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## OVERVIEW

Monetary policy in 2007 continues to focus on sustaining the disinflation process; maintain exchange rate stability and a viable external position. The key macroeconomic objectives were to reduce inflation to 2.0 percent, achieve real GDP growth rate of 7.0 percent and build-up gross official reserves to at least 4.1 months of import cover.

Money supply grew by 12.6 percent in the year to end-September 2007 compared to 20.7 percent a year earlier

The net foreign assets (NFA) of the banking system declined slightly to D3.5 billion, or by 2.5 percent from September 2006. The NDA of the banking system increase to D4.4 billion, or by 28.2 percent reflecting the mark increase in other items net.

Reserve money grew by 10.2 percent in the year to end-September 2007, above the growth rate of 9.0 percent a year earlier and below the 10.6 percent projected for 2007 under the PRGF Program. Reserve money declined by 0.03 percent from end-June 2007.

Commercial Banks continue to maintain liquidity well in excess of their requirements, their excess liquidity totaled D2.5 billion or 135 percent above their liquidity requirement. Their cash reserves totaled D1.9 billion and was above requirement by 101 percent.

End-period inflation, measured by the National consumer Price Index (NCPI) rose from 1.3 percent in September 2006 to 6.0 percent at end-September 2007. Average inflation rate (12 months moving average) was 4.0 percent compared to 2.6 percent a year earlier. The rise in

consumer price inflation is due in the main to the increase in global fuel and food prices.

The inter-Bank foreign exchange market experienced unprecedented appreciation of the domestic currency during the third quarter 2007. Year-on-year, the Dalasi hit a four-year record high against all the internationally traded currencies in the inter-bank market.

Domestic revenue outturn for the third quarter of 2007 amounted to D829.7 million, which stood above budget projections of D784.9 million for the third quarter by D44.8 million, or 5.4 per cent.

Total expenditure and net lending stood at D771.2 million. This is lower than the third quarter budget amount of D1102.0 million by D330.8 million.

The overall fiscal balance registered a surplus of D81.1 million for the quarter ending September 2007. For the nine months ending September, there was a recorded fiscal surplus of D380.7 million, equivalent to 2.4 per cent of GDP.

# PART I

## MONETARY DEVELOPMENTS

### (1.0) Monetary Policy

Monetary policy in 2007 continues to focus on sustaining the disinflation process; maintain exchange rate stability and a viable external position. The key macroeconomic objectives were to reduce inflation to 2.0 percent, achieve real GDP growth rate of 7.0 percent and build-up gross official reserves to at least 4.1 months of import cover.

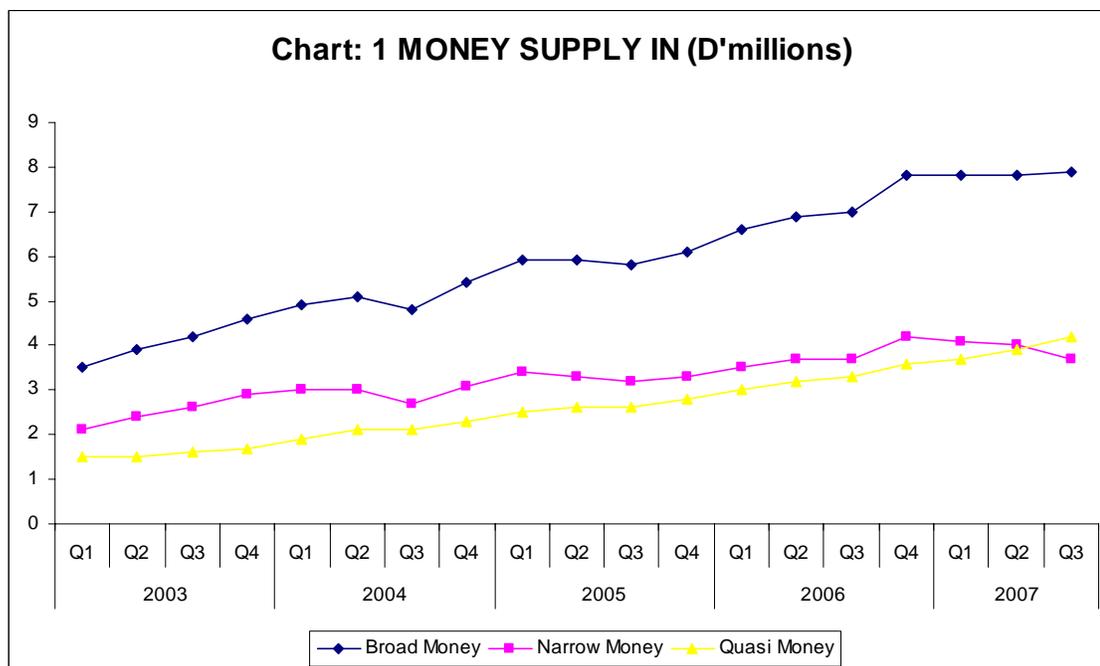
To achieve the inflation target, reserve money and money supply were projected to grow by 10.6 percent and 13.3 percent by end-December 2007 assuming stable velocity and the money multiplier (mm) ratios of 2.2 and 2.9 respectively.

### (2.0) Money Supply Growth

Money supply grew by 12.6 percent in the year to end-September 2007 compared to 20.7 percent a year earlier. However, it grew by 0.11percent and 0.82 percent in the quarters ending March and September 2007, respectively.

Narrow money (M1), comprising currency outside banks and demand deposits increased to D3.7billion, or by 1.2 per cent from the third quarter of 2006. Currency outside banks rose by 4.6 percent while demand deposits decreased by 1.2 percent for the year under review. Compared to end-June 2007, currency outside banks declined by 5.08 percent while demand deposits decreased by 6.3 percent. The ratio of

narrow money (M1) to broad money (M2), however, declined from 52.7 per cent at end-September 2006 to 47.4 percent at end-September 2007.



Quasi-money which includes savings and time deposits rose to D4.2 billion, or by 25.4 percent from end-September 2006. Savings and time deposits increased by 13.8 percent and 53.6 percent respectively. Quasi money rose by 7.6 percent from end-June 2007, savings deposits fell by 0.91 percent, and time deposits increased by 27.5 percent. Correspondingly, the share of quasi-money to broad money rose from 47.3 percent at end-September, 2006 to 52.6 percent in September, 2007.

## (2.1) Factors Affecting Money Supply

### (a) Net Foreign Assets (NFA)

The net foreign assets (NFA) of the banking system declined slightly to D3.5 billion, or by 2.5 per cent from September 2006. This was on

account of the decline in the NFA of commercial banks to 1.1 billion or by 8.8 per cent. Although the NFA of Central Bank increased slightly to D2.3 billion or by 0.9 per cent, it was over dwarfed by the increase in foreign liabilities to D0.6 billion or by 13.0 percent. Central Bank's gross official reserves rose to D2.9 billion or by 13.0 percent.

Similarly, Deposit Money Banks' foreign assets decreased to D1.3 billion or by 1.6 percent while their foreign liabilities increased to D162.4 million by 120.1 percent.

	Sept. -06	% Δ	Sept.-07	% Δ
<b>Net Foreign Assets</b>	3558.90	9.67	3469.67	-2.5
<b>Monetary Authorities</b>	2317.92	13.91	2338.07	0.9
Foreign assets	2834.20	8.86	2921.68	3.1
Foreign liabilities	-516.28	-7.58	-583.61	13.04
<b>Commercial banks</b>	1240.98	1.84	1131.60	-8.8
<b>Net Domestic Assets</b>	3452.69	67.35	4426.61	28.2
<b>Domestic Credit</b>	4212.43	24.75	4150.96	-1.2
Claims on Government, net	1284.98	113.83	1437.55	11.9
Advances to Govt. in Forex. curr.	287.4	-93.47	37.54	-86.9
Claims on Public Entities	271.56	19.06	243.93	-10.2
Claims on Private Sector	2368.49	32.89	2431.93	2.7
<b>Other items, net</b>	-759.74	-140.40	275.65	136.3
o/w Revaluation account	-95.6	-91.02	595.07	
<b>Broad Money</b>	7011.59	37.94	7896.28	12.6
Narrow Money	3698.36	18.06	3741.54	1.2
Quasi-Money	3313.23	57.40	4154.73	25.4

### **(b) Net Domestic Assets (NDA)**

The NDA of the banking system increased to D4.4 billion, or by 28.2 percent from end-September 2006, reflecting the marked increase in other items net. Domestic credit fell to D4.2 billion, or by 1.5 percent, of which credit to public entities declined by 10.2 percent to D243.9 million while credit to the private sector rose by 2.7 percent to D2.4 billion. The level of claims on government net, rose by 11.9 percent to D1.4 billion.

Compared to end-June 2007, the NDA of the banking system rose by 35.6 percent. Claims on government net grew by 12.6 percent to D1.4 billion. Similarly, claims on public entities by the banking system rose by 15.3 percent to D243.9 million, whilst private sector credit fell by 1.7 percent to D2.2 billion.

### **(3.0) Reserve Money Growth**

Reserve money consists of currency issued and commercial 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. Given the fact that the initial link between monetary policy and the rest of the economy occurs in the market for reserves, monetary policy was conducted by the Central Bank using reserve money as an operating target.

During the period under review, policies were directed at preventing excessive liquidity that might result to a build up in inflationary pressures while at the same time providing enough liquidity to ensure sustained economic activity.

Reserve money grew by 10.2 percent in September 2007, above the growth rate of 9.0 percent a year earlier and below the 10.6 percent projected for 2007 under the PRGF Program. Reserve money declined by 0.03 percent from end-June 2007.

#### **(4.0) Liquidity Position of Commercial Banks**

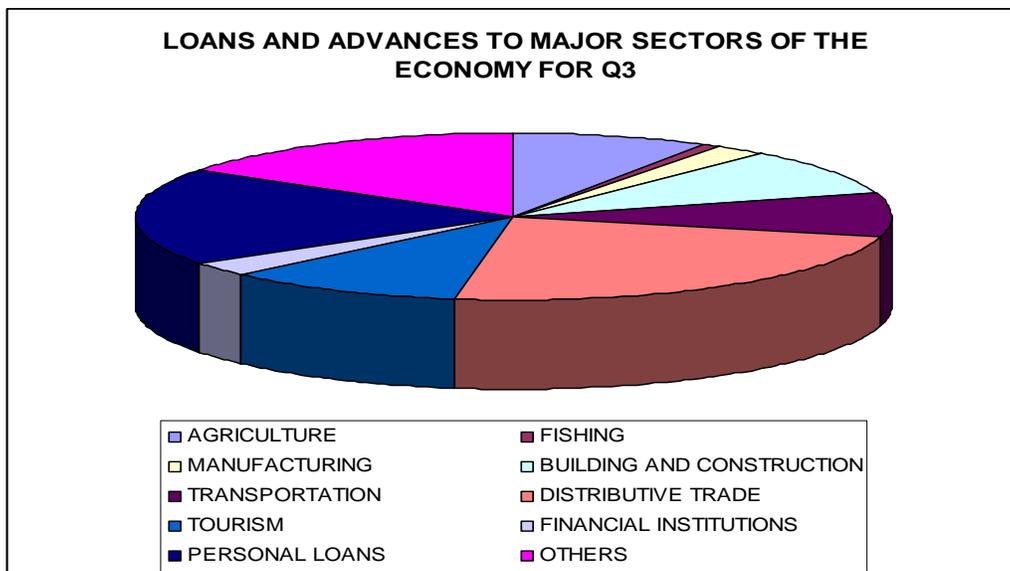
Commercial Banks total liquid assets increased to D4.3 billion or by 51 percent from the previous quarter, it rose by 74.3 percent compared to the same period last year. Banks' reserves fell to D1.9 billion or by 10.7 percent from the preceding quarter, while deposits at the Central Bank increased to D909.1 million or by 6.3 percent. Foreign cash holdings decreased by 2 percent to D148.5 million from the second quarter. Deposit Money Banks' foreign bank balances decreased to D702.6 or by 29 percent during the quarter under review. Deposit Money Bank's investment in Treasury bills rose by 236.7 percent to D2.4 billion percent from the previous quarter.

The required liquid assets of commercial banks, based on a statutory requirement of 30 percent of total liabilities to the public, stood at D1.81 billion for the quarter ending September 2007, compared to D1.76 billion in the previous quarter. It rose by 16.3 percent from the corresponding period of the preceding year. Their excess liquidity totaled D2.5 billion or 135 percent above their liquidity requirement. Cash reserves totaled to D1.9 billion and was above requirement by 101 percent.

### (5.0) Loans and Advances to Major Economic Sectors

Total outstanding commercial bank credit to major sectors of the economy increased to D2.3 billion, or by 5.6 percent from the previous quarter, it fell by 1.6 percent compared to the amount registered in the same period a year ago.

Lending to Agriculture declined to D194.1 million or by 38 percent, reflecting decreased lending to agricultural marketing and production by 40.4 percent and 7.8 percent respectively. Loans and advances to Fishing, Manufacturing, Building and Construction, Transportation, Distributive Trade, Tourism and Others increased by 14.2 percent, 128.5 percent, 17.1 percent, 41.5 percent, 8.9 percent, 31.6 percent, and 10.4 percent to D16.6 million, D53.7 million, D201.5 million, D201.6 million, D584.6 million, D238.1 million and D359.1 million respectively from the previous quarter. On the other hand credit to Financial Institutions and Personal Loans fell by 15.4 percent and 0.9 percent to D62.6 million and D436.4 million respectively.



## **(6.0) Inflation**

### **(6.1) Consumer Price Index (CPI)**

End-period inflation, measured by the National consumer Price Index (NCPI) rose from 1.3 percent in September 2006 to 6.0 percent at end-September 2007. Average inflation rate (12 months moving average) was 4.0 percent compared to 2.6 percent a year earlier. The rise in consumer price inflation is due in the main to the increase in global fuel and food prices

### **(6.2) Food Consumer Price Inflation**

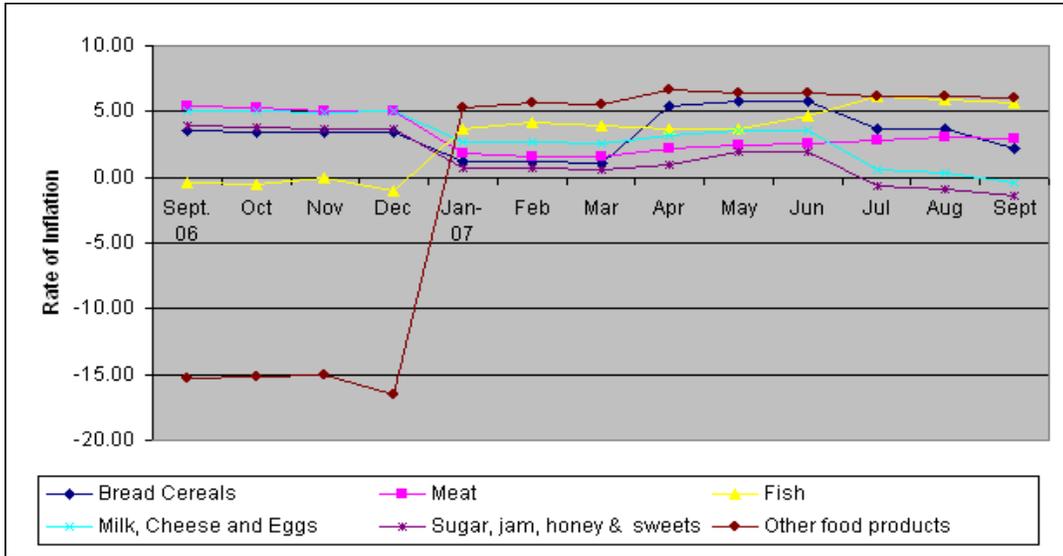
Food consumer price inflation rose to 9.3 percent in September 2007 compared to 1.1 percent in September 2006 as a result of increase in consumer price inflation of "fish", "oils and fats", "fruits and nuts", "vegetables, root crops and tubers", and other foods. Consumer price inflation of "fish", "oils and fats", "fruits and nuts", "vegetables, root crops and tubers", and other foods rose from negative 0.41 percent, negative 1.53 percent, negative 6.29 percent, 1.76 percent, and negative 15.35 percent in September 2006 to 5.62 percent, 37.54 percent, 22.40 percent, 18.19 percent, and 6.02 percent respectively in September 2007.

On the other hand, prices of "bread cereals", "meat", "milk, cheese and eggs" and "sugar, jam, honey and sweets" decelerated to 2.2 percent, 2.98 percent, negative 0.39 and negative 1.43 percent in September 2007 compared to 3.6 percent, 5.45 percent, 5.07 percent and 3.93 percent in the preceding year.

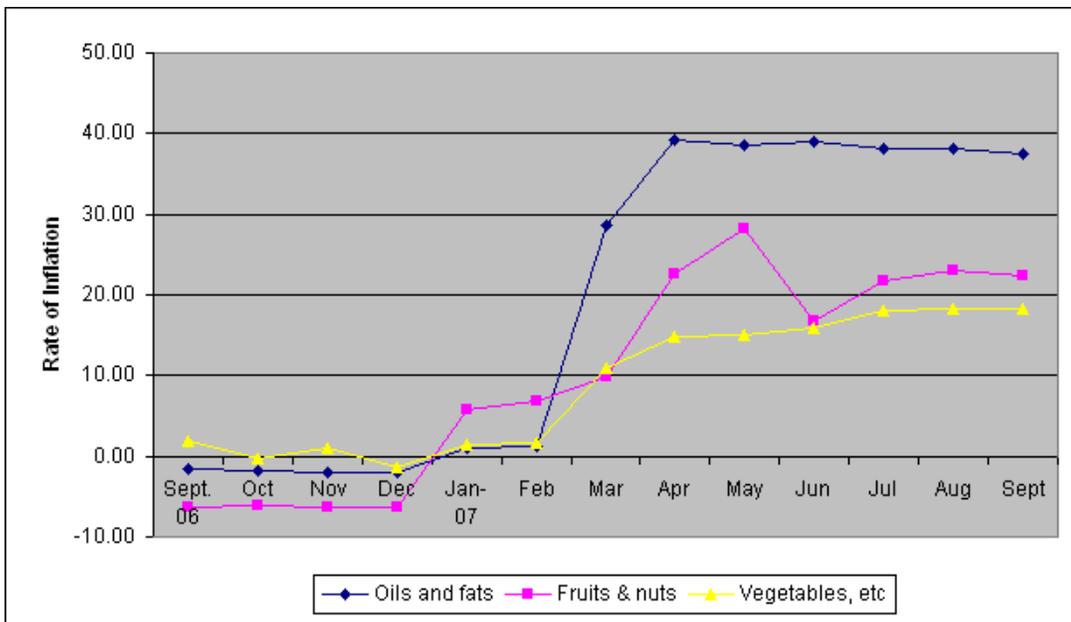
The consumer price inflation of non-alcoholic beverages rose to 1.7 percent from 1.1 percent in September 2006. Due to significant increases in the food consumer price inflation, the combined inflation

rate of food and non-alcoholic beverages rose by 7.99 percentage points to 9.06 percent during the period under review.

**Graph 3A: Food Inflation September 06 – September 07**



**Graph 3B: Food Inflation September 06 – September 07 (cont)**

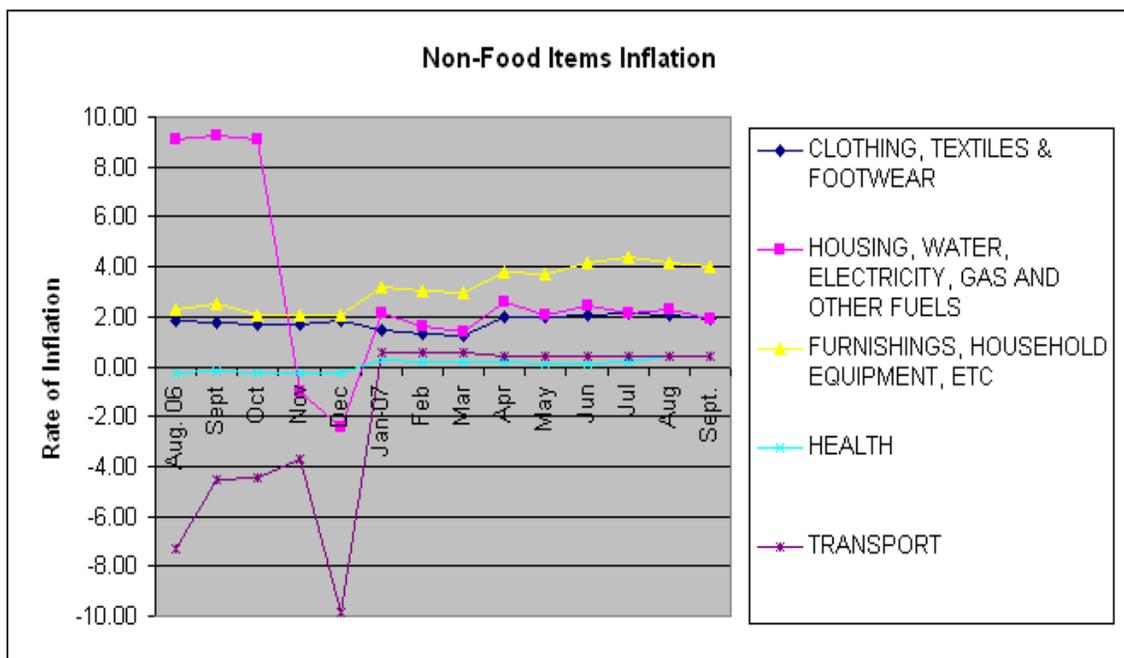


Non-food products and services consumer price inflation rose to 2.4 percent from 1.7 percent at end-September 2006 as a result of increase in the prices of “alcoholic beverages, tobacco and

narcotics" ,"furnishings, household equipment, etc", "clothing, textiles and footwear", "hotels, cafes and restaurants", "miscellaneous goods and services" "health", "communications", "transport" and recreation and culture to 1.48 percent, 4.02 percent, 1.91 percent, 3.49 percent, 8.23 percent, 0.39 percent, 1.01 percent, 0.42 percent and 0.75 percent compared to 1.43 percent, 2.48 percent, 1.75 percent, negative 3.48 percent, 1.17 percent, negative 0.20 percent, negative 0.46 percent, negative 4.56 percent and 0.64 percent respectively in the preceding year.

On the other hand, the consumer price inflation of "clothing, garments and tailoring services" and "housing, water, electricity, gas and other fuels" decreased to 1.75 percent and 1.92 percent in September 2007 compared to 1.79 percent and 9.22 percent respectively in the preceding year.

**Graph 3C: Non-Food items and Services**

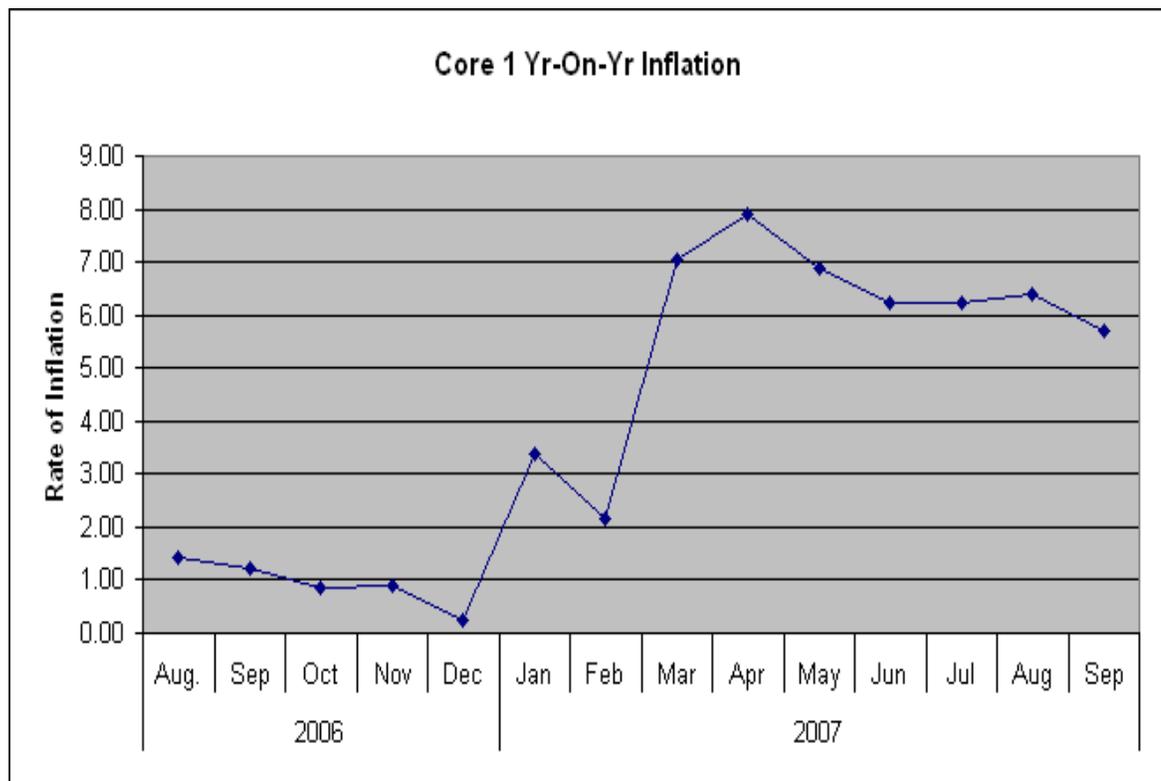


### (6.3) Core Measures of Inflation

The measure of core inflation attempts 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 inflation is striped out by excluding prices of energy and utilities (fuel, light and transportation) and volatile food items.

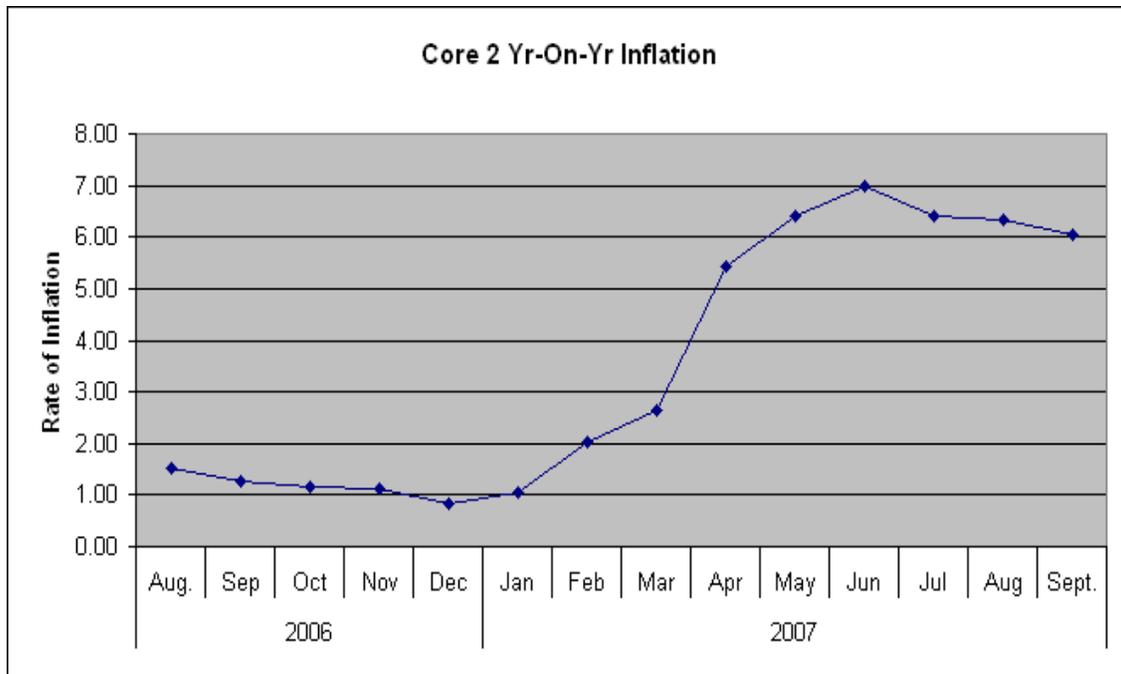
The first measure of core inflation (Core 1), which excludes energy prices (housing, water, electricity, gas and other fuels and transportation) rose from 1.23 percent in September 2006 to 5.70 percent in September 2007.

**Graph 3D: CORE 1 Yr-On-Yr Inflation**



Core2, which strips out prices of energy and utilities and volatile food items (“vegetables, root crops and tubers”, “fruits and nuts”, “oils and fats” and “other foods”) rose from 1.26 percent in September 2006 to 6.05 percent in September 2007.

**Graph 3E: CORE 2 Yr-On-Yr Inflation**

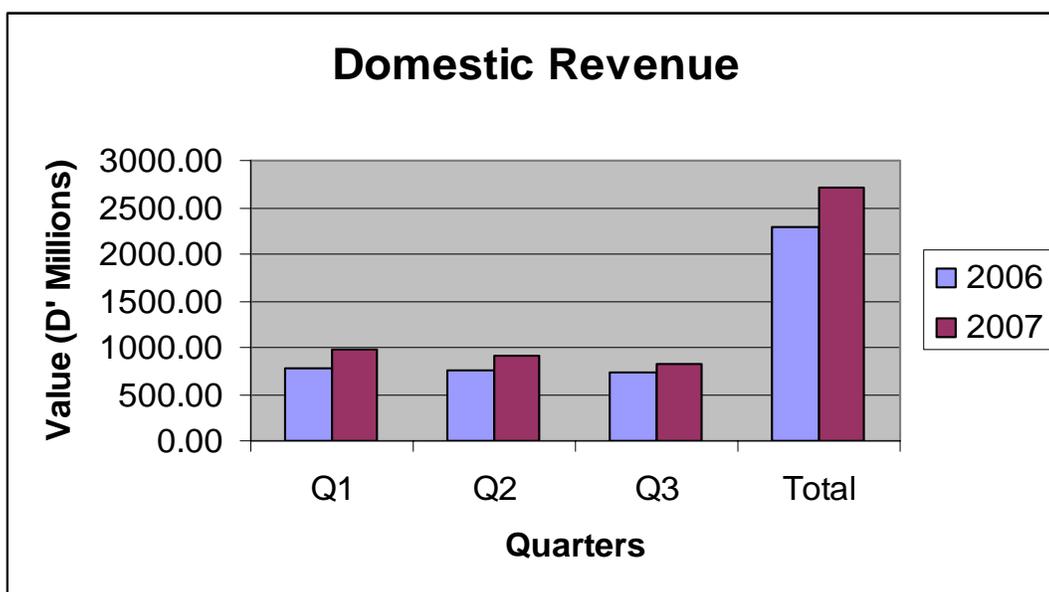


**(9. Fiscal Developments**

The impressive performance in public finances that started since the first quarter of 2007 continued through the third quarter, mainly due to the implementation of various revenue enhancing measures and prudent expenditure management. The establishment of the Gambia Revenue Authority (GRA) which merged the previous Revenue and Customs and Excise Departments under one management structure was designed to achieve synergies in the government’s revenue collection efforts. Measures aimed at broadening the tax base include the introduction of taxpayer identification numbers, enhanced

taxpayer education efforts, increased staff training and provision equipment to strengthen the audit functions.

The launching of the Integrated Financial Management Information System (IFMIS) in January 2007 has gone a long way in improving all aspects of the budget process (formulation, execution, monitoring and reporting).



### (7.1) Domestic Revenue and Grants

#### Revenue and Grants

Domestic revenue outturn for the third quarter of 2007 amounted to D829.7 million, which stood above budget projections of D784.9 million for the third quarter by D44.8 million, or 5.4 per cent. Cumulative domestic revenue for the three quarters of 2007 amounted to D2711.70 million or 17.2 per cent of GDP.

Direct tax revenue outturn for the quarter under review was D748.7 million, D51.2 million or 6.8 per cent above the budgeted figure of D697.5 million. Total direct tax revenue collected from the beginning of

the year to end-September 2007 amounted to D2376.6 million or 15.1 per cent of GDP. Revenue collected from indirect taxes for the third quarter was D537.7 million, marginally above the quarterly projection of D515.9 million. Indirect taxes on international trade recorded D419.1 million. The impressive gains recorded from non-fuel customs duties largely explained the improved revenue performance.



Source: DOFEA

Non-tax revenue stood at D81.0 million compared to the budget estimate of D87.4 million. The shortfall in non-tax revenue has arisen mainly as a result of shortfalls in revenue from government services and charges. Revenue from telecommunications licenses amounted to D24.4 million during the third quarter. Cumulative revenue from telecommunication fees and license for the three quarters of 2007 amounted to D111.9 million compared to annual budget projections of D90.0 million.

During the third quarter of 2007, grants received stood at D22.10, significantly lower than the budget figure of D272.8 million for the quarter. Grants receipts have consistently been lower in the three quarters of the year due to unrealized funds from donors.

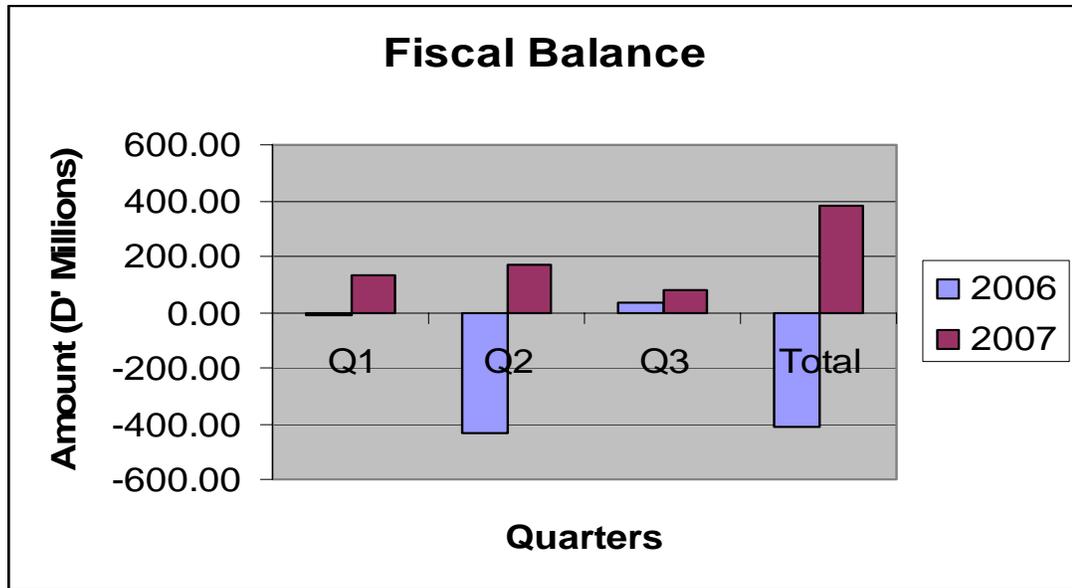
### **(7.2) Current Expenditure and Net Lending**

Total expenditure and net lending stood at D771.2 million. This is lower than the third quarter budget amount of D1102.0 million by D330.8 million. Overall, though, the expenditure outturn is lower, most of the savings are made from capital expenditure and net lending. Capital expenditure and net lending for the third quarter was D59.5 million compared to projections for the quarter of D484.0 million.

Interest payments amounted to D238.7 million, exceeding the budget estimate by D27.1 million or 11.3 per cent, largely on account of the higher-than-budgeted external interest payments. External interest payments amounted to D105.6 million, compared to a budget figure of D57.8 million. Domestic interest payments for the review quarter amounted to D133.1 million, lower than the projections for the quarter of D153.8 million.

### **(7.3) Fiscal Deficit**

The overall fiscal balance registered a surplus of D81.1 million for the quarter ending September 2007. For the nine months ending September, there was a recorded fiscal surplus of D380.7 million, equivalent to 2.4 per cent of GDP.



Source: DOFEA

#### (8.0) Foreign Exchange Developments

The inter-Bank foreign exchange market experienced unprecedented appreciation of the domestic currency during the third quarter 2007. Year-on-year, the Dalasi hit a four-year record high against all the internationally traded currencies in the inter-bank market.

#### (8.1) Volume of Transactions

In the year to end-September 2007 transactions volumes in the inter-bank market increased to D41.7 billion compared to D19.6 billion a year ago. Total purchases, indicating supply of foreign currency in the inter-bank market rose to D21.2 billion or by 101.9 percent, while sales, reflecting demand, increased to D20.5 billion or 97.1 percent.

## (8.2) Volume of Transactions in the inter-Bank Market

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Purchases	4445.99	5454.33	5662.53	5388.55	4744.37
Sales	3738.42	4714.9	4968.65	5721.5	5069.97
<b>Total</b>	<b>8184.41</b>	<b>10169.23</b>	<b>10631.18</b>	<b>11110.05</b>	<b>9814.34</b>

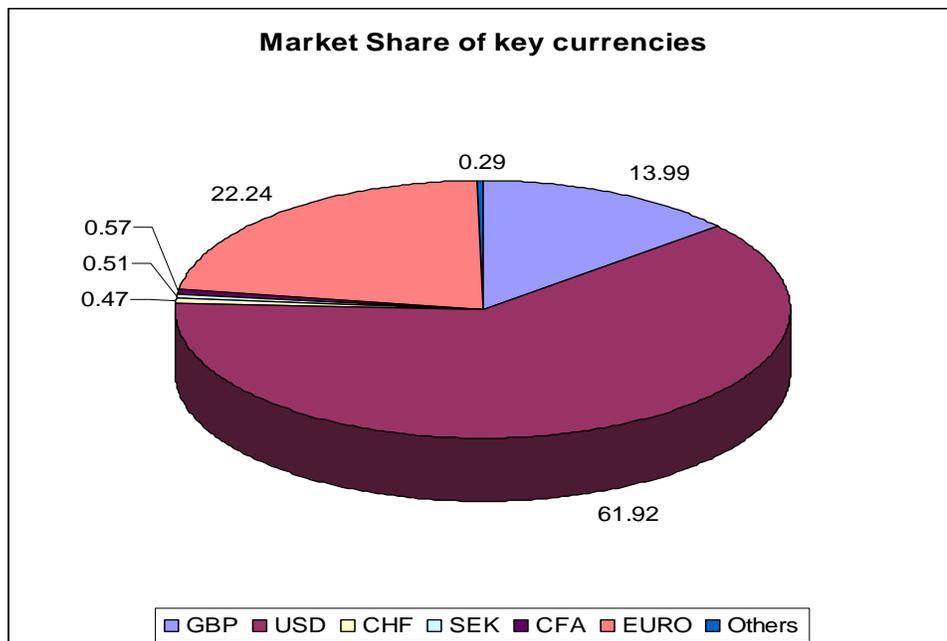
Aggregate purchases and sales of foreign currency in the inter-bank market dropped to D9.8 billion in the third quarter of 2007 compared to D11.1 billion recorded in the second quarter. Supply of foreign currency, gauged by the quantity purchased, declined to D4.7 billion from D5.4 billion in the last quarter. Demand for foreign currency declined marginally to D5.1 billion from D5.7 billion in the preceding quarter.

## (8.3) Market Share

Analysis of the composition of transaction volumes in the inter-bank market revealed that the US Dollar remained the most actively traded currency accounting for 61.9 per cent of overall volume of transactions during the third quarter relative to 63.4 per cent in the previous quarter. This indicated that the US Dollar is gradually losing its market share to the Euro, which accounted for 22.2 per cent of transaction volumes in the third quarter of 2007 compared to 20.4 per cent in the preceding quarter. Dealings in Pound Sterling dropped marginally to 14.0 percent from 14.8 per cent in the second quarter. Transactions in Swiss franc, Swedish kroner and CFA franc rose to 0.5 percent, 0.5 percent and 0.6 percent compared to 0.3 per cent, 0.4 percent and 0.6 percent recorded in the second quarter, 2007, respectively.

### Market Share of Key Traded Currencies in the inter-Bank Market

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
USD	63.5	59.27	60.38	63.35	61.92
GBP	11.4	15.71	15.48	14.81	13.99
CFA	0.5	0.5	0.46	0.55	0.57
EURO	23.5	23.02	22.06	20.39	22.24
CHF			0.35	0.32	0.57
SEK	0.2	0.49	0.51	0.37	0.51
Other	0.8	0.99	0.76	0.2	0.29



#### **(8.4) Exchange Rate Movements**

Year-on-year, the Dalasi strengthened against all the internationally traded currencies in the inter-bank market. The Dalasi registered a substantial 32.0 percent appreciation to D19.0691 per USD as at end September 2007 and 25.8 percent and 22.7 per cent to D38.8465 and D27.4262 per British Pound and Euro respectively. It also rose by 21.9 per cent and 15.9 per cent against the CFA franc and Swedish Kroner respectively.

Quarterly movements also indicated significant appreciation of the Dalasi against major international currencies. As at end-September, 2007, the Dalasi was trading at 28.1 per cent and 26.4 percent higher than the US Dollar and the Great Britain Pound relative to end-June, 2007, respectively. Against the Euro and CFA franc, the Dalasi rose by 23.1 per cent and 24.1 during the same period. The appreciation of the Dalasi during the third quarter of 2007 is attributable to the improvement in economic fundamentals and increased inflows from FDI, remittances, tourism receipts and re-exports.

## PART II

### **(9.0) Developments in the International Economy**

The global economy continued to expand at a reasonable pace during the second quarter, driven by strong growth in China, Russia and India. The expansion was broad based. Preliminary estimates showed that real GDP in the United States (US) grew at a quarterly rate of 4.0 percent during the second quarter of 2007. The Euro area registered a quarterly real GDP growth of 0.3 percent, while the Japanese economy recorded a subdued growth rate of 0.5 percent during the period under review. Africa, on a similar note, is expected to achieve an economic growth of 6.2 percent for 2007.

While inflationary pressure remained benign in major industrial countries, there was acceleration in many parts of the world as international oil prices maintained an upward trend. Food price inflation picked up significantly in response to prospects of more agricultural output being diverted to bio fuel production and poor weather conditions in some countries.

#### **(9.1 Monetary Policy)**

Globally monetary policy at central banks reflected the turmoil in the international financial markets and the impact of robust domestic demand, capacity constraints as well as escalating energy and food prices on inflation. The US Federal reserve reduced its discount rate in mid-August by half a percentage point to 5.75 percent, and at its September meeting, cut the Federal Funds rate by half a percentage point to 4.75 per cent. The ECB left its main refinancing rate unchanged at 4 per cent at the beginning of September, after

signaling an interest rate hike in August. The Bank of Japan also left its overnight call money rate unchanged (0.5 per cent). China's central bank, meanwhile, maintained its more restrictive monetary policy by increasing interest rate hike and the minimum reserve rate by half a percentage point to 12.0 percent.

## (9.2) **Commodity Prices**

### a) **Oil**

Global oil prices have risen again, on the back of robust demand and renewed supply interruptions. Benchmark Brent crude, stabilized at around USD60 per barrel in the first quarter of 2007, hit almost USD80 per barrel in early September on the back of supply concerns arising from lower-than-expected US inventory levels, and severe weather disturbances.

World crude oil output in the second quarter of 2007 was estimated at 85.48 million barrels per day (mb/d), whilst demand was at 84.50 (mb/d), representing a marginal increase of 0.1 and 0.2 per cent, respectively, compared with 85.40 and 83.33 (mb/d) supplied and demanded in the preceding quarter.

Tighter market conditions have been further aggravated by supply disruptions in Iraq and Nigeria, and persistent geopolitical uncertainties on the oil supply. The Brent crude oil price is projected to stay elevated at over \$70 per barrel for the remainder of 2007 and 2008, on the basis of current futures prices.

b) **Non- Oil**

World **sugar** prices continue to decline. The International Sugar Agreement (ISA) daily price averaged US¢9.72 per pound in April 2007, the lowest level since 2005. The decline is attributed to several factors; but in the main, to higher-than-anticipated output; declining oil prices and reduced speculation by large trading funds.

**Sorghum** and **maize** prices decreased by 6.5 percent and 4.8 percent respectively, following large increases in the past 6-8 months, which are expected to lead to large plantings in the US.

**Cocoa** prices climbed by 6 percent, to reach the highest level since March 2003, due to anticipated major shortfalls in West African output – especially Cote d’Ivoire, the world’s largest cocoa supplier.

**Palm oil** prices rose by 2.8 percent to an 8-year high on the back of strong global demand and weak exports from Malaysia.