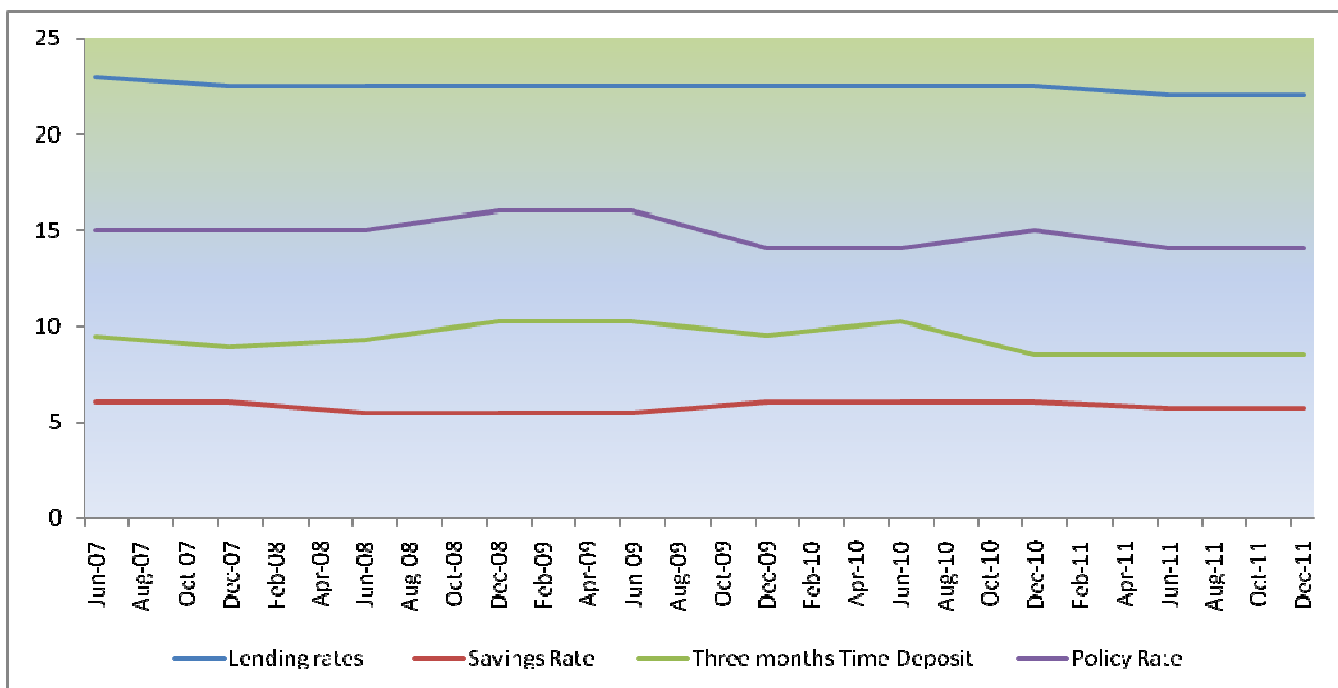
The average interest rate on the 91-day Treasury bills, which was 10.09 percent in January 2011 declined to 8.71 percent in June and further down to 8.07 in December 2011. Similarly, the average interest rate on the 182-day and 364-day bills declined to 9.63 percent and 11.53 percent in

December 2011 from 10.59 percent and 13.03 percent in January 2011 respectively.

The minimum rate on deposit money banks' 3-month time deposit rate declined from 5.0 percent in December 2010 to 4.5 percent in December 2011 whilst the

maximum 3-month time deposit rates inched to 12.5 percent in December 2011 from 12.0 percent in the preceding year. Deposit money banks' average lending rate to the major sectors of the economy declined, albeit slightly, from 22.5 percent in 2010 to 22.0 percent in 2011.

Chart 3.4: INTEREST RATES



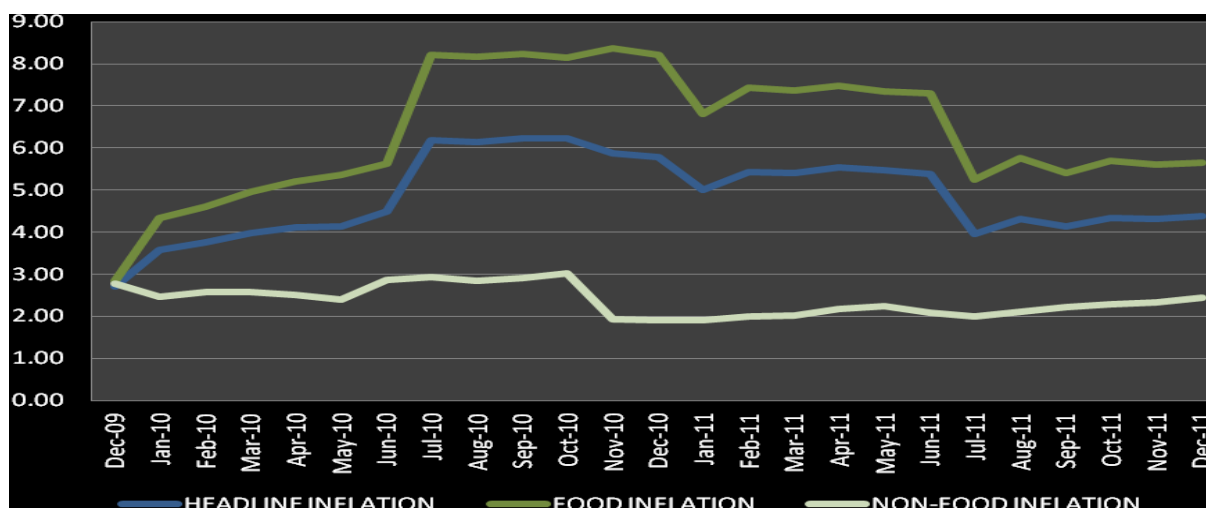
3.5. Price Developments

Consumer price inflation decelerated to 4.4 percent in 2011 relative to 5.8 percent in 2010 on account of lower global food prices and less Government recourse to central bank financing of the fiscal deficit. Average inflation (12-month moving average) also declined, albeit slightly to 4.8 percent in 2011 from 5.0 percent in 2010, helped by the tight monetary policy.

Headline inflation which stood at 5.8 percent in December 2010 declined steadily to 5.39 percent and 5.4 percent in March and June 2011 before ending the year at 4.4 percent. Although the trend in inflation during the year emanated from both the food and non-food components of the consumer price index, the rate of increase

in food inflation sector was much higher. Food and non-food inflation recorded respective average increases of 5.7 percent and 2.5 percent in the twelve months to December 2011 from 8.3 percent and 1.9 percent in 2010.

The Bank's measure of core inflation (defined to exclude prices of energy, utilities and volatile food items) followed the trends in headline inflation. It increased markedly to 5.7 percent at end-December 2010 from 2.8 percent a year earlier. In January 2011, core inflation declined to 4.9 percent but rose steadily to 5.4 percent at end-June 2011 before declining to 4.3 percent at end-December 2011.



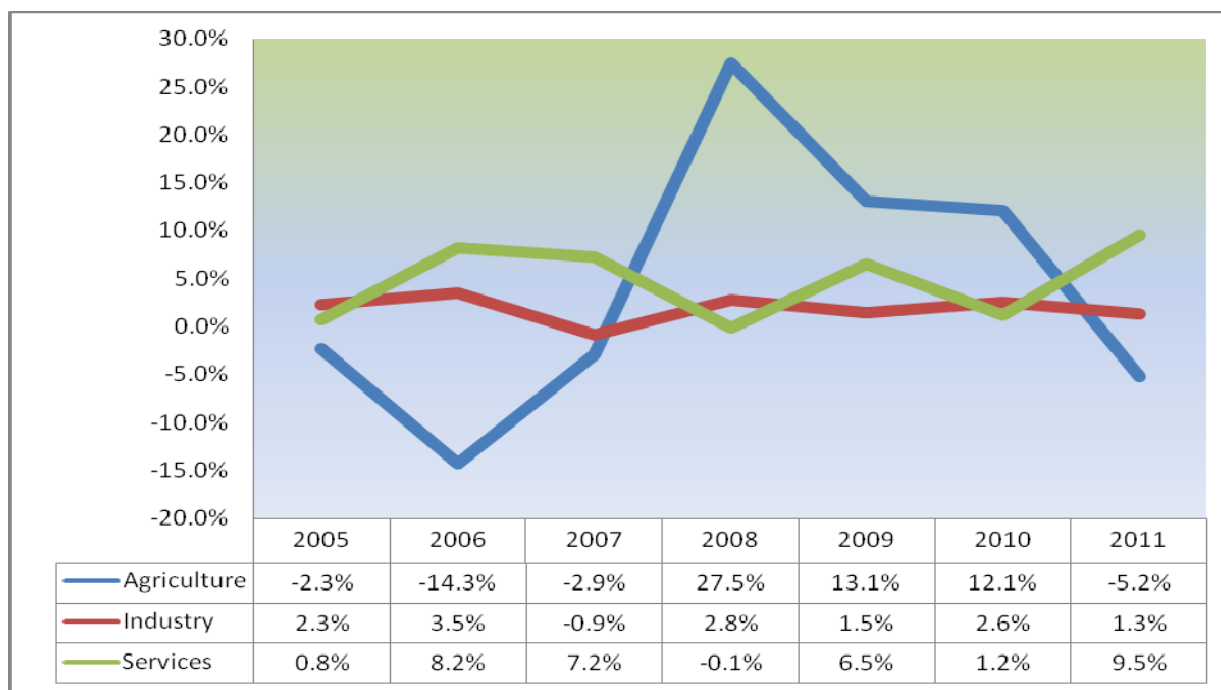
3.6. Real Sector Developments

Available data from the Gambia Bureau of Statistics (GBOS), revealed that real GDP growth moderated to 3.3 percent in 2011 from the 5.5 percent and 6.7 percent growth in 2010 and in 2009 respectively. Per capita GDP in 2011 was estimated at US \$543 relative to US \$550 in 2010. Economic activity in 2011 was characterized by early cessation of rains that affected crop

production. Furthermore, mining and quarrying activity suffered a temporal halt during the first half of 2011 thus affecting economic growth.

In contrast, wholesale and retail trade, communication and financial intermediation in the services sector are estimated to have contributed significantly to GDP growth in 2011.

Chart 3.5.1: Sectoral Growth Rates (2005-2011)



3.7 Fiscal Developments

Provisional data on the execution of the 2011 budget suggests some degree of buoyancy in domestic revenue mobilization

led by domestic taxes on goods and services, personal and corporate tax collections. This, coupled with restraint in

expenditure resulted in a contraction in the deficit by D128.3 million to 2.8 percent of GDP in 2011 from 3.8 percent of GDP in 2010.

Fiscal policy was contractionary in the second half of 2011.

Budgetary expenditures were broadly as envisaged throughout the year with spending allocations 21.0 percent below the projections for the year as a whole. Domestically financed capital expenditures funded just 18.0 percent of the annual public investment expenditures due to the winding up of some infrastructure projects in the country. The wage bill for the year rose to D1.7 billion due to additional hiring in the public sector, pensions and social security related expenditures as well as

Revenue and Grants

Total revenue and grants for 2011 amounted to D5.2 billion (16.1 percent of GDP) compared to D5.0 billion (17 percent of GDP) in 2010. Domestic revenue rose by 6.9 percent to D4.2 billion. About D3.7 billion was collected from taxes, of which D1.8 billion or 47.8 percent came from international trade taxes. This was supported by an increase in the sales tax on

increased payroll for foreign missions. Other current spending were higher than anticipated due to higher fuel subsidies in the face of rising oil prices, interest payments, payments for goods and services as well as other unanticipated expenditures. Payments for goods and services grew by 15.1 percent to D1.3 billion. Spending was partly financed by the 6.9 percent increase in domestic revenue collection with only D50.4 million on net external financing. As a result, domestic financing from banks and non-bank financial institutions was close to the yearly projection of 2.3 percent of GDP.

This was achieved through restrained spending and increased domestic revenue mobilization which registered a growth of 6.9 percent.

imports of 5.1 percent which slightly offset the decline in duty on oil and non-oil products of 3.7 percent.

Domestic taxes on goods and services at D732.9 million constituted 19.7 percent of tax revenue while personal and corporate taxes contributed 16.7 percent and 13.6 percent respectively to total tax receipts.

Non-tax revenue collections grew by D34.4 million from 2010 to D499.6 million in 2011. The annual target realized stood at 86.0 percent.

Following periodic oil price surges in the international market in 2011, duty waiver and subsidy on oil products rose to D181.7 million to cushion fuel price shocks despite some noticeable increases in pump prices

Expenditure and Net Lending

Total expenditure and net lending in 2011 was estimated at D6.1 billion (18.8 percent of GDP), growing by just over one and a half percent relative to 2010.

Total current spending for the year amounted to D4.4 billion (13.6 percent of GDP), an increase of D520.0 million from last year's level. 'Other charges' constituted the largest component of current budget amounting to D1.9 billion or 43.5 percent. Payments for goods and services grew by 15.1 percent to D1.3 billion.

The wage bill for the year was D1.7 billion or 38.1 percent of current budget. This is equivalent to 45.2 percent of the annual tax revenue and recorded an increase of D162.0 million over the 2010 bill.

observed in the domestic market. Revenue loss on non-oil products amounted to D359.8 million compared to D103.2 million in 2010.

Grants received stood at D1.0 billion (3.1 percent of GDP), D44.7 million below the previous year's figure and represents just over 50 percent of what has been projected for the year.

Interest payments constituted 18.4 percent of current budget amounting to D811.3 million, of which domestic interest payments absorbed D638.6 million while external interest payments amounted to D172.7 million.

The current efforts of spending cut backs have been against public investments which contracted by D452.7 million or 20.8 percent from 2010 to D1.7 billion in 2011. More than half (59.2 percent) of investments were financed from grants while 23.0 percent were external-loan financed. Government local fund funded just 17.8 percent (D307.8 million) of the annual public investment expenditure.

Budget Balance

The overall deficit (including grants) to GDP narrowed by 0.7 percentage points from 2010 to 2.8 percent (D909.4 million) in 2011. On the other hand, the primary

surplus contracted from D476.9 million in 2010 to D294.4 million with the basic deficit growing from D295.5 million to D512.5 million during the same period.

Table 3.7.1: Budget Balance

(In D'millions)	2010	2011	2011 Budget
Revenue & grants	5011.2	5238.9	6757.0
Total expenditure & NL	6049.0	6148.3	7785.0
operating expenditure	3902.9	4422.9	4866.0
Development exp.	2178.0	1725.4	2860.0
Net lending	-32.0	0.0	0.0
Overall Deficit	-1037.8	-909.4	
% of GDP	-3.5	-2.8	
Basic balance	-295.5	-512.5	-276.0
% of GDP	-1.0	-1.6	-0.8
Sources of financing:	2199.8	884.2	
Net domestic borrowing	1698.3	833.8	
Bank financing	1945.0	1023.9	
Non-bank	-203.7	-182.8	
Net external borrowing	501.5	50.4	

Domestic Debt

As at end-December 2011, the total outstanding domestic debt stock grew to D9.4 billion (28.0 percent of GDP) from D8.7 billion in December 2010, or an increase of 8.6 percent. This increase was mainly driven by Treasury Bills accounting for 75.0 percent of the total outstanding domestic debt. This is contrary to the government debt management strategy of restructuring

the domestic debt from short-term to medium to long-term securities.

At end December 2011, the commercial banks held the bulk of Treasury bills accounting for 83.52 percent of the stock compared to 79.24 percent a year ago. The non-bank holdings accounted for 14.92 percent compared to 26.76 percent in

December 2010. The increase in commercial bank holdings of Treasury bills could be largely attributed to Social Security and Housing Finance Cooperation (SSHFC), a major non-bank public investor's failure to re-invest their matured bills during the period under review.

Social Security and Housing Finance Corporation's holding of T/Bills, as a percentage of the stock of debt, declined to 1.43 percent in 2011 from 6.18 percent in 2010.

TABLE 3.7.2: COMPOSITION OF DOMESTIC DEBT (*D'millions*)

SECURITY TYPE	2010	2011	% Δ(CHANGE)
TREASURY BILLS	5,907.87	6,753.60	14.32
SAS BILLS	215.14	345.56	60.62
3-YEAR GOVT. BOND	25.00	25.00	0.00
GOVERNMENT BOND	250.00	250.00	-
30 YEAR GOVERNMENT BOND	1,825.00	1,764.16	-3.33
10 YEAR GOVERNMENT BOND	208.46	187.61	-10.00
GOVERNMENT NIB NOTES	0.00	128.34	100.00
GOVERNMENT OVERDRAFT	275.23	0.00	-100.00
TOTAL	8,706.70	9,454.27	8.59

3.8. External Sector Developments

Balance of Payments estimates for the year ending 2011 indicate an overall surplus of US\$31.73 million, from US\$86.52 million in 2010. The current account was in surplus of US\$66.86 million, slightly higher than the

US\$56.25 million a year ago. The capital and financial account, however, recorded a deficit of US\$35.12 million in 2011 relative to a surplus of US\$30.27 million in 2010.

Chart 3.8.1: Summary of Balance of Payments

In millions of US\$	2010	2011	% change
Current Account Balance	56.25	66.86	18.86
Goods Account	-105.81	-133.49	26.16
-Exports	134.55	153.88	14.36
-Imports	-245.98	-294.97	19.91
Services Account	57.47	84.39	46.84
Current Transfers	112.69	131.59	16.77
Capital and Financial A/C	30.27	-35.12	16.02
Change in Reserve Assets	9.85	-13.76	36.69
Overall Balance	86.52	31.73	-63.32

Merchandise Trade

The goods account recorded a deficit of US\$133.49 million relative to a deficit of US\$105.81 million last year. The widening of the deficit in the goods account was on account of the increase in the import bill

which amounted to US\$294.97 million compared to US\$245 million in 2010 or an increase of 19.91 percent. This development could be attributed to the pass through effects of the rise in fuel costs

which increases the cost of freight of goods, coupled with the effect of the depreciation of the dalasi vis-vis the major

Total exports rose to US\$153.88 million from US\$134.55 million last year, an increase of 14.36 percent, of which exports of groundnut and groundnut products for the year ending 2012 stood at US\$ 15.07 million with hand picked selection (HPS)

Proceeds from goods procured in ports by carriers also increased from US\$5.62 million in 2010 to US\$7.60 million in 2011 or by 35.23 percent. The increase was mainly on account of the increase in proceeds from

Services, Income and Current Transfers

The services account balance increased significantly on a net basis in 2011 relative to 2010, recording US\$84.39 million against US\$57.47 million, an increase of 46.84 percent. The main contributing factor being the rise in income earned from tourism which rose significantly in 2011 to US\$95.60 million from US\$73.62 million last year or by 29.85 percent, due in the main, to the increase in tourist arrivals.

trading currencies in the face of rising commodity prices.

accounting for US\$5.74 million, groundnut crude oil (US\$8.12 million), and groundnut cake (US\$ 1.20 million). However, the increase was more than offset by the rise in the import bill, thus worsening the trade balance.

airport to US\$2.97 million from US\$1.29 million last year and was due to both supply of aviation fuel to airplanes and proceeds from catering services from the Atlantic hotel for airlines.

Proceeds from air transportation improved slightly by 15.82 percent in 2011 relative to 2010. However, the deficit in sea transportation widened from US\$23.54 million to US\$27.85 million, due mainly to the rise in fuel costs which translated to higher costs of transportation and freight services.

Proceeds from Insurance services during the period under review further deteriorated on a net basis from a deficit of US\$5.14 million to US\$6.67 million whilst income from construction services also declined from US\$3.96 million to US\$2.91 million or by 26.5 percent.

The Income Account –The deficit in the income account worsened in 2011 relative to 2010, from US\$8.05 million to US\$15.63 million and was on account of the net increase in interest payments on external debt and on portfolio income from US\$0.77 million in 2010 to US\$ 2.49 million in 2011.

Current Transfers in 2011 recorded US\$131.59 million against US\$112.69 million last year, an increase of 16.77 percent. Transfers to general government recorded US\$44.78 million and accounted

for 34.02 percent of total current transfers compared to last year when it recorded US\$34.67 million and accounted for 30.76 percent of total transfers.

Transfers to other sectors which comprises workers’ remittances and other transfers registered US\$86.84 million in 2011 relative to US\$78.02 million last year, an increase of 11.30 percent and accounted for 65.99 percent of total transfers, relative to 69.23 percent in 2010.

Chart 3.8.1: Current Account (\$millions)

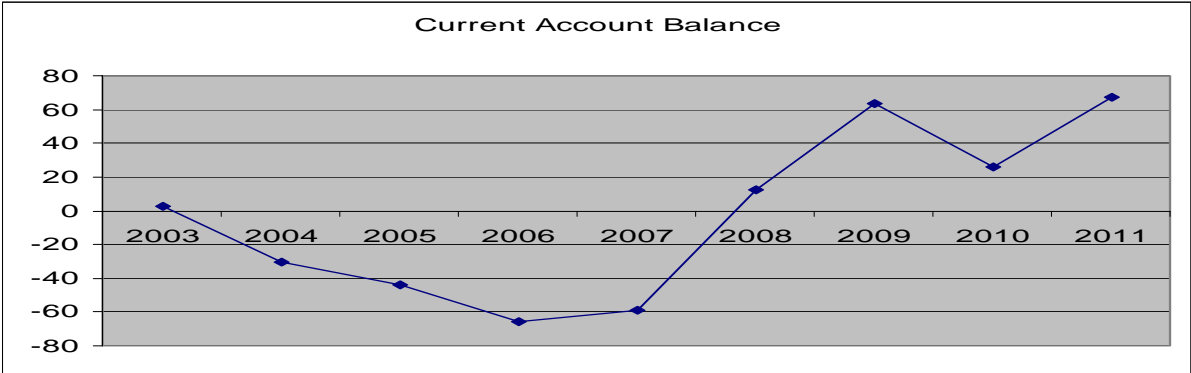


Table 3.8.2: Income from Tourism (Dalasis)

	2010	2011	% Change
Number of Air-Chartered Visitors	89,637	122,219	36.34
Average out of pocket expenditure	1200	1200	0
Average length of stay	13	13	13
Hotel rate per night(GBP)	12	12	12
Departure fees (Dalasi)	170	170	0
Tourists arrival Tax(GBP)	5	5	0
Average Exchange Rate(DAL/GBP)	43.13	46.29	7.3
Income from Hotel Beds	603,102,834.00	882,572,732.00	46.83
Total Out of Pocket Expenditure	1,398,337,200.00	1,906,616,400.00	36.34
Income from Arrival Fees	19,33,219.00	28,287,588.00	46.33
Income from Departure Fees	15,238,290.00	20,777,230.00	36.34
Total Income from Air-Chartered Tourists	2,036,008,543.00	2,838,253,949.00	39.40

Data from the Gambia Tourism Authority for the year ending 2011 indicate an increase in tourist arrivals to 122,219 from 89,637 last year or an increase of 36.34 percent. Income from tourism increased to

The Capital and Financial Account registered a deficit of US\$35.12 million in 2011 relative to a surplus of US\$ 30.27 million in 2010, an increase of 10.02 percent.

D2.8 billion relative to D2.0 billion or by 39.40 percent, which could be attributed to the arrival numbers coupled with the effect of the depreciation of the dalasi.

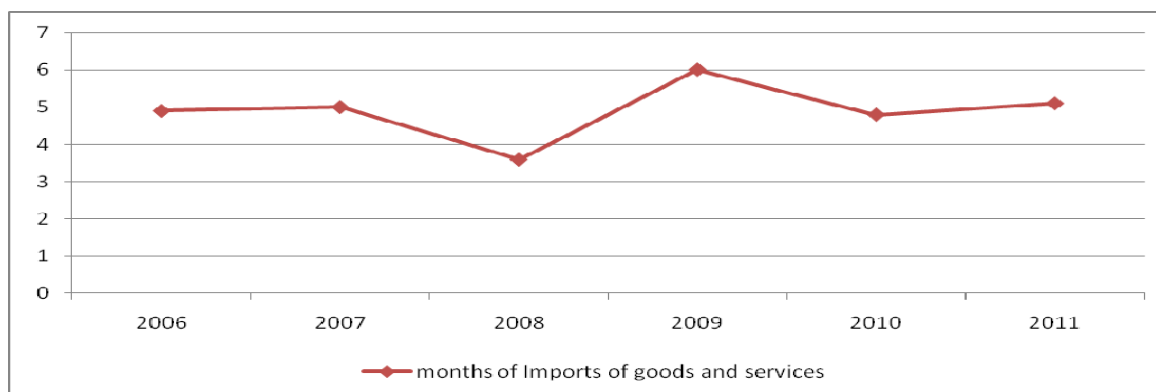
There was however, an increase in reserve assets because there was no recourse for a draw down of the reserves for any form of financing.

International Reserves

Gross international reserves of the Bank at the end of 2011 stood at US\$182.5 million, equivalent to 5.0 months of imports of

goods and services. The net international reserves were US\$135.20 million, showing a build up of US\$15.4 million for the year.

Chart 3.8.2: Gross International Reserves (Months of Import Cover)



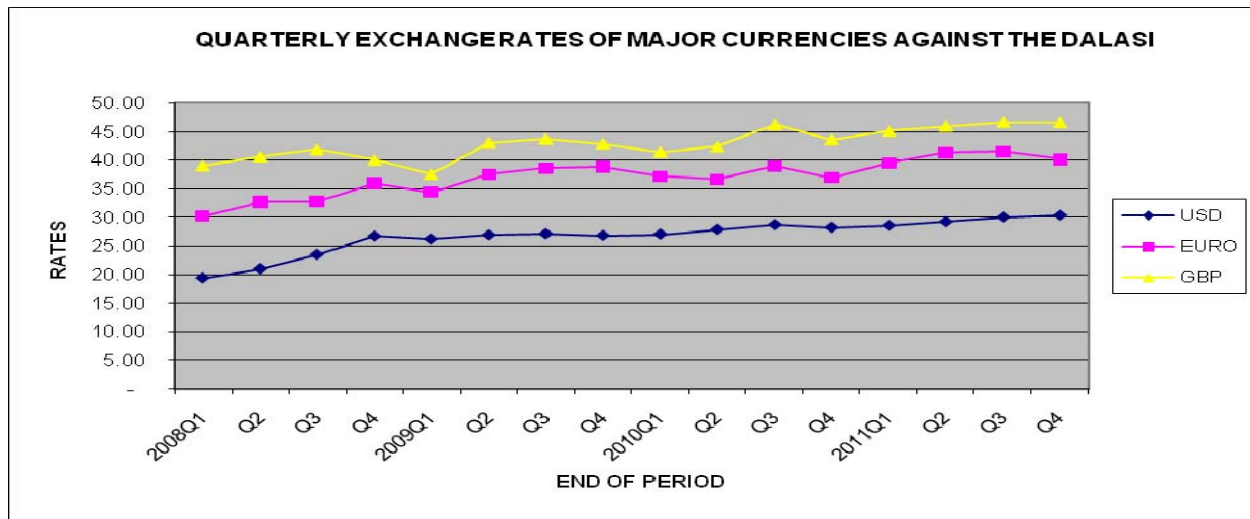
Foreign Exchange Market

Developments in the domestic foreign exchange market in the year to end-December 2011 showed that activity volumes, measured by aggregate sales and purchases of foreign currency, moderated to US\$1.43 billion from US\$1.67 billion in 2010.

The Dalasi was relatively stable in the first quarter of 2011. In the second quarter, it depreciated against the US Dollar by 1.31 percent, Euro by 7.05 percent, Pound Sterling by 3.44 percent and CFA by 4.29 percent. It recorded a further slump against the above major trading currencies in the

third quarter as it slid against the US Dollar by 2.77 percent, Euro (0.411 percent) and Pound Sterling (1.48 percent). It however strengthened against the CFA by 1.53 percent. The decline in the rate of depreciation against the Euro and Pound Sterling has considerably mirrored developments in the international FX market where the two currencies significantly depreciated against the US Dollar. Whilst the Dalasi rebounded against the Euro and Pound Sterling in the fourth quarter of 2011, it further declined against the USD largely due to supply imbalance.

Chart 3.8.3: Movements in the Inter-bank Exchange Rates



3.9. External Debt

The primary objective of the Gambia's external debt policy in 2011 was to meet government financing needs at minimum cost while maintaining debt sustainability. The debt management strategy for 2010-12 has been to distribute the total gross borrowing requirement between 90 percent domestic borrowing and 10 percent external. The external borrowing policy has been to maximize borrowing from multilateral and bilateral concessional

sources, and to borrow from multilateral and bilateral semi-concessional sources at the margin. However, the strategy that had *de facto* been implemented implied a domestic borrowing of 93 percent and the residual from external sources.

At the end of 2011, Gambia's gross external debt stock was estimated at US\$400.1 million, compared with US\$377.1 million at the end of 2010.

Debt Indicators and Debt Sustainability

The standard debt indicators show that the Gambia's external debt burden remained 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.

Total external debt service comprising of principal and interest payments was US\$19.20 million in 2011 relative to US\$17.70 million in 2010, an increase of 8.47 percent. As a percentage of total revenue, it recorded 10.06 percent in 2011 against 9.86 percent in 2010 and as a percentage of GDP, it stood at 1.97 percent

relative to 1.86 percent a year earlier. Total external debt service to exports amounted to 12.48 percent relative to 13.15 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 thresholds.

Selected External Debt Indicators

	2009	2010	2011
External Debt Stock (in millions of US\$)	330.1	377.1	400.08
	In percent	In percent	In Percent
External Debt Service to Exports of Goods & Services	16.61	13.15	12.48
Total debt stock to GDP	45.03	39.62	41.24
External Debt Service in percent of Total Revenue	16.12	9.86	10.06
External Debt service in percent of GDP	3.21	1.85	1.97

4.0 DEVELOPMENTS IN BANKS AND NON-BANK FINANCIAL INSTITUTIONS

4.1 Overview

The year witnessed major developments in the payments system as evidenced by the introduction of new processes of clearing cheques and other payment instruments.

The Central Bank of the Gambia in collaboration with the West African Monetary Zone (WAMZ) completed the development of a new payment system for the Gambia. This is part of a broader initiative of the WAMZ Payment System Development Project with the aim of upgrading and ultimately harmonizing the payment systems of member countries.

The installation of CBG's new national payment system was completed in December 2011. The Real-Time Gross Settlement System (RTGS) and the Automated Cheque Processing and Clearing House (ACP/ACH) were launched in December 2011. The Core Banking Application (CBA) is expected to become operational in January 2012. Likewise, the Securities Settlement System (SSS) will go

live during the first quarter of 2012. Work has progressed on the National Switch, which is expected to be operational by the end of 2012.

All these measures will help reduce the overhead expenses of commercial banks. The CBG anticipates that commercial banks will pass these significant cost savings to consumers of financial products.

The interface of government's Integrated Financial Management Information Systems (IFMIS) with CBG's national payments system became operational in December 2011. It will ensure that government spending does not exceed available resources by enabling the Directorate of the National Treasury to access, in real time, government accounts and the automated Securities Settlement System.

In a bid to improve data submission and integrity, the CBG has signed a contract with Valtech India Limited to develop

electronic data submission platform for commercial banks called Regulatory Compliance Supervisory System (V-RegCoSS). Following the signing of the License and Services contract between the CBG and Valtech India Systems (Private) Limited in May 2011, work started with the requirements specifications in June 2011 when a team of software experts visited the CBG. The first phase of the project was successfully concluded when the requirements specification document was accepted by the CBG in mid July 2011.

This was followed by design of the Return Rendition and Compliance System (RRCS), which was constructed in India at Valtech Office Complex. The management team of the FSD visited the software developers in Bangalore, India in November 2011, where the User Acceptance Test and Training (UAT) for RRCS were successfully conducted. The RRCS was accepted and signed off by the Director FSD on Friday, December 2, 2011.

#

The third phase relates to training Sessions and meeting held with Commercial Banks (CB) in The Gambia from December 20-22,

2011. The training was geared towards familiarizing CB representatives with the RRCS and gauged their response to the system while the meeting with IT Heads was design to find out banks preparedness for an interface with the RRCS using Xml Schema. This was successfully wrapped up with positive feedback. The next phase of the project is the release of the Regulatory Compliance and Supervisory System (V-RegCoSS), which according to the software developers is expected in May 2012.

In collaboration with the Money and Capital Markets Department of the IMF, the CBG conducted a stress testing of the Gambia's banking industry during 2011. The results of the stress test as at June 2011 revealed that the banking industry is well capitalized and highly liquid, although looking ahead a few banks may face challenges in this area if appropriate measures are not taken.

Following the training of staff on stress testing, the Bank intends to adopt this approach as part of its tools in analyzing and diagnostics of financial stability, safety and soundness of individual banks etc.

4.2 The Banking Sector

The financial sector in the Gambia continues to flourish thanks to the expansion of the banking sector. Thirteen (13) commercial banks operated in the country in 2011 following the withdrawal of the operational license of Oceanic Bank (Gambia) Ltd in 2010 for failing to fulfill the

Assets and Liabilities

Total assets of commercial banks increased to D18.7 billion or 4.8 percent in 2011 compared to 20.3 percent in 2010. All asset components increased except local and foreign currency holdings, acceptances, endorsements and guarantees, and other assets.

The increase in assets was funded primarily by deposits which rose by 10.2 percent to D12.4 billion in 2011. Demand and Savings deposits rose to D4.3 billion and D4.5 billion or by 8.4 percent and 16.3 percent respectively. Time deposits amounted to D3.6 billion, an increase of 5.50 percent from 2010. Deposit liabilities accounted for 66.3 percent of total liabilities compared to 63.1 percent in 2010.

minimum capital requirement. 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.

Total commercial bank borrowing during the year declined to D454.0 million or by 7.1 percent, thanks to the fall in borrowing from head offices and branches. Borrowing from head offices and branches declined markedly by 27.9 percent to D221.9 million due, in the main, to the increased borrowing in 2010 from the parent bodies to meet the minimum capital requirement. However, borrowings from other banks abroad more than doubled to D212.1 million.

Capital and reserves of commercial banks grew by 3.0 percent to D2.7 billion. Balances held for other banks and other liabilities rose to D59.4 million and D1.2 billion or 44.0 percent and 20.2 percent respectively.

	2009		2010		2011	
	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
Total Foreign Currency	348,035	-13.3	401,732	15	285,314	-29.0
Balances Held With Banks	1,221,897	43.0	1,259,689	3	1,498,470	19.0
O/W: Held With CBG	999,248	17.3	1,116,224	12	1,385,562	24.1
Balances Held With Banks Abroad	959,116	26.5	1,152,870	20	1,384,629	20.1
Head Office & Branches	173,744	-33.2	378,881	118	515,076	35.9
Other Banks Abroad	785,372	57.6	773,989	-1	869,553	12.3
Bills Purchased & Discounted	74,285	81.6	20,083	-73	220	-98.9
Loans And Advances	4,101,802	25.7	4,906,574	20	5,068,699	3.3
Public Sector	679,922	108.8	870,371	28	811,284	-6.8
Private Sector	3,421,880	16.5	4,036,203	18	4,257,415	5.5
Investments	3,998,189	23.7	5,164,752	29	6,213,195	20.3
Gambia Gov't Tbills	3,683,928	24.9	4,735,486	29	5,617,945	18.1
Others	152,338	8.9	137,942	-9	312,003	126.2
Foreign Investments	161,923	14.3	291,324	80	283,247	-2.8
Fixed Assets	1,140,843	35.8	1,112,085	-3	1,136,917	2.2
Acceptances, Endorsements & Guarantees	1,764,152	22.9	2,472,952	40	1,909,432	-22.8
Other Assets	985,368	-30.9	944,338	-4	833,981	-11.7
Total Assets	14,805,597	18.7	17,806,843	20	18,655,014	4.8

Commercials banks' holdings of government commercial papers, including treasury bills and bonds, rose by 18.6 percent to D4.7 billion. Other investments locally contracted to D137.9 million or 9.5 percent.

Bills purchased and discounted declined markedly to D220.0 million or 98.9 percent whilst other assets contracted to D834.0 million or 11.7 percent. On the other hand, fixed assets grew by 2.2 per cent to D1.1 billion.

	2009		2010		2011	
	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
Demand Deposits	3,594,958	9.4	3,957,348	10	4,290,486	8.4
Residents	2,737,107	3.1	3,569,913	30	3,904,773	9.4
Non Residents	443,923	1,023.2	41,834	-91	39,909	-4.6
Government Entities	413,928	-30.3	345,601	-17	345,804	0.1
Savings Deposits	3,281,017	19.8	3,864,843	18	4,494,099	16.3
Residents	3,181,314	20.6	3,740,422	18	4,327,111	15.7
Non Residents	90,660	20.9	115,929	28	149,790	29.2
Government Entities	9,043	-62.4	8,492	-6	17,198	102.5
Time Deposits	2,814,213	45.1	3,405,423	21	3,592,475	5.5
Residents	2,058,211	48.5	2,477,303	20	2,637,934	6.5
Non Residents	63,809	251.9	58,219	-9	23,148	-60.2
Government Entities	692,193	29.5	869,901	26	931,393	7.1
TOTAL DEPOSITS	9,690,188	21.7	11,227,614	16	12,377,060	10.2
Balances Held For	233,509	70.4	41,265	-82	59,442	44.0
Head Office & Branches	189,703	118.7	15,819	-92	23,928	51.3
Other Banks Abroad	8,784	-82.5	25,446	190	35,514	39.6
Borrowings From	594,717	43.4	488,710	-18	454,017	-7.1
O/W: Head Office & Branches	451,894	124.8	307,783	-32	221,911	-27.9
O/W: Other Banks Abroad	112,823	-44.0	140,927	25	212,106	50.5
Acceptance Endorsement & Guarantees	1,764,152	22.9	2,472,952	40	1,909,432	-22.8
Other Liabilities	936,940	-12.4	995,872	6	1,197,158	20.2
Total Liabilities	14,805,597	18.7	17,806,840	20	18,655,011	4.8

Profitability

The profitability ratios of deposit money banks as measured by the return on assets (ROA) and return on equity (ROE) declined marginally in 2011 relative to 2010. This could partly be attributed to increase in provisioning for bad and doubtful debts as a result of increased rate of loan delinquency

coupled with branch expansion and increasing administrative expenses.

Overall, the industry continues to be profitable, posting interim net profit of D87.17 million as at December 2011. However this represented a decline of 30.7 percent from the previous year.

The banking industry registered a return on assets of 0.5 percent at end December 2011 compared to 0.6 percent during the same period last year. Return on equity

decreased by 3.2 percentage points from the same period last year to level at 1.8 percent in December 2011.

Liquidity

During the period under review, the banking industry recorded a liquid asset ratio of 70.29 percent, representing excess liquidity of 40.29 percent over the minimum requirement of 30 percent. Thus, the sector's ability to meet short-term liabilities is not under any threat. The Gambian

banking system continues to hold most of its liquid assets in Treasury bills investments, which attract zero risk. As at end December 2011, the stock of Treasury bills amounted to D5.85 billion, which is 67.3 percent of total liquid assets.

Solvency

The banking industry remained solvent throughout the year with all the deposit money banks complying with the minimum capital adequacy ratio of 10.0 percent.

The banking industry registered an average capital adequacy ratio of 27.1 percent at end-December 2011 compared to 25.95 percent a year ago. This upsurge was

mainly influenced by increase in capital and reserves of banks during the period under review. Banks have successfully gone through the first phase of capital argumentation to D150 million in 2010 and already making plans for further increase to D200 million by end-December 2012. This will further strengthen the resilience of the banking system.

Credit Reference Bureau

The Credit reference bureau which became operational in August 2009 is functioning and serving its purpose. However, it still faces start up problems, such as the inability to update the performing status of

Compliance and Risked-Based Supervision

The CBG is on a hybrid model (compliance and risked based supervision) and intends to implement full Risk Based Supervision (RBS) in the near future. It is expected to

Financial Intelligence Unit

The filing of suspicious transaction reports (STR) by banks is ongoing. It is part of the strategy to expand reporting to other entities. During the period under review, seven STRs were submitted of which four were forwarded to the law enforcement agents, and the rest recorded as part of the data base.

During 2011, a draft proposal with regards to the setting up of a **deposit insurance scheme** was submitted to the Ministry of Finance and Economic Affairs for review and the approval is still awaited. Also, the

customers, amongst others. As a result, the CBG has sent detail enquiries to the developers, who have promised to resolve the problem with the signing of a support contract.

enhance the processes of identifying and measuring risks, thereby enabling the Bank to prioritize during on-site examinations.

draft Anti-Money Laundering (AML/IFTC) bill has been forwarded to the same Ministry for onward transmission to the Parliamentary Sub-Committee and subsequent enactment into law by the legislature.#

With assistance of the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), acquisition of an analytical software is also near completion. This, when implemented will enhance the analytical capabilities of the FIU.

4.3 The Non-Bank Sector

4.3.1 Insurance Industry

The industry currently comprises 11 insurers, 7 brokers and 13 agents. Nine (9) of the insurance companies including a Takaful/Islamic operator underwrite general business (non-life business) only, one (1) is a composite insurer (i.e. underwriting both Life and non-life businesses) and one (1) is a wholly life insurer.

Assets and Liabilities

Total assets of the industry grew by 3.7 percent to stand at D484.12 million from D466.65 million in 2010. Current assets stood at D246.98 million and accounted for 51.0 percent of the total assets. Financial investments such as Treasury bills and fixed deposits represented 78.1 percent and 39.8 percent of the total current assets and total assets respectively. Total external liabilities (i.e. excluding owners' equity) increased by

Income and Expenditure

Total industry gross premium income increased by 4.0 percent to D196.66 million from D189.12 million in 2010. Written

The industry is currently regulated and governed by the Insurance Act 2003, Insurance Regulations 2005, and the Insurance Amendment Act 2006 which caters for the operation of Takaful (Islamic Insurance).

5.9 percent to stand at D188.33 million from D177.76 million in 2010.

To this end, industry net current asset position declined by 2.4 percent to stand at D58.65 million from D60.06 million in 2010. In other words, the liquidity ratio fell from 134 percent to 131 percent in 2011. However, the net assets (shareholders funds) rose by 2.4 percent to stand at D295.79 million from D288.89 million in 2010.

premium (i.e. Gross premium less refunds and sales tax) rose by 3.2 percent and stood at D191.90 million from D185.99 million in

2010. Ceded (reinsured) premium increased by 6.3 percent (i.e. from D34.82 million in 2010 to D36.02 million), while the industry's risk exposure (retention level) increased by 2.4 percent to stand at D154.88 million from D151.19 million.

Total industry claim declined by 9.8 percent in 2011 to D56.28 million from D62.37 million, while total expenses also registered

Local and Foreign Ownership

In terms of ownership structure, six (6) of the 11 insurers are 100 percent locally owned, one (1) is 100 percent foreign owned and four (4) have mixed ownership. The total ownership is thus divided into 66.5 percent local and 33.5 percent foreign.

Insurance Penetration

This is the measure of the contribution of insurance market activity to the GDP. It is measured by expressing gross premium income as a percentage of the GDP.

a 10.3 percent decrease from D124.51 million in 2010 to D111.63 million.

Consequently, the industry's underwriting loss position improved significantly by 29.8 percent to stand at D22.65 million from D32.29 million in 2010. Similarly, its net loss position also improved remarkably from D18.83 million to D7.73 million.

D122.88 million and D281.06 million or 64 percent and 58 percent of industry total written premium assets respectively are shared by the 6 insurers that are 100 percent locally owned.

The table below illustrates growths in assets, premium income and GDP, and also the insurance penetration (i.e. premium income as a ratio of GDP), which dropped from 0.87 percent to 0.84 percent in 2011.

Table 4.3.1 Insurance Penetration

<i>Details</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011(Est)</i>
	<i>D'000</i>	<i>D'000</i>	<i>D'000</i>	<i>D'000</i>	<i>D'000</i>	<i>D'000</i>
Total Asset	288,111	378,011	433,480	438,939	466,650	484,121
Asset Growth		32%	15%	1.3%	6.3%	3.7%
Gross Premium Income (GPI)	152,103	164,961	176,844	197,382	189,116	196,659
GPI Growth		8.5%	7.2%	11.6%	-4.2%	4.0%
Gross Domestic Product(GDP)	17,473,298	18,171,519	19,349,822	20,647,062	21,789,097	22,967,465
GDP Growth Real		4.0%	6.5%	6.7%	5.5%	3.3%
Penetration rate	0.87%	0.91%	0.91%	0.95%	0.87%	0.84%

4.3.2 Microfinance Industry

Overview

At regulatory and supervisory level, the Central Bank evaluated 60 VISACAs out of which 44 or 73 percent were rated as performing satisfactorily based on selected

financial parameters. Two Microfinance Companies have been licensed whilst one is building its capacity to meet the capital requirements to become licensed.

Village Savings & Credit Associations (VISACAs)

The VISACAs recorded growth in membership, deposits and loans by 21.6 percent, 46.7 percent and 19.4 percent respectively in December 2011 from a year ago. These expansions were influenced by

increases in outreach, saving mobilisation and refinancing from Gambia Women's Finance Association (GAWFA), Social Development Fund (SDF) and Rural Finance Project (RFP).

A sizeable number of VISACAs made profits from operations during the same period. This was mainly driven by interest received on loans, Money Transfer Services and non-funded income activities such as commodity retailing in rice, oil and cashew nuts among others. Many VISACAs have also improved in terms of liquidity management, loan recovery and adherence to internal controls.

Finance Companies

Out of the 5 licensed Finance Companies, only 3 operated during the review period. The overall financial performance of the finance companies improved with increases in deposits, assets, loans and capital by 16.5 percent, 23.7 percent, 12.2 percent and 6.7

Consequent of the fact that two additional VISACAs have met the new minimum capital requirement of D300,000 as at end December 2011, the number of dormant VISACAs declined to 13 in December 2011 from 26 in the previous year respectively.

percent respectively to reach D200.5 million, D295.6 million, D94.7 million and D40 million from D172.1 million, D238.9 million, D84.4 million and D37.5 million in the previous year.

Finance Companies Statement (D'millions)

Company	Deposits		Loans		Total Assets		Capital & Reserve	
	2010	2011	2010	2011	2010	2011	2010	2011
A	D155.3	D183.9	D72.3	D90.2	D171.5	D235.6	D11.6	D20.3
B	D10.2	D12.7	D1.2	D2.2	D38.6	D42.3	D21.9	D24.3
C	D6.6	D3.9	D10.9	D2.3	D28.8	D17.7	D4.0	D4.6
Total	D172.1	D200.5	D84.4	D94.7	D238.9	D295.6	D37.5	D40

Out of the three finance companies, two were fully compliant with the Minimum Capital Requirement of D10 million. Furthermore, one has fully met the Capital Adequacy Ratio of 16 percent of total assets; another is soon to meet the

requirement at its current profitability level. One is however, unable to meet the minimum capital requirement of D10 million and measures are being implemented to guide it towards sustainability.

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 2010 report. The Board held four (4) regular meetings for the year 2011.

5.2 Staff Component

The staff strength of the Bank totaled 267 as at 31st December 2011 of which 168 are male and 99 are female corresponding to 63% and 37% respectively. In terms of turnover, eight members of staff left the Bank, four of whom statutorily retired and the other four resigned. 5 new personnel joined the Bank in 2011 out of which 2 were officers and the rest support staff.

5.3 Staff Training

A well qualified staff is crucial in achieving the mission and goals of any organization. The Bank continues to uphold excellence in staff performance and plays a key role in building capacity by providing academic and

professional training both locally and overseas. For the 2011 academic year, four members of staff were offered sponsorship for long term training tenable in the UK, Belgium and Ghana. The four are pursuing their MBA in Banking and Finance, Financial Economics and an Honours Diploma in Network Engineering. A significant proportion of the clerical staff also benefited 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 Support 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 2011, currency in circulation increased to D2.7 billion or 12.5 percent from 2010. Dalasi notes accounted for 98.52 percent of currency issued and coins 1.36 percent. The D100 note was the most popular, accounting for 68.79 percent of bank notes in circulation, followed by D50 note (25.38 percent and D25 note 3.68 percent). The D10 and D5 notes on the other hand accounted for 0.92 percent and 1.18 percent respectively of bank notes in circulation. Currency in circulation was at a seasonal high in the fourth quarter of 2011 coinciding with a period when economic activity was at its peak.

Amongst the family of Gambian coins, the 1 Dalasi coin accounted for 63.23 percent of coins in circulation, the 50 Butut coin (20.64 percent) and the 25 butut and the rest (16.13 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 Africa 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:

- (i) The 25th Independent anniversary
- (ii) The Gambia Silver Jubilee
- (iii) Papal visit Gold & Silver
- (iv) UN 50th Anniversary
- (v) World Wildlife Conservation Coin
- and (vi) Africa Union Summit –Gold coin.

5.7 Deposits

The Central Bank acts as depository and fiscal agent of government. It also provides depository services to other government agencies and deposit money banks. In 2011, deposits liabilities increased by 8.56 percent to D4,460.05 million from D4,108.56 million in 2010. Government deposits increased by 1.2 percent to D1,776.53 million, compared to D1,755.48 million as at end- 2010. Commercial banks' deposit at the Central Bank also increased by 15.63 percent to D

1,233.72 million when compared to D 1,066.93 million for end- 2010.

5.8 Investments

As at end-December 2011, investments in Gambia government Securities held by the Central Bank of The Gambia stood at

D2,201.77 million as compared to end-December 2010 of D2,283.46 million indicating a decrease of D81.69 million or 3.58 percent. This decrease was mainly as a result of the principal repayments on the 30-Year Bond and the 10-year Bond during the year.

6.0 INTERNATIONAL CO-OPERATION

6.1 Overview

During the year under review, the Bank continued to play its role in the international scene through its affiliated financial institutions and participation at international meetings and forums. The Bank participated at the bi-annual meetings of the Bretton Woods Institutions, West African Monetary Zone, West African Monetary Agency, Association of African Central Banks and Afreximbank, among others.

6.2 West African Monetary Zone (WAMZ)

As a founding member of the West African Monetary Zone (WAMZ), the Central Bank of the Gambia continues to play an active role in the drive towards a single currency in the region. The Bank participated in the meetings of the WAMZ in Nigeria and Guinea in 2011 amid what is described as challenging economic situation.

Despite the decline in global economic activity in 2011 and “exceptional” crisis in some ECOWAS countries such as Cote D’voire, growth in the zone surpassed 5.0

percent in 2011. The risks to the outlook are mainly related to the debt crisis in the Eurozone and fiscal slippages in WAMZ member states. With regards to convergence, the Gambia continues to meet 3 out of the four primary convergence criteria.

6.2.1 College of Supervisors

Reflecting the effects of globalization, financial markets and institutions in the Sub-region are more integrated. The increasing number of banks crossing borders and emergence of new products and technology implies that risks can no longer be assessed only at national level. Rather it must be assessed both in regional and global context. Against this backdrop, the Convergence Council of the West African Monetary Zone in its 26th meeting in Banjul, The Gambia on July 30, 2010 approved the establishment of college of supervisors for the WAMZ.

The objectives of the college include:

- Facilitate the exchange of information, views and assessments among supervisors for efficient and effective supervision.
- Enable the supervisors to have common understanding of the risk profile of the group as a foundation of risk based supervision at both group and solo level.
- Coordination of supervisory activities, establishing plans including joint supervision. The college met regularly in 2011 and has conducted joint on site supervision in the WAMZ.

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

The Bank attended the meetings of the West African Institute for Financial and Economic Management (WAIFEM) in 2011. Key issues at the meetings relate to the approval of WAIFEM's budget and training activities for 2011.

The Bank also participated in the regional conference on *post crisis economic reform: Implications for sustained economic development in The Economic Community*

of West African States (ECOWAS), organized by WAIFEM and ECOWAS from October 10 – 11, 2011 in Abuja, Nigeria. Several research papers were presented at the conference, followed by a panel discussion and a launch of the West African Economic Society.

6.4 International Monetary Fund and World Bank

The Bank continued its collaboration with the Bretton Woods Institutions in the area of macroeconomic policy formulation and access to finance for infrastructural projects.

In the first half of 2011, a mission from the International Monetary Fund (IMF) visited the Gambia for discussions on a new Extended Credited Facility arrangement (ECF). The mission highlighted actions the Gambia authorities would take during the remainder of 2011 to build a strong track record of policy implementation, including milestones – some of which were preconditions for a new ECF-supported program.

This was followed by an Article IV Consultation Mission from October 19 – November 1, 2011.

The country met all the preconditions under the IMF arrangement and has laid a solid foundation for a new Extended Credit Facility Program in 2012. Prior to this, the Bank and the Money and Capital Markets Department of the IMF conducted a ***Stress Testing*** of the banking industry and the conclusions of the exercise were that the industry remains safe and sound with adequate capital to withstand shocks.

The Bank participated in the Spring and Annual Meetings of the World Bank and IMF which were held in Washington DC, USA. At the Spring Meetings, the International Monetary and Finance Committee (IMFC) of the IMF noted that the global recovery is gaining strength but remains vulnerable. The Committee discussed the significant risks to the outlook and decided to take necessary actions to strengthen the recovery.

Members concurred on the need for credible actions to accelerate progress in

addressing challenges to financial stability and sovereign debt sustainability and to ensure timely fiscal consolidation in advanced economies, whilst taking steps to avoid overheating in emerging market countries, and dealing with risks from higher commodity prices. The importance of employment creation for medium-term sustainability was also underscored during the meeting. Against this background, the IMFC observed that the immediate economic impact of the tragic events in Japan and of developments in some Middle Eastern and North African countries also warrants close attention. As policies can have significant cross-border effects, the Committee committed to continue to work together to address policy spillovers and to secure robust and balanced global growth.

Finally, on the issue of governance reforms at the Bretton Woods Institutions, the IMFC welcomed the entry into effect of the 2008 quota and voice reform and urged all members to work to make the 2010 quota and governance reform effective by the 2012 Annual Meetings.

At the Annual meetings also held in Washington DC, members of the IMFC

noted that the global economy had entered a dangerous phase, calling for exceptional vigilance, coordination and readiness to take bold action from members and the IMF alike. However, members were encouraged by the determination of their euro-area colleagues to do what is needed to resolve the euro-area crisis. Members also welcomed the fact that the IMF stands ready to strongly support this effort as part of its global role.

The Development Committee (DC) of the World Bank also noted with concern the turbulence in global financial markets and widespread fiscal strains, which put at risk the robustness and sustainability of global economic recovery. Volatile commodity prices and pressures on food security were identified as critical challenges. The DC also expressed concern on the possible global impacts of these issues, particularly for the poor. While developing countries have been the main contributors to recent global economic growth, the economic crisis has reduced their capacity to withstand further shocks.

The DC also reaffirmed the need to work cooperatively to meet member countries'

development commitments to achieve the Millennium Development Goals by 2015 and to support the poor in developing and emerging countries through this period of instability, as well as in the long term. In this regard, the G20 was commended for anchoring development in its agenda.

6.5 Association of African Central Banks (AACB)

The Central Bank of the Gambia attended the 35th ordinary meeting of the AACB on 12 August, 2011 which was preceded by symposium of governors. The theme of the symposium was the impact of the international financial crisis on monetary unions: Challenges for the coordination of budgeting and monetary policies.

The governors noted the progress made towards monetary cooperation in Africa and recognized the task force that includes regional experts which shall undertake a study on the strategy for the establishment of African Central Bank. The governors also emphasized the need for more efforts to consolidate the macroeconomic gains realized in the continent in 2011.

6.6 Common Wealth Finance Ministers' Meeting

Finance Ministers and Senior Officials of the 54 Common Wealth nations met in Washington DC on September 21, 2011. The ministers noted that the meeting was taking place at a time when the global economic environment continues to be significantly uncertain.

The Ministers urged for global Macroeconomic Policy Coordination to sustain the recovery and stability. In particular, the Ministers recognized the role of G20 in accelerating global recovery. To foster greater economic development and poverty reduction, the Ministers also considered how aid can be properly channeled in a cohesive system of development finance. They endorsed the recommendations for further Common Wealth work on aid effectiveness, south-south cooperation and mobilizing domestic resources for investment.

6.7 Afrieximbank

The main objectives and mandate of the Africa-Export-Import Bank include:

1. To extend direct credit to eligible African exporters by providing pre- and post-shipment finance;
2. To extend indirect short-term credit and medium-term loans to African exporters and importers;
3. To finance imports needed for export generation such as imports of equipment, spare parts and raw materials;
4. To promote and finance the export of non-traditional African goods and services;
5. To promote and provide insurance and guarantee services covering commercial and non-commercial risks associated with African exports;

During the year 2011, the management of the Afreximbank exerted effort towards effectively managing the direct and indirect risks the global economic slowdown posed on African economies while not losing sight of the tremendous opportunities that emerged. Accordingly, the management of the Bank sought to , among others, improve the geographic distribution of the Bank's loan assets, strengthen the Bank's human resource capacity for business development,

risk management and research, deepen its diversified funding sources, pursue equity mobilization efforts to ensure that the bank is sufficiently capitalized to meet its asset growth targets, achieve sound financial performance that will ensure that it maintains good ratings, and conclude work on the Fourth Strategic Plan, among other objectives. In furtherance of these objectives, the Bank raised additional funding to meet the growing demand for its credit facilities by making several entries into the Euro-Credit market.

During the year under review, some aspects of the Bank's operations were constrained by the socio-political challenges in its host nation of Egypt and prompted the Bank to deploy its Business Continuity Contingency Plan (BCCP). Accordingly, the Bank's Emergency Management Committee (EMC) evacuated dependents of international staff to their home countries.