

## CENTRAL BANK OF THE GAMBIA



### Monetary Policy Committee

**PRESS RELEASE**

**OCTOBER 30, 2008**

(1.0) The global economy is experiencing a major slowdown owing primarily to the worst financial crisis since the Great Depression. Stock markets have become increasingly volatile, some major financial institutions in advanced economies have collapsed, capital flows to emerging markets have weakened and some currencies have depreciated sharply. Governments have taken unprecedented measures to address these problems. Despite this, international financial markets are still marked by a high degree of uncertainty and risks of a global recession are high. The International Monetary Fund in October 2008 marked down its growth projections of the global economy for 2009 to 3.0 percent and the outlook is subject to considerable downside risks.

(2.0) In The Gambia, the banking industry continues to show strong performance in terms of profitability, loan quality, capital adequacy and liquidity. The average capital adequacy ratio was 29.7 percent in September 2008, over and above the minimum requirement of 8.0

percent. The ratio of non-performing loans to total loans improved to 7.2 percent compared to 8.3 percent in June 2008.

- (3.0) Total assets of the industry increased from D9.7 billion in September 2007 to D11.4 billion in September 2008. Of the components of total assets, lending and holdings of Government securities rose by 44.0 percent and 22.5 percent to D3.3 billion and D3.0 billion whilst external assets declined by 39.5 percent to D783.0 million in September 2008 respectively. Total deposits of the industry grew from D6.3 billion in September 2007 to D7.2 billion at end-September 2008.
- (4.0) Provisional data from the Gambia Bureau of Statistics (GBoS), indicates that output growth of the Gambian economy has been revised to 6.1 percent in 2008. The projected output growth is premised on the 30.2 percent and 7.2 percent increase in the value-added of agriculture and industry, higher than the 4.0 percent and 6.1 percent growth in 2007. The value-added of the services sector, on the other hand, is forecast to contract by 0.6 percent in 2008 compared to the growth rate of 10.4 percent in 2007.
- (5.0) Money supply grew by 11.1 percent in the year to end-September 2008, lower than the growth rate of 12.6 percent a year earlier. Growth in reserve money was 0.9 percent at end-September 2008 relative to 10.2 percent a year earlier.

- (6.0) Domestic credit grew to D5.8 billion or by 40.6 percent in the year to end-September 2008. Private sector credit, accounting for 52.1 percent of domestic credit, rose strongly by 35.1 percent to D3.0 billion. Credit to distributive trade, building and construction and transportation increased by 31.1 percent, 105.3 percent and 91.2 percent respectively from a year earlier. Loans and advances to agriculture, fishing and tourism, on the other hand, contracted by 47.0 percent, 1.9 percent and 8.6 percent respectively during the same period.
- (7.0) The Central Bank observed all the end-September 2008 quantitative targets agreed with the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF). The net usable reserves totaling US\$124.4 million was above target by US\$2.6 million. The net domestic assets of the Central Bank, amounting to D257.4 million on September 30, 2008 was below target (ceiling) by D247.3 million.
- (8.0) Reflecting the rise in global food and energy prices, end-period inflation measured by the National Consumer Price Index accelerated from 1.6 percent and 2.2 percent in May and June to 3.7 percent and 5.0 percent in July and August 2008 respectively. As at end-September 2008, the rate of inflation had climbed to 6.4 percent, the highest since June 2007.

Food inflation in The Gambia picked up in May 2008 to 1.9 percent and accelerated to 2.6 percent, 5.1 percent and 6.9 percent in June, July and August respectively. As at end-September 2008 food inflation stood at 8.3 percent.

Similarly, non-food inflation rose from 1.2 percent in May 2008 to 1.7 percent and 1.9 percent in June and July respectively. In August and September 2008, non-food price inflation reached 2.6 percent and 4.0 percent respectively.

Core inflation, which excludes the prices of energy and volatile food items increased from 1.6 percent, 2.9 percent and 4.9 percent in May, June and July 2008 before climbing further to 6.2 percent and 7.8 percent in August and September respectively.

- (9.0) Preliminary data on the execution of the government budget indicate that total revenue and grants amounted to D2.7 billion in the first nine months of 2008, or 3.3 percent below the outturn in the corresponding period in 2007. Expenditure and net lending was D2.9 billion, an increase of 9.8 percent compared to the same period a year ago. The overall budget balance (including grants) on commitment basis, was a deficit of D175.8 million (1.2 percent of GDP) in the first nine months of this year, compared to a surplus of D178.2 million (1.3 percent of GDP) in the same period in 2007.

- (10.0) As at end-September 2008, the total outstanding stock of domestic debt rose to D6.1 billion (27.0 percent of GDP) or 5.7 percent from a year ago. Outstanding Treasury bills, which accounted for 79.6 percent of the total debt stock, fell slightly by 1.2 percent to D4.8 billion.
- (11.0) Interest rates in the money market edged upwards from September 2008. The yield on the 91-day and 182-day Treasury bills rate increased from 8.9 percent and 11.0 percent in September 2008 to 10.4 percent and 13.4 percent in October 2008. The yield on the 364-day bills also increased to 14.2 percent in October 2008 from 13.1 percent in September 2008.
- (12.0) Owing to the strengthening of the US dollar, reflecting investor flight to US dollar assets viewed as safe haven, reduced foreign currency inflows and rising cost of imports, the Dalasi depreciated against the major currencies traded in the inter-bank market. Between end-December 2007 and end-September 2008, the domestic currency appreciated against the British Pound by 6.3 percent but depreciated against the US dollar and Euro by 2.6 percent and 0.6 percent respectively. Volume of transactions in the inter-bank market measured by aggregate sales and purchases of foreign exchange in the year to end-September 2008 increased slightly to US \$1.7 billion compared to US \$ 1.6 billion a year ago.

(13.0) Balance of Payments projections indicate an overall surplus of D301.2 million (\$13.1 million) in 2008 compared to a revised estimate of D741.7 million (\$29.8 million) in 2007, reflecting the deterioration in both the current and the capital and financial accounts. The merchandise trade balance is estimated to narrow to a deficit of D3.0 billion in 2008, or by 13.6 percent from the previous year. Exports are projected to decline to D2.9 billion in 2008, or by 13.1 percent from 2007. Domestic exports are projected to decrease to D253.0 million in 2008 from D266.3 million in 2007. Total value of imports is projected to decline to D5.9 billion, or by 13.4 percent from D6.8 billion in 2007.

(14.0) **The Outlook for Inflation**

Given the acceleration in inflationary pressures reflecting, in the main, high food and energy prices, high inflationary expectations and the weakening of the Dalasi, inflation is forecast to exceed the end-December 2008 target of 6.0 percent.

(15.0) Taking the above mentioned factors into consideration, including the risk to the inflation outlook, the MPC has decided to increase the Rediscount Rate by one percentage point to 16.0 percent.

**I thank you for your kind attention**