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July 29, 1983

To: Members of the Executive Board
From: The Secretary
Subject: The Gambia - Staff Report for the 1983 Article IV Consultation

Attached for the consideration of the Executive Directors is the staff report for the 1983 Article IV consultation with The Gambia. A draft decision appears on page 15.

It is proposed to bring this subject to the agenda for discussion on Friday, August 26, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Enweze, ext. 74973.

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INTERNATIONAL MONETARY FUND

THE GAMBIA

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983
Consultation with The Gambia

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

July 29, 1983

I. Introduction

The 1983 Article IV consultation discussions with The Gambia were held in Banjul during the period April 20-May 6, 1983. The Gambian representatives included the Honorable S. Sisay, Minister of Finance and Trade; Mr. T.G.G. Senghore, Governor of the Central Bank of The Gambia; and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Enweze (head-AFR), Mr. Donely (BUR), Mr. Kalinga (AFR), Mr. Thomsen (ETR), Mr. Richupan (FAD), and Mrs. Uston (secretary-AFR). Mr. Sangaré, Executive Director for The Gambia, attended most of the concluding meetings.

The staff team was received by the Head of State, His Excellency Sir Dawda K. Jawara.

The Gambia continues to avail itself of the transitional arrangements of Article XIV. The exchange system involves restrictions arising from external payments arrears and a multiple currency practice in connection with the requirement of counterpart deposits with the Central Bank.

On February 22, 1982, the Executive Board approved a one-year stand-by arrangement for The Gambia (EBS/82/17) in an amount equivalent to SDR 16.9 million (125 per cent of quota); of this total, SDR 8.88 million (65.8 per cent of quota) was from borrowed resources. On the basis of The Gambia's satisfying all the performance criteria under the program and of the understandings reached with the Fund on the policies to be pursued in FY 1982/83 ^{1/} (EBS/82/195), The Gambia has made all the purchases under the stand-by arrangement. Summaries of The Gambia's relations with the Fund and the World Bank Group are provided in Appendices I and II, respectively, while data on selected economic and financial indicators are presented in Appendix IV.

^{1/} July-June.

The Gambia has notified the Fund that it has consented to the proposed increase in its quota to SDR 17.1 million under the Eighth General Review of Quotas.

II. Recent Economic Developments

Beginning in 1981/82 (July-June) the Gambian economy registered a sharp recovery (Appendix III). After declining at an average annual rate of about 5.5 per cent in the two-year period ended 1980/81, real GDP is estimated to have increased by 10.9 per cent in 1981/82 and is projected to increase by a further 11.9 per cent in 1982/83. Meanwhile, as a result of demand management measures implemented under the Fund-supported program, real domestic demand, which grew at an annual average rate of about 2.7 per cent in the two-year period ended 1980/81, declined by an estimated 2.3 per cent in 1981/82; an increase of about 2.2 per cent is projected for 1982/83. Increased production in the agricultural sector was mainly responsible for the recovery in GDP: starting from a low base of 45,000 tons in 1980/81, the output of groundnuts, the main export crop, rose by 82 per cent in 1981/82 to 82,000 tons and by slightly over 50 per cent in 1982/83 to 125,000 tons. This recovery was due mainly to improvements in weather conditions; however, producer pricing policies adopted in the past two years as part of the Fund-supported program also played an important role: increases in the producer prices for groundnuts and rice were announced at the beginning of the 1981/82 growing season, and for groundnuts again at the start of the 1982/83 season. Sectors which complement crop production, such as transport and storage, have also performed well. The number of tourists visiting The Gambia fell in 1981/82 but increased by about 80 per cent in 1982/83.

Fiscal developments in 1981/82 were greatly influenced by the measures designed to increase revenue and control expenditure which were adopted within the framework of the Fund-supported program. Among other things, new tax measures, with an estimated yield amounting to 3.7 per cent of GDP, were introduced in the 1981/82 budget; The Gambia also received an exceptionally high level of grants during the year, following the political developments. Largely as a result of these factors and of new expenditure control measures introduced by the authorities, revised estimates for 1981/82 indicate that the overall budgetary deficit (including grants) declined from about 13 per cent of GDP in 1980/81 to about 7.6 per cent of GDP in 1981/82 but that the deficit (excluding grants) rose marginally by about 1 percentage point to about 19 per cent of GDP. In 1982/83, as part of the adjustment program supported by the one-year stand-by arrangement with the Fund, additional tax measures, equivalent to 1.4 per cent of GDP, were introduced, while expenditure control measures implemented in the previous year were further streamlined and improved; as a result, staff estimates indicate that the overall budgetary deficit (including grants) would decline further to about 7.1 per cent of GDP in 1982/83 or from 19.2 per cent of GDP to 9.4 per cent

of GDP, exclusive of grants. Net bank financing of the budget deficit has declined from 1.7 per cent of GDP in 1980/81 to an estimated average of about 0.7 per cent of GDP in 1981/82 and 1982/83. As a result of the use of global credit ceilings and the improved monitoring of crop credits under the financial program, the rate of increase in total domestic credit rose only moderately from 15.6 per cent in 1980/81 to 17.4 per cent in 1981/82. Money supply, broadly defined, which rose by 18.3 per cent in 1980/81, rose by 14.4 per cent in 1981/82. The inflation rate has also decelerated from about 8.2 per cent in 1981/82 to an estimated 7.9 per cent in 1982/83.

Despite a weakening in export prices and a decline in tourism receipts in 1981/82, developments in The Gambia's balance of payments reflect mainly the gains realized in containing total demand under the program, as imports have been declining steadily since 1980/81. Consequently, the current account deficit (excluding official grants) declined from SDR 79.1 million (41.0 per cent of GDP) in 1980/81 to an estimated SDR 62.0 million (31.1 per cent of GDP) in 1981/82; inclusive of grants, the current account deficit fell even more sharply from SDR 53.4 million (27.7 per cent of GDP) in 1980/81 to an estimated SDR 23.2 million (11.7 per cent of GDP) in 1981/82. Despite the improvement in the current account, revised estimates indicate that as a result of a sharp drop in capital inflows, the overall balance of payments deficit in 1981/82 at SDR 14.5 million was 7.3 per cent of GDP compared with 4.5 per cent of GDP in 1980/81. Nevertheless, external payments arrears, which stood at SDR 19.6 million in June 1981, were reduced to SDR 12.1 million at the end of June 1982. Staff estimates indicate that the current account deficit (excluding official grants) declined further in 1982/83 to a projected SDR 42.0 million (19.7 per cent of GDP); inclusive of grants, the deficit is estimated to have declined to SDR 22.6 million (10.6 per cent of GDP). However, the overall balance of payments situation has remained under pressure, and external payments arrears have increased in 1982/83. The Gambia's gross official reserves have declined steadily and, as of end-May 1983, stood at some SDR 2.0 million, about 1.2 weeks of estimated 1982/83 imports.

The Gambia's external disbursed official debt outstanding, which stood at SDR 141 million in June 1982, rose to SDR 163 million as of end-March 1983. The ratio of debt service payments to export earnings in 1981/82 is estimated at 9.2 per cent; staff estimates indicate that the debt service ratio will reach 15.4 per cent in 1982/83.

The dalasi is pegged to the pound sterling, and its real import-weighted exchange rate, which was unchanged in 1981 and 1982, has depreciated by about 6.5 per cent between the last quarter of 1982 and the first quarter of 1983.

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

III. Report on the Discussions

The Gambian authorities have continued to express concern about the largely monocultural nature of the economy, citing the uncertain and volatile impact of both weather-induced changes in volume and changes in externally determined world market prices on foreign exchange earnings. Their efforts to restructure and diversify the sources of export earnings and to promote import substitution, initiated in mid-1981 within the context of negotiations with the staff on an EFF program, were disrupted by the abortive coup d'état of July 30, 1981; they felt that they have made significant progress in stabilizing the economy since then. In this context, they stressed their success in reducing internal and external imbalances, their readiness to implement appropriate policies, and reiterated their desire to resume negotiations on an EFF program in the near future.

1. Production and investment policies

The recovery in the Gambian economy in the past two years has been spearheaded by the large increases in groundnut output; other agricultural production also registered significant gains. However, the financial problems of the Gambia Produce Marketing Board (GPMB) have persisted, in part because of the continuing adverse impact of fertilizer subsidies on the financial operations of the marketing board.

The Gambian representatives stated that recent developments in the groundnut sector have underscored the pressing need to restructure and diversify the economy away from excessive dependence on groundnut production. Output rose as a result both of improved weather conditions and the role of higher producer prices in increasing farmers' incentives and maintaining The Gambia's competitive position vis-à-vis neighboring countries. However, average groundnut prices received by the GPMB declined steadily by 19.5 per cent and 13.1 per cent, respectively, in 1981/82 and 1982/83, with adverse effects on the financial position of the marketing board. Nevertheless, the authorities are continuing their efforts to increase groundnut production through a joint project by the African Development Bank (ADB) and the European Investment Bank (EIB); the second phase of the World Bank-supported agricultural project, viz., Agriculture Development Project II (ADP II), has also advanced to the appraisal stage. They added that The Gambia's diversification strategy has been based on ongoing efforts to increase the production of other cash crops, notably cotton, and to develop the substantial potentials in the fisheries and livestock sectors, the former under technical assistance provided by a UNDP/FAO project financed by the ADB and Norway. In the case of rice, the initiatives in this area, such as various extension service and feeder road systems, the rice-related portion of the IBRD-supported Rural Development Program I (RDP I), the irrigated rice project financed by the People's Republic of China, and the recent increases in producer prices, have helped to maintain production.

They agreed that a major cause of the financial difficulties of the GPMB has been the result of the large financial burden of fertilizer subsidies on the marketing board, but added that efforts are being made to phase out these subsidies. In addition, the retail price for rice was increased in 1981/82; this increase, coupled with the decline in import prices for rice, has led to a profit on the GPMB's rice operations. Several other measures have been taken by the Government in the past two years to ease the financial problems of the marketing board: in order to discharge government debt obligations to the GPMB, assets with an estimated combined value of some D 6.2 million have been formally transferred to the marketing board; a higher percentage of STABEX receipts than in the past (25 per cent compared to 18 per cent) has been also earmarked for the marketing board. Furthermore, while efforts have been made by the GPMB in the past two years to reduce its operating costs, indications are that additional cost-effectiveness can be achieved. Consequently, the Government is planning to invite a consultant to analyze the financial problems of the marketing board and to make recommendations, particularly in view of the marketing board's substantial tax arrears to the Government. The effectiveness of other institutions in the agricultural sector is also receiving attention: The Gambia Cooperative Union (GCU) is being reorganized as part of the World Bank-supported ADP II. In this context, its capital structure is being revamped, and stricter credit controls have already been instituted, with salutary effects on the recovery rate of agricultural credit; in addition, discussions are under way to resolve the problem of outstanding and largely unrecoverable subsistence credits for which the GCU has continued to bear financial responsibility.

The Gambian representatives stated that the tourism sector, which is an important element in the Government's diversification strategy, has resumed its growth. The decline by about 30 per cent in air charter tourists in 1981/82 was due largely to the adverse publicity effects of the abortive coup d'état of July 30, 1981, particularly in the United Kingdom: while the number of air charter tourists from Sweden and other Scandinavian countries had remained relatively stable between 1980/81 and 1981/82, the number of such tourists from the United Kingdom fell by about 5,000, from 9,392 in 1980/81 to 4,407 in 1981/82, accounting for the bulk of the decline of about 5,900 in total air charter tourists in 1981/82. In 1982/83, largely as a result of the promotional efforts of the Government, the number of air charter tourists rebounded almost twofold to about 25,000 or the approximate level in the peak year of 1978/79; prospects are for a further increase in the number of tourists in the next season. Although no new special measures are planned to increase the number of tourists, efforts to increase the budgetary and foreign exchange benefits accruing to The Gambia from this sector are being intensified.

With regard to public sector investment, the Gambian representatives stated that the second Five-Year Development Plan (SFYDP), 1981/82-1985/86, provides the framework for the Government's development strategy, the main

object of which is to reduce the economy's heavy dependence on groundnut production by diversifying the agricultural base. Consequently, an increased proportion of development resources has been devoted to the agricultural sector in both 1981/82 and 1982/83: projects executed in these two years include the modernization project for the GPMB's oil mills and the development of the Jakhaly and Pacharr swamps for irrigated rice cultivation. However, financial constraints have slowed down the implementation of the plan in the past twelve months. Present indications are that, in the absence of significant external support, the financial difficulties presently being experienced will persist, and that the Government will have increasing difficulties implementing a meaningful development budget. It is largely in the context of the need to preserve the development strategy embodied in the present plan and already approved by the IBRD that the authorities are intensifying their efforts for external support. Meanwhile, however, the National Development Committee has been apprised of the need to scale down the size of the plan; proposals to this effect are presently being formulated.

2. Energy sector policies

The Gambian representatives stated that in view of the limited energy resources of The Gambia, the country's energy requirements are presently met almost exclusively by imports of oil products; such imports account for some 15 per cent and 25 per cent of import payments and export earnings, respectively. Imports of petroleum products which amounted to 51.9 thousand metric tons in 1980 fell to 50.6 thousand metric tons in 1981 and to 46.8 thousand metric tons in 1982.

The Gambian representatives indicated that, within the context of the SFYDP, energy policy is geared toward economizing on the use of imported petroleum products while at the same time investing in alternative sources of energy. In this context, groundnut shell briquettes are now being used as an alternative to charcoal. In addition, the comprehensive Integrated Energy Survey and Master Plan, undertaken by consultants with financial assistance from the United Nations Sudano-Sahelian Office (UNSO) has been completed and is under review. This study, which is designed to delineate the options and strategies for reconciling The Gambia's long-term energy needs in light of projected supply, was supervised by the Government of The Gambia; the IBRD is the executing agency. Meanwhile, the Gambian authorities intend to continue to use fiscal and pricing policies to foster energy conservation. In this context, domestic petroleum prices continue to be adjusted to fully cover costs; petroleum taxes were increased by 54-200 per cent in the context of the 1981/82 budget and by a further 13-17 per cent in the 1982/83 budget, and, as agreed between the Gambian authorities and the IBRD, (in connection with an energy sector credit of SDR 1.3 million), electricity tariffs were increased in October 1981 by 15 per cent for 1981/82 and, in April 1983 by a further 20 per cent for 1982/83.

3. Prices and incomes policies

The Gambian representatives stated that recent changes in producer prices and in the retail price of rice have been introduced with a view to improving productivity and price relationships in the agricultural sector; in particular, pricing policies are aimed both at preserving The Gambia's competitive edge vis-à-vis neighboring countries and at ameliorating the financial problems of the GPMB. In this context, in 1981/82 producer prices for rice and groundnuts were raised by 10 per cent and 8.7 per cent, respectively; the retail price of rice was increased by 20.6 per cent in July 1982, largely as a result of which the present levels of domestic rice prices entail no subsidy; the price of fertilizers was also increased, by 19 per cent, in July 1982. In 1982/83 the producer price for groundnuts was increased by an additional 4 per cent, while a further increase of 33.3 per cent in the fertilizer price is slated to take place by the end of the fiscal year. In the latter context, the Gambian authorities explained that their original schedule of phasing out fertilizer subsidies by 1984/85 has been revised to 1985/86 by a Cabinet decision; however, the amounts of the proposed increases for the earlier years of the new schedule have now been revised upward from 25 per cent in 1982/83, for example, to 33.3 per cent. For a few selected consumer items the authorities intend to continue to administer the present system of price controls flexibly. Where overall price developments are concerned, the Gambian authorities noted that their efforts to contain domestic demand, the moderation in the price of imported rice and oil, and the increase in local food production have all contributed to slowing down the inflation rate.

With regard to wage and salary policies, the Gambian representatives concurred with the need for continued moderation, in view of the prospective tight budgetary situation in the medium term. They stated that, after six years during which no wage awards were made, increases in remuneration by amounts varying from the equivalents of US\$0.08 to US\$0.55 were granted to daily-paid workers on July 1, 1980. The only increases in wages and salaries since 1980 were made in January 1982; the increases averaged 13 per cent.

4. Domestic financial policies

Revised estimates for 1981/82 indicate that the overall budgetary deficit (including grants) declined substantially by almost 6 percentage points of GDP between 1980/81 and 1981/82, and that net bank financing of the budget deficit was sharply reduced as well. However, excluding grants, the overall budgetary deficit rose marginally to about 19 per cent of GDP. Revised estimates for 1982/83 show a further slight reduction in the ratio of the budget deficit (including grants) to GDP. However, unlike in the preceding year, the overall budgetary deficit (excluding grants) declined very sharply from 19 per cent of GDP to about 9 per cent of GDP. Despite this decline, bank financing of the deficit is projected to rise sharply.

The Gambian representatives stated that, in addition to a large amount of exceptional grants received in 1981/82, several factors have contributed to the substantial reduction in the overall budget deficit in the past two fiscal years. On the revenue side these include the implementation of new tax measures in 1981/82 and 1982/83 amounting to an estimated 3.7 per cent of GDP and 1.4 per cent of GDP in those two years, respectively. They explained that these revenue measures contributed substantially to maintaining the ratio of revenues to GDP at a time when the revenue/GDP ratio would have declined as a result of the erosive effects of the abortive coup d'état of mid-1981 on the revenue base. Instead, as a result of the measures, revenues increased by 15 per cent to an estimated D 92.1 million in 1981/82, despite the deleterious effects of the disturbances on income tax revenues; similarly, revenues are estimated to increase by a further 9 per cent to about D 100 million in 1982/83. On the expenditure side, despite large unforeseen outlays associated with the 1981 disturbances, total expenditure growth was limited to only 17 per cent (D 186.4 million or about 37.9 per cent of GDP), in 1981/82; in 1982/83 total expenditures are estimated to decline by about 16.9 per cent to D 155 million (or about 26.5 per cent of GDP), reflecting nominal reductions in both current and development spending. They explained that improvements in the expenditure control measures introduced in 1981/82 under the stabilization program, particularly the quarterly expenditure allocation and monitoring system, and the cutback in development spending were primarily responsible for the large reduction in the overall budgetary deficit (excluding grants); savings on expenditures on wages and salaries in 1982/83 have also been considerably larger than budgeted.

The Gambian representatives felt that the slippages in the implementation of revenue measures in 1982/83 have been relatively minor and, for the most part, arise for administrative reasons: such is the case with the air ticket surcharge, the business registration fees, the proposed sales of used government vehicles, and the export duties on fish; in all, the revenue slippage on account of these measures is estimated at D 1.2 million. Other revenue targets are being largely met (the road tax, the import tax, and the import duties) or exceeded (the aviation through-put charge). They explained that, in light of their successful efforts to contain the overall levels of expenditures and of the budgetary deficit, the sole reason for the higher bank financing requirement for 1982/83 has been the nonavailability of STABEX entitlements, amounting to D 9.6 million; these receipts were expected to finance the local cost component of the development budget. Specifically, in the context of their stabilization program, the local cost component of development expenditures was reduced to about D 12 million, to be funded with anticipated STABEX receipts of D 9.6 million and consolidated revenue fund of D 2 million. In expectation of STABEX receipts, bank financing was used to fund the development budget. In the event, the expected STABEX entitlements have not materialized, thereby making it impossible to retire, as expected, the relevant bank-financed portion of the development budget.

In light of these developments, the Gambian representatives expressed concern about the medium-term outlook for development expenditures which would be required to increase and diversify the productive base of the economy. In this context, they noted that prospects for substantial increases in revenues in the near term are somewhat limited; current expenditures are already being vigorously controlled, and room for further substantial economies in this area does not appear to be large. Meanwhile, further retrenchment in development expenditures, already reduced in 1982/83 to its lowest nominal level since 1978/79, may be neither feasible nor desirable. They felt that, under the circumstances, these factors were pertinent in order to keep a realistic perspective on the prospective bank financing needs of the budget. Nevertheless, while it was too early to gain a comprehensive overview of the 1983/84 budget which was still under preparation, they expressed their determination to press ahead with improvements in the revenue collection machinery and tax administration; they also agreed that their intention to implement a bonded-warehouse scheme would require detailed study. They expect that the 1983/84 budget will also continue to improve on the expenditure-monitoring procedures now in place, and that it will contain some new tax measures.

Where parastatals are concerned, they agreed that it would be desirable to implement the proposed measures for monitoring parastatals under the auspices of the National Investment Board (NIB), if possible, before the expected target date of June 30, 1983. They noted that further study of the parastatal sector is presently under way: a preliminary report has already been prepared, and the second phase of the study is expected to commence around July. In the meantime, virtually all the pricing measures which were planned in the parastatal sector have been implemented. In the case of the proposed bus fare increases, the first fleet of 25 new buses is now expected to be received around December 1983; at about that time, as originally intended, the appropriate bus fare increases will be determined and implemented. Intra-public sector debts, including significant amounts of back taxes owed by the GPMB, remain a problem, and the authorities are considering ways of dealing with it.

Monetary and credit developments in the past two years have been favorably influenced by measures under the stabilization program. The improved monitoring of crop credits has resulted in a sharp deceleration in the rate of increase of private sector credit. The Gambian authorities were fully satisfied that the new "imprest" system for crop credits, under which, essentially, credits are released largely on a revolving, bi-weekly basis for crop purchases, after certification that the preceding credit has been fully repaid, has worked very well. In this context, they cited the dramatic increase in the recovery rate of crop credits from 22 per cent in 1980/81 to 100 per cent in 1981/82; as of end-April 1983, 99 per cent of the marketing credits for the 1982/83 season had already been repaid. In the past, such credits had been diverted to commercial purposes, intensifying demand pressures. In addition, the

demand for credit for commercial purposes has been significantly curbed by the use of global credit ceilings combined with the increases in interest rates under the stabilization program. In the former case, consistent with banking regulations, quantitative credit guidelines were allotted to each individual bank. The interest rate measures included an increase in the deposit rates of the commercial banks from a range of 5.5-9.0 per cent to 7.5-12.0 per cent while at the same time freeing the 15 per cent ceiling on advances; as a result of these increases, many deposit rates are now positive in real terms. Credit to parastatal entities is also being closely controlled. As a result of their success in containing credit expansion, the authorities intend to continue implementing the new crop credit system and the quantitative guidelines for the commercial banks. Meanwhile, however, although some progress had been made in improving the recovery rate of subsistence credits, large amounts of such credits are still outstanding from previous years, aggravating the financial problems of the Gambia Cooperative Union (GCU); the Government and the IBRD are jointly seeking a solution to the problem of outstanding subsistence credits, within the framework of the World Bank's ADP II. Other financial institutions experiencing difficulties largely as a result of their agricultural credit operations include the Gambia Commercial and Development Bank (GCDB) and the Agricultural Development Bank (ADB), and these problems are under constant review.

5. External financial policies

Data on re-exports and on certain components of The Gambia's balance of payments, particularly on private capital account, are relatively unreliable, resulting in the existence of a large and volatile errors and omissions item. Recent revisions of the movements in foreign exchange and other items have exacerbated these swings. Nevertheless, data based largely on recorded trade items indicate that the current account deficit in the balance of payments has declined sharply and steadily over the past two years. While pressures on the balance of payments eased in 1981/82, these pressures have intensified in the latter part of 1982/83 as a result of the continued deterioration in the terms of trade and a drop in capital inflows. Thus, external payments arrears, which were reduced in 1981/82, are already increasing in 1982/83, and now include arrears on official debt service; thus, external payments arrears rose to SDR 14.0 million at end-March 1983, of which SDR 2.5 million represents government arrears. In addition, The Gambia's gross external reserves have continued to decline steadily.

The authorities are seriously concerned about the continuing balance of payments pressures. They explained that the demand-management and supply-inducing measures under their recent stabilization program have helped to contain the balance of payments pressures. Despite these efforts, however, the continued weakness of export prices has combined with a sharp drop in capital inflows to intensify pressures on the overall

balance of payments situation. In explaining the latter development, the Gambian authorities stated that an estimated D 9.6 million in STABEX entitlements, which was expected in 1982/83, will no longer materialize as a result of the difficulties caused by the recession in industrial countries; for the same reasons, net official capital inflows associated with the development program have also dropped sharply. These pressures notwithstanding, the Gambian authorities reiterated their intention to continue to eschew resort to quantitative import controls. In addition, they agreed that, as evidenced in the rising debt service ratio, the external debt situation has become more difficult in the recent past, underscoring the importance of continuous and intensive monitoring of the country's debt profile, and for the continued avoidance of short-term government or government-guaranteed indebtedness. In order to assist them in the compilation, analysis, and monitoring of external debt-related data, the authorities expressed an interest in obtaining some short-term technical assistance from the Fund on external debt.

In discussing exchange rate policy, the Gambian authorities stated that, despite the depressed export prices in the past two years and the slowdown in tourism in 1981/82, developments in The Gambia's external current account balance indicate that their program of reducing absorption through tight credit and fiscal policies has been very effective. Under the circumstances, and in light of the depreciating trend of the real import-weighted exchange rate of the dalasi, they felt that it was reasonable to continue to retain exchange rate policy as an instrument of last resort, to be deployed if detailed studies were to demonstrate convincingly that the exchange rate would be more efficient in achieving government objectives.

Data are not available on government-guaranteed debt and on private debt in The Gambia. However, a detailed projection of public debt service in the medium term, on a loan-by-loan basis, has been prepared. On the basis of public debt outstanding as of end-May 1983, staff projections indicate that the ratio of debt service to export earnings will rise from an estimated 15.4 per cent in 1983/84 to about 20 per cent each year in 1984/85 and 1985/86, largely on account of liabilities to the Fund incurred in the early 1980s. Thereafter, the ratio is projected to decline steadily to about 15.0 and 12.0 in 1986/87 and 1987/88, respectively. Inclusive of projected new borrowing in the medium term, the debt service ratio is projected to rise from 15.4 per cent in 1983/84 to about 30 per cent in 1985/86 and to decline steadily thereafter to 24 per cent in 1987/88 (Appendix V).

In the balance of payments projections underlying the medium-term debt service scenario, exports and imports are projected to increase in nominal terms by 13.5 per cent and 10 per cent, respectively, per annum. The projected annual average increase in export earnings compares with an annual average increase of 10 per cent in the past two years. Consequently, the projected increase in the medium term assumes that groundnut

export prices will recover from their relatively depressed levels in the past two years. In the case of imports which fell substantially in real terms in the past two fiscal years, the projected annual average increase of 10 per cent assumes an increase in real terms of about 5 per cent per annum. Official capital inflows are based on a low average implementation rate (about 65 per cent) of the development plan. Given the very high share of concessionary financing under the plan in previous years, it is assumed that loans contracted during the projection period will also be mostly on concessionary terms; other additional external financing is assumed to be incurred at the equivalent of commercial terms.

IV. Staff Appraisal

The recovery in GDP in the Gambian economy in the past two years has been aided considerably by favorable weather developments. However, despite the increase in domestic production, a sharp deterioration in the terms of trade contributed to a reduction in real incomes, hence import demand. In addition, measures initiated by the authorities, particularly in the area of economic pricing policies and fiscal and monetary policies, have also played an important constraining role in import demand. The fact that these measures were implemented at a time when the internal and external economic financial situation was complicated by political developments in the country underscores The Gambia's determination to deal with its economic and financial problems.

Despite these improvements, however, the economic and financial situation remains quite difficult. Among other things, the financial problems of the Gambia Produce Marketing Board have persisted, not only because of the depressed prices for groundnuts but also because of the financial burden of government decisions affecting fertilizer subsidies; there are also indications that, despite recent cost control measures, the overall cost structure of the marketing board remains high. In addition, The Gambia's foreign exchange difficulties have intensified, mainly because of a decline in aid and loan flows, and external payments arrears, including those on official debt, are increasing. More fundamentally, while the Gambian authorities would need to continue to intensify their efforts to restrain the growth of domestic demand and to increase domestic savings, preliminary indications are that the scope for a further major role, in the near term, for demand management policies to reduce the current account deficit in the balance of payments substantially further in an orderly fashion and without disruptive effects on economic activity is now somewhat limited. Largely for this reason, a pressing need in the period ahead is to align economic and financial policies with the objectives of restructuring and diversifying the sources of export earnings and promoting import substitution, particularly given The Gambia's low and volatile level of reserves. The staff welcomes the authorities' intention to implement, with the support of the Fund, an adjustment program reflecting such policies.

A diversification and restructuring strategy, aimed at promoting tourism, fishing, livestock, and other agricultural production such as cotton and rice, is already embodied in the present five-year development plan, which has been favorably reviewed by the IBRD. However, in this context, the recent evolution of the development budget and the prospects for the future are worrisome, particularly in light of the decline in concessional aid flows. The staff feels that, while a more intensive effort to limit the growth in total expenditures remains compelling, efforts to increase the role of the budget as an instrument in the development, restructuring, and diversification of the economy also need to be intensified. For these reasons, and given the reduced scope for

substantial discretionary revenue gains in the near term, the authorities would need to review and consider measures to adjust the composition and level of government expenditures in favor of productive sectors. At the same time, the review would need to continue to constrain the overall budgetary deficit to an appropriate level while financing it in a noninflationary manner.

In view of the increase in the debt service ratio, the staff would urge the authorities to continue to eschew government or government-guaranteed indebtedness in the 1-10 years' maturity range, and to monitor continuously the country's debt profile. In this context, the staff welcomes the authorities' intention to seek short-term technical assistance from the Fund to assist them in the compilation, analysis, and monitoring of debt-related data. The staff also welcomes the intention of the Government to continue to maintain The Gambia's relatively liberal system of trade, despite the pressing foreign exchange difficulties.

The Gambia's accumulation of commercial and official arrears in respect of current international transactions constitutes an exchange restriction subject to approval under Article VIII. The staff welcomes the authorities' intention to gradually reduce and eliminate the level of outstanding arrears over the medium term.

Consistent with the 12-month cycle envisaged for consultation discussions with The Gambia, the authorities have proposed that the next Article IV consultation discussions take place around April 1984.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

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 1981 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 - Relations with the Fund

(As of June 30, 1983)

Date of membership:	September 21, 1967	
Quota:	SDR 13.5 million; the proposed quota is SDR 17.1 million.	
Fund holdings of Gambian dalasis:	SDR	Per Cent
Total	<u>Millions</u>	<u>of Quota</u>
Of which:	41.840	309.9
Enlarged access	4.096	30.3
Credit tranche	9.352	69.3
Supplementary financing facility	4.789	35.5
Compensatory financing facility	10.125	75.0
SDR position:	Holdings amounted to SDR 0.017 million. The net cumulative allocation totalled SDR 5.120 million.	
Trust Fund loan disbursements (first and second periods):	SDR 6.850 million	
Direct distribution of profits from gold sales (four distributions):	US\$1.110 million	
Gold distribution:	5,819.577 fine ounces	
Exchange system:	The Gambian currency, the dalasi, is pegged to the pound sterling at a fixed rate of D 4 = £ 1.	
Technical assistance:	A member of the FAD panel of experts is assigned to the Ministry of Finance to advise on fiscal operations, and 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.	
Staff visits:		
Staff visits	November/December 1981 August/September 1981 July 1981	
Use of Fund resources	October/November 1981 June 1981	
Program review	May/June 1982	

The Gambia - Relations with the Fund (concluded)

The last Article IV consultation discussions with The Gambia were held in Banjul during the period March 16-31, 1981. The staff report (EBS/81/113) was discussed by the Executive Board on June 3, 1981, 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 1981 Article XIV consultation with The Gambia, in the light of the 1981 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. In the meantime, in the light of the intentions of the authorities to collaborate with the Fund to reduce gradually this restriction, and to eliminate it as soon as the foreign exchange situation permits, the Fund grants approval for their retention until June 30, 1982.

The Gambia - World Bank Lending Operations
(As of June 30, 1983)

(In millions of U.S. dollars)

	<u>Amount</u>	
	<u>Disbursed</u>	<u>Undisbursed</u>
Purpose		
Education project	5.5	--
Rural and urban enterprises project	2.4	0.6
Highway maintenance	2.7	2.3
Energy project	0.6	0.8
Second port project	<u>1.7</u>	<u>4.4</u>
Total	12.9	8.1

Source: IBRD.

The Gambia - Basic Data

Area, population, and GDP per capita

Area	10,360 square km
Population: Total 1983	650,000
Growth rate	2.8 per cent
GDP per capita (1982/83) ^{1/}	SDR 339

Production and expenditure

1977/78 1978/79 1979/80 1980/81 1981/82 2/1982/83 3/

(In millions of dalasis)

Gross domestic product (at constant factor cost)	273.2	317.6	286.3	283.9	314.9	352.4
Agriculture	97.3	122.5	80.4	83.3	116.0	149.6
Manufacturing and mining	12.8	16.6	13.3	15.2	19.5	23.5
Commerce	38.3	43.7	49.2	40.4	35.0	31.5
Tourism and hotels	5.5	10.4	8.2	4.9	3.8	7.0
Other sectors	119.3	124.4	135.2	140.1	140.6	140.8
Gross domestic product (at market prices)	352.6	404.4	403.7	417.9	491.4	585.5
Imports of goods and nonfactor services	230.0	256.2	327.8	309.4	281.3	300.8
Exports of goods and nonfactor services	133.9	161.8	167.8	132.1	148.0	194.2
Gross domestic expenditure	448.7	498.8	563.7	595.2	624.7	692.1
Private consumption	277.6	309.8	334.1	381.9	376.6	458.2
Public consumption	61.6	68.5	87.7	89.3	118.9	102.5
Gross capital formation and changes in stocks	109.5	120.5	141.9	124.0	129.2	131.4

(In per cent)

Annual rates of change of GDP and prices

GDP at constant 1976/77 prices	-0.2	16.3	-9.9	-0.8	10.9	11.9
GDP at current market prices	1.4	14.7	-0.2	3.5	17.6	19.2
GDP deflator	7.0	3.7	9.9	4.9	7.3	6.9
Consumer price index	10.2	7.5	5.0	7.9	8.2	7.9

(In millions of dalasis)

Central government finance

Current revenue	82.9	78.7	98.2	80.2	91.5	99.6
Current expenditure	61.6	68.5	87.7	89.3	118.9	102.5
Capital revenue	0.2	0.1	--	--	0.6	0.6
Foreign grants	19.8	13.5	10.8	24.3	56.8	13.0
Development expenditure	69.1	52.0	53.1	69.8	67.5	53.5
Net lending	7.9	0.9	2.0	-0.5	--	-1.0
Overall deficit (including grants)	-35.7	-29.2	-33.8	-54.2	-37.4	-41.8
Overall deficit (excluding grants)	-55.5	-42.7	-44.6	-78.5	-94.2	-54.8
Financing						
Foreign (net)	27.4	20.4	29.8	50.1	35.8	27.0
Domestic (net)	8.3	8.8	4.0	4.1	1.6	14.8
Banking system	6.2	11.7	-0.3	7.3	-1.7	12.3

The Gambia - Basic Data (concluded)

	1978	1979	June 1980	1981	1982	1981	Dec. 1982
	(In millions of dalasis)						
Money and credit							
Foreign assets	26.9	-14.5	-39.9	-51.4	-109.5	-72.6	-112.1
Domestic credit	83.3	127.0	175.5	202.8	238.0	233.1	270.0
Claims on Government	17.4	29.1	28.8	36.1	34.4	27.8	42.4
Claims on public enterprises	11.4	25.6	55.2	68.5	91.2	99.0	134.1
Claims on private sector	54.6	72.3	91.5	98.2	112.4	106.3	93.5
Money and quasi-money	74.4	72.9	72.8	86.1	98.5	108.8	126.1
Money	45.2	49.8	47.7	56.5	58.5	76.1	86.3
Quasi-money	29.2	23.1	25.1	29.6	40.0	32.7	39.8
GPMB's special deposits	11.7	--	1.3	--	--	--	--
Other items (net)	24.2	39.6	61.5	65.3	30.0	51.7	31.8
	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	
	(In millions of SDRs)						
Balance of payments							
Exports, f.o.b.	44.0	50.2	58.1	45.7	49.7	55.2	
Imports, f.o.b.	-67.5	-73.9	-106.7	-104.3	-85.7	-78.7	
Trade balance	-23.5	-23.7	-48.6	-58.6	-36.0	-23.5	
Net services	-13.0	-14.5	-20.0	-23.4	-28.5	-20.6	
Net private transfers	--	0.7	2.8	2.9	2.6	2.1	
Current account	-36.5	-37.5	-65.9	-79.1	-62.0	-42.0	
Capital account and errors and omissions	25.9	26.2	49.3	70.4	47.4	33.3	
Private (including errors and omissions)	3.2	6.2	3.2	18.0	-6.6	-3.1	
Government	22.7	20.0	46.1	52.4	54.0	36.3	
Official transfers	13.0	20.9	29.6	26.0	38.7	19.4	
Official loans	9.7	-0.9	16.5	26.4	15.3	16.9	
Overall balance	-10.6	-11.4	-16.6	-8.6	-14.5	-8.7	
Foreign exchange and other items	9.8	10.9	6.4	-11.1	14.0	-1.5	
Use of Fund resources	0.8	0.5	1.3	7.8	7.0	6.5	
Changes in arrears	--	--	8.9	11.9	-6.5	3.7	

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

1/ Financial year July 1-June 30.

2/ Provisional actuals.

3/ Staff estimates.

The Gambia: Selected Economic and Financial Indicators, 1978/79-1982/83

	1978/79	1979/80	1980/81	1981/82		1982/83			
				Proj.	Rev. Est.	Rev. Act.	Orig. Proj.	Rev. Proj.	Rev. Est.
<u>(Annual per cent changes, unless otherwise specified)</u>									
National income and prices									
GDP at constant prices	16.2	-9.9	-0.8	13.2	11.2	10.9	7.6	9.7	11.9
GDP deflator	3.7	9.9	4.9	11.0	7.8	7.3	10.0	8.2	6.9
Consumer prices	7.5	5.0	7.9	11.0	8.1	8.2	10.0	8.0	7.9
External sector (on the basis of SDRs)									
Exports, f.o.b.	14.1	15.8	-21.4	29.5	9.7	8.7	14.6	30.8	11.1
Imports, c.i.f.	9.8	43.9	-2.3	-5.1	-23.1	-17.8	9.2	10.4	-8.3
Export volume, f.o.b.	5.5	43.4	-40.5	-55.3	23.7	53.7	1.2	7.1	...
Import volume, c.i.f.	-3.2	21.4	-17.6	-14.4	-18.0	-20.2	1.1	8.1	...
Terms of trade (- deterioration)	-4.5	-32.0	11.5	-22.8	-10.2	-31.4	1.0	21.2	...
Nominal effective <u>1/</u> exchange rate (- depreciation)	-0.3	4.6	5.1	--	-2.6	-2.6	
Real effective <u>1/</u> exchange rate (- depreciation)	-0.6	-3.5	1.5	--	-4.5	-4.5	
Government finances									
Revenue and grants	-10.4	18.1	-4.1	37.3	38.6	42.6	1.6	-1.8	-24.0
Total expenditure	-12.4	17.6	11.1	30.9	28.4	17.5	2.7	-3.4	-16.9
Money and credit									
Domestic credit	52.4	38.2	15.6	14.8	16.7	17.4	11.0	11.6	24.2
Government	67.5	-1.0	25.3	15.4	13.8	-4.7	15.2	16.8	35.8
Private sector (including public enterprises)	48.4	49.9	13.6	14.7	17.3	22.1	10.2	10.6	22.2
Money and quasi-money	-2.1	--	18.3	22.2	29.0	14.4	18.0	18.5	19.1
Velocity (GDP relative to M2) <u>2/</u>	18.1	18.0	20.6	20.5	22.6	20.1	20.4	22.4	20.0
Interest rate (annual rate) <u>2/</u>	7.0	8.0	8.0			9.0			12.0

The Gambia: Selected Economic and Financial Indicators, 1978/79-1982/83 (concluded)

	1978/79	1979/80	1980/81	1981/82			1982/83		
				Proj.	Rev. Est.	Rev. Act.	Orig. Proj.	Rev. Proj.	Rev. Est.
(In per cent of GDP)									
Central Government									
Overall deficit (excluding grants)	10.6	11.0	18.8	20.3	19.6	19.2	13.4	13.0	9.4
Overall budget deficit (including grants)	7.2	8.4	13.0	9.2	8.6	7.6	8.2	8.1	7.1
Domestic bank financing	2.9	-0.1	1.7	1.0	0.9	-0.3	0.9	1.0	2.1
Foreign financing	5.0	7.4	12.0	8.0	7.1	7.3	6.9	6.6	4.6
Gross domestic investment	26.1	29.0	26.1	23.6	23.8	24.8	19.4	17.4	19.2
Gross domestic savings	6.4	-4.5	-12.8	-1.7	1.6	-0.8	2.1	4.5	4.2
Current account deficit	23.8	38.0	41.0	30.3	27.4	31.1	23.6	19.2	19.7
External debt <u>3/</u>	17.8	29.4	44.1	59.1	61.8	70.8	64.2	67.1	76.6
(In millions of SDRs, unless otherwise specified)									
Overall balance of payments deficits	11.4	16.6	8.6	2.7	1.6	14.5	2.8	1.2	8.7
Gross official reserves (months of imports, end of period)	5.5	2.7	9.9	2.3	...	2.6	1.8	...	1.9
External payments arrears (end of period)	--	8.96	19.7	15.1	12.1	12.1	9.1	8.9	14.0 <u>4/</u>

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

1/ Import-weighted; averages of quarterly figures.

2/ Level in per cent.

3/ 1978/79 to 1980/81 debt figures not comparable to the 1981/82 and 1982/83 figures.

4/ As of end-March 1983.

Debt Service Profile, 1983/84-1987/88

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88
Debt service on public debt outstanding as of May 1983					
Amortization	6.15	11.32	16.21	13.14	11.78
Of which: IMF <u>1/</u>	1.90	5.44	9.13	5.87	3.22
Interest and charges	6.03	5.68	5.19	4.45	3.92
Of which: IMF <u>1/</u>	2.14	1.97	1.53	0.89	0.46
Total debt service	12.18	17.00	21.40	17.59	15.70
Of which: IMF <u>1/</u>	4.04	7.41	10.66	6.76	3.68
Debt service ratio	15.5	19.0	21.2	15.3	12.0
Of which: IMF	5.1	8.2	10.5	5.9	2.8
Debt service on public debt outstanding as of May 1983 plus projected new borrowing					
Total debt service	12.18	20.43	30.02	30.41	31.53
Debt service ratio	15.5	22.9	29.6	26.4	24.1
Exports of goods and services	78.8	89.4	101.5	115.2	130.2

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

1/ Excluding IMF Trust Fund.