

Monetary Policy Committee  
Meeting

CENTRAL BANK OF THE GAMBIA



Press Release

June 29, 2007

1. The World economic growth in 2007 is expected to contract albeit marginally relative to a balanced and high output expansion in 2006. The slowdown in some major countries in the wake of rising interest rates to abate inflationary pressures is expected to be moderated by developments in emerging countries, which are enjoying favorable financial conditions and continued high raw material prices.

After a notable decline between August 2006 and January 2007, oil prices recently surged, heightening inflationary pressures in most parts of the world. As a result, Central Banks reacted by increasing benchmark rates or kept them unchanged.

2. Economic activity in the Gambia in 2007 is expected to moderate to 7.0 percent, following the 7.7 percent output growth in 2006. The moderation in growth is attributable in the main to the decline in the construction sector.

3. Broad money supply increased by 18.4 percent in the year to end-May 2007 relative to 15.6 percent a year ago and was above end of year target of 13.3 percent. Reserve money, the Bank's operating target, grew by 5.5 percent, well below the growth rate of 22.9 percent a year earlier and below the 10.6 percent projected for 2007.
  
4. Inflationary pressures have surged recently, due mainly to increase in food prices. End-period inflation, measured by the National Consumer Price Index (NCPI) rose to 6.6 percent in May 2007 from 2.7 percent in May 2006. The new index covers the whole country and is based on the results of the 2003 household survey. It is more representative of current consumption patterns in the country than the old index which was based on a survey of low-income households in the Banjul and Kombo St. Mary area in 1976/77.

Food consumer price inflation rose to 10.0 percent compared to 2.1 percent in May 2006 due mainly to increases in the consumer price inflation of "bread and cereals" "Fish", "oil and fats", fruit and nuts" as well as "vegetables, root crops, and tubers". Non food products and services inflation on the other hand, declined to 2.7 percent from 3.3 percent at end-May 2006. Core inflation increased from 2.7 percent in May 2006 to 7.1 percent in May 2007.

5. The performance of public finance in the first half of 2007 was better than expected on the back of increased revenue mobilization and marked contraction in expenditure.

Domestic revenue increased to D1.89 billion or 22.3 percent from the first half of 2006 and was above projection by D212.4 million. Total expenditure and net lending on the other hand, declined by 16.8 percent

to D1.69 billion and stood below projection by D560.6 million. The overall fiscal balance (on cash basis) recorded a surplus of D415.3 million in the first half of 2007 compared to a projected deficit of D96.7 million.

6. External sector developments are expected to be more favorable in 2007 compared to 2006, premised mainly on the successful implementation of the PRGF programme which will result to a substantial debt relief and other donor inflows. The overall balance of payments surplus is projected to increase to D865.98 million (US\$30.28 million) in 2007 from D758.11 million (US\$27.08 million) in 2006. The current account balance including official transfers is estimated to improve as a result of anticipated increase in current transfers and services receipts. In contrast, the capital and financial account balance is projected to decline due largely to the estimated decrease in government loans.
7. The foreign exchange market for the first five months of the year showed continued stability and strengthening of the Dalasi. This trend is expected to continue throughout the year amid improved macroeconomic environment, healthy international reserve position and growing confidence in the economy. The Dalasi appreciated in nominal terms against the British Pound, US dollar and Euro by 1.2 percent, 2.8 percent and 0.1 percent respectively but weakened against the CFA franc by 1.1 percent. Transaction volumes measured by aggregate purchases and sales of international currencies rose to D17.93 billion during the first five months of 2007 or 33.9 percent relative to the same period last year.
8. The banking industry continued to be safe and sound, evidenced by the higher growth rate in net earnings and asset base. The bank's loss absorbing capacity, capital and reserves, also grew notably, translating

into a higher capital adequacy ratio of 31.84 percent, which compares favorably with the 8.0 percent benchmark.

9. The near term outlook of the Gambian economy is good underpinned by prudent monetary and fiscal policies, sound financial system and a stable exchange rate supported by increased foreign inflows. However, there are threats to this outlook, stemming mainly from a surge in inflationary conditions, reflecting largely developments in the international economy.
10. Taking the above-mentioned factors into consideration, including the risks to the inflation outlook, the MPC has decided to increase the rediscount rate, the policy rate, by one percentage point, from 14.0 percent to 15.0 percent. The MPC would continue to monitor the situation and if the outlook changes, the Committee would review its stance.