Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

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(1.0) Recent data indicate that the global economy grew by 4.8 per cent down from the previous forecast of 5.0 per cent. The lower-than-expected output is attributed to a number of factors including turbulence in the financial markets, surging oil and commodity prices and increasing risks from disorderly unwinding of global imbalances.

Inflationary pressures rose in many countries driven by rising food and energy prices increasing the risk of imported inflation in The Gambia.

(2.0) Recent growth performance indicates that the Gambian economy proved remarkably resilient over the past three years. Growth averaged 6.4 per cent in real terms between 2003 and 2006. In 2007, GDP growth is estimated at 6.9 per cent supported by 11.3

per cent increase in value-added of the services sector.

(3.0) Money supply grew by 7.9 per cent in the year to end-November 2007, compared to 21.9 per cent a year ago. Reserve money, the Bank's operating target, rose by 4.0 per cent significantly lower than the growth rate of 13.2 per cent a year earlier. From end-December 2006, money supply and reserve money contracted by 0.03 per cent and 10.7 per cent respectively.

(4.0) The improved performance in public finances achieved in the first three quarters of 2007 should be sustained in the fourth quarter.

Domestic revenue outturn in the eleven months to end-November 2007 increased to D3.2 billion, or 16.7 per cent from the corresponding period in 2006. Total expenditure and net lending, on the other hand, contracted by 5.0 per cent to D3.0 billion and was below projection by D1.4 billion. The overall budget balance excluding grants was a surplus of D195.6 million, equivalent to 1.2 per cent of GDP. Including grants, the surplus totalled D477.7 million, or 3.0 per cent of GDP.

(5.0) Preliminary projections suggest an overall balance of payments (BOP) surplus of D101.8 million ($4.52 million) in the third quarter of 2007 compared to an estimated deficit of D227.8 million ($8.4 million) in the second quarter reflecting the marked increase in the capital and financial account balance.

Also, revised projections indicate a balance of payments surplus of D108.6 million (US $4.0 million) in 2007, but lower than the surplus of D195.1 million (US $6.9 million) in 2006. The balance in the capital and financial account which recorded a surplus of D2.04 billion ($7.49 million) in 2006 is projected to decline to a surplus of D1.69 billion ($6.21 million) in 2007. As at end-December 2007, gross international reserves stood at D3.2 billion (US $142.5 million), equivalent to 4.3 months of imports.

(6.0) The inter-bank foreign exchange market continued to be vibrant. In the year to end-November 2007, transaction volumes increased to D36.5 billion, or 19.4 per cent from a year ago reflecting strong inflows from inward remittances, travel income, foreign direct investment and re-exports.

As at end-December 2007, the Dalasi appreciated in nominal terms by 19.60 per cent, 9.30 per cent and 17.5 per cent against the Dollar, Euro and Pound Sterling respectively from the corresponding period in 2006. Looking ahead, the Dalasi is forecast to remain stable in the medium-term premised on continued implementation of prudent monetary and fiscal policies, increased foreign currency inflows and the likelihood of reduced demand for foreign exchange by Government in light of the HIPC and MDRI debt relief.

(7.0) The banking sector continues to function efficiently. Banks have sufficient capital and liquidity to meet their commitments. The industry's average risk weighted capital adequacy ratio was 23.2 per cent in September 2007, higher-than the minimum requirement of 8.0 per cent. Although the average liquidity position of banks declined by 21.0 per cent to 85.0 per cent it was significantly higher than the minimum requirement of 30.0 per cent.

The industry's assets rose to D10.0 billion in November 2007, or 3.4 per cent from end-September 2007. Private sector credit increased from D2.5 billion in November 2006 to D2.7 billion in November 2007 representing a modest increase of 5.1 per cent. However, the high ratio of non-performing loans to total loans of 13.1 per cent in September 2007 remains a cause for concern notwithstanding the fact that bad and doubtful loans were adequately provisioned.

(8.0) According to the readings of the private sector business sentiment survey economic activity was higher in the third quarter of 2007 compared to the second quarter of 2007. The diffusion index was plus 9 compared to plus 8 in the second quarter.

Expectations are that activity would be much higher in the fourth quarter relative to the third quarter. A very high percentage of respondents (61.0 per cent) expect prices to be lower in the fourth quarter of 2007 implying a subdued inflationary expectations.

(9.0) As at end-November 2007, the stock of domestic debt declined to D5.6 billion, or 3.8 per cent from end September 2007. The maturity structure of Treasury bills, which accounts for 84.7 per cent of the debt stock, continued to move from the short to the long end. At end-November 2007, 364 days bills, 182 days bills and 91 days bills accounted for 66.16 per cent, 24.16 per cent and 9.68 per cent of outstanding Treasury bills. The yield of the 91-day and 182-day bills declined to 10.5 per cent and 11.6 per cent in November 2007 from 11.1 per cent and 12.2 per cent respectively in September 2007. However, the 364-day bill rose slightly to 12.9 per cent from 12.7 per cent in September 2007.

(10.0) According to the National Consumer Price Index, end-period headline inflation was 6.02 per cent at end–December 2007 compared to 0.42 per cent in December 2006. Food price inflation accelerated from 0.25 per cent to 9.46 per cent in December 2007. Non food prices, on the other hand, increase by only 1.55 per cent. Core inflation which excludes prices of energy and volatile food items also accelerated from

0.82 per cent in December 2006 to 6.02 per cent at end-December 2007.

(11.0) The near term outlook for the Gambian economy is favourable. Macroeconomic fundamentals remain strong and the appreciation of the Dalasi is expected to contain inflationary pressures. However, there are risks to the forecast particularly relating to the mark increase in oil and food prices.

(12.0) 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.