

**15TH. ANNUAL MEETING OF THE COMMITTEE OF BANK
SUPERVISORS IN WEST AND CENTRAL AFRICA (CBSWCA)**

COUNTRY REPORT

OF

THE GAMBIA

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1. Economic Development with Macroeconomic indicators – (GDP, Inflation, Exchange Rate).

The Gambian economy is projected to expand by 5.0 percent in 2010, lower than the revised estimate of 5.6 percent in 2009. Agricultural value added is estimated at 4.4 percent, industry (5.1 percent) and services (4.9 percent).

Revised balance of payments estimates for 2009 indicate a decline in the overall balance from a surplus of US\$23.35 million in 2008 to a deficit of US\$6.79 million. While the current account improved to a surplus of US\$63.29 million relative to a deficit of US\$12.35 million in 2008, the capital and financial account balance recorded a deficit over the period relative to the surplus recorded a year ago.

The goods account worsened from a deficit of US\$68.25 million in 2008 to US\$85.98 million in 2009, but below the 2009 projection of US\$141.20 million. Exports and imports declined by 8.5 percent and 3.7 percent to US\$170.91 million and US\$261.10 million compared to a year ago.

From end-December 2009 to end May 2010, the Dalasi depreciated by 2.21 percent against the US dollar partly reflecting developments in the international foreign exchange market where the US Dollar was the comeback currency; appreciating against the major currencies. On the other hand, the Dalasi remained resilient against the Euro, Pound Sterling and CFA over the past five months. From end-December 2009 to end-May 2010, the Dalasi appreciated against the Euro by 2.03 percent and Pound Sterling by 1.3.

Volume of transactions in the domestic foreign exchange market, measured by aggregate sales and purchases of foreign exchange in the first five months of 2010 amounted to D16.69 billion or US\$691.02 million compared to D13.72 billion or US\$520.50 million in 2009.

As at end-April 2010, gross international reserves, including the SDR allocations, stood at US\$177.63 million, equivalent to 7.0 months of import cover compared to US\$116.3 million or 4.9 months of import cover.

End-period inflation, measured by the National Consumer Price Index declined from 6.1 percent in April 2009 to 4.1 percent at end-April 2010.

Food consumer price inflation declined to 5.3 percent in April 2010 from 7.8 percent in April 2009.

Core inflation, which excludes the prices of energy, utilities and volatile food items, declined from 6.4 percent in April 2009 to 4.1 percent in April 2010.

The outlook of the Gambian economy for the remainder of 2010 remains positive reflecting increased global activity, expansion in agricultural production and moderate growth in residential construction. Inflation has begun to pick up slightly, but is expected to remain low in single digits. The risks to the outlook mainly relates to the strength of the global recovery, increase in volatility in the international commodities market, particularly oil prices and uncertainty in financial markets.

2. Structure of the Financial System in The Gambia

The Gambian Financial system consists of the Banking Sector (Central Bank and Commercial Banks), Insurance Companies, Micro-Finance Institutions, Foreign Exchange Bureau and Other Non-Bank Financial Institutions. The CBG is the lone Supervisory Authority of the Financial System in the Gambia responsible for the licensing, regulation and supervision of Banks, Insurance Companies, Foreign Exchange Bureaus

and Micro Finance Institutions. Different Departments within the CBG are responsible for the regulation and supervision of the different sectors

3. Financial highlights/indicators (Total Assets, Total Deposits, Capital ratio, Non-performing Loans, Return on Assets, Return on Equity etc).

The banking industry in The Gambia continues to witness increase in its balance sheet size from December 2008 to June 2010 partly on account of a surge in the number of banks in the industry and the ongoing capital augmentation exercise requiring banks to augment their capital to GMD 150 million (approximately to USD 5.6 million). The six months ending June 2010 figures stood at GMD 15.63bn representing a 6% increase over December 2009 and 25% increase over December 2008 figure.

Total loans and advances witnessed a similar growth with December 2008 and 2009 figures standing at GMD 3.54 billion and 4.44 billion, respectively. As at end June 2010, Loans and advances figure grew to 4.90 billion.

The increase in the number of commercial banks in The Gambia culminated in greater competition among existing banks, which in turn resulted to greater customer outreach through more aggressive marketing strategies and increase branch net work expansions and deposit mobilization. Owing to this, total deposits increased from GMD 7.96 billion and GMD 9.67 billion in the fourth quarters of 2008 and 2009 to GMD 10.54 billion as at end June 2010.

However, the industry's risk weighted adjusted capital adequacy ratio marginally declined from 20% and 19% in December 2008 and 2009, respectively; to 18% as at end June 2010.

On asset quality, the ratio of non-performing loans to gross loans although decreased by 2 percentage points from 14% to 12% between December 2008 and December 2009, jumped to 19.6% as at end June 2010.

In spite of the above, The Gambia's banking industry still remains profitable. The return on assets and the return on equity figures both stood at 1.9% and 6.6%, respectively, as at end June 2010.

4. Supervisory framework (i.e. risk based, compliance based, hybrid etc).

The CBG introduced Risk-Based Supervision on a pilot basis in 2008 with the aim to fully adopt the framework in 2009. However, as at date, the supervisory framework of the CBG can best be described as the Hybrid model (a combination of risk based and compliance based supervision). We are working on the infrastructure needed to move into a full fledged EBS. This includes developing RBS policy, risk management guidelines for banks, training of supervisors and pilot test RBS examination of sample of banks. It should be noted this concept of RBS is evolving and the department will continue to fine tune to get it right. Banks are supervised using the following tools:

On-site examination, offsite examination, prudential visit and prompt corrective action framework (concept and application)

Previously, the supervisory philosophy of the CBG was rules-based, premised on the concept of a "level playing field".

5. Development in legal framework – Review of legislation, New Legislation etc).

During the review period, the Financial Institutions Act 20003 was transformed into the Banking Act 2009. The following are the major areas of change:

- a) Separation of the regulation of banks from non-bank financial institutions.
- b) Introduction of a new section requiring banks to seek prior Central Bank approval for the appointment of boards and senior management.
- c) Requirement of External Auditors to report to the Central Bank and the conduct of tripartite meetings with Auditors and bank management at the end of annual audit exercises.
- d) Relaxation of rules which forbid banks from investing in other businesses. Banks are now allowed to invest in other avenues.

6. Basel Core Principles

The CBG is putting lot of emphasis on compliance with Basle Core Principles as a foundation for effective supervision of banks. As at end-2006, based on external assessment, The Gambia was fully compliant with **15** principles, largely compliant with **10**, materially non Compliant with **1** and **4** of the principles were not applicable. Subject to external assessment, the Bank should fully comply with more principles.

7. Basel II Initiative/Developments

The Bank intends to partially adopt **Basel II** by the year 2015. In the meantime, emphasis is placed on compliance with Basel Core Principles.

8. Corporate Governance (Policy framework, Developments and compliance).

A corporate Governance Guideline is being developed for banks and is yet to be finalized. Notwithstanding the lack of a guideline in this area, the Gambia has been practicing the code of best practice in a number of areas such as:

- a) Guidelines for licensing of banks
- b) Rules governing share holdings in banks
- c) Fit and proper person's test procedures
- d) Appointment of boards and management of banks
- e) The requirement of External Auditors to report to the Bank and to conduct tripartite meetings with Auditors and bank management at the end of annual audit exercises.

9. Anti Money Laundering activities (legislation, supervisory framework, structures etc).

In an attempt to fight against Money Laundering and Terrorism Financing, The Gambia passed a Money Laundering and Terrorism Financing Act 2003. In addition, The Gambia ratified relevant UN Conventions criminalizing Money Laundering and Terrorism Financing activities.

In 2006, the Central Bank was charged with the responsibility of implementing the 2003 Anti Money Laundering Act.

The Bank set up a Financial Intelligence Unit (FIU) under the Supervision department, and it is hoped that the unit will in future graduate as a full fledged independent FIU. The unit collects and compiles data on Suspicious Transaction Reports (STR) from bank

and reports cases to law enforcement agencies for further investigation as and when necessary.

The FIU is faces a number of challenges including:

- Reporting of STRs limited to banks, thus the AML/CFT implementation is yet to be comprehensive.
- Inadequate staffing as all current staff members are Bank Examiners engaged in routine banking supervision activities.
- Access to other relevant database remains a key challenge for effective analysis of STRs. In the meantime, the unit did come up with an internal database comprising of information gathered from fraud reports from banks and news paper articles on financial crime.
- The lack of awareness on AML/CFT issues among the population, particularly among stakeholders remains a challenge.

10. Improvement in supervisory framework (Efass, CRMS etc)

In other to counter serial defaulters and bring sanity in the financial system, the Central Bank of The Gambia in collaboration with the Bankers Association introduced a credit reference bureau in 2008. Under the arrangements, defaulters are not allowed to borrow from the banking system. Since the introduction of the reference bureau, significant progress has been registered in the area of credit quality.

11. Memorandum of Understanding (MOU) - Developments

The Gambia signed MOU with the Reserve Bank of South Africa, Central Bank of Nigeria and Bank of Ghana. The Authorities are willing to sign similar agreements with other Supervisory Authorities.

I thank you for your kind attention.