Minutes of the Monetary Policy Committee

(MPC)/05/05) Meeting

October 26-27, 2005

The fifth meeting of the Monetary Policy Committee (MPC) in 2005 was held in the Conference Room of the Bank on October 26-27, 2005.

Present were:

Famara .L. Jatta	-	Governor	-	Chairman
Momodou .B. Saho	-	General Manager	-	Member
Ousman Sowe	-	Director, FSD	-	Member
Basiru Njai	-	Director, ERD	-	Member
Amadou Colley	-	Deputy Director, BSD	-	Member
Mod Secka	-	Director, DoSFEA	-	Member
Buah Saidy	-	Deputy Director, ERD	-	Secretary

In attendance were:

Oumie Savage-Samba	Director	FISD
Omar Jatta	Deputy Director	FED
Bai M. Senghore	Deputy Director	MFD
Essa Drammeh	Deputy Director	FSD
Ousainou Corr	Deputy Director	FISD
Martin Brownbridge	Adviser	DoSFEA
Paul Mendy	Principal Bank Examiner	FSD
Abdoulie Jallow	Principal Bank Examiner	FSD
E.A.C. Ndong	Principal Officer,	FD
Bakary Kolley	Senior Economist	ERD
Abdoulie T B Jarra	Senior Economist	ERD
Ismaila Jarju	Senior Economist	ERD
Ebrima Wadda	Senior Economist	ERD
Bakary Jammeh	Senior Economist	ERD
Momodou Njie	Senior Bank Examiner	FSD
Jainaba Saidy	Senior Bank Examiner	FSD
Karamo Jawara	Senior Banking Officer	BSD
Lamin Bojang	Officer	FD

Opening Remarks

Before declaring the meeting open, the Chairman requested members to observe a minute silence in honour of the two senior Trust Bank executives who died in a plane crash in Nigeria.

Introduction

Before turning to its immediate policy decision and against the background of the forward looking business sentiment survey and the latest output and inflation projections, the Committee discussed the balance of payments, fiscal, money market, monetary, banking sector and international developments.

(1.0) Developments in the International Economy

The information reviewed suggested that global GDP grew strongly in the first quarter of 2005 led by robust expansion in the services sector, which more than offset the slowdown in global manufacturing output and trade. However, due to high oil prices and havocs unleashed by hurricanes Katrina and Rita, economic activity in major industrial countries is expected to slowdown. Notwithstanding, global growth is projected to slightly exceed 4.0 per cent in 2005 thanks to strong growth in China and other newly industrialized Asian economies.

In China, GDP grew by 9.5 per cent in Q2, 2005 underpinned by significant growth in industrial production. China’s trade surplus totaled US $93.1 billion in August 2005 with foreign reserves, excluding gold estimated at US $711.0 million.

In the US, GDP growth eased moderately but is expected to remain the highest in the G-7 underpinned by solid productivity growth, high employment and disposable incomes and greater housing wealth which help boost household demand. The US current account deficit is projected to rise to over 6.0 per cent of GDP in 2005, driven by higher oil prices and strong domestic demand.

The UK economy grew at an annual rate of 1.5 per cent in Q2, 2005, its weakest since 1993. In the 3 months to June 2005, GDP grew by 0.5 per cent from Q1, 2005 and consumer spending rose by only 0.4 per cent.

In the Euro area, growth remains disappointingly low reflecting weak final domestic demand and pervasive structural rigidities. With the expansion expected to gain momentum in the second half of 2005, Euro area GDP is projected at 1.2 per cent in 2005, rising to 1.8 per cent in 2006. Domestic demand was strong in Spain and France, but net exports was negative. In Germany, the Euro areas largest economy, domestic demand has been relatively weaker although the economy benefited from strong net exports. The Euro area's current account deficit narrowed to US $10.3 billion in the 12 months to July 2005 while the aggregate fiscal deficit is projected to rise to 3.0 per cent of GDP.

Growth in GDP in Japan gained traction rising sharply in the first half of 2005. Recent data point to continued expansion in the remainder of 2005 underpinned by recovery in both consumption and business investment, strengthening labour market, high corporate profitability and abating deflationary pressures.

After a strong rebound in 2004, GDP growth in Latin America slowed, particularly in Brazil, where domestic demand declined in early 2005 in response to monetary tightening and political uncertainties. In the Middle East, revenue from oil exports continued to boost growth supported by improvements in external current account and fiscal positions. GDP growth in Sub-saharan Africa has been revised downwards to 4.8 per cent from 5.4 per cent in 2004 reflecting sharp slowdown in Nigeria as oil production nears capacity.

Global inflation picked up in response to higher oil prices but remains subdued. Core inflation appears generally contained in industrial countries and inflationary expectations are well anchored. In emerging markets and developing countries, inflationary pressures accelerated at a stronger pace prompting the IMF to revise upwards inflation forecast for these regions in the remainder of 2005.

Oil prices exceeded US $70.0 in September 2005 before decreasing slightly. Prices appear to be driven by expectations that the oil market would be tight in the future. Non-oil commodity prices rose by 5.0 per cent in US dollar terms and 9.0 per cent in SDR terms during the first 8 months of 2005 driven in the main by strong Chinese demand.

In the ensuing discussions, the Committee agreed that the rapid expansion experienced in 2004 will not be repeated in 2005, but growth will nonetheless remain strong. It was also observed that although Hurricane Katrina would have significant effects on the US economy in 2005, growth should pick-up in 2006 owing to spending on reconstruction efforts.

Commenting on global inflation prospects, the Committee noted that the surge in oil prices, in particular, has only impacted overall inflation but feared that some of the increase may probably pass through into core prices.

On the nomination of Ben Bernanke to head the Federal Reserve after Alan Greenspan retires, Committee members expect no fundamental change in monetary policy strategy. In point of fact, Mr Bernanke has categorically pointed out he would ensure continuity with the policies and policy strategies of Mr Greenspan. The view was, however, expressed that Mr Bernanke's assertion that the world is awashed with savings does not hold water. Surely, China, Japan and many newly industrialized countries, particularly in Asia have accumulated huge domestic savings, but by the same token many countries including the US have low saving rates. A better characterization should be that the world is awashed with liquidity thanks to accommodative, albeit tightening monetary policies.

(2.0) Balance of Payments (BOP) Developments

Revised BOP estimates indicate that the overall balance is expected to be much higher than earlier projected, reflecting in the main, better-than-expected increase in private capital flows and workers' remittances. The overall balance is projected at a surplus of

D320.9 million (US $11.2 million) in 2005 compared to the earlier estimate of D27.3 million (US $0.9 million). Gross official reserves is estimated at US $93.7 million, adequate to cover 4.4 months of imports.

The merchandise trade deficit is estimated to total D2.80 billion compared to D2.40 billion in 2004. Aggregate value of exports is projected to decrease to D3.6 billion, or 2.3 per cent from 2004, reflecting lower exports of groundnuts. Groundnut exports are estimated at D325.6 million, lower than the D507.4 million in 2004.

Total value of imports is projected at D6.3 billion, higher than D6.2 billion in 2004. About 70.4 per cent of imports is classified as imports for domestic consumption of which 25.9 per cent (D1.16 billion) represent oil and oil related imports.

The current account deficit, excluding official transfers is projected at D2.55 billion, an improvement over the D2.60 billion in 2004. Including official transfers, the current account deficit is estimated to widen to D1.72 billion, or 21.9 per cent from 2004.

The capital account is estimated at a surplus of D2.05 billion, slightly higher than D2.04 billion in 2004. The projected decrease in official loans (net) from D746.4 million in 2004 to D489.2 million in 2005 is offset by the estimated increase in private capital inflows of D1.56 billion, or 20.0 per cent from 2004.

The Committee observed that since the current account deficit reflects the savings investment gap, the deficit could be pruned down to a sustainable level by either increasing domestic savings or curtailing investment. Reining in the budget deficit should boost public savings in particular and domestic savings in general. The narrowing of the deficit in 2006 is predicated on a decrease in the budget deficit to 4.5 per cent of GDP from 6.5 per cent of GDP in 2005.

Private remittances are estimated to constitute the second largest source of foreign exchange after FDI. Flows of remittances have grown steadily over the years reflecting principally the increase in the number of Gambians living and working abroad. On the question of the huge jump in remittances, it was noted that this was as a result of improved data collection.

The Committee also discussed extensively developments in the groundnut sector and arrangements in place for the up-coming groundnut buying season. The Committee was of the view that the main problem besetting the sector is not one of inadequate finance *per se,* but rather poor marketing arrangements and therefore urged the Authorities to establish a holistic and efficient marketing networking that would substantially curtail credit buying to the minimum as well as ensuring speedy evacuation of the nuts to the processing centres.

(3.0) Foreign Exchange Developments

Reflecting strong economic fundamentals, increased foreign inflows and tight, but easing monetary conditions, the Dalasi appreciated against the Pound Sterling and Euro by 7.13 per cent and 5.52 per cent respectively, but was unchanged against the US dollar in the third quarter relative to the second quarter. In the year to the third quarter, the Dalasi strengthened by 7.1 per cent, 6.1 per cent and 5.2 per cent against the Pound Sterling, US dollar and Euro respectively.

Members noted that volume of transactions in the inter-bank foreign exchange market declined in the third quarter compared to the second quarter attributed in part to seasonally factors, but mainly to the border closure by the Senegalese Authorities which interrupted the re-export trade.

The Committee observed that it is imperative to be vigilant in ensuring that the targets agreed with the Fund under the Staff Monitored Programme (SMP) are met given that there are no waivers under the SMP. Net usable reserves was above end-September target by some D26.7, while the net domestic assets of the Central Bank amounting to D192.1 million was below the target (ceiling) by D120.1 million.

(4.0) Fiscal Developments

Sound and sustainable fiscal policy promotes economic growth. Sustainable fiscal balance obviates the need to create money to finance public spending, resulting in low inflation which, in turn, spurs economic growth. Low fiscal deficits also encourage the mobilization of savings for higher levels of investment, leading to higher economic growth.

For the year (2005) as a whole, total revenue and grants is projected to decrease to D2.8 billion, or 5.7 per cent from 2004 owing primarily to the decrease in grants (D181.1 million less than the budgeted amount). Domestic revenue is projected to increase to D2.6 billion, or 6.5 per cent from 2004, but D170.8 million lower than the budgeted figure.

Tax revenue is projected to increase to D2.3 billion, or 3.2 per cent from the previous year. Direct taxes, accounting for 29.0 per cent of tax revenue, is expected to increase to D672.6 million, or 10.9 per cent.

Indirect taxes, constituting 71.0 per cent of total tax receipts, is projected to increase slightly to D1.7 billion, or 1.3 per cent mainly due to lower-than-envisaged tax receipts on international trade. Revenue from international trade, constituting 75.0 per cent of indirect taxes, is projected to decrease markedly to D1.2 billion, or 7.0 per cent from 2004.

Total expenditure and net lending is expected to increase to D3.67 billion, or 3.2 per cent from 2004, but will stay within its budgeted amount of D3.68 billion, on account of reduced capital spending. As a percentage of GDP, total expenditure and net lending will correspondingly decline to 27.4 per cent from 28.7 per cent in 2004. Development expenditure is projected to decrease to D1.18 billion, or 25.1 per cent from 2004 as a result of externally funded projects.

Current expenditure, accounting for 70.5 per cent of total expenditure and net lending, is projected at D2.4 billion against D2.0 billion in 2004, an increase of 19.6 per cent. Total interest payments on domestic and external debt is projected at D1.14 billion, accounting for the lion's share of current expenditure (47.5 per cent) compared to 42.5 per cent in 2004.

The basic primary or non-interest balance is projected at a surplus of D1.18 billion (8.8 per cent of GDP) compared to D1.34 billion (10.8 per cent of GDP) in 2004.

The overall budget deficit (commitment basis) excluding grants and with HIPC assistance should contract slightly to D1.01 billion (7.5 per cent of GDP) compared to a deficit of D1.06 billion (8.6 per cent of GDP) in 2004. Including grants, however, the budget deficit is projected to worsen to D797.2 million against D506.7 million in 2004. Adjusted to cash basis, the overall deficit including grants is projected at D901.7 million compared to D164.3 million in 2004.

The budget deficit on cash basis will be financed from external sources (D445.9 million) and domestic borrowing of D460.6 million. Domestic non-bank borrowing is projected at D220.6 million, down 65.5 per cent from 2004. Borrowing from the domestic banking sector is estimated at D235.2 million against repayments totaling D1.0 billion in 2004.

The Committee observed that the decline in oil taxes has been reversed thanks to the increase in the pump price of petroleum. Also, domestic borrowing is expected to decrease in the fourth quarter because of reduced interest payments and possible increase in revenue collection by Customs and Excise Department. The Committee, however, lamented the discernible increase in quasi fiscal operations and the granting of massive tax incentives, particularly to companies whose activities are not adding value to the economy. It was also the judgment of the Committee that the fiscal authorities must implement a more supportive fiscal stance in 2006 to help monetary policy and sustain the current benign inflationary environment.

(5.0) Money Market Developments

The total outstanding stock of interest bearing debt as at end-September 2005 rose to D5.2 billion, or 14.0 per cent from end-December 2004 and by 22.0 per cent from a year ago.

The non-bank, including parastatals held the bulk of the interest bearing debt (45.0 per cent) and the banking sector (55.0 per cent). Deposit money banks and the Central Bank of The Gambia held 34.0 per cent and 21.0 per cent of the stock respectively.

At end-September 2005, 1-year bills accounted for 64.0 per cent of the stock, 182-day bills (19.0 per cent) and 91-day bills (17.0 per cent). This picture was somewhat different from what obtained in December 2004 when 364-day bills accounted for 51.0 per cent of the stock, 182-day bills (11.0 per cent) and 91-day bills, (38.0 per cent).

An over-subscription in the Treasury bills market over the inter-meeting period was reported, except in September 2005 when the market was under-subscribed. On whether the decline in interest rates was the cause for the under-subscription, the view was expressed that the reference period is too short to infer a possible cause with certainty. The point was also made that given the marked decline in inflation, real interest rates are quite positive. This coupled with a stable Dalasi has created the incentive to invest in Dalasi denominated assets.

(6.0) Monetary Developments

Growth in money supply accelerated to 20.1 per cent in the year to end-September 2005 compared to 16.1 per cent a year earlier. However, money supply grew by 6.9 per cent from end-December 2004 and was below the end-September target of 7.0 per cent.

Of the components of money supply, narrow money increased to D3.2 billion, or 16.5 per cent while quasi money rose to D2.6 billion, or 24.9 per cent.

Regarding the factors affecting money supply, the net foreign assets (NFA) of the banking system rose to D3.1 billion, or 8.8 per cent. This was mainly on account of the 20.9 per cent increase in the NFA of the Central Bank. Gross official reserves rose to D2.6 billion, or 7.5 per cent while foreign liabilities decreased to D0.6 billion, or 21.0 per cent.

The net domestic assets (NDA) of the banking system also increased to D2.7 billion, or 36.6 per cent. This was on account of 16.5 per cent and 28.4 per cent increase in domestic credit and other items (net) respectively.

Credit to the private sector rose to D1.9 billion, or 30.7 per cent while claims on public entities fell significantly by 36.3 per cent to D204.9 million. The banking system's net claims on Government rose by 9.2 per cent to D1.2 billion, notwithstanding the 42.0 per cent increase in Government deposits.

Reserve money, the Bank's operating target, grew by 24.1 per cent, higher than the growth rate of 17.3 per cent a year earlier. However, reserve money rose by only 6.4 per cent from end-December 2004, lower than the end-September 2005 programmed target of 11.0 per cent.

There were differing interpretations of the data. Some members observed that the year-on-year increase in money supply and credit implied upside risks to the outlook for inflation. Others noted that the Bank is poised to meeting the end-December 2005 money supply growth of 9.4 per cent which should put a damper on inflationary pressures. Besides, the increase in domestic credit reflect to some extent the low base effect given that private sector credit in particular and domestic credit in general contracted in 2004.

The sentiment was also expressed that the burden of stabilizing the economy was shouldered principally by monetary policy and that fiscal policy is not as supportive as in 2004.

(7.0) Financial Stability Report

The banking sector remains fundamentally strong. The average capital adequacy ratio increased from 81.4 per cent in June 2005 to 83.7 per cent in September 2005. The industry's aggregate assets, however, decreased to D6.83 billion, or 3.5 per cent from end-June 2005 reflecting decreased bills purchased and discounted and balances held with foreign banks.

Gross loans and advances increased to D1.81 billion, higher than the D1.77 billion in June 2005 owing to increased lending to agriculture, building and construction, transportation and tourism.

The industry's net income was D69.6 million compared to D56.8 million in the second quarter. Interest income rose to D123.1 million while interest expenses decreased to D68.1 million from end-June 2005. This translated to an improved net income position of D140.2 million relative to D121.3 million in the second quarter of 2005.

The industry's non-performing loans stood at D218.4 million in the third quarter compared to D169.5 million in the second quarter of 2005. The non-performing loans were adequately provisioned.

The Committee noted that the seeming increase in lending to agriculture was as a result of restructuring of a loan granted to a major player in the groundnut industry but expressed the worrisome prospects of concentrating lending to few industries and clientele. The point was also made that agriculture is the linch pin of the Gambian economy and unless it is adequately resourced, its full potential may not be realized.

On the issue of the frequency of default by banks in meeting their reserve requirements, the observation was made that this may be as a result of poor treasury management, particularly given that banks are heavily penalized for non-compliance.

(8.0) Real Sector

Economic indicators point to continued strong growth in 2005, particularly in light of abundant and well distributed rainfall, projected increase in tourist arrivals and continuing impressive growth of the construction sector. The re-export sector is also expected to rebound once the current border impasse with Senegal is resolved. Additionally, the increase in real incomes, reflecting decreased inflationary pressures, coupled with strong growth in private sector credit should fuel consumer spending and business investment.

The Committee agreed with the near term growth prospects, but noted that to register strong and sustained economic growth in the medium to long-term, there is a need to implement comprehensive structural reforms, including ensuring the availability of adequate and affordable electricity supply.

(9.0) Private Sector Business Sentiment Survey

The forward looking business sentiment survey indicates subdued inflationary expectations, consistent with the decrease in inflationary pressures and the forecast benign inflationary environment in the remainder of the year.

On growth prospects, although the majority of panel firms indicated that economic activity was subdued in Q3, 2005 relative to Q2, 2005, firms were quite optimistic about the outlook in Q4, 2005.

Members observed that the sentiments expressed by firms is not surprising given the seasonal growth pattern of the Gambian economy. The point was also made that to smooth the volatility in the growth rate, it is essential to broaden the base of the economy through diversification as well as avoiding stop-go policies.

(10.0) Inflation and the Monetary Condition Index

End-period inflation, measured by the consumer price index (CPI), declined from 14.7 per cent in August 2004 to 1.1 per cent in August 2005. Average inflation rate (12 months moving average) was 5.8 per cent compared to 16.7 per cent a year earlier.

Food consumer price inflation declined to 2.3 per cent compared to 16.8 per cent in August 2004. Similarly, non-food consumer prices decelerated to 6.2 per cent relative to 10.7 per cent a year ago.

Core inflation, which excludes prices of energy and volatile food items fell to 0.7 per cent, lower than the 6.6 per cent in August 2004.

(11.0) Inflation Outlook

Global inflation picked up in response to higher oil prices but remained subdued. Core inflation appears to be generally contained in industrial countries, but there are fears that the general increase in prices may negatively impact core inflation.

Recent data indicate that price and cost pressures in The Gambia remain benign. Headline and core inflation are expected to remain subdue in the remainder of the year owing to the following factors: (i) The exchange rate of the Dalasi is expected to remain stable reflecting in the main increased foreign inflows. This should put imported inflation in check; (ii) Growth in money supply which rose by 6.9 per cent in the 9 months to September 2005 is expected to be within the end-December 2005 target of 9.4 per cent. Reserve money growth is also projected to stay within the target of 14.7 per cent. In the 9 months to end-September, reserve money grew by 6.4 per cent, (iii) Increased agricultural production should contain food inflation.

(10.2) Monetary Condition Index

Central banks use operational and intermediate targets to guide policy. When a central bank makes a change to the monetary instruments with the objective of impacting the final targets, the inflation rate and the growth rate of the economy, the transmission would take place through several channels. Interest rates and exchange rates are the two main channels through which the effect of changes in monetary policy are transmitted to the final targets. Since both interest rates and exchange rates respond to policy changes and both variables have an impact on the final target, it is not sufficient to monitor the two variables individually and independently. Therefore, a more appropriate indicator is the Monetary Condition Index (MCI), a weighted average of the two variables.

The MCI that has been constructed assigns a weight of 1.0 for interest rates and 2.4 for exchange rates, reflecting The Gambia's high exposure to the external sector. The MCI revealed that monetary conditions were tight between January to May 2005 when compared to end-December 2004. However, monetary conditions eased from June 2005 to July 2005, reflecting trend, albeit sharp decrease in real interest rates. The exchange rate was broadly stable throughout the period under review.

(11.0) Against this backdrop and in light of the latest inflation projections, the Monetary Policy Committee (MPC) judged that an immediate easing of policy was appropriate. The rediscount rate, the policy rate, was reduced by 2.0 percentage points to 19.0 per cent. The MPC would continue to monitor the situation and if the outlook changes, the Committee would review its stance.

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1.0 WORLD ECONOMIC OUTLOOK

World Output

Global GDP grew strongly in the first quarter of 2005 underpinned by robust expansion in the services sector, which more than offset the slowdown in global manufacturing output and trade. As a result of higher oil prices and two hurricanes in the United States, indicators point to reduced economic activity in major industrial countries, although global growth is expected to slightly exceed 4.0 percent in 2005.

In the US, GDP growth eased moderately but is expected to remain the highest in the G-7 underpinned by solid productivity growth, high employment and disposable incomes and greater housing wealth which helped boost household demand. Despite the havocs unleashed by hurricanes Katrina and Rita, the direct impact on GDP growth is expected to be moderate. The US current account deficit is projected to rise to over 6.0 percent of GDP in 2005, driven by higher oil prices and strong domestic demand.

According to figures released by the Office for National Statistics (ONS), the UK economy grew at an annual rate of 1.5 percent in the second quarter of 2005, its weakest since 1993. In the three months to June, GDP grew by 0.5 percent from the previous quarter and consumer spending rose by only 0.4 percent. The UK Chancellor of the Exchequer indicated that the economy was unlikely to grow by the initial forecast of 3-3.5 percent as a result of higher oil prices. Meanwhile, UK trade deficit reached $10.0 billion in August 2005 due in part to the significant increase in insurance claims in the aftermath of hurricanes Katrina and Rita.

In the Euro area, growth remains disappointingly low reflecting weak final domestic demand and pervasive structural rigidities. With the expansion expected to gain momentum in the second half of 2005, Euro area GDP is projected at 1.2 percent in

2005, rising to 1.8 percent in 2006. Domestic demand had been strong in Spain and France, but net exports have been negative. In Germany, the Euro area's largest economy, domestic demand has been relatively weaker although the economy benefited from strong net exports.

The Euro area's current account deficit narrowed to $10.3 billion in the 12 months to July while the fiscal deficit is projected to rise to 3.0 percent of GDP. Five countries – France, Germany, Greece, Italy and Portugal are expected to post budget deficits exceeding the 3.0 percent Growth and Stability Pact limit.

Growth in GDP in Japan gained traction rising sharply in the first half of the year. Recent data point to continued expansion in the remainder of the year underpinned by recovery in both consumption and business investment, strengthening labour market, high corporate profitability and abating deflationary pressures. GDP growth was 1.25 percent in the year to the second quarter and overall growth is projected at 2.0 percent in 2005 and 2006, with downside risks coming primarily from external factors. The consumer spending index rose, indicating that households have become more optimistic. However, structural reforms to raise productivity and ensure greater domestic competition and labour market flexibility are needed to sustain economic growth.

In emerging Asia, growth continued to be led by China and India. In China, GDP grew by 9.5 percent in the second quarter underpinned by significant growth in industrial production. China's trade surplus totaled $93.1 billion in August 2005 with foreign reserves (excluding gold) estimated at $711.0 billion. However, high liquidity in the banking system may lead to an increase in the already high levels of credit and investment with the attendant inflationary pressures. Growth in India projected at 7.0 percent in 2005 is supported by the continued boom in the services sector, including information technology (IT) and rising industrial production. In the rest of the region, GDP growth is expected to pick up although much would depend on the rebound in IT and oil prices. In Singapore, GDP grew at an annualised rate of 3.2 percent in the three months to the third quarter and growth is projected at 3-3.5 percent in 2005.

After a strong rebound in 2004, GDP growth in Latin America has slowed, particularly in Brazil, where domestic demand declined in early 2005 in response to monetary tightening and political uncertainties. In Argentina, GDP growth accelerated to 10.1 percent in the year to the second quarter. Strong export growth and improved macroeconomic fundamentals should help sustain the regional expansion.

In the Middle East, revenue from oil exports continued to boost growth supported by improvements in external current account and fiscal positions. The major challenges confronting the region include effective coordination of fiscal and monetary policies to ensure that higher oil revenues translate into non-inflationary growth.

GDP growth in Sub-saharan Africa has been revised downwards to 4.8 percent from 5.4 percent in 2004 reflecting slowdown in Nigeria as oil production nears capacity. GDP growth in non-oil producing countries, though slowing, remains robust as the impact of high oil bills are partly offset by strong non-oil commodity prices. Growth is also supported by improved macroeconomic fundamentals, ongoing structural reforms, political stability in many countries and favourable weather conditions. The recent appreciation of the dollar against the euro, if sustained, should boost the non-oil commodity exports of the CFA zone.

Looking ahead, growth is projected at 5.9 percent in 2006, the strongest pace of expansion in Sub-saharan Africa since the 1970s. However, with oil prices increasing at a faster rate than non-oil commodity prices, the risks to non-oil producing countries remain on the downside.

Inflation

Global inflation picked up in response to higher oil prices but remains subdued. Core inflation appears to be generally contained in industrial economies, inflationary expectations are well-anchored and wage increases moderate, although high oil prices still pose a risk. In emerging markets and developing countries, inflationary pressures accelerated at a stronger pace prompting the IMF to revise upwards the forecast for these regions in 2005. Oil exporting countries with large external surpluses run the risks of overheating while non-oil producing developing countries are impacted by higher oil prices.

In the UK, consumer price inflation (CPI) rose to 2.3 percent in July from 2.0 percent in June thanks to rising transport prices. Headline retail price inflation (RPI) which includes housing costs, was unchanged at 2.9 percent for the second month in July. Surging crude prices were the main drivers of inflation and the Bank of England warned that prices may rise above the Government's 2.0 percent target in coming months.

Consumer prices in the US increased by 0.5 percent in August, moving the year-on-year rate to 3.6 percent. Headline inflation dropped to around 3.0 percent in the first half of the year, reflecting higher prices for oil and other raw materials. Core inflation remained subdued at around 1.7 percent in the first half of the year.

Given sluggish domestic demand, inflationary pressures in the Euro area eased somewhat. While headline inflation remains above 2.0 percent, partly reflecting the impact of rising energy prices, core inflation slowed significantly. Unit labour costs are essentially flat and inflationary expectations remain generally well-anchored. Headline inflation is forecast to decline to 1.8 percent, within the European Central Bank (ECB) target of close to but less than 2.0 percent.

In Japan, core CPI declined by 0.2 percent (year-on-year) in July and the GDP deflator fell by 0.9 percent in the second quarter of the year. The resurgence of deflation is a major concern causing the Bank of Japan to continue to maintain an accommodative monetary stance.

Commodity Prices

Oil prices exceeded $70.0 in September 2005 before decreasing slightly. Prices appear to be driven by expectations that the oil market would be tight in the future. The global economy is projected to grow at a robust pace and supplies are limited. Low spare capacity among oil producers, recent slowdown in non-OPEC production, limited upstream and downstream spare capacity and the recent damage caused by hurricane Katrina to the oil and gas infrastructure in the Gulf of Mexico, which accounts for nearly one-third of US crude oil domestic production, have limited the supply of crude products. Terrorism and insurgent attacks also remain a major risk to oil supplies. Oil prices rose markedly following the hurricane, but eased after the US Government offered to release oil from the Strategic Petroleum Reserves and an offer by Saudi Arabia to boost its daily output by 500,000 barrels per day. However, price differentials between light and heavy grades of oil remain high because of shortage of light crude oil and limited capacity to refine heavier grades of oil. With global demand for oil persistent coupled with limited supply, price projections for 2005/06 have been raised upwards.

Non-oil commodity prices rose by 5.0 percent in US dollar terms (and 9 percent in SDR terms) during the first eight months of 2005 driven, in the main, by strong Chinese demand. The price indices of non-oil commodities are expected to moderate, increasing by an average 9.0 percent in 2005 as supply responds strongly to 2004 prices.

Metal prices rose by 9.0 percent since January as a result of increased demand from the construction and manufacturing sectors in China and the US but are expected to ease in 2006. The prices of iron ore, copper and uranium increased by 50.0 percent, 20.0 percent and 44.0 percent while beverage prices were unchanged.

Agricultural raw material prices fell by 1.0 percent in the first eight months of 2005 as supply outpaced global demand. Cotton prices rose by 5.0 percent owing to strong Chinese demand while prices of rubber increased by 35.0 percent.

Interest Rates

The stance of monetary policy is a mixed bag reflecting different cyclical situations and growth performances. In both China and the US, the current pace of tightening appears appropriate, although rising investment in China would require a more robust increase in interest rates. In the Euro area, monetary policy has been unchanged and if the current recovery falters, the ECB may have to cut interest rates. Japan is currently fighting deflation and as a result the present accommodative stance is appropriate until the economy is back on its natural growth trajectory and deflation dissipates.

The US Federal Reserve raised short-term interest rates by 25 basis points to 3.75 percent to proactively stem inflationary pressures that may rise as a result of higher and more volatile energy prices. In the UK, the Bank of England's rate-setting committee voted unanimously to keep interest rates steady at 4.5 percent reflecting the fact that the UK economy grew at a faster-than-expected rate in the second quarter and inflation and inflationary expectations remain subdued despite increase in oil and non-oil prices.

BALANCE OF PAYMENTS (BOP) DEVELOPMENTS

The revised balance of payments (BOP) estimates indicate that the overall balance will be higher than earlier projected reflecting in the main better-than-expected increase in private capital inflows and workers' remittances. The overall balance of payments position is projected at a surplus of D320.9 million (US$11.2 million) in 2005 compared to the earlier estimate of D27.3 million ($0.9 million). Gross official reserves are estimated at $93.7 million, adequate to cover 4.4 months of imports.

A. Current Account

(i) Merchandise Trade

Aggregate value of exports is estimated to decrease to D3.6 billion, or 2.3 percent relative to the previous year, reflecting lower exports of groundnuts. Groundnut exports are valued at $11.3 million, or a decline of 33.0 percent from 2004, attributed to inadequate marketing arrangements. Other domestic exports, including fish and fish products and horticultural exports are projected to increase to D282.7 million against D269.0 million in 2004. Re-exports are estimated at D2.9 billion (97.4 percent of total exports) compared to D3.0 billion (79.7 percent) in 2004. Re-exports to the sub-region are largely influenced by price competitiveness of the domestic currency.

That value of imports is estimated to increase to D6.3 billion, or 7.4 percent from 2004. About 70.4 percent of the imports is classified as imports for domestic consumption and the balance for re-exports. Food products, manufactured goods, machinery and transport equipment top the list of imports. The value of oil imports is estimated at $40.3 million, compared to $29.5 million and $14.0 million in 2004 and 2003 respectively reflecting the sharp rise in oil prices.

(i) Services and Private Transfers

Tourism and international trade-related services are an important part of The Gambia's BOP profile. The value of travel income is estimated to increase to D2.2 billion, or 29.4 percent over 2004 owing to the projected 9.4 percent increase in tourists arrivals. Reflecting the increase in the external debt stock, net interest payments is estimated at D1.3 billion compared with D1.2 billion in 2004.

Private remittances are estimated to constitute the second largest source of foreign exchange for the Gambian economy after foreign direct investment. Flows of workers' remittances have grown steadily over the years reflecting principally the increase in the number of Gambians living and working abroad. Remittances are projected at D856.3 million compared to D569.9 million and D346.2 million in 2004 and 2003 respectively. Private unrequited transfers should amount to D117.3 million, a slight decline of 0.2 percent over last year.

The current account balance, excluding official transfers is estimated at D2.6 billion, an improvement of 1.8 percent over 2004. Including official transfers, the current account balance is projected to increase to D1.7 billion, or 21.9 percent from 2004.

Medium and long-term capital inflows continued to contribute significantly to the overall surplus in the capital account. Official loans (net) are projected at D489.2 million, reflecting higher inflows from project-related loans estimated at D911.4 million compared to D1177.4 million in 2004. Amortization is estimated at D422.2 million slightly lower than the D431.0 million in 2004. Foreign direct investment (net) is estimated at D1.3 billion, compared to D1.5 billion in 2004. Tourism continues to attract the bulk of the FDI inflows.

Reflecting these developments, the overall balance of payments is estimated at a surplus of D320.9 million, but lower than the D988.3 million in 2004. As a result, gross official reserves are projected to increase by D277.2 million. Repayments to the IMF are estimated D43.8 million while exceptional financing is projected at zero.

MONETARY DEVELOPMENTS

(1.0) Monetary Policy

Monetary policy in 2005 continues to follow a prudent course to ensure sustained deceleration in inflationary pressures, entrench exchange rate stability and support Government's economic policy as enshrined in the 2005 budget. The key macroeconomic targets are to reduce inflation to 4.5 percent, achieve real GDP growth rate of 5.0 percent and build-up gross official reserves to at least 4.7 months of import cover.

(2.0) **Money Supply Growth (End-SEPTEMBER 2004-End-SEPTEMBER 2005**)

Growth in money supply accelerated to 20.1 per cent compared to 16.1 percent a year earlier. However, money supply grew by 6.9 percent when compared to end-December 2004. Both components of money supply increased with quasi money growing at a faster pace.

Narrow money (M1), comprising currency outside banks and demand deposits increased to D3.2 billion, or 16.5 per cent from the pervious year. Currency outside banks and demand deposits rose by 4.6 per cent and 25.3 percent respectively. The ratio of narrow money (M1) to broad money (M2), however, declined from 56.3 per cent at end-September 2004 to 54.6 percent in September 2005. Compared to end-December 2004, currency outside banks contracted by 13.6 percent but demand deposits rose by 15.0 percent

Quasi-money (time and savings deposits) rose to D2.6 billion, or 24.9 percent over the previous year. Savings and time deposits increased by 19.0 percent and 45.8 percent respectively. Correspondingly, the share of quasi-money to broad money rose from 43.7 percent at end-September 2004 to 45.4 percent at end-September 2005. Quasi money rose by 13.6 percent from end-December 2004 with savings and time deposits increasing by 9.9 percent and 25.7 percent respectively.

(2.1) Factors Affecting Money Supply

(a) Net Foreign Assets (NFA)

The net foreign assets (NFA) of the banking system rose to D3.2 billion, or 8.8 per cent from the preceding year. This was mainly on account of increase in the NFA of the

Central Bank by 20.9 percent to D2.0 billion. Gross official reserves rose to D2.6 billion, or 7.5 percent while foreign liabilities decreased to D0.6 billion, or 21.0 percent.

Deposit money banks' foreign assets decreased to D1.1 billion, or 9.4 percent. Their foreign liabilities also fell by 38.3 percent to D37.1 million. Accordingly, deposit money banks' net external position declined to D1.1 billion, or 8.0 percent over the previous year.

The net foreign assets of the banking system decreased slightly to D2.0 billion, or 2.6 percent from end-December 2004. While the NFA of the Central Bank rose by 13.2 percent, that of the Deposit Money Banks contracted by 22.1 percent.

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

The NDA of the banking system rose to D2.7 billion, or 36.6 percent from the previous year. This was on account of 16.5 percent and 28.4 percent increase in domestic credit and other items (net) respectively. Credit to private sector rose to D1.9 billion, or 30.7 percent while claims on public entities fell significantly by 36.3 percent to D204.9 million. The banking system's net claims on Government rose by 9.2 percent to D1.2 billion, notwithstanding the 42.0 percent increase in Government deposits. Central Bank's net claims on Government increased to D1.3 billion, or 28.0 percent.

(3.0) Reserve Money Growth (End- September 2004-End-September 2005)

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 it's 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 year under review, 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 24.1 percent, higher than the growth rate of 17.3 percent in the previous year. However, reserve money rose by only 6.4 percent from end-December 2004, lower than the end-September programmed growth target of 11.0 percent.

The growth in reserve money was on account of the increase in both the NFA and NDA of the Central Bank, which rose by 21.0 percent and 69.6 percent to D2.0 billion and D192.1 million respectively.

The NDA of the Central Bank rose significantly by 70.0 percent to D192.1 million. Central Bank's net claims on Government fell markedly by 170.0 percent despite the 42.0 percent increase in Government deposit. Central Bank's claims on public entities at D136.9 million was unchanged while lending to the private sector increased to D213.3 million, or 0.9 percent.

The growth rate of currency in circulation declined to 6.4 percent from 26.3 percent in the previous year. Deposit money banks reserves by 66.1 percent compared to 0.4 percent a year ago.

MONEY MARKET DEVELOPMENTS

Marketable Interest Bearing Debts

The marketable interest bearing debts as at end-September 2005 comprised:

1. Treasury bills – (constituting 76.1 per cent of the total debt stock)
2. Discount note series – (" 0.0 per cent ")
3. Development Stock – (" 0.21 percent ")

The total outstanding stock of the interest bearing debt as at September 2005 rose to D5.2 billion, or 14.0 per cent from end-December 2004 and by 22.0 percent from a year ago. But It dropped by 1.0 percent from July 2005.

(3.1) Distribution of Treasury Bills by Holder

A disaggregation of Treasury bills holdings as at end-September 2005 shows that the non-bank held the bulk of the stock (56.0 per cent) followed by deposit money banks (42.0 per cent) and the Central Bank (2.0 per cent). At end-June 2005, CBG holdings of Treasury bills accounted for 0.8 per cent of the total, deposit money banks (39.6 per cent) and non-bank (59.6 per cent). However, it is important to note that Social Security and Housing Finance Corporation held 47.0 percent of the total non-bank holdings and 27.0 percent of the total outstanding Treasury bills while the Standard Chartered Bank held 70.0 percent of the total deposit money bank holdings and 29.0 percent of the outstanding stock of Treasury Bills.

(1.1) Distribution of Treasury Bills by maturity

At end-September 2005, 1-year bills accounted for 64.0 per cent of total Treasury bills, 182 – day bills (19.0 per cent) and 91 – day bills (17.02 per cent). In the month ending December 2004, the picture was different. The 364 – day bills accounted for 51.0 per cent of the stock, 182 – day bills (11.0 per cent) and 91 – day bills (38.0 per cent).

(3.3) T-Bills Issues, Maturities & Interest Payments

Data on total maturities (at face value) in comparison with issues (at book value) in the last five quarters showed the issues outstripped maturities in the last two quarters of 2004. They were at par in the first quarter of 2005. Maturities exceeded issues in the second quarter of 2005. Although maturities were much higher in the second quarter of 2005 than in any one-quarter in 2004, interest payments were comparatively lower. This was entirely due to the fall in the Treasury bills discount rate. It is pertinent to note that in the first, second and third quarter of 2005, there were net injections of liquidity of D39.0 million, D101.0 and D16.0 million respectively owing to maturities exceeding issues.

The Yield Curve on Treasury Bills

The yield curve of the Gambia's money market has in the past been generally flat. Between October 2004 and September 2005, the declining trend in the policy rate caused the discount rate on Treasury bills to decrease. The benchmark 91-Day Treasury bills rate gradually fell from 31.0 percent in September 2004 to 30.0 percent in October, 28.0 percent in December 2004, 26.0 percent in February 2005, 22.0 percent in July 2005 and 18.0 percent in August 2005. After the Monetary Policy Committee (MPC) decision to reduce the policy rate by 4.0 percent points to 22 percent, the rate fell to 10.03 in October 18, 2005.

PRIVATE SECTOR BUSINESS SENTIMENT SURVEY

(1.0) Assessment of General Economic and Business Activity in Q3 (July-September 2005) Compared to Q2 (April-June 2005) and Prospects in Q4 (October-December 2005)

(A) Country (Macro) Level

More respondents (22.0 per cent) indicated that economic activity was higher in Q3, 2005 than those who indicated it was lower (8.0 per cent). However, the vast majority (70.0 per cent) reported no change in economic activity.

(B) Company Level

Although the majority of firms (46.0 per cent) indicated no change in business activity in Q3, 2005, 42.0 per cent reported lower activity compared to 12.0 per cent that indicated higher activity

(2.3) Sales

The sales diffusion index is (-62.0 per cent) indicating that the majority of respondents (76.0 per cent) reported lower sales compared to 14.0 per cent that indicated higher sales. However, 76.0 per cent of respondents projected higher sales in Q4, 2005 compared to 24.0 per cent that felt sales will be lower.

(1.1) Current Prices and (2.6 per cent) Expected Inflation

Owing to the declining trend in inflation, 23.0 per cent of the respondents reported that prices were lower in Q3, 2005 compared to 14.0 per cent that indicated higher prices. The vast majority (63.0 per cent), however, indicated that prices were unchanged relative to Q2, 2005. Also, the majority of respondents indicated that prices will be lower in Q4 2005 relative to Q3.

REAL SECTOR

(4.1) Economic Growth

Economic growth is forecast at 5.0 per cent in 2005 compared to 5.9 per cent in 2004. The value-added of all the key sectors: agriculture, industry and services are projected to increase.

(4.1.1) Agriculture

Agricultural output is estimated at 4.7 per cent compared to 14.2 per cent in 2004. Food crops such as sorghum and millet are expected to maintain their positive growth trajectory while groundnut production is projection at over 100,000 metric tonnes. The value- added of groundnuts is projected at 3.0 per cent, other crops (5.0 per cent), livestock (5.0 per cent), forestry (5.0 per cent), and fishing (7.0 per cent).

(1.1.1) Industry

Industrial output is projected at 5.9 per cent, the same as in 2004, premised on robust growth of manufacturing (6.0 per cent), construction and mining (6.0 per cent) and electricity and water (5.0 per cent).

(1.1.2) Services

The services sector is forecast to grow by 5.0 per cent, slightly lower than the 5.8 per cent in 2004. Trade and hotels and restaurants output are estimated at 5.6 per cent and 10.0 percent compared to 7.5 per cent and 20.0 per cent respectively in 2004. The output of public administration is estimated at 3.0 per cent higher than the 1.0 per cent in 2004 while the value-added of transportation and communications, real estate and business services and other services (banking insurance, personal and household services, social and recreational and related services) are forecast to grow by 5.0 per cent, 3.0 per cent, and 3.0 per cent respectively, the same as the actual output in the preceding year.

FOREIGN EXCHANGE DEVELOPMENTS

(1.0) Introduction

Owing to tight but easing monetary conditions and increased inflows from foreign direct investment (FDI) and private remittances, the Dalasi appreciated against all the major currencies, but was unchanged against the U.D Dollar in the Q3, 2005 compared to the Q2, 2005.

(1.0) Volume of Transactions

Volume of transactions, that is, total purchases and sales of foreign currencies in the interbank market declined to D1.32 billion in Q3, 2005, or 26.6 per cent from Q2, 2005.

Central Bank combined purchases and sales totaled D236.4 million in Q3, 2005 compared to D157.9 in Q2, 2005. Purchases amounted to D236.4 million and there were no sales.

The U.S dollar remained the most traded currency in the inter-bank market, with a market share of 60.0 per cent compared to 60.2 per cent in Q2, 2005. The Pound Sterling market share was 15.6 per cent in Q3, 2005, lower than 18.3 per cent in Q2, 2005. The SEK and CFA recorded market shares of 0.3 per cent and 0.5 per cent compared to 0.4 and 1.52 per cent respectively in Q2, 2005. The market share of the Euro increased to 22.7 per cent compared to 18.5 in Q2 2005. Other currencies market share was 1.3 per cent compared to 0.9 per cent in Q2, 2005.

The Dalasi appreciated against the GBP, USD, SEK, CFA and EURO by 7.13 per cent, 6.12 per cent, 8.15 per cent, 7.45 per cent and 5.52 per cent respectively from a year ago. The Dalasi also appreciated against all the major currencies except the U.S dollar relative to Q2, 2005. It strengthened against the Pound Sterling, SEK, CFA and Euro by 1.2 per cent, 4.4 per cent. 8.1 per cent and 0.1 per cent respectively but was unchanged against the US Dollar.

The dalasi is expected to remain stable in the reminder of 2005 underpinned by inflows from tourism, remittances and FDI as well as improved macroeconomic conditions.

FINANCIAL STABILITY REPORT

Introduction

The banking industry has been relatively stable over the September quarter with the major concerns of bank officials being the falling Treasury Bills interest rates as well as the challenge to meet the new capital requirement of D60.0 million by March 2006.

Financial Performance indicators

Capital adequacy Ratio (CAR)

The industry's capital adequacy ratio improved from 81.35 per cent in June 2005 to 83.68 per cent in September 2005. All the banks observed the minimum capital requirement of 8.0 per cent.

Asset Quality

The industry's total non-performing loans for Q3, 2005 totaled D218.39million compared to D169.46millions in the pervious quarter. Thus 12.08 per cent banks' total loans was classified as non-performing in Q3, 2005 compared to 8.6 per cent in Q2, 2005.

Earnings

Although all banks reported higher profits in Q3, 2005 its impact on return on assets ROA was dampened somewhat by a stronger assets based. This caused the ROA ratio to increase slightly by 0.2 percentage points to 1.02 per cent.

FISCAL DEVELOPMENTS

Total revenue and grants was estimated at D3.0 billion (23.6 per cent of GDP), or a slight decrease of 0.3 per cent from 2004. Tax revenue was estimated at D2.4 billion (18.6 per cent of GDP), non-tax revenue at D405.4 million (3.1 per cent of GDP) and grants at D246.2 million, or 1.9 per cent of GDP.

Domestic revenue is projected to increase to D2.6 billion, or 6.5 per cent from 2004 but D170.8 million lower than the budgeted figure. Tax revenue is projected to increase to D2.3 billion, or 3.2 per cent from the previous year. Direct taxes, accounting for 29.0 per cent of tax revenue, is expected to rise to D672.6 million, or 10.9 per cent.

Indirect taxes, constituting 71.0 per cent of total tax receipts, will also increase slightly to D1.66 billion, or 1.3 per cent mainly due to lower-than-envisaged tax receipts on international trade. Revenue from international trade, constituting 75.0 per cent of indirect taxes, is projected to decrease markedly to D1.2 billion, or 7.0 per cent from 2004. Both duty and sales tax on non-oil imports are projected to decline by 17.8 per cent and 3.1 per cent to D474.2 million and D480.0 million respectively as a result of non-compliance and extensive granting of tax waivers.

Customs duty on petroleum products is also projected to decrease by 7.8 per cent to D168.8 million while sales tax will increase to D128.7 million, or 40.9 per cent, reflecting perhaps, the recent pump price adjustments.

Revenue from domestic tax on goods and services currently (the first three quarters in 2005) exceeds the 2004 outturn of D291.5 million and is projected rise to D408.9 million, owing primarily to 43.8 per cent increase in domestic sales tax. Excise duties and stamp duties are projected to increase to D47.4 million (20.0 per cent) and D16.5 million (35.2 per cent) respectively from 2004.

Non-tax revenue, which includes government service charges, interest, dividends and property income, contribution to pension fund, non-tax revenues from Central Revenue Department (CRD) and Customs and Excise Department (CED), is projected to increase to D329.0 million, or 29.8 per cent, mainly as a result of increased revenue from CRD and CED. Joint CRD and CED revenue is projected at D120.7 in 2005. Contribution to the pension fund is also expected to increase slightly to D3.7 million, or 8.8 per cent. However, revenue from Government services and charges, interest, dividends and property income, are projected to decline by 18.6 per cent and 35.5 per cent respectively, that is, D139.7 million and D29.7 million less than their respective budgeted amounts. Similarly, a shortfall (D30 million) in repayments of interest by Public Enterprises will impact negatively on domestic revenue.

In the first nine month, grants totaled D101.8 million and is projected to increase to D220.1 million by end-2005, lower than the actual outturn of D559.4 million in 2004 and the budgeted amount of D246.2 million in 2005. Project-related grants is estimated to decrease to D203.0 million, or 50.4 per cent. No programme grants are expected and HIPC relate grants is projected at D17.1 million, significantly lower than the actual outturn of D129.7 million in 2004.

Expenditure and Net Lending

In 2005, total expenditure and net lending is projected to increase to D3.67 billion, or 3.2 per cent from 2004 but will stay within its budgeted amount of D3.68 billion, on account of reduced capital spending. As a percentage of GDP, total expenditure and net lending will also decline to 27.4 per cent from 28.7 per cent in 2004. Development expenditure is projected to decrease to D1.18 billion, or 25.1 per cent from 2004 as a result of reduced externally funded projects.

Current expenditure, accounting for 70.5 per cent of total expenditure and net lending, is projected to increase to D2.4 billion against D2.0 billion in 2004, an increase of 19.6 per cent. Total interest payments on domestic and external debt is projected at D1.14 billion, accounting for the lion's share of current expenditure (47.5 per cent) compared to 42.5 per cent in 2004. Domestic and external interest payments are projected to increase to D891.3 million (40.7 per cent) and D252.3 million (13.2 per cent) respectively. That is, D168.0 million and D25.4 million more than their budgeted amounts respectively.

Wages and salaries will increase slightly to D554.5 million, or 5.2 per cent, reflecting in the main, expected "Tobaski/Christmas" advances to Government employees. "Other charges" including expenditure on goods and services and subsidies and transfers is projected to surge to D717.9 million, or 25.6 per cent.

Net lending, that is, gross on-lending less repayments totaled negative D23.0 million in the first three quarters. On-lending is projected at zero while total repayments is estimated at D23.0 million. In the corresponding period in 2004, net lending amounted to negative D23.5 million.

Primary or non-interest balance

The basic primary or non-interest balance is measured by excluding interest payments from the conventional measure of the fiscal balance. The balance indicates how recent fiscal actions of the Government affect the allocation of resources in the economy and Government debt.

The basic primary balance (domestic revenue minus total expenditure and grants excluding interest payments and externally funded capital expenditure) is projected at a surplus of D1.18 billion (8.8 per cent of GDP) in 2005 compared to D1.34 billion (10.8 per cent of GDP) in 2004. The deterioration in the basic primary balance means that Government had to recourse to additional borrowing to service existing debt, thus increasing the debt stock as a percentage of GDP.

Overall Fiscal Balance

Budgetary pressures arose because of lower revenue and higher-than-budgeted domestic interest payment and extra–budgetary outlays (D116.0 million). This was offset by action taken by Government's measures to limit departmental discretionary (i.e non-wage) spending, reducing it by D270 million, or 24.0 per cent lower than budgeted.

The overall budget deficit (commitment basis) excluding grants and with HIPC assistance will contract slightly to D1.01 billion (D7.5 per cent of GDP) in 2005 compared to a deficit of D1.06 billion (8.6 per cent of GDP) in 2004. Including grants, however, the budget deficit worsened to D797.2 million against D506.7 million in 2004. Adjusted to cash basis, the overall fiscal deficit including grants is projected at D901.7 million compared to D164.3 million in 2004.

The budget deficit on cash basis will be financed from domestic sources (D460.6 million). Domestic non-bank borrowing will increase to D220.6 million, down 65.5 per cent from 2004. Borrowing from the domestic banking sector is projected at D235.2 million as against a repayment of D1.0 billion in 2004. There will also be a net borrowing of D445.9 million from external creditors.

The basic balance (domestic revenue minus total expenditure and net lending plus externally funded capital expenditure) is now a target under the Staff Monitored Programme as agreed with the Fund. This is projected to be around D50 million in 2005 as against the budget sum of D201.0 million, or a shortfall of D151.0 million, due primarily to lower-than-expected revenue and higher-than-budgeted GLF expenditures.

INFLATION

1.0 Consumer Price Index (CPI)

End-period inflation, measured by the consumer price index of low income population of Banjul and Kombo St Mary area, declined from 14.7 percent in August 2004 to 1.1 percent at end-August 2005. Average inflation rate (12 month moving average) was 5.8 percent compared to 16.7 percent a year earlier.

2.0 Food consumer price inflation declined to 2.3 percent compared to 16.8 percent in August 2004. Prices of all food sub-groups declined. ‘‘Cereals and cereal products’’, ‘‘ roots, pulses, nuts and seeds’’, ‘‘ vegetables and fruits’’, ‘‘meat, poultry, eggs and fish’’, ‘‘milk and milk products’’ and other foods consumer price inflation decelerated to 1.3 percent, 0.6 percent, 1.7 percent, 1.0 percent, 1.3 percent and 7.9 percent compared to 27.3 percent, 8.4 percent, 5.1 percent, 14.4 percent, 14.2 percent and 23.4 percent respectively in the previous year.

3.0 Non-food consumer price inflation declined to 6.2 percent compared to 10.7 percent at end-August 2004 as a result of the significant decline in the prices of ‘‘ housing’’, ‘’fuel and light’’, ‘‘ clothing, textiles and footwear’’ and ‘‘miscellaneous items’’ to 0.0 percent, 0.7 percent, 0.2 percent and 1.1 percent compared to 13.2 percent, 24.7 percent, 3.0 percent and 6.7 percent respectively in the preceding year.

4.3 The first measure of core inflation (Core 1) , which excludes energy prices (fuel, light and transportation) declined from 12.5 percent in August 2004 to 0.9 percent in August 2005.

4.4 Core 2 which strips out prices of energy and utilities and volatile food items (‘‘ meat, poultry, eggs and fish’’, ‘‘tobacco and tobacco products’’, ‘‘cereals and cereal products’’, and ‘‘processed foods’’) also decelerated from 6.6 percent in August 2004 to 0.7 percent in August 2005.