FOR AGENDA

EBS/84/68

CONFIDENTIAL

March 27, 1984

To: Members of the Executive Board

From: The Secretary

Subject: The Gambia - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a request from The Gambia for a stand-by arrangement equivalent to SDR 12.83 million. Draft decisions appear on pages 23 and 24.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Enweze (ext. (5)8650).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

THE GAMBIA

Request for Stand-By Arrangement

Prepared by the African Department and the Exchange and Trade Relations Department 1/

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by J.B. Zulu and S. Kanesa-Thasan

March 26, 1984

I. Introduction

In the letter dated February 29, 1984, the Government of The Gambia requests a stand-by arrangement for 15 months in an amount equivalent to SDR 12.83 million, or 75 percent of quota of SDR 17.1 million. Of this amount, SDR 6.415 million each would be made available under ordinary and borrowed resources. Under the one-year stand-by arrangement approved by the Executive Board on February 22, 1982, The Gambia satisfied all the performance criteria under the program, and made all the purchases, equivalent to SDR 16.9 million (98.8 percent of quota), under the arrangement.

As of February 29, 1984, the Fund's holdings of Gambian dalasis subject to repurchase amounted to SDR 26.88 million, or 157.2 percent of quota, of which SDR 17.9 million was from purchases under the credit tranches and SDR 9.0 million (52.6 percent of quota) under the compensatory financing facility.

Assuming that the full amount of the proposed stand-by arrangement is purchased, after taking account of prospective repurchases, the Fund's holdings of Gambian dalasis subject to repurchase would increase to SDR 31.9 million or 186.6 percent of quota of which 166.6 percent would be under tranche policies.

1/ Discussions that provided the basis for the proposed stand-by arrangement were held in Banjul during the periods August 31-September 11, 1983 and January 4-20, 1984. Staff members participating in the missions were Mr. Enweze (head-AFR), Ms. Doizé (AFR), Mr. Kalinga (AFR), Mr. Richupan (FAD), Mr. Mansur (FAD), Mr. Rennhack (ETR), Mrs. John (secretary-AFR), and Mrs. Coker (secretary-AFR); Mr. Bhatia (AFR) joined the January 1984 mission for part of its visit.

Under the phasing of the proposed stand-by arrangement (Table 1), purchases may be made in six installments. An amount equivalent to SDR 2.63 million (20.5 percent of the amount of the stand-by arrangement) would be available upon Fund approval of the arrangement. The next purchase of SDR 2.25 million would be subject to observance of the quantitative performance criteria for end-June 1984 and the completion of the first review of the program. The remaining SDR 7.95 million will be available in three equal installments of SDR 2.25 million each and a final one of SDR 1.2 million.

II. Recent Economic Developments and Performance under the last Stand-By Program

During the fiscal years, 1981/82 and 1982/83, The Gambia made considerable progress, particularly when viewed against the difficult political and economic circumstances under which the program was implemented. GDP in real terms increased by 7.7 percent in 1981/82 and 10.5 percent in 1982/83 largely as a result of improved weather conditions and because of producer pricing policies adopted as part of a Fund-supported program. The overall budgetary deficit (excluding grants) was broadly in line with program targets both in 1981/82 and 1982/83; specifically, the ratios of these deficits to GDP were 20.3 percent in 1981/82 (program target 19.2 percent) and 12.6 percent in 1981/82 (program target 12.7 percent). Bank financing of the deficit, which amounted to -0.4 percent of GDP in 1981/82 (program target 1.0 percent of GDP) rose 1/ to 3.8 percent in 1982/83 (program target 0.9 percent of GDP). The excess (2.9 percent of GDP) of bank financing over the program target is accounted for by the failure of programed Stabex grants totalling D 9.6 million (1.8 percent of GDP) and programed external loans amounting to D 4.9 million (0.9 percent of GDP) to materialize; in addition, income tax payments amounting to D 2.5 million (0.5 percent of GDP) which were expected to be received by June 30 were paid into the Government's account in the first week of July. Both the Stabex receipts and the external loans were specifically expected to finance the local cost component of the development budget; in the event, bank financing, which had been used in the expectation of these receipts, could not be retired.

Credit to the private sector rose moderately in 1981/82 and 1982/83, while credit to the Gambia Produce Marketing Board (GPMB) increased substantially in both years primarily because of the slump in groundnut prices which caused the GPMB's losses to amount to D 32.4 million and D 31.2 million in 1981/82 and 1982/83, respectively. In contrast, all the agricultural credits extended in both years were recovered, compared with average recovery rates of less than one-third in the two-year period preceding the program year of 1981/82; similarly, unlike in previous years,

1/ Most of the increase in bank financing took place in the second half of the fiscal year after the expiration of the stand-by arrangement.

Table 1. The Gambia: Fund Position during Period of Arrangement, 1984-85

	Outstanding at beginning of arrangement Feb. 29, 1984	1984 April-June	1984 July Sept.	1984 Oct.-Dec.	1985 Jan.-March	1985 April-June	1985 July-Sept.
			(In thousands of SDRs)				
Transactions under tranche policies (net)	--	2.430	2.050	2.050	2.067	1.891	358
Purchases	--	2.630	2.250	2.250	2.250	2.250	1.200
Ordinary resources	--	1.315	1.125	1.125	1.125	1.125	600
Enlarged access resources	--	1.315	1.125	1.125	1.125	1.125	600
Repurchases	--	200	200	200	183	359	842
Ordinary resources	--	200	200	200	183	359	503
Enlarged access resources	--	--	--	--	--	--	339
Transactions under special facilities (net)	--	--	-1.125	-1.125	-1.125	-1.125	-1.125
Purchases	--	--	--	--	--	--	--
Repurchases	--	--	-1.125	-1.125	-1.125	-1.125	-1.125
Total Fund credit outstanding (end of period)	26,880	29.110	30.035	30.960	31.902	32.668	31.901
Under tranche policies	17,880	20.110	22.160	24.210	26.277	28.168	28.526
Special facilities	9,000	9.000	7.875	6.750	5.625	4.500	3.375
			(As percent of quota) 1/				
Total Fund credit outstanding (end of period)	157.21	170.23	175.64	181.05	186.56	191.04	186.56
Under tranche policies	104.58	117.60	129.59	141.58	153.67	164.33	166.82
Special facilities	52.63	52.63	46.05	39.47	32.89	26.32	19.74

Source: IMF.

1/ Repurchases equivalent to SDR 200,000 were effected in March 1984.

all the crop financing credits were recovered in 1982/83 as a result of intensified monitoring of crop credits set up under the Fund-supported program. The annual inflation rate, which remained stable at around 8 percent between 1980/81 and 1982/83, compared with program targets of 11 percent and 10 percent, respectively, rose to about 10 percent during the second half of calendar 1983.

The current account deficit (excluding grants) of the balance of payments was reduced from 45.9 percent of GDP in 1980/81 to 34.6 percent in 1981/82 (program target 30.3 percent), and to 29.5 percent in 1982/83 (program target 23.6 percent); the excess over the program targets in both years was largely due to the lower-than-programed export receipts on account of the unanticipated record drop in groundnut export prices. While overall balance of payments pressures eased in 1981/82 (when external arrears were reduced by SDR 11.3 million to SDR 8.4 million by end-June 1982), such pressures re-emerged in the later half of 1982/83, after the expiration of the Fund-supported program, as evidenced by the SDR 29.1 million increase in external arrears to SDR 37.5 million by end-June 1983. By end-December 1983, The Gambia's external imbalance had deteriorated further: external arrears and other short-term foreign liabilities increased by an additional SDR 11.0 million between June and December 1983 because of expansionary fiscal and credit policies.

Developments in the first half of this fiscal year indicate that the budget has been highly expansionary as reflected by the large increase in bank financing. Claims on Government by the banking system rose by 46.8 percent or 4.6 percent of GDP in the six-month period as against 21.4 percent or 1.5 percent of GDP last year. The deterioration is largely the result of lower-than-anticipated revenue on account of the downturn in economic activity and of supplementary appropriations. Most of the 21 percent increase in claims on the private sector by the banking system reflects the normal seasonal demand by the agricultural sector. Meanwhile, The Gambia's financial and economic difficulties have been aggravated by the drought which has seriously affected agricultural production during the current 1983/84 crop year: the authorities estimate that food-grain production will be around 40 percent lower than in 1982/83 and that groundnut purchases by the GPMB at about 100,000 tons will be 20 percent less than in 1982/83.

Data on The Gambia's external debt are being revised with Fund technical assistance. Revised data indicate that The Gambia's external disbursed official debt outstanding, which stood at SDR 141 million in June 1982, rose to SDR 168 million in June 1983, and that the ratio of debt service payments to export earnings, which stood at 17 percent in 1982/83, will reach 19.9 percent in 1983/84.

The dalasi is pegged to the pound sterling. After appreciating by 5.5 percent in the period January 1978 to December 1980, its real trade-weighted exchange rate depreciated by 10.4 percent between the first quarter of 1981 and the last quarter of 1983 (see Chart). However, recent information is that the dalasi was trading at a discount of 20-30 percent against the CFA franc in the open market.

The Gambia continues to maintain a relatively liberal system of trade and payments.

III. Summary of the Financial Program

1. Targets

a. The external current account deficit before official transfers is programed to decline by 13.2 percentage points of GDP from 29.5 in 1982/83 to 20.7 percent in 1983/84 and to 16.3 percent in 1984/85, the overall balance of payments deficit which stood at SDR 28.5 million (15.2 percent of GDP) in 1982/83 will be reduced to SDR 6.4 million (3.3 percent of GDP) in 1983/84, and brought to a surplus of SDR 2.1 million (1.1 percent of GDP) in 1984/85.

b. The domestic inflation rate is projected to increase from around 8.0 percent in 1982/83 to 11.0 percent in 1983/84 and to 12.5 percent in 1984/85.

2. Assumptions

a. Nominal GDP is projected to increase by 12.7 percent in 1983/84 and by 16.1 percent in 1984/85; this estimate assumes no growth in real GDP in 1983/84 and a 3 percent growth in 1984/85, and is based on the assumption of a return to normal rainfall conditions in 1984/85.

b. Purchases of groundnuts by the GPMB are expected to recover from an estimated 100,000 tons in 1983/84 to 125,000 tons in 1984/85.

c. The prevailing high export prices of groundnuts and groundnut oil will hold throughout the current 1983/84 marketing season, and the terms of trade, which are estimated to have improved by 53 percent in 1983/84 on account of the high export prices for groundnut products, will deteriorate by about 32 percent in 1984/85 as groundnut prices return to more normal levels.

d. Official capital inflows in 1984/85 are based on planned development expenditure and its normal foreign financing components.

3. Principal elements of the program

a. Fiscal policies

The overall budget deficit excluding grants is programed to decline to 12.2 percent of GDP in 1983/84 compared with 12.6 percent in 1982/83; domestic bank financing of the budget deficit will be limited to D 15.0 million (2.5 percent of GDP). The budget for 1984/85 will be designed to reduce the overall deficit to 10.0 percent of projected GDP and the associated domestic bank financing to D 11.0 million (1.6 percent of projected GDP).

To achieve the 1983/84 fiscal targets, the program envisages an increase in revenue by 23.2 percent; this increase reflects the effects of a number of new revenue measures proposed in the budget and additional measures (2.5 percent of GDP) to be implemented as part of the program. The authorities have identified expenditure savings amounting to D 6.7 million on current expenditure and D 1.4 million from the Gambia Local Fund (GLF) contribution to the development budget.

Expenditure control will be monitored through a system of quarterly allotments, to ensure that no excess expenditures are incurred. The domestic counterparts of all external official obligations will continue to be deposited in a special blocked account at the Central Bank of The Gambia at the time the obligations fall due.

b. Money and credit

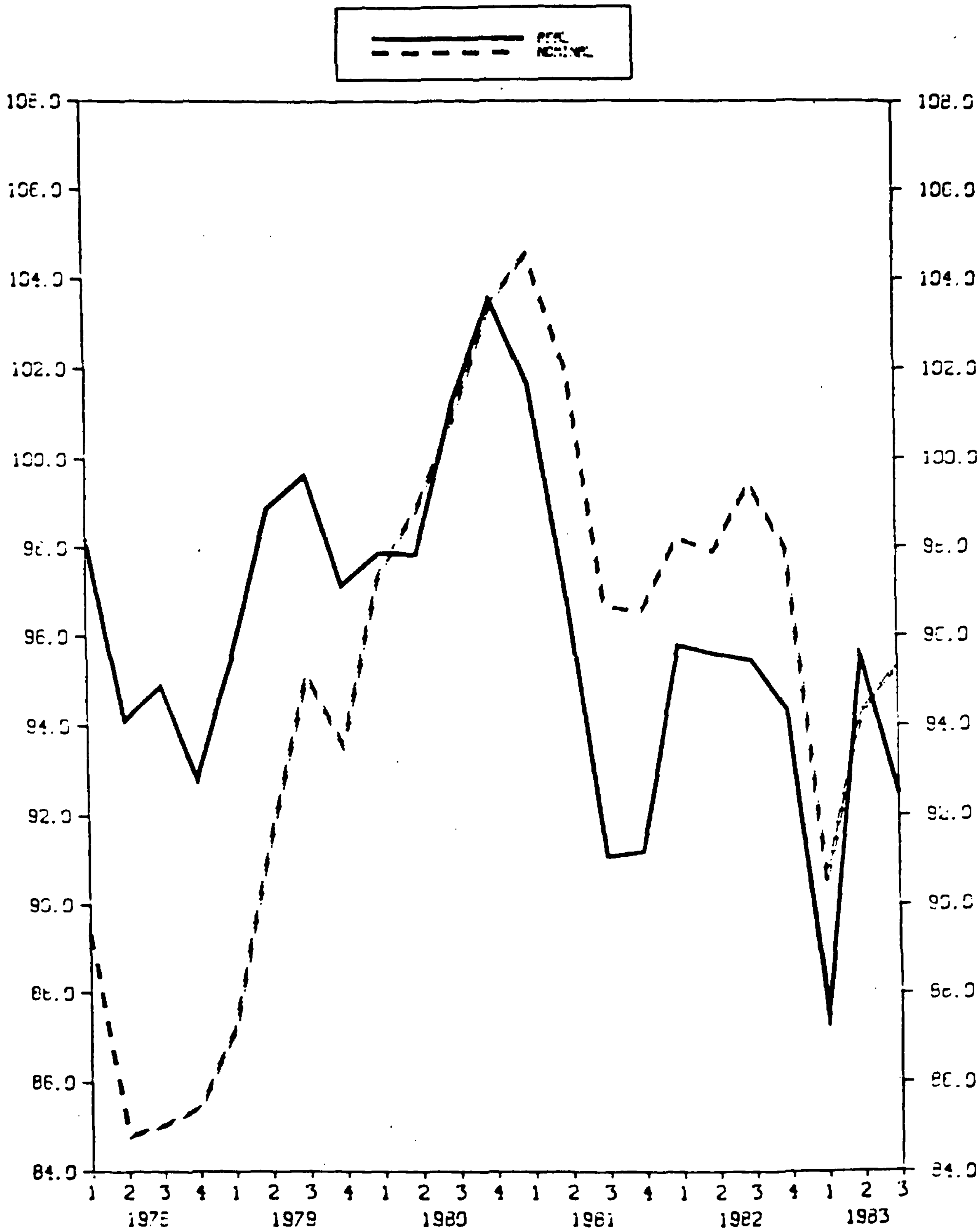
Quarterly ceilings for June 1984 have been established as performance criteria for (a) total domestic bank credit, (b) net credit to Government from the banking system, and (c) net credit to GPMB from the banking system. Indicative targets have been set for March 1984. Total domestic credit is programed to expand by 12.8 percent in 1983/84 (38.5 percent in 1982/83) and by 5.5 percent in 1984/85, while broad money is projected to increase by 4.9 percent in 1983/84 (35.0 percent in 1982/83) and by 12.8 percent in 1984/85.

Interest rates on commercial bank deposits have been raised by 2 percentage points. During the period of the program, the Central Bank of The Gambia will align the global quarterly quantitative ceilings on commercial bank credit to the private sector to the private sector credit targets implicit in the overall credit ceilings.

c. External sector

The authorities have devalued the dalasi from D 4 to D 5 per pound sterling effective February 25, 1984.

THE GAMBIA: REAL AND NOMINAL EFFECTIVE
EXCHANGE RATES
(INDEX: 1980 = 100) 1/



Source: IMF Exchange and Trade Relations Department.

1/ Trade-weighted

No new nonconcessional external loans in the 1-12 years maturity range will be contracted or guaranteed by the Government. In addition, the Government will neither contract nor guarantee new nontrade credits with an initial maturity of less than 1 year, except for SDR 7 million of loans for bridging purposes.

External arrears are to be reduced through cash payments by SDR 1.35 million during the first half of 1984 and by a further SDR 3.47 million by end-June 1985.

d. Prices and production

The producer price of groundnuts was reduced by 13.5 percent on November 30, 1983. Producer prices for rice and cotton will be increased by 10 percent and 20 percent, respectively, by end-June 1984. The authorities have increased the price of rice to reflect the pass-through of devaluation effects. These prices will be reviewed during the first and second review of the program.

The authorities do not intend to grant salary increases during the current 1983/84 fiscal year; the policy for the 1984/85 fiscal year will be reviewed at the time of the first review of the program.

e. Reviews

The first review which will take place by August 31, 1984 will cover understandings on:

(i) the performance criteria for September 1984 and December 1984;

(ii) details of fiscal policies for 1984/85;

(iii) producer prices of all agricultural commodities; and

(iv) prices of electricity, water, and petroleum prices.

The second review will take place by end-December 1984 and will determine performance criteria for end-March 1985 and end-June 1985.

The outline of policies to be implemented during the 1985/86 fiscal year will be agreed with the Fund before the last purchase under the stand-by arrangement.

IV. The 1983/84 and 1984/85 Adjustment Program

The broad objectives of the program are to reduce internal and external imbalances, while at the same time supporting the Government's efforts to diversify and restructure the economy. Accordingly, the external current account deficit will be reduced from 29.5 percent of GDP in 1982/83 to 16.3 percent in 1984/85. Over the medium-term, the Government also intends to limit the overall balance of payments deficit to a sustainable level and to substantially eliminate external arrears. Several policies being implemented by the authorities should facilitate the realization of these targets. These policies include the 25 percent devaluation of the dalasi effected in February 1984, a reduction in the budget deficit and the associated bank financing, the reduction in the producer price of groundnuts implemented in November 1983, the planned reduction in the growth of total domestic credit, higher interest rates, and improvements in resource allocation through the price mechanism, with special emphasis on economic pricing in the parastatal sector, including public utilities. Indeed, most of the increase in the expected inflation rate in 1983/84 and 1984/85 is directly attributable to the program's emphasis on bringing about many of the needed adjustments and the improvements in resource allocation through the price mechanism.

The main policies under the program and the performance criteria under the stand-by arrangement are described in detail in the following sections. Detailed targets and policies have been formulated for the balance of FY 1983/84; the Government will reach understandings with the Fund on a detailed financial program for 1984/85 at the time of the first review of the program by end-August 1984. Meanwhile, the main targets and policies for 1984/85, which are essential for the overall consistency of the financial program, have been incorporated in formulating the program and are summarized in Table 2. The outline of policies to be implemented during 1985/86 will be agreed with the Fund before the last purchase under the proposed stand-by arrangement. The performance criteria for end-June 1984 are described in Annex II of the Attachment.

1. Production and investment policies

The Government's diversification and restructuring program is being implemented in the context of the Second Five-Year Development Plan (SFYDP) 1981/82-1985/86. The public investment program of the Plan has been revised to take account of changes in the scope and timing of key projects and the physical implementation and financial constraints experienced in FYs 1981/82 and 1982/83. The revised program adheres closely to the development strategy laid down in the Second Plan; investment in agriculture accounts for about 27 percent of the revised program, reflecting the continuing emphasis on increasing agricultural production. Several projects in the manufacturing sector, which were to be funded using external commercial loans, have been shelved because of the deteriorating external

Table 2. The Gambia: Selected Economic and Financial Indicators, 1979/80-1984/85

	1979/80	1980/81	1981/82	1982/83	1983/84 Prog Est.	1984/85 Prog Est.
	(Annual percentages, unless otherwise specified)					
National income and prices						
GDP at constant prices	-9.9	-0.8	7.7	10.5	--	3.0
GDP deflator	9.9	4.9	7.8	2.3	12.7	12.7
Consumer prices	5.0	7.9	8.2	7.9	11.0	12.5
External sector (on the basis of SDRs)						
Exports, f.o.b.	15.8	-21.4	-2.0	4.1	29.2	-14.2
Imports, c.i.f.	43.9	-9.3	-6.2	6.1	2.0	-21.7
Export volume, f.o.b.	43.4	-40.5	15.6	82.9	2.3	25.0
Import volume, c.i.f.	21.4	-19.4	-23.6	3.0	-1.9	-25.0
Terms of trade (- deterioration) 1/	-32.0	11.5	-31.4	-20.6	53.0	-31.4
Nominal effective exchange rate (- depreciation) 2/	4.6	5.1	-4.1	-3.7	...	...
Real effective exchange rate (- depreciation) 2/	-3.5	1.5	-1.2	--	...	...
Government finances						
Revenue and grants	18.1	-4.1	42.6	-14.3	28.2	14.3
Total expenditure	17.6	11.1	17.5	-4.9	17.7	9.9
Money and credit						
Domestic credit	38.2	15.6	17.1	38.5	12.8	5.5
Public sector	...	...	38.3	76.0	4.9	3.0
Government	...	...	-4.3	55.8	25.8	15.1
GPMB	...	...	101.5	90.8	-7.1	-6.4
Private sector	...	...	6.9	15.4	20.3	7.6
Money and quasi-money	--	18.3	14.4	35.1	4.8	12.8
Velocity (GDP relative to M2)	5.6	4.6	4.7	3.9	4.2	4.4
Interest rate (annual rate) 3/	8.0	8.0	9.0	12.0	14.0	...
	(In percent of GDP)					
Central Government						
Overall deficit (excluding grants)	11.0	19.6	20.3	12.6	12.2	10.0
Overall budget deficit (including grants)	8.4	13.6	8.0	9.4	7.6	6.1
Domestic bank financing	1.0	1.0	-0.4	3.9	2.5	1.6
Foreign financing	7.4	12.5	7.7	5.7	4.9	4.4
Gross domestic investment	29.0	27.2	26.0	21.1	18.0	18.6
Gross domestic savings	-4.5	-0.6	2.8	3.4	8.7	13.2
Current account deficit	-38.0	-45.9	-34.6	-29.5	-20.7	-16.3
External debt 4/						
Including IMF	29.4	44.1	71.0	87.0	102.0	94.0
Excluding IMF	25.4	32.5	51.0	65.0	86.0	78.0
Debt service (ratio to exports)	...	2.0	7.2	17.0	19.9	33.6
	(In millions of SDRs, unless otherwise specified)					
Overall balance of payments deficits	16.6	-8.6	-14.5	-28.5	-6.4	2.1
Gross offficial reserves (weeks of imports, end of period)	2.4	8.5	2.2	1.4	1.7	2.2
External payments arrears (end of period)	8.96	19.7	8.4	37.5	41.2	37.8

Sources: Data provided by the Gambian authorities; and staff estimates.
1/ The export price index reflects groundnut prices only.
2/ Import-weighted; averages of quarterly figures.
3/ Level in percent.
4/ 1979/80 and 1980/81 debt figures not comparable to the rest.

debt position. The level of investment for the Second Plan period has been scaled down to D 417.8 million as against the original plan of D 475.0 million, while the proportion of foreign financing (firm commitments) of development expenditures has been increased from 83.5 percent in the original plan document to 87.0 percent, reflecting the domestic financial constraints. Actual implementation of the program will continue to be limited during 1983/84 and 1984/85 to about 65 percent of plan targets; consequently, it is the Government's firm intention to limit development expenditures in nominal terms to no more than D 71.4 million in 1983/84 and D 84.4 million in 1984/85 as against plan targets of D 117.8 million and D 151.1 million, respectively. Consistent with the objective of conserving resources and providing short- and medium-term relief to the balance of payments, priority in the private sector will be given to the rehabilitation, maintainence, and efficient utilization of existing capital stock, particularly in the hotel industry. Private sector investment is projected to decline during the program period.

Pricing policies in the agricultural sector have been articulated under the program with a view to containing domestic demand, promoting the Government's diversification objectives, while at the same time improving the financial position of the GPMB. In this context, a major cause of the financial difficulties of the GPMB has been the financial burden of having to cover higher producer prices for groundnuts when export prices for groundnuts slumped; in 1982/83 the producer price absorbed about 96 percent of realized export price. The producer price was reduced by 13.5 percent effective November 30, 1983, from D 520 per ton to D 450 per ton; the new price still compares favorably with those in neighboring countries. In line with the Government's objective to diversify crop production, and on the basis of present price expectations, the Government intends to increase the producer prices for cotton and rice by 20 percent and 10 percent, respectively, by end-June 1984. However, all producer prices will be reviewed again during the first review of the program in light of changing circumstances, the evolution of world market prices, and the need to ensure adequate incentives to producers on all crops. Meanwhile, the Government will continue its effort to increase agricultural productivity with the assistance of the IBRD and other donors; the IBRD's Development Project II (ADP II), estimated to cost US$30.7 million, is projected to start in FY 1984/85.

With respect to the retail pricing of rice, the Government remains fully committed to the existing policy of maintaining the price of rice at a level that would at least cover costs. In this context, and in line with the increased cost of importation at the new exchange rate, the wholesale price of imported rice has been increased by 14.6 percent, from D 795 per ton to D 910 per ton, effective February 27, 1984; the GPMB which was making a profit on its rice operations at the old wholesale price is expected to break even on these operations at the new price. In line with the phased elimination of subsidies as provided for under the last program, domestic prices of fertilizers were increased in January 1984 by an average of 25 percent. The amount and timing of the increase required to reflect the exchange rate adjustment will be discussed between the Government, the IBRD, and the Fund staff in the context of ADP II, while at the same time adhering to the Government's stated objective to remove fertilizer subsidies.

In the energy sector, the Government will continue with full pass-through pricing policies for petroleum products. As a result of a break-down of the West Africa Replenishment Program (a scheme for pooling petroleum supplies to the region) and foreign exchange difficulties, The Gambia has since March 1983 been importing petroleum products from neighboring countries on a temporary basis. This arrangement has resulted in a significant increase in fuel costs because of higher procurement and handling charges. Owing to a prospective shift in the modalities for the importation of these products to substantially cheaper sources, present calculations indicate that the expected 33 percent reduction in procurement costs will offset the 25 percent devaluation, and hence, no increase in the price of petroleum products will be required on account of the exchange rate adjustment. Utility rates for electricity and water will continue to be adjusted during the program period to reflect increases in input costs. To this end, electricity and water rates will be reviewed at the time of the first review of the program, in light of understandings between the authorities and the IBRD.

The consumer price index, which rose at an annual average rate of 8.0 percent in the last two fiscal years, is projected to rise by 11.0 percent in 1983/84 and by 12.5 percent in 1984/85 primarily because of the measures being implemented under the program. With regard to wages and salary policies, the program emphasizes the need for continued moderation. The Government does not intend to grant any increase in public sector salaries for the balance of 1983/84; income and wages policy for the 1984/85 fiscal year will be examined at the time of the first review of the program.

2. Fiscal policies

In the fiscal area, the program envisages a reduction in the overall deficit (excluding grants) from 12.6 percent of GDP in FY 1982/83 to 12.2 percent in FY 1983/84 (Table 3). Data for the first half of FY 1983/84 (July-June) indicate that in the absence of corrective measures, the over-all budgetary deficit would reach 15.6 percent of GDP. The reduction in the overall deficit is expected to be achieved through revenue measures embodied in the 1983/84 budget and in the program, and through expenditure restraint. Net external financing is projected at D 28.8 million and bank financing of government deficit is to be limited to D 15.0 million (2.5 percent of GDP, or 11.3 percent of beginning money stock), compared with D 20.6 million (3.9 percent of GDP, or 20.9 percent of beginning money stock) in 1982/83.

Table 3. The Gambia: Central Government Budgetary Operations, 1981/82-1984/85

(In millions of dalasis)

	1981/82	1982/83	1983/84		1984/85
		Prel. Actual	Budget	Program	Projection
Revenue and grants	149.2	127.9	173.8	163.9	187.3
Revenue	92.2	111.0	136.7	136.7	137.9
Taxes on income	(14.8)	(11.0)	(22.3)	(12.5)	(15.5)
Domestic taxes on goods and services	(4.0)	(5.5)	(7.8)	(6.0)	(6.9)
Taxes on international trade	(60.0)	(77.8)	(85.7)	(93.4) 1/	(92.6)
Other revenue	(13.4)	(16.7)	(20.9)	(24.7) 2/	(22.9) 3/
Grants	57.0	16.9	37.1	27.3	26.6
Additional revenue target	--	--	--	--	22.8
Expenditure and net lending	186.4	177.3	252.4	208.7	229.4
Current expenditures	118.9	110.8	135.4	138.4	146.0
Development expenditure	67.5	66.5	119.4	71.4	84.4
Of which: GLF	(7.4)	(12.9)	(17.4)	(10.6) 6/	(10.8)
Net lending	--	--	-2.4	-1.0	-1.0
Overall balance					
Excluding grants	-94.2	-66.3	-115.7	-72.1	-68.7
Including grants	-37.2	-49.4	-78.6	-44.8	-42.1
Total financing (net)	37.2	49.4	78.6	44.8	42.1
Foreign financing (net)	35.8	29.7	63.9	28.8	30.0
Domestic financing (net)	1.4	19.7	14.7	16.0	12.1
Banking system	(-1.7)	(20.6)	(12.2)	(15.0)	(11.0)
Other	(3.2)	(-0.9)	(2.5)	(1.0)	(1.1)
			(In percent of GDP)		
Memorandum items:					
Current account balance					
Excluding grants	-5.8	--	0.2	-0.3	2.1
Including grants	6.5	3.3	6.5	4.3	6.0
Revenue	19.9	21.1	23.1	23.1	23.4
Total expenditure and net lending	40.1	33.8	42.7	35.3	33.4
Overall balance					
Excluding grants	-20.3	-12.6	-19.6	-12.2	-10.0
Including grants	-8.0	-9.4	-13.3	-7.6	-6.1
Bank financing	-0.4	3.9	2.1	2.5	1.6
Foreign financing	7.7	5.7	10.8	4.9	4.4

Sources: Data provided by the Gambian authorities; and staff estimates.

1/ Includes new surcharge on petroleum products (D 1.5 million), and valuation effects due to exchange rate adjustment (D 5.2 million).

2/ Includes collection of GPMB arrears (D 8.0 million).

3/ Includes collection of GPMB arrears (D 4.0 million).

The program envisages an increase of 28.2 percent in total revenue and grants from the provisional 1982/83 outturn to D 163.9 million. This increase reflects the effects of a number of new revenue measures (D 16.1 million) incorporated in the budget, the effects of the exchange rate adjustment on international trade-related taxes and valuation effects (D 8.2 million), a new surcharge on petroleum products imported from cheaper sources (D 1.5 million) and collection of arrears from the GPMB (D 8.0 million). The new revenue measures already implemented in the context of the budget include taxes on international trade (D 5.3 million), income taxes (D 5.3 million), and other domestic tax and nontax revenues (D 5.5 million) (Annex III of the Attachment). However, collection of income taxes is running below expectations, particularly on account of the difficulties being experienced by the corporate sector in meeting their tax liabilities owing to the downturn in economic activity. The projected increase in import and export duties arising from exchange rate adjustment (valuation effect) is relatively small due to an expected reduction in the real level of imports in the second half of the fiscal year under the program, and also because the new exchange rate is applicable only for the remaining four months of the fiscal year 1983/84. However, by contrast, the GPMB is expected to be in a comfortable financial position to repay its tax arrears and its current duties on imports and exports because of the exchange rate action and the recent reduction in producer prices.

The program restrains the growth of both current and development outlays (Annex III of the Attachment). The original budgetary estimates for charges other than wages and salaries and interest payments (D 52.7 million) under current expenditure reflected significant underprovisions; allowing for increases on this item due to supplementary appropriations (D 8.0 million) and contributions to the Senegambia confederal budget (D 9.5 million, which were approved in late December 1983), the revised estimate has increased to D 70.1 million. The program requires that the authorities undertake measures to save about D 4.5 million from the confederal budget, and also achieve a saving of D 2.2 million on the estimated supplementary appropriations (SAP) of D 3.5 million for the remainder of fiscal year 1983/84. 1/ It may be noted that the fiscal year for the confederal budget is more than halfway through, and no contribution has been made out of the confederal budget allocation; moreover, the Government intends that appropriate redeployment of some existing personnel will be undertaken, as necessary, to generate offsetting savings in the central government budget. Based on the actual outturn in the first six months of 1983/84, it is estimated that the saving from wages and salaries will amount to about D 8.9 million on the original budget estimate of D 63.9 million. The program also requires that, except for pressing emergencies, vacant posts will not be filled during the program period, and temporary appointments will not be allowed without advance approval.

1/ Data on supplementary appropriations for the first six months of the fiscal year indicate that some D 4.5 million had already been spent out of the estimated total SAP of D 8.0 million.

Development expenditure is expected to be increased by only 7.4 percent to D 71.4 million (Table 3), implying a reduction in real terms. Most of the development expenditure is expected to be financed by project-specific external loans (D 37.2 million) and grants (D 23.5 million), with a relatively smaller domestic counterpart expenditure (GLF) for development project-related local expenses (D 10.6 million). Project implementation has been very low in the current fiscal year implying a 40.5 percent lower utilization of loans and grants compared to the provisions made in the budget. Based on the revised implementation scenario, the GLF expenditure was expected to be D 12.0 million compared to the budget allocation of D 17.4 million; this revision notwithstanding, the program also requires savings of about D 1.4 million on the GLF by restraining expenditure on projects with a high domestic financing content.

Budgetary policies for 1984/85 are being formulated within a framework designed to reduce the overall deficit (excluding grants) to 10.0 percent of GDP compared with 12.2 percent in 1983/84; the associated bank financing is programed to be limited to D 11.0 million (about 1.6 percent of projected GDP or 7.9 percent of beginning money stock) and net foreign financing at D 30.0 million (4.4 percent of projected GDP). Net foreign financing is projected to show only a modest increase in nominal terms (despite substantially higher gross receipts of external projects loans), because of the rapid increase in external debt repayments. The sharp improvement in the overall and current account balances are expected to be achieved through new revenue measures and expenditure restraint. Details of the additional measures required to attain these fiscal targets for 1984/85 will be discussed during the scheduled first review of the program.

Measures are being implemented under the program to strengthen financial management. A system of quarterly allotments for current and development expenditures will be used to ensure that expenditure authorizations during the program period are consistent with the overall targets of the program. Details of the quarterly allotments are provided in the table included in the Fiscal Memorandum of Understanding (Annex III of the Attachment). The program includes ceilings on net credit from the banking system to Government at end-June 1984, as performance criteria; in addition, an indicative target has been established for end-March 1984. The Special Deposit Account for the domestic counterpart of scheduled official external payments which was established at the Central Bank of The Gambia since the beginning of fiscal year 1983/84 will continue to remain in operation. This special account will facilitate the monitoring of budgetary developments by ensuring that adequate provisions have been made from domestic budgetary resources for the domestic counterpart of all official external obligations, regardless of the availability of foreign exchange to complete the externalization of those payments; all principal and interest payments on official debt service chargeable to the budget will continue to be debited to the special deposit account at the time the obligations fall due without any delay.

3. Monetary and credit policy

Monetary and credit policy during the program period will be geared to attaining the targeted improvement in the balance of payments. Accordingly, the monetary program envisages a deceleration in the rate of growth of total domestic credit from 38.5 percent in 1982/83 to 13 percent in 1983/84 and to about 6.0 percent in 1984/85 (Tables 2 and 4); in real terms, total domestic credit is expected to show a marginal 2 percent increase in 1983/84 and to decline in 1984/85. The deceleration in total financing available to the economy (inclusive of changes in external liabilities) is significantly more pronounced, namely from around 65.8 percent in 1982/83 to 10.6 percent in 1983/84 and to about 3 percent in 1984/85. This deceleration, which is in line with the program objectives of reducing external arrears and external debt pressures, will be facilitated primarily by the targeted improvements in the finances of the GPMB following the 13.5 percent reduction in producer prices effected in November 1983 and the 25 percent devaluation of the dalasi. The growth of bank credit to Government and to the private sector is also targeted to decelerate: bank credit to Government will decline from 3.9 percent of GDP in 1982/83 to 2.5 percent in 1983/84 and to about 1.6 percent in 1984/85; credit to the private sector, which rose by 21.0 percent in the six-month period ending December 1983, is targeted to stabilize during the six-month period ending June 1984 and to increase by 7.6 percent in 1984/85. The domestic credit ceilings for 1983/84 and the indicative targets for 1984/85 are predicated on an assumed growth in the money supply of 4.8 percent in 1983/84 and 12.8 percent in 1984/85; the ratio of the money supply (broadly defined) to GDP is projected to decline from the high level of 25.4 percent in 1982/83 to 23.6 percent in 1983/84 and to 22.9 percent in 1984/85.

The Gambian authorities intend to pursue the targeted deceleration in credit to the private sector through both a more effective use of global quantitative guidelines on credit to the private sector by commercial banks and an increase in the effective cost of credit. Credit ceilings for each quarter will be aligned to the ceilings for total domestic credit established for the period. The two percentage points increase in deposit rates will ensure that these rates remain positive in real terms in 1983/84 and 1984/85; lending rates, which presently have no ceilings, will be adjusted accordingly by the banks. The authorities intend to take additional measures to promote the development of domestic financial markets in order to raise the share of nonbank financing of the public sector deficit which has accounted for a very small percentage of the overall deficit in recent years.

Quarterly ceilings as performance criteria for domestic credit and for credit to the Government and the GPMB have been set for end-June 1984 (Annex II of the Attachment); indicative targets have been set for end-March 1984. The credit ceilings for end-September and end-December 1984 will be set in the context of the first review of the program, while performance clauses for March and June 1985 will be determined during the December 1984 review.

Table 4. The Gambia: Monetary Survey, June 1981-June 1985

(In millions of dalasis)

	1981	1982			1983			1984		1985
	June	June	Dec.	March	June	Sept.	Dec.	March	June	June
Net foreign assets 1/	-17.01	-116.17	-183.44	-184.88	-222.80	-234.60	-249.50	-310.10	-315.10	-307.80
Monetary authority	-80.13	-104.77	-161.61	-165.55	-195.25	-210.58	-224.50	278.85	-283.85	-276.55
Use of Fund credit	-35.28	-54.91	-80.65	-84.45	-79.20	-78.15	-75.72	-93.24	-101.74	-114.19
Arrears	...	-37.23	-61.10	-71.72	-105.60	-122.83	-122.78	-147.07	-144.34	-132.03
Other liabilities	-44.85	-12.63	-19.86	-9.38	-10.45	-9.60	-26.00	-38.54	-37.77	-30.33
Commercial banks	-16.88	-11.40	-21.83	-19.33	-27.55	-24.02	-25.00	-31.25	-31.25	-31.25
Domestic credit	202.86	237.36	283.11	310.01	328.81	329.85	395.90	390.70	371.10	391.50
Claims on Government (net)	39.19	37.51	45.55	45.99	58.10	67.57	85.25	81.00	73.10	84.10
Claims on GPMB (net)	26.40	53.17	47.67	95.27	101.46	88.21	105.77	109.70	94.30	88.30
Claims on private sector	137.27	146.68	189.89	168.75	169.25	173.47	204.88	200.00	203.70	219.10
Money and quasi-money	86.18	98.57	125.99	135.81	133.17	125.05	157.30	152.20	139.60	157.50
Other items (net) 2/	19.67	22.62	-26.32	-10.68	-27.16	-30.40	-10.9	-71.60	-83.60	-73.80

Sources: Central Bank of the Gambia; and program projections.

1/ From December 1983 includes short-term external borrowing by the GPMB.

2/ Net foreign assets are revalued at the new exchange rate (December-March, 1984). The revaluation counterpart amounting to D 61.16 million is reflected in other items net.

4. External sector

The external objectives of the program are to lower the current account deficit from 29.5 percent of GDP in 1982/83 to 20.7 percent in 1983/84 and to 16.3 percent in 1984/85 while at the same time reducing external payments arrears. The key external policy measures include a 25 percent devaluation of the dalasi from 4 dalasis per pound sterling to 5 dalasis per pound sterling, implemented on February 25, 1984, and certain other measures to restrict domestic demand and to encourage the domestic supply of goods and services for export. For the remainder of FY 1983/84, the program provides for a significant drop in the current account deficit relative to GDP; this reduction is to be achieved through a substantial increase in earnings from groundnut exports. Imports are not expected to decline in 1983/84 in spite of the February 1984 devaluation because of the increase which is estimated to have taken place durng the period July 1983-February 1984, and which was financed by the buildup in external arrears. However, the program aims at a substantial reduction in imports in FY 1984/85 which would be brought about by the combined effects of the exchange rate action and the restrictive financial policies.

On the export side, unusually low world production of soybeans and groundnuts has pushed the current world price of groundnuts to high levels; consequently, in spite of the constant volume of exports, the expected 1983/84 groundnut export receipts of SDR 37 million are 57 percent higher than in 1982/83. In 1984/85, groundnut prices are expected to decline, with the result that groundnut export receipts are expected to fall by SDR 14 million. The program requires a 20 percent increase in the producer price of cotton by end-June 1984 to encourage cotton production and exports. The devaluation should also stimulate fish exports and provide an incentive for fishermen to sell their exports through official channels, thereby increasing official export receipts.

Imports are programed to decline further to SDR 75.79 million in 1984/85. The 25 percent devaluation of the dalasi implemented in February 1984 and the re-establishment of direct purchases of petroleum products from cheaper sources should contribute to the reduction. In addition, the program envisages a sharp decline in the rate of growth of domestic credit from 12.9 percent in 1983/84 to 5.5 percent in 1984/85 and a reduction in the overall budget deficit from 12.2 percent of GDP in 1983/84 to 10.0 percent in 1984/85; the 10 percent increase in the producer price of rice should also help lower The Gambia's rice import bill of around SDR 7 million.

The current account deficit in 1983/84 is projected to be largely offset by net capital inflows which are mainly commitments for project grants and loans that are tied to development expenditure, and the resulting overall balance of payments deficit is projected to equal SDR 6 million--well below the 1982/83 overall deficit of SDR 28 million. This is expected to be financed through the use by the Central Bank of the GPMB overdraft facility in London, the increase in arrears that had already occurred prior to the establishment of the program and by net Fund purchases equivalent to SDR 0.74 million. In 1984/85, net capital inflows are projected to equal the 1983/84 inflow with the result that the additional decline in the current account deficit would produce an overall balance of payments surplus of about SDR 2 million. Coupled with a net Fund purchase of SDR 3.6 million, the surplus is projected to finance the repayment of GPMB borrowing and a reduction in external arrears.

After an increase of SDR 29.1 million in 1982/83, external payments arrears increased by a further SDR 5 million between June 30, 1983 and January 18, 1984. On January 18, 1984, the stock of arrears 1/ equalled SDR 42.57 million. As a performance criterion, net cash payments against outstanding arrears of SDR 1.35 million will be made in the period to June 30, 1984.

To contain debt service, the program also requires that The Gambia avoid (1) all government and government-guaranteed external borrowing on nonconcessional terms in the 1-12 year maturity range and (2) all non-trade-related borrowing with an original maturity of less than 1 year, except for bridging financing of up to SDR 7 million.

The medium term projection uses assumptions about export growth which seem justified by past trends (Table 5). Groundnut export volumes are projected to increase at an average rate of 1.3 percent per year during the period 1985/86-1988/89, and export prices to remain unchanged. In addition, tourist receipts are projected to increase by 5 percent per year, and other domestic exports (which include cotton and fish) are projected to grow at 7 percent per year. Both re-exports and imports are assumed to grow at 6 percent per year (2 percent volume, and 4 percent price) after the end of the proposed stand-by program period. Gross official capital inflows are projected to increase by 8 percent per year in nominal terms, which is the assumed rate of growth in nominal development expenditure.

The medium term scenario indicates that The Gambia faces a heavy debt service burden throughout the remainder of the decade. The debt service projection is based on scheduled service on external public debt, IMF charges and repurchases, repayment of GPMB's overdraft facility, and new borrowing. The new borrowings are assumed to have an average interest rate of 2.7 percent (the average interest rate on the outstanding debt).

1/ The definition of arrears is all-inclusive; it includes arrears with a counterpart in the Special Deposit Account, overdue principal and interest owed to the West African Clearing House, and arrears of the Central Bank of The Gambia on its external liabilities, and other arrears of the public and private sectors.

Table 5. The Gambia: Balance of Payments, 1982/83-1988/89

(In millions of SDRs)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Exports, f.o.b.	48.15	65.20	55.91	58.01	60.25	62.86	65.29
Groundnuts	23.53	37.07	26.04	26.39	25.60	26.99	27.37
Other domestic	3.48	4.18	4.47	4.79	5.12	5.64	5.86
Total re-export	21.15	23.95	25.38	26.91	28.53	30.24	32.05
Imports, c.i.f.	-95.35	-96.81	-75.79	-80.33	-85.15	-90.27	-95.68
Services (net) excluding freight and insurance	-9.21	-8.71	-11.92	-11.85	-12.31	-12.81	-13.12
Of which:							
Travel	(14.12)	(16.02)	(16.82)	(18.00)	(19.26)	(20.61)	(22.06)
Public interest payments 1/	(-3.22)	(-6.21)	(-6.50)	(-6.27)	(-6.59)	(-6.92)	(-7.10)
IMF charges	(-2.73)	(-2.48)	(-2.57)	(-2.52)	(-1.93)	(-1.41)	(-0.68)
Current account	-56.41	-40.32	-31.80	-34.17	-37.21	-40.22	-43.51
Capital account	41.04	33.91	33.88	36.47	39.81	42.82	47.09
Official transfers							
Confederation	--	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
Project grants 2/	8.17	7.61	7.61	8.21	8.88	9.59	10.36
Technical assist.	15.57	16.52	17.84	19.27	20.82	22.48	24.29
Stabex	--	1.79	--	--	--	--	--
Project loans	13.35	12.51	14.76	15.93	17.21	18.59	20.08
Other loans disbursed	--	0.76	--	--	--	--	--
Amortization	-2.53	-4.23	-5.65	-5.73	-5.85	-6.66	-6.80
Private long-term	2.91	0.71	0.71	0.71	0.71	0.71	0.71
CBG 3/	0.66	-0.67	-0.79	-1.32	-1.36	-1.29	-0.95
Short-term	2.91	-0.49	--	--	--	--	--
Errors and omissions	-13.10	...	...	...	...	...	...
Overall balance	-28.47	-6.41	2.08	2.30	2.60	2.60	3.58
Financing	28.47	6.41	-2.08	-7.93	-6.01	-5.26	-6.59
IMF							
Net repurchases due to prior agreements	6.65	-1.89	-5.42	-9.13	-5.86	-3.22	-2.21
Proposed stand-by							
Purchases	--	2.63	9.00	1.20	--		
Repurchases	--	--	--	--	-0.15	-2.04	-4.38
Increase in net foreign liabilities of Central Bank 4/	-6.89	--	--	--	--	--	--
GPMB 5/	--	2.19	-2.19	...	...	...	...
Increase in arrears	28.71	3.48 6/	-3.47	...	...	...	...
Special Deposit Account	15.24	...	...	...	...	...	...
West African Clearing House	9.49	...	...	...	...	...	...
Other CBG	3.98	...	...	...	...	...	...
Residual financing gap	--	--	--	5.63	3.41	2.66	3.01
Memorandum items:							
CA/GDP (%)	-29.5	-20.7	-16.3	-15.8	-15.6	-15.5	-15.1
BOP/GDP (%)	-14.9	-3.3	1.1	1.1	1.1	1.0	1.2
Dalasis/SDR	2.7488	3.4975 7/	3.4975	3.4978	3.4975	3.4975	3.4975

Sources: Central Bank of The Gambia; and Fund staff estimates.

1/ Includes interest on external public debt, West African Clearing House liabilities of SDR 17.9 million, and in 1983/84, GPMB borrowing.
2/ In 1982/83, includes food aid.
3/ CBG: Central Bank of The Gambia. Includes Trust Fund repayments.
4/ In 1982/83, SDR 3.9 million of central bank liabilities became arrears. Recorded as a reduction in liabilities matched by an increase in arrears.
5/ GPMB: Gambia Produce Marketing Board.
6/ Arrears rose by SDR 4.83 million between June 30, 1983 and January 18, 1984. Arrears programmed to decline by SDR 1.35 million between January 19, 1984 and June 30, 1984.
7/ Reflects 25 percent devaluation in February 1984, using a bench mark of 2.798 Dalasi/SDR.

Debt service payments have increased substantially in recent years to 20 percent of exports of goods and services in 1983/84, and are projected to peak at 34 percent of exports of goods and services in 1984/85 (Table 6); Fund charges and repurchases amount to 17.1 percent of projected exports of goods and services in 1985/86. The debt service ratio is projected to decline steadily after 1984/85 to 25 percent by 1988/89.

Based on the assumptions of a return to normal trends in import growth, slow growth in exports, and the debt service projections, an unfinanced gap in the balance of payments is likely to emerge from 1985/86. A donors' conference for The Gambia is scheduled to take place in November 1984. Depending on the results of this conference, The Gambia may require from 1985/86 further reductions in imports or additional sources of foreign exchange to bridge the gap.

Table 6. The Gambia: Debt Service Projections, 1983/84-1988/89

(In millions of SDRs) 1/

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
A. Service on external public debt						
Principal	4.23	5.65	5.73	5.85	6.66	6.80
Interest	5.77	6.50	6.27	6.59	6.92	7.10
Total	10.00	12.15	12.00	12.44	13.58	13.90
B. Service on IMF debt (Including Trust Fund)						
Repurchases	2.30	6.21	10.45	7.74	6.55	7.54
Charges	2.48	2.57	2.52	1.93	1.41	0.68
Total	4.78	8.78	12.97	9.67	7.96	8.22
C. Repayment of arrears	1.35	3.47	--	--	--	--
D. Total debt service (A+B+C)						
Principal	7.88	15.33	16.18	13.59	13.21	14.34
Interest	8.25	9.07	8.79	8.52	8.33	7.78
Total	16.13	24.40	24.97	22.11	21.54	22.12
Memorandum items:						
Exports of goods and services	81.22	72.73	76.01	79.51	83.47	88.35
Debt service ratio, including repayment of arrears (%)	19.9	33.6	32.8		25.8	25.0
Of which: IMF	5.9	12.1	17.1	12.2	9.5	9.3
External debt outstanding 2/	179	187	193	194	198	204

Sources: Ministry of Finance; and staff estimates.

1/ Excludes service on public-guaranteed and private nonguaranteed (by debtor government) debts. Service on debt outstanding as of July 1983 plus new borrowing for development projects. Service on existing debt is on a commitment basis; service on disbursed debt not available. On new borrowing, assumed a 10-year grace period and an interest rate of 2.7 percent per year.

2/ End of period; includes external public debt, Fund holdings of dalasis subject to repurchases, the stock of external arrears, and debt incurred to close the projected financing gap.

IX. Staff Appraisal and Proposed Decisions

For the greater part of the last two fiscal years, the Gambian authorities made progress in reducing internal and external imbalances, despite the disruptive effects of the aborted coup d'état of mid-1981: real GDP registered significant growth; the overall budgetary deficit as a ratio to GDP was substantially reduced; credit expansion to the private sector was brought within reasonable limits, as a successful effort was made to increase the recovery rates of both subsistence and crop credits; the current account deficit in the balance of payments was reduced. A number of factors were responsible for these developments, notably improved weather conditions, the demand-restraining measures implemented by the authorities in the context of a Fund-supported adjustment program.

However, starting from early 1983, many of the gains were being gradually eroded, and by end-December 1983, expansionary fiscal and monetary policies had gained momentum, and, external payments arrears and other short term liabilities had increased substantially. These adverse economic and financial developments have also been aggravated by the drought which has resulted in a lower level of groundnut purchases by the GPMB and an increased requirement for food-grain imports. It is against this background that the Gambian authorities have initiated corrective measures in the context of a stabilization program in support of which they have requested a stand-by arrangement.

Cognizant of the need for early and substantive action to deal with the imbalances, the Gambian authorities have implemented policies by way of prior actions in a number of areas: the exchange rate of the dalasi has been devalued, in one step, by 25 percent; producer prices for major agricultural crops are being realigned; accompanying price increases for relevant products have been implemented in the wake of the devaluation; a number of fiscal measures were contained in the 1983/84 budget in anticipation of the stabilization program; global quantitative guidelines for the banks on credit to private sector are in place; measures to improve the monitoring of parastatals have been implemented; and strict limits have been imposed on external borrowing. In addition, measures which have been effectively used in the past for monitoring subsistence and crop credits continue to be deployed. A number of other measures are envisaged either in the context of IBRD assistance in the agricultural sector or of the review under the stabilization program. In the staff's judgement, a systematic and sustained implementation of these and appropriate policies during FY 1984/85 should ensure the attainment of the objectives under the adjustment program.

At the time of the 1983 Article IV consultation discussions in April/ May 1983. the Fund staff noted the restrictions inherent in The Gambia's accumulation of external payments arrears in respect of current international transactions, and did not recommend their approval. The Gambia also maintains a multiple currency practice arising from costs to purchasers of foreign exchange of counterpart deposits required for arrears. In view of the intentions of the Gambian authorities in the context of the adjustment program to gradually eliminate arrears and the multiple currency practice, the staff now proposes that the Fund approve them, on a temporary basis.

In view of the measures already in place and those which are either being implemented or envisaged in the course of the program period, the staff believes that the program for which the Gambian authorities have requested Fund assistance in the form of a stand-by arrangement in an amount equivalent to SDR 12.83 million, or 75 percent of quota, is deserving of Fund support. The implied annual access of 60 percent of quota proposed under the arrangement is justified by a number of factors: The Gambia has had a good track record under previous Fund arrangements; substantive prior actions have already been implemented--including the 25 percent devaluation of the dalasi and outstanding use of Fund resources by The Gambia under tranche policies is relatively limited. The program also provides for half-yearly reviews during which understandings will be reached with the Fund on important policy areas.

Accordingly, the following draft decisions are proposed for adoption by the Executive Board:

A. Stand-by Arrangement

1. The Government of The Gambia has requested a stand-by arrangement for the period April 1984 to July 1985, in an amount equivalent to SDR 12.83 million.

2. The Fund approves the stand-by arrangement attached to EBS/84/68.

3. The Fund waives the limitation on Article V, section 3(b)(iii).

B. Exchange System

The Gambia's exchange system involves restrictions on payments and transfers for current international transactions, including external payment arrears and a multiple currency practice as described in EBS/84/68.

The Fund notes the intention of the authorities to remove these restrictions as soon as possible. In the meantime, the Fund grants approval for their retention until August 31, 1984 or the completion of the 1984 Article IV consultation with The Gambia, whichever is the earlier.

The Gambia--Fund Relations
(as of February 29, 1984)

I. Membership status

(a) Date of membership:	September 21, 1967
(b) Status:	Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota:	SDR 17.10 million
(b) Fund holdings of Gambian dalasis:	SDR 43.96 million (257.08 percent of quota)

	SDR million	Percent of quota
(c) Fund holdings subject to repurchase and charges:	26.88	157.21
Of which: compensatory financing facility	9.00	52.63
credit tranches	9.00	52.62
supplementary financing facility	4.79	28.01
enlarged access resources	4.10	23.95

(d) Reserve tranche position:	SDR 0.04 (0.23 percent of quota)

III. Current stand-by and special facilities

(a) Proposed stand-by arrangement:

(i) Duration	From April 1984 to July, 1985
(ii) Amount	SDR 12.83 million
(iii) Utilization	--
(iv) Undrawn balance	SDR 12.83 million

(b) 1982/83 stand-by arrangement:

(i) Duration	From Feb. 22, 1982 to Feb. 21, 1983
(ii) Amount	SDR 16.90 million
(iii) Utilization	SDR 16.90 million
(iv) Undrawn balance	--

(c) Compensatory financing facility:

(i) Date of approval	June 3, 1981
(ii) Amount	SDR 9.00 million

IV. SDR Department

(a) Net cumulative allocation:	SDR 5.12 million
(b) Holdings:	SDR 0.12 million (2.41 percent of net cumulative allocation)

V. Administered accounts

(a) Trust Fund loans:

(i) Disbursed	SDR 6.84 million
(ii) Outstanding	SDR 6.65 million

(b) SFF Subsidy Account:

(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	SDR 0.09 million

VI. Overdue obligations to the Fund	--

B. Nonfinancial Relations

VII. Exchange rate arrangement

The Gambian currency, the dalasi, is pegged to the pound sterling at a fixed rate of D 5 = £ 1. (Before the 25 percent devaluation of February 25, 1984 the exchange rate was D 4 = £ 1). The Gambia has exchange restrictions arising from external payments arrears which are subject to Article VIII. During the last Article IV consultations, the Fund did not grant approval for these restrictions.

VIII. Article IV consultations

The last Article IV consultation discussions with The Gambia were held in Banjul during the period April 20-May 6, 1983. The staff report (EBS/83/165) was discussed by the Executive Board on August 28, 1983, and the decision was:

1. The Fund takes this decision relating to The Gambia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with The Gambia, in the light of the 1983 Article IV consultation with The Gambia conducted under Decision No. 5392(77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. The Gambia's exchange system involves payments arrears, as described in SM/80/130, which are subject to approval under Article VIII. The Fund urges the authorities to eliminate this restriction as soon as possible.

The Gambia is on the standard 12-month cycle of consultations.

IX. Technical assistance

(a) CBD: A member of the CBD panel of experts is assigned to the Central Bank of The Gambia where he is heading the Research and Statistics Department.

(b) Fiscal: A member of the FAD panel of experts is assigned to the Ministry of Finance to advise on fiscal operations

(c) Other: A member of the CBD panel of experts on internal debt has been assigned to the Ministry of Finance for a six-month period to review the country's external public debt statistics.

The Gambia - World Bank Lending Operations
(as of February 29, 1984)

(In millions of U.S. dollars)

	Amount	
	Disbursed	Undisbursed
Purpose		
Five credits fully disbursed	19.38	--
Rural and Urban Enterprises project	2.97	0.03
Highway Maintenance project	3.29	1.71
Energy project 1/	0.75	0.62
Second Banjul Port project 1/	2.80	3.45
Total	29.19	5.81

Source: IDA.

1/ Disbursed balance computed at the rate on dates of disbursements.

The Gambia: Stand-By Arrangement Quarterly Quantitative Performance Criteria for June 30, 1984

	1983			1984		1985
	June actual	Sept. actual	Dec. actual	March indicative target	June ceiling	June indicative target
	(In millions of dalasis; end of period)					
Net credit to Government from the banking system	58.10	67.60	85.30	81.00	73.10	84.10
Net credit to GPMB from the banking system	101.50	88.20	105.80	109.70	94.30	88.30
Total domestic bank credit	328.90	329.30	395.90	390.70	371.10	391.50
	(In millions of SDRs; end of period)					
External payment arrears	37.81	43.46	42.57 1/	42.22	41.22	37.75
New nonconcessional external borrowing in 1-12 maturity range (cumulative)	--	--	--	--	--	--
External borrowing of non-trade credit of less than 1 year maturity, excluding SDR 7 million of bridging loans	--	--	--	--	--	--

1/ Stock of arrears as of January 18, 1984, using an exchange rate of 0.3464 SDR/Dalasi.

The Gambia--Stand-by Arrangement

Attached hereto is a letter, with annexed memoranda, dated February 29, 1984, from the Minister of Finance and the Governor of the Central Bank of The Gambia requesting a stand-by arrangement and setting forth:

a. the objectives and policies that the authorities of The Gambia intend to pursue for the period of this stand-by arrangement;

b. the policies and measures that the authorities of The Gambia intend to pursue during the first three months of this stand-by arrangement; and

c. understandings of The Gambia with the Fund regarding reviews that will be made of progress made in realizing the objectives of the program and of the policies and measures that the authorities of The Gambia will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from April , 1984, to July , 1985, The Gambia will have the right to make purchases from the Fund in an amount equivalent to SDR 12.83 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 2.63 million until August 31, 1984, the equivalent of SDR 4.88 million until October 15, 1984; the equivalent of SDR 7.13 million until January 15, 1985; the equivalent of SDR 9.38 million until April 15, 1985; and the equivalent of SDR 11.63 million until July 15, 1985.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of The Gambia's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from borrowed resources beyond 12.5 percent of quota.

3. Purchases under the stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1 until total purchases under the arrangement reach the equivalent of SDR ___ million and thereafter from borrowed resources only, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. The Gambia will not make purchases under this arrangement other than the initial purchase in an amount equivalent to SDR 2.63 million that it may request within fifteen days of the effective date of this arrangement, that would increase the Fund's holdings of The Gambia's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) during any period in which the data at the end of the preceding calendar quarter falling within the period of this arrangement indicate that

(i) the ceiling on total domestic credit from the banking system described in paragraph C(iii) of Section 7 of the Memorandum on the Economic and Financial Program of the Government of The Gambia annexed to the attached letter (hereafter referred to as the Economic Memorandum), or

(ii) the ceiling on net credit to The GPMB from the banking system described in paragraph C(iii) of Section 7 of the Economic Memorandum; or

(iii) the ceiling on net domestic credit to the Government from the banking system described in paragraph C(iii) of Section 7 of the Economic Memorandum; or

(iv) the target for the reduction of external payments arrears described in paragraph (a)i of Section 5 of the Economic Memorandum; or

(v) the ceiling on contracting and guaranteeing of new nonconcessional external borrowing with a maturity of between 1 and 12 years described in paragraph (a)iv of Section 5 of the Economic Memorandum, or

(vi) the ceiling on the contracting and guaranteeing of new nontrade credits with a maturity of less than one year described in paragraph (a)iv of Section 5 of the Economic Memorandum is not observed;

(b) after August 30, 1984, until understandings have been reached on fiscal policies for 1984/85 and on policies with respect to fertilizer prices, electricity and water rates, prices of petroleum products, and the producer prices for all agricultural commodities, and suitable performance criteria have been established for September 1984 and December 1984, in consultation with the Fund pursuant to the first review contemplated in paragraph 2 of the attached letter or after such performance criteria have been established, while they are not being observed;

(c) after December 31, 1984, until suitable performance criteria have been established for the remainder of the program period in consultation with the Fund pursuant to the second review contemplated in paragraph 2 of the attached letter or after such performance criteria have been established, while they are not being observed;

(d) during the entire period of this stand-by arrangement if The Gambia

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices;

(iii) concludes bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When The Gambia is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and The Gambia and understandings have been reached regarding the circumstances in which purchases can be resumed.

5. The Gambia's right to engage in transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or limit the eligibility of The Gambia. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and The Gambia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs, if on the request of The Gambia, the Fund agrees to provide them at the time of purchase.

7. The value date of a purchase under this arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. The Gambia will consult with the Fund on the timing of purchases involving borrowed resources.

8. The Gambia shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) The Gambia shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement, in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as The Gambia's balance of payments and reserve position improves.

(b) Any reductions in The Gambia's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, The Gambia shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to The Gambia or of representatives of The Gambia to the Fund. The Gambia shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of The Gambia in achieving the objectives and policies set forth in the attached letter and annexed memoranda.

11. In accordance with paragraph 3 of the attached letter, The Gambia will consult the Fund on the adoption of any measures that may be appropriate, at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while The Gambia has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning The Gambia's balance of payments policies.

Banjul, The Gambia
February 29, 1984

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière:

1. The annexed memoranda set forth the economic and financial program of the Government for the period ending June 30, 1985, in support of which the Government of The Gambia requests use of Fund resources under a 15 months stand-by arrangement in the amount of SDR 12.83 million.

2. The annexed memoranda also delineate the indicative targets and the performance criteria of the program for March and June, 1984 respectively. These targets and criteria relate to (a) net Government borrowing from the banking system; (b) borrowing by the Marketing Board from the banking system; (c) total bank credit; (d) external payments arrears; (e) external debt contracted, guaranteed or authorized by the Government; and (f) the foreign trade and exchange system. Before end-August 1984, the Government of The Gambia will review with the Fund the implementation of the program, and will reach understandings on the performance criteria for September 1984 and December 1984, including the details of the fiscal policies for 1984/85 (the structure and outlines of which have already been incorporated in the annexed memoranda), and the policies with respect to fertilizer prices, electricity and water rates, prices of petroleum products, and the producer prices for rice and cotton. In addition, before end-December 1984, the program will be reviewed again with the Fund and the performance criteria for end-March 1985 and end-June 1985 will be established.

3. The Government believes that the policies described in the attached memorandum are adequate to achieve the objectives of the program. However, it will take any additional measures that might become necessary for this purpose. Furthermore, The Gambia will consult with the Fund, in accordance with Fund policies.

4. We have been instructed by His Excellency the President to transmit to you this letter as reflecting the policies and intentions of the Government of The Gambia.

Sincerely yours,

/s/

Mr. T.G.G. Senghore
Governor
Central Bank of The Gambia

/s/

The Hon. S.S. Sisay
Minister of Finance
Ministry of Finance and Trade

Memorandum on the Economic and Financial Program of the Government of The Gambia

1. Since the expiration of the Government's last stabilization program, The Gambia's economic and financial prospects have become increasingly difficult. In this context, preliminary estimates indicate that, in the absence of substantive corrective measures, the cumulative current account deficit in the balance of payments in the 18-months, ending 1984/85 (July-June), could total SDR 73.0 million, and that the cumulative overall balance of payments deficit during the same period could reach SDR 40.6 million; the already large and growing fiscal imbalance, which has now necessitated a record high level of bank financing, will deteriorate further; credit expansion to the private sector will continue to accelerate and, in the face of a virtually depleted level of gross reserves, external arrears, which, already as of January 18, 1984, stand at a high level of SDR 42.57 million, are expected to increase even further; the arrears figures include SDR 3.96 million of central bank arrears on its foreign liabilities and SDR 17.9 million of overdue liabilities to the West African Clearing House.

2. Under these circumstances, the Government has decided to implement a stabilization program, aimed at reducing internal and external imbalances, while at the same time supporting the Government's efforts to diversify and restructure the economy. In addition, the Government intends to limit the cumulative overall balance of payments deficit in the medium term to a sustainable level and to reduce the level of external arrears. Measures designed to accomplish these objectives include producer pricing policies, tighter fiscal and credit policies, increases in interest rates, and exchange rate depreciation.

3. In order to monitor the success of the Government's stabilization program for the balance of 1983/84, indicative targets will be set for end-March 1984, while quantitative and other performance criteria will be delineated for end-June 1984. In addition, no later than end-August 1984, a mid-term review of the program will take place with the Fund, during which a detailed financial program for 1984/85 will be discussed and performance clauses for the period through end-September 1984 and end-December 1984 will be established; performance clauses for end-March 1985 and end-June 1985 will be established during a second review of the program, no later than December 1984.

4. The main components of the adjustment program for the balance of FY 1983/84 and the outline for the key sectors for 1984/85 are described below:

5. (a) External sector

i. The Government's adjustment program aims at a reduction in the current account deficit of the balance of payments from SDR 56.41 million (D 157.83 million or 29.5 percent of GDP) in 1982/83 to SDR 40.32 million (D 141.12 million or 20.7 percent of GDP) in 1983/84 and to SDR 31.86 million (D 111.30 million or 16.3 percent of GDP) in 1984/85. The reduction in the current account deficit will be facilitated by an expected average increase in export earnings, and by adjustment measures designed to reduce imports. The program also provides for a minimum net reduction in external arrears of SDR 4.82 million from a base for January 18, 1984 of SDR 42.57 million by the end of the period ended June 30, 1985; of this, a reduction of SDR 1.35 million would be effected by end-June 1984 (see Annex II). Policy measures to attain these objectives, including adjustments in producer prices, a tighter stance for fiscal policy, and a reduced rate of overall credit expansion are described in detail elsewhere in this memorandum.

ii. In addition, the Government has devalued the exchange rate of the dalasi by 25 percent effective February 25, 1984.

iii. In order to increase the surrender of export earnings, especially from the exports of fish products, re-exports, and tourism, the Government will strengthen the administrative procedures for enforcing surrender obligations.

iv. Debt service on account of external public- and public-guaranteed debt remains very high; consequently, it is the Government's firm intention to implement a cautious external debt policy. In this context, existing guidelines for the provision of government guarantees will be rigidly enforced. In addition to strict enforcement of the guidelines, no nonconcessional government or government-guaranteed external borrowing in the 1-12-year maturity range will be undertaken during the period of the stand-by arrangement. Finally, during the stand-by period, the Government will neither contract, guarantee nor approve nontrade credits with initial maturity of less than one year, except for an amount not exceeding SDR 7 million which will be confined to bridging purposes.

v. During the stand-by period, the Government will not introduce new multiple currency practices, impose new or intensify existing restrictions on payments and transfers for current international transactions, conclude bilateral payments agreements with Fund members, or introduce restrictions on imports for balance of payments reasons.

6. (b) Economic policies

i. Agricultural pricing policies:

Pricing policies in the agricultural sector have been articulated under the program with a view to containing domestic demand, promoting the Government's diversification objectives, while at the same time improving the financial position of the GPMB and its contribution to government revenue.

A major cause of the financial difficulties of the GPMB has been the financial burden of having to cover higher producer prices for groundnuts when export prices for groundnuts slumped; in 1982/83 the producer price absorbed about 96 percent of realized export price; these prices have now been reduced, effective November 30, 1983, from D 520 per ton to D 450 per ton. In line with the Government's objective to diversify crop production, and on the basis of present price expectations, the Government will increase the producer prices for cotton and rice by 20 percent and 10 percent, respectively, by end-June 1984. These prices are considered to offer adequate incentives to producers; however, these and other producer prices will be kept under constant review in light of changing circumstances and prospects, including the evolution of world market prices. Meanwhile, the Government will continue its effort to increase agricultural productivity with the assistance of the IBRD and other donors; the IBRD's Agricultural Development Project II (ADP II), estimated to cost US$30.7 million, is projected to start in FY 1984/85.

With respect to the retail pricing of rice, Government remains fully committed to the existing policy of maintaining the price of rice at a level that would at least cover costs. In this context, and in line with the increased cost of importation at the new exchange rate, the wholesale price of imported rice has been increased by 14.6 percent, from D 794 per ton to D 910 per ton, effective February 25, 1984. In the case of the domestic prices of fertilizers which were increased in January 1984 by an average of 25 percent, the amount and timing of the increase required to reflect the exchange rate adjustment will be discussed between the Government, the IBRD and the Fund staff in the context of ADP II, while at the same time adhering to the Government's stated objective to remove fertilizer subsidies.

ii. In the energy sector, the Government will continue with full pass-through pricing policies for petroleum products. Owing to a prospective change in the modalities for the importation of petroleum products to substantially cheaper sources, present calculations indicate that no increase in the price of petroleum products will be required on account of the exchange rate adjustment. Utility rates for electricity and water will also continue to be adjusted during the program period to reflect increases in input costs. To this end, electricity and water rates and prices of petroleum products will be reviewed at the time of the first review of the program, in light of understandings between the authorities and the IBRD. The scope of public transportation is presently greatly diminished as a result of the limited number of buses now in operation. However, the authorities expect a consignment of new buses from West Germany by 1984/85; an increase in bus fares is being planned to coincide with the delivery of these buses.

iii. The Government's diversification and restructuring program is being implemented in the context of the Second Five-Year Development Plan (SFYDP), 1981/82-1985/86. However, financial constraints have slowed down the actual implementation of the plan. Consequently, during the program period, it is the Government's firm intention to limit development expenditures in nominal terms to D 71.4 million in 1983/84 and to no more than D 84.4 million in 1984/85. These levels of development expenditures are consistent with the tight budgetary prospects in the medium term and with the Government's adjustment program.

iv. The Government intends to continue to provide incentives for private investments in the productive sectors of the economy, including tourism and fisheries. A review of the Development Act of 1973 is currently under way, with a view to attracting foreign investment in export and import-substitution oriented small-scale industries. Meanwhile, in the industrial sector, the IBRD is scheduled to provide US$4.0 million, starting in FY 1984/85 to assist in the development of small-scale industries; in addition, the IBRD is providing US$12.4 million for an urban development project, starting 1984/85.

v. Domestic prices have been rising at an increasing rate; the consumer price index, which rose at an annual average rate of 8.0 percent in the last two fiscal years, is projected to rise by 11.0 percent in 1983/84. In this context, the Government intends to bring fiscal policy under firm control, as described below. Furthermore, in order to contain demand pressures, and in view of the tight budgetary prospects in the medium-term, the Government does not intend to grant any increase in salaries for the balance of 1983/84; prospects for an increase in the context of the 1984/85 budget will be reviewed at the time of the August 1984 review of the program, also taking into account the performance of the program, particularly with respect to the budget, for the balance of 1983/84.

7. (c) Domestic financial policies

i. The budget for 1983/84 originally envisaged a modest amount of bank financing. However, developments in the first half of this fiscal year indicate that the budget has been highly expansionary; already bank financing for the first six months of the fiscal year amounts to D 27.2 million (4.6 percent of GDP), compared with D 20.6 million (3.9 percent of GDP) for the whole of 1982/83. This deterioration has taken place, notwithstanding that, as part of the Government's adjustment strategy, the budget included some D 16.1 million (2.7 percent of GDP) in new tax measures. Furthermore, present estimates indicate that, if present trends are allowed to continue, bank financing of the budget deficit will reach at least D 37.15 million (6.28 percent of GDP) for all of 1983/84; these estimates include Supplementary Appropriations (SAPs) totalling D 4.5 million already approved for the first half of the fiscal year alone. These trends are unsustainable and the Government intends to undertake adjustment policies to stabilize the economy. Since the fiscal year is already more than half-way over, there is clearly a limit on how much can be expected for the rest of 1983/84, in order not to disrupt the normal functions of the Government. Nevertheless, the Government firmly intends to begin the process of stemming and reversing the deterioration in the country's public finances. In this context, the Government's prime fiscal objective for the balance of FY 1983/84 is to reduce the level of bank financing from 3.9 percent of GDP in 1982/83 to 2.5 percent of GDP. To this end, the Government intends to tighten fiscal discipline by, among other things, intensifying the enforcement of revenue collections, including the collection of tax arrears due to the Government. On the expenditure side, specific cutbacks will be identified and implemented. In addition, Supplementary Appropriations (SAPs) for the balance of FY 1983/84 will not exceed D 1.3 million; these SAPs will also be offset by savings in other categories of expenditures. The fiscal measures which the Government intends to implement for the remaining months of the fiscal year are described in a separate Memorandum of Understanding on Fiscal Policies.

For 1984/85, budgetary policies will be formulated within a framework designed to contain the overall deficit 1/ to D 12.1 million (1.8 percent of projected GDP) and its associated bank financing to D 11.0 million (about 1.6 percent of projected GDP), compared to a projected overall deficit of D 16 million (2.7 percent of GDP) in 1983/84. Details of the additional fiscal measures required to attain these targets will be discussed, in full consultation with the Fund, in the context of the first review of the program, when understandings will be reached, among other things, on fiscal policies, as a requirement for the successful completion of the review.

ii. Where nonfinancial public enterprises (NPEs) are concerned, measures have now been implemented, effective November 29, 1983, aimed at strengthening the monitoring of the NPEs by the National Investment Board, in order to ensure that their investment and other policies are broadly consistent with the objectives of the Government's adjustment program. Furthermore, data on inter-enterprise arrears and arrears between the Government and the NPEs are being compiled; a schedule for their retirement is being delineated, and will be reviewed with the Fund during the

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1/ This is based on the definition of the overall deficit used by the Gambian authorities; in the Fund's format, the overall deficit (excluding grants) is projected at D 72.09 million (12.2 percent of GDP) for 1983/84 and at D 68.7 million (10.0 percent of GDP) for 1984/85.

mid-term review of the program. In the meantime, the Government has already retired its arrears to the Gambia Utilities Corporation (GUC) of D 1.0 million. Policies dealing with selected NPEs have been discussed elsewhere in this memorandum. The Government intends to continue its policy of rectifying price distortions in the NPE sector, through the adoption of pricing policies in line with the underlying cost structure of production.

iii. In order to complement the budgetary policies described above, the Government intends to limit the expansion in total domestic credit, as defined in the technical memorandum (Attachment IV), to D 42.2 million or 12.8 percent in 1983/84; the programed expansion is consistent with the Government's policy of increased restraint in the overall provision of credit to the private sector, but at the same time, makes adequate provision for the genuine crop financing needs of the economy. Of the overall expansion, net credit to the Government (as defined in the technical memorandum) will increase by no more than D 15.0 million for all of 1983/84; the Government is fully aware that this target would require that, for the remaining months of this fiscal year, fiscal policies will be geared to reducing the absolute level of bank financing in the quarters ending March 1984 and June 1984 from their excessively high December level of D 27.2 million. A separate target, which reflects the seasonality of crop financing and the expected improvement in the operations of the GPMB, has been delineated for the Marketing Board. Credit to the private sector has been programed to increase by D 34.5 million, or 20.30 percent for all of 1983/84; the expansion of bank credit to the private sector will be controlled through the continued implementation of quarterly quantitative credit guidelines for bank credit to the private sector. The indicative targets for end-March 1984 and the quarterly credit ceilings for total domestic credit, net credit to Government, and credit to the GPMB for end-June 1984 are contained in Annex II. The Government considers that the overall credit limits in the program are consistent with the objective of moderating demand pressures and reducing the current account deficit in the balance of payments. No later than end-August 1984, a detailed financial program for 1984/85 would be negotiated, understandings will be reached on fiscal policies for 1984/85, and the performance clauses for end-September 1984 and end-December 1984 will be established. The performance clauses for end-March 1985 and end-June 1985 will be established within the context of a second review of the program, no later than end-December 1984. In the meantime, in light of the Government's objective to maintain positive real interest rates during the program period, interest rates on deposits have been increased by an average of 2 percentage points, effective February 1984.

iv. The above program has been formulated on the basis that there will be no change in The Gambia's monetary and fiscal system during the program period.

The Gambia: Stand-By Arrangement Quarterly Quantitative Performance Criteria for June 30, 1984

	1983			1984		1985
	June actual	Sept. actual	Dec. actual	March indicative target	June ceiling	June indicative target
	(In millions of dalasis; end of period)					
Net credit to Government from the banking system	58.10	67.60	85.30	81.00	73.10	84.10
Net credit to GPMB from the banking system	101.50	88.20	105.80	109.70	94.30	88.30
Total domestic bank credit	328.90	329.30	395.90	390.70	371.10	391.50
	(In millions of SDRs; end of period)					
External payment arrears	37.81	43.46	42.57 1/	42.22	41.22	37.75
New nonconcessional external borrowing in 1-12 maturity range (cumulative)	--	--	--	--	--	--
External borrowing of non-trade credit of less than 1 year maturity, excluding SDR 7 million of bridging loans	--	--	--	--	--	--

1/ Stock of arrears as of January 18, 1984, using an exchange rate of 0.3464 SDR/Dalasi.

Fiscal Memorandum of Understanding Between the Government of The Gambia and the International Monetary Fund

The purpose of this memorandum is to articulate in greater detail certain aspects of the fiscal policies for the balance of 1983/84 and the program targets for 1984/85 contained in the Memorandum on the Economic and Financial Program of The Gambia, which supports The Gambia's request for a 15-month stand-by arrangement. This memorandum also establishes a reporting schedule for monitoring government expenditures in the remainder of fiscal year 1983/84; the reporting schedule for 1984/85 will be set during the first review of the program.

1. Prior to consideration by the Fund's Executive Board of The Gambia's request for a 15-month stand-by arrangement, the Gambian authorities will notify the staff that the relevant executive orders for the implementation of the following measures have been issued.

(a) In recognition of the difficult financial situation, the authorities will not approve Supplementary Appropriations (SAPs) for the balance of the fiscal year 1983/84 in excess of D 1.3 million; this amount will be compensated for by savings elsewhere in the budget. In this context, the authorities have undertaken measures to achieve a saving of D 2.2 million on the estimated SAP of D 3.5 million for the remainder of fiscal year 1983/84.

(b) Except for pressing emergencies, vacant posts will not be filled during the program period; existing provisions disallowing temporary appointments without advance approval will be tightened and then rigorously enforced. In the case of expenditures in connection with the confederal budget, appropriate redeployment of existing personnel will be undertaken to generate offsetting savings in the central government budget.

(c) A system of allotments for current expenditures will be used to facilitate the monitoring of expenditure under the program, and similar arrangements have been established for the local component of development expenditure (GLF). The allotment system is designed to ensure that expenditure authorizations during the remainder of fiscal year 1983/84 through 1984/85 are consistent with the overall targets of the program. Actual allocations to the vote controllers will be updated at the end of third quarter of the fiscal year 1983/84 and at the beginning of the second, third and fourth quarters of 1984/85 so that aggregate allocations on (a) wages, salaries and allowances, (b) other charges, and (c) GLF at the end of any quarter do not exceed the corresponding cumulative total of the quarterly allocations specified in the attached table.

(d) Total GLF expenditure during the fiscal year 1983/84 will be held to D 10.65 million and to D 10.81 million in 1984/85; efforts will be undertaken to reduce the domestic contributions to development projects financed by concessionary loans or grants from external sources. Total development expenditure in 1984/85 will be limited to D 84.4 million.

(e) The amendment to the Income Tax Act which has been approved by the Parliament on November 23, 1983 came into effect beginning December 31, 1983. The amendment includes the following measures: (i) a minimum tax rate (1.0 percent) on turnover or gross receipts from trade, business, profession or vocation; (ii) reduction of exemptions for allowances for income tax purposes; (iii) tax assessed to be payable at the time income is filed or within one month of service of article of assessment whichever is earlier; defaulters will pay interest on the assessed tax.

(f) As a key element under the program, the GPMB will repay the accumulated arrears on taxes due before and during the fiscal year 1983/84. The arrears will be repaid in two quarterly installments of D 4.0 million beginning end-March 1984. The schedule of repayment of the GPMB arrears has been taken into account in determining the credit ceilings for the Central Government and the GPMB.

(g) The special surcharge on the imports of petroleum products from the spot market under the proposed arrangement will come into effect beginning __________ 1984; the Government will continue the arrangements during the program period.

(h) The budget proposals for the fiscal year 1984/85 will contain a number of new fiscal measures which will amount to at least D 19.35 million. The individual measures will be discussed during the scheduled review by end-August 1984.

2. The Special Deposit Account for the domestic counterpart of scheduled official external payments which was established at the Central Bank of The Gambia on June 30, 1983 will continue to remain in operation. This account is designed to ensure that adequate provisions have been made for domestic budgetary resources for the domestic counterpart of all official external obligations regardless of the availability of foreign exchange to complete the externalization of these payments. All principal and interest payments on official debt service chargeable to the budget will continue to be debited to the blocked account at the time of their externalization without any delay.