Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

PRESS RELEASE **MAY 11, 2012**

1. Since the last meeting of the Monetary Policy Committee (MPC), the intensity of the financial crisis in the Euro Zone appears to have subsided somewhat. The liquidity support to the banking sector may have calmed markets and improved financial conditions. However, the mixed signals indicate that the crisis is yet to be resolved.

2. According to the IMF's April 2012 edition of the World Economic Outlook, global real GDP growth is forecast to slow to about 3½ percent in 2012, from about 4 percent in 2011. In the advanced economies, growth is projected at about 1½ percent, slightly lower than the 1.6 percent in 2011. Emerging and developing economies continue to reap the benefits of strong macroeconomic and structural policies, but domestic vulnerabilities have been gradually building.

3. Global Inflationary pressures are easing amid slowing growth and declining food price trends. In the major advanced economies, inflation is broadly contained given excess supply conditions. In the emerging countries, headline inflation is decelerating, but is expected to stay elevated in some countries. In Sub-Saharan Africa, inflation is forecast to remain relatively high reflecting accommodative macroeconomic policies and supply disruptions.

4. According to the Gambia Bureau of Statistics (GBOS), real GDP growth moderated to 3.3 percent in 2011 from the 5.5 percent in 2010 attributed mainly to the early cessation of rains which affected crop production.

5. Agriculture value-added is estimated to have declined by 5.2 percent compared to the robust growth rate of 12.1 percent in 2010. Crop production, accounting for 56.4 percent of agricultural output, contracted by 12 percent from the strong growth rate of 14.3 percent in 2010. The value-added of livestock also fell from 10.9 percent in 2010 to 6.3 percent in 2011. In contrast, forestry and fisheries sub-sectors grew by 3.5 percent and 2.1 percent from 3 percent and 1.7 percent respectively in 2010.

6. The value-added of the industrial sector is estimated at 1.3 percent, lower that the revised growth rate of 2.6 percent in 2010. Mining and quarrying, manufacturing and electricity, gas and water supply grew by 1.6 percent, 3.9 percent and 1.4 percent compared to 14.2 percent, 0.4 percent and 7.7 percent respectively in 2010. Construction value-added contracted by 2.9 percent on top of the contraction of 3.7 percent in 2010.

7. In the year to end-March 2012, money supply grew by 9.0 percent but lower than the growth rate of 14.9 percent in March, 2011. Quasi money grew at a slightly faster pace (9.3 percent) than narrow money (8.3 percent).

8. Annual growth in reserve money was 8.7 percent at end-March, 2012 relative to 15.9 percent in the preceding year.

9. Services grew by 9.5 percent, significantly higher than the 1.1 percent in 2010. All the services sub-sectors grew at a robust pace. In particular, wholesale and retail trade and hotels and restaurants grew by 9.7 percent and 34.2 percent after contracting by 0.4 percent and 35.7 percent in 2010 respectively.

10. As at end-March 2012, the domestic debt increased to D9.2 billion (31.3 percent of GDP), or 5.2 percent from a year ago, Treasury bills and Sukuk-Al-Salaam combined, and accounting for 78.8 percent of the debt stock, rose to D7.43 billion compared to D6.0 billion in March 2011.

11. The yield on all maturities increased with the exception of the 364-day bills. The yield on the 91-day and 182-day bills increased from 9.58 percent and 10.46 percent in March 2011 to 10.23 percent and 11.52 percent respectively in March 2012. The yield on the 91-day Sukuk-Al-Salaam also rose from 9.57 percent in March 2011 to 10.03 percent in March 2012. The yield on the 364-day bills declined slightly to 12.80 percent from 13.09 percent in March 2011.

12. Provisional balance of payments estimates indicate an overall surplus of US$31.73 million in 2011, but lower than the US$86.52 million in 2010. The current account, including official transfers was in surplus of US$66.86 million, higher than the surplus of US$56.25 million a year ago. The capital and financial account, however, recorded a deficit of US$35.12 million from a surplus of US$30.27 million in 2010.

13. As at end-March 2012, gross international reserves totaled US$182.0 million, equivalent to 5.0 months of import cover.

14. Volume of transactions in the foreign exchange market, measured by aggregate purchases and sales, declined to US$1.45 billion in the year to end-April 2012 from US$1.59 billion a year earlier.

15. Year-on-year to end-April 2012, the Dalasi depreciated against the US Dollar and Pound Sterling by 6.86 percent and 4.64 percent respectively but appreciated against the Euro by 4.49 percent. In nominal effective exchange rate terms, the Dalasi depreciated by 5 percent.

16. The key financial soundness indicators show that the banking industry remains sound with sufficient capital and liquidity. The industry's risk-weighted capital adequacy ratio increased slightly to 26.6 percent at end-March 2012 from 25.9 percent in March 2011 and significantly above the statutory requirement of 10.0 percent.

17. The assets of the industry increased to D18.8 billion in March 2012, or 4.5 percent from a year ago. Loans and advances, accounting for 30 percent of assets, decreased to D5.3 billion, or 2.4 percent from a year ago. Credit to distributive trade, building and construction and other commercial loans increased by 5.0 percent, 11.0 percent and 26.0 percent respectively. In contrast, advances to agriculture, transportation and tourism declined by 3.0 percent, 6.0 percent and 5.0 percent respectively. The non-performing loans ratio decreased significantly to 8.7 percent in March 2012 compared to 13.3 percent in March 2011.

18. End-period inflation, measured by the National Consumer Price Index (NCPI), decelerated to 3.9 percent at end-March 2012 from 5.4 percent in March 2011. Average inflation (12-month moving average) was at a 12-month low of 4.5 percent compared to 5.4 percent in March 2011. This favourable outcome was primarily the result of the moderation in food price inflation.

19. Consumer food inflation, the most important determinant of headline inflation, decelerated from 7.5 percent in March 2011 to 4.8 percent in March 2012. In contrast, non-food consumer price inflation rose to 2.7 percent from 2.0 percent in March 2011.

20. Core inflation, which excludes the prices of energy, utilities and volatile food items, decreased to 4.0 percent relative to the 5.3 percent in March 2011.

21. Inflation expectations, as reflected in the Private Sector Business Sentiment Survey, remain high, but were an improvement over the readings in the previous two surveys.

22. Outlook for Inflation

Owing to the subdued state of the economy and moderation in the growth of the monetary aggregates, coupled with the stability of the Dalasi, inflation is expected to remain contained below the target of 5 percent. However, there are upside risks to the outlook mainly emanating from global oil prices and the stance of fiscal policy.

23. Decision

Taking the above factors into consideration, the MPC is of the view that it is appropriate for monetary policy to support the real economy while at the same time maintaining its commitment to contain inflation. The MPC has, therefore, decided to reduce the reserve requirement by two (2) percentage points to 10 percent of deposit liabilities. The MPC expects a reduction in interest rates, especially lending rates.