CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

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(1.0) Since the last Monetary Policy Committee meeting in December 2008, the outlook for the global economy has deteriorated significantly. The financial crisis has deepened and spilled over into the global economy. The major advanced economies are now in recession and some emerging economies have been severely affected.

(2.0) Against this backdrop, the International Monetary Fund revised its forecast for global growth to 0.5 percent, its lowest since the Second World War. The IMF projects growth in advanced economies to contract by 2.0 percent in 2009 whilst in Sub-Saharan Africa, output is expected to expand by 3.5 percent, down from 5.4 percent in 2008. The sharp decline in global economic activity is likely to exert a drag on growth in The Gambia. Economic growth is therefore expected to be modest in 2009.

(3.0) As a result of the sharp downturn in global demand, commodity prices have fallen, especially for energy, and inflationary pressures have subsided in the major advanced economies.

(4.0) On the domestic front, end-period inflation, measured by the National Consumer Price Index (NCPI) rose from 5.1 percent in January 2008 to 7.0 percent in January 2009. Annual average inflation rate was 4.6 percent compared to 5.7 percent a year earlier.

(5.0) Food and non-food consumer price inflation rose to 8.8 percent and 4.7 percent in January 2009 compared to 8.4 percent and 1.4 percent respectively in January 2009. Core inflation also rose from 5.4 percent in January 2008 to 6.9 percent at end-January, 2009.

(6.0) Money supply grew by 19.3 percent in the year to end-January 2009 compared to 3.9 percent in the preceding year. Reserve money increased by 12.7 percent compared to 0.1 percent during the same period.

(7.0) Total domestic credit increased to D6.7 billion in January 2009, or 51.9 percent from a year ago. Private sector credit rose by 41.3 percent to D3.8 billion. Credit to distributive trade, building and construction and manufacturing increased by 34.1 percent, 46.2 percent and 80.9 percent respectively from a year earlier. In contrast, loans and advances to agriculture, tourism and fishing contracted by 25.8 percent, 1.4 percent and 2.4 percent respectively.

(8.0) The banking industry remains sound. Total industry assets rose by 19.5 percent to D12.5 billion year-on-year as at end-December 2008. The risk-weighted capital adequacy ratio stood at 35.9 percent in December 2008, well above the statutory requirement of 8 percent. Non-performing loans rose from 7.3 percent in September 2008 to 9.5 percent in December 2008. However, non-performing loans were adequately provisioned in compliance with the statutory requirement.

(9.0) Data on government fiscal operations indicated that revenue and grants amounted to D3.6 billion in 2008 compared to D3.7 billion in 2007. The decline in revenue and grants was on account of the decrease in indirect tax and non-tax revenue, and the less-than-expected grant receipts. Total expenditure and net lending amounted to D4.1 billion, an increase of 13.8 percent. The overall budget balance (including grants) on commitment basis deteriorated to a deficit of D490.2 million (2.7 percent of GDP) in 2008 from a surplus of D27.7 million (0.2 percent of GDP) in 2007.

(10.0) As at end-January 2009, the total outstanding domestic debt stood at D5.9 billion (31.2 percent of GDP). Treasury bills, accounting for 79.7 percent of total domestic debt, declined by 1.2 percent to D4.71 billion. The distribution of Treasury bills by maturity showed that the 364-day bills accounted for 70.6 percent of the outstanding stock, 182-day bills (16.0 percent) and 91-day bills (13.4 percent).

(11.0) The yield on the 91-day and 364-day bills increased to 10.53 percent and 14.41 percent in January 2009 from 9.94 percent and 14.03 percent in December 2008 respectively. In contrast, the yield on the 182-day bill declined to 12.09 percent from 12.48 percent during the same period.

(12.0 Volume of transactions in the inter-bank foreign exchange market in the year to end-January 2009 amounted to D35.1 billion (US$1.3 billion) compared to D37.8 billion (US$1.7 billion) a year ago.

(13.0) In the year to end-January 2009, the Dalasi depreciated against major international currencies traded in the inter-bank market except the British Pound, reflecting the impact of the global financial crisis on remittances and tourism as well as increased demand for foreign exchange to meet the high cost of imports. The dalasi weakened against the US dollar and euro by 16.7 percent and 1.9 percent respectively. The Dalasi however, appreciated against the British Pound by 15.9 percent. From December 2008 to end-January 2009, the Dalasi strengthened against the British Pound, US Dollar, Swiss Franc, Swedish Kroner, and euro by 7.2 percent, 1.8 percent, 9.1 percent, 14.4 percent and 6.0 percent respectively.

(14.0) Balance of Payments estimates indicate an overall deficit of D1.30 billion ($54.6 million) in 2008 compared to an estimated surplus of D796.80 million ($32.0 million) in 2007, reflecting the deterioration in both the current and the capital and financial accounts. The goods account balance deteriorated to a deficit of D5.27 billion in 2008, or by 23.4 percent. Exports are estimated at D2.16 billion in

2008, or a decrease of 5.1 per cent from 2007. The import bill rose to D7.41 billion, or 13.3 per cent from 2007. Projections for 2009 indicate deterioration in the overall balance emanating from the on-going slowdown in global economic activity which is expected to adversely impact remittances, foreign direct investment and tourism.

(15.0) Reflecting the widening of the current account deficit, gross external reserves stood at US$116.8 million at end-January 2009 compared to US$140.4 million in January 2008.

(16.0) **Outlook for Inflation**

The acceleration in inflationary pressures is expected to reverse in the second half of 2009 given the downward trend in global commodity and oil prices. The risk to the outlook stems from the high growth in money supply.

(17.0) **Decision**

Taking the above-mentioned factors into consideration, including the risks to the outlook, the MPC has decided to maintain the Rediscount Rate at 16.0 percent.