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Overview

Monetary developments in the first three months of 2006 were characterized by a moderate increase in reserve money and money supply due in the main to the easing of monetary policy by the Central Bank.

Deposit money banks' lending to major economic sectors in the first quarter of 2006 rose by 8.7 percent quarter-on-quarter, this was 10.2 percentage points higher than the previous quarter. Lending to distributive trade, tourism and agriculture registered noticeable growths, increasing by 11.8 per cent, 118.5 per cent and 39.4 per cent, respectively from end-2005.

Owing to the improvements in the economic fundamentals and the low risk of inflation, the Central Bank's Monetary Policy Committee reduced the policy rate, (the rediscount rate), by 2 percentage points to 17.0 per cent at end-March 2006. During the review quarter, there were no changes in the lending and deposit rates of deposit money banks (DMB) relative to the previous quarter. However, it is anticipated that the DMBs would eventually reduce both lending and deposit rates in line with the monetary policy stance of the Central bank.

End-period inflation, as measured by the consumer price index of the low income population of Banjul and Kombo St Mary area, declined from 4.9 percent in March 2005 to 1.7 percent at end-March 2006. Average inflation rate (12 month moving average) of 2.2 percent for the period compare favourably with 11.2 per cent a year earlier.

In the inter-bank market for foreign exchange, the volume of transactions at D7.6 billion during the review quarter was buoyant, rising by 12.4 per cent in terms of purchases and sales. The exchange rate of the Dalasi vis-à-vis the major international currencies remain relatively

stable as a result of strong macro-economic fundamentals and increased inflows of foreign direct investment, tourism and private remittances.

Domestic revenue was in the equivalent of D786.2 million in the first quarter of 2006, relative to budget projection of D752.5 million. Total expenditure and net lending at D808.2 million was D166.9 million or 20.6 per cent lower than the budgeted figure of D975.1 million. Outturn for all categories of expenditure registered lower expenditure relative to the first quarter budget estimate.

Part I

DEVELOPMENTS IN THE DOMESTIC ECONOMY

MONETARY DEVELOPMENTS

(1.0) Monetary Policy

Monetary policy in the first quarter of 2006, continued to focus on sustaining progress toward achieving price and exchange rate stability and a viable external position. Due in the main to a highly stable domestic environment characterized by stable exchange rate and low inflation, interest rates were further reduced.

(2.0) Money Supply Growth

During the quarter under review, broad money supply (M2) rose by 6.7 percent from D6.1 billion at end-December 2005 to D6.5 billion.

Narrow money (M1) comprising currency outside banks and demand deposits grew to D3.5 billion, or by 6.7 percent from the previous quarter. Currency outside banks' increased by 8.8 percent, while demand deposits rose by 5.1 percent.

Quasi money or time and savings deposits grew from D2.8 billion in December 2005 to D3.8 billion in March 2006. Savings deposits increased by 7.5 percent compared to a decline of 0.4 percent in the last quarter of 2005. Time deposits increased by 5.2 percent relative to 28.4 percent at end-2005.

(3.0) Factors Affecting Money Supply

The growth in broad money was due entirely to developments on the external front as the net foreign assets of the banking system expanded, offsetting the contractionary impact in net domestic assets on money supply.

(a) Net Foreign Assets (NFA)

The net external position of the banking system rose to D3.8 billion at end-March 2006 from D3.2 billion at end-December 2005, representing an increase of D0.6 billion or 19.6 percent. This was largely on account of the significant expansion in the NFA of deposit money banks, as they acquired more international reserves. Whilst the external assets of the Central Bank (Bank) grew by D107.2 million during the quarter under review, its liabilities declined by D30.1 million. As a result, the NFA of the Bank increased to D2.2 billion, or by 6.6 percent quarter-on-quarter.

(b) Net Domestic Assets (NDA)

The net domestic assets of the banking system contracted by 7.0 percent to D2.8 billion, stemming from the marked increase in other items net which went up by 89.8 percent, reflecting the substantial growth in the revaluation account. Private sector credit rose from D1.7 billion in December 2005 to D1.9 billion in March 2006, due in the main to increase lending to agriculture, tourism and distributive trade sectors. Government net credit position with the banking system deteriorated further to D895.55 million at the end of the quarter under review from D773.55 million at end-December 2005.

(3.1) Reserve Money

Reserve money rose by 8.8 percent compared with 5.2 percent in the previous quarter. The acceleration reflected an increase of 7.9 percent

and 8.1 percent in currency issued and deposit money banks' reserves at the Central Bank respectively.

(3.2) Supply of Reserve Money

The NFA of the Central Bank rose to D2.2 billion, or by 6.5 percent from the previous quarter owing to a 3.9 percent growth in gross official reserves coupled with a decline of 4.7 percent in foreign liabilities. The Bank's NDA increased to D267.0 million or by 6.0 percent from last quarter due mainly to the decline in Government's surplus position with the Central Bank. Government surplus position with the Bank dropped to D943.0 million at end-March 2006 from D988.6 million at end-2005, reflecting reduced revenue inflows.

(3.3) Demand for Reserve Money

Currency issued increased by 2.7 percent from the fourth quarter of 2005 to D1.7 billion. Similarly, deposit money banks' reserves (deposits with the Central Bank) went up by 34.1 per cent from end-2005.

(4.0) Commercial Bank Loans and Advances to Major Economic Sectors

Deposit money banks lending to major economic sectors in the first three months of 2006 rose by 8.7 percent, quarter-on-quarter reflecting 10.2 percentage points higher than the previous quarter. The acceleration can be attributed mainly to corporate demand, with businesses increasing their recourse to short-term credit as economic activity increases.

The growth in lending was most pronounced in sectors with the highest turnover such as distributive trade, tourism and agriculture. Bank lending to the distributive trade sector (24.8 percent of total credit) increased by 11.8 percent to D535.1 million from the quarter ending

December 2005. Year-on-year credit to the sector went up by 28.8 per cent.

Tourism which accounts for 7.6 percent of overall bank credit increased sharply to D164.8 million or by 118.5 per cent from the fourth quarter of 2005. On an annual basis, lending to the tourism sector rose by 330.1 per cent. The rapid growth in lending to this sector is explained by the expansion in the number of hotels, resulting from increased tourist arrivals.

Lending to the agricultural sector amounting to D419.7 million grew markedly by 39.4 percent over the last quarter. Loans to the sector as a percentage of overall outstanding credit rose to 19.5 percent from 15.2 percent in the preceding quarter.

Unclassified advances decreased significantly by 10.6 per cent from the previous quarter whilst fishing and building/construction grew moderately by 2.6 per cent and 0.2 percent respectively during the quarter under review.

In the first quarter of 2006, deposit money banks' (DMBs) lending to consumer households (personal loans) decreased by 28.7 percent to D380.9 million. Similarly, loans and advances extended to the transportation sector declined to D127.1 million, or by 4.8 percent from end-2005.

(5.0) Liquidity Position of Commercial Banks

The Central Bank continues to monitor the liquidity position of the DMBs through the control of their cash reserves and liquidity ratios. This together with open market operations helps to regulate liquidity in the economy.

DMBs total liquid assets increased to D2.6 billion or 19.2 percent from the previous quarter, reflecting increases in cash holdings and foreign bank balances. Deposit money banks' foreign bank balances and local cash holdings rose by 126.4 percent and 12.5 percent, to D940.7 million and D126.5 million respectively at end-March 2006. In contrast, banks holdings of Treasury bills and foreign cash declined by 9.8 percent and 32.6 percent respectively from the previous quarter.

The required liquid assets of DMBs on a statutory requirement of 30.0 percent of total liabilities to the public, stood at D1.4 billion compared to D1.3 billion in the preceding quarter. DMBs continue to maintain liquidity levels in excess of statutory requirement. Excess liquidity stood at D1.1 billion, or 80.0 per cent of liquidity requirement.

(6.0) Interest Rates

Owing to the improvement in the economic fundamentals and the low risk to inflation, the Bank's Monetary Policy Committee reduced the policy rate, (rediscount rate), by 2 percentage points to 17.0 percent at end-March 2006. The discount rate on Treasury bills, mirroring the decline in the policy rate fell to 15.9 percent.

During the review quarter, there were no changes in the lending and deposit rates of DMBs relative to the previous quarter. Lending rates ranged from 21.0 percent to 30.0 percent whilst deposit rates ranged from a minimum of 5.0 percent for 3 months to a maximum of 17.0 percent for 12 months. However, it is anticipated that the banks would eventually reduce both lending and deposit rates in line with the monetary policy stance of the Central Bank.

(7.0) Treasury Bills

Total outstanding Government Treasury Bills at end-March 2006 decreased to D3.7 billion or by 3.5 percent (at discounted value) from the previous quarter. However, year-on-year outstanding bills increased by 12.6 per cent.

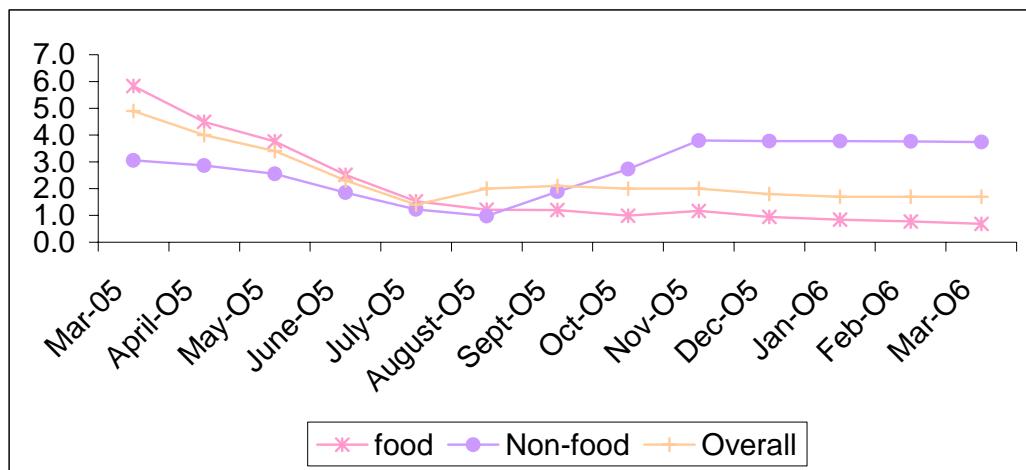
Banking sector holdings of Treasury bills grew to D2.0 billion at end-March 2006, or by 4.2 percent. DMBs holdings at D1.8 billion on March 31, 2006, grew by 4.3 per cent from end-December 2005 and accounts for 50.0 per cent of overall outstanding Treasury bills. Central Bank holdings of government securities increased marginally from D110.29 million in December 2005 to D111.79 million in March 2006.

Non-bank holdings of Treasury bills continued its downward trend which began in August 2005. Non-bank stock of Treasury bills declined to D1.7 billion, or by 10.8 percent from the previous quarter. Public entities Treasury bills holdings which accounts for 61.7 percent of the non-bank stock decreased by 7.8 percent to D1.1 billion at end-March 2006 while private sector holdings fell to D0.7 billion, or by 15.2 percent.

(8.0) Consumer Price Index (CPI)

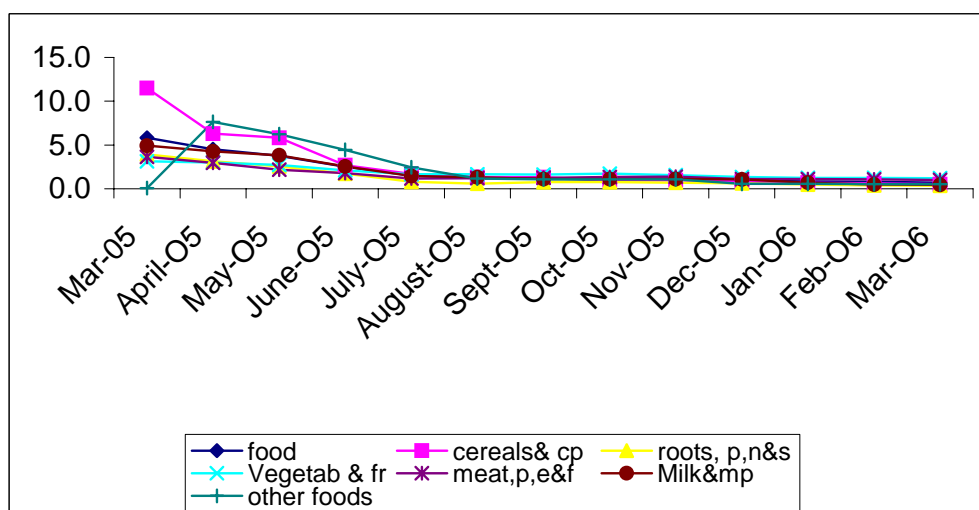
End-period inflation, measured by the consumer price index of low income population of Banjul and Kombo St Mary area, declined from 4.9 percent in March 2005 to 1.7 percent at end-March 2006. Average inflation rate (12 month moving average) was 2.2 per cent compared to 11.2 per cent a year earlier.

Chart 1: Inflation March 05- March 06



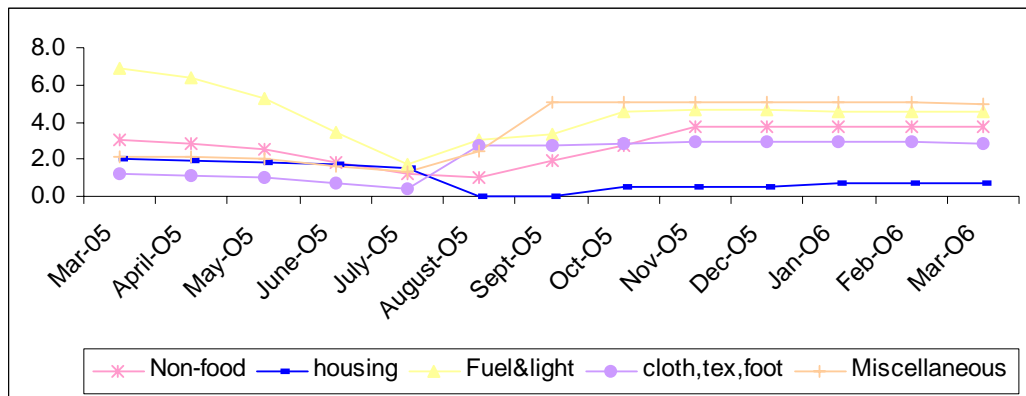
Food consumer price inflation declined to 0.7 percent compared to 5.8 percent in March 2005. "Cereals and cereal products", " roots, pulses, nuts and seeds", " vegetables and fruits", "meat, poultry, eggs and fish", and "milk and milk products" consumer price inflation decelerated to 0.5 percent, 0.3 percent, 1.2 percent, 1.0 percent, and 0.4 percent compared to 11.5 percent, 3.9 percent, 3.1 percent, 3.7 percent, and 4.9 percent respectively in the previous year. However, consumer price inflation of other foods sub-group rose from 0.1 percent in March 2005 to 0.5 percent in March 2006.

Chart 2: Food Inflation March 05- March 06



Non-food consumer price inflation rose to 3.7 percent compared to 3.1 percent at end-March 2005 as a result of the increase in the prices of “clothing, textiles and footwear”, and “miscellaneous items”, to 2.9 percent, and 5.0 percent compared to 1.2 percent and 2.2 percent respectively in the preceding year. On the other hand, the consumer price inflation of “housing” and “fuel and light” declined to 0.7 percent and 4.5 percent from 2.0 percent and 6.9 percent respectively in March 2005.

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



(8.1) Core Measures of Inflation

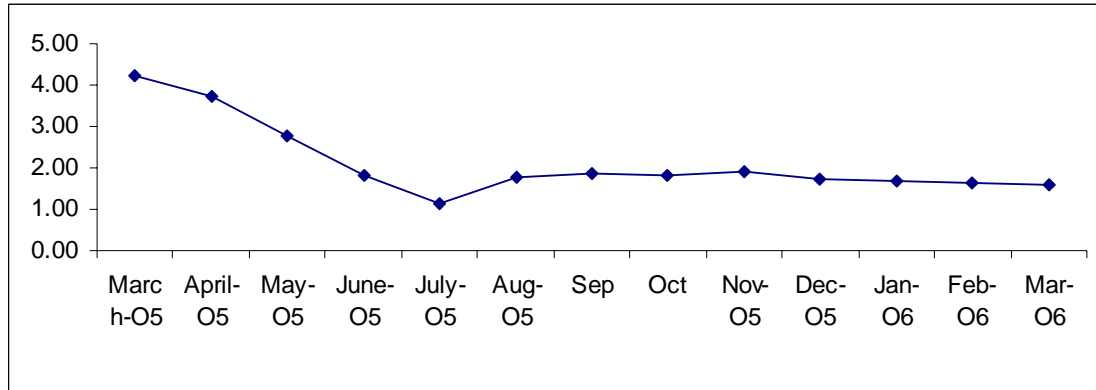
The measures of core inflation attempt to strip out the effects of temporary disturbances (noise) from the headline inflation in order to uncover underlying inflation. The so-called noise in headline inflation is striped out by excluding prices of energy and utilities (fuel, light and transportation) and volatile food items.

The first measure of core inflation (Core 1), which excludes energy prices (fuel, light and transportation) declined from 4.2 per cent in March 2005 to 1.6 per cent in March 2006.

Table 1: Core 1(excluding energy and transportation)

	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06
Estimated core CPI	2265	2266	2267	2268	2270	2273	2296	2271	2300	2300	2300	2301	2301
yr.-on yr.-inflation rat	4.2	3.7	2.8	1.8	1.2	0.9	1.9	0.7	1.9	1.7	1.7	1.6	1.6

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

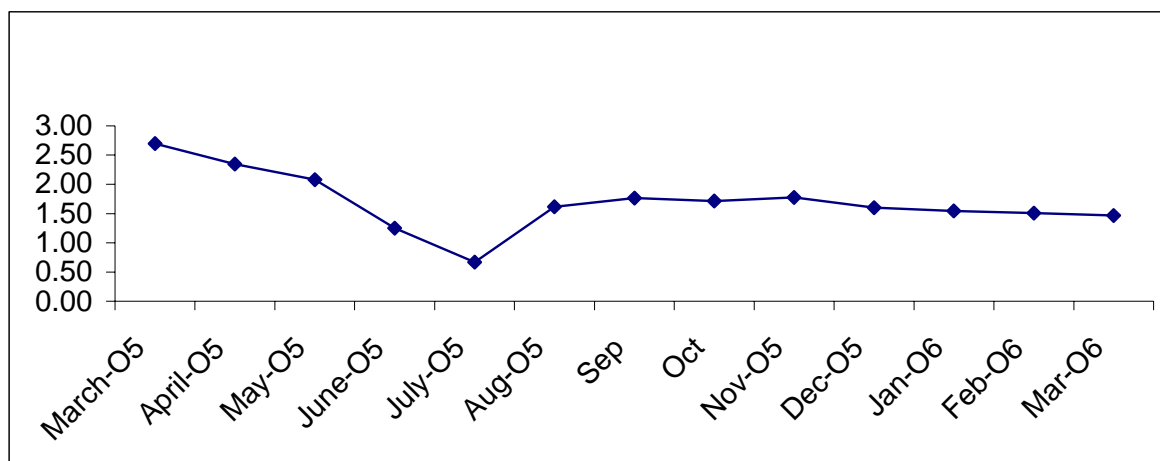


Core 2 which strips out prices of energy and utilities and volatile food items (“meat, poultry, eggs and fish”, “tobacco and tobacco products”, “cereals and cereal products”, and “processed foods”) also decelerated from 2.7 percent in March 2005 to 1.5 percent in March 2006.

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

	Mar-05	Apr-05	may-05	June-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06
Estimated core CPI	1097	1097	1097	1098	1098	1099	1111	1099	1112.5	1112.4	1112.5	1112.6	1112.6
yr-on-yr inflation	2.7	2.4	2.1	1.3	0.7	0.7	1.7	0.5	1.8	1.6	1.5	1.5	1.5

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



(9.0) Foreign Exchange Developments

In the inter-bank market for foreign exchange, the volume of transactions as measured by aggregate purchases and sales was D7.6 billion at the end of quarter one, 2006, representing a buoyant rise of 12.4 percent. The exchange rate of the Dalasi vis-à-vis the major international currencies remain relatively stable as a result of strong macro-economic fundamentals and increased inflows of foreign direct investment, travel income and private remittances.

(9.1) Volume of Transactions

Transaction volumes grew by 14.1 percent to D7.6 billion in the first three months of 2006 relative to the fourth quarter of 2005. Year-on-year transaction volumes increase by 16.5 per cent. During the period under review, the volume of transaction was evenly split between purchases and sales.

Sales as proxy of demand for foreign currency amounted to D3.8 billion, reflecting an increase of D329.5 million or 9.5 percent. Purchases, indicative of supply rose to D3.8 billion, or by 19.1 percent.

(9.2) Market share of Key Currencies

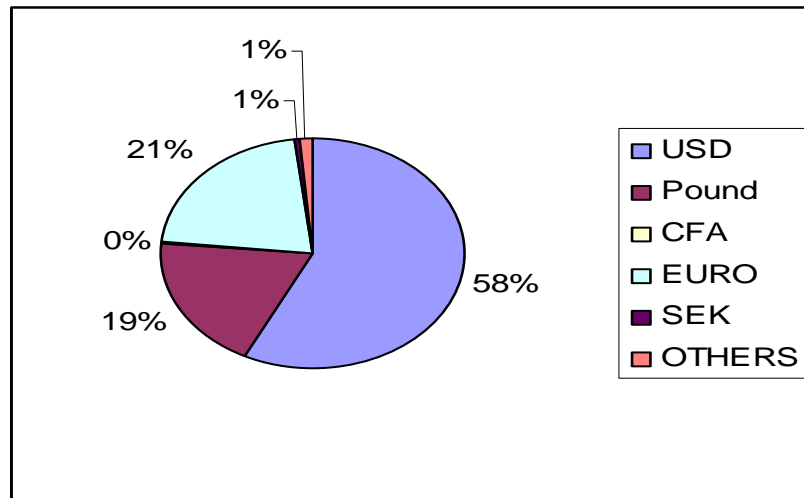
The US Dollar continues to maintain its dominant position in the inter-bank market with a market share of 57.7 percent compared to 56.3 percent in the preceding quarter.

Table 2: Market share of Major Currencies

	2005				2006
	Q1	Q2	Q3	Q4	Q1
USD	56.98	60.3	60.6	56.3	57.7
Pound	17.5	18.9	14.3	19.8	19.6
CFA	0.4	0.9	0.6	0.4	0.4
EURO	22.3	18.1	19.7	21.2	20.2
SEK	1.1	0.5	0.2	0.7	0.7
Others	1.7	1.2	1.4	1.5	1.4

The Great Britain Pound Sterling's market share decreased slightly to 19.6 percent during the quarter under review against 19.8 percent in the last quarter of 2005. However, the Euro also recorded a decreased market share of 20.2 percent from 21.2 percent in the previous quarter. Similarly, the market shares of unclassified currencies fell to 1.4 percent from 1.5 percent at end-2005. However, the CFA franc and Swedish kroner maintained their market shares of 0.4 percent and 0.7 percent respectively from the preceding quarter.

Figure 1: Average market share of key currencies



(9.3) Exchange Rate Movements

The performance of the Dalasi vis-a-vis the major currencies in the inter-bank market was mixed. While the Dalasi gained ground against all the currencies year-on-year, quarter-on-quarter it depreciated against all except the pound sterling.

Table2: 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

The Dalasi depreciated by 0.03 percent, 2.1 percent, 1.9 percent and 0.4 percent against the US Dollar, Swedish Kroner, CFA franc and the Euro respectively, but it strengthened against the pound Sterling by 1.1 percent.

(9.4) Outlook for the Dalasi in 2006

Owing to improved macro-economic fundamentals, increased foreign inflows, (FDI, tourism, remittances, re-exports) and adequate reserve cover as well as implementation of prudent monetary policies, the Dalasi is forecasted to remain stable in the remainder of 2006. However, there are risks to the forecast particularly relating to high oil prices and expansionary fiscal policy.

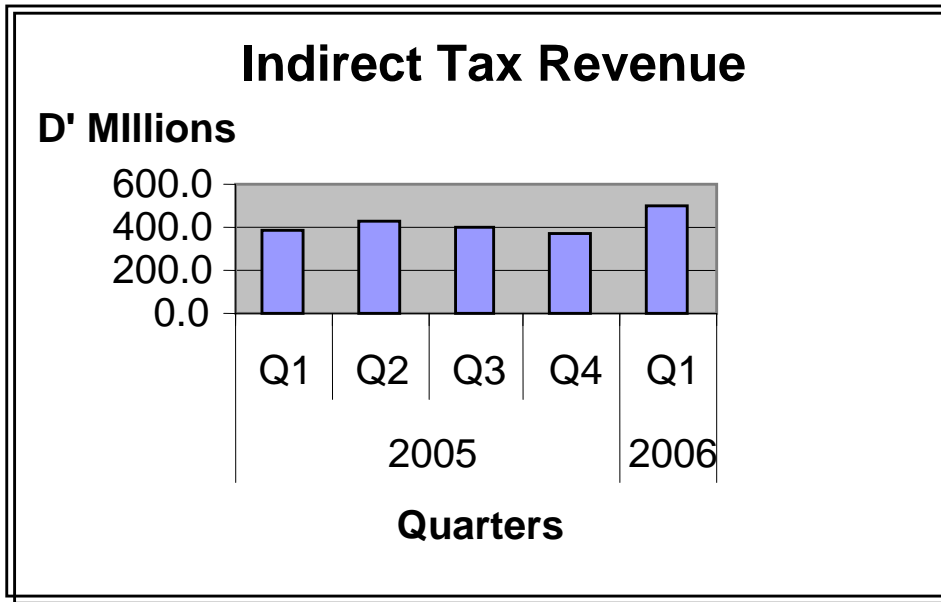
(10.0) Government Fiscal Operations

Preliminary figures showed that government's domestic revenue performance have improved significantly in the first quarter of 2006 compared to the first quarter of 2005. Revenue performance in the first three months of 2006 was above budget projections by D33.7 million or 4.3 percent.

Expenditure and net lending in the first quarter of 2006 was substantially lower than what obtained in the corresponding period of 2005. Consequently, the fiscal deficit in the first quarter of 2006 was lower compared to the first quarter of 2005.

(10.1) Domestic Revenue and Grants

Domestic revenue outturn was D 786.2 million in the first quarter of 2006, against the budgeted revenue of D752.5 million. Compared to the first quarter of 2005, domestic revenue registered an increase of D137.8 million, or 21.2 per cent.



Direct tax revenue totaled D706.8 million, (D38.0 million or 5.7 per cent) above the budgeted figure of D668.7 million. Revenue from indirect taxes amounting to D496.1 million stood above the budgeted amount of D458.8 million by D37.3 million (8.1 per cent). Taxes on international trade recorded an increase of D89.2, from the first quarter of 2005 to stand at D379.9 million at end-quarter one 2006. When compared to the budget for the first quarter of 2006, international trade taxes stood above target by D24.5 million or 6.9 per cent. More specifically, duty collected on oil and oil products increased significantly by D65.9 million or 83.9 per cent when compared to the corresponding quarter of 2005. This item recorded the largest increase relative to the budget than any other tax item, attributed in the main, to duty increases.



Non-tax revenue amounted to D79.4 million compared to the budget estimate of D83.9 million, due mainly to shortfalls in revenue from government fees and charges and revenue from Customs and Excise Department (CED). Revenue from telecommunications licenses amounted to D0.2 million during the first quarter of 2006.

(10.2) Expenditure and Net Lending

Total expenditure and net lending at D808.2 million was D166.9 million (20.6 per cent) lower than the budgeted figure of D975.1 million. Outturn for all categories of expenditure registered lower spending when compared to the first quarter, 2006 budget estimate.

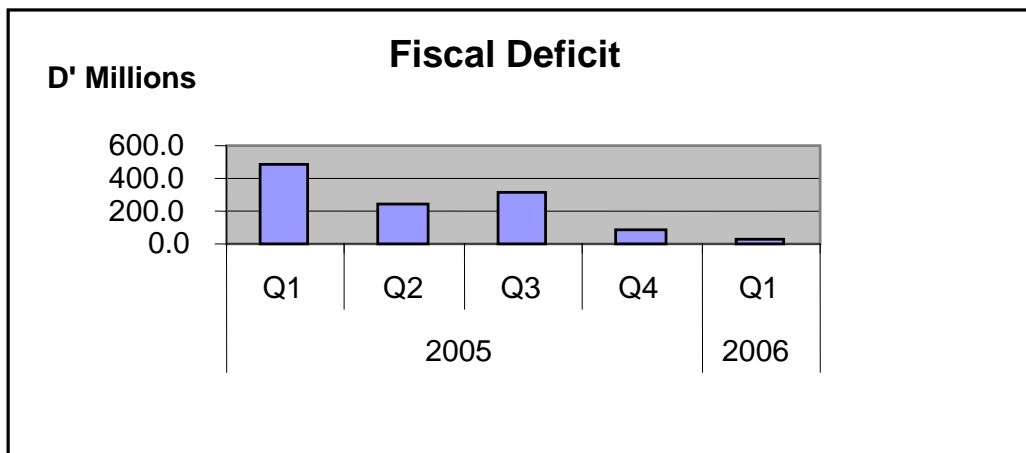
In particular, interest payment (domestic and external) at D248.5 million was below budget by D5.6 million or 2.2 percent. Domestic interest payments amounted to D179.1, lower than the budget figure of D186.5 million by D7.4 million or 4.1 percent. Also, expenditure on other unclassified charges and Government Local Fund (GLF) capital expenditure stood below budget by D60.8 million and D11.2 million respectively. Outturn on personal emoluments (i.e. wages and salaries) was D40.2 million below budget.

(In D' millions)

	Outturn	Budget	Deficit/surplus
Expenditure and Net Lending	808.2	975.1	166.9
Personal Emoluments	159.4	199.6	40.2
Interest	248.5	254.1	5.6
GLF BTL Project Accounts	9.6	20.8	11.2
Extra budgetary Expenditure	0	-	
Other charges	162.1	222.9	60.8

(10.3) Fiscal Deficit

The overall budget deficit including grants amounted to D22.0 million, lower than the quarterly budget deficit estimate of D175.2 million. Quarter-on-quarter analysis showed that the 2006 first quarter budget deficit was also lower than the deficit of D484.8 million recorded in 2005. However, the first quarter budget deficit, excluding grants and without HIPC assistance, amounted to only D12.0 million.



PART II

DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

(1.0) World Economic Outlook

Forecast of the world economy growth rate of 4.3 percent in 2006 has been revised upwards by 0.6 percentage points to 4.9 percent. This was prompted mainly by upward revisions for China, Russia, and India, but also by higher than expected growth in Japan, and strong improvements in emerging market economies.

Inflationary pressures remain surprisingly modest. Global headline inflation has picked up slightly in response to higher oil prices, but core inflation remains little affected and inflationary expectations remain subdued.

However, there are risks to the global economy mainly relating to high and volatile oil prices, a tightening in financial market conditions, rising global imbalances, and fears of a U.S. housing price bubble burst.

United States

United States GDP growth is expected to moderate to 3.4 percent in 2006, still the highest among G-7 countries. Although the US economy experienced a surprisingly weak fourth quarter growth in 2005, data indicates a relatively strong start to 2006, with a more abrupt slowdown in the housing market, the most significant risk.

U.S. manufacturing growth slowed unexpectedly in March as is depicted by the factory shipping index dipping to 55.2, below February's reading of 56.7. The US trade deficit fell to US\$65.7 billion in February, from January's US\$68.6 billion. Exports were down 1.2

percent while imports declined 2.3 percent. The deficit with China fell to US\$13.8 billion from US\$17.9 billion.

The US Federal Reserve, as expected, raised interest rates for the fifteenth time in a row by a quarter point to 4.75 percent on Tuesday, March 28, and signaled that further increases might be needed to guard against inflation.

Euro zone

Despite a slowdown in the last quarter of 2005, the economies in the Euro zone seem to be rebounding, although, still vulnerable to domestic and external shocks.

Employment in the Euro zone rose above the 50 percent level, the barrier between contraction and expansion. The output prices component also rose to a 13-month high of 54.4, which reinforced expectations for a Euro zone rate-rise in May.

United Kingdom (UK)

Growth in the UK slowed to 1.8 percent in 2005, driven by a slowdown in consumption in response to the cooling of the housing market, earlier monetary policy tightening, and higher energy prices, while business investment and export growth have remained steady.

Although growth is expected to pick up 2.5 percent in 2006, the UK purchasing managers manufacturing index, this March, fell to its lowest level since August 2005, reinforcing expectations that UK rates will remain on hold for the time being. The index fell to 50.8 in March from 51.5 in February.

In March, UK inflation slowed unexpectedly after a dip in milk and dairy goods prices and a fall in the cost of airfares. Consumer price inflation rose 1.8 percent in March, down from 2.0 percent in February.

Japan

In Japan, the economy continues to grow, in line with inflation, land prices, and bank lending. The improving labour market supports consumption growth. The challenge for Japan is how to normalize monetary and fiscal policies without setting back the ongoing recovery.

Accordingly, Japanese data released a month later (in April) shows further moves away from deflation, adding to speculation that Bank of Japan may soon start to raise interest rates. The consumer price index rose 0.4 percent in the year to February, continuing the recovery from the prolonged deflation.

China

China's economy grew at an annual rate of 10.0 per cent in the first quarter of 2006 on the back of accelerating exports and resurgent bank lending. Overall, GDP is expected to slow modestly this year to 9.5 percent, from 9.9 percent in 2005. Risks attributed to this robust level of growth are apparent, given that without further tightening measures the ample liquidity in the banking system could underpin a rebound in lending and investment. China's external position has continued to strengthen, and foreign exchange reserves increased by over US \$200 billion in 2005.

The People's Bank of China on April 27, raised interest rates for the first time in 18 months. The benchmark one-year lending rate was raised

from 5.58 percent to 5.85 percent while the central bank's one-year benchmark deposit rate remain unchanged at 2.25 percent.

Africa South of the Sahara

The economic outlook in Africa South of the Sahara remains positive, with growth of 5.8 percent projected this year – the highest rate in over thirty years. This outlook is underpinned by high commodity prices, improved macroeconomic policies, and structural reforms in some countries. However, the acceleration in growth is largely due to the oil-producing countries, where capacity increases in Angola and the Republic of Congo south of the Sahara are expected to drive a substantial pick-up.

Overview of the World Economic Outlook Projections				
<i>(Annual percent change unless otherwise noted)</i>				
	2004	2005	2006	2007
World Output	5.3	4.8	4.9	4.7
Advanced economies	3.3	2.7	3.0	2.8
United States	4.2	3.5	3.4	3.3
Euro area	2.1	1.3	2.0	1.9
Germany	1.6	0.9	1.3	1.0
France	2.1	1.4	2.0	2.1
Japan	2.3	2.7	2.8	2.1
United Kingdom	3.1	1.8	2.5	2.7
Other Advanced economies	4.6	3.7	4.1	3.7
Other emerging market and developing countries	7.6	7.2	6.9	6.6
Africa	5.5	5.2	5.7	5.5
Sub-Saharan	5.6	5.5	5.8	5.7
Developing Asia	8.8	8.6	8.2	8.0
China	10.1	9.9	9.5	9.0
India	8.1	8.3	7.3	7.0
Middle East	5.4	5.9	5.7	5.4

Source: IMF World Economic Outlook Projections, April 2006

Commodity Prices

Crude Oil

According to the IMF, high energy prices are “exacerbating” global economic imbalances and increasing the risks of a crisis. High oil prices are increasing the US trade deficit and the recycling of petrodollars is driving down interest rates, providing an unsustainable boost to US private consumption.

The global market has remained tight and is gradually becoming more susceptible to short-term events reflecting concerns about future supply in the face of limited excess capacity among members of the Organization of the Petroleum Exporting Countries (OPEC). Oil prices, since January 2006, have fluctuated between the \$60-\$75 range, due to renewed geopolitical concerns in Iraq, Nigeria, and the Islamic Republic of Iran. While a mild winter in the US has provided some breathing space, the oil market is likely to experience strong consumption growth and production uncertainties. The International Energy Agency (IEA) projects global oil consumption growth of 1.5 million barrels per day in 2006.

Non-oil Commodities

According to the IMF, non-oil commodities and energy price indices increased by over 29.0 percent in 2005, on surging fuel and base metals prices. Energy prices rose by 39 percent, reflecting increases in oil and natural gas prices. Looking ahead, limited excess capacity in the oil sector is likely to persist well beyond 2006, and prices will continue to respond to geopolitical events.

Investors continued to buy bullion for protection against the falling US Dollar. Gold has risen 8 percent this year and touch a 25-year high on 8th February after the US Dollar fell 1.5 percent against the Euro. Gold has rallied 32.0 percent over the past year as investors' poured money into commodities, seeking better returns than those available from US stocks and bonds.

