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Overview

Growth in money supply decelerated to 5.7 per cent in the second quarter of 2006 compared to 6.7 per cent in the first quarter of 2006. However, money supply grew by 18.1 per cent when compared to end-June 2005. Narrow money (M1), comprising currency outside banks and demand deposits increased to D3.7 billion, or by 4.1 per cent from the previous quarter. Quasi-money (time and saving deposits) grew to D3.2 billion, or by 7.7 per cent.

Total outstanding loans and advances to major economic sectors at the end of the second quarter of 2006 increased to D2.4 billion or by 9.1 per cent from the previous quarter. Advances to all sectors increased with distributive trade absorbing the largest share, increasing by 20.5 per cent. Loans and advances to agriculture, construction and transportation sectors increased substantially over the preceding quarter by 13.1 per cent, 21.7 per cent and 53.9 per cent, respectively.

The Bank's policy rate, the rediscount rate, declined to 15.0 per cent at end-June 2006 from 17.0 per cent at end-March 2006. Mirroring this development, commercial banks deposit rates ranged between 5.0 and 14.0 per cent compared to 5.0 and 17.0 per cent whilst lending rates ranged between 19 and 29.0 per cent relative to 21.0 and 31.0 per cent.

Inflationary pressures continued to ease in the first half of 2006. End-period inflation, measured by the consumer price index of the low income population of Banjul and Kombo St Mary's area, declined from 1.7 per cent in March 2006 to 1.5 per cent at end-June 2006. Food consumer price inflation declined to 0.5 per cent compared to 0.7 per cent in March 2006. Also, non-food consumer price inflation declined

to 3.6 per cent compared to 3.7 per cent at end-March 2006 as a result of the deceleration in the prices of "Fuel and light" and "miscellaneous items".

The inter-bank foreign exchange market was quite vibrant in the first half of 2006, due in the main to increased foreign direct investment inflows, tourism receipts, re-exports and private remittances. These developments, coupled with subdued inflationary pressures, improved business confidence and strong macroeconomic fundamentals caused the Dalasi to remain stable in the second quarter of 2006. During the review period, the Dalasi appreciated slightly against the U.S dollar by 0.32 per cent, but depreciated, albeit marginally, against the Pound sterling, Swedish Kroner, CFA franc and Euro by 3.61 per cent, 0.29 per cent, 4.17 per cent, and 3.16 per cent respectively.

Domestic revenue and grants totalled D785.7 million at the end of quarter two, 2006, compared to D796.2 million at the end of the first quarter of 2006. Total expenditure and net lending at the end of the quarter under review was D1,222.6 million, D414.4 million or 51.3 per cent, higher than the previous quarter. The overall budget deficit including grants amounted to D442.6 million at the end of the September quarter, which was 9.6 per cent higher than projected.

PART I

DEVELOPMENTS IN THE DOMESTIC ECONOMY

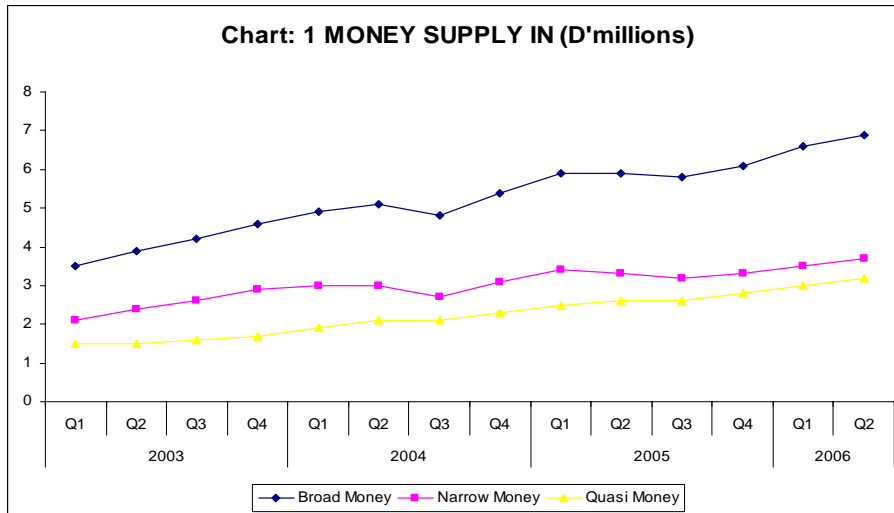
MONETARY DEVELOPMENTS

(1.0) Monetary Policy

Monetary policy continues to follow a prudent course to ensure sustained deceleration in inflationary pressures, entrench exchange rate stability and support Government's economic policy. The key macroeconomic targets are to reduce inflation to 4.0 per cent, achieve real GDP growth rate of 5.0 per cent and build-up gross official reserves to at least 4.7 months of import cover.

(2.0) Money Supply Growth

Growth in money supply decelerated to 5.7 per cent in the second quarter of 2006 compared to 6.7 per cent in the first quarter of 2006. However, money supply grew by 18.1 per cent when compared to end-June 2005. 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 D3.7 billion, or by 4.1 per cent from the previous quarter. While currency outside banks declined by 1.1 per cent, demand deposits rose by 1.8 per cent. Compared to end-June 2005, currency outside banks and demand deposits grew by 16.7 per cent and 10.9 per cent respectively.

Quasi-money (time and saving deposits) grew to D3.2 billion, or by 7.7 per cent. Saving and time deposits rose by 6.9 per cent and 9.6 per cent respectively. Correspondingly, the share of quasi-money to broad money increased to 46.8 per cent at end-June 2006 from 43.5 per cent in March 2006.

(3.0) DETERMINANTS OF MONEY SUPPLY

(a) Net foreign Assets (NFA)

The net foreign assets (NFA) of the banking system declined to D3.6 billion, or by 4.3 per cent in June 2006. This was mainly on account of the decline in the NFA of the deposit money banks by 14.4 percent to D1.3 billion. In contrast, the NFA of the Central Bank rose to D2.3 billion, or by 2.7 per cent in the second quarter of 2006. Gross official reserves expanded to D2.8 billion, or by 0.2 per cent while foreign liabilities decreased to D1.3 billion.

(b) Net Domestic Assets (NDA)

The NDA of the banking system increased to D3.3 billion, or by 19.6 per cent at end-June 2006. This was attributed mainly to the 6.7 per cent increase in domestic credit. Credit to the private sector rose by 10.2 per cent to D2.3 billion while credit to public entities and net claims on government decreased by 0.6 per cent and 16.5 per cent to D252.8 million and D1.2 billion respectively in the review quarter. Compared to end-June 2005, the NDA of the banking system rose by 29.0 per cent.

(3.1) Reserve Money Growth

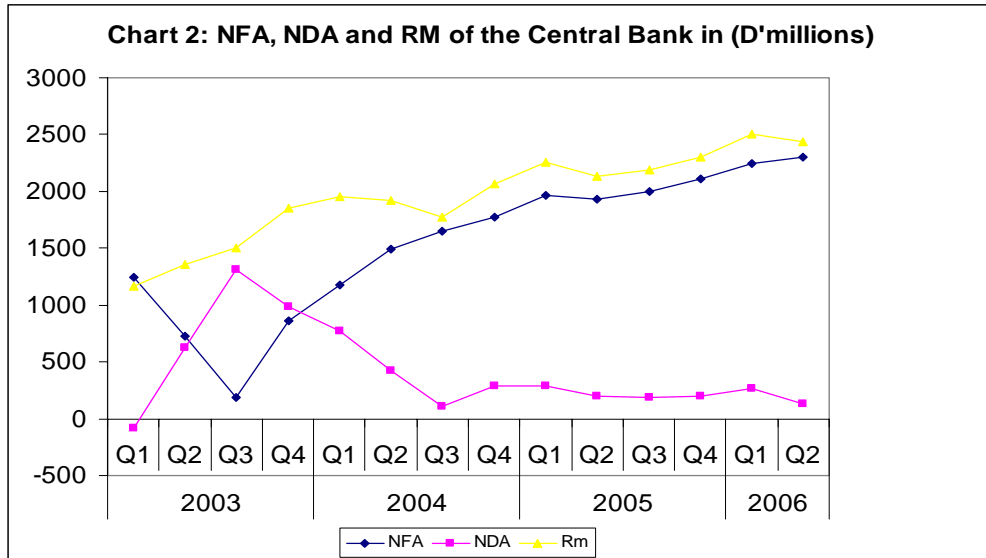
Reserve money consists of currency issued and bank deposits with the Central Bank. It is a measure of the Central Bank's monetary liabilities and is used by the Bank as its operating target in implementing monetary policy.

During the quarter under review, reserve money decreased to D2.4 billion, or by 3.0 per cent from the previous quarter. Both currency issued and bank deposits declined by 0.5 per cent and 8.1 per cent respectively.

The money multiplier computed as a ratio of broad money to reserve money although broadly stable at 2.5 per cent was slightly higher than the 2.31 per cent recorded in the preceding quarter.

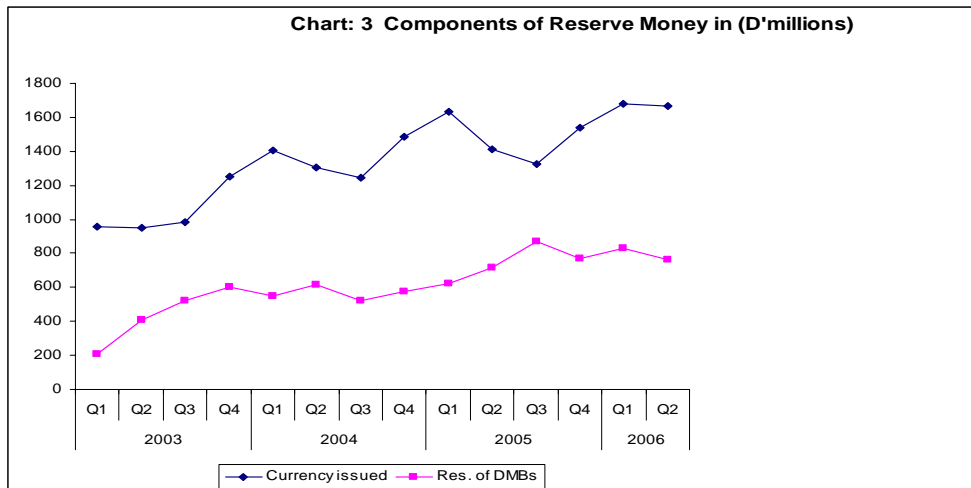
(3.2) Supply of Reserve Money

Reserve money declined during the review quarter as a result of the decrease in the NDA of the Central Bank. The Bank's NDA fell by 51.0 per cent to D131.1 million due in the main to the drop in other items net. In marked contrast, the NFA of the Central bank increased by 2.6 per cent to D2.3 billion in June 2006.



(3.3) Demand for Reserve Money

Reserve money decreased by 3.0 per cent to D2.4 billion in June 2006 as a result of the decline in currency issued and bank reserves by 0.5 per cent and 8.1 per cent respectively. Currency issued tends to manifest a seasonal pattern growing at a stronger pace in the fourth and first quarter and at a slow pace in the second and third quarter, reflecting reduced economic activity.



(4.0) Commercial Banks credit to Major Economic Sectors

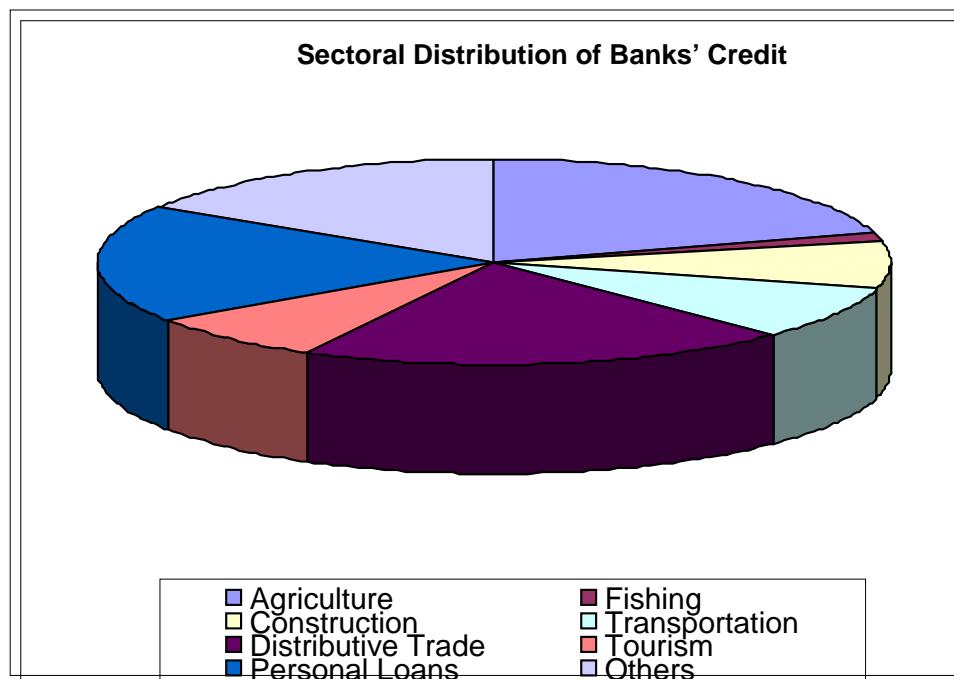
Total outstanding loans and advances to major economic sectors at the end of the second quarter of 2006 increased to D2.4 billion, or by 9.1 per cent from the previous quarter. Compared to the corresponding quarter in 2005, deposit money banks' credit rose significantly by 28.7 per cent. Lending to all sectors, with the exception of distributive trade, grew.

Distributive trade continue to absorb the largest share of loans and advances accounting for 20.5 per cent of outstanding credit, but slightly lower than the 24.1 per cent in the previous quarter. At D482.7 million, credit to the sector decline by 9.8 per cent over the preceding quarter but increased by 1.4 per cent from a year ago.

Loans and advances to agriculture, construction and transportation sectors increased substantially over the preceding quarter by 13.1 per cent, 21.7 per cent and 53.9 per cent respectively. Personal loans also rose markedly by 14.0 per cent while fishing, tourism and other unclassified sectors increased marginally by 3.1 percent, 4.8 percent and 8.6 percent respectively.

Deposit Money Banks` Credit to major economic Sectors

Sector	Outstanding Credit (D` Millions)	Percentage Share	Percentage change Quarterly	Percentage change Annual
Agriculture	474.8	20.2	13.1	75.4
Fishing	33.8	1.4	3.1	59.8
Construction	176.0	7.5	21.7	64.1
Transportation	195.6	8.3	53.9	112.7
Distributive Trade	482.7	20.5	-9.8	1.4
Tourism	172.8	7.4	4.8	268.3
Personal Loans	434.1	18.5	14.0	-26.3
Others	380.4	16.2	8.6	70.5
Total	2350.1	100.0	9.0	28.7



(5.0) Interest Rates

The Bank's policy rate, the rediscount rate, declined to 15.0 per cent at end-June 2006 from 17.0 per cent at end-March 2006. Mirroring this development, the discount rate on treasury bills fell to 14.5 per cent from 15.9 per cent last quarter.

Short-term deposit rates remained unchanged as in the previous quarter ranging from 1.25-4.0 per cent. At end-June 2006, banks deposit rates ranged between 5.0 and 14.0 per cent compared to 5.0 and 17.0 per cent at end-March 2006 whilst lending rates ranged between 19 and 29.0 per cent relative to 21.0 and 31.0 per cent.

(6.0) Liquidity Position of Commercial Banks

The total liquid assets of the commercial banks increased to D3.2 billion in the second quarter of 2006, or by 23.7 per cent from the first quarter. This is attributable to the significant increase in reserves and investment in treasury bills. The reserves of commercial banks constituting 76.0 per cent of total liquid assets increased to D2.4 billion, or by 25.2 per cent relative to the preceding quarter while investment in treasury bills rose by 19.0 per cent.

Table: The Liquidity Position of Commercial banks**(in millions of Dalasi)**

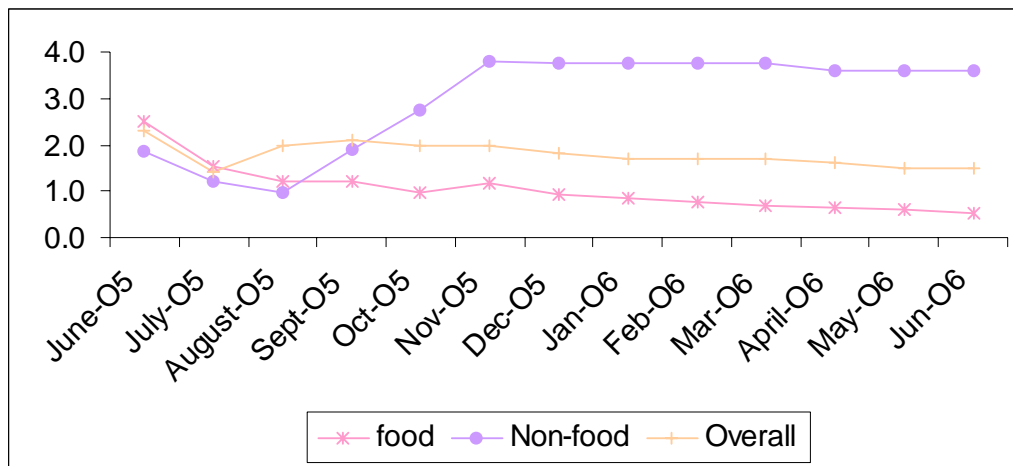
	Quarter 1	Quarter 2	Percentage Change
Total Liquid Assets	2564.19	3171.15	23.67
Reserves	1949.49	2440.00	25.16
Deposits @ CBG	761.22	852.95	12.05
Cash Holdings	126.52	142.02	12.25
Foreign cash holdings	121.08	108.24	-10.60
Foreign Bank Balances	940.67	1336.79	42.11
T/CBG Bills	612.2	728.65	19.02
Gov't Dev't Stock(182 Days)	0	0	0.00
Other Liquid Assets	2.5	2.5	0.00
Required Liquid Assets	1427.27	1539.83	7.89
Excess Liquidity	1136.92	1631.32	43.49
in % of Requirement	80%	106%	
Required cash Reserve	857.76	921.01	7.37
Excess Cash Reserve	1091.73	1518.99	39.14
in % of Requirement	127%	165%	

The required liquid assets of deposit money banks, based on a statutory requirement of 30.0 per cent of total liabilities to the public increased marginally to D1.5 billion, or by 7.9 per cent over the previous quarter. Commercial banks continue to maintain liquidity above the statutory level. Excess liquidity totalled D1.6 billion, or 106.0 per cent of the requirement compared to D1.1 billion or 80.0 per cent last quarter.

(7.0) Consumer Price Index (CPI)

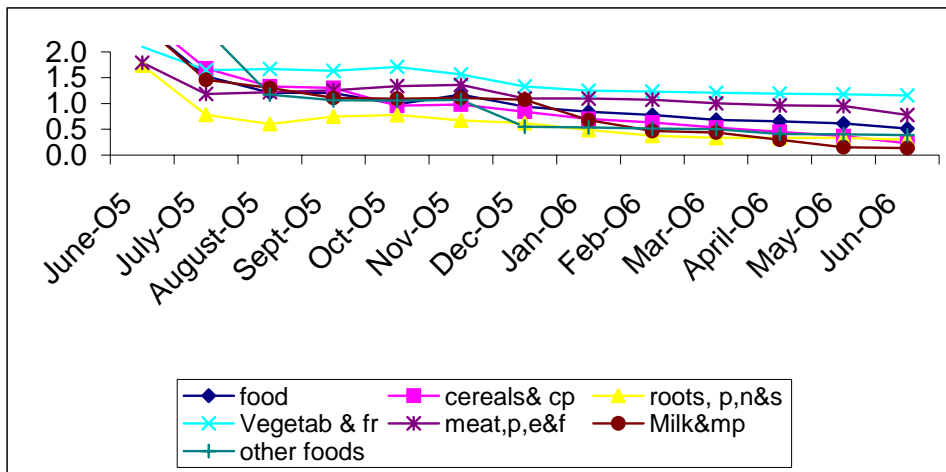
End-period inflation, measured by the consumer price index of low income population of Banjul and Kombo St Mary's area, declined from 1.7 per cent in March 2006 to 1.5 per cent at end-June 2006. The average inflation rate (12 month moving average) was 1.8 per cent compared to 2.2 per cent in the previous quarter.

Chart 1: Inflation June 05- June 06



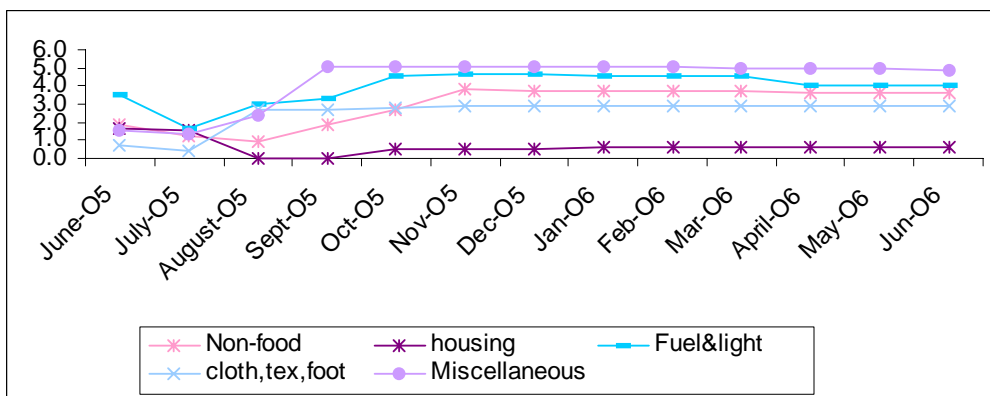
Food consumer price inflation declined to 0.5 per cent compared to 0.7 per cent in March 2006. "Cereals and cereal products", "meat, poultry, eggs and fish", "milk and milk products" and other foods consumer price inflation decelerated to 0.2 per cent, 0.8 per cent, 0.1 per cent and 0.4 percent compared to 0.5 per cent, 1.0 per cent, 0.4 and 0.5 per cent respectively in the previous quarter. On the other hand, the consumer prices of "roots, pulses, nuts and seeds", and "vegetables and fruits" remained unchanged during the quarter.

Chart 2: Food Inflation June 05- June 06



Non-food consumer price inflation declined to 3.6 per cent compared to 3.7 per cent at end-March 2006 as a result of a deceleration in the prices of "Fuel and light" and "miscellaneous items". However, the consumer price inflation of "housing" and "clothing, textiles and footwear" remained unchanged at 0.7 per cent and 2.9 per cent respectively in June 2006.

Chart 3: Non-Food Inflation June 05- June 06



(7.1) Core Measures of Inflation

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

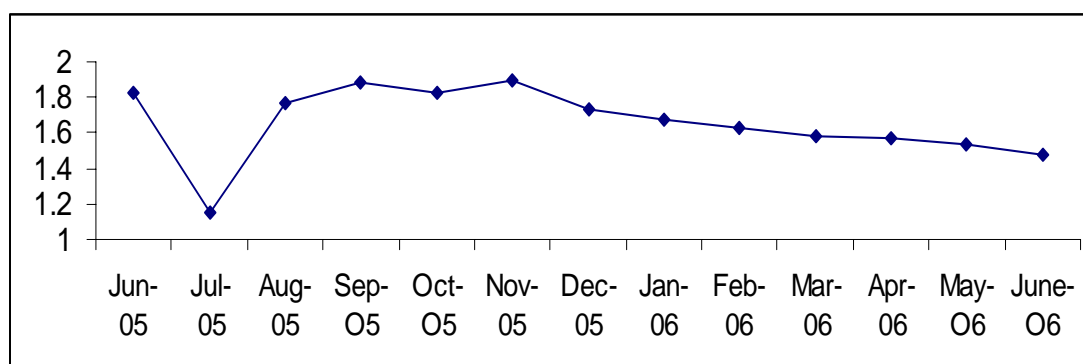
stripped out by excluding prices of energy and utilities (fuel, light and transportation) and volatile food items.

The first measure of core inflation (Core 1), which excludes energy prices (fuel, light and transportation) declined from 1.6 percent in March 2006 to 1.5 per cent in June 2006.

Table 1: Core1 (excluding energy and transportation)

	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	April-06	May-06	June-06
Estimated core CPI	2268	2270	2273	2296	2271	2300	2300	2300	2301	2301	2301	2302	2302
Yr. on yr. inflation	1.82	1.15	1.77	1.88	1.83	1.89	1.73	1.67	1.63	1.58	1.57	1.54	1.48

Chart 4: Core 1 Implied year-on-year inflation

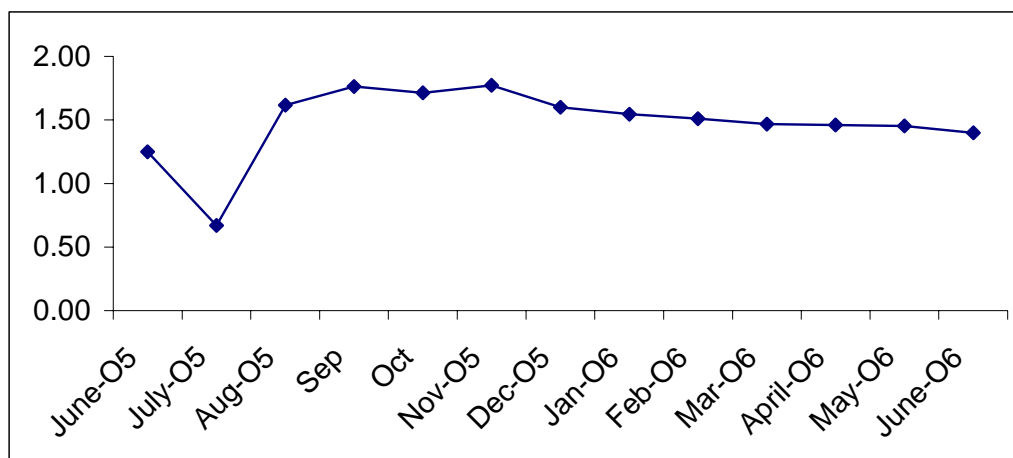


Core 2, which strips out prices of energy and utilities and volatile food items (“meat, poultry, eggs and fish”, “tobacco and tobacco products”, “cereals and cereal products”, and “processed foods”) declined from 1.5 per cent in March 2006 to 1.4 per cent in June 2006.

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

	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	April-06	May-06	June-06
Estimated core CPI	1098	1098	1099	1111	1099	1112.5	1112.4	1112.5	1112.6	1112.6	1112.9	1113.1	1113.1
yr-on-yr inflation	1.25	0.67	1.62	1.76	1.71	1.77	1.60	1.54	1.51	1.47	1.46	1.45	1.40

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



(8.0) FOREIGN EXCHANGE DEVELOPMENTS

The inter-bank foreign exchange market was quite vibrant in the first half of 2006, due in the main to increased inflows of foreign direct investment, tourism receipts, re-exports and private remittances. The large foreign inflows coupled with subdued inflationary pressures, improved business confidence and healthier macroeconomic fundamentals caused the Dalasi to remain stable in the second quarter of 2006.

(8.1) Volume of Transactions

Volume of transactions, that is total purchases and sales of foreign currencies in the inter-bank market, totalled D8.1 billion in the quarter ending June 2006, compared to D7.6 billion in the previous quarter. Compared to the quarter ending June 2005, transaction volumes rose by 62.5 per cent. Central Bank combined purchases and sales totalled D0.70 billion during the quarter under review compared to D0.22 billion in the previous quarter.

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

	2005				2006	
	Q1	Q2	Q3	Q4	Q1	Q2
Purchases	3364.81	2318.08	2293.04	3200.10	3812.57	4277.55
Sales	3169.75	2670.01	2162.19	3471.10	3800.59	3826.36
Total	6534.56	4988.09	4455.23	6671.20	7613.16	8103.91

(8.2) Market Share of Key Currencies

The dollar continues to be the most traded currency in the inter-bank foreign exchange market with an increased market share of 66.5 per cent in the quarter ending June 2006, compared to 57.6 per cent in the quarter ending March 2006. From the corresponding quarter last year, the dollar recorded 6.2 percentage point increase from a market share of 60.3 per cent in the quarter ending June 2005.

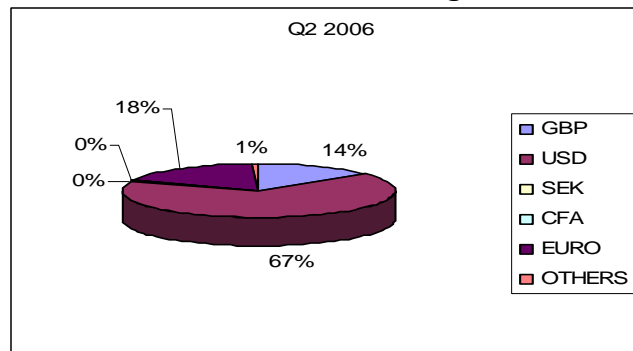
Table 2: Market share of Major Currencies Traded in the Inter-Bank Market (Quarterly)

	2005				2006	
	Q1	Q2	Q3	Q4	Q1	Q2
USD	56.98	60.3	60.6	56.3	57.6	66.5
Pound	17.5	18.9	14.3	19.8	19.6	14.4
CFA	0.4	0.9	0.6	0.4	0.4	0.5
EURO	22.3	18.1	19.7	21.2	20.2	17.5
SEK	1.1	0.5	0.2	0.7	0.7	0.3
Others	1.7	1.2	1.4	1.5	1.4	0.8

In contrast, the market share of the pound sterling and Euro declined to 14.4 per cent and 17.5 per cent compare to 19.6 per cent and 20.2 per cent respectively in the first quarter of 2006.

The market share of the CFA franc remained virtually unchanged during the quarter under review compared to the previous quarter, standing at 0.5 per cent. On annualized basis, the market share of the CFA franc declined by 55.5 per cent from 0.9 per cent in the quarter ending June 2005 to 0.4 per cent in the quarter ending June 2006.

Figure 1: Average market share of key currencies in the inter-bank Market as at Quarter ending June 2006 (per cent)



(8.3) Exchange Rate Movements

For the quarter ending June 2006, the dalasi depreciated against the Pound sterling, Swedish Kroner, CFA franc and Euro by 3.61 per cent, 0.29 per cent, 4.17 per cent, and 3.16 per cent respectively, but appreciated slightly against the U.S dollar by 0.32 per cent.

Year-on-year, the dalasi appreciated against all the major currencies except the Pound Sterling and Euro. It appreciated against the U.S dollar, Swedish Kroner and CFA franc by 0.3 per cent, 4.2 per cent, and 1.6 per cent respectively and depreciated against the pound Sterling and the Euro by 0.37 per cent and 2.10 per cent respectively.

Table 2: Exchange Rate Movements

	GBP	USD	SEK	CFA	EURO
2005 Q1	54.32	29.22	394.42	285.20	37.46
Q2	50.81	28.14	371.01	271.70	34.20
Q3	50.21	28.18	354.51	249.61	34.17
Q4	49.78	28.13	347.07	251.90	33.71
2006 Q1	49.22	28.14	354.19	256.62	33.85
Q2	51.00	28.05	355.25	267.35	34.92

(9.0) FISCAL DEVELOPMENTS

Domestic Revenue and Grants

Domestic revenue and grants totaled D785.7 million at the end of quarter two, 2006, compared to D796.2 million at the end of the first quarter of 2006. Compared to second quarter projection, domestic revenue and grants was less by D38.4 million or 4.9 per cent. Direct taxes rose by 4.3 per cent to D697.7 million at the end of the quarter under review from D210.7 million at end-March 2006. In the same period, indirect taxes fell to D458.8 million. Non-tax revenue decline by 21.4 per cent from D79.4 million in the first quarter to D62.4 million at end-June 2006.

During the quarter under review, grants increased by 157.0 per cent to D25.7 million from the previous quarter. Grants for the end-June quarter of 2006 were 61.6 per cent higher than projected.

(9.1) Expenditure and Net Lending

Total expenditure and net lending at the end of the second quarter was D1,222.6 million, D414.4 million or 51.3 per cent, higher than the previous quarter. Also, expenditure and net lending was 3.9 per cent higher than projected.

The largest sub-category increase was the 44.8 per cent rise in current expenditures from D569.9 million in quarter one to D825.2 million in the second quarter. Overall interest payments also increased by D47.1 million to D295.6 million at the end of the review quarter.

Capital expenditure and net lending rose by 66.7 per cent, to D397.4 million at the end of the quarter ending June 2006. This was 18.9 per cent higher than the budget estimate of D322.4 million.

The overall budget deficit including grants was in the equivalent of D442.6 million at the end of quarter two, which was 9.6 per cent higher than projected. However, the budget deficit excluding grants, and without HIPC assistance, amounted to D436.9 million, falling below quarter two projection by 19.6 per cent.

PART II

(1.0) DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

Global GDP growth continued its robust pace in 2006 – provisional estimates now suggest that world GDP rose by 5.2 percentage points in the year to the first quarter, up from 4.9 percentage points in the fourth quarter of 2005. However, there are risks to the global economy mainly relating to inflation fears, rising global imbalances, high and volatile oil prices.

(2.0) Euro zone

The European Commission revised its estimate for economic growth in the euro zone to 2.1 percent in 2006, up from the 1.9 percent initially projected. Rising oil and gas prices gave the euro zone a bigger-than-expected trade deficit to the tune of \$2.5 billion after recording a 0.6 billion euro surplus in March 2006.

The ECB earlier this month voted to raise euro zone interest rates by one quarter of a percentage point to 2.75 percent, as widely expected. This was in response to rising inflation which rose to 2.5 percent in May, above the 2.0 percent target level on the back of higher energy prices and economic recovery.

(3.0) United States

The US economy grew at an annual rate of 5.3 percent in the first quarter of 2006, faster than the initial estimate of 4.8 percent. However, according to the minutes of the Federal Open Market Committee, released in early June, growth is likely to moderate.

The US current account deficit decreased to \$208.7 billion in the first quarter of 2006, helped by steadier oil prices. This compares favorably with the \$223.1 billion recorded in the preceding quarter and equaled 6.4 percent of GDP but this is expected to rise next quarter as oil prices rise.

(4.0) Japan

Japan is still experiencing steady economic recovery – in the first quarter of 2006, its economy grew at 3.1 percent, the fifth consecutive quarter expansion. Its equity markets, however, took a tumble in the second week of June amid concerns over inflation and higher interest rates. The Nikkei dropped 4.1 percent on the 8th of June alone amid concerns that rising US interest rates would stem growth and hit Japan's export market.

Japan's core consumer prices, which exclude fresh food, rose by 0.5 percent in the year to April, the sixth straight month of inflation. Industrial production grew by 3.8 percent over the same period.

Although the Bank of Japan is moving towards ending five years of zero interest rates, it has been urged to wait by the government, which fears the move would suffocate the country's steady economic recovery.

(5.0) China

Chinese investment surged higher in the first five months of this year, and the economy expanded at an annual rate of 10.3 percent in the first quarter of 2006. China's trade surplus widened to a record \$13 billion in May and there were big increases in industrial output, retail sales and money supply during the same month.

(6.0) United Kingdom

The British economy has also been plagued by inflation, mainly driven by higher gas and electricity bills. UK inflation rose to 2.2 percent in May, from 2 percent the month before. This means that the consumer price inflation has now risen above the government's 2 percent target. As demonstrated by its governor, the Bank of England does not deem this to be a very serious problem as yet, and it voted to keep rates at 4.5 percent for the tenth month in row at its last meeting. However, it is anticipated that the next move in rates will be up.

(7.0) Commodity Prices

Wheat

The Food and Agriculture Organization's Food Outlook Report forecast a 10 million tonne decrease in world wheat production this year in the face of a strong demand outlook that is expected to drive up world trade in 2006/07 to 110 million tonnes. The world balance sheet for 2006/07 is expected to show a sharp decline in inventories to a level not seen over the last three decades. Barring weather problems, wheat prices are forecast to remain generally high and volatile in the new season.

(8.0) Coarse Grains

Supported by a robust demand from the ethanol sector, a potential revival in feed use and tighter supplies, international prices have rebounded in recent months. While trade is expected to remain unchanged in 2006/07 at around 105 million tonnes, world coarse grain production in 2006 is forecast to decline by 13 million tonnes.

(9.0) Sugar

World sugar prices reached their highest level in 25 years in February 2006, when raw sugar prices exceeded US\$ 0.19 per pound. The increases in sugar prices were mainly attributed to rising global energy prices as well as the continued supply deficit in the world sugar market for the third consecutive year.

Sugar production is expected to grow by 3 percent to 149.7 million tonnes in 2006 with consumption rising by 2 percent. World sugar prices are expected to remain firm at current levels for the rest of 2006.