

Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA



Press Release

December 24, 2009

- 1.0 Recent data indicate continued improvement in the global economy. Led primarily by Asia and supported by vigorous and coordinated fiscal and monetary policy stimulus including a wide range of measures to enhance credit flow, the IMF estimates that global growth would contract by 1.1 percent in 2009 and to grow by 3.1 percent in 2010.
- 2.0 As expected, consumer price inflation has fallen sharply around the world since mid-2008 partly reflecting the sizeable decline in oil and other commodity prices through early 2009.
- 3.0 Growth in sub-Saharan Africa has been revised upwards to 1.7 percent in 2009 and to 4.0 percent in 2010 supported by rising commodity prices and sound economic policies.

- 4.0 The Gambia's gross domestic product (GDP) is estimated to grow by 5.0 percent in 2009. The agricultural sector recorded a second year of strong growth largely attributed to good rains and successful expansion of rice farming.
- 5.0 Money supply grew by 19.3 percent in the year to end-November 2009, lower than the growth rate of 19.8 percent in 2008. Both narrow money and quasi money grew by 8.6 percent and 30.5 percent respectively.
- 6.0 Reserve money grew by 18.4 percent in November 2009, higher than the growth of 3.9 percent a year earlier.
- 7.0 Provisional data on government fiscal operations in the first ten months of 2009 indicate that revenue and grants amounted to D4.3 billion (23.4 percent of GDP) compared to D3.1 billion (20.7 percent of GDP) in the same period in 2008. Domestic revenue totalled D3.3 billion (18.2 percent of GDP), higher than the D2.9 billion (19.7 percent of GDP) recorded in the corresponding period of 2008.
- 8.0 Expenditure and net lending totaled D4.5 billion (24.8 percent of GDP), an increase of 31.9 percent relative to the corresponding period in 2008. Current expenditure amounted to D2.9 billion (16.1 percent of GDP), or an increase of 17.5 percent. Capital expenditure also rose to D1.5 billion (8.3 percent of GDP), or 79.9 percent. The overall fiscal deficit (commitment basis), including grants, narrowed from D358.8 million (2.4 percent of GDP) in the first ten months of 2008 to D246 million (1.3 percent of GDP) during the period under review.

- 9.0 As at end-November 2009, the total outstanding domestic debt increased to D7.1 billion (28.3 percent of GDP), or 8.7 percent from November 2008. Treasury bills, accounting for 71.9 percent of the total debt stock, rose by 5.5 percent to D5.1 billion. Distribution of Treasury bills by maturity indicates that the 364-day bill accounted for 65.1 percent of the outstanding stock, 182-day bill (17.8 percent) and 91-day bill (17.1 percent).
- 10.0 The yield on the 91-day and 182-day bills rose slightly from 10.44 percent and 11.72 percent in September 2009 to 10.78 percent and 12.27 percent in November 2009. In contrast, the yield on the 364-day bills declined to 13.99 percent from 14.25 percent in September 2009.
- 11.0 Preliminary balance of payments estimates for the first nine months of 2009 indicate an overall deficit of D1.0 billion compared to a deficit of D589.75 million in the corresponding period of 2008. The current account improved significantly from a deficit of D660.50 million in 2008 to a surplus of D750.71 million attributed to the surge in current transfers. The merchandise trade balance is estimated to have widened to a deficit of D2.0 billion, or by 25.0 percent from a year earlier. Exports are estimated to have increased to D3.5 billion, or 71.0 percent compared to 2008. Similarly, the value of imports increased to D5.2 billion, or 21.3 percent during the same period.
- 12.0 Gross official reserves as at end- November 2009 stood at US \$182.40 million, equivalent to 7.5 months of import cover.

- 13.0 Latest inflation data from the Gambia Bureau of Statistics, as measured by the National Consumer Price Index, continues to point to the easing of inflationary pressures. Consumer price inflation peaked at 7.1 percent (a twelve-month high) in February 2009, before dropping to 6.7 percent and 5.4 percent at end-March and end-June respectively. The downward trend continued for the seventh consecutive month to record a sixteen month low of 2.3 percent at end-October before edging to 2.6 percent at end-November 2009.
- 14.0 Food consumer price inflation declined significantly to 2.7 percent at end-November 2009 from 8.4 percent a year earlier. Non-food consumer price inflation also declined by nearly 2.0 percentage points to 2.7 percent during the same period.
- 15.0 The Central Bank's measure of core 1 inflation, which excludes prices of energy and volatile food items, also decreased to 3.0 percent in November 2009 compared to 6.6 percent in November 2008.
- 16.0 Volume of transactions in the domestic foreign exchange market measured by aggregate sales and purchases of foreign currency in the year to end-November 2009 decreased to US \$1.4 billion from US \$1.6 billion a year ago. In Nominal Effective Exchange Rate terms, the domestic currency depreciated by 9.4 percent in November 2009 compared with an appreciation of 8.5 percent a year earlier. Against individual currencies, the Dalasi depreciated against the British Pound by 8.2 percent, the US Dollar by 2.5

percent, the CFA Franc by 14.4 percent, and the euro by 20.6 percent during the same period.

17.0 The banking industry remains sound. The average risk weighted capital adequacy ratio (CAR) was 33.22 percent in November 2009, higher than the minimum requirement of 8.0 percent.

18.0 Total industry assets increased to D13.92 billion at end-November 2009, or 14.8 percent from a year ago. Non-performing loans as a ratio of gross loans remained stable at 7.0 percent compared to a year ago.

19.0 Loans and advances to the private sector increased to D4.23 billion in November 2009, or 30.0 percent. Lending to manufacturing, distributive trade, and fishing increased by 81.3 percent, 19.5 percent and 27.3 percent respectively.

20.0 **Outlook for Inflation**

The global economy continues to demonstrate clearer signs of recovery with most major economies gradually stepping out of recession, thereby prompting upward revisions of forecasts for growth. The gradual recovery in global economic activity is, however, exerting upward pressure on commodity prices in general and crude oil prices, in particular.

21.0 In the domestic economy, the prices of some basic commodities have remained largely subdued over recent months. The implementation of the 2010 budget would support growth, maintain low inflation, improve debt sustainability and also create room for more robust growth in private sector credit.

22.0 Given these developments, coupled with the expected stability in the foreign exchange market aided by the rebound in the tourism sector and groundnut marketing, headline inflation is likely to be contained to below the target of 6.0 percent at end-December 2009.

23.0 Decision

Taking the above-mentioned factors into consideration, including the risks to the inflation outlook, the MPC has decided to reduce the rediscount rate by two 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.

I Thank You for Listening