CENTRAL BANK OF THE GAMBIA

Monetary Policy Committee

Press Release **November 25, 2014**

You are welcome to this press briefing. The Monetary Policy Committee (MPC) held its 52nd meeting yesterday November 24, 2014 at the Conference Room of the Central Bank of The Gambia (CBG). The Committee reviewed domestic and international economic developments, assessed the risks to the outlook and decided on the monetary policy stance. I present to you highlights of the deliberations and the decision of the Committee.

Global Outlook

1. Since the last meeting of the MPC, global economic recovery remains uneven amid sustained improvements in the US and UK, and deteriorating prospects in the Euro area, Japan and several emerging markets economies. The International Monetary Fund has lowered its forecast for global growth for the rest of 2014 and 2015 citing weaker-than-expected growth during the first half of 2014. Global growth is now forecast to average 3.3 percent and 3.8 percent in 2014 and 2015 down from the earlier projections of 3.6 percent and 3.9 percent respectively.

2. In advanced economies, growth is forecast to increase to 1.8 percent in 2014 and 2.3 percent in 2015 reflecting partly faster growth in the US where temporary constraints such as the unusually harsh winter and sharp correction to an earlier inventory build-up have receded. Growth in the Euro area remained weak with the German economy also under pressure following a contraction in the second quarter of 2014. Inadequate domestic demand, high debt and unemployment continue to post challenges to robust and sustained growth.

3. Growth in emerging and developing economies is projected at 4.4 percent in 2014. While emerging Asia appears to be benefitting from the US recovery, emerging markets generally are facing headwinds, including lacklustre domestic demand and the impact of increasing geopolitical tensions. After three decades of remarkable growth, China's economy has been slowing. Growth is expected to decline slightly in 2014/2015 to 7.4 percent as the economy transits to a more sustainable path. Growth in Sub-Saharan Africa is expected to remain relatively strong, although commodity producers and those with large tourism sectors may be adversely affected by lower commodity prices and possible spillover effects from the Ebola outbreak.

4. Global inflation has generally remained low, despite price pressures experienced in some emerging markets. Inflation remains subdued in advanced economies reflecting persistent output gaps and weak credit conditions especially in the Euro area where deflation continues to be a concern. In emerging and developing economies, inflation has remained broadly stable but is projected to decline in 2014 and to remain unchanged in 2015 premised on the softening of commodity prices, particularly foods, which have a high weight in the consumer price index of these countries.

5. The FAO Food Price Index averaged 192.3 points in October 2014, 14.3 points lower than its corresponding level a year ago. Global oil prices traded in the range of US$105 – US$114 per barrel in the year to end-July 2014. Since August, the price has fallen below this range and is currently trading at around US$75 per barrel. This development comes despite rising tensions and instability in the Middle East and the conflict in Ukraine, events that in the past would likely have resulted in an oil price hike. Oil demand is currently weak partly due to the slowdown in the global economy. Supply, on the other hand, has surged thanks in large part to increased production of light oil from US shale deposits.

The Domestic Economy

- ***Real GDP Growth***

6. The domestic growth outlook for 2014 remains weak following growth rates of 5.6 percent and 6.1 percent in 2013 and 2012 respectively. Partly as a result of the impact of delayed rainfall on agriculture and partly the adverse effect of the Ebola outbreak on the services sector, particularly tourism, GDP is expected to be subdued and the risk is assessed to be on the downside.

- ***Money and Banking Sector Developments***

7. In the year to end-September 2014, all the key monetary aggregates expanded. Money supply grew by 10.9 percent, slightly lower than the 11.3 percent a year ago. The deceleration in the growth of broad money was mainly due to the slower growth of the net domestic assets (NDA) of the banking sector by 10.1 percent from 17.4 percent a year earlier. The net foreign assets (NFA) of the banking sector, on the other hand, grew by 13.2 percent from a contraction of 5.6 percent a year ago.

8. Reserve money continues to grow at a robust pace, increasing by 27.4 percent in September 2014, slightly lower than the 27.7 percent growth in September 2013.

9. The banking sector remains fundamentally safe and sound. Total assets increased to D25.1 billion in the year to end-September 2014, or 10.0 percent. Gross loans and advances, accounting for 24.7 percent of total assets, rose to D6.12 billion or 3.3 percent. Private sector credit, net of provisions, accounting for 93.10 percent of gross loans and advances, contracted by 5.0 percent to D5.7 billion in September 2014. Non-performing loans totalled D0.92 billion (14.8 percent of total credit), lower than the D1.16 billion (20 percent of total credit) recorded in September 2013.

10. Capital and reserves totalled D3.12 billion, higher than the D2.3 billion in September 2013. Capital adequacy ratio averaged 27.7 percent, significantly higher than the statutory requirement of 10.0 percent. Deposit liabilities increased to D15.25 billion compared to D14.23 billion in September 2013. The liquidity ratio stood at 83.1 percent, over and above the statutory minimum requirement of 30.0 percent.

11. In the year to end-September 2014, the domestic debt rose to D16.73 billion (45.4 percent of GDP) from D12.4 billion (38.0 percent of GDP). Treasury bills and Sukuk Al Salaam bills, accounting for 81.0 percent and 3.4 percent of the debt stock, increased by 36.2 percent and 35.7 percent respectively.

12. Following the increase in the policy rate at the previous meeting of the MPC, the yield on the 182-day and 364-day Treasury bills increased to 16.43 percent and 19.43 percent in September 2014 from 16.0 percent and 18.45 percent respectively in September 2013. However. the yield on the 91-day Treasury bill decreased to 14.20 percent from 14.76 percent in September 2013. The yield on the 91-day Sukuk Al-Salaam bills also declined to 14.30 percent from 14.76 percent in September 2013.

- ***Government Fiscal Operations***

13. Provisional data on Government fiscal operations for the first nine months of 2014 indicate a fiscal deficit of D1.4 billion (3.7 percent of GDP) compared to D1.3 billion (3.9 percent of GDP) in the corresponding period in 2013.

    - Total revenue and grants was estimated at D6.0 billion (16.2 percent of GDP), below the target of D6.3 billion (16.5 percent of GDP). The underperformance of the outturn was as a result of the shortfall in personal income tax and project grants by D5.60 million and D343.4 million below their targets respectively. Domestic revenue, comprising tax and non-tax revenue rose to D4.9 billion, or 19.8 percent. Both tax and non-tax revenue increased by 18.5 percent and 33.9 percent to D4.20 billion and D723.5 million respectively. Grants also increased to D1.12 billion, or 80.5 percent from the corresponding period in 2013, but was below the target of D1.5 billion.

    - Total expenditure and net lending increased from D5.98 billion (18.3 percent of GDP) in the first nine months of 2013 to D7.4 billion (19.8 percent of GDP) during the period under review and higher than the projected D7.3 billion (19.5 percent of GDP). Although both current and capital expenditures increased, current expenditure grew at a stronger pace of 52.2 percent than capital expenditure (5.4 percent). Of the components of current expenditure, wages, salaries and allowances, other charges and domestic interest payments increased by 46.7 percent, 30.0 percent and 120.5 percent respectively. External interest payments, in contrast, decreased by 52.5 percent.

- ***External Sector Developments***

14. Preliminary balance of payments estimates for the first half of 2014 indicate an overall deficit of US$2.15 million, lower than the deficit of US$5.6 million in the first half of 2013. The slight improvement in the overall balance was mainly due to the increase in the capital and financial account surplus. The current account deficit, on the other hand, widened to US$58.06 million from a deficit of US$38.25 million in the first half of 2013. Of the components of the current account, the merchandise trade deficit narrowed slightly to US$98.90 million, from US$100.20 million in the corresponding period of 2013. Both imports and exports increased by 17.0 percent and 23.4 percent to US$167.80 million and US$54.40 million respectively.

15. The surplus in the services account narrowed to US$29.60 million or a decrease of 29.8 percent from the corresponding period in 2013 reflecting mainly the estimated 42.9 percent decline in transportation services. Income from tourism increased to US$57.93 million, reflecting in the main the 11.3 percent increase in tourist arrivals in the first half of 2014 compared to the corresponding period in 2013.

16. The capital and financial account surplus increased to US$56.99 million, higher than the surplus of US$35.45 million in the first half of 2013. Both the capital and financial account surplus rose from US$14.82 million and US$20.64 million in the first half of 2013 to US$26.85 million and US$30.14 million respectively during the period under review.

17. In the year to end-October 2014, volume of transactions in the foreign exchange market increased to US$1.44 billion, or 12.0 percent. Year-on-year, the Dalasi depreciated against the US dollar by 18.60 percent, Euro (12.6 percent) and Pound Sterling (20.10 percent).

18. As at end-October 2014, gross international reserves amounted to US$132.6 million, lower than the US$160.3 million in October 2013 attributed mainly to the weak external sector.

- **Inflation Outlook**

Consumer price inflation, measured by the National Consumer Price Index, increased to 6.3 percent in September 2014, slightly higher than the 6.1 percent in September 2013. Both food and non-food inflation accelerated to 7.34 percent and 4.84 percent from 7.31 percent and 4.23 percent in September 2013 respectively. Core inflation, which excludes prices of energy and volatile food items, rose to 6.04 percent in September 2014 compared to 5.94 percent in September 2013.

Headline inflation is forecast to exceed the end-December 2014 target of 5.0 percent. A key upside risk is the exchange rate. However, the MPC projects that inflation would fall within the target in the medium term.

Decision

Given the above developments, the Monetary Policy Committee has decided to leave the policy rate unchanged at 22.0 percent. The MPC would monitor price developments and continue to take appropriate policy actions to contain inflation.