

Monetary Policy Committee



CENTRAL BANK OF THE GAMBIA

PRESS RELEASE

MAY 5, 2006

- (1.0) The Gambian economy proved remarkably resilient over the past 3 years. Growth in gross domestic product (GDP) was revised upwards to 6.9 per cent in 2005 compared to 6.6 per cent in 2004. Encouragingly, the expansion was broadly based and the short-term outlook remains generally positive.
- (2.0) Growth in the monetary aggregates was quite modest. In the year to end-March 2006, money supply rose by 10.2 per cent, significantly lower than 24.0 per cent a year ago. Both components of money supply increased, but quasi money grew at a stronger pace (21.6 per cent) than narrow money (5.0 per cent).
- Domestic credit increased robustly by 28.2 per cent following a contraction of 13.8 per cent a year ago. Private sector credit, accounting for 53.9 per cent of domestic credit, rose strongly by 21.2 per cent.

Reserve money, the Central Bank's operating target, grew by 11.9 per cent, lower than 15.6 per cent a year ago.

The Central Bank met all the end-March 2006 quantitative targets agreed with the IMF under the Staff Monitored Programme (SMP). The net usable reserves of the Central Bank totalled D2.24 billion (US\$76.4millions) and exceeded the target (floor) of D2.08 billion (US \$71.1 million). The net domestic assets of the Central Bank, on the other hand, amounted to D121.7 million and was below the target (ceiling) of D228.9 million.

(3.0) Despite strong growth and high oil prices, inflationary pressures remain well contained. Headline inflation, measured by the consumer price index, declined from 4.9 per cent in March 2005 to 1.7 per cent at end-March 2006.

Although non-food consumer price inflation rose slightly to 3.7 per cent from 3.1 per cent in March 2005, this was offset by marked deceleration in food prices to 0,7 per cent relative to 5.8 per cent in March 2005.

Core inflation remains contained and inflationary expectations well grounded. Core inflation, which excludes prices of energy and volatile food items, fell from 2.7 per cent in March 2005 to 1.5 per cent at end-March 2006.

(4.0) Preliminary data show improved fiscal performance in the first quarter of 2006 vis-à-vis budget estimates. Domestic revenue and grants outturn, estimated at D781.5 million, was only D18.4 million short of projection. Expenditure and net lending, on the other hand, totalled D1.12 billion, higher than the budget estimate of D975.1 million.

The basic balance, that is, revenue minus total expenditure and net lending, excluding externally financed capital expenditure is estimated at a surplus of D219.0 million. The challenge going forward is to avert fiscal pressures associated with volatile oil prices in order to support and sustain the favourable macroeconomic environment.

(5.0) The robust economic performance and the generally favourable outlook reflect in part improved financial market conditions. The Dalasi remains stable underpinned by strong economic fundamentals and interest rates continue to decline supporting investment and growth.

(6.0) Recent data project an overall balance of payments (BOP) surplus of D240.0 million (US \$8.0 million) in 2006 compared to D320.9 million (US \$11.2 million) in 2005 reflecting projected decline in the capital account surplus and widening of the current account deficit.

Gross official reserves is estimated to increase to D3.0 billion (US \$99.2 million) at end-2006 against D2.7 billion (US \$93.7 million) in 2005. As at end-March 2006, gross official reserves stood at D2.8 billion (US \$97.3 million) and The Gambia is current on its external debt service payments.

- (7.0) The fundamentals of the banking sector remain solid. The average capital adequacy ratio of the industry was 62.4 per cent in March 2006 compared to 53.4 per cent in December 2005. All the banks observed the minimum capital adequacy requirement of 8.0 per cent as well as the new minimum paid-up capital of D60.0 million.

The industry's assets increased to D8.23 billion in March 2006, or 18.6 per cent from the previous quarter and aggregate net earnings rose by 26.9 per cent to D71.0 million.

Non-performing loans decreased, albeit slightly to D234.6 million, or 1.5 per cent from the previous quarter, but remain a cause for concern despite adequate provisioning.

- (8.0) Looking forward, the outlook for inflation is favourable underpinned by modest growth in the monetary aggregates, subdued inflationary expectations, stable exchange rate and supportive fiscal policy. However, there are significant downside risks relating primarily to the evolution of oil prices and budgetary performance in the remainder of 2006.

(9.0) Taking the above-mentioned factors into consideration, including the risk to the inflation outlook, the MPC has decided to reduce the rediscount rate, the policy rate, by 2.0 percentage points to 15.0 per cent. The MPC would continue to monitor the situation and if the outlook changes, the Committee would review its stance.