OVERVIEW

Monetary policy continued to be aimed at maintaining price and exchange rate stability. In pursuance of these objectives, a tight monetary policy stance was pursued in the third quarter of 2004.

Growth in money supply decelerated to 16.1 per cent in the year to the third quarter compared to 50.5 per cent a year earlier. Compared to end-December 2003, money supply grew by only 5.3 per cent.

Reserve money, the Bank's operating target, grew by 17.3 per cent from the previous year but fell by 4.7 per cent over end-December 2003.

Total outstanding loans and advances to the major economic sectors contracted to D1.5 billion, or 12.6 per cent from a year ago. Distributive trade continues to absorb the lion's share of loans and advances accounting for 32.0 per cent of total outstanding credit, but lower than the 36.4 per cent a year ago.

The domestic debt (discounted value) increased to D2.8 billion, or 22.7 per cent from a year earlier and 36.4 per cent over end-December 2003.

Deposit money bank's liquid assets increased to D2.3 billion, or 50.9 per cent from a year earlier. The required liquid assets of banks, based on a statutory requirement of 30.0 per cent of total liabilities to public, stood at D1.1 billion compared to D943.0 million a year ago. Excess liquidity amounted to D1.3 billion, or 119 per cent of liquidity requirement.

Reflecting the tight policy stance, the rediscount rate, the policy rate, was kept unchanged at 34.0 by the Monetary Policy Committee (MPC). The discount rate on Treasury bills was 29.0 per cent, the same as in the preceding quarter.

The volume of transactions in the inter-bank foreign exchange market increased significantly to D1.59 billion, or 96.3 per cent from the corresponding period the previous year.

The Dalasi depreciated against the Pound Sterling and Swedish Kroner by 2.0 per cent and 6.0 per cent respectively from a year ago, but appreciated against the US Dollar, Euro and the CFA Franc by 10.2 per cent, 2.9 per cent and 1.4 per cent respectively.

The number of air chartered visitors declined to 11222, or 16.9 per cent from the previous quarter, reflecting in the main the downward seasonal pattern in arrivals in the third quarter. However, compared to the corresponding quarter of the previous year, air chartered visitors increased by 30.0 per cent.

End-period inflation, as measured by the consumer price index of low-income population of Banjul and Kombo Sait Mary area, declined from 17.9 per cent in September 2003 to 12.3 per cent at end-September 2004. Average inflation rate (12 month moving average) was 16.2 per cent in September 2004.

Food consumer price inflation declined to 14.2 per cent, lower than the 19.8 per cent in September of the previous year. Non-food consumer price inflation decelerated from 14.2 per cent at end-September 2003 to 8.3 per cent in September 2004. Core inflation, which excludes the prices of energy and volatile food items, declined to 4.7 per cent compared to 12.0 per cent in September 2003.

Revenue and grants rose to D665.7 million, or 19.9 per cent from the previous quarter. Compared to a year ago, revenue and grants increased by 67.2 per cent. Expenditure and net lending decreased to D651.1 million, or 27.6 per cent from the last quarter.

The overall fiscal deficit, including grants (cash basis) amounted to D100.5 million compared to D17.8 million in the proceeding quarter. The deficit was financed externally (9.7 million) and from domestic sources (D90.8 million).

PART 1

Monetary Developments

(1.0) Monetary Policy

Monetary policy continued to be aimed at maintaining price and exchange rate stability. In pursuance of these objectives, a tight monetary policy stance was pursued in the third quarter. Low and non-volatile inflation implies the preservation of the purchasing power of the domestic currency and hence labor income. Stable prices are also an essential precondition for the achievement of high and sustainable economic growth.

(2.0) Money Supply Growth

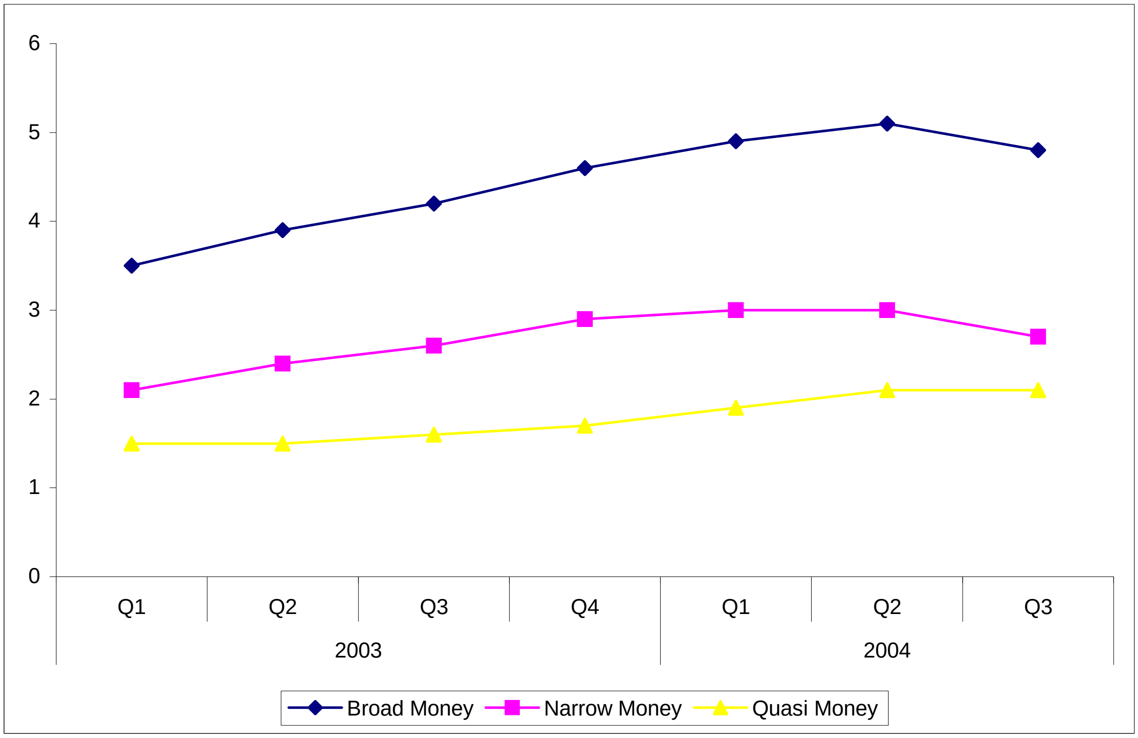
Growth in money supply decelerated to 16.1 per cent at end-September 2004 relative to 53.4 per cent a year earlier. Compared to end-December 2003, money supply grew by 5.3 percent. The substantial decrease in money supply was mainly due to the restrictive monetary policy stance of the Central Bank. Both components of money supply increased, albeit modestly.

Table 1: Components of money supply *(in millions of Dalasis)*

	2003				2004		
	Mar.	**Jun.**	**Sept.**	**Dec.**	**Mar.**	**Jun.**	**Sept.**
Money supply	**3,548.34**	**3,943.59**	**4163.69**	**4593.04**	**4852.19**	**5057.35**	**4835.58**
Narrow money	***2,083.33***	***2,409.16***	***2552.02***	***2873.04***	***2991.55***	***2992.58***	***2721.49***
Currency outside banks	*887.00*	*888.65*	*937.35*	*1182.89*	*1324.24*	*1216.05*	*1169.08*
Demand deposits	*1,196.33*	*1,520.51*	*1614.67*	*1690.14*	*1667.31*	*1776.53*	*1552.41*
Quasi-money	***1,465.01***	***1,534.43***	***1611.67***	***1720.0***	***1860.64***	***2064.77***	***2114.04***
Savings deposits	*1,116.98*	*1,174.85*	*1205.81*	*1374.61*	*1493.44*	*1634.62*	*1650.05*
Time deposits	*348.03*	*359.58*	*405.87*	*345.40*	*367.20*	*430.15*	*464.04*

Narrow money (M1), comprising currency outside banks and demand deposits, increased by 6.6 per cent from the pervious year. Currency outside banks rose by 24.7 per cent while demand deposit declined by 3.9 percent. Correspondingly, the ratio of narrow money (M1) to broad money (M2) declined from 61.3 per cent at end-September 2003 to 56.3 percent in September 2004.

Chart 1: Broad Money, Narrow Money and Quasi Money in (D'Millions)



Quasi-money (time and savings deposits) increased by D502.4 million, or 31.2 percent over the previous year. Both savings and time deposits rose by 36.8 percent and 14.3 percent respectively. Consequently, the share of quasi-money to broad money increased from 38.7 percent at end-September 2003 to 43.7 percent in September 2004.

(2.1) Factors Affecting Money Supply

(a) Net Foreign Assets (NFA)

The NFA of the banking system increased by 136.0 per cent from the preceding year mainly reflecting the combined effect of an increase in the foreign assets of the Central Bank and commercial banks and a decline in the foreign liabilities of the Monetary authorities.

The NFA of the Central Bank increased to D1.7 billion, or 770.9 per cent. Gross official reserves rose to D2.4 billion, or 131.7 percent while foreign liabilities decreased to D0.8 billion, or 9.4 per cent.

Table1: Monetary Survey in (D'millions)

	Sept-03	% Δ	Sept-04	% Δ
Net Foreign Assets	1212.91	233.75	2861.14	136.0
Monetary Authorities	190.03	-48.52	1654.92	770.9
Foreign assets	1051.00	17.28	2434.87	131.7
Foreign liabilities	860.97	63.36	779.95	9.4
Commercial banks	1022.88	993.42	1207.22	18.0
Net Domestic Assets	2950.80	22.76	1973.43	-33.1
Domestic Credit	3364.96	44.22	2855.17	-15.1
Claims on Government, net	1307.71	17.12	1098.44	-16.0
Claims on Public Entities	518.33	520.31	321.70	-37.9
Claims on Private Sector	1538.92	35.81	1435.03	-6.8
Other items, net	-414.16	-687.46	-881.74	112.9
o/w Revaluation account	596.22	58.24	452.75	-24.1
Broad Money	4163.71	50.47	4835.57	16.1
Narrow Money	2552.02	76.80	2721.48	6.6
Quasi-Money	1611.69	21.76	2114.09	31.2

Deposit money banks foreign assets rose by 17.2 per cent while their liabilities declined by 2.9 per cent. Correspondingly, deposit money banks' net external position rose by D192.2 million, or 18.8 per cent from the previous year.

(b) Net Domestic Assets (NDA)

The NDA of the banking system increased by D993.1 million, or 107.6 per cent reflecting the increase in domestic credit by D1454.1 million, or 50.7 per cent from the previous year. The banking system's claims on public entities declined by D196.6 million, or 37.9 per cent while net claims on Government increased by D1504.2 million, or 138.2 per cent. The deterioration in Government's position largely reflected the increase in Commercial Banks claims on Government. Most notably, Commercial Banks net claims on Government increased by D2.1 billion, or 358.9 percent. Claims on the private sector also increased by 11.6 percent from a year earlier.

(3.0) Reserve Money

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

Policies were directed at preventing excessive liquidity that might result to a built up in inflationary pressures while at the same time providing enough liquidity to ensure sustained economic activity. Reserve money grew by 17.3 per cent from the previous year but fell by 4.7 per cent from end-December 2003.

(3.1) Supply of Reserves

The NFA of the Central Bank rose to D1.7 billion, or 770.9 per cent from a year ago owing to 131.7 per cent increase in foreign assets (reserves) and a 9.4 per cent decline in foreign liabilities. The Bank's NDA declined to D113.2 million, or 91.4 per cent from a year ago mainly on account of the significant improvement in Government's net position with the Central Bank. Net claims on Government improved from a deficit of D749.6 million at end-September 2003 to a surplus of D110.6 million during the quarter under review.

Table 3: Summary Accounts of the Central Bank of The Gambia in (D'millions)

	Sept-03	% Δ	Sept-04	% Δ
Net Foreign Assets	**190.03**	-48.52	**1654.92**	770.87
Foreign assets	1051.00	17.28	2434.87	131.67
Foreign liabilities	860.97	63.36	779.95	-9.41
Net Domestic Assets	**1317.12**	131.91	**113.23**	-91.40
Domestic Credit	**1173.88**	-81.96	**237.85**	-79.74
Claims on Government, net	749.57	826.77	-110.61	-114.76
Gross claims	1297.01	31.98	1002.13	-22.74
less Government deposits	547.44	-39.30	1112.74	103.26
Claims on Public Entities	136.91	100.00	136.91	0.0
Claims on Private Sector	266.20	28.94	211.55	-20.53
Claims on Deposit Money Banks, net	21.20	-128.06	3.77	-82.21
Other items, net	**143.24**	-59.78	**-128.39**	-189.63
o/w Revaluation account	596.22	58.24	452.75	-24.06
Reserve Money	**1507.15**	60.84	**1768.15**	17.32
Currency in circulation (I.e issued)	984.80	25.62	1243.85	26.30
Reserves of the commercial banks	522.35	241.12	524.30	0.37

(3.2) Demand for Reserves

Currency issued increased by 26.3 per cent from a year earlier to D1.2 billion. Commercial banks' reserves (deposits with the Central Bank), on the other hand, increased only slightly by 0.4 per cent from end-September 2003.

(3.3) Actual Reserve Money vis-à-vis Programmed Targets

Chart 2: Actual Reserve Money VS Programmed Targets in (D'millions)

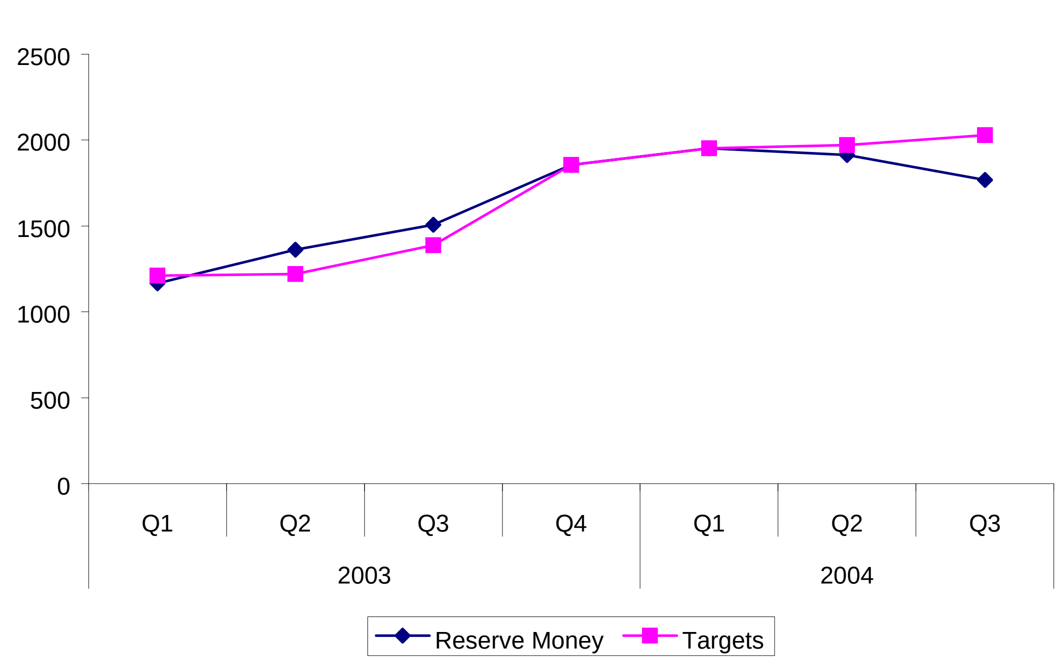


Figure 2 graphically illustrates the relationship between actual reserve money and the programmed targets. Between the first and fourth quarters of 2003, actual reserve money consistently exceeded the target. Reflecting the tightening of monetary policy, which began in the third quarter of 2003, reserve money grew close to target between the fourth quarter of 2003 and the first quarter of 2004. Reserve money growth was below target in the first nine months of 2004.

The ratio of the Central Bank' net foreign assets and reserve money is an important lead indicator of possible pressures on the exchange rate. A fall in the ratio could be due to excessive liquidity that could, in turn, give rise to rapid domestic credit expansion and because of the economy's high import propensity, to a net outflow of external reserves.

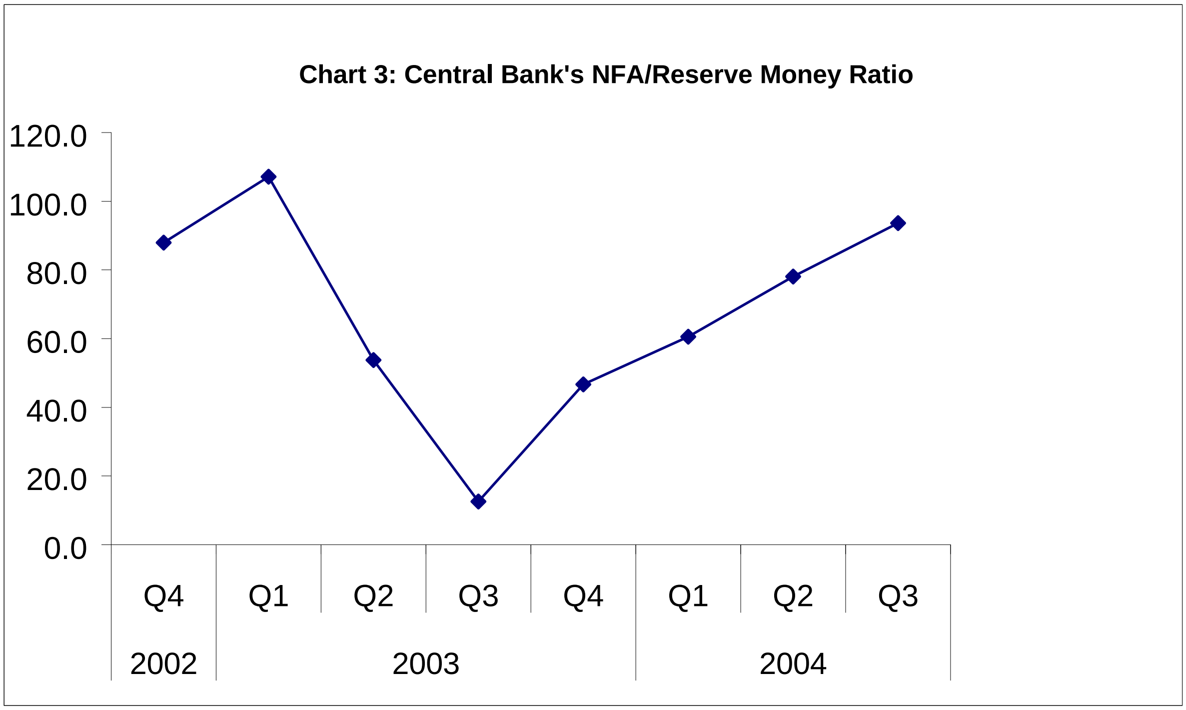


Chart 3 shows that the ratio declined precipitously from 107.2 at end-March 2003 to 12.6 in September 2003. Thereafter, the ratio increased steadily to 93.6 at end-September 2004 indicative of increasing stability of the exchange rate.

(4.0) Loans and Advances to Major Economic Sectors

At end-September 2004, total outstanding loans and advances to the major economic sectors increased to D1.5 billion, or 2.2 per cent from the last quarter. However, compared to a year earlier, domestic credit declined by 12.6 percent.

Table 4: Deposit Money Banks' Credit by Sector

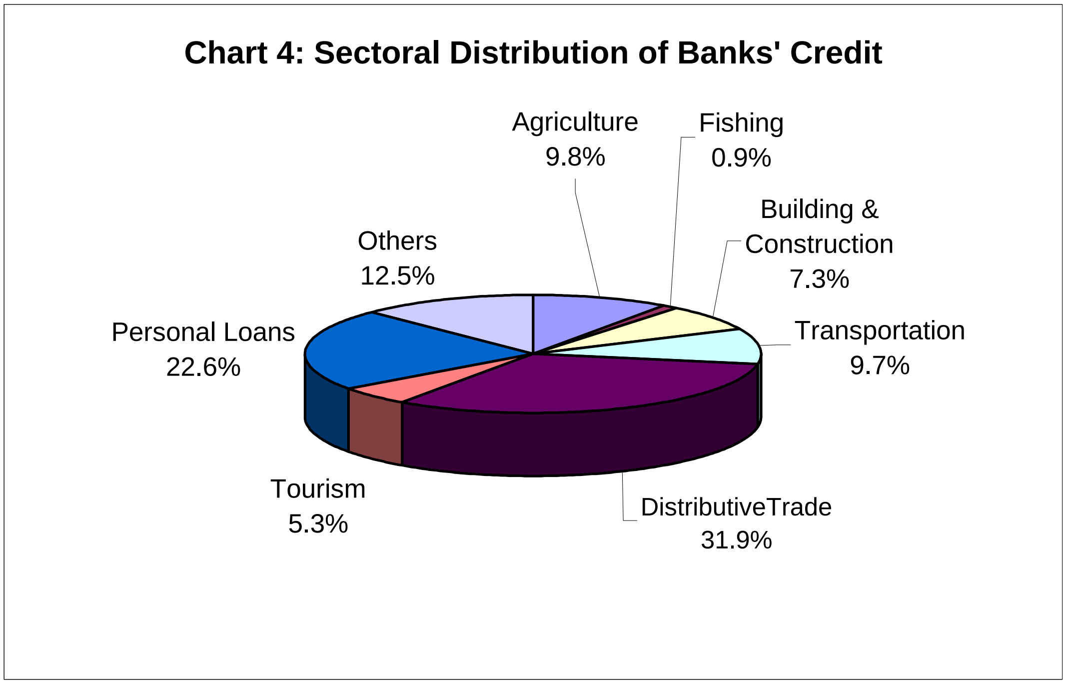
	2003	2004	2004	Percentage	Quarterly	Annual
	Sept.	**June**	**Sept.**	Share	Change(%)	Change(%)
Agriculture	68.69	211.33	147.33	9.8%	-43.4%	114.5%
Fishing	8.76	9.93	13.10	0.9%	24.2%	49.5%
Building & Construction	99.02	112.34	110.12	7.4%	-2.0%	11.2%
Transportation	146.45	122.93	144.73	9.7%	15.1%	-1.2%
Distributive Trade	595.66	429.06	477.28	31.9%	10.1%	-19.9%
Tourism	100.88	74.11	79.55	5.3%	6.8%	-21.1%
Personal Loans	382.65	296.45	337.98	22.6%	12.3%	-11.7%
Others	311.57	209.88	187.99	12.5%	-11.6%	-39.7%
Total	**1713.68**	**1466.03**	**1498.08**		2.1%	-12.6%

Distributive trade continued to absorb the lion's share of loans and advances accounting for 32 per cent of total outstanding credit, but slightly higher than the 29.3 per cent in the preceding quarter. At D477.3 million, credit to the sector increased by 10.1 per cent over the previous quarter, but declined by 19.9 percent from a year ago.

The building and construction sector accounted for 7.4 per cent of outstanding credit. Loans to the sector decreased to D110.1 million, or 2.0 per cent from the last quarter. Year-on-year lending to the sector rose by 11.2 percent.

Following an increase of 15.1 per cent in the second quarter, credit to the transportation sector fell by 1.2 per cent in the quarter under review and accounted for 9.7 per cent of outstanding credit.

Lending to the agricultural sector totaling D147.3 million declined significantly by 43.4 per cent. This was mainly due to decreased activity of the sector in the third quarter. However, compared to a year ago, lending to the sector rose by a staggering 114.5 percent. Advances to the sector as a percentage of total lending increased to 9.8 per cent compared to 4.0 per cent at the end of the corresponding period last year.



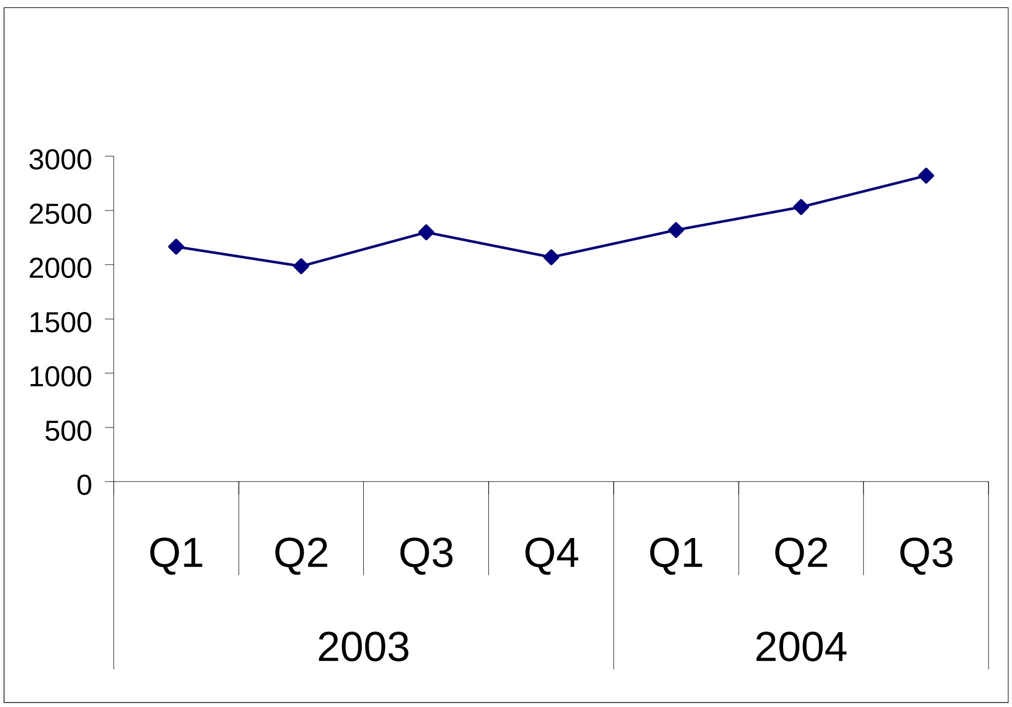
Personal advances rose by 12.3 per cent whilst unclassified loans declined by 11.6 per cent from a year ago. Personal and unclassified loans accounted for 22.6 per cent and 12.5 per cent of total outstanding loans respectively. Lending to tourism increased by 6.8 per cent from the last quarter following a 19.2 per cent decline in the second quarter. Lending to the sector, however, fell by 21.1 percent from a year earlier and accounted for 5.3 percent of total credit

(5.0) Domestic Debt

As at end-September 2004, the domestic debt (discounted value) increased to D2.8 billion, or 11.3 per cent over the preceding quarter and by 22.7 per cent year-on-year.

Of the components of domestic debt, short term debt comprising mainly Treasury bills, increased to 2.7 billion, or 11.9 per cent from the previous quarter. The stock of medium and long-term debt combined and accounting for 4.0 per cent of the domestic debt was unchanged relative to the previous quarter but declined slightly by 3.8 percent from a year ago.

Chart 5: Domestic Debt (D' millions)



Central Bank holdings of short-term debt increased to D63.0 million, or 510.0 per cent from the preceding quarter and accounted for 2.3 per cent of the total stock. Holdings of short-term debt by the Central Bank, however, decreased by 88.6 per cent from a year ago.

(6.0) Liquidity Position of Commercial Banks

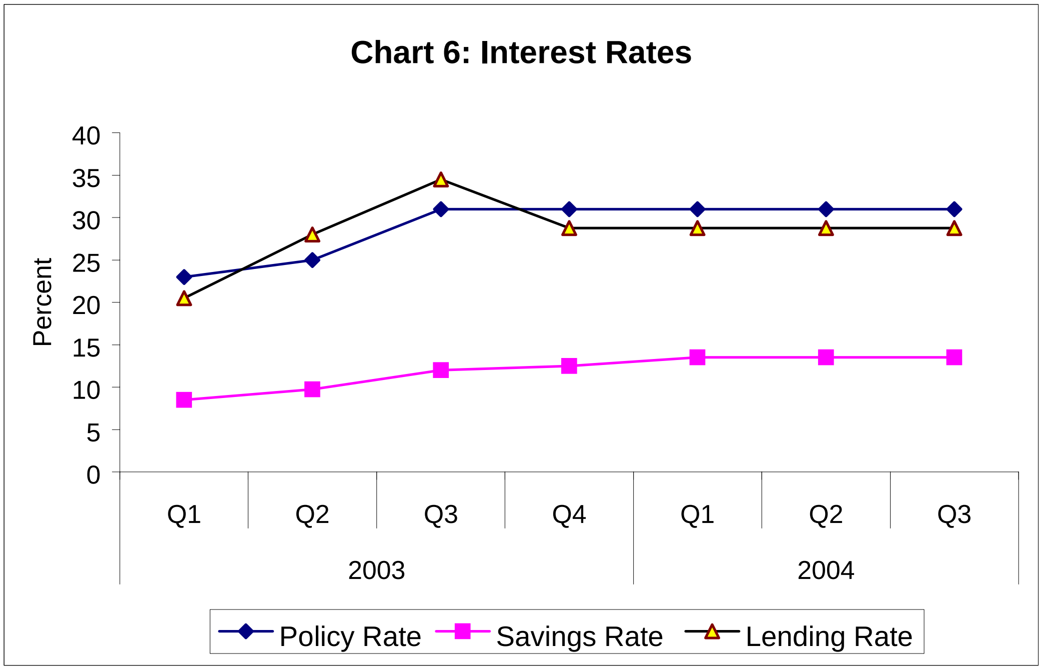
Commercial banks' total liquid assets increased to D2.3 billion, or 3.0 per cent from the previous quarter. Commercial banks' reserves (deposits) at the Central Bank declined by 11.6 per cent while investments in Treasury and Central Bank bills rose by 14.1 per cent. Commercial banks' foreign cash holdings and foreign bank balances increased by 6.0 percent and 5.1 per cent respectively.

The required liquid assets of commercial banks, based on a statutory requirement of 30.0 per cent of total liabilities to the public, stood at D1.1 billion, same as in the previous quarter. Banks continued to maintain liquidity levels in excess of the statutory requirement. Excess liquidity amounted to D1.3 billion, or 119 per cent per cent of liquidity requirement.

(7.0) Interest Rates

Reflecting the tight policy stance, the rediscount rate, the policy rate, was reduced by one percentage-point to 33.0 per cent by the Monetary Policy Committee (MPC) at its July 2004 meeting. Consequently, the discount rate on Treasury bills was changed to 30.0 per cent.

Commercial banks' lending rates were also unchanged relative to the previous quarter, ranging from 21.0 per cent to 36.5 per cent. Interest rates on deposits ranging from a minimum of 6.5 per cent for 3 months deposits to a maximum of 22.0 per cent for deposits of 12 months and over, were also unchanged relative to the previous quarter.



8.0 Foreign Exchange Developments

The inter-bank foreign exchange market operated quite smoothly during the first nine month of 2004. The Central Bank continued to host the weekly foreign exchange sessions to discuss developments in the market and provide a forum for trading as well as determine the Customs Valuation Rate.

The volume of transactions in the inter-bank foreign exchange market recorded a significant increase compared to the corresponding period in 2003. Although the Dalasi depreciated against most of the major currencies traded in the inter-bank market, it strengthened against the US dollar, Euro and the CFA franc.

(8.1) Volume of Transactions

Volume of transactions, measured by total purchases and sales of foreign currencies in the inter-bank market, increased significantly to D1.59 billion, or 96.3 per cent year-on-year. Total purchases, which is an indication of availability, or supply of foreign exchange rose to D764.5 million, or 85.6 per cent. Sales, indicative of demand, totaled D821.0 million, reflecting an increase of D425.1 million, or 107.3 per cent compared to end-September 2003.

Table 5: Volume of Transactions in the Inter-bank Market *(In millions of Dalasis)*

	Sept.-03	Dec.-03	Mar. 04	June-04	Sept-04
Purchases	*411.88*	*897.41*	*1048.65*	*604.37*	*764.49*
Sales	*396.00*	*949.68*	*1045.89*	*659.23*	*821.04*
Total	**807.88**	**1,847.09**	**2,094.54**	**1263.60**	**1585.53**

The expansion in trading volumes could be attributed to increased private capital inflows and better-than-expected receipts from tourism, re-exports and private remittances.

(8.2) Market Share

The US dollar continued to be the dominant currency in the inter-bank market with a market share of 54.2 per cent but lower than 60.7 per cent in the corresponding period last year.

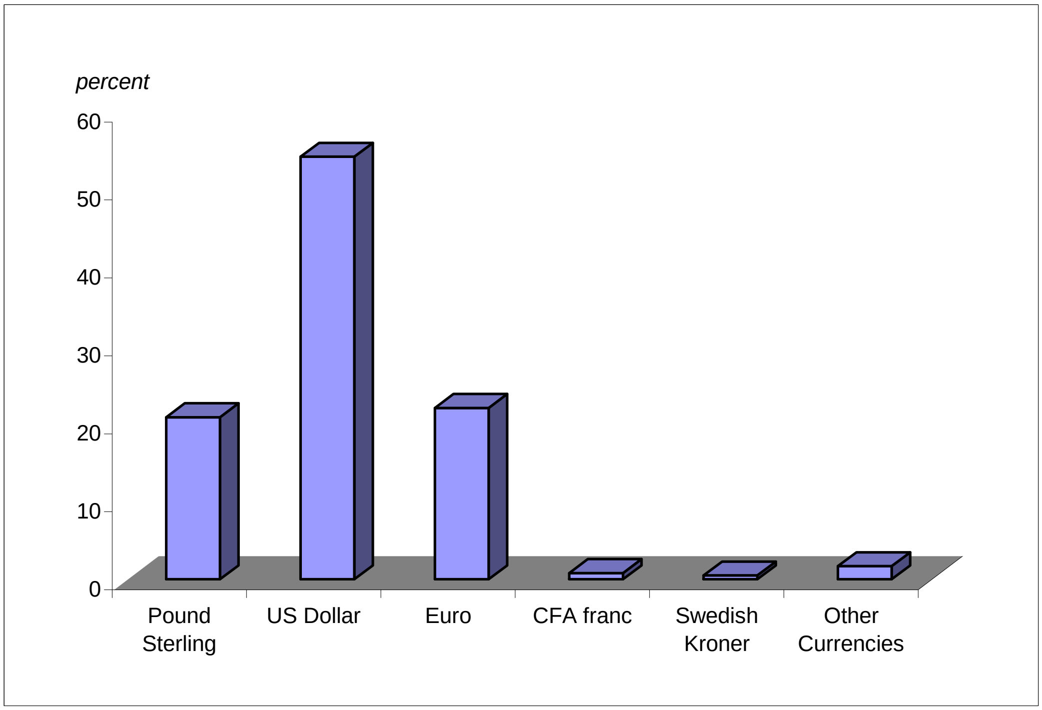
Table 6: Average Market Share of Key Currencies

	Sept. 2003 *(D' Millions)*	Percentage Share	Sept 2004 *(D' Millions)*	Percentage Share
Pound Sterling	172.73	21.4	330.24	20.8
US Dollar	490.39	60.7	859.17	54.2
Euro	113.23	14.0	348.38	22.0
CFA franc	12.31	1.5	12.56	0.8
Swedish Kroner	7.63	0.9	8.48	0.5
Other Currencies	11.59	1.4	26.70	1.7
Total	**807.88**	**100.0**	**1585.53**	**100.0**

The Euro recorded a market share of 22.0 per cent compared to 14.0 per cent a year earlier. The market share of Pound Sterling declined to 20.8 per cent from

21.4 per cent a year ago. The Swedish kroner and the CFA franc also recorded a decline in market share to 0.5 per cent and 0.8 per cent compared to 0.9 per cent and 1.5 per cent a year earlier. The unclassified currencies combined accounted for 1.7 per cent of total transactions relative to 1.4 per cent at end-September 2003.

Chart 7: Market Share of Key Currencies

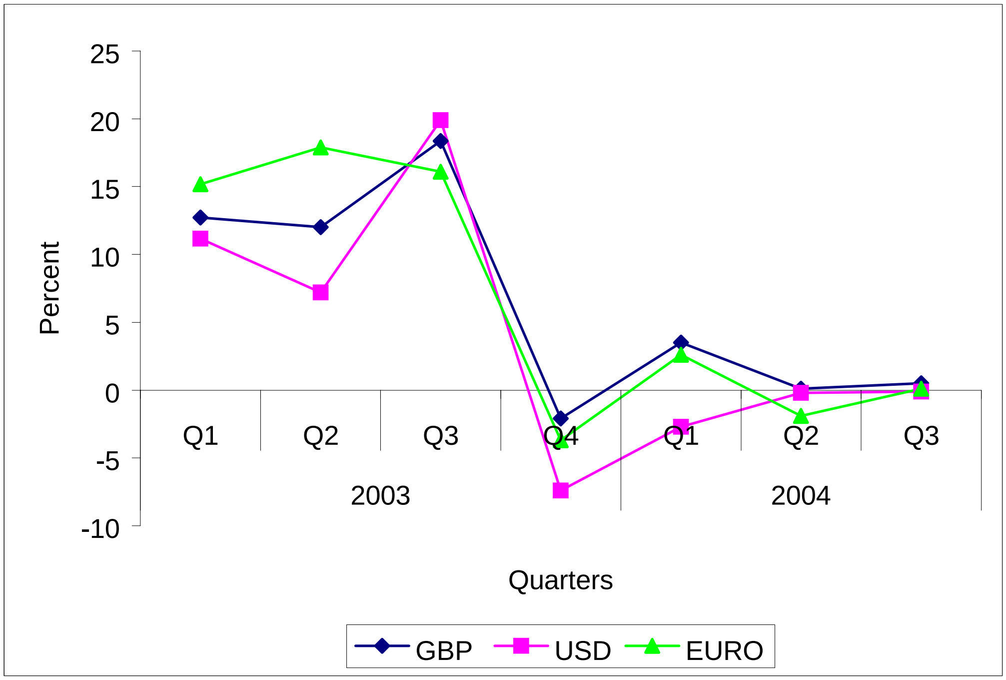


(8.3) Exchange Rate Movements

The Dalasi depreciated against the Pound and Swedish kroner, but appreciated against the Dollar, Euro and CFA franc. The Dalasi fell against the Pound sterling and Swedish kroner by 2.0 per cent and 6.0 per cent respectively from a year ago. In contrast, the Dalasi appreciated against the US dollar, Euro and the CFA franc by 10.2 per cent, 2.9 per cent and 1.4 per cent respectively. However, compared to end-December 2003, the Dalasi depreciated against all the major currencies except the US dollar. The Dalasi fell against the Pound sterling, Euro, Swedish kroner and the CFA franc by 4.2 per cent, 0.8 per cent, 5.0 per cent and

22.5 per cent respectively, but rose by 3.0 per cent against the US dollar reflecting in large part the weakening of the Dollar in the international foreign currency markets.

Chart 8: Exchange Rates



(9.0) Tourism

The number of air chartered visitors declined to 11222, or 16.9 per cent from the previous quarter reflecting in the main the downward seasonal pattern in arrivals in the third quarter. Compared to the corresponding quarter of the previous year, air chartered arrivals increased by 30 per cent. The discernible rebound in tourist arrivals is attributed to the massive campaign and promotion embarked on by the Gambian authorities and the on-going upgrading and improvement of the tourism infrastructure.

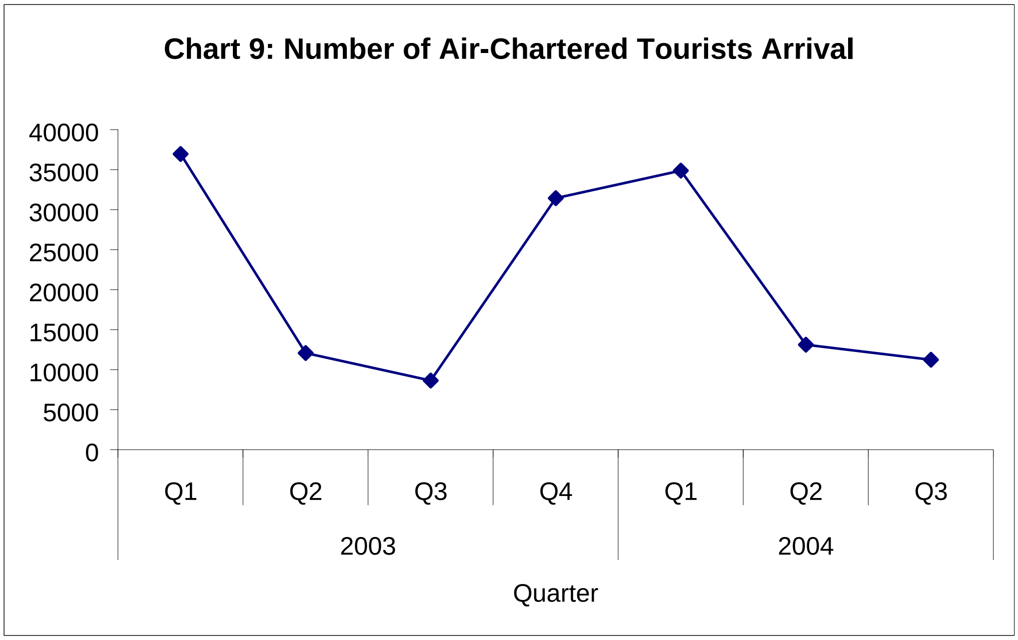


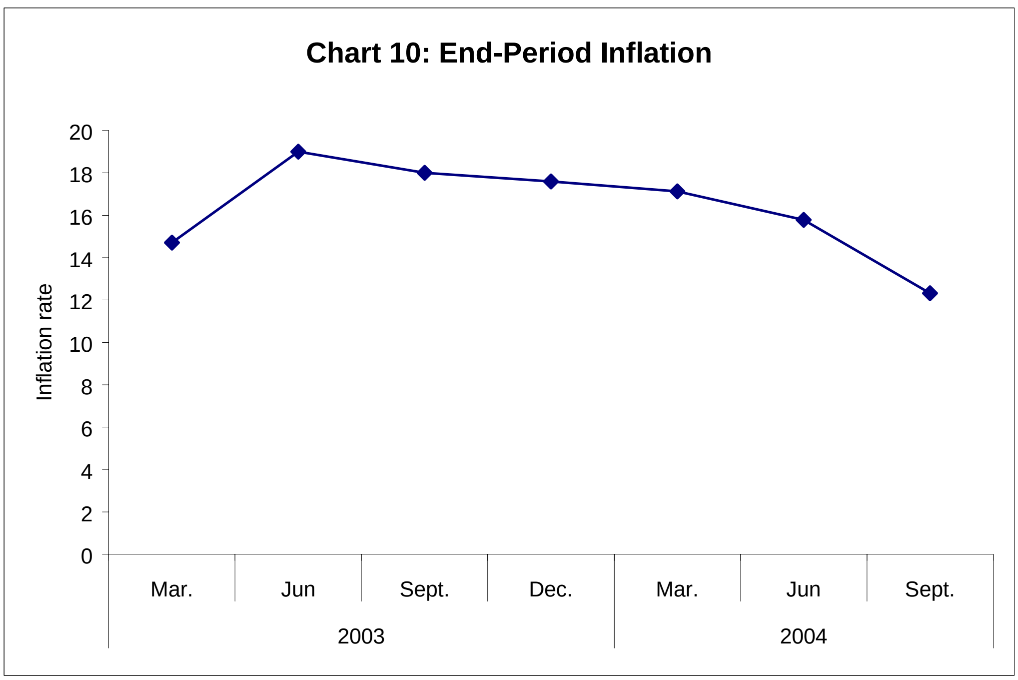
Table 7: Income From Air-Chartered Tourists

	2003 QTR. 3	2003 QTR. 4	2004 QTR1	2004 QTR2	2004 QTR3
Number of Air Chartered visitors	**8635**	**31434**	**34898**	**13124**	**11222**
Average out of pocket expenditure (Dal)	**250**	**250**	250	**250**	**250**
Average length of stay.	**12.9**	**12.9**	12.9	**12.9**	**12.9**
Hotel rate per night.	**17**	**17**	17	**17**	**17**
Departure fee (Dalasi)	**170**	**170**	170	**170**	**170**
Average Exchange rate (dal/Gbp)	**51.1**	**51.8**	53.7	**53.9**	**54**
Total out of pocket expenditure (D'million)	27.8	101.4	112.5	42.3	36.2
Income from departure fees (D'million)	1.5	5.3	5.9	2.2	1.91
Income from Hotel beds.	96.8	357.1	411.0	155.1	132.9
Income from Air Chartered tourists (D'million)	126.1	463.8	529.5	199.7	171.0

Total income from out-of-pocket expenditure fell to D36.2 million, or 14.4 per cent from the second quarter but rose by 30.2 per cent year-on-year. Income from departure fees and hotel beds declined by 13.6 per cent and 14.3 per cent from the last quarter but increased by 26.7 per cent and 37.3 per cent respectively from year ago. Consequently, income from air chartered tourists declined by 14.4 per cent from the previous quarter but rose by 35.7 per cent year-on-year to D171.0 million.

(10.0) Consumer Price Index (CPI)

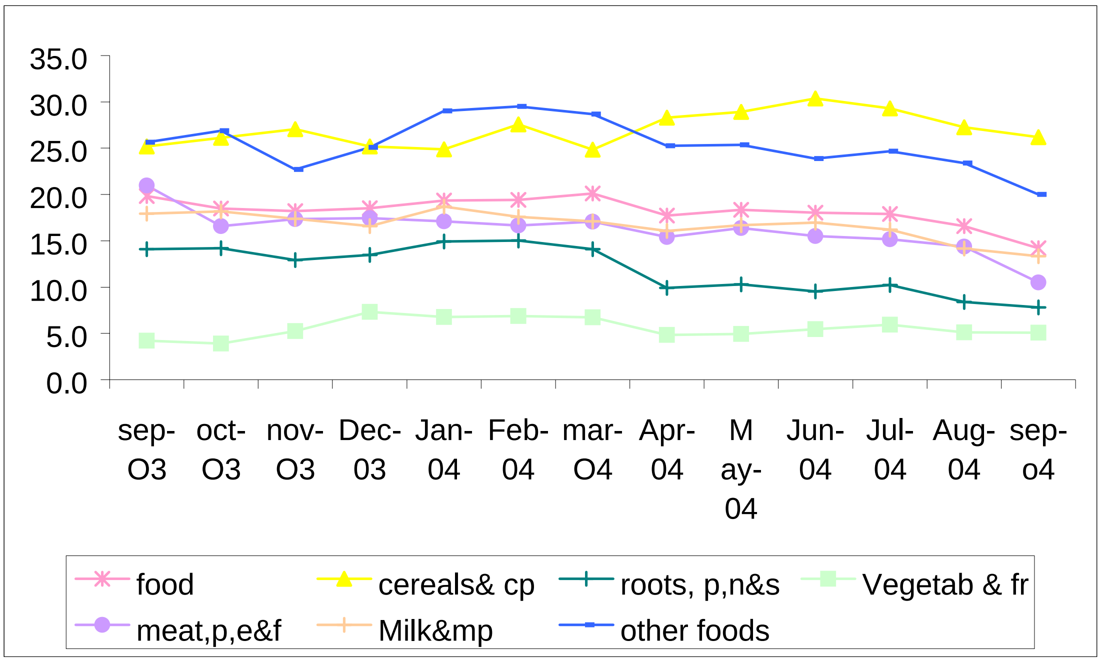
End-period inflation, as measured by the consumer price index of low-income population of Banjul and Kombo St Mary area, declined from 17.9 per cent in September 2003 to 12.3 per cent at end-September 2004. Average inflation rate at end-September (12 month moving average) was 16.2 per cent.



Food consumer price inflation declined to 14.2 per cent in September 2004 compared to 19.8 per cent in September of the previous year owing mainly to the deceleration in the prices of ‘‘meat, poultry, eggs and fish’’, ‘‘ roots, pulses, nuts and seeds”, “milk and milk products” and “other foods” to 10.5 per cent, 7.8 per cent, 13.3 per cent and 20.0 per cent compared to 21.0 per cent, 14.1 per cent, 17.9 per cent and 25.6 per cent respectively in the previous year.

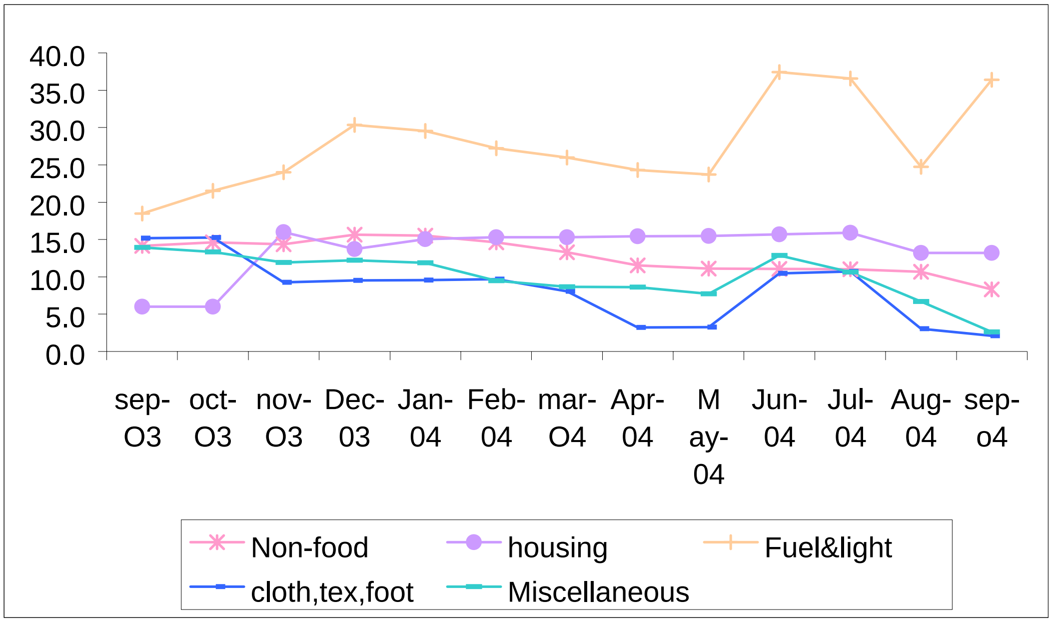
Prices of “cereals and cereal products” and “vegetables and fruits” increased to 26.2 percent and 5.1 per cent at end-September 2004 compared to 25.2 percent and 4.2 percent respectively in September of the previous year.

Chart 11: Food Inflation September-03 to Sepmber-04



Non-food consumer price inflation decreased from 14.2 per cent at end-September 2003 to 8.3 per cent in September 2004 as a result of the decline in the prices of “clothing, textiles and footwear” and “miscellaneous” items to 2.1 per cent and 2.6 per cent compared to 15.2 per cent and 13.9 per cent respectively in September 2003. On the other hand, the prices of “housing” and “fuel and light” increased from 6.0 per cent and 18.5 per cent in September 2003 to 13.2 per cent and 36.4 per cent respectively in September 2004.

Chart 12: Non-Food Inflation



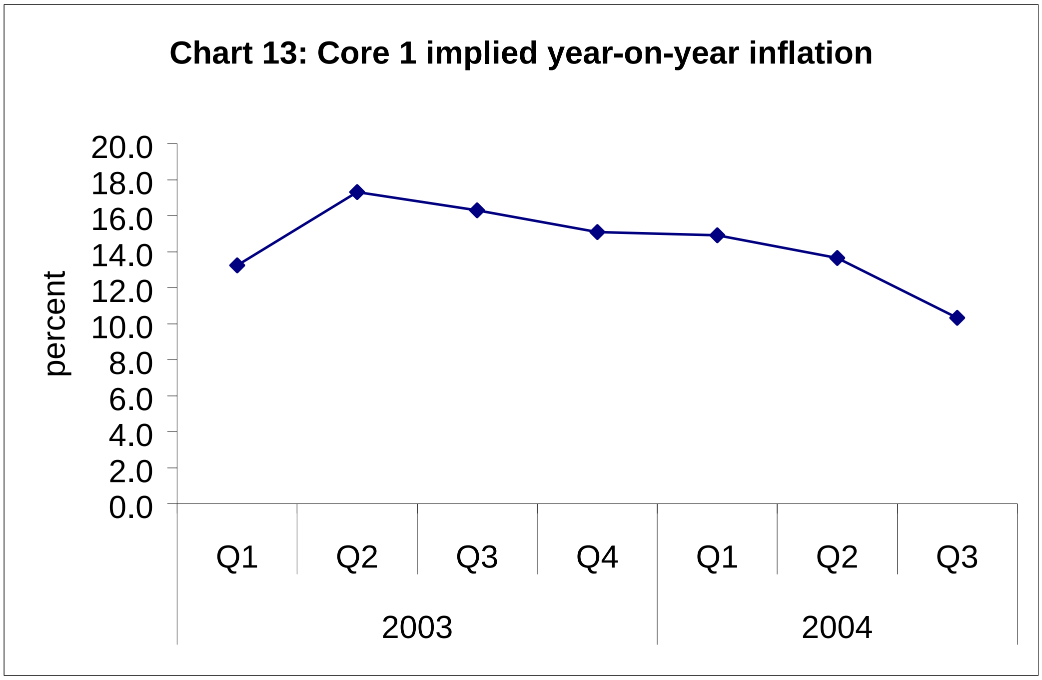
(10.1) Core Measures of Inflation

The measures of core inflation attempt to strip out the effects of temporary disturbances (noise) from the headline inflation in order to uncover the underlying rate of inflation.

The first measure of core inflation, which strips out prices of energy (fuel, light and transportation), showed inflation declining from 16.3 per cent in September 2003 to 10.3 per cent in September 2004.

Table 7: Core1 (excluding energy and transportation)

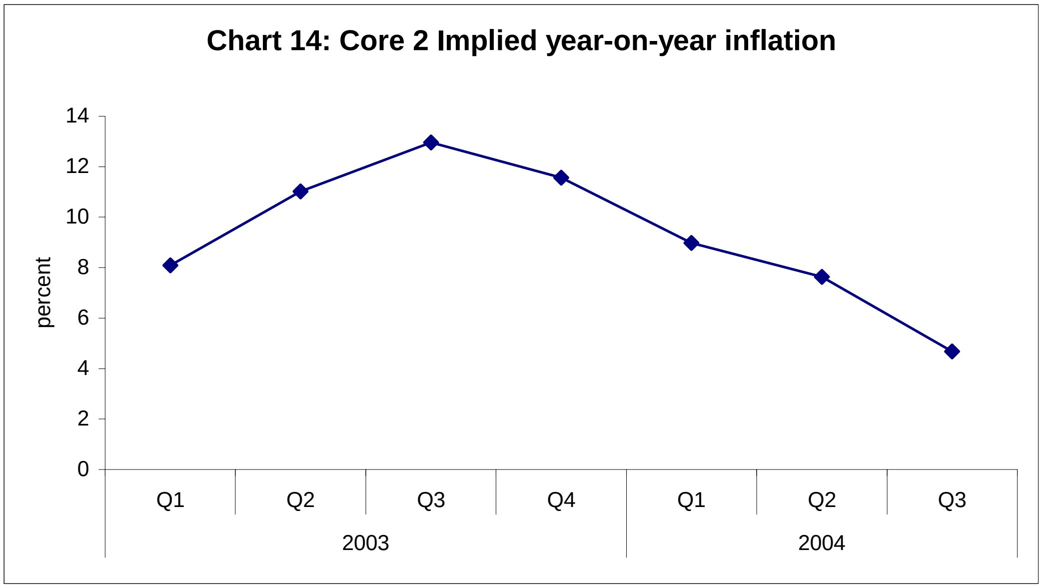
	2003				2004		
	Mar	Jun	Sept	Dec	Mar	Jun	Sept
Estimated Core CPI	1891.2	1960.0	2043.3	2116.5	2173.2	2227.6	2254.3
Yr-on-yr inflation rate	13.3	17.3	16.3	15.1	14.9	13.7	10.3



The second measure of core inflation, which excludes prices of energy and volatile food items indicates that inflation declined from 13.0 per cent in September 2003 to 4.7 per cent in September 2004.

Table 8: Core 2 (excluding energy, transportation and volatile food items)

	2003				2004		
	Mar	Jun	Sept	Dec	Mar	Jun	Sept
Estimated Core CPI	979.7	1007.4	1043.2	1072.2	1067.7	1084.2	1092.0
Yr-on-yr inflation rate	8.1	11.0	13.0	11.7	9.0	7.6	4.7

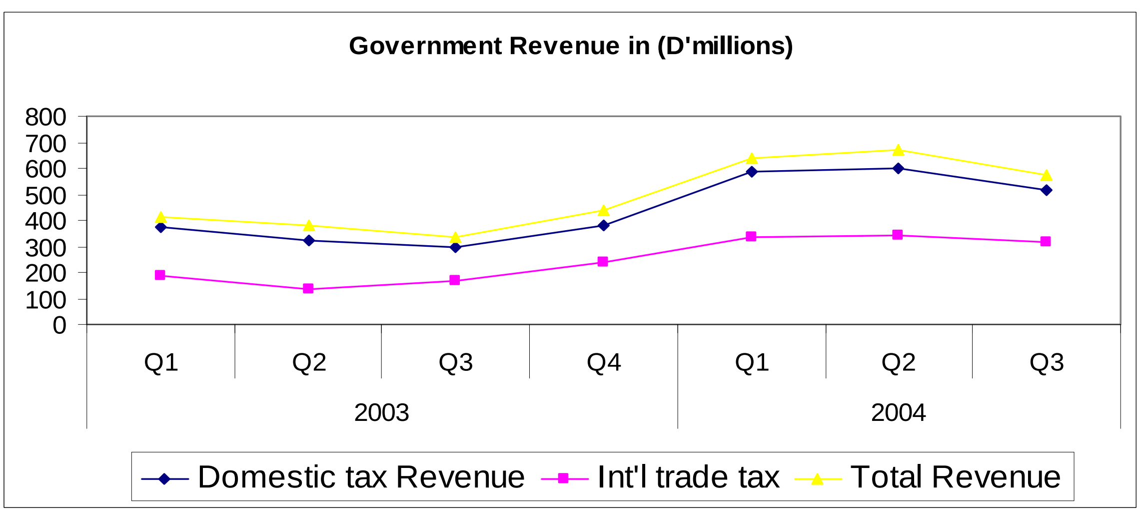


(11.0) Fiscal Development

(11.1) Revenue and Grants

Revenue and grants decreased to D665.7 million, or 19.9 per cent from the previous quarter. Compared to a year ago, revenue and grants increased by 67.2 per cent.

Chart 15: Revenue



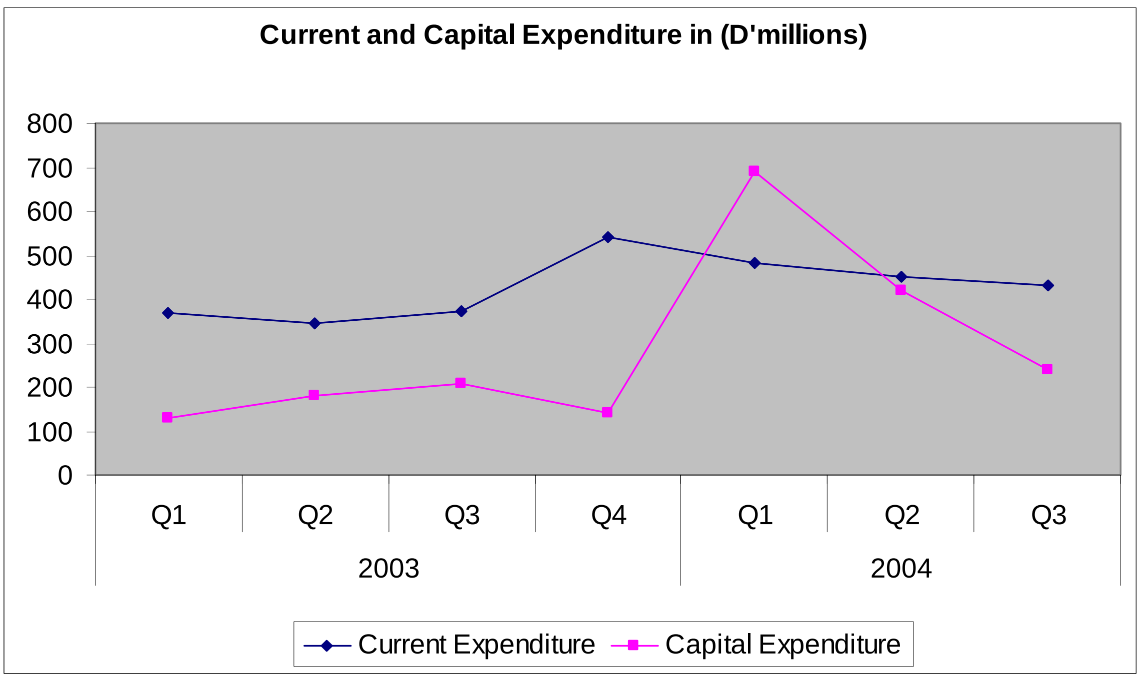
Revenue from direct and indirect taxes declined by 28.5 per cent and 8.2 per cent respectively from the last quarter. However, tax revenue (direct and indirect taxes) increased by 72.7 per cent year-on-year.

Non-tax Revenue, which comprised Government service charges, interest and property, and contribution to pension fund, also declined by 19.5 per cent from the second quarter to D58.0 million, but increased by 50.3 per cent from a year ago.

(11.2) Expenditure and Net Lending

Expenditure and net lending decreased to D651.1 million, or 27.5 per cent from the preceding quarter. Compared to the corresponding period last year, expenditure and net lending rose by 11.9 per cent.

Chart 16: Expenditure



Current expenditure accounting for 68.2 per cent of total expenditure and net lending decreased by 15.2 per cent to D444.2 million. This was mainly attributed to the decline in other charges, interest payments and HIPC related expenditure by 12.8 per cent, 37.0 per cent and 35.7 per cent respectively. Development expenditure also decreased to D208.3 million, or 45.7 per cent over the last quarter.

The overall fiscal deficit, including grants (cash basis) amounted to D100.5 million compared to D17.8 million in the preceding quarter. The deficit was financed externally (6.5 million) and from domestic sources D94.1 million.

PART II

Developments in the International Economy

1. Economic Activity

Economic growth is expected to pick up in the world's largest economies in the third quarter after a slowdown in the second quarter. Global economic growth in 2004 is projected at 5.0 per cent, its highest level in nearly 30 years. The expansion is underpinned by continued accommodative macroeconomic policies, rising corporate profitability, and wealth effects from rising equity and house prices. Although, the recovery has become increasingly broad-based geographically, some regions continue to grow more vigorously than others. In addition, the information technology (IT) revolution, along with China's emergence, presents an opportunity for sustained higher global productivity growth.

Growth in 2004 continues to be driven by the United States, with strong support from China and Japan. Economic activity in Latin America and some other emerging market economies has also picked up strongly, while the outlook for Africa has improved. The euro area is experiencing a growing economic momentum, although the strength of the upturn varies across countries and in some cases, is heavily dependent on external demand.

However, the risks to the recovery have increased in recent months. First, oil prices rose sharply through mid- September, driven by strong global demand and increasingly supply-side constraints. Considering that prices are still higher than in 2003, and with spare capacity near historical lows, the oil market remains highly vulnerable to shocks and speculative attack. Other threats included high public deficits and the relative lack of job creation during the recovery.

2. Interest Rates

With the growth in the world economy expected to remain solid, global interest rates will have to put a damper on inflationary pressures. In China where monetary conditions have already been tightened, more may be needed to prevent overheating. In contrast, in Japan, where despite stronger growth and easing deflationary pressures, monetary policy should remain accommodative until deflation and deflationary expectations turn around decisively.

The European Central Bank (ECB) is expected to leave interest rates unchanged at 2 per cent until a self-sustaining pickup in domestic demand is clearly underway. The decision almost certainly reflected a view that while the eurozone recovery is gradually gaining momentum, longer-term price pressures are under check.

In a similar move, the Bank of England's nine-member Monetary Policy Committee voted unanimously earlier this month to leave its official interest rates unchanged at 4.75 percent. Given signs of a cooling housing market, there is a chance of a more abrupt correction to house price inflation and the potential for an associated downward impact on consumption. The MPC has raised rates five times since last November from a low of 3.5 percent. British interest rates are now more than double the level of those in the US and the eurozone.

The US Federal Reserve raised its key interest rates target by a quarter point on September 20, for the third time since June. The federal funds rate is now at 1.75 per cent and the Federal Open Market Committee (FOMC) perceives the downside and upside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal. The federal funds rate is seen as too low to be consistent with stable inflation over time.

3. Consumer Prices

Inflationary risks remain generally moderate. Nevertheless, after falling to unusually low levels in mid-2003, inflation has turned up around the world, reflecting a combination of strong growth and higher commodity prices. Looking forward, inflationary pressures could prove stronger than expected, necessitating a sharper-than expected rise in interest rates. Monetary policy in many countries remains appropriately accommodative but the policy challenge will be to continue to manage the transition toward higher interest rates while facilitating sustained economic recovery and orderly adjustment in financial markets.

Higher oil prices had led to higher headline inflation but underlying inflation had not followed suit. In the US, inflation rose at a rate of 3.3 per cent at the end of the second quarter. However, stripping out food and energy prices, it only increased at a rate of 1.8 per cent, a slowdown from the 2.1 per cent in the first quarter.

Growth in Chinese consumer prices appears to have leveled out after rising sharply in the first half of 2004, suggesting an easing of inflationary pressures on the economy. Consumer price inflation is projected at 4.0 per cent, up from 1.2 per cent in 2003. The inflation data, accompanied by statistics showing a sustained fall in money supply growth and strong demand for exports is an indication that Government’s efforts to cool the overheated sectors are making an impact.

Eurozone inflation remained at an annual rate of 2.3 per cent, despite higher oil prices, reinforcing expectations the ECB will hold interest rates steady at 2 per cent for some time to come. The lower-than-expected inflation gives the ECB more leeway to avoid a rate rise and to help the eurozone’s still hesitant economic recovery. The oil price effects were offset by an easing of other price pressures such as food and other products in French and German supermarkets.

Consumer price inflation in Germany rose by 2.0 per cent in August, up from 1.8 per cent in July. But wage growth slowed to 1.4 per cent from 1.8 per cent in the previous quarter. Producer price inflation in Spain edged up to a 12-month rate of 4.1 per cent in July. In France, inflation is expected to fall to 1.8 per cent next year after 2.2 per cent this year on the assumption of a very gradual decline in oil prices to $36.5 a barrel, compared with current prices of more than $52.

In the UK, data on the housing market suggest price growth continues to slow but this has been offset to some degree by official figures on retail spending showing a stronger than expected sales growth in August.

Japan’s third quarter got off to a weak start with stagnant industrial production, rising unemployment and persistent deflation. Unemployment rose from 4.6 per cent in June to 4.8 per cent in July, when deflation also worsened.

Table: 3 Consumer Prices (annual percent change unless otherwise noted)

	2002	**2003**	**2004**	**2005**
Advance economies	**1.5**	**1.8**	**2.1**	**2.1**
United States	1.6	2.3	3.0	3.0
Euro area	2.3	2.1	2.1	1.9
Germany	1.3	1.0	1.8	1.3
France	1.9	2.2	2.4	2.1
Japan	-0.9	-0.2	-0.2	-0.1
United Kingdom	1.3	1.4	1.6	1.9

Table: 4 Consumer Prices (annual percent change unless otherwise noted)

	2002	**2003**	**2004**	**2005**
Africa	**9.7**	**10.3**	**8.4**	**8.1**
Cote D’Ivoire	3.1	3.3	1.5	2.0
Gambia, The	8.6	17.0	12.3	6.2
Ghana	14.8	26.7	10.8	6.0
Guinea	3.0	12.9	16.6	13.8
Guinea Bissau	3.3	3.0	3.0	3.0

4. Commodity Prices

Owing to the robust increase in commodity prices in the last quarter of 2003, the index of overall primary commodity prices increased by about 27 per cent in both US dollar and SDR terms during the first eight months of 2004. The increase is attributable to the marked increase in energy, raw materials and metal prices reflecting a surge in global demand, particularly in Asia.

(a) Crude Oil

Developments in the oil market during 2004 were characterized by the rise in crude oil prices to record nominal highs, and higher price volatility. Average oil prices have risen substantially during the first ten months of 2004 surpassing the record set during the Iraqi invasion of Kuwait in 1990. While the decision by OPEC in July to increase official quotas by 2 million barrels a day (mbd) and a further 0.5 mbd in August helped to lower average prices, prices rose markedly to about US$33 by mid-June. Subsequent tensions in oil exporting countries – particularly Iraq, Nigeria, Russia and Venezuela- pushed average prices to a new record high of US$51 on October 4, 2004.

Looking ahead, futures prices indicate that oil prices will remain high for the rest of 2004 and 2005 since both the level and growth in the global demand for oil have consistently outpaced expectations.

(b) Non-energy Commodity Prices

Following the increase in non-fuel commodity prices in 2003, non-energy commodity prices experienced relatively modest gains during the first ten months of 2004. This follows attempts by China (a large consumer of non-energy commodities) to slow the pace of its economic expansion, and moves by the Federal Reserve to raise US interest rates.

Rice prices, after a lackluster performance in 2003, increased by 28 per cent as a disappointing harvest in China resulted to large importation. Relatively low global stocks have also supported prices.

Maize prices continued their ascent from 2003, recording an increase of 10 per cent during the first half of 2004. However, favourable harvests in the United States caused prices to dip by 7 per cent by end-August. Cotton prices declined considerably, falling by 27 per cent on expectations of record harvest from the United States and China. Beverage prices increased by 5 per cent by end-August. Coffee prices rose by 8 per cent, reaching a three-year high on speculation that adverse weather conditions in Brazil would reduce output. Agricultural raw materials prices rose by 9 per cent, buoyed by growth in softwood lumber prices.