# Monetary Policy Committee

## CENTRAL BANK OF THE GAMBIA

**PRESS RELEASE** **JULY 28, 2011**

1. Global financial conditions have become more volatile since the last MPC meeting in April 2011 reflecting concerns about sovereign risks in the Euro-area, the recent softening in activity and persistent housing market weaknesses in the United States.

2. The global economic recovery is proceeding broadly as projected by the IMF, with modest growth in major advanced economies and robust expansion in emerging economies.

3. World output is projected at 4.5 percent in 2011 compared to 3.0 percent in 2010. Growth in the advanced economies is forecast at 2.5 percent in 2011, lower than the 3.0 percent in 2010 owing to ongoing repair of household, bank and government balance sheets as well as the events in Japan and higher commodity prices.

4. Growth in emerging and developing economies is projected at 6.5 percent compared to 7.5 percent in 2010.

5. Despite recent declines, global commodity prices remain high by historical standards reflecting robust demand from emerging economies and tight supply conditions. Oil prices have fallen since the last MPC meeting reflecting market expectations for weaker economic growth, some unwinding of financial positions and the release of strategic petroleum reserves by the International Energy Agency.

6. The FAO Food Price Index (FFPI) averaged 234 points in June 2011, 1 percent higher than in May 2011 but 39 percent higher than in June 2010 mainly due to a strong rise in international sugar prices.

7. Inflation accelerated from 3.5 percent in the last quarter of 2010 to 4.0 percent in the first quarter of 2011 owing to the confluence of high food and energy prices and excess demand in emerging economies. Monetary authorities in the emerging economies have taken measures to contain inflation, but conditions remain accommodative suggesting that inflationary pressures are likely to persist.

8. On the domestic front, revised estimates from the Gambia Bureau of Statistics indicate that real GDP growth was 6.1 percent in 2010 compared to 6.3 percent in 2009. The slowdown was attributed mainly to the decrease in value-added of agriculture and services, particularly tourism and

wholesale and retail trade. In 2011, real GDP growth is projected at 5.5 percent premised on gradual recovery of the tourism sector and agriculture.

9. Money supply growth decelerated to 13.4 percent in the year to end-June 2011, significantly lower than the 21.0 percent a year ago. Narrow money (M1) and quasi money grew by 13.9 percent and 12.9 percent respectively. Reserve money increased by 8.1 percent relative to 21.9 percent in June, 2010.

10. Government fiscal operations in the first half of 2011 showed an improved position compared to the same period last year. Preliminary data indicate that total revenue and grants amounted to D2.79 billion compared to D2.55 billion in the corresponding period in 2010. Domestic revenue, which comprises tax and non-tax revenue, rose to D2.17 billion, or 2.9 percent. Total expenditure and net lending, on the other hand, decreased to D2.88 billion, or 2.6 percent.

11. The overall budget balance (including grants) on commitment basis, was a deficit of D90.0 million compared to a deficit of D403.9 million in the first half of 2010. Excluding grants, the deficit was D708.5 million.

12. Balance of payments projections for 2011 indicate an overall deficit of US$3.70 million compared to a deficit of US$15.20 million in 2010. The improvement is premised on the expected increase in private capital and official inflows (net).

13. The current account balance, including official transfers, is projected to narrow slightly to 11.3 percent of GDP in 2011 from 11.7 percent of GDP in 2010. In contrast, the capital and financial account surplus is expected to increase to US$115.5 million in 2011 compared to US$97.7 million in 2010.

14. As at end-June 2011, gross official reserves amounted to US$179.68 million, equivalent to 5.0 months of import cover.

15. Reflecting the impact of the global economic crisis on the services sector, particularly tourism, volume of transactions, measured by aggregate sales and purchases of foreign currency in the domestic market, contracted to US$1.58 billion in the year to end-June 2011 from US$1.65 billion a year ago.

16. Owing mainly to reduced foreign currency inflows and increased demand, the Dalasi depreciated in nominal effective exchange rate terms by 8 percent in June 2011 compared to a depreciation of 1.9 percent in June 2010. Against individual currencies, the domestic currency depreciated by 4.9 percent against the US Dollar, Pound Sterling (8.40 percent), Euro (12.97 percent) and CFA (7.56 percent).

17. According to the key financial soundness indicators, the banking industry remains sound. Capital and reserves increased to D2.6 billion in June 2011 compared to D1.6 billion in June 2010. The average risk-weighted capital adequacy ratio (CAR) was 25.6 percent in June 2011, higher than the minimum capital requirement of 8.0 percent. The industry's total assets

continue to increase. It rose to D18.24 billion in June 2011, or 16.7 percent from June 2010.

18. Private sector credit increased to D5.4 billion, or 10.2 percent. The ratio of non-performing loans to gross loans declined from 14.0 percent in March 2011 to 12.7 percent in June 2011, attributed to robust loan recovery efforts.

19. Deposit liabilities increased strongly to D11.88 billion in June 2011, or 14.3 percent from June 2010. However, the loan to deposit ratio fell slightly from 46.5 percent in June 2010 to 45.4 percent in June 2011. The liquidity ratio of the industry rose from 63.9 percent in June 2010 to 68.1 percent in June 2011 and above the minimum requirement of 30 percent.

20. As at end-June 2011, the domestic debt increased to D9.7 billion, or 26.0 percent year-on-year. Outstanding Treasury bills, accounting for 65.7 percent of the debt stock, rose by 22.0 percent. The yield on the 91-day, 182-day and 364-day bills declined to 8.93 percent, 9.65 percent and 11.50 percent in June 2011 from 9.58 percent, 10.49 percent and 13.03 percent respectively in June 2010.

21. Latest readings from the private sector business sentiment survey indicate that the majority of respondents reported higher economic and business activity in the second quarter of 2011 compared to the preceding quarter. However, the majority of respondents indicated that current prices are higher and expect inflation to be elevated in the third quarter.

22. End-period inflation, measured by the National Consumer Price Index (NCPI), rose to 5.4 percent at end-June 2011 relative to 4.5 percent a year earlier. Similarly, average inflation rate (12-month moving average) increased to 5.7 percent from 3.4 percent.

23. Food price inflation rose to 7.4 percent in June 2011 compared to 5.4 percent in June 2010. Non-food inflation, on the other hand, decelerated to 2.1 percent in June 2011, lower than the 2.8 percent in June 2010. Core inflation, which excludes the prices of energy, utilities and volatile food items, accelerated to 5.4 percent in June 2011 compared to 4.3 percent in June 2010.

**24. Outlook for Inflation**

Inflation is projected to remain within the target of 6 percent for the remainder of 2011 consistent with the deceleration in the growth of the key monetary aggregates. However, an acceleration in food and energy prices as well as a higher-than-expected fiscal deficit are risks to the outlook.

**25. Decision**

Taking the above developments into consideration, including the risks to the inflation outlook, the MPC has decided to maintain the rediscount rate at 15.0 percent.