

CENTRAL BANK OF THE GAMBIA



Monetary Policy Committee

PRESS RELEASE

JULY 11, 2008

- (1.0) The pace and direction of global economic growth continued to be shaped by uncertainties surrounding financial markets and surging energy and food prices. Global GDP is projected to slow down to 3.7 percent in 2008, lower than the 4.9 percent in 2007.
- (2.0) Sustained growth in developing countries has increased demand for oil and food. The price of oil increased to a record US \$145.85 per barrel on July 3, 2008. The food price surge is expected to take longer than usual to unwind, given expectations of further increases in bio-fuels production, continued strong growth in developing economies and the impact of high oil prices.

- (3.0) In 2008, growth in GDP of The Gambian economy is projected at 6.5 percent premised on continued growth in tourism, telecommunications and construction. However, the uncertainties in the global economy could slow economic output.
- (4.0) Monetary policy is focused primarily on containing inflation to below 6.0 percent. In the year to end-May 2008, money supply grew by 7.5 percent relative to 18.4 percent a year earlier. Reserve money, on the other hand, contracted by 5.9 percent compared to 5.5 percent growth a year earlier.
- (5.0) Preliminary data on Government fiscal operations showed that in the five months to end-May 2008, revenue and grants totaled D1.58 billion, lower than the D1.66 billion in the corresponding period of the previous year. Total expenditure and net lending amounted to D1.51 billion, compared to D1.48 billion in the same period last year. The overall budget surplus (including grants) on commitment basis was D102.5 million, but lower than the D159.6 million during the same period in the previous year. The budget surplus (excluding grants) on commitment basis declined to D51.4 million during the period under review from D119.7 million in the corresponding period a year earlier.

- (6.0) Balance of payments (BOP) projections indicate an overall surplus of US \$15.74 million in 2008, lower than the revised estimate of US \$29.82 million in 2007. The current account deficit including official transfers is projected to widen to US \$70.2 million from US \$65.8 million in 2007 while the capital and financial account surplus is expected to narrow to US \$85.9 million compared to US \$99.1 million in 2007.
- (7.0) As at end-June 2008, gross international reserves totaled D2.9 billion or US \$142.8 million equivalent to 5.1 months of import cover.
- (8.0) Developments in the foreign exchange market continued to be characterized by increased transaction volumes. Volume of transactions in the inter-bank market increased to US \$1.6 billion in the year to end-June 2008 compared to US \$1.4 billion a year ago. Between December 2007 and June 2008, the Dalasi appreciated against all major currencies traded in the inter-bank foreign exchange market except the Swedish Kroner. The Dalasi strengthened against the British Pound, US Dollar, Euro and CFA by 8.5 percent, 8.4 percent, 2.3 percent and 3.7 percent respectively while depreciating by 3.0 percent against the Swedish Kroner.

(9.0) The banking industry remains sound and increasingly competitive. The industry's average risk-weighted capital adequacy ratio was 23.8 percent at end-March 2008, higher than the minimum requirement of 8.0 percent. All the banks observed the prudential requirement.

(10.0) Total assets of the industry increased to D11.1 billion in May 2008, or 5.4 percent from March 2008. Loans and advances totaled D2.98 billion from D2.77 billion in March 2008. The ratio of non-performing loans to gross loans was 10.0 percent in March 2008 compared to 13.0 percent in December 2007. Deposit liabilities rose to D7.1 billion, or 6.0 percent from end-March 2008.

(11.0) As at end-June 2008, the stock of domestic debt increased to D6.0 billion (33.5 percent of GDP), or 6.0 percent from a year ago. Outstanding Treasury bills, which accounted for 80.0 percent of the total domestic debt stock, increased marginally by 0.23 percent to D4.83 billion. The yield on the 91-day, 182-day and 360-day bills fell to 9.78 percent, 10.94 percent and 13.09 percent in June 2008 from 12.3 percent, 13.03 percent and 13.91 percent respectively in June 2007.

(12.0) According to the National Consumer Price Index, headline inflation decelerated to 1.6 percent in May 2008, lower than the 6.6 percent in May 2007. However, average inflation rate (12 months moving average) accelerated to 4.9 percent compared to 2.5 percent a year ago. Although food price inflation declined to 1.9 percent in May 2008 from 10.0 percent in May 2007, there is the likelihood of the sharp rise in global food and fuel prices spilling over to increased inflationary pressures in The Gambia.

(13.0) Inflation Outlook

Economic activity in The Gambia remains strong. Growth in money supply moderated and the exchange rate is stable. However, the food and fuel price surges could place serious strains on inflation and macroeconomic stability.

(14.0) Taking the above mentioned factors into consideration, including the risk to the inflation outlook, the MPC has decided to maintain the Rediscount Rate, the policy rate, at 15.0 percent. The MPC would continue to monitor changes in economic conditions and respond appropriately in order to discharge its mandate to maintain price stability.

I thank you for your kind attention.