Monetary Policy Committee

CENTRAL BANK OF THE GAMBIA

PRESS RELEASE **OCTOBER 28, 2011**

1. Since the last MPC meeting in July 2011, growth in some of the advanced economies has weakened against the backdrop of financial market turbulence generated in large part by the unresolved European sovereign debt crisis. Although economic growth in emerging economies is expected to continue to outperform that of the advanced economies, they are unlikely to emerge unscathed from the challenging global environment. According to the latest World Economic Outlook, global growth is projected to slowdown to 3.9 percent in 2011 compared to 5.0 percent in 2010.

2. Owing to strong growth in the emerging economies, commodity prices remain at elevated levels. This coupled with persistent excess demand in the major emerging market economies are contributing to broader global inflationary pressures.

3. The Global Food Price Index of the United Nations Food and Agriculture Organization (FAO) reached a historic peak of 238 points in February 2011, well above the peak of 213.5 points reached in 2008. Prices have since

eased and in September 2011, the index was 225 points, but still 15 percent higher than in September 2010.

4. Crude oil prices remain elevated despite recent decrease in prices in September 2011, the largest since May 2010. Overall, oil prices decelerated by 7.4 percent in the second quarter of 2011.

5. The Gambian economy continues to grow at a robust pace despite the challenging global environment. Economic growth is projected at 5.5 percent in 2011, but lower than the 6.1 percent in 2010. The economy is expected to benefit from increased value – added of agriculture and tourism.

6. Broad money grew by 11.5 percent in the year to end-September 2011 compared to 20.1 percent a year ago. Both components of money supply increased. However, narrow money grew at a faster pace of 15.3 percent than quasi money (8.6 percent). Reserve money rose by 13.0 percent, lower than the 20.8 percent a year ago. Although the net domestic assets (NDA) of the Central Bank of The Gambia (CBG) increased by 128.9 percent, the net foreign assets (NFA) contracted by 5.1 percent.

7. According to the data on Government fiscal operations, total revenue and grants in the first nine months of 2011 amounted to D3.9 billion (12.0 percent of GDP) compared with D3.8 billion (13.1 per cent of GDP) in the corresponding period in 2010. Tax revenue decreased to D2.7 billion, or 2.3 percent. Non-tax revenue, on the other hand, increased to D404.9 million, or 14.3 percent. Total expenditure and net lending rose to D4.6 billion, or 6.3 percent, reflecting in the main, the 14.1 percent increase in current spending. Capital expenditure, in contrast, decreased by 9.6 percent during the period under review.

8. The overall budget balance (including grants) on commitment basis was a deficit of D714.50 million (2.2 percent of GDP) compared to a deficit of D530.0 million (1.8 percent of GDP) in the corresponding period in 2010.

9. As at end-September 2011, the domestic debt increased to D9.2 billion (29.5 percent of GDP) compared to D7.8 billion (27.4 percent of GDP) in September 2010. Outstanding Treasury bills, accounting for 74.0 percent of the debt stock, rose to D6.8 billion compared to D5.5 billion in September 2010.

10. Data on the distribution of Treasury bills by maturity indicate that the 364-day bill, 182-day bill and 91-day bill accounted for 69.31 percent, 20.51 percent and 10.18 percent of the outstanding bills compared to 65.64 percent, 21.0 percent and 13.36 percent respectively in September 2010.

11. Treasury bills and Sukuk Al-Salaam yields continue to decline. The 91-day Treasury bill and Sukuk Al-Salaam yields declined to 7.98 percent and 8.15 percent in September 2011 from 9.57 percent and 10.08 percent respectively in September 2010. Similarly, the yield on the 182-day and 364-day bills decreased to 8.7 percent and 10.01 percent from 10.24 percent and 13.37 percent respectively in September 2010.

12. The volume of transactions in the foreign exchange market contracted to US$1.56 billion in the year to end-September 2011 compared to US$1.68 billion a year earlier.

13. The Dalasi continues to weaken against all the major currencies. Year-on-year to end-September 2011, the Dalasi depreciated against the US Dollar by 4.7 percent, Euro (6.6 percent) and Pound Sterling (0.95 percent). In nominal effective exchange rate terms, the Dalasi depreciated by about 5 percent.

14. Preliminary balance of payments estimates indicated an overall surplus of US$39.29 million in the first half of 2011 compared to US$39.94 million in the corresponding period of 2010. The current account recorded a surplus of US$43.5 million, significantly higher than the US$20.7 million in the corresponding period in 2010. The goods account recorded a deficit of US$55.17 million compared to the deficit of US$49.02 million in the first half of 2010. Imports and exports rose by 17.0 percent and 19.4 percent respectively. The capital and financial account recorded a deficit of US$4.2 million relative to the surplus of US$19.2 million in the corresponding period in 2010.

15. As at end-September 2011, the gross official reserves totaled US$171.7 million, equivalent to 4.9 months of import cover.

16. According to the key financial sector indicators, the banking industry remains fundamentally sound. The average risk-weighted capital adequacy ratio was 27.1 percent in September 2011, higher than the 24.8 percent in the previous quarter. All the banks met the minimum requirement of 10.0 percent.

17. The industry's assets increased slightly to D18.1 billion, or 0.12 percent from the previous quarter. Compared to the corresponding quarter of 2010, assets increased by 10.7 percent. Gross loans and advances, accounting for 30.0 percent of total assets, rose to D5.4 billion, or 6.5 percent. Although the ratio of non-performing loans to gross loans at 13.0 percent was the same as in the previous quarter, it was below the 16.2 percent in the third quarter of 2010.. Deposit liabilities rose to D11.9 billion, or 0.04 percent over the second quarter of 2011. However, compared to the corresponding quarter in 2010, deposit liabilities rose by 9.3 percent.

18. According to the readings of the forward-looking business sentiment survey, the vast majority of respondents expect economic and business activity to be higher in the fourth quarter of 2011 compared to the third quarter of 2011. Also, the majority of respondents reported that current prices are higher, but expect inflation to be lower in the fourth quarter of 2011.

19. End-period inflation, measured by the National Consumer Price Index (NCPI) was 4.1 percent at end-September 2011, from 6.2 percent in September 2010. Average inflation (12-month moving average), however, increased to 5.2 percent in the year to end-September 2011 compared to 4.2 percent a year earlier. Consumer food inflation decelerated from 8.4 percent in September 2010 to 5.5 percent in September 2011. Non-food inflation also declined to 2.2 percent from 2.9 percent in September 2010.

20. Core inflation, which excludes prices of energy, utilities and volatile food items, decreased to 4.2 percent in September 2011 from 6.2 percent in September 2010.

21. **Outlook for Inflation**

Inflation is projected to be within the target of 6.0 percent in the remainder of the year premised on the continuous decline in global food and energy prices, expected increase in domestic food production and the prudent stance of monetary policy. There are, however, upside risks to the outlook mainly emanating from exogenous price shocks and the stance of fiscal policy.

22. Decision

Taking the above developments into consideration, including the risks to the inflation outlook, the MPC has decided to reduce the rediscount rate by 1 percentage point to 14.0 percent.

I THANK YOU FOR YOUR ATTENTION