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PART II

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OVERVIEW

The pace of monetary expansion in the third quarter of 2006 was slower than in the second quarter of 2006. The deceleration in the growth rate of broad money was due in the main to the continued implementation of prudent monetary policy by the Central Bank. Money supply increased modestly by 1.8 percent compared to 5.7 percent in the preceding quarter.

Reserve money, the Bank's operating target, decreased to D2.3 billion, or by 1.8 percent from the last quarter. The decline in reserve money was on account of a 44.5 percent fall in the Net Domestic Assets of the Central Bank.

Total outstanding loans and advances extended by commercial banks to major sectors of the economy increased moderately by 1.5 percent to D2.4 billion at end-September 2006.

During the twelve months ending September 2006, interest rates declined in line with the deceleration in the inflation rate. Money market rates witnessed substantial downward movements.

The rediscount rate (policy rate) declined from 21.0 percent at end-September 2005 to 15.0 percent at end-September 2006. Deposits and lending rates of the banks decreased in June 2006 to range from 5.0 – 14.0 percent and 19.0 – 29.0 percent respectively.

The Treasury bills market continued to be buoyant and functioned smoothly during the quarter under review. Outstanding Treasury bills at the end of September amounted to D3.8 billion (discounted value) reflecting an increase of 2.7 percent over end-June 2006. On a year-

on-year basis, Government securities outstanding rose by 4.5 percent from end-September 2005.

Commercial banks continued to maintain liquidity levels well above the statutory requirements. Total liquid assets of banks at D2.4 billion at the end of the third quarter of 2006 reflect a decline of 22.8 percent from D3.2 billion at the end of the second quarter of 2006.

End-period inflation, measured by the consumer price index of the low income population of Banjul and Kombo St. Mary's area, declined from 2.1 percent in September 2005 to 0.2 percent at end-September 2006. Average inflation rate (12 month moving average) was 1.6 percent compared to 4.9 percent a year earlier.

In the inter-bank market for foreign exchange the volume of transactions at D8.2 billion was buoyant, rising by 1.0 percent in terms of purchases and sales in the third quarter, 2006. The substantial foreign inflows, coupled with the tight monetary stance and supportive fiscal policies caused the Dalasi to be stable throughout the review quarter.

The Government continued to maintain a tight fiscal policy to complement the restrictive monetary policy stance in a bid to support the disinflationary process. On the revenue side, the main focus was to strengthen tax administration. With regards to expenditures, emphasis was placed on monitoring, accounting, and control of expenditures while giving priority to social sectors like health, education and agriculture for poverty reduction.

Consequent of the above measures, the overall fiscal balance on commitment basis, including grants, became a surplus of D116.1 million compared to a deficit of D316.2 million in the quarter ending September 2005.

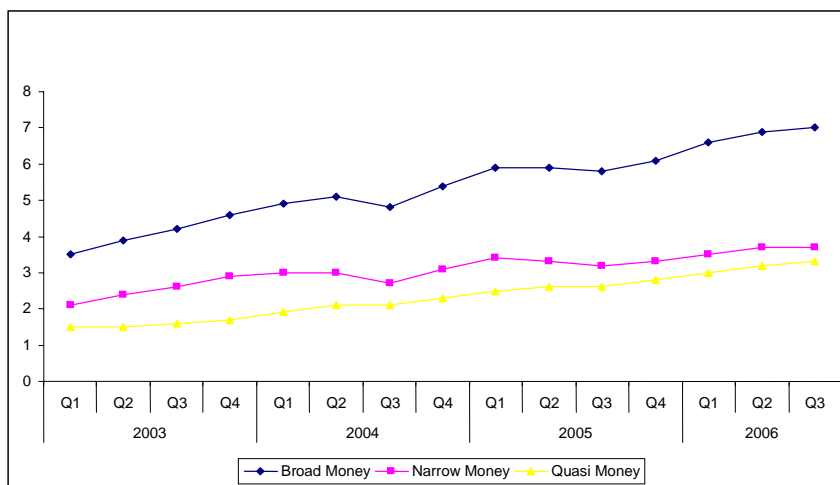
PART I

DEVELOPMENT IN THE DOMESTIC ECONOMY

(1.0) Monetary Developments

The pace of monetary expansion in the third quarter of 2006 was slower than in the second quarter of 2006. Money supply increased modestly by 1.8 percent compared to 5.7 percent in the preceding quarter. The deceleration in the growth rate of broad money was due in the main to the continued implementation of prudent monetary policy by the Central Bank.

Chart 1: Money Supply in (D'millions)



(1.1) Factors Affecting Money Supply

(a) Net Foreign Assets (NFA)

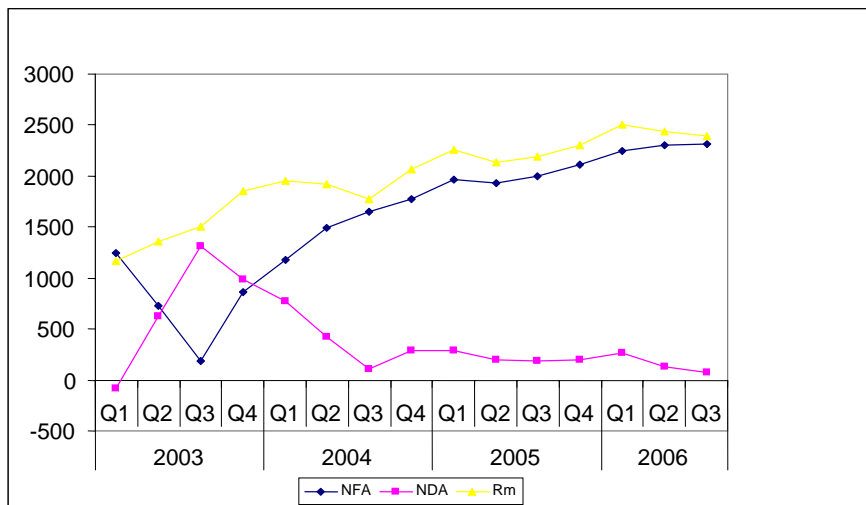
The net foreign assets of the banking system decreased to D3.5 billion, or by 2.0 percent from the last quarter. The drop in the NFA of the banking system is entirely attributable to deposit money banks whose net external position at D1.2 billion as at end-September 2006 declined by 6.6 percent compared to the previous quarter.

The NFA of the Central Bank increased by a modest 0.6 percent from the second quarter. The Bank's gross official reserves remained virtually unchanged at D2.8 billion while its foreign liabilities fell to D0.5 billion, or by 5.0 percent.

(b) Net Domestic Assets (NDA)

The net domestic assets of the banking system at D3.5 billion at end-September 2006 rose by 4.4 percent from end-June 2006, reflecting strong domestic credit growth. Domestic credit increased to D4.2 billion or by 4.3 percent, of which credit to the private sector and public entities grew by 4.6 percent and 7.4 percent to D2.3 billion and D271.6 million respectively. Government's net position with the banking system also deteriorated from D1.2 billion at end-June 2006 to D1.3 billion during the quarter under review, reflecting Government's recourse to bank financing of the budget deficit.

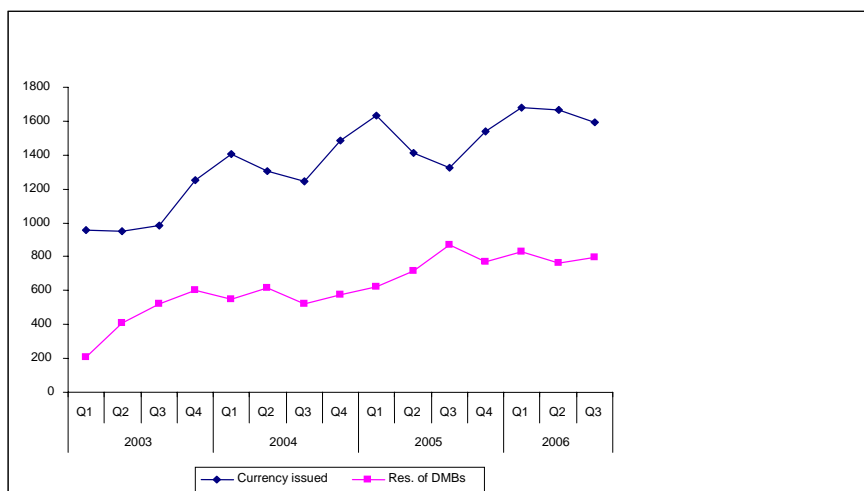
Chart 2: NFA, NDA and RM of the Central Bank in (D'millions)



(2.0) Reserve Money

Reserve money, the Bank's operating target, decreased to D2.3 billion, or by 1.8 percent from the last quarter. Compared to end-September 2005, reserve money grew by 9.0 percent. Currency issued declined by 4.6 percent to D1.6 billion while reserves of commercial banks at the Central Bank went up by 4.3 percent to D797.44 million.

Chart 3: Components of Reserve Money in (D'millions)



(2.1) Supply of Reserve Money

The decline in reserve money was on account of a 44.5 percent fall in the NDA of the Central Bank. The Bank's NDA decreased to D72.72 million at end-September 2006 from D131.06 million at end-June 2006, mainly on account of the improvement in Government's net position with the Central Bank. Government's surplus position with the Central Bank rose to D696.30 million from D654.21 million, reflecting increased government deposits with the Bank.

(2.2) Commercial Bank Loans and Advances to Major Economic Sectors

Total outstanding loans and advances extended by commercial banks to major economic sectors increased moderately by 1.5 percent from D2.3 billion at end-June 2006 to D2.4 billion at end-September 2006.

A sector analysis of the loan portfolio of deposit money banks revealed that advances to distributive trade (23.3 percent of total credit) recorded a growth of 15.2 percent to D555.9 million from the end of the second quarter. Credit to fishing and building/construction exhibited increases of 11.5 percent and 4.3 percent to D192.6 million and D396.9 million respectively at end-September 2006. Transportation and personal loans on the other hand, decreased by 30.0 percent and 3.0 percent to D136.9 million and D421.0 million respectively.

(2.3) Interest Rates

During the past twelve months ending September 2006, interest rates declined in line with the deceleration in the inflation rate. Money market rates witnessed substantial downward movements. The rediscount rate (policy rate) declined from 21.0 percent at end-September 2005 to 17.0 percent at end-March 2006 and 15.0 percent at end-September 2006. Similarly, the discount rate on Treasury bills fell from 18.0 percent to 15.9 percent and 13.3 percent during the same period.

Interest rates of deposit money banks took a much longer period to decrease due amongst other things, to the oligopolistic nature of the Banks' credit market. Deposits and lending rates of the banks decreased in June 2006 to range from 5.0 – 14.0 percent and 19.0 -29.0 percent respectively. These rates remained unchanged at the end of September 2006.

(2.4) Treasury Bills

The Treasury bills market continued to be buoyant and functioned smoothly during the quarter under review. Outstanding Treasury bills at the end of September 2006 amounted to D3.8 billion (discounted value) reflecting an increase of 2.7 percent over end-June 2006. On a year-on-year basis, Government securities outstanding rose by 4.5 percent from end-September 2005.

Banks' holdings of Treasury bills accounting for 52.7 percent of the total bills outstanding, increased to D2.0 billion or by 5.0 percent from the previous quarter. Similarly, the non-bank (public entities and private sector) holdings of Treasury bills grew slightly by 0.2 percent to D1.8 billion at end-September 2006 and constituted 47.3 percent of outstanding Treasury bills.

(3.0) Liquidity Position of Commercial Banks

Commercial banks continued to maintain liquidity levels well above the statutory requirements. Total liquid assets of banks at D2.4 billion at the end of the third quarter of 2006 reflects a decline of 22.8 percent from D3.2 billion at the end of the second quarter of 2006. This decrease is due entirely to the fall in their reserves which accounts for 70.0 percent of total liquid assets at end-September 2006. Deposit money banks' reserves fell by 29.8 percent due largely to the 55.4 percent drop in their foreign bank balances.

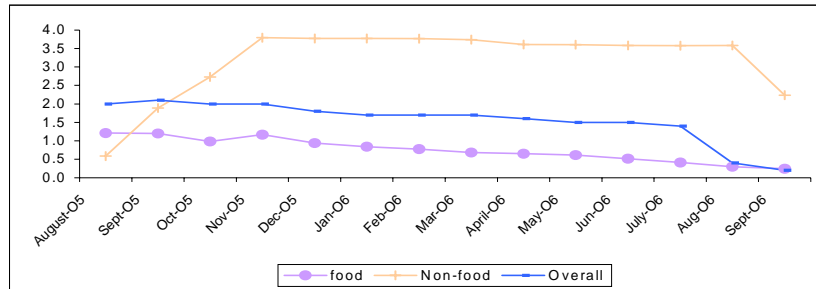
Excess liquidity of banks declined by 45.5 percent to D888.7 million at end-September 2006. Consequently, the liquidity ratio decreased by 49 basis points over the review period to 57.0 percent at the end of the quarter under review. Excess cash reserves also dropped to D792.6 million, or 47.8 percent at end-September 2006. Overall excess cash

ratio at 86.0 percent in September 2006 fell by 79 basis points from 165.0 percent at end-June 2006.

(4.0) Consumer Price Index (CPI)

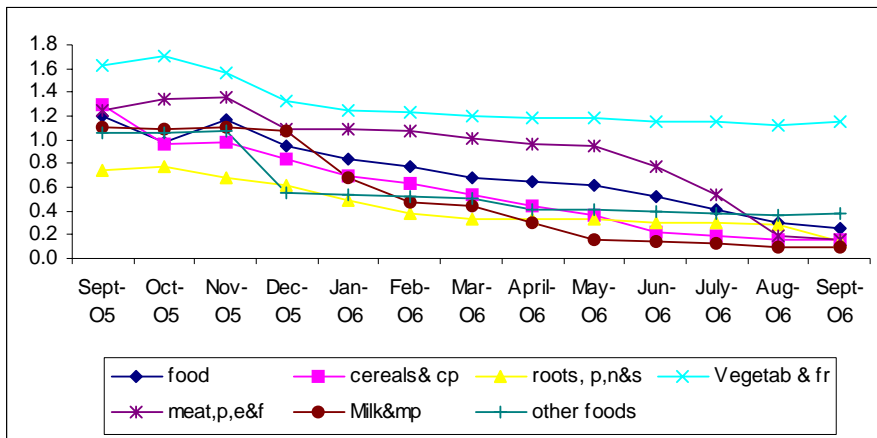
End-period inflation, measured by the consumer price index of low income population of Banjul and Kombo St. Mary's area declined from 2.1 percent in September 2005 to 0.2 percent at end-September 2006. Average inflation rate (12 month moving average) was 1.6 percent compared to 4.9 percent a year earlier.

Chart 1: Inflation



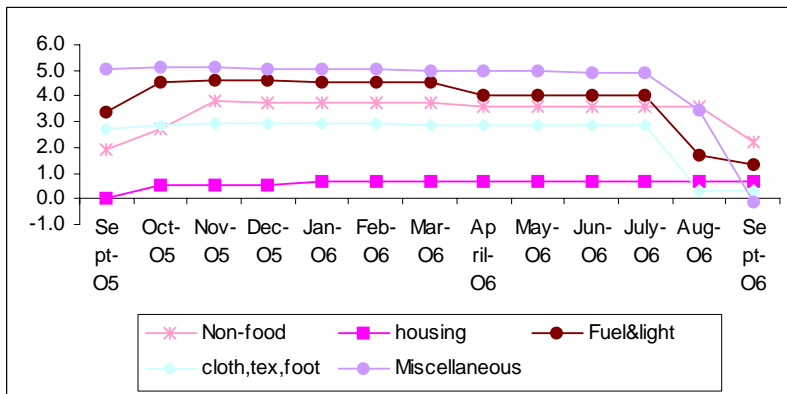
Food consumer price inflation declined to 0.2 percent compared to 1.2 percent in September 2005. Consumer price inflation of all food sub-groups declined. "Cereals and cereal product", "roots, pluses, nut and seeds", "vegetables and fruits", "meat, poultry, eggs, and fish", milk and milk products" and other foods consumer price inflation decelerated to 0.2 percent, 0.1 percent, 1.1 percent, 0.2 percent, 0.1 percent and 0.4 percent compared to 1.3 percent, 0.7 percent, 1.6 percent, 1.3 percent, 1.1 percent and 1.1 percent respectively in the previous year.

Chart 2: Food Inflation September 05 – September 06



Non-food consumer price inflation rose to 2.2 percent from 1.9 percent at end-September 2005 as a result of an increase in the prices of housing to 0.7 percent compared to zero percent growth in the preceding year. On the other hand, the consumer price inflation of “fuel and light”, “clothing, textiles and footwear” and miscellaneous items, declined to 1.3 percent, 0.3 percent and negative 0.2 percent compared to 3.3 percent, 2.7 percent and 5.0 percent respectively in September 2005.

Chart 3: Non-Food Inflation September 05 – 06



(4.1) Core Measures of Inflation

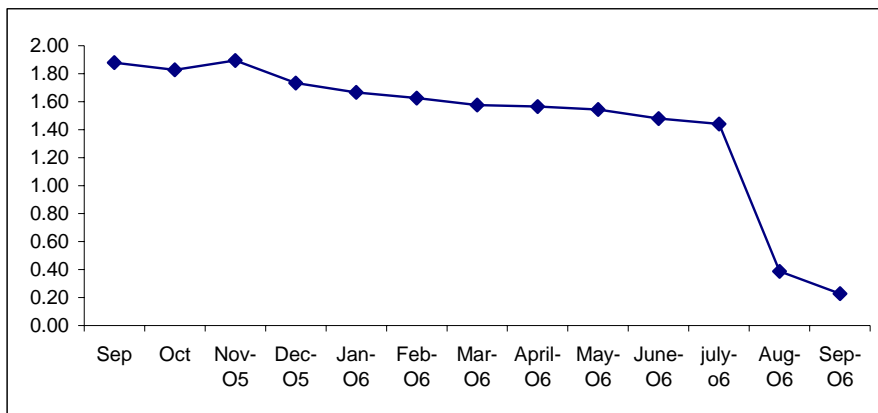
The measures of core inflation attempt to strip out the effects of temporary disturbances (noise) from the headline inflation in order to uncover underlying inflation. The so-called noise in headline is striped out by excluding prices of energy and utilities (fuel, light and transportation) and volatile food items.

The first measure of core inflation (Core 1), which excludes energy prices (fuel, light and transportation) declined from 1.9 percent in September 2005 to 0.2 percent in September 2006.

Table 1: Core 1 (excluding energy and transportation)

	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	April-06	May-06	June-06	Jul-06	Aug-06	Sep-06
	2296	2271	2300	2300	2300	2301	2301	2301	2302	2302	2302	2302	2302
Estimated core CPI													
yr.-on yr.-inflation rate	1.9	0.7	1.9	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	0.4	0.2

Chart 4: Core 1: Implied year-on-year inflation

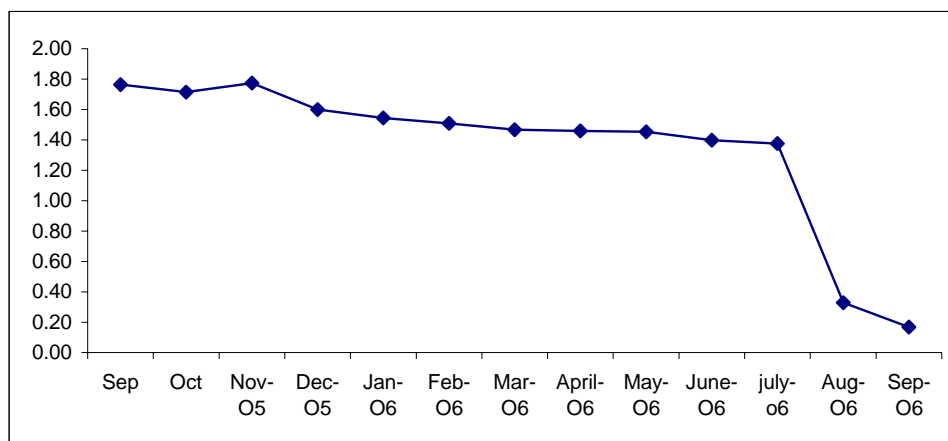


Core 2, which strips out prices of energy and utilities and volatile food items (“meat, poultry, eggs and fish”, “tobacco and tobacco product”, “cereals and cereal products”, and “processed foods”) declined from 1.8 percent in September 2005 to 0.2 percent in September 2006.

Table 2: Core 2: (excluding prices of energy and volatile food items)

	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	April-06	May-06	June-06	Jul-06	Aug-06	Sep-06
Estimated core CPI	1111	1099	1112.5	1112.4	1112.5	1112.6	1112.6	1112.9	1113.1	1113.1	1113.2	1113.2	1113.15
Yr-on-yr inflation	1.7	0.5	1.8	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.4	0.3	0.2

Chart 5: Core 2 Implied year-on-year inflation



(5.0) Foreign Exchange Developments

In the inter-bank market for foreign exchange the volume of transactions at D8.2 billion was buoyant, rising by 1.0 percent in terms of purchases and sales in the third quarter, 2006. The substantial foreign inflows, coupled with the tight monetary stance and supportive fiscal policies caused the Dalasi to be stable throughout the review quarter.

(5.1) Volume of Transactions

The transaction volumes, measured by purchases and sales of foreign currencies rose by 1.0 percent to D8.2 billion during the quarter ending September 2006. Total purchases of foreign currency was D4.4 billion and accounted for 54.3 percent of the overall transaction volume during the third quarter compared to D4.2 billion during the second quarter. Aggregate sales which is indicative of supply for foreign currencies in the inter-bank market, amounted to D3.7 billion in the third quarter and accounted for 45.7 percent of the overall transactions.

Table 1: Volume of Transactions in the Inter-bank market (in D' millions)

	2005		2006		
	Q3	Q4	Q1	Q2	Q3
Purchases	2293.04	3200.10	3812.57	4277.55	4445.99
Sales	2162.19	3471.10	3800.59	3826.36	3738.42
Total	4455.23	6671.20	7613.16	8103.91	8184.41

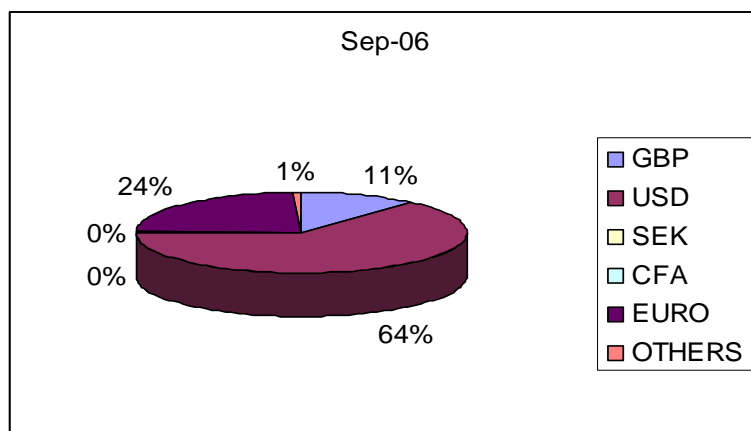
(5.2) Market Share of Major Inter-bank currencies

The US dollar continued to dominate the inter-bank market but with a decreased market share of 63.5 percent in quarter three, 2006, compared to 66.5 percent in quarter two, 2006. The pound sterling's market share of 11.4 percent was lower than the market share of 14.4 percent in the previous quarter. The Euro recorded a higher market share of 23.5 percent compared to 19.7 cent last quarter. The market share of the CFA franc and other unclassified currencies declined to 0.5 percent and 0.8 percent from 0.6 and 1.4 percent respectively. The market share of the Swedish Kroner remained unchanged at 0.2 percent.

Table 2: Market Share of Major Currencies

	2005		2006		
	Q3	Q4	Q1	Q2	Q3
USD	63.6	56.3	57.6	66.5	63.5
Pound	14.3	19.8	19.6	14.4	11.4
CFA	0.6	0.4	0.4	0.5	0.5
EURO	19.7	21.2	20.2	17.5	23.5
SEK	0.2	0.7	0.7	0.3	0.2
Others	1.4	1.5	1.4	0.8	0.78

Figure 1: Market share of key currencies as at end-September 2006.



(6.0) Exchange rate movements

Between end-June and end-September 2006, the Dalasi appreciated in nominal terms by 0.1 percent and 1.1 percent against the US dollar and CFA franc but depreciated vis-à-vis the Pound Sterling, Swedish Kroner and Euro by 2.6 percent, 1.9 percent and 1.6 percent respectively. On annual basis, the Dalasi weakened against the Euro, Pound Sterling, Swedish Kroner and CFA franc by 3.8 percent, 4.2 percent, 2.2 percent and 6.0 percent respectively but strengthened against the US dollar by 0.5 percent.

Table 2: Exchange Rate Movements

	GBP	USD	SEK	CFA	EURO
Q3	50.21	28.18	354.51	249.61	34.17
Q4	49.78	28.13	347.07	251.90	33.71
2006 Q1	49.22	28.14	354.19	256.62	33.85
Q2	51.00	28.05	355.25	267.35	34.92
Q3	52.35	28.03	362.16	264.48	35.47

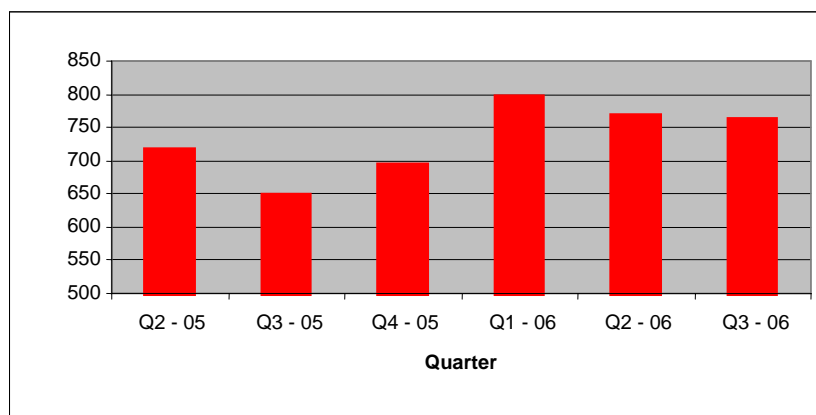
(7.0) Government Fiscal Operations

The Government continued to maintain a tight fiscal policy to complement the restrictive monetary policy stance in a bid to support the disinflationary process. On the revenue side the main focus was to strengthen tax administration. With regards to expenditures, emphasis was placed on monitoring, accounting, and control of expenditures, whilst giving priority to social sectors such as health, education, and agriculture for poverty reduction.

(7.1) Total Revenue and Grants

Against a revised projection of D816.6 million, total revenue and grants was below the third quarter of 2006 target by D54.6 million. Total revenue and grants was, however, above the third quarter 2005 budget outturn by 17.8 percent.

Chart 1: Domestic Revenue and Grants in (D' millions)



Domestic revenue grew to D732.2 million, or by 21.1 percent, but stood below projection by D17.4 million. The growth in domestic revenue during the period under review is on account of the rise in tax and non-tax revenue reflecting tax revenue, accounting for 88.7 percent of domestic revenue rose to D649.7 million from the third quarter of 2005. Tax revenue was slightly above the budget of D646.9 million by 0.4 percent. Non-tax revenue estimated at D102.7 million at the end of

September 2006, stood below budget by 24.5 percent. Non-tax revenue rose to D82.5 million, or by 33.9 percent from the corresponding period in 2005, due entirely to the increase in revenue earned from telecommunications licenses, interests, dividends and property taxes.

Chart 2: Direct Taxes in (D' millions)

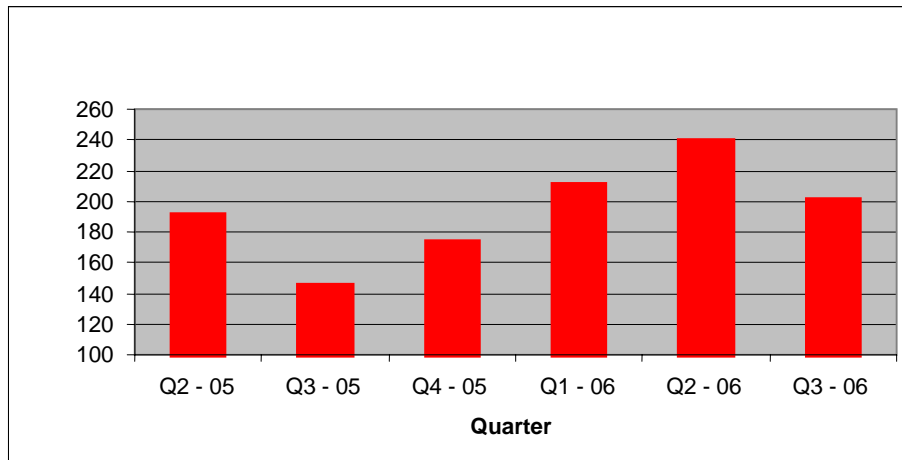
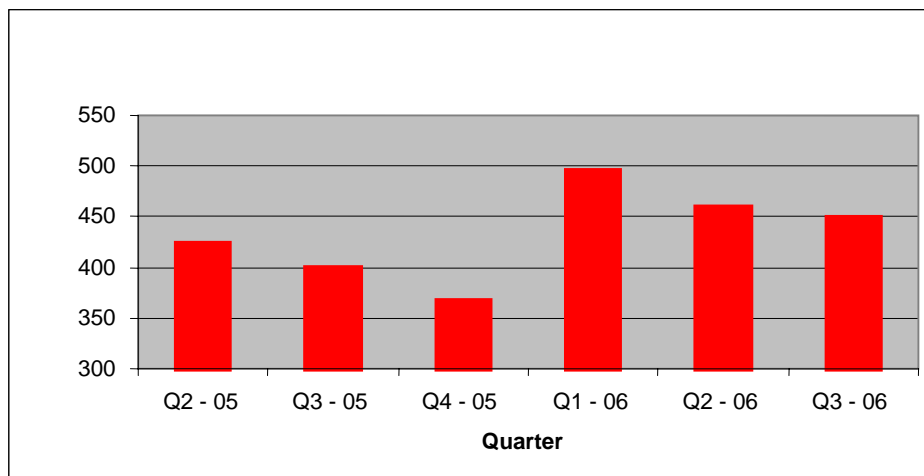
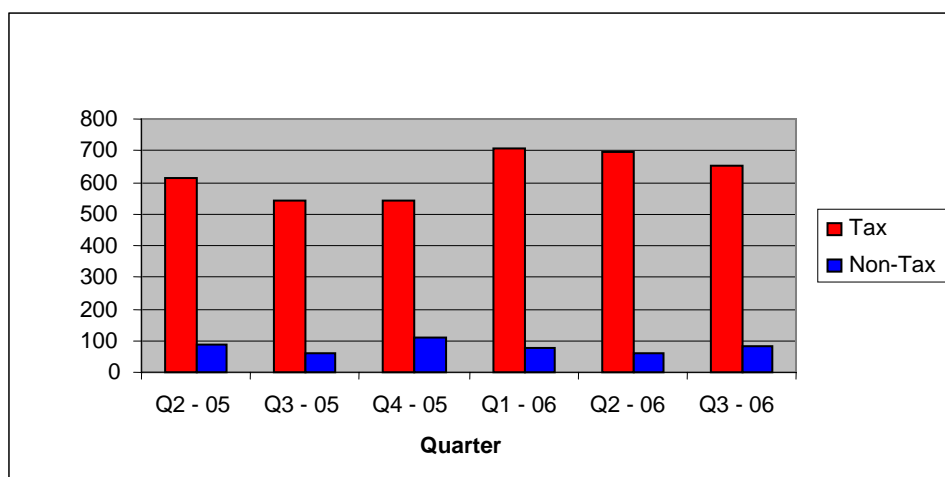


Chart 3: Indirect Taxes in (D' millions)



Grants declined by 29.8 percent to D29.7 million and was significantly below target by D37.3 million. This shortfall in grants is entirely on account of the lower than-expected grant flows to projects.

Chart 4: Tax and Non-Tax Revenue in (D' millions)

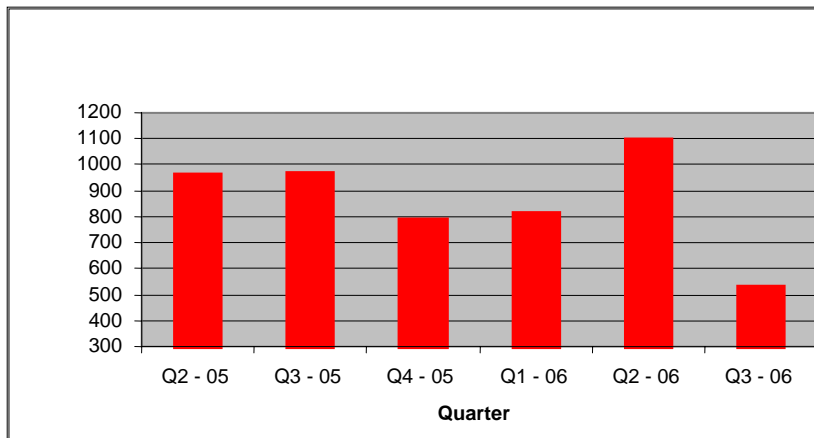


(7.2) Total Expenditure and Net Lending

Total expenditure and net lending decreased to D645.8 million at end-quarter three, 2006 from D963.3 million at end-quarter three 2005 and was below the ceiling by D398.4 million. This was due in its entirety to the reduction in capital expenditure which fell from D420.1 million in the September quarter of 2005 to D105.7 million during the review period. Current expenditures edged up slightly to D546.1 million from D543.2 million in the September quarter of 2005, owing to 7.5 percent and 8.5 percent growth in personal emoluments and other charges respectively.

Net lending, that is lending by Government to public enterprises net of repayments, amounted to negative D5.9 million.

Chart 5: Annual Trend of Expenditure and Net Lending in (D' millions)



(7.3) Fiscal Balance

As a result of the above developments, the overall balance on commitment basis, including grants, recorded a surplus of D116.1 million compared to a deficit of D316.2 million in the quarter ending September 2005. The overall balance on cash basis, including grants, amounted to a surplus of D120.9 million relative to a deficit of D332.7 million in the corresponding period in 2005.

PART II

(1.0) DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

Global gross domestic product (GDP) growth continued to exceed expectations despite higher oil prices and inflationary pressures showing little sign of easing. For 2006, expansion of the global economy is projected at 5.1 per cent from 4.9 per cent in 2005. However, it is expected to moderate to 4.9 per cent in 2007. The pace of economic expansion was more broadly based.

Globally, inflationary pressure showed little sign of easing. In the United States, core inflation, as well as overall inflation, headed up in recent months and are at levels above those desired by the Federal Reserve. Anticipating inflationary pressures brought about by stronger growth, monetary authorities reacted with tighter policies.

However, there are some downside risks to global growth prospects, which include large international payments imbalance, higher energy prices, inflationary pressures, and protectionist pressures arising from the deadlock during the Doha Round of trade talks.

United States

The US economy slowed to below 3 per cent estimated growth rate in the second quarter after rebounding strongly in the first quarter of 2006. The slowdown in growth prospects for the US economy seemed to be from the cooling housing market. Real net exports showed modest improvement as imports slowed under the impact of weaker domestic demand growth while exports remained strong. However, for the year as a whole, the World Economic Outlook September 2006 report

projected US growth at 3.4 per cent and this will likely slow to 2.9 per cent in 2007.

The US headline inflation rate moderated slightly but remained high at 4.1 per cent in July, while the core Personal Consumption Expenditure (PCE) deflator was at 2.4 per cent, having drifted upwards in recent months. Faced with these pressures, the Federal Reserve Board in its June meeting reacted by raising the federal funds rate to 5.25 per cent, its highest in more than five years.

Euro Zone

GDP growth rate for the Euro area improved marginally from 0.8 per cent in the first quarter of 2006 to 0.9 per cent in the second quarter of 2006. The moderate expansion remained largely domestic driven, stemming primarily from investment and improving labor conditions.

Consumer Price Inflation in the Euro area was above 2.0 per cent largely as a result of sustained upward pressure on energy prices. With growth improving moderately and inflation rising above the desired ceiling of 2.0 per cent, the European Central Bank in its October meeting increased its key policy rate by 25 basis points to 3.25 percent.

United Kingdom

Economic activity continued to grow at a steady pace, as indicated by a quarterly GDP growth rate of 0.7 per cent in both the first and second quarters. Economic growth in the UK has been bolstered by robust employment creation, the stability of the housing market and investments.

Annual HICP inflation hovered around 2.5 per cent between June and August 2006, reflecting strong growth in energy and food prices. The pace of house price increases continued to be strong in historical terms.

Japan

Despite the moderation in GDP growth in the second quarter compared to the first quarter, economic activity in Japan is expected to accelerate in the second half of the year, sustained by strong private investment and a pick-up in private consumption.

Consumer prices continued to rise at a moderate pace. In August 2006 the CPI excluding fresh food posted its third consecutive monthly increase, rising by 0.3 per cent on an annual basis after a 0.2 per cent rise in the previous month.

China

In China, industrial production slowed to about 16 per cent year-on-year in August, from 19.5 per cent in July. However, retail sales growth remained broadly stable in August and the trade surplus rose to a new monthly record on the back of strong exports. Official reserves rose to US\$954 billion in July.

Regarding price developments, inflationary pressures increased slightly in August 2006, with annual CPI inflation rising to 1.3 per cent, from 1.0 per cent in July, mainly owing to increases in food and housing prices.

Sub-Saharan Africa

Growth in Sub-Saharan Africa for 2006 is expected to be 5.4 per cent. The robust growth in the region is primarily attributed to the strong performance of oil exporting countries. For 2007, Real GDP is projected

to increase to 5.9 per cent. Inflationary pressure for the region is rising. Consumer Prices rose from 8.0 per cent in 2004 to 8.5 per cent in 2005 and is expected to be 9.9 per cent in 2006. The increasing inflationary pressure can be attributed to the rising cost of oil and commodities.

2.0 Commodity Prices

Oil

Oil prices declined substantially after reaching a new historical high at the beginning of August 2006. On 4th October Brent crude oil prices stood at US\$ 59.3 per barrel, which is approximately 24 per cent below the peak in early August and only around 3.0 per cent above the level recorded at the beginning of the year.

Looking forward, the International Energy Agency (IEA) forecasted that global production in 2007 is expected to rise by 1.57 million barrels per day (bpd), up from 1.21 million bpd this year.

Sugar

According to the FAO Food Outlook, June 2006, world sugar prices have increased significantly due largely to a substantial rise in crude oil prices, as well as a world supply deficit for the third consecutive year. The International Sugar Agreement (ISA) daily price between January and March 2006 averaged US \$16.98 per pound, which was 91.0 per cent higher than the same period in 2005.

Rice

After reaching a high of \$233.5 per ton in February 2005, international rice price moderated to \$211.75 per ton in February 2006. However, in October 2006, rice prices picked up to settle at \$220.50 per ton. According to the FAO Report on Food Outlook, the strengthening of

international rice prices is due in part to the procurement programmes at relatively high prices in Thailand and India and a tightening of export availabilities in some major exporting countries, including Pakistan, the United States and Vietnam.