Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

Press Release **September 1, 2010**

1. World economic output is projected at about 4.5 percent in 2010 and 4.3 percent in 2011, reflecting stronger activity during the first half of the year. Driven by robust growth in Asia and stronger-than-expected private demand, the global economy expanded by 5.0 percent in the first three months of 2010. However, financial market turbulence caused in part by worries about the Greek crisis and its possible contagion effect in other vulnerable Euro area economies, fiscal sustainability and future growth prospects have clouded the near term outlook.

2. While inflationary pressures are expected to remain subdued in advanced economies due to low levels of capacity utilization and well-anchored inflationary expectations, in emerging and developing economies, inflation is expected to edge up to 6¼ percent in 2010 before subsiding to 5 percent in 2011.

3. Prices of many commodities fell during the financial market shocks in May and early June, reflecting in part expectations for weakened global demand. Prices recovered some ground more recently, as concerns about the real spillovers of the financial turbulence has eased.

4. Sugar prices reached a 30-year high in February 2010 and had started easing on the prospect of production in Brazil and India. However, tight supplies squeezed the market and pushed sugar prices to a 4-month high in July 2010 as Thailand, the world's second biggest exporter bought more than 74,000 tonnes of white sugar from international trading houses. The FAO All Rice Price Indices declined from 262 in the first seven months of 2009 to 220 in the first seven months of 2010, or a decrease of 16.0 percent.

5. Africa is recovering strongly from the global economic crisis growth in GDP after averaging about 6 percent from 2006-2008, declined to a mere 2.5 percent in 2009. Growth is expected to rebound to 4.5 percent in 2010 and 5.2 percent in 2011 reflecting on-going rebound in global trade, rising mineral prices, prudent management of public finances and implementation of structural reforms.

6. The Gambia's economy is projected to grow by 5.0 percent in 2010 compared to 5.6 per cent in 2009. Despite the effects of the global economic crisis on the services sector, manufacturing, wholesale and retail trade and agricultural value-added remain strong.

7. In the year to end-July, 2010 money supply grew by 20.6 percent compared to 18.4 percent a year earlier. Although both components of money supply grew significantly, quasi money expanded at a faster pace (27.7 percent) than narrow money (12.6 percent). Reserve money grew by 20.0 percent in July 2010, significantly higher than the 1.8 percent in the corresponding period in 2009.

8. Preliminary fiscal data for the first half of the year indicated a wider budget deficit of 4.3 percent of GDP compared to 2.9 percent in the corresponding period in 2009.

9. Total revenue for the half year of 2010 stood at D2.11 billion (19.2 percent of GDP), representing 52.0 percent of the annual target. Grants (project) increased to D401.43 million. Total government expenditure and net lending is estimated to have grown by 11.2 percent to D3.0 billion (22.7 percent of GDP). However, most of the increase in expenditure was directed on infrastructure needed for sustained growth and poverty reduction.

10. Balance of payments estimates for the first quarter of 2010 indicate an overall surplus of US$48.36 million compared to the deficit of US$32.82 million during the same period in

2009 reflecting the improvement in both the current account and the capital and financial account. The current account balance including transfers recorded a surplus of US$48.20 million compared to a deficit of US$4.11 million in the first quarter of 2009.

11. Exports rose to US$42.33 million, or 23.0 percent from the first quarter of 2009 reflecting the growth in domestic exports to US$19.31 million or 111.3 percent. Imports, on the other hand, contracted by 8.8 percent to US$56.38 million.

12. The capital and financial account balance also improved to a surplus of US$0.20 million compared a deficit of US$28.71 million in the first quarter of 2009.

13. However, preliminary estimates for the second quarter showed deterioration in the overall balance of payments. The current account is projected at a deficit reflecting mainly a wider trade balance and a decline in inflows from remittances and tourism.

14. Gross official reserves stood at US$170.34 million in July 2010, equivalent to 5.9 months of import cover. This was lower than the gross reserves of US$183.3 million in December 2009 equivalent to 6.4 months of imports.

15. Volume of transactions in the domestic foreign exchange market amounted to US$935.03 million in the first seven months of 2010 compared to US$761.89 million in the corresponding period in 2009.

16. From end-December 2009 to end-July 2010, the Dalasi depreciated against the US dollar by 9.3 percent partly mirroring developments in the international currency markets where the US Dollar has been appreciating until end-June 2010. The domestic currency also depreciated by 5.8 percent against the British Pound but appreciated against the Euro by 5.2 percent.

17. The banking industry's risk-weighted capital adequacy ratio was 15.6 percent in June 2010, but lower than the 18.7 percent in March 2010. All the banks observed the minimum requirement of 8.0 percent. The industry's assets rose to D15.4 billion in June 2010, or 0.7 percent from March 2010. Loans and advances to the private sector increased to D4.7 billion in June 2010, or 2.6 percent from the preceding quarter. Credit to financial institutions, tourism and transportation increased by 36.6 percent, 6.6 percent and 2.7 percent respectively. In contrast, lending to agriculture, building and construction and distributive trade declined by 18.5 percent, 12.5 percent and 15.6 percent respectively.

18. The ratio of non-performing loans to gross loans declined marginally to 16.7 percent in June 2010 compared to 16.9 percent in March 2010. Profitability, measured by return on assets (ROA), increased from 0.4 percent in March to 2.0 percent in June 2010.

19. The domestic debt increased to D7.8 billion in July 2010, or 8.3 percent from end-December 2009. Treasury bills, accounting for 67.1 percent of the stock, rose to D5.2 billion, or 0.4 percent from December 2009. The yield on the 91-day, 182-day and 364-day bills decreased from 10.98 percent, 12.91 percent and 14.30 percent in December 2009 to 9.41 percent, 10.33 percent and 13.07 percent respectively in July 2010.

20. Data on the distribution of Treasury bills by maturity indicate that the 364-day bill, 182-day bill and 91-day bill accounted for 64.63 percent, 18.11 percent and 17.26 percent of the outstanding stock in July 2010 from 65.51 percent, 16.35 percent and 18.14 percent in December 2009.

21. According to the Central Bank of The Gambia's Business Sentiment Survey, the majority of respondents indicated that both economic and business activity was higher in the second quarter compared to the first quarter of 2010. The respondents also expect inflation to be higher in the third quarter compared to the second quarter of 2010.

22. Year-to-year inflation, measured by the National Consumer Price Index (NCPI), was 2.4 percent at end-September 2009 before increasing slightly to 2.7 percent at end-December 2009. At the beginning of 2010, the food prices caused inflation to accelerate to 4.0 percent in March 2010. The upward movement continued in the second quarter with the rate of inflation increasing to 4.1 percent and 4.5 percent in April and June

respectively. By end-July 2010, the rate of inflation had reached a 14-month high of 6.2 percent.

23. Food and non-food consumer price inflation increased to 8.3 percent and 2.9 percent in July 2010 from 2.9 percent and 2.8 percent in December 2009 respectively.

23. Outlook for Inflation

The predicted 2010 rainfall is that it will be above normal over large areas of the country which should increase agricultural production. According to the Food and Agricultural Organisation, food prices are expected to continue to increase well into 2011. This, coupled with the strong growth in the monetary aggregates, the recent sharp depreciation of the Dalasi and high inflationary expectations are expected to exert further pressure on domestic prices.

24. Decision

Taking the above-mentioned factors into consideration, including the risks to the outlook, the MPC has decided to increase the rediscount rate by one percentage point to 15.0 percent.

I thank you for your kind attention.