Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

PRESS RELEASE **March 14, 2008**

1.0 Recent data released by the International Monetary Fund (IMF) indicated a revised growth projection of 4.1 percent for the global economy in 2008, down from the 4.8 percent in 2007. The on-going re-pricing of risk and the tightening of credit conditions in industrialised countries, largely stemming from problems in the US sub-prime mortgage market as well as rising global inflation fuelled by increasing energy and food prices contributed to the projected slow down.

2.0 The price of crude oil, at around USD 53 per barrel in January 2007, started to increase in July 2007 and closed at a record USD 105 per barrel in February 2008. The main drivers of the surge in oil prices include strong global demand, low spare production capacity, inventory tightness in developed countries, worldwide refining bottlenecks, geopolitical factors and the weakening of the US Dollar.

3.0 Prices of grains and oil seeds continue to rise, reflecting strong growth in demand from major emerging economies, unfavourable supply developments and the shift to bio-fuels production. Many other commodity prices have also remained high.

4.0 World rice prices increased by 14 percent between September and December 2007. Prospects are that this trend will continue in the near term reflecting the tightening of market conditions in key exporting countries and a rebound in import demand, particularly in Asia.

5.0 The Gambian economy is forecast to grow at 6.5 percent in 2008, down from 6.9 percent in 2007, premised on decreased activity in building and construction and groundnut trade.

6.0 In the year to end-January 2008, growth in money supply decelerated to 3.9 percent from 22.6 percent in 2007. Quasi money grew by 11.2 percent whilst narrow money contracted by 2.3 percent. Reserve money grew by a minuscule 0.1 percent compared to 12.8 percent a year earlier.

7.0 Available data indicate that the Government budget registered a surplus of 0.1 percent of GDP (including grants) in 2007. Excluding grants, the budget was in a deficit of 1.0 percent of GDP.

8.0 Total revenue and grants increased to D3.6 billion in 2007, or 16.8 percent from 2006. Domestic revenue, comprising tax and non-tax revenue, rose by 13.7 percent to D3.4 billion and was D106.1 million higher than the budget estimate of D3.3 billion. Tax and non-tax revenue amounted to D3.0 billion (19.3 percent of GDP) and D0.46 billion (2.5 percent of GDP) respectively. Total expenditure and net lending totalling D3.6 billion was D857.0 million below budget projections despite the increase in capital expenditure and net lending to D1.0 billion, or 13.1 percent from 2006.

9.0 Preliminary balance of payments (BOP) estimates for the fourth quarter of 2007 indicated an overall surplus of D188.57 million (US$8.48 million) from a surplus of D194.43 million (US$9.34 million) in the third quarter. The capital and financial account balance remains positive but declined to D417.64 million compared to a surplus of D1082.53 million in the third quarter.

10.0 The BOP estimate for 2007 indicated an overall surplus of D108.6 million (US$3.99 million) in 2007 from D195.1 million (US$6.95 million) in 2006. The current account balance including official transfers is expected to narrow from 12.9 percent of GDP in 2006 to 10.1 percent of GDP in 2007. The capital and financial account, on the other hand, is projected to decrease to D1.69 billion in 2007 from D2.04

billion in 2006 reflecting primarily reduced recourse to external borrowing by Government.

11.0 External sector conditions improved in 2007 owing to the implementation of prudent monetary and fiscal policies as well as the benign global environment. This, coupled with robust foreign currency inflows have caused the Dalasi to strengthen against the three major international traded currencies.

12.0 In 2007, the Dalasi appreciated against the US Dollars, Pound Sterling and Euro by 19.6 percent, 17.5 percent and 9.3 percent relative to 2006. The strengthening of the Dalasi continued in the first two months of 2008 appreciating by 2.9 percent, 4.2 percent and 1.6 percent against the US Dollar, Pound Sterling and Euro respectively.

13.0 The inter-bank foreign exchange market continues to be vibrant. The volume of transactions in the inter-bank market, measured by aggregate purchases and sales of foreign currency, increased to US$1.7 billion in 2007 compared to US$1.2 billion in 2006.

14.0 The banking sector remained sound and profitable. The industry risk-weighted capital adequacy ratio was 23.9 percent in December 2007, over and above the required minimum of 8.0 percent.

15.0 Total assets of the industry increased to D10.4 billion in 2007 from D9.2 billion in 2006. Private sector credit rose to D2.6 billion, or 10.6 percent. Credit to building and construction, distributive trade, transportation and personal loans grew by 83.2 percent, 39.0 percent, 80.2 percent and 10.0 percent whilst credit to agriculture and fishing declined by 59.0 percent and 14.8 percent respectively.

16.0 The ratio of non-performing loans to total loans was unchanged at 13.0 percent. Partly reflecting the high percentage of non-performing loans, interest rates remain high. The average lending rate at end-December 2007 was 22.5 percent whilst the average deposit rate stood at 9.0 percent.

17.0 As at end-February 2008, the stock of domestic public debt increased slightly to D5.48 billion, or 0.01 percent from end-December 2007. The maturity structure of treasury bills, which accounted for 86.6 percent of the total domestic public debt, continues to shift from the short-end to the long-end. As at end-February 2008, 364-day bills, 182-day bills and 91-day bills accounted for 67.3 percent, 22.3 percent and 10.4 percent of outstanding treasury bills respectively.

18.0 The yield on the 91-day and 182-day bills increased to 10.6 percent and 12.19 percent in February 2008 from 10.64 percent and 11.43 percent in December 2007 respectively. Similarly, the 364-day bill rose slightly to 13.72 percent from 13.67 percent in December 2007.

19.0 The forward-looking business sentiment survey indicates higher business and economic activity in the fourth quarter of 2007 compared to the preceding quarter with a diffusion index of plus 67.0 relative to plus 9.0 in the third quarter. Sentiments on general economic and business activity for the first quarter of 2008 point to a positive outlook. And, reflecting the strengthening of the Dalasi and the subdued inflationary environment, inflationary expectations remain well anchored.

20.0 Headline inflation, measured by the National Consumer Price Index (NCPI), rose from 2.0 percent in January 2007 to 5.1 percent at end-January 2008. However, compared to end-December 2007, consumer price inflation decelerated by 0.9 percent.

21.0 Food price inflation was 8.4 percent in January 2008 compared to 2.1 percent a year earlier. Non-food inflation also rose, albeit by about half a percentage point to 1.4 percent. Core inflation, which excludes prices of energy and volatile food items, accelerated slightly from 3.4 percent in January 2007 to 4.2 percent at end-January 2008.

22.0 **Outlook for Inflation**

The outlook for inflation is influenced not only by domestic factors but international developments as well. Mirroring the moderate growth in the monetary aggregates as well as the strengthening of the Dalasi and low inflationary expectations, inflation is forecast at about 5.0 percent at end-December 2008. There are, however, upside risks to the inflation outlook relating primarily to the continued increase in global oil and commodity prices and the outcome of the 2008 budget.

23.0 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 has also reduced the reserve requirement ratio by 2 percentage points to 14.0 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 kind attention.