## MONETARY POLICY COMMITTEE

**Press Release** **February 4, 2013**

1. Since the previous meeting of the Monetary Policy Committee (MPC), global economic prospects have improved modestly. Although global economic growth is estimated to have decelerated to 3.2 percent in 2012 from 3.9 percent in 2011, output is projected to strengthen gradually through 2013, averaging 3.5 percent. A further strengthening to 4.1 percent is expected in 2014. There are, however, downside risks to the outlook including slow recovery in the Euro Area and excessive near-term fiscal consolidation in the United States.

2. For advanced economies, economic growth is projected at 1.4 percent in 2013 from the 1.6 percent projected earlier. Economic activity in emerging and developing economies remains robust thanks to supportive policies. Growth is expected to reach 5.5 percent in 2013 from 5.1 percent in 2012.

3. According to the Gambia Bureau of Statistics, real gross domestic product (GDP) of The Gambian economy is estimated to have grown by 4.0 percent in 2012 following a contraction of 4.3 percent in 2011. Preliminary projections indicate that output would expand by 10.0 percent in 2013 premised on strong growth of agriculture and tourism.

4. The pace of monetary expansion moderated in line with expectations. Money supply grew by 7.8 percent in 2012 compared to 11.0 percent in 2011 and the target of 8.5 percent. Reserve money, the Bank's operating target, rose by 6.8 percent compared to 15.6 percent in 2011. Reserve money was projected to grow by 5.8 percent in 2012.

5. In order to ensure effective transmission of monetary policy, it is essential to continue strengthening the resilience of banks. Bank soundness is also critical to protect depositors and other creditors as well as ensuring an appropriate provision of credit to the economy.

6. The banking industry remains fundamentally sound. The industry's capital and reserves increased to D3.06 billion in December 2012 compared to D2.63 billion in 2011 mainly on account of capital injection totaling D392.4 million. The average risk-weighted capital adequacy ratio also increased to 33.0 percent compared to 25.1 percent in 2011 and the minimum requirement of 10 percent. The gearing ratio was only 3.03 times, lower than the 4.0 times in 2011 and the prudential ceiling of 10 times.

7. Total industry assets increased to D20.6 billion, or 10.5 percent from 2011. Loans and advances, accounting for 26.4 percent of total 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 loan ratio decreased to 11.6 percent of gross loans, lower than the 12.6 percent in 2011.

8. Deposit liabilities rose to D13.08 billion, or 2.1 percent over 2011. The loan to deposit ratio decreased to 41.6 percent against 44.1 percent in 2011. The liquidity ratio was 78 percent in 2012, or an increase of 4.0 percent from 2011.

9. The industry's net profit rose from only D12.2 million in 2011 to D102.2 million in 2012. The return on assets and return on equity increased to 1.98 percent and 3.33 percent compare to 0.26 percent and 0.46 percent respectively in 2011.

10. The outstanding domestic debt increased to D10.7 billion (37 percent of GDP) in 2012, or 14.3 percent from a year ago. Treasury bills and Sukuk Al-Salam combined and accounting for 80.0 percent of the domestic debt rose to D8.6 billion, or 21.0 percent.

11. The yield on all the maturity profiles increased in 2012 with the exception of the 364-day bills. The yield on the 91-day and 182-day bills increased to 9.53 percent and 10.21 percent from 8.07 percent and 10.18 percent in 2011. Similarly, the yield on the SAS bills rose to 9.77 percent from 9.07 percent during the same period. In contrast, the yield on the 364-day bills declined to 10.9 percent from 11.85 percent in December 2011.

12. Provisional balance of payments estimates for the first nine months of 2012 indicate an overall deficit of US$9.19 million compared to a surplus of US$64.14 million in the corresponding period a year ago. The current account balance, including current transfers, was in a surplus of US$19.16 million, lower than the surplus of US$64.47 million a year ago. The deficit in the capital and financial account widened to US$28.35 million from US$0.34 million in the corresponding period in 2011.

13. Gross international reserves stood at US$184.5 million as at end-December 2012, equivalent to about 5.0 months of imports of goods and services.

14. Volume of transactions in the domestic foreign exchange market, measured by aggregate purchases and sales, increased to US$1.6 billion in 2012 from US$1.4 billion in 2011.

15. The Dalasi weakened against all major international currencies traded in the foreign exchange market. Year-on-year to end-December 2012, the Dalasi depreciated against the US dollar by 11.6 percent, Pound Sterling (18.0 percent) and Euro (11.5 percent).

16. Preliminary estimates of government fiscal operations in 2012 showed a lower deficit (including grants) of 4.4 percent of GDP compared to 4.6 percent of GDP in 2011. Total revenue and grants increased to D6.5 billion (22.5 percent of GDP) or 15.7 percent from 2011. Government expenditure and net lending also rose to D7.7 billion (26.9 percent of GDP), or 13.6 percent from 2011.

17. End-period inflation, measured by the National Consumer Price Index (NCPI), increased slightly to 4.9 percent in December 2012 from 4.4 percent in December 2011. Average inflation (12-month moving average) was 4.5 percent compared to 5.4 percent a year earlier.

18. Consumer food inflation fell slightly to 5.6 percent in December 2012 from 5.7 percent in December 2011. Non-food inflation, on the other hand, increased to 4.0 percent from 2.4 percent in December 2011.

19. Core inflation, which excludes the prices of energy, utility and volatile

food items, increased slightly to 4.9 percent from 4.3 percent in December 2011.

**Inflation Outlook**

Inflation is forecast to remain in single digit consistent with the pace of monetary expansion. The MPC, however, assesses the balance of risks to the inflation outlook to be on the upside given heightened inflationary expectations.

**Decision**

In the light of these developments, the MPC is of the view that the current monetary policy stance is appropriate and has therefore decided to leave the Rediscount Rate, the Bank's policy rate, unchanged at 12.0 percent. The MPC would continue to monitor price developments and to take action consistent with its mandate to keep inflation low and non-volatile.