CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

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(1.0) Developments in the global economy continued to be marked by slowing demand in many advanced economies and rising inflation, especially in emerging and developing economies. Growth is expected to slow down significantly in the second half of 2008. In sub-Saharan Africa, growth is expected to average 6.5 percent in 2008 while inflation is projected at 8.5 percent.

(2.0) The Gambian economy is forecast to grow at 6.5 percent in 2008 premised on a strong rebound in agricultural output and the continued growth in the services and construction sectors.

(3.0) Money supply grew by 8.5 percent in the year to end-June 2008 compared to 12.9 percent a year earlier. Quasi money rose by 13.0 percent and narrow money by 4.0 percent. From end-December 2007, money supply grew by 2.7 percent while reserve money contracted by 6.3 percent.

(4.0) Preliminary data on the execution of the government budget indicate that total revenue and grants for the first six months of 2008 declined to D1.9 billion, or 3.6 percent compared to the corresponding period in 2007. The decline is attributed to the lower-than-projected tax and non-tax revenue. Total expenditure and net lending increased to D2.0 billion, or 13.6 percent compared to the first half of 2007. The overall budget balance (including grants) on commitment basis was a deficit of D113.0 million, or 1.3 per cent of GDP. Excluding grants, the deficit widened to D164.4 million, or 1.8 percent of GDP.

(5.0) Balance of payments projections indicate an overall surplus of D362.0 million (US$15.7 million) in 2008 compared to the revised estimate of D741.7 million (US$29.8 million) in 2007. Exports and imports are projected at D2.9 billion and D5.9 billion in 2008 respectively. Oil and oil products are projected at D586.5 million, equivalent to 15.3 percent of the import bill. The current account deficit, including official transfers is expected to widen to D1.6 billion (US$73.4 million) from D1.5 billion (US$64.3 million) in 2007. The capital and financial account surplus is projected to decrease slightly from D2.2 billion (US $ 96.9 million) in 2007 to D2.0 billion (US$89.9 million) in 2008.

(6.0) As at end-July 2008, gross international reserves totaled D3.0 billion (US$143.7 million), equivalent to 6.1 months of import cover.

(7.0) The inter-bank foreign exchange market continues to be vibrant. Volume of transactions, measured by aggregate sales and purchases of foreign currency, increased to US$1.7 billion at end-July 2008, or 13.3 percent from a year earlier.

(8.0) From end-December 2007 to July 2008, the Dalasi strengthened by 7.1 per cent, 4.9 per cent, 1.9 per cent and 1.5 per cent against the US Dollar, Pound Sterling, Euro and CFA Franc respectively. However, the Dalasi depreciated slightly against all the major currencies between June and July 2008.

(9.0) The banking system recorded significant asset and deposit growth as well as a strong capital base. Total assets of the industry increased to D11.3 billion, or 12.2 percent from end-June 2007. Return on assets declined from 2.1 percent in March 2008 to 1.5 percent at end-June.

Non-performing loans to gross loans ratio improved to 8.3 percent in June 2008 relative to 13.2 per cent at end-June 2007. Total deposit liabilities increased to D7.0 billion, or 11.7 percent from a year ago. The average capital adequacy ratio was 21.6 percent in June 2008 higher than the minimum requirement of 8.0 percent.

(10.0) Commercial Banks' loans and advances to major economic sectors increased to D3.0 billion in June 2008, or 33.2 percent from a year ago. Loans and advances to all the major economic sectors increased excepting agriculture which decreased by 50.4 percent to D157.7 million. Credit to the fishing industry, building and construction, transportation and distributive trade increased by 6.6 percent, 95.4 per cent, 78.5 percent and 37.8 percent respectively. Similarly, advances to tourism, personal loans and other loans rose by 14.7 percent, 25.5 percent and 65.0 percent respectively from the previous year.

(11.0) From the beginning of the year, total domestic debt increased to D6.1 billion (33.5 percent of GDP) or 10.4 percent. Total outstanding Treasury bills, accounting for 80.7 percent of total domestic debt, increased to D4.9 billion, or 2.4 percent. The yield on the 91-day, 182-day and 364-day bills fell to 9.3 percent, 10.3 percent and 12.3 percent in July 2008 from 12.7 percent, 13.2 percent and 13.9 percent respectively in July 2007. The bulk of the Treasury bills continue to be in the 364-day bills constituting 68.9 percent, whilst 182-day bills and 91-day bills accounted for 20.5 percent and 10.5 percent of the stock respectively.

(12.0) End-period inflation, measured by the National Consumer Price Index (NCPI), was 3.8 percent at end-July 2008 compared to 6.3 percent in July 2007. Annual average inflation rate was 4.3 percent relative to 3.3 percent a year earlier. Food and non-food price inflation fell to 5.3 percent and 1.9 percent compared to 9.7 percent and 2.5 percent respectively at end-July 2007. Core inflation, which excludes prices of energy and volatile food items, decelerated from 6.4 percent in July 2007 to 3.2 percent at end-July 2008. However, inflation rose from 2.2 percent in June to 3.8 percent in July 2008.

(13.0) The latest Business Sentiment Survey indicates that uncertainty about developments in food and energy prices have further increased inflationary expectations.

Inflation Outlook

(14.0) Reflecting the modest growth in the monetary aggregates, coupled with the strengthening of the Dalasi and expected good harvest, inflation is forecast to remain in single digit. However, there are risks to the outlook relating to the persistent surge in global energy and food prices.

(15.0) Taking the above mentioned factors into consideration, including the risk to the inflation outlook, the MPC has decided to maintain the Rediscount Rate, the policy rate, at 15.0 percent. The MPC would continue to monitor changes in economic conditions and respond appropriately in order to discharge its mandate to maintain price stability.

I thank you for your kind attention