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Overview

The fourth quarter of 2006 was characterised by rapid expansion in both money supply and reserve money following the contraction in the preceding quarter. Money supply grew by 10.6 percent in the fourth quarter compared to the growth rate of 1.1 percent in the third quarter of 2006.

The interest rates on Treasury bills declined to 12.8 percent at end-December 2006 compared to 13.3 percent in the previous quarter whilst other rates such as lending and deposit rates remained unchanged from the third quarter.

Private sector credit contracted by 0.3 percent from the previous quarter but increased by 16.7 percent from a year earlier. Credit to fishing and other unclassified loans contracted by 44.0 percent and 24.8 percent compared to third quarter of 2006. Agriculture and distributive trades, which attract the largest share of total credit, also recorded declines of 2.7 percent and 6.8 percent respectively. All other sectors recorded increases over the previous quarter.

End-period inflation, measured by the National Consumer Price Index (NCPI), declined from 1.3 percent in the third quarter 2006 to 0.4 percent at end-December 2006. Food consumer price inflation declined to 0.3 percent in the fourth quarter from 1.1 percent in September 2006 and 5.2 percent in December 2005. Similarly, non-food consumer price inflation fell to 0.6 percent during the same period.

Volume of transactions, that is total purchases and sales of foreign currencies in the inter-bank market, increased to 10.2 billion, or by 24.2 percent in quarter four, 2006 compared to the previous quarter. The

Dalasi depreciated against all the major currencies traded in the inter-bank market relative to the preceding quarter. It lost 0.03 percent against the US dollar and fell against the Pound Sterling, Swedish Kroner, CFA franc and Euro by 2.9 percent, 6 percent, 4.9 percent and 2.1 percent respectively.

PART 1

DEVELOPMENTS IN THE DOMESTIC ECONOMY

(1.0) MONETARY DEVELOPMENTS

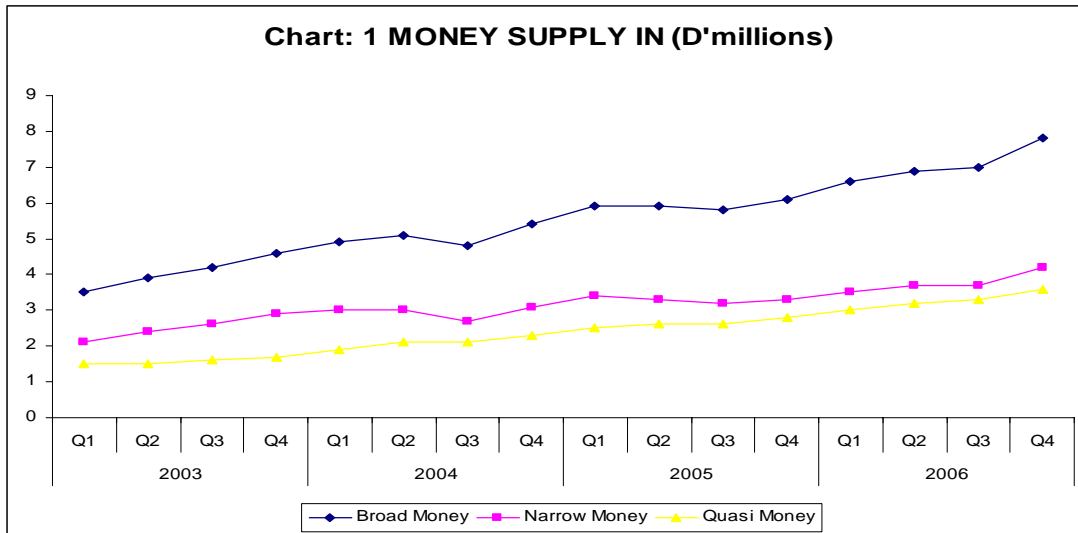
(1.1) Monetary Policy

Monetary policy in 2006 continued to focus on sustaining the disinflation process; maintain exchange rate stability and a viable external position. To achieve the inflation target, reserve money and money supply were projected to grow by 12.7 percent and 13.0 percent by end-December 2006 assuming stable velocity and the money multiplier (mm) of 2.2 and 2.9 respectively.

(1.2) Money Supply Growth

Money supply growth accelerated to 10.6 per cent in the fourth quarter compared to 1.1 per cent in the third quarter of 2006. Year-on-year, money supply grew by 26.2 per cent from end-December 2005. Both components of money supply increased with narrow money growing at a slightly faster pace.

Narrow money (M1), comprising currency outside banks and demand deposits increased to D4.2 billion, or by 13.2 per cent relative third quarter 2006. Currency outside banks and demand deposits rose by 29.9 percent and 1.9 percent respectively. The ratio of narrow money (M1) to broad money (M2) increased from 52.7 per cent in quarter two to 54.0 percent in the fourth quarter of 2006.



During the same period, quasi-money (time and savings deposits) rose to D3.6 billion, or by 7.8 percent. Savings and time deposits increased by 5.5 percent and 13.6 percent respectively. The proportion of quasi-money to broad money declined modestly from 47.3 percent at end-September to 46.0 percent in December 2006.

(2.0) Factors Affecting Money Supply

(a) Net Foreign Assets (NFA)

The net foreign assets (NFA) of the banking system rose to D4.3 billion, or by 21.7 per cent. This was on account of the increase in the NFA of the Central Bank and deposit money banks.

The net external position of the Central bank rose to D2.9 billion, or by 23.7 per cent in the fourth quarter of 2006 compared to the previous quarter. Central Bank's gross official reserves rose to D3.4 billion or by 18.9 per cent whilst its foreign liabilities decreased to D0.5 billion, or by 2.6 per cent.

Similarly, the Net Foreign Assets of deposit money banks increased to D1.5 billion, or by 18.0 percent in the fourth quarter. During the same period, deposit money banks' foreign assets increased to D1.5 billion or by 15.7 percent whilst their foreign liabilities significantly declined to D56.4 million, or by 23.5 percent.

(b) Net Domestic Assets (NDA)

The NDA of the banking system decreased slightly to D3.4 billion or 0.7 percent at end-December 2006. Domestic credit grew to D4.3 billion, or by 1.1 percent, of which claims on government rose by 17.1 per cent. Credit to the private sector increased by 2.0 per cent while public sector credit declined by 1.5 per cent during the period under review. Advances to government in foreign currency fell by 74.0 percent.

(3.0) Reserve Money Growth

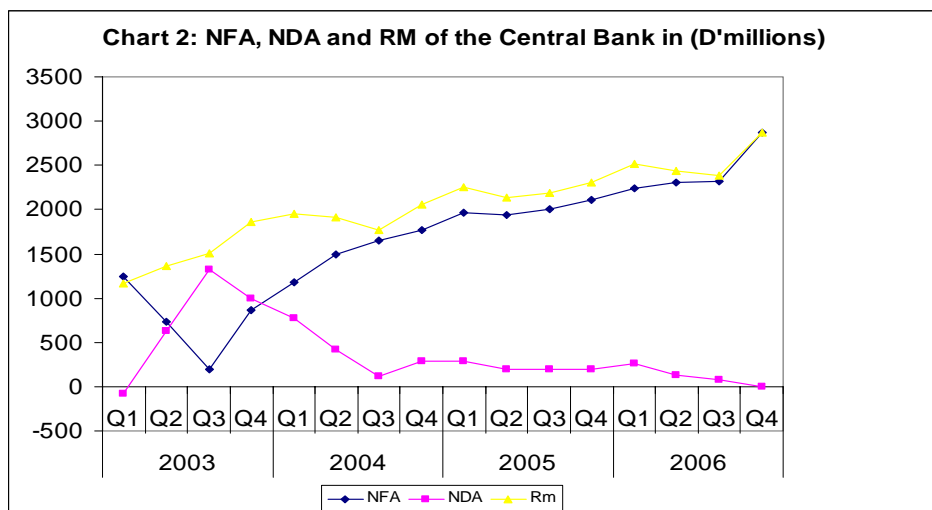
Reserve money consists of currency issued and bank deposits with the Central Bank. It is a measure of the Central Bank's monetary liabilities and captures the impact of all the Central Bank's operations on banks' liquidity and its potential for credit expansion in the economy.

After a slight contraction of 1.8 per cent in the third quarter of 2006, reserve money growth accelerated to 19.9 per cent in fourth quarter of 2006. Year-on-year, reserve money grew by 24.3 per cent at end-December 2006, higher than the growth rate of 12.0 percent a year ago and well above the 12.7 percent projected for end-December 2006.

(3.1) Supply (Channels of Creation/Destruction) of Reserve Money

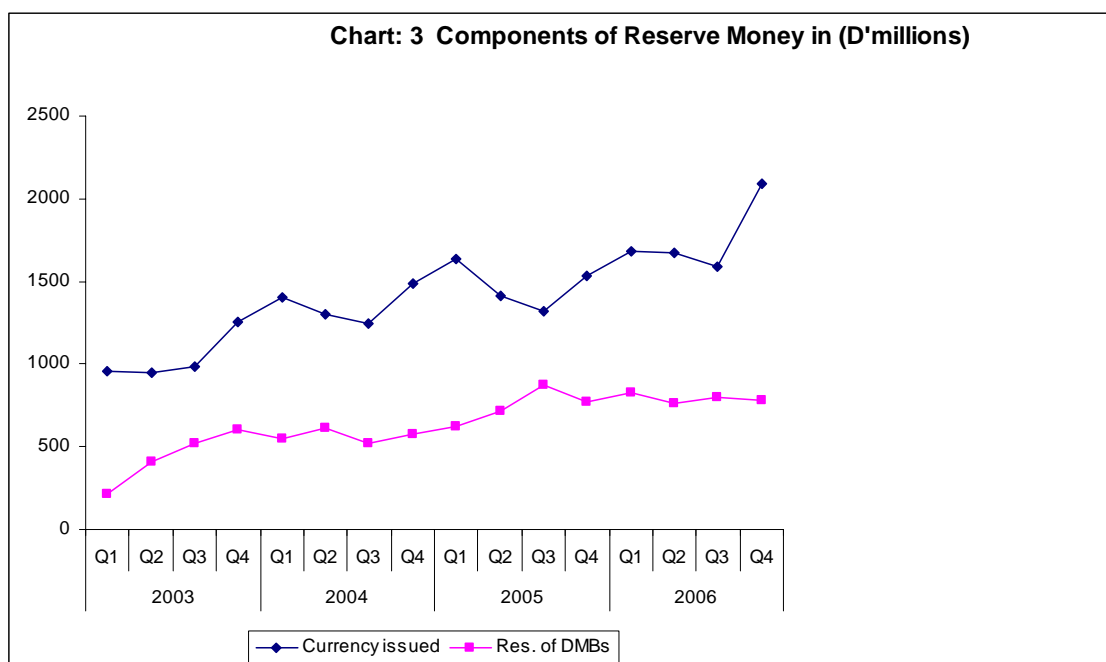
The growth in reserve money in the review quarter was due entirely to the increase in the NFA of the Central Bank, which rose by 23.7 percent to D2.9 billion. Gross official reserves increased by 18.9 percent to D3.4 billion whilst foreign liabilities decreased by 2.6 percent to D503.1 million.

In contrast, the NDA of the Central Bank declined markedly to D0.2 million, or by 99.7 per cent. Domestic credit significantly declined by 555.6 percent to negative D164.0 million. The Bank's net credit to Government increased to D623.3 million, or 10.5 percent. Credit to the private sector grew by 2.1 percent from the previous quarter. Other items net increased from D97.7 million to D164.2 million.



(3.2) Demand (Channels of Uses of Base Money)

The increase in reserve money could be explained by the strong growth in currency in circulation manifesting the seasonality in economic activity as demand for money increases to match the sharp rise in economic activity. Currency in circulation increased markedly by 31.0 percent whilst commercial bank reserves declined by 2.3 percent.



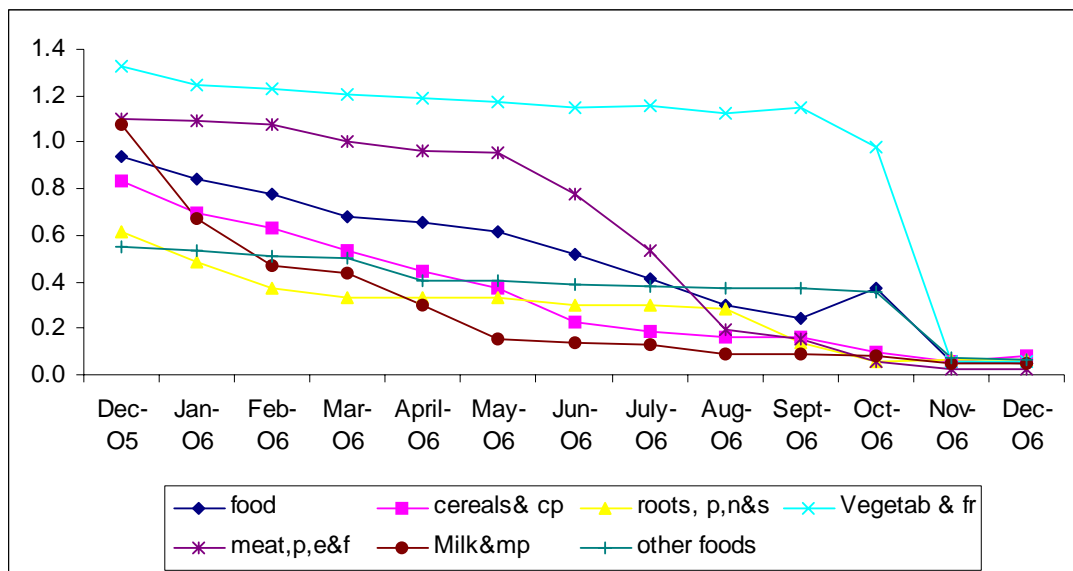
(4.0) Inflation

(4.1) Consumer Price Index (CPI)

End-period inflation, measured by the National Consumer Price Index (NCPI), declined from 1.3 percent in the third quarter 2006 to 0.4 percent at end-December 2006. On annual basis, headline inflation declined by ... percentage points from 4.9 percent at December 2005. The annual average inflation rate (12 month moving average) stood at 2.1 percent.

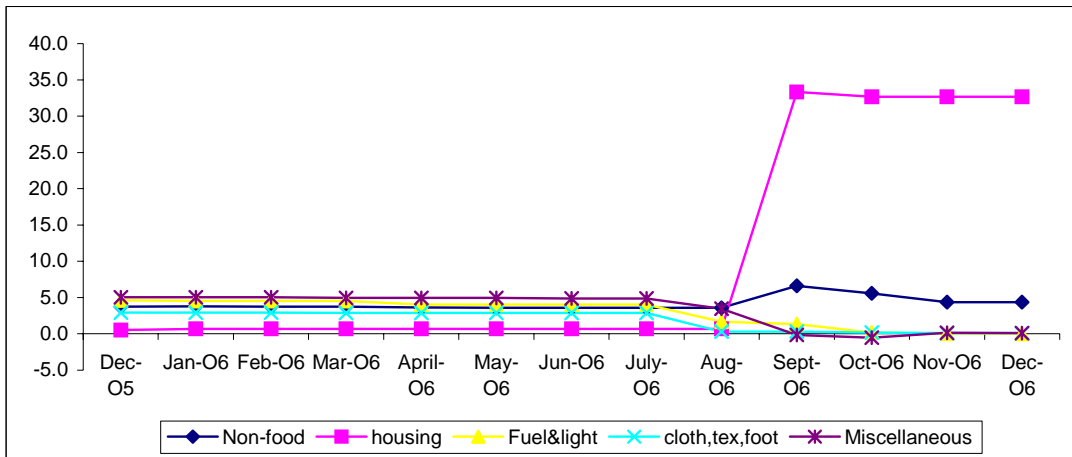
Food consumer price inflation declined to 0.3 percent in the fourth quarter from 1.1 percent in September 2006 and 5.2 percent in December 2005. Consumer price inflation of all food sub-groups declined. "Bread Cereals", "Vegetables, root crops and tubers", "meat", "fish", "milk, cheese and eggs" and "oils and fats" consumer price inflation decelerated to 0.3 percent, negative 1.4 percent, 5.0 percent, negative 1.1 percent, 5.0 percent and negative 1.9 percent.

Chart 1: Food Inflation December 05– December 06

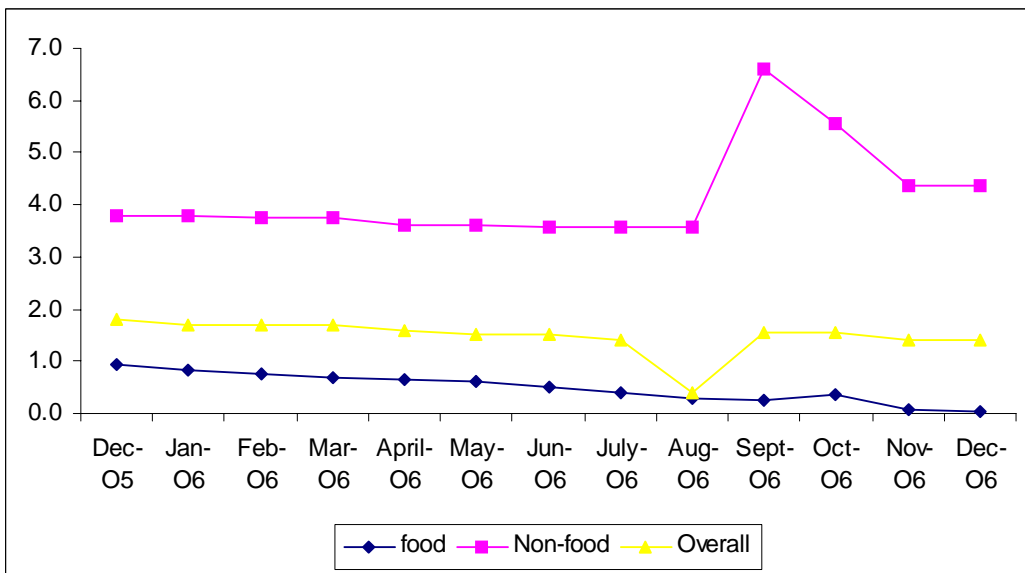


Non-food consumer price inflation fell to 0.6 percent in quarter four from 1.7 percent in quarter three, 2006. Prices of "housing, water, electricity, gas and other fuels", furnishings, household equipment, etc" and "transport" went down to negative 2.4 percent, 2.1 percent and negative 9.9 percent respectively.

Chart 2: Non-Food Inflation December 05- December 06

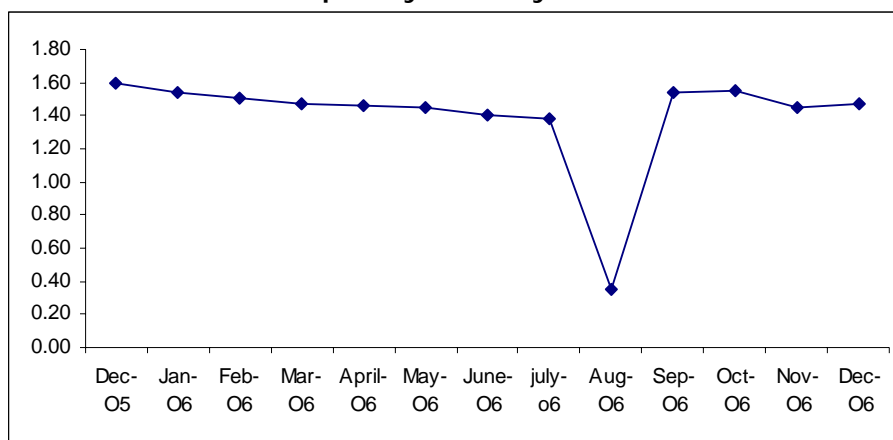


Inflation November 05- November 06



The first measure of core inflation (Core 1), which excludes prices of (fuel, light and transportation) declined from 1.2 percent in September 2006 to 0.3 percent in December 2006. Core 2, which strips out prices of energy and utilities and volatile food items declined from 1.3 percent in September 2006 to 0.8 percent in December 2006.

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



(5.0) Foreign Exchange Developments

(5.1) Introduction

The inter-bank foreign exchange market continued to function smoothly during the last quarter of the 2006. Transaction volumes in the inter-bank market recorded a marked increase compared to the corresponding period in 2005. From the third to the fourth quarter of 2006, the dalasi depreciated against the major currencies traded in the inter-bank market, except the U.S dollar.

(5.2) Volume of Transactions

Volume of transactions, that is total purchases and sales of foreign currencies in the inter-bank market, increased to 10.2 billion, or by 24.2 percent in quarter four, 2006 compared to the previous quarter. Both sales and purchases rose by 26.1 percent and 22.8 percent respectively. The rise in transaction volumes is largely explained by improved data collection, increased border trade, increase in on-season tourist arrivals, and increased textile re-exports.

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

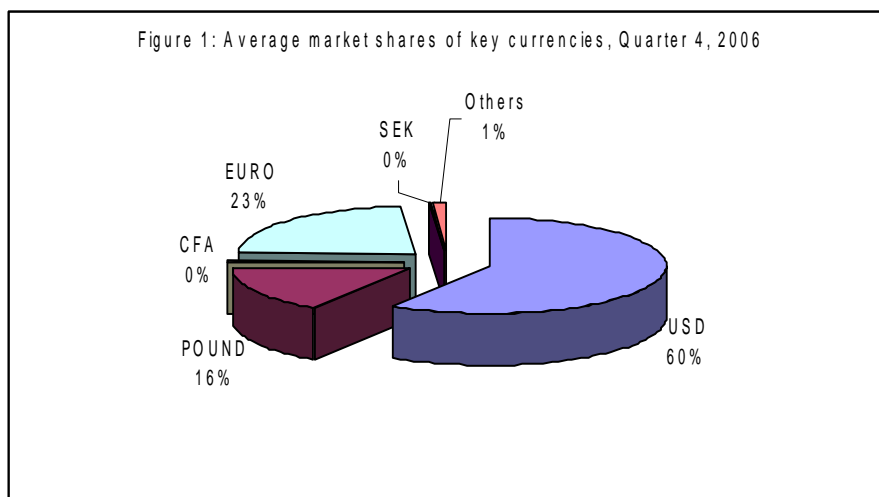
	2005	2006			
	Q4	Q1	Q2	Q3	Q4
Purchases	3,200.10	3,812.57	4,277.55	4,445.99	5,454.33
Sales	3,471.10	3,800.59	3,826.36	3,738.42	4,714.90
Total	6,671.20	7,613.16	8,103.91	8,184.41	10,169.23

(5.3) Market Share of Key Currencies

The dollar continued to be the most traded currency inter-bank foreign exchange market. However, its market share declined to 59.3 percent in the quarter ending December 2006 compared to 63.5 percent in the previous quarter. From the corresponding quarter last year, the dollar recorded 3.0 percentage point increase in market share from 56.3 per cent in the quarter ending December 2005. During the review period, the market share of the pound sterling increased to 15.8 percent whilst the share of Euro declined slightly to 23.0 percent.

Table 2: Market share of Major Currencies

	2005	2006			
	Q4	Q1	Q2	Q3	Q4
USD	56.3	57.6	66.5	63.5	59.3
Pound	19.8	19.6	14.4	11.4	15.8
CFA	0.4	0.4	0.5	0.5	0.5
EURO	21.2	20.2	17.5	23.5	23.0
SEK	0.7	0.7	0.3	0.2	0.5
Others	1.5	1.4	0.8	0.8	1.0

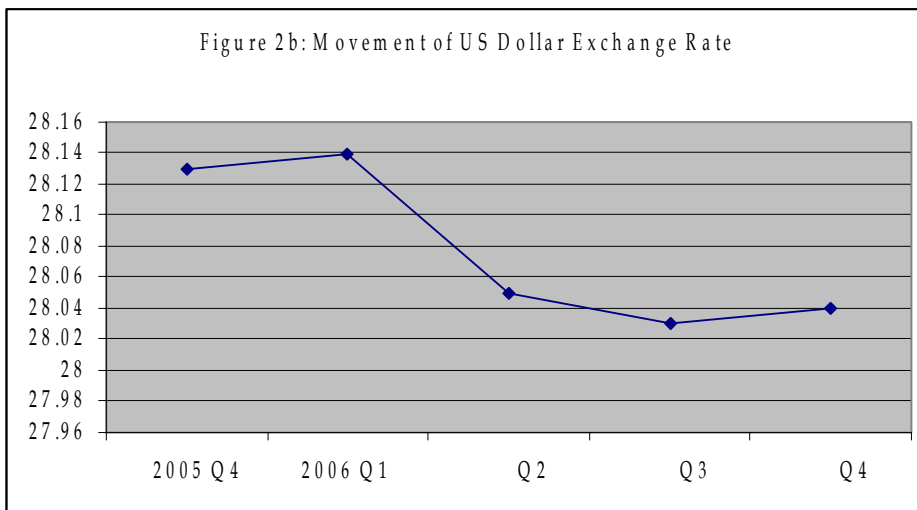
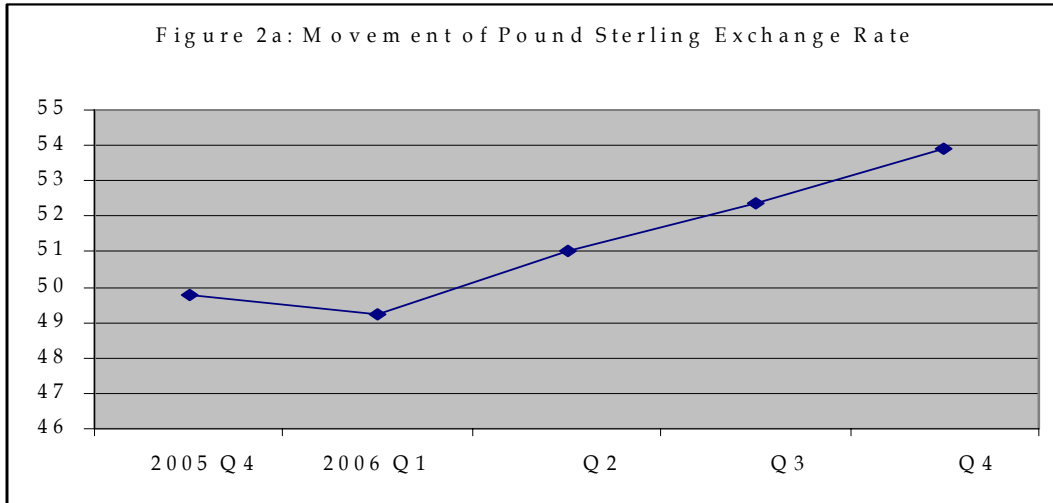


(5.4) Exchange rate movements

The Dalasi weakened against the Euro, Pound Sterling, Swedish Kroner and CFA franc by 7.4 percent, 9.4 percent, 10.6 percent and 10.1 percent respectively from last year, but strengthened against the U.S dollar by 0.3 percent. Compared to quarter three 2006, the Dalasi depreciated against all the major currencies but at a very low rate against the U.S dollar by 0.03 percent. The dalasi fell against the Pound Sterling, Swedish Kroner, CFA franc and Euro by 2.9 percent, 6 percent, 4.9 percent and 2.1 percent respectively compared to the preceding quarter.

Table 2: Exchange Rate Movements

	GBP	USD	SEK	CFA	EURO
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
Q4	53.89	28.04	383.72	277.37	36.20



(5.5) Interest rates

The discount rate on treasury bills declined to 12.8 percent at end-December 2006 compared to 13.3 percent in the previous quarter. Commercial banks' lending rates ranged from 18.0 percent to 28.0 percent across all sectors of the economy.

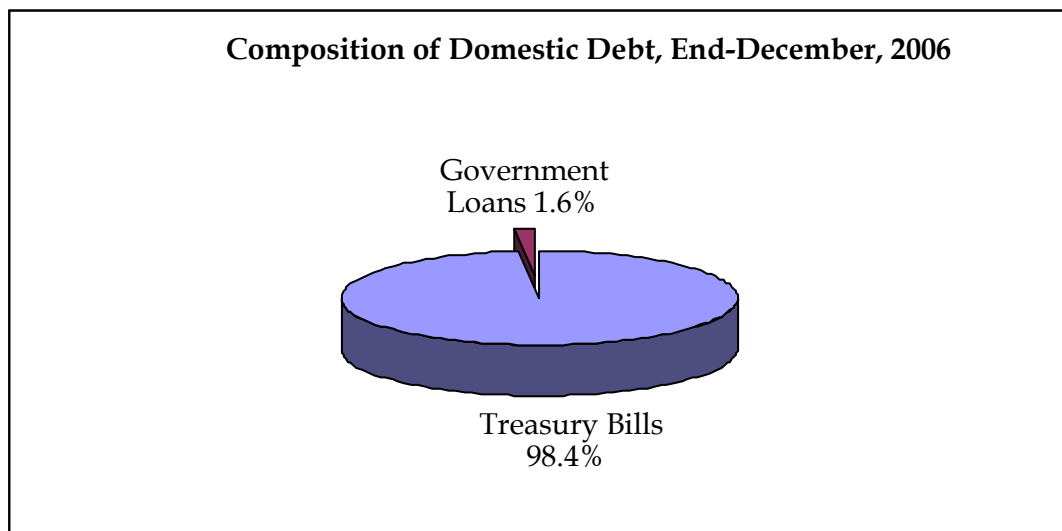
Other key short-term interest rates, that is, the bank rate and the re-discount rate both remain static from the preceding quarter. The bank rate pegged at 2.8 percentage points below the treasury bills discount rate which remain unchanged at 10.0 percent. The re-discount rate

was unchanged from the previous quarter at 15 percent. Short-term deposit rate changed slightly from a range of 1.25 – 4.0 percent in the previous quarter to a range of 1.25 - 4.1 percent. Savings deposit accounts attracted interest rate at a range of 5 – 7 percent, a fall from a range of 5-8 percent in the previous quarter. Interest rate on time deposits had a range of 5.0 - 8.5 percent, 6.0-13.0 percent, 6.0-11.0 percent and 6.0-13.0 percent for 3 months, 6 months, 9 months and 12 months deposits respectively.

(5.6) Domestic Debt

The growth in The Gambia's overall debt stock has slowed significantly in recent years, driven primarily by the government's improved fiscal position, pre-payments of external debt and the strengthening of domestic currency.

As at end-December 2006, The Gambia's domestic debt comprised of Treasury bills which constitutes 98.4 percent and Loans 1.6 percent as shown in the figure below.



The Treasury bills market is dominated by commercial banks and parastatals which account for 76.9 percent of the debt. Other holders are other non-bank institutions and the Central Bank, with 21.0 percent and 2.1 percent respectively.

Table 2: Holdings of Treasury Bills by Institutions

Holders	2004	2005	2006
Central Bank	94.6	118.04	102.14
Commercial Bank	1396.22	2,038.63	2,359.46
Non-Bank	2099.26	2,230.99	2,186.13
Total	3,590.08	4,387.66	4,647.73

Though the gross domestic debt has increased in December 2006 compared to same quarter last year, net debt issuance in the form of Treasury Bills has been decreasing, this shows that most of the debt was redeemed during 2006.

(6.0) Distribution of Commercial Banks Credit to Major Sectors

The total stock of outstanding loans and advances extended by deposit money banks to the major sectors of the economy amounted to D2.4 billion Dalasi at end December 2006. This represents an annual growth rate of 16.7 per cent relative to 22.8 Per cent a year earlier.

However, total commercial banks` credit recorded benign decline of 0.3 per cent compared to the previous quarter. This is attributable to the sharp decline in percentage allocation of credit to fishing sector (43.9 per cent) and other "unclassified loans" (23.8 per cent) compared to third quarter of 2006. Agriculture and distributive trades, which attracts the largest share of total DMB credit, also recorded a decline although marginally by 2.7 per cent and 6.8 per cent

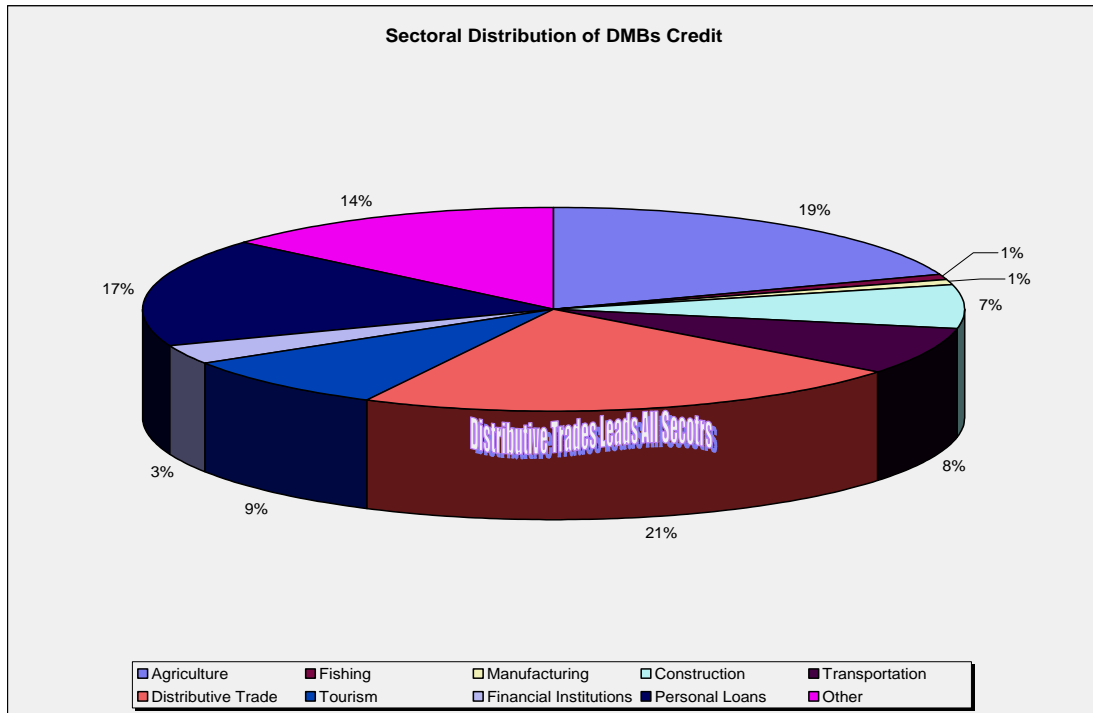
respectively. All other sectors recorded increase over the previous quarter.

Manufacturing sector registered the highest increase with 33.5 per cent over the previous quarter. Credit to transportation sector and personal loans increased markedly by 32.0 per cent and 31.0 per cent respectively. Credit to financial institutions also rose by 15.4 per cent while tourism sector recorded mild increase of 6.6 per cent.

Deposit Money Banks` Credit to major economic Sectors

Sectors	Outstanding Credit (D` Millions)	Percentage Share	Percentage Quarterly Change	Percentage Annual Change
Agriculture	462.17	19.42	-2.66	53.56
Fishing	19.06	0.80	-43.92	-40.38
Manufacturing	22.54	0.95	33.45	-28.29
Construction	164.96	6.93	-5.14	14.25
Transportation	180.72	7.59	32.03	35.46
Distributive Trade	517.95	21.76	-6.83	8.20
Tourism	205.33	8.63	6.64	172.18
Financial Inst.	76.44	3.21	15.35	78.02
Personal Loans	408.62	17.17	31.08	-23.47
Other	322.13	13.54	-23.88	53.78
Total	2379.92	100.00	-0.25	20.04

Sectoral analysis of composition of outstanding credit shows that distributive trades sector continued its dominance accounting for 21.8 per cent of total credit. Agriculture sector attracted 19.4 per cent while personal loans and other "unclassified loans" constituted 17.2 per cent and 13.5 per cent respectively.



The proportion of credit allocated to fishing was 0.8 per cent while manufacturing, construction, transportation, tourism and financial institutions captured 1.0 per cent, 6.9 per cent, 7.6 per cent, 8.6 per cent and 3.2 per cent respectively.

(7.0) Other Developments

Devon UK philanthropist group based in UK has offered scholarship to 19 students and medication to the people of Sangajor villag in Foni Kansala District. The group commonly known as the “Devon Sangajor Partnership”, has been giving aid to the village for the past six months. This amongst others included the rehabilitation and construction of the village health centre as well as the renovation of the school with learning materials. The group also donated the sums of D10,000 and D7,000 to the school as staff motivation and the upkeep of the health centre respectively.

At least 252 students from Sankwia School in the Lower River Division, recently enjoyed a scholarship boost from the Cyfeillion, Sankwia friends from Amlwch, Wales in UK. The group sponsored 117 students in Kani Kunda Lower Basic School to the amount of D25,155 and 90 students at Pakalinding Upper Basic School with D110,700. Also 43 students from Tahir Senior Secondary School were sponsored with an amount of D89,850, while D96,300 and D38,000 were spent on furniture, fencing and the machine in the skill centre respectively.

The Taiwanese ambassador to The Gambia presented two cheques of US\$218,516 and US\$329,419 to the Department of State for Education. The presentation was the fourth made towards the construction of two senior secondary schools in Mayok and Sifoe villages in the western region.

Berefet Lower Basic School in Foni Berefet District received a D400,000 cheque from Ann Kinstin Norum, Principal of the Norwegian College of Dance. The money is meant for the construction of a three classroom block in the school.

The Taiwanese Ambassador to The Gambia presented a cheque of US\$10,000 to Taiwan Ming Daw Junior and Senior Secondary Schools at Farato Village, Kombo South. Half of the sum is earmarked for the renovation of the schools while the other half will cater for the scholarships of the students.

Water for all Africa, previously known as West African Water Wells, a Scottish charitable organization working for the poor in Africa recently donated over £150,000 worth of goods to communities across the country.

The Taiwanese Ambassador to The Gambia presented a cheque of US\$150,000 to the Rotary Foundation, through the Department of State for Health and Social Welfare for the procurement of vaccines for the National Immunization Day against polio.

ASB Clinic Workers' Samaritan Organization, German humanitarian charitable organization operating in many countries in the world, donated D3.2 million worth of drugs to the Department of State for Health and Social Welfare. The drugs which include anti-biotic, anti-malarial, gastro intestinal, pain sedatives, asmatic, and eye drugs amongst others were distributed to the Sukuta, Yuna, Brufut, Gunjur, Brikama, Basori, Mandinaring, New Yundum, Banjulinding, Sintet, Kanilai, and Mayok Health Centres.

The Round 6 Proposal on Malaria Prevention and Control in The Gambia has won a US\$20,813,258 grant from the Global Fund for HIV/AIDS, Tuberculosis (TB) and Malaria. According to information from the Department of State for Health and Social Welfare, the proposal was approved as category 2B for five years, commencing from January 2007. The objective of the project is to address morbidity and mortality among children (five years and under) and pregnant women in five regions by 2011.

The second phase of the Third Education Project, prepared in close collaboration with the DFID team, and with the contribution of UNICEF as the lead donor agency for the in-country donors to education, has got a grant of US\$8 million provided by the World Bank with an additional US\$3 million PHRD co-finance grant, provided by the Government of Japan. The principal objective of the project is to improve the conditions of teaching and learning in basic education by improving the performance of the students, teachers and schools,

strengthen capacity building and performance management and enhancing monitoring and evaluation and also, the continuing expansion of effective access to basic education for the under-served communities.

The Secretary of State for Fisheries and Natural Resources formally launched a US\$3 million aquaculture project at the Jahally fields in Central River Region. The Taiwan-government funded pilot project is the third, after two successful experimental projects on aquaculture in 1970s and 1995.