

Monetary Policy Committee



CENTRAL BANK OF THE GAMBIA

PRESS RELEASE

AUGUST 31, 2007

- (1) Global economic growth has generally been more robust than expected. Emerging market economies, particularly China, India and Russia continue to outperform expectations. Over the past few months, the economic expansion in Europe and Japan has been stronger than anticipated reflecting stronger domestic demand. The US economy has evolved essentially in line with expectations, despite decreased activity in the housing market.

Inflationary pressures generally abated despite strong global growth and the consequent increase in aggregate demand. However, some emerging markets and developing countries have started to experience rising inflation driven by high energy and food prices.

Concerns of a liquidity shortfall following unprecedented defaults in the US sub-prime mortgage markets moderated somewhat. A number of central banks responded by injecting significant amounts of liquidity into their banking systems in a bid to ensure an orderly adjustment to the liquidity squeeze.

- (2) According to the latest data, The Gambian economy is projected to grow at a robust 7.0 per cent underpinned by plentiful and well distributed rainfall which should increase agricultural production, expanding services sector, including banking, tourism and communications and the continuing boom in construction.
- (3) Monetary policy in 2007 is aimed at achieving the inflation target of 5.0 per cent by end-December 2007.

Money supply grew by 17.2 per cent in the year to end-July 2007 compared to 16.3 per cent a year earlier. Narrow money increased by 15.1 per cent and quasi money by 19.4 per cent. Compared to end-December 2006, money supply grew by only 2.3 per cent.

Reserve money, the Bank's operating target, grew by 6.6 per cent, lower than 16.2 per cent a year earlier. Relative to end-December 2006, reserve money growth was a negative 10.5 per cent.

Expectations are that money supply and reserve money would grow below the end-December targets of 13.3 per cent and 10.6 per cent respectively.

- (4) Government's fiscal policy stance continues to focus on supporting the disinflationary process and sustaining economic growth.

The public finances performed better-than-projected in the first half of 2007. Domestic revenue exceeded the target by D204.0 million owing to higher-than-projected tax and non-tax revenue. Total expenditure and net lending, on the other hand, was below

projection (ceiling) by about D0.5 billion. The overall fiscal balance (on cash basis) recorded a surplus of D415.3 million compared to the projected deficit of D96.7 million.

- (5) The overall balance of payments (BOP) is projected at a surplus of US \$30.3 million in 2007 compared to US \$27.1 million in 2006.

The current account deficit including official transfers is, expected to narrow to D828.4 million (US \$29.3 million) compared to D1.3 billion (US \$51.1 million) in 2006 premised on strong exports, including re-exports, increased travel and communication income and decline in external interest payments.

The capital and financial account balance is projected to decline to a surplus of D1.69 billion (US \$59.7 million) in 2007 from D2.04 billion in 2006 reflecting decreased external borrowing.

Balance of payments data in the first quarter of 2007 indicate an overall deficit of D59.2 million (US \$2.1 million). The current account deficit, including official transfers is estimated at D58.7 million (US \$2.0 million) and the capital and financial account deficit at D0.54 million (US \$0.2 million).

As at August 24, 2007 gross official reserves amounted to D2.9 billion (US \$120.5 million) equivalent to 5.0 months of import cover.

- (6) The inter-bank foreign exchange market continue to deepen. Transaction volumes, measured by aggregate purchases and sales,

rose to D24.8 billion in the first 7 months to end-July 2007, or 35.0 per cent from the corresponding period in 2006.

Between end-December 2006 and end-July 2007, the Dalasi appreciated by 9.7 per cent, 3.8 per cent, 2.2 per cent and 4.9 per cent against the US Dollar, Pound Sterling, Euro and CFA franc respectively. The strengthening of the Dalasi reflected improved macroeconomic fundamentals including robust output growth, increased foreign inflows from foreign direct investment, private remittances, re-exports, travel receipts and cashew exports as well as confidence in the Gambian economy and healthy reserves.

- (7) The banking sector remains sound. The average capital adequacy ratio was 26.1 per cent as at end-June 2007, higher than the minimum requirement of 8.0 per cent.

Total assets rose to D9.89 billion, or 17.3 per cent from end-June 2006. Gross loans and advances amounted to D2.29 billion, but lower than D2.35 billion in June 2006 reflecting a tightening of credit conditions. Non-performing loans to gross loans was 13.0 per cent in June 2007, higher than 12.63 per cent in March 2007. Deposit liabilities increased to D6.19 billion, or 14.6 per cent from a year ago reflecting rising income and vigorous savings mobilisation drive.

- (8) On August 30, 2007 the Executive Board of the International Monetary Fund (IMF) completed the first review of The Gambia's economic performance under the programme supported by a three year Poverty Reduction and Growth facility (PRGF) arrangement. The Board commended The Gambia for the strong

performance under the PRGF and for making good progress to attaining macroeconomic stability and higher economic growth.

- (9) Available inflation data is yet to convincingly demonstrate a sustained moderation of inflationary pressures. End-period inflation, measured by the National Consumer Price Index, accelerated from 1.5 per cent in July 2006 to 6.3 per cent at end-July 2007. The average inflation rate was 3.2 per cent compared to 3.1 per cent a year ago. The main driver of inflation was food prices which rose to 9.7 per cent compared to 1.1 per cent in July 2006. Non-food prices rose by a modest 2.5 per cent from 2.1 per cent in July 2006. Core inflation, excluding prices of energy and utilities as well as volatile food item rose from 1.8 per cent in July 2006 to 6.4 per cent in July 2007.
- (10) Looking ahead, the robust economic expansion is expected to be sustained in the near term supported by improving financial conditions. End-period inflation is forecast to decelerate to less than 5.0 per cent by end-December 2007. However, there are risks to the forecast particularly relating to volatile oil prices and rising global aggregate demand and their possible “knock on” effect on general prices.
- (11) Taking the above-mentioned factors into consideration, including the risks to the inflation outlook, the MPC has decided to maintain the rediscount rate, the policy rate, at 15.0 per cent. The MPC would continue to monitor changes in economic conditions and respond appropriately in order to discharge its mandate to maintain price stability.

