CENTRAL BANK OF THE GAMBIA

REMARK BY GOVERNOR FAMARA L. JATTA

AT THE WASHINGTON BRAINSTORMING WORKSHOP ON "THE GAMBIA'S PATH TO PROSPERITY" HELD AT THE WORLD BANK, WASHINGTON D.C., 28TH FEBRUARY 2007

Monetary and Financial Sector Developments

- Mr. Chairman
- Distinguished Ladies and Gentlemen

Introduction

It is my pleasure to be here today to speak to you on recent monetary and financial sector developments in The Gambia and the medium term outlook.

Since the introduction of the Structural Adjustment Programme in 1986, The Gambia enjoyed broad macroeconomic stability, characterized by stable prices, healthy reserve cover and robust economic growth. However, during the period 2002–2003, economic performance of the country deteriorated markedly as a result of monetary and fiscal policy slippages, exacerbated by inadequate rain fall in 2002, resulting to significant exchange rate depreciation and a sharp rise in inflation.

To restore macroeconomic stability, the Government of the Gambia and the Central Bank implemented corrective measures to address the policy slippages. These included the pursuance of restrictive monetary and fiscal policies and structural reforms.

The implementation of these measures helped in achieving low inflation, stable exchange rate, non-volatile economic growth and also reestablished our credibility with the Gambian public, investors and our development partners. Since then, the macroeconomic environment continues to improve and we are now laying the foundation of a growing and vibrant economy.

The Gambia entered into a Staff Monitored Program (SMP) with the IMF from October 2005 to March 2006. The aims of the SMP were to consolidate the gains in macroeconomic stability, foster conditions for sustainable growth and poverty reduction, and move The Gambia towards achieving the Millennium Development Goals (MDGs). The Gambia successfully completed the SMP by meeting all the quantitative targets and structural benchmarks for the period of the SMP. Following successful performance under the SMP, the IMF Executive Board recently approved a new Poverty Reduction and Growth Facility (PRGF) program for The Gambia.

Macroeconomic Developments 2003 – 2006

During 2003 to 2006, the Gambian economy grew on average by 6.0 percent per annum. Real GDP growth in 2006 was a robust 7.7 percent and growth was broad based with increased value added from all the sectors of the economy.

During the past three years, inflationary pressures were contained thanks to the implementation of prudent monetary and fiscal policy. Year-on-year headline inflation, as measured by the consumer price index (CPI), fell to 1.4 percent at end-December 2006, compared to 1.8 percent, 8.0 percent and 17.6 percent in 2005, 2004 and 2003 respectively.

The Gambia's balance of payments was somewhat under pressure in 2006. The overall balance of payments surplus declined to USD30.27 million in 2006 from USD61.74 million in 2005. The weakness of the balance of payments in 2006 stemmed largely from the projected decrease in the capital and financial account. The deficit in the current account balance, including official transfers, widened from some 13 percent of GDP in 2004 to 20 percent of GDP in 2005 due mainly to the deterioration of the trade balance and the decline in private remittances. However, the deficit narrowed to 14 percent of GDP in 2006 thanks to increased exports, inflows from tourism and private remittances.

The current account deficits were financed mainly by inflows of Foreign Direct Investment (FDI) and official concessional loans with FDI assuming increased importance. A significant proportion of recent FDI was directed to the tourism sector.

Reflecting strong macroeconomic fundamentals and increased inflows of FDI and private remittances, the Dalasi remained broadly stable against the major international currencies over the past three years.

The volume of transactions grew by an average of 40 percent per annum during the period 2003–06, due largely to improved supply conditions and expansion of the inter-bank foreign exchange market to include most of the parallel market operators by issuing bureau de change licenses. Mirroring these developments, the Central Bank was able to significantly build its external reserves to USD100 million at end-December 2006, enough to cover 4.5 months of imports.

On the basis of improved macroeconomic fundamentals, the Central Bank was able to cut its policy interest rate, the rediscount rate, from 33 percent at end-December 2004 to 14.0 percent as at end-December 2006. In line with these developments, the benchmark 91-day Treasury bill rate also fell from 31 percent to 10 percent during the same period. This resulted in a significant drop in interest payments on the domestic debt, providing more fiscal space for PRSP-related expenditures.

Financial Sector Issues

The financial system in The Gambia is dominated by eight commercial banks and they account for 98 percent of the sector's total assets. The banking industry is highly concentrated with two banks accounting for over 60 percent of the industry assets. The industry is financially stronger and more competitive following recapitalization in March 2006 and the licensing of two new entrants. All the banks operating in The Gambia are owned by the private sector.

The total asset base of banks grew by 69 percent from USD200 million in December 2003 to USD338 million in December 2006. Similarly, their capital and reserves increased by 86 percent from USD21 million to USD39 million. The average industry capital adequacy ratio stood at 45 percent, well above the minimum of 8 percent. The CAMEL rating parameters showed that all the banks are sound. The ratio of non-performing loans to total loans stands at 10 percent.

The low level of financial intermediation continues to be a concern. The loan to deposit ratio, at 40-45 percent, is low indicating potential for expanded lending by banks. Interest rate spreads are relatively high compared to other developing countries contributing to the low level of financial intermediation. To address this bottleneck, the Central Bank has undertaken initiatives to broaden and deepen the financial sector to smoothen the intermediation process and efficient allocation of resources for the economic development of the country.

The PRSP II has identified microfinance as one of the main pillars for poverty reduction. In the Gambia, Microfinance institutions provide financial services to the poor by availing them opportunities to build financial assets. The Central Bank is entrusted with the responsibility of supervising and regulating microfinance institutions. We have licensed 62 Village Savings and Credit Associations (VISACAs), and five Saving and Credit companies to offer sustainable financial services to the poor and vulnerable groups in The Gambia. These organizations currently serve 137 thousand depositors and borrowers. They have loan portfolios of D14.0 million and deposits of D40.6 million.

The Central Bank will continue to build on current initiatives to integrate microfinance into the broader financial sector. We are exploring opportunities to take on a more developmental role by encouraging linkages between commercial banks and micro finance institutions.

Structural Reforms

As part of Government's wider efforts to strengthen economic governance and improve the business environment, we at the Central Bank have started implementing certain initiatives to create the enabling environment for private sector participation to sustain growth and increase employment through the establishment of:

Credit Reference Bureau – Banks in The Gambia are reluctant to extend term credit partly as a result of lack of information on borrowers' financial condition. Poor information on borrowers is compounded by the absence of reliable and updated company and land registries, inadequate registries for mortgages and the absence of well functioning credit reference bureaus. These deficiencies increase credit risks and costs for banks and also undermine the competitiveness of the banking system as borrowers cannot use their track record to secure the best lending terms. The Central Bank, with the support of the commercial banks is introducing a credit reference bureau system to improve banks' access to credit information. It is expected that the bureau would be set up by May 2007. Credit information sharing should strengthen commercial banks' capacity to expand lending, especially to SMEs and reduce transaction costs.

Contract Enforcement – Term lending in The Gambia is also hampered by slow and cumbersome judicial procedures which do not ensure speedy recovery of bad debt. A review of the Mortgages Act (1992) and the Sheriffs' Act (1992) has been initiated to enhance the efficiency of the processes of enforcing judgments obtained in the courts and strengthen creditor rights.

Anti Money Laundering – The Central Bank has recently been appointed by Government as the implementing Authority for the Money Laundering Act 2003. As part of measures to strengthen the financial sector, the Central Bank is currently setting up a Financial Intelligence Unit which will be responsible for collecting data on suspicious financial transactions and coordinating with law enforcement agencies issues related to money laundering and financial crimes

To strengthen central bank governance, a new central bank Act became effective in January 2006. The new Act contains provisions that strengthen the operational independence of the Bank. This is in line with current thinking that central banks conduct monetary policy more effectively if they are shielded from short-term political influence. Among other things, the new central bank Act imposes stricter quantitative and duration limits on Government borrowing from the Bank. Government and the Central Bank have prepared a plan for gradual phasing out of Central Bank advances to Government in order to comply with the requirements of the Act by end-December 2007.

Medium Term Outlook

Ladies and Gentlemen

The Gambia's PRSP II highlights the importance of prudent fiscal and monetary policies in order to achieve and maintain macroeconomic stability. Therefore, monetary policy in the medium term will focus on maintaining inflation in the range of 2 to 4 percent to achieve long-term growth and poverty reduction. The Central Bank is also fully committed to attaining the objectives of the PRGF program with the IMF. As a small, open economy, The Gambia is susceptible to external shocks, in particular, instability in energy producing regions and volatile oil prices. These external factors will continue to influence the conduct of monetary policy in the country.

The challenges ahead are to maintain macroeconomic stability, broaden the economic base and reduce poverty. An important part of this process would be to achieve sustained growth episodes that would contribute to reducing the incidence of poverty and make progress towards achieving the Millennium Development Goals (MDGs). In this connection, structural reforms to improve the efficiency of the economy would need to be continued and essential infrastructure improved. We are therefore, strongly committed to working on strengthening our economic, political and legal institutions and implementing sound and predictable economic policies that will allow market forces to work effectively. In order for us to meet the challenges moving forward, our development partners have a pivotal, and indeed critical role to play in assisting us achieve the MDGs by providing policy advice, development finance and capacity building among others.

I THANK YOU FOR YOUR KIND ATTENTION