CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

Press Release **May 13, 2014**

We welcome you all to this Press briefing. The Monetary Policy Committee held its second meeting of the year on May 12, 2014 to review recent domestic and international economic developments and to set the policy rate.

Global Economic Developments

1. Since the previous meeting of the Monetary Policy Committee, global economic growth is projected to increase from 3.0 percent in 2013 to 3.7 percent in 2014 as headwinds that have been restraining activity dissipate. Monetary policy in advanced economies continues to be highly accommodative and fiscal consolidation, which has been a heavy drag on global growth, diminished significantly. Latest IMF growth projections indicate a slight moderation in output in the first quarter of 2014 with downside risks to the outlook mainly emanating from faster than expected pace of Fed tapering.

United States is projected to expand from 2 ge around 3 percent over the next three years following robust growth in the second half of 2013. The pace of economic expansion in early 2014 slowed owing to unseasonably cold weather and severe snowstorms. Eurozone growth prospects remain weak although there are signs of modest recovery. Growth in emerging economies, especially China, is expected to be solid. However, heightened uncertainty and tightening financial conditions are expected to restrain growth in other emerging economies in the first half of 2014. Growth in Sub-Saharan Africa remains robust and is expected to accelerate to 6.1 percent in 2014 from 5.1 percent in 2013 underpinned by improved agricultural production and investment in infrastructure.

3. Global inflation remains benign particularly in advanced economies where activity remains substantially below potential output. Declines in the prices of commodities, especially fuels and food, also contributed to the deceleration in headline inflation across the globe. International crude oil prices declined below the average of US$105 per barrel in March 2014 to around US$104 per barrel currently, impacted by concerns over the slowdown in China's economic growth, lower demand and ample supply.

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4. The Gambian economy is estimated to have grown by 5.6 percent in 2013, lower than the 6.1 percent in 2012. Economic activity in 2014 is expected to expand to around 6.0-6.5 percent on the back of robust growth in tourism and agriculture.

5. The overall balance of payments narrowed to a surplus of US$39.7 million in 2013 compared to US$75.12 million in 2012. The current account recorded a surplus of US$85.54 million, higher than the surplus of US$78.9 million in 2012. The goods account deficit narrowed to US$102.9 million compared to the deficit of US$168.3 million in 2012. Merchandise exports amounted to US$150.4 million, a decline of 11.0 percent. Imports also decreased but at a stronger pace of 22.0 percent to US$270.04 million. The services account surplus rose to US$97.93 million relative to US$75.63 million in 2012. The capital and financial account deficit widened to US$45.84 million compared to the deficit of US$3.78 million in 2012.

6. Data on government fiscal operations in the first quarter of 2014 indicate that total revenue and grants increased to D2.09 billion, higher than the D1.62 billion in the corresponding quarter of 2013. Domestic revenue, comprising tax and non-tax revenue, amounted to D1.57 billion compared to D1.44 billon in the first quarter of 2013. Tax and non-tax revenue increased by 11.0 percent and 1.0 percent respectively. Grants also rose to D519.6 million relative to D185.4 million in the first quarter of 2013 attributed mainly to project grants.

...ing totaled D2.69 billion, higher than the D2.11 ... 2013. Current and capital expenditure rose to D1.88 billion and D813.3 million compared to D1.53 billion and D575.5 million respectively in the corresponding quarter of 2013. The overall budget balance (including grants) recorded a deficit of D214.0 million (2.0 percent of GDP) which was financed solely by domestic borrowing.

8. Developments in the monetary sector indicate that broad money grew by 10.4 percent in the year to end-March 2014 compared to 8.8 percent a year earlier. This was mainly attributed to the robust growth in the Net Domestic Assets (NDA) of the banking system to D13.5 billion, or 14.6 percent. The Net Foreign Assets (NFA) of the banking system, on the other hand, contracted slightly to D4.6 billion, or 0.3 percent. Reserve money increased markedly by 30.7 percent relative to 3.4 percent a year earlier on the back of the 198.7 percent increase in the NDA of the Central Bank of The Gambia. In contrast, the NFA declined by 18.4 percent.

9. Volume of transactions in the foreign exchange market increased to US$363.5 million in the first quarter of 2014, or 7.3 percent from the previous quarter. However, compared to the first quarter of 2013, volumes decreased by 17.4 percent.

10. In the quarter to end-March 2014, the Dalasi depreciated against the US dollar by 1.9 percent, Euro (1.2 percent) and the Pound Sterling (3.3 percent). For the twelve months to end-March 2014, the Dalasi weakened against the US dollar by 12.0 percent, Euro (20.9 percent) and Pound Sterling (21.1 percent).

2014, the domestic debt rose to D13.9 billion, or 2013. Treasury bills and Sukuk-Al Salaam bills, accounting for 81.8 percent and 3.6 percent of the domestic debt stock, increased by 30.2 percent and 18.7 percent respectively.

12. Yields in the money market rose significantly, reflecting in the main the tightening of monetary policy. The yield on the 91-day, 182-day and 364-day Treasury bills rose from 9.44 percent, 9.86 percent and 10.23 percent in March 2013 to 15.46 percent, 16.70 percent and 18.48 percent respectively in March 2014.

13. According to recent data on the banking industry, capital and reserves grew from D2.85 billion in March 2013 to D3.04 billion in March 2014. The risk-weighted capital adequacy ratio averaged 26.5 percent, slightly lower than the 27.3 percent in March 2013. Total assets rose to D24.60 billion, or 16.4 percent from a year ago. Gross loans and advances, accounting for 25.0 percent of total assets, increased to D6.14 billion, or 6.1 percent from a year earlier. Private sector credit, net of provisions grew by 5.7 percent compared to 10.2 percent a year earlier. The non-performing loans (NPL) ratio rose to 17.4 percent, higher than the 11.0 percent in March 2013.

14. Deposit liabilities totaled D14.74 billion, an increase of 9.4 percent from March 2013. The liquidity ratio was 80.5 percent, over and above the prudential requirement of 30.0 percent. The industry recorded a net income of D136.1 million, or an increase of 14.0 percent from the corresponding period in 2013.

15. Consumer price inflation, measured by the National Consumer Price Index (NCPI), increased to 5.56 percent in March 2014, higher than the 5.35 percent recorded in March 2013. Both food and non-food prices accelerated to 6.42 percent and 4.3 percent respectively from 4.78 percent and 4.12 percent respectively in March 2013. Core inflation, which excludes the prices of volatile food items and energy, also rose to 5.56 percent from 5.29 percent in March 2013.

16. At the January 2014 MPC meeting, the Committee decided to leave the policy rate unchanged having judged the tight policy stance to be appropriate.

17. For the remainder of the year, inflation is forecast to average 5 percent. The main upside risk to the forecast continued to come from the exchange rate which despite the recent relative stability remains vulnerable to domestic and external shocks. However, the tight monetary policy stance and stronger pace of fiscal consolidation may reinforce the anchoring of inflation expectations. The Committee judges that the risks to the projected inflation path are roughly balanced.

18. Decision

Against this backdrop, the Monetary Policy Committee decided to keep the policy rate unchanged at 20.0 percent. Future policy stance would depend on a number of factors including projected inflation, inflation expectations, the state of the economy and global developments.