OVERVIEW

The tight monetary policy stance observed throughout 2004 continued during the first quarter of 2005. However, the easing in money supply growth experienced throughout 2004 was reversed. Money supply grew at a robust pace of 26.2 per cent, higher than the 18.3 per cent in the year to end-December 2004. Both components of money supply, that is, narrow money and quasi money grew by 9.7 per cent and 9.2 per cent respectively.

The net foreign assets (NFA) of the banking system rose to D3.5 billion, or 8.8 per cent from the previous quarter reflecting the combined effect of an increase in the net external positions of both the Central Bank and the commercial banks.

The NFA of the Central Bank and deposit money banks increased to D2.0 billion and D1.6 billion, or 7.8 per cent and 10.1 per cent respectively over the previous quarter.

The net domestic assets of the banking system increased to D2.4 billion compared to D2.2 billion in the preceding quarter.

Reserve money, Bank's operating target, rose to D2.3 billion, or 9.4 per cent from the previous quarter and by 21.0 per cent from a year ago.

Total outstanding commercial bank credit increased to D1.7 billion, or 5.6 per cent over the preceding quarter. Compared to the same quarter in 2004, private sector credit rose by 3.0 per cent.

The public debt stood at D18.5 billion, same as in the previous quarter. The domestic debt (12.4 per cent of the public debt) rose to D2.3 billion, or 9.5 per cent while the external debt decreased to D16.2 billion, or 1.2 per cent.

Commercial banks' total liquid assets increased to D2.3 billion, or 6.4 per cent from the previous quarter. 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 D1.26 billion compared to D1.16 billion in the previous quarter. Excess liquidity amounted to D1.04 billion, or 82.0 per cent of the liquidity requirement.

Following the marked deceleration of inflation, the rediscount rate, the policy rate, was reduced by 2.0 percentage points by the Monetary Policy Committee (MPC) at its February 2005 meeting.

Volume of transactions, measured by total purchases and sales of foreign currencies in the inter-bank market, increased significantly to D6.35 billion, or 32.4 per cent from the previous year. However, compared to the corresponding quarter of 2004, volume of transactions rose at a slower pace of 20.0 per cent.

The Dalasi appreciated against the Pound Sterling, US Dollar, Euro and the Swedish Kroner by 0.6 per cent, 1.5 per cent, 0.7 per cent and 2.6 per cent respectively, but fell by 1.2 per cent against the CFA from the preceding quarter.

End-period inflation, measured by the consumer price index of low income population of Banjul and Kombo Saint Mary area, declined from 8.0 per cent in December 2004 to 4.9 per cent at end-March 2005. Average inflation rate (12 month moving average) was 11.2 per cent compared to 18.1 per cent a year earlier.

Food and non-food consumer price inflation declined to 5.8 per cent and 3.1 per cent compared to 9.9 per cent and 3.9 per cent at end-December 2004. Core inflation, which excludes prices of energy and volatile food items, however, rose albeit slightly to 2.7 per cent from 2.1 per cent in December 2004. Seasonally adjusted inflation declined from 17.3 per cent in March 2004 and 7.2 per cent in December 2004 to 5.0 per cent in March 2005.

Government revenue and grants increased to D646.6 million, or 5.0 per cent over the previous quarter and was above the target of D642.7 million. Total expenditure and net lending fell substantially to D694.2 million, or 20.5 per cent from the last quarter, mainly due to the sharp decline in capital expenditure.

The budget deficit (excluding grants and HIPC funds) widened to D520.9 million compared to D195.4 million in the previous quarter. The deficit was financed from external and domestic sources.

PART 1

(1.) Monetary Developments

The tight monetary policy stance observed throughout 2004 continued during the first quarter of 2005. However, the easing in money supply growth experienced through out 2004 was reversed during the quarter under review. Money supply grew at a robust pace of 26.2 per cent higher than the 18.3 per cent in the year to end-December 2004. On a quarter-on-quarter basis money supply grew by 9.5 per cent compared to 12.3 per cent in the last quarter.

(1.1) Determinants of money supply

(A) Net foreign Assets

The net foreign assets (NFA) of the banking system rose to D3.5 billion, or 8.8 percent from the previous quarter reflecting the combined effects of an increase in the net external positions of both Central Bank and the commercial banks.

The NFA of the Central Bank increased to D2.0 million, or 7.8 percent from the previous quarter. The gross official reserves of the Central Bank rose to D2.7 billion, or 11.1 percent while its liabilities increased to D691.0 million, or 21.8 percent.

The NFA of commercial banks rose to D1.6 billion, or 10.1 percent while their external obligations grew to D158.4 million, or 96.7 percent from the preceding quarter.

(B) Net Domestic Assets

The net domestic assets (NDA) of the banking system increased to D2.4 billion, or 10.5 percent compared with 13.1 percent in the preceding quarter. This reflects an increase in domestic credit to D3.1 billion, or 7.6 percent compare to a decline of 33.7 percent in the previous quarter.

The banking system's net claims on government and the private sector increased by 10.5 percent and 6.7 per cent to D1.1 billion and D1.7 billion respectively. In contrast, claims on public entities rose by a minuscule 1.5 per cent to D226.6 million.

(1.2) <u>Components of Money Supply</u>

The robust growth in money supply reflects the strong expansion of both narrow money and quasi money.

Narrow money (M1), comprising currency outside banks and demand deposits, increase to D3.4 billion, or 9.7 percent from the previous quarter. Of the components of narrow money, currency issued increased by 8.4 percent to D1.5 billion while demand deposits rose by 10.8 percent to D1.9 billion. On an annualised basis, narrow money increased by 14.0 per cent.

Similarly, quasi money, which composed of time and savings deposits, increase to D2.5 billion, or 9.2 per cent over the previous quarter. Savings and time deposits rose by 5.2 percent and 22.5 percent respectively. Quasi money, however, increased at a stronger pace of 47.5 per cent from a year ago.

(1.3) <u>Reserve Money</u>

Reserve money, the Bank's operating target, rose to D2.3 billion, or 9.4 per cent from the previous quarter and by 21.0 percent year-on-year.

(1.3.1) Supply of Reserve Money

The NFA of the Central Bank rose to D2.0 billion, or 66.6 per cent from a year earlier owing to 21.0 per cent increase in foreign assets (reserves) and a 32.1 per cent decline in foreign liabilities. The Bank's NDA declined to D283.8 million or 63.2 percent from a year ago mainly on account of significant improvement in Government's net position with the Central Bank. Net claims on Government improved from a deficit of D531.2 million a year ago to a surplus of D742.1 million during the quarter under review.

(1.3.2) Demand for Reserves

Currency issued increased by 16.2 per cent from a year earlier to D1.6 billion. Commercial banks' reserves (deposits' with Central Bank), on the other hand, rose by 13.4 per cent from end-March 2004.

(2.0) Foreign Exchange Developments

The volume of transactions in the inter-bank foreign exchange market increased significantly compared to the corresponding period in 2004. Reflecting increased inflows, the Dalasi appreciated against all the major currencies traded in the inter-bank market.

(2.1) Volume of Transactions

Volume of transactions, measured by total purchases and sales of foreign currencies in the inter-bank market, increased significantly to D6.53 billion, or 32.4 per cent from the previous quarter. However, compared to the corresponding quarter last year, the volume of transactions rose at a slower pace of 20.0 per cent.

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

	2004	2004	2004	2004	2005
	Q1	Q2	Q3	Q4	Q1
Purchases	*2634.9*	*2086.4*	*1851.2*	*2570.6*	*3368.8*
Sales	*2809.7*	*2142.7*	*2030.7*	*2364.2*	*3169.8*
Total	**5444.6**	**4229.1**	**3881.9**	**4934.8**	**6538.6**

Total purchases, which is an indication of the availability, or supply of foreign exchange in the inter-bank market, rose to D3.37 billion, or 31.1 per cent over the preceding quarter. On an annualised basis, purchases increased by D733.9 million, or 27.9 per cent.

Sales, indicative of demand, rose to D3.17 billion, or 34.1 per cent from the last quarter. Compared to first quarter of 2004, total sales increased by 12.8 per cent.

The increase in trading volumes could be attributed to the strong growth in re-exports and private remittances, pick-up in tourism activity, and higher-than-expected increase in private capital flows, particularly foreign direct investment.

(2.2) <u>Market Share</u>

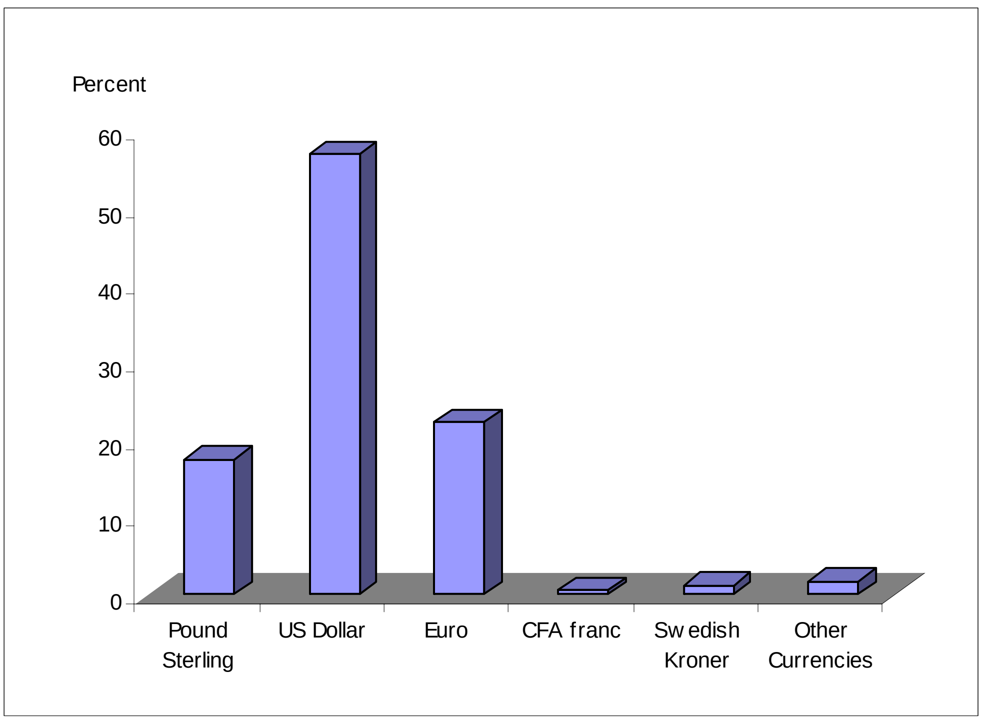
Although the US dollar continued to dominate the inter-bank market, its market share declined to 56.9 per cent compared to 62.4 per cent in the corresponding period last year.

Table: Market Share of Key Currencies (in percent)

	2004	2004	2004	2004	2005
	Q1	Q2	Q3.	Q4	Q1
Pound Sterling	22.97	24.28	20.14	19.13	17.48
US Dollar	62.40	60.53	58.72	57.83	56.94
Euro	10.84	12.11	18.04	18.97	22.30
CFA franc	0.37	0.54	0.65	0.44	0.43
Swedish Kroner	1.28	0.80	0.39	1.12	1.13
Other Currencies	2.15	1.74	2.06	2.50	1.72

The Pound Sterling's market share also declined to 17.5 per cent compared to 23.0 per cent a year earlier. The market share of Euro, however, increased to 22.3 per cent from 10.8 per cent a year ago. The market share for CFA franc increased slightly to 0.43 per cent compared to 0.37 per cent in the previous year while that of the Swedish kroner declined to 1.13 per cent from 1.28 per cent a year earlier. The unclassified currencies combined recorded a decreased in market share to 1.7 per cent relative to 2.5 per cent at end-December 2004.

Figure 1: Market Share of Key Currencies

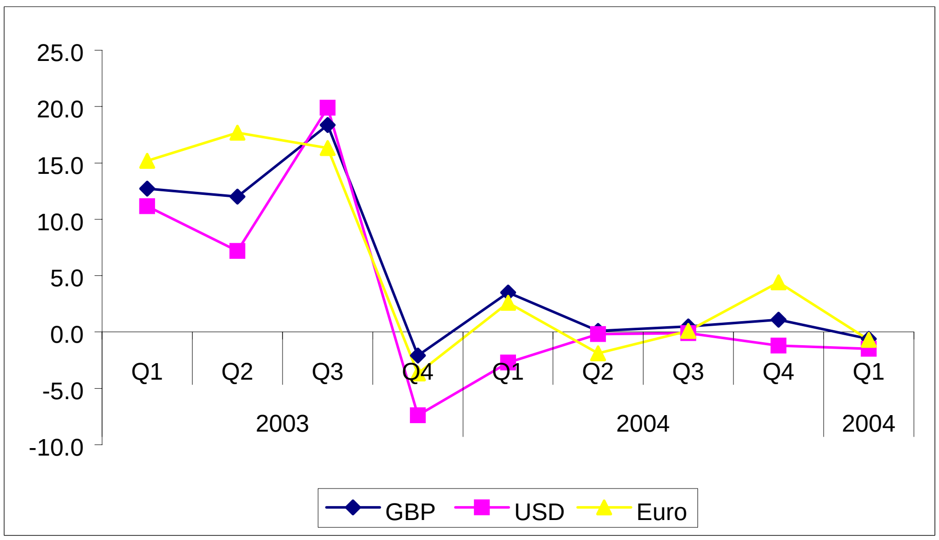


(2.3) Exchange Rate Movements

The Dalasi appreciated against most of the major currencies traded in the inter-bank market. The Dalasi rose against the Pound Sterling, the US Dollar, the Euro and the Swedish Kroner by 0.6 per cent, 1.5 percent, 0.7 per cent and 2.6 per cent respectively but fell by 1.2 per cent against the CFA franc from the preceding quarter.

The Dalasi, however, depreciated against the Pound Sterling, the Euro and the CFA franc by 1.1 per cent, 1.7 per cent and 7.5 per cent respectively from a year ago, but rose against the US Dollar and The Swedish Kroner by 3.0 per cent and 0.2 per cent respectively.

Figure 2: Exchange Rates Movements



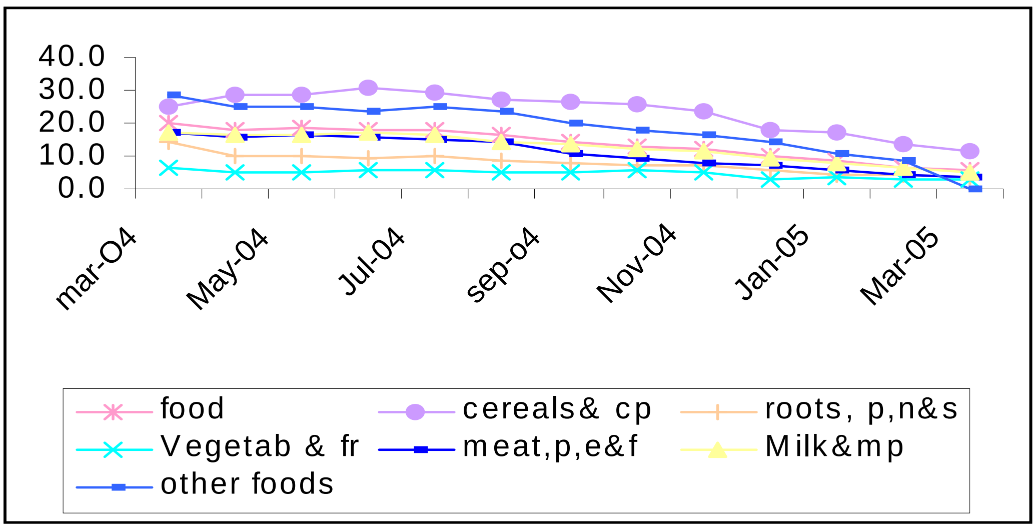
(4.) Consumer Price Index (CPI)

End-period inflation, measured by the consumer price index of low-income population of Banjul and Kombo St Mary area, declined from 8.0 percent in December 2004 to 4.9 percent at end-March 2005. Average inflation rate (12 month moving average) was 11.2 percent compared to 18.1 percent a year earlier.

(4.1) <u>Food Consumer Price Inflation</u>

Food consumer price inflation declined to 5.8 percent compared to 9.9 percent in December 2004 and 20.1 percent a year earlier. While prices of vegetables remained stable at 3.1 percent, those of "other food" sub-groups declined. ''Cereals and cereal products", "roots, pulses, nuts and seeds" "meat, poultry, eggs and fish", "milk and milk products" and "other foods" consumer price inflation decelerated to 11.5 percent, 3.9 percent, 3.7 percent, 4.9 percent, and 0.1 percent compared to 17.8 percent, 6.1 percent, 7.1 percent, 9.3 percent, and 14.3 percent respectively in the previous quarter.

Chart1: Food Inflation March - 04 to March - 05



(4.2) <u>Non-Food Consumer Price Inflation</u>

Non-food consumer price inflation declined to 3.1 percent compared to 3.9 percent at end-December 2004 and 13.3 percent a year ago as a result of a decline in the prices of "housing", "fuel and light", "clothing, textiles and footwear" and "miscellaneous items" to 2.0 percent, 6.9 percent, 1.2 percent and negative

2.2 percent compared to 3.4 percent, 9.1 percent, 1.5 percent and 2.4 percent respectively in the preceding quarter.

Chart: Non-Food Inflation Feb-04 to Feb-05

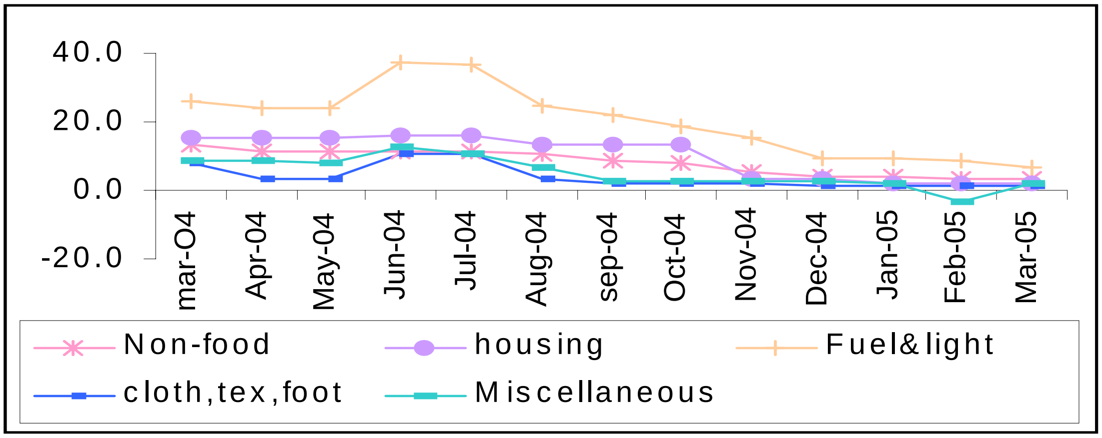
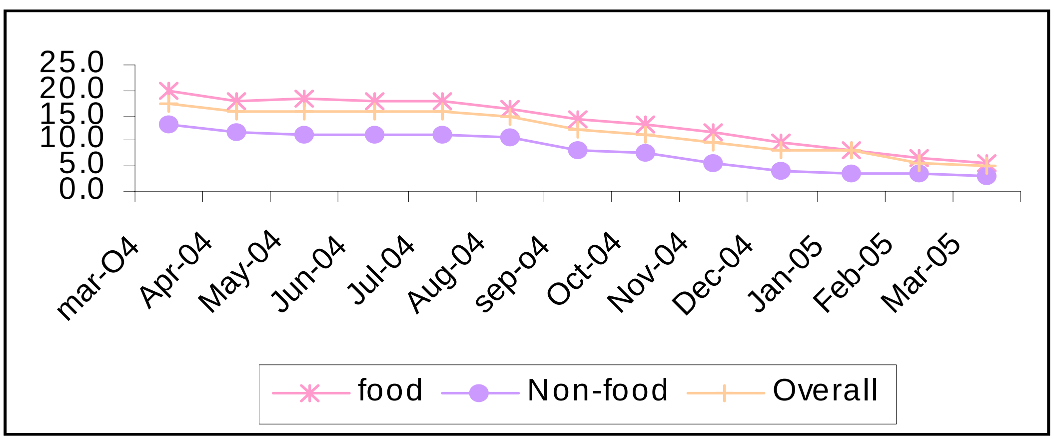


Chart: Inflation March-04 to March-05



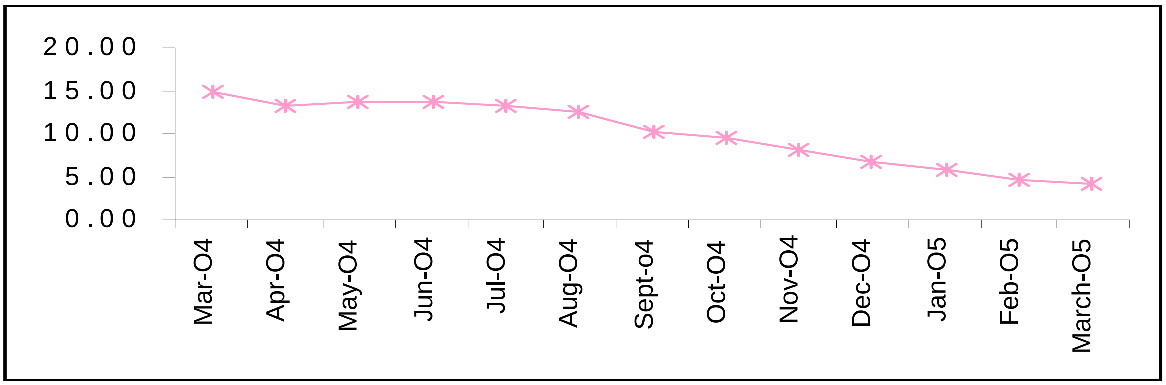
(4.3) Core Measures of Inflation

The first measure of core inflation (Core 1) , which excludes energy prices (fuel, light and transportation) declined from 14.9 percent in March 2004 and 6.8 percent in December 2004 to 4.2 percent at end-March 2005.

Table : Core1 (excluding energy and transportation)

	Mar-o4	Apr-o4	May-o4	Jun – o4	Jul –o4	Aug - o4	Sep- O4	Oct-o4	Nov-o4	Dec-o4	Jan-05	Feb-05	Mar-05
2173	2173	2184	2205	2228	2243	2253	2254	2256	2257	2261	2263	2264	2265
yr.-on yr.-inflation rate	**14.9**	**13.3**	**13.7**	**13.7**	**13.4**	**12.5**	**10.3**	**9.6**	**8.2**	**6.8**	**5.8**	**4.6**	**4.2**

Chart : Core 1 Implied year-on-year inflation

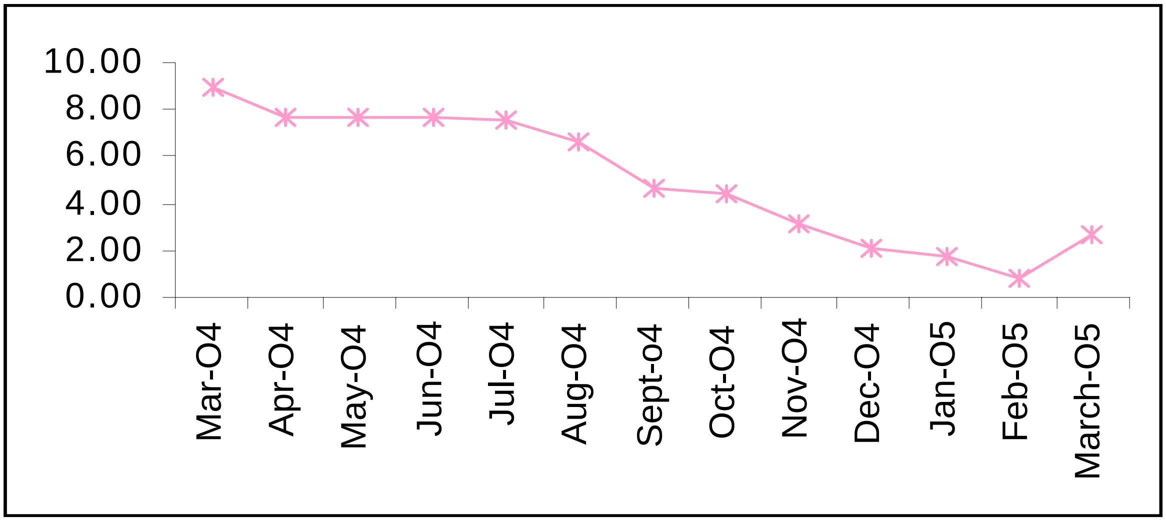


Core 2 which strips out prices of energy and volatile food items ("meat, poultry, eggs and fish", "tobacco and tobacco products", "cereals and cereal products", and "processed foods") decelerated from 9.0 per cent in the first quarter of 2004 to 2.1 percent at end-December 2004 but rose to 2.7 percent at end-March 2005.

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

	Mar-04	Apr-04	May-04	Jun – 04	Jul – 04	Aug - 04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05
Estimated core CPI	1068	1072	1075	1084	1091	1092	1092	1093	1093	1095	1096	1096	1097
yr-on-yr inflation	**9.0**	**7.6**	**7.6**	**7.6**	**7.6**	**7.6**	**4.7**	**4.4**	**3.1**	**2.1**	**1.7**	**0.9**	**2.7**

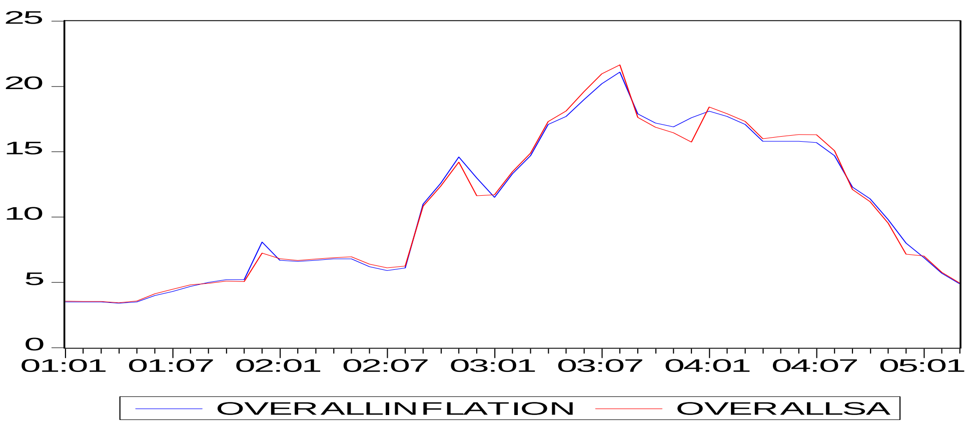
Chart: Core 2 Implied year-on-year inflation



(4.4) Seasonally Adjusted Inflation

In analysing general price trends in the economy, seasonally adjusted inflation is usually preferred by policy makers since they eliminate the effects of price changes resulting from changing climatic conditions, production cycles, model changeovers, etc. The unadjusted data, on the other hand, are of primary interest to consumers concerned about the prices they actually pay. Seasonally adjusted inflation declined from 17.3 percent at end-March 2004 and 7.2 percent in December 2004 to 5.0 percent in March 2005.

Seasonally adjusted inflation rates



(5.0) Loans and Advances to Major Sectors of the Economy

Total outstanding commercial bank credit increased to D1.7 billion, 5.6 percent over the preceding quarter. Compared to the same quarter in 2004, private sector credit rose by 3.0 percent.

Loans to agriculture increased significantly by 67.5 percent to D303.8 million, reflecting increased lending for groundnut marketing. Credit to the fishing, building and construction and other unclassified sectors increased by 14.1 percent, 7.1 percent and 23.0 per cent to D19.0 million, D95.4 million and D733.7 million respectively. In contrast, lending to transportation, distributive trade and tourism declined by 23.8 percent, 16.8 percent and 62.1 percent to D97.5 million, D415.3 million and D39.0 million respectively.

(6.0) Public Debt

(6.1) Domestic Debt

The domestic debt (discounted value) increased to D3.4 billion, or 7.9 per cent from the previous quarter. Short-term debt, comprising mainly Treasury bills, rose by 8.2 percent to D3.3 billion. Commercial banks held 40.7 percent of the short-term while the non-bank held the remainder (59.3 per cent) of the stock.

The stock of medium and long-term debt, constituting 3.4 percent of the debt stock totaled D113.9 million the same as in the previous quarter. Discount Note Series accounted for 79.7 percent of the debt and Development Stocks (20.3 per cent).

(6.2) External Debt

The Gambia's external debt stock stood at D16.2 billion compared to D16.4 billion in the preceding quarter. The bulk of the debt (84.1 percent) was held by multilateral creditors.

(7.0) Liquidity Position of Commercial Banks

Commercial banks' total liquid assets increased to D2.3 billion, or 6.4 per cent from the previous quarter. Commercial banks' reserves (deposits) at the Central Bank rose by 6.5 per cent while investments in Treasury and Central Bank bills declined by 17.9 per cent. Commercial banks' foreign cash holdings decreased by 26.9 per cent while their foreign bank balances rose by 53.2 per cent.

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 D1.26 billion compared to D1.16 billion in the previous quarter. Banks continued to maintain liquidity levels in excess of the statutory requirement. Excess liquidity amounted to D1.04 billion, or 82.0 per cent per cent of liquidity requirement.

(8.0) Interest Rates

Reflecting the loosening of monetary policy following the marked deceleration of inflation, the rediscount rate, the policy rate, was reduced by 2.0 percentage points to 29.0 per cent by the Monetary Policy Committee (MPC) at its February 2004 meeting. Consequently, the discount rate on Treasury bills declined to 26.0 per cent compared to 29.0 per cent in the previous quarter.

Commercial banks' lending rates were, however, unchanged relative to the previous quarter, ranging from 21.0 per cent to 36.0 per cent. Interest rates on 3 months, 6 months, 9 months and 12 months deposits changed slightly from the previous year with a range of 8.0 – 18.0 per cent, 8.0 – 19.0 per cent, 8 – 20.0 per cent and 12.0 – 23.0 per cent respectively.

(9.0) Fiscal Developments

(9.1) Budgetary Measure

In the quest to reduce the fiscal deficit to a sustainable level and re-establish macroeconomic stability, revenue-enhancing measures were implemented in the first quarter of 2005, viz:

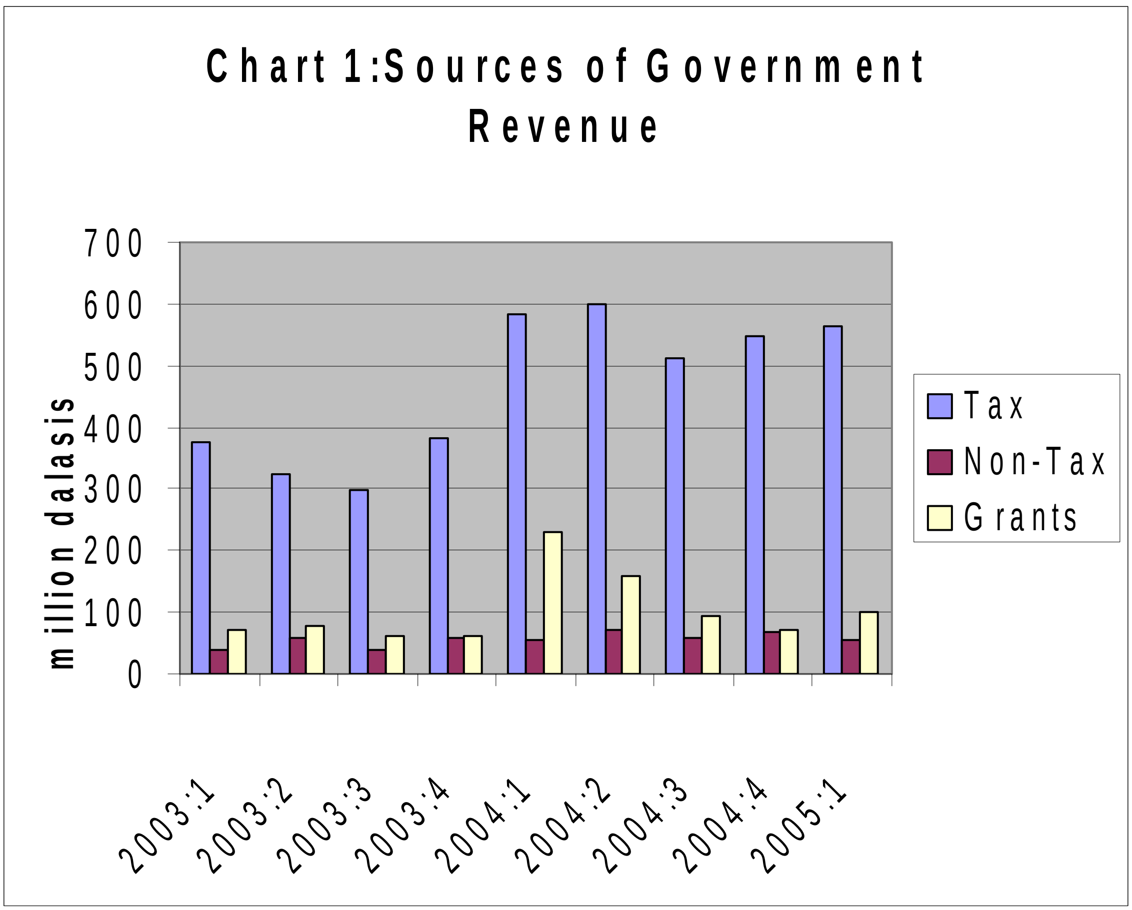
- Broadening the coverage of income tax to include the informal sector
- Increased taxes on petroleum products and imported water and beverages
- Upward revision of fees for alien identification cards and resident permits
- Public auction of State land in the Greater Banjul Area

(9.2) Total Revenue and Grants

Total domestic revenue increased to D620.9 million, or 5.6 per cent over the previous quarter. On an annual basis, however, total domestic revenue decreased by 2.7 per cent. There were no program grants while project-related grants stood at D101.8 million during the quarter under review.

SOURCES OF GOVERNMENT REVENUE Million				Dalasis	
	Tax	Direct Taxes	Indirect Taxes	Non-Tax	Grants
2004					
Q 1	584.8	174.5	410.4	53.8	229.1
Q 2	599.3	181.8	417.5	72.1	163.5
Q 3	513.1	130.0	383.1	58.0	94.6
Q 4	547.8	120.1	427.7	69.6	72.4
2005					
Q 1	565.4	173.5	392.0	55.4	101.8

Source: DOSFEA



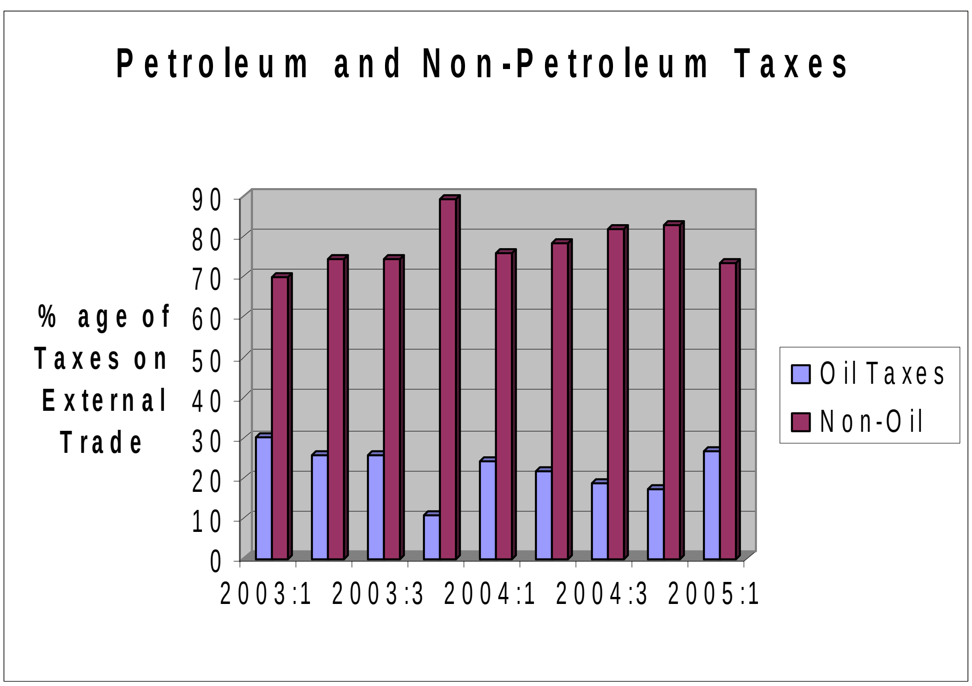
Source: DOSFEA

Indirect taxes, accounting for 69.3 per cent of total tax revenue, decreased to D392.0 million or 8.3 per cent. Taxes on petroleum products, representing 13.7 per cent of tax revenue increased significantly to D77.9 million, or 30.0 per cent from the previous quarter but fell by 3.6 per cent from a year ago. Taxes on non-petroleum products decreased significantly to D212.7 million, or 26.7 per cent from the preceding quarter and 16.4 per cent from a year earlier.

Direct taxes increased to D173.5 million or 44.3 per cent, whilst non-tax revenue decreased to D55.4 million or 20.4 per cent from the previous quarter.

	OIL	NON-OIL
2004		
1st	80.7	254.6
2nd	75.0	269.3
3rd	58.6	258.6
4th	59.9	293.3
2005		
1st	77.9	212.8

Source: DOSFEA



Source: DOSFEA

(9.3) Total Expenditure and Net Lending

Total expenditure and net lending increased substantially to D1143.9 million, or 31.0 per cent from the last quarter, mainly on account of increased capital expenditure.

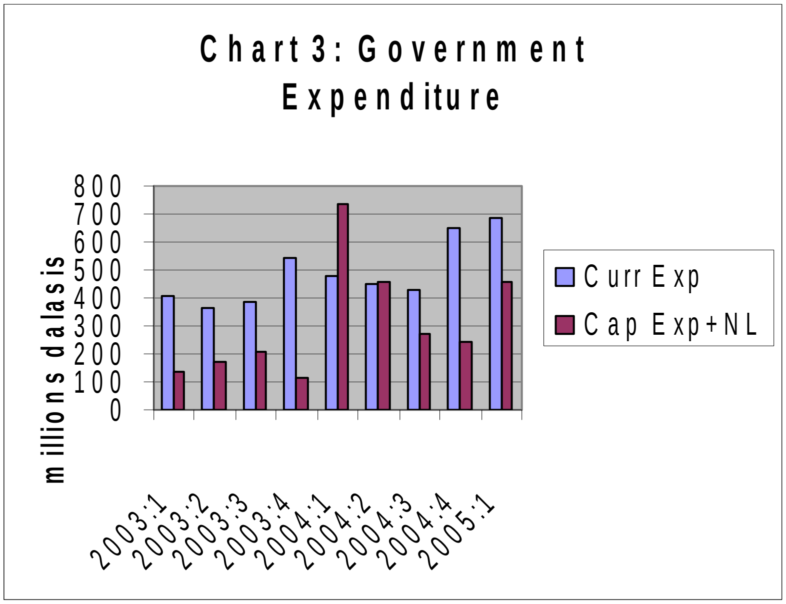
Capital expenditure increased from D236.0 million in the previous quarter to D359.0 million in the first quarter of 2005. Compared to a year ago, capital expenditure fell by 43.0 per cent.

Current expenditure increased marginally from D648.9 million at end-December 2004 to D683.4 million at end-March 2005. Compared to the first quarter of 2004, current expenditure rose by 27.6 per cent owing mainly to increase spending on wages and salaries.

GOVERNMENT EXPENDITURE D'Million

	Current Exp	Capital Exp & NL
2004		
1st	481.3	720.1
2nd	451.8	378.4
3rd	430.1	230.0
4th	648.9	224.0
2005		
1st	683.4	460.5

Source: DOSFEA



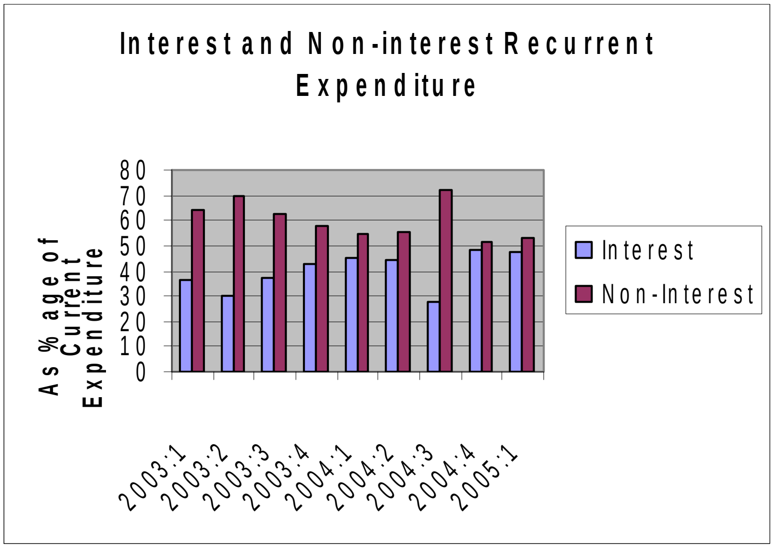
Source: DOSFEA

Interest payments totaled D322.7 million in the first quarter compared to D315.9 million in the preceding quarter. Domestic interest payment (80.5 per cent of total interest payments) amounted to D260.0 million while interest payments on external debt totaled D62.7 million.

Total Interest Payments and Non-Interest Exp D'Million

	Interest	Non-Interest
2004		
1st	218.7	262.6
2nd	201.7	250.2
3rd	119.9	310.2
4th	315.9	333.0
2005		
1st	322.7	328.0

Source: DOSFEA



Source: DOSFEA

(9.4) <u>The Budget Deficit and Financing</u>

On commitment basis, the fiscal deficit (including grants) was D421.2 million in the first quarter of 2005 compared to D183.2 million in the previous quarter and D296.6 million in the corresponding quarter a year ago.

However, the budget deficit (excluding grants and HIPC funds) widened to D520.9 million compared to D195.4 million at end-December 2004 and D479.4 million in the first quarter of 2004. The budget deficit was financed from external and domestic sources. External borrowings amounted to D183.0 million while domestic financing from bank and non-bank sectors amounted to D106.3 million and D188.7 million respectively during the quarter under consideration.

(10.0) Other Developments

The schools for the Gambia (SFG), a charitable organization that has been operating in the Gambia for the past 15 years, donated computers, typewriters and printers to schools in Farafeni, in the North Bank Division.

The deputies in the National assembly unanimously ratified a loan agreement for the construction of the Kerewan/Farafeni road. The loan amounting to D312.7 million is expected to be repaid within 25 years. The project jointly funded by Islamic Development Bank and the Gambia Government is expected to be completed in December 2007.

The Government of the United Kingdom provided 1.72 million Pounds Sterling to the Government of the Gambia in support of a Financial Governance Programme.

A skill centre constructed at the Bakoteh ward of the Kanifing Municipal Council (KMC) by SOS International has been officially handed over. The project is estimated to cost D2.5 million. Another center, constructed at a cost of over D1.0 million under the community Development Project, is to be opened soon.

The Government of the Gambia under the auspices of Department of state for Communication, Information and Technology (DOSCIT) recently launched the E-Government project at the Gambia Radio and Television Services Building complex. The objectives of the E –Government project include streamlining and enhancing the delivery of public services as well as increase citizens participation in Government, among others.

The Embassy of the United States of America recently signed a grant totaling $400,000 (D11.6 Million) with the Government of the Gambia to finance a feasibility study for the construction of a major storage facility for petroleum and petroleum products in the Gambia.

The Kingdom of Morocco rendered assistance to the Government of the Gambia by way of an aircraft and two motorised bumps, 10,000 litres of ULV pesticide, 30 complete sets of protective gear, a pilot, mechanic and two experts to help combat locust invasion in some parts of the country.

President Jammeh took delivery at Banjul International Airport of two aircrafts manufactured in the United States and purchased by the Government of the Gambia for over a million dollars each. The aircrafts are to be used to control pests, including locusts and mosquitoes. The planes would also be utilised to fight bush and forest fires.

The Gambia is to benefit from the Meteorological Transition in Africa Project (MTAP). This project, which is an initiative of World Meteorological Organisation, would set up a network for effective monitoring of drought and desertification in collaboration with regional economic groupings of West, Central and Southern African States.

Taiwanese experts forecast food self-sufficiency in the Gambia by 2010. Using tidal irrigation, combined with better seed varieties, rice production increased significantly over the past 3 years.

The Embassy of the United States of America in Banjul announced the decision by President George Bush to renew the Gambia's eligibility to the African Growth and Opportunity Act (AGOA) for 2005.This would enable the Gambia to export certain categories of goods to the U.S. duty-free.

Four South Korean businessmen and two Americans accompanied by two Gambians based in the United States recently visited the Gambia and signed an agreement with the Gambia Chamber of commerce and Industry (GCCI) to promote Gambia's interest in South Korea.

A seminar on implementation of the Inter-state Road Transit (ISRT) agreement took place at the Corinthia Atlantic Hotel in Banjul .The seminar described as an economic policy seminar, was jointly organized by the Gambia Chamber of Commerce (GCCI) in collaboration with the Gambia public- private sector and civil society capacity building project (GICAP).

Gambia Government donated items worth $250,000 to Tsunami victims following the Tsunami disaster that hit south- East Asia and the Indian Ocean countries recently.

PART 2

DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

In the year to the first quarter of 2005, global growth moderated to 4.4 per cent from 4.6 per cent in the fourth quarter of 2004. The slowdown was partly attributed to the decline in United States output, from 3.8 per cent in the last quarter of 2004 to 3.1 per cent in the first three months of 2005, reflecting reduced consumer spending. Similarly, economic activity in the Euro area slowed down in the first quarter, with industrial production growing by only 0.6 per cent.

(1) World Economic Activity

In the United States, business investment appeared to slacken. Orders for durable and capital goods fell by 2.8 percent and 4.7 percent respectively in June. The Conference Board’s consumer confidence barometer slipped to the lowest reading since last November. Nonetheless, more new houses were sold in March 2005 than ever before, 1.4 million of them. Oil prices also slipped, back to about US $52.0 per barrel, after Saudi Arabia promised to raise production and invest in new capacity, and United States announced higher stock of crude.

The Reuters Survey of purchasing managers suggested that the manufacturing sector in the Euro area was shrinking. The purchasing manager’s index dipped to 49.2 in early April 2005, lowest level since August 2003. A figure less than 50 means contraction. The equivalent index for the services sector fell slightly to 52.8. These figures had ripple ramifications on the German and French economies, where according to myriad surveys, the confidence of French businessmen in late March 2005 was at its lowest mark in 18 months. Not to be outdone, the German business confidence was at 19-months low, according to the IFO survey.

Belgium’s GDP did not grow at all in the first quarter of this year, but was 1.8 per cent higher-than in the same quarter last year.

In Britain too, there were signs of slowdown. The CIPS index of purchasing managers in manufacturing fell below 50 for the first time since June 2003. GDP grew by a mere 0.6 per cent in the first quarter, and by 2.8 per cent a year earlier. Finance and business services were somewhat strong in the first three months of 2005. However, industrial production, such as energy extraction and utilities, remained sluggish.

Russia’s GDP growth slackened to 4.9 per cent in the year to the first quarter, although industrial output rose by 4.0 percent.

According to Abdoulaye Bio Tchane, the IMF’s Africa Department Director, economic performance in Sub-Saharan Africa was at an 8-year high. Real GDP growth accelerated to 5.0 per cent and average inflation fell to single-digit for the first time in 25 years.

Industrial production recovered in Singapore and Thailand, increasing by 8.3 per cent and 7.1 per cent respectively in the 12 months to March. In the Philippines, it rose by 2.4 per cent in the year to February 2005. Such strength was lacking in Japan, where industrial production grew by only 1.0 per cent in the year to February 2005. A rise in consumption and exports, rather than investment, fuelled the growth.

(2) <u>Inflation</u>

Meanwhile, in China, consumer price inflation decelerated to 2.7 per cent in the year to March 2005, from 3.9 per cent the previous month.

Deflation persists in Japan. Consumer prices fell for the seventh fiscal year in a row, slipping by 0.2 per cent in the 12 months to March. The Bank of Japan keeps a close eye on another index that excludes fresh food prices. By this measure, consumer prices fell by 0.3 per cent. There was some inflation in goods prices, which increased by 0.2 per cent over the year. But prices of services fell by 0.4 per cent.

Canada's consumer price rose by 2.3 per cent in the year to March, above the Bank of Canada's target rate of 2.0 per cent. In the Republic of South Africa, consumer prices rose by 3.0 per cent over the same period. In Singapore, inflation rose by 0.4 per cent in the year to March. Turkey's consumer prices rose by 8.2 per cent over the corresponding period also. Inflation picked up in Thailand, reaching 3.6 per cent in the year to March. Prices rose in India by 4.2 per cent over the same time.

Inflation rose strongly in the United States. Consumer prices surged by 0.6 per cent in March 2005, leaving them 3.1 per cent higher-than-a-year-ago. Energy prices rose by 4.0 per cent in the same month, reflecting petroleum price movements. Core inflation, which excludes fuel and volatile food, rose by 0.4 per cent in March, the biggest monthly gain in over 24 months.

Inflation in the Euro area was unchanged at 2.1 per cent in the first quarter. In Britain, inflation rose to 1.9 per cent in the year to March, its quickest pace in seven years. According to the minutes of their April 2005 meeting, two of the nine members of the Bank of England's rate-setting committee voted for an interest rate raise.

(3) <u>Interest Rates</u>

The Federal Reserve raised its short-term interest rates by another quarter point to 3.0 per cent on May 3, 2005. In its accompanying statement, the United

States Central Bank noted that “the solid pace of spending growth” had slowed, but kept its hawkish language about inflation risks.

Similarly, as the value of Australia’s retail sales failed to grow in the first quarter, the Reserve Bank of Australia kept interest rates on hold at 5.5 per cent.

The European Central Bank also held short-term interest rate steady at 2.0 per cent as at March 2005.

(4) <u>Unemployment</u>

Unemployment in the Euro area edged upwards to 8.9 per cent in March 2005, from 8.8 per cent the month before. In Sweden, unemployment fell to 5.5 per cent in March 2005, from 5.8 per cent the same month last year.

Japan’s unemployment rate fell to 4.5 per cent in March, down from 4.7 per cent the preceding month. The number of people out of work in Japan now totals 3.13 million, down by 200,000 over the past year.

(5) <u>External Trade Balance</u>

Brazil chalked up a current account surplus of US $12.7 billion in the year to March 2005. South Korea operated a trade surplus of US $28.8 billion in the same period. South Korea’s external reserves climbed to US $205.4 billion while Malaysia ran a surplus of US $22.8 billion in the year to March.

The Philippines reduced its trade deficit to a mere US $100 million in the year to February 2005. However, Mexico’s trade deficit swelled to US $9.9 billion over the same period.