

**Monetary Policy  
Committee**

**CENTRAL BANK OF THE  
GAMBIA**



**PRESS RELEASE**

**MARCH 2, 2006**

- (1.0) Recent growth performance has been robust and the near-term outlook broadly favourable. Growth in gross domestic product (GDP) is estimated at 5.0 per cent in 2005 and a solid rate of economic expansion of about 4.5 per cent is forecast in 2006.
- (2.0) Money supply growth decelerated to 13.1 per cent in 2005 from 18.3 per cent in 2004. However, the growth rate in money supply was higher than the end-December 2005 programmed target of 9.4 per cent. Both components of money supply increased, but quasi money grew at a faster pace (21.5 per cent) than narrow money (6.9 per cent).

Domestic credit grew by 30.8 per cent following a contraction of 17.6 per cent in 2004. Private sector credit in particular rose by 16.2 per cent

compared to a contraction of 12.5 per cent in 2004. This, coupled with robust gains in real incomes should substantially increase consumer spending and investment in 2006.

Reserve money, the Bank's operating target, grew by 11.9 per cent in 2005 relative to 11.0 per cent in 2004, but below the end-December 2005 programmed target of 14.7 per cent.

The Central Bank observed all the end-December 2005 quantitative targets agreed with the International Monetary Fund under the Staff Monitored Programmed (SMP). The net usable reserves totalling D2.1 billion (US \$71.2 million) at end- December 2005 was above target (floor) by D72.5 million (US \$2.5 million). The net domestic assets of the Central Bank, amounting to D200.7 million, was below target (ceiling) by D58.0 million.

- (3.0) Inflation remains low and non volatile. End-period inflation, measured by the consumer price index (CPI), declined from 8.0 per cent in December 2004 to 1.8 per cent at end-December 2005. Average inflation rate (12-months moving average) was 3.2 per cent in 2005 compared to 14.2 per cent in 2004.

Food and non-food price inflation fell to 0.9 per cent and 3.8 per cent compared to 9.9 per cent and 3.9 per cent respectively at end-December 2004.

Core inflation, which excludes prices of energy and volatile food items, is well contained. Core prices decelerated from 2.1 per cent in December 2004 to 1.6 per cent in December 2005 while inflation expectations remain subdued.

- (4.0) Government's fiscal operations resulted in an overall budget deficit including grants amounting to D891.4 million, equivalent to 6.5 per cent of GDP in 2005. This was higher than the 2005 budget estimate of D662.6 million, or 4.5 per cent of GDP.

Domestic revenue outturn was D2.61 billion in 2005, 7.9 per cent lower than the budget estimate of D2.82 billion. Total expenditure and net lending at D3.7 billion was D34.0 million over and above the budget estimate.

Government is desirous to attaining fiscal sustainability. The overall fiscal deficit including grants is projected to improve to 4.5 per cent of GDP in 2006. The right mix of fiscal and monetary policy should sustain the favourable macroeconomic environment and allow for a further reduction in interest rates.

- (5.0) Financial conditions are increasingly favourable. Reflecting low inflationary pressures and the easing of monetary conditions, deposit money banks' lending rates continued to decline.

The Dalasi appreciated against all the major currencies in 2005 relative to 2004. It strengthened against the Pound Sterling, Dollar and Euro by 8.9 per cent, 5.2 per cent and 10.7 per cent respectively. Robust inflows from remittances, re-exports, foreign direct investment (FDI) and tourism related flows continue to contribute to the strength of the Dalasi.

- (6.0) Preliminary projections suggest an overall balance of payments (BOP) surplus of D240.0 million (US \$8.0 million) in 2006 relative to an estimated 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 by D168.0 million (US \$6.0 million) to D3.0 billion (US \$99.2 million) in 2006 against D2.7 billion (US \$93.7 million) in 2005. The Gambia was current on its external debt service payments in 2005.

- (7.0) The financial sector remains sound and profitable. The average capital adequacy ratio of the industry was 53.6 per cent at end-December 2005. All the banks observed the minimum capital requirement of 8.0 per cent.

The industry's assets increased to D7.74 billion in 2005 from D6.69 billion in 2004 on the back of an improved macroeconomic environment. However, the increase in non-performing loans remain a major concern, notwithstanding adequate provisioning.

- (8.0) Owing to modest growth in the monetary aggregates, stable exchange rate and the anticipated strengthening of public finances, the near-term outlook for inflation is good. However, there are still significant medium-term risks relating primarily to the evolution of oil prices.

- (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 17.0 per cent. The MPC would continue to monitor the situation and if the outlook changes, the Committee would review its stance.