

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**FOR
AGENDA**

EBS/82/195

CONFIDENTIAL

October 25, 1982

To: Members of the Executive Board

From: The Acting Secretary

Subject: The Gambia - Review of Stand-By Arrangement and Extension
of Approval of Exchange Restrictions

Attached for consideration by the Executive Directors is a paper on a review of the stand-by arrangement for The Gambia and its exchange system. A draft decision appears on pages 17 and 18.

It is proposed that this subject be brought to the agenda for discussion on Monday, November 22, 1982.

Att: (1)

INTERNATIONAL MONETARY FUND

THE GAMBIA

Review of Stand-By Arrangement and Extension of
Approval of Exchange Restrictions

Prepared by the African, Exchange and Trade Relations,
and Fiscal Affairs Departments

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

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

October 22, 1982

I. Introduction

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) is from borrowed resources. The schedule of expected purchases and repurchases by The Gambia during the period of the stand-by arrangement is shown in Table 1. As specified in the stand-by arrangement, the first purchase (SDR 5.58 million) was effected immediately following Board approval of the program. The second purchase (SDR 2.54 million), was made in May 1982 after The Gambia successfully met all the performance criteria set for end-March 1982.

Under the stand-by arrangement, The Gambia may make the third and fourth purchases (each equivalent to SDR 4.39 million) subject to reaching understandings with the Fund on the policies to be pursued in the fiscal year 1982/83 (July-June), 1/ and the satisfaction of the relevant performance criteria for June 30, 1982 and September 30, 1982. If The Gambia purchases the full amount available under the current stand-by arrangement, the Fund's holdings of The Gambia's currency (after taking account of scheduled repurchases), would reach 318.4 per cent of quota by the end of the arrangement, or 238.4 per cent of quota excluding purchases under special facilities. A summary of The Gambia's relations with the Fund is provided in Annex A.

1/ The staff mission which conducted the review during May 21, 1982-June 1, 1982 comprised Messrs. Enweze (head-AFR), Boutros-Ghali (ETR), Evans (FAD), Kalinga (AFR), and Mrs. Nairn (secretary-AFR). Following a visit by a Gambian delegation to Washington on June 25, 1982, final understanding on the remaining details of the program for 1982/83 was reached on September 9, 1982, during the visit to Washington of another Gambian delegation. In addition to the members of the May/June mission, Fund staff participants in the negotiations in Washington included Messrs. Collings (in June) and Weerasinghe (in June and in September), both AFR.

Table 1. The Gambia: Purchases and Repurchases during the Stand-By Arrangement, February 1982-February 1983

(In millions of SDRs, during period)

	Feb.-March 1982	April-June 1982	Oct. 1982- Feb. 1983 ^{1/}	Total
Purchases				
Stand-by arrangement	5.58	2.54	8.78	16.90
Ordinary resources	2.87	1.15	4.00	8.02
Enlarged access resources ^{2/}	2.71	1.39	4.78	8.88
Repurchases	0.58	0.56	1.13	2.27
Net purchases	5.00	1.98	7.65	14.63
Total Fund holdings (cumulative)	33.36	35.34	42.99	42.99
	(In per cent of quota)			
Total Fund holdings	247.11	261.78	318.44	318.44
Holdings excluding CFF	151.48	170.30	238.44	238.44

Sources: Data provided by the Treasurer's Department; and Annex C.

^{1/} Includes delayed purchase linked to June 1982 performance criteria.

^{2/} Portions of this may be financed from SFF resources.

The letter from the Government of The Gambia (Annex C), dated October 8, 1982, reviews economic and financial developments during the first half of the program period, details the targets for the balance of the period, and describes the major policies which the authorities intend to pursue in order to achieve the program objectives.

The Executive Board extended the approval of The Gambia's restrictions arising from external arrears, (described in the documents for the 1981 Article IV consultation, SM/81/113 and SM/81/124), until September 30, 1982, or the completion of the mid-term review of the 1982 stand-by arrangement with the Fund, whichever is the earlier. Approval of these restrictions was subsequently extended up to December 31, 1982, or the completion of the mid-term review of the 1982 stand-by arrangement with the Fund, whichever is the earlier (EBD/82/235). In connection with these arrears, a multiple currency practice, arising from the requirement of counterpart deposits with the Central Bank, was introduced by The Gambia on November 5, 1981, and was granted temporary approval by the Fund in February 1982, until December 31, 1982, or the completion of the next Article IV consultation, whichever is the earlier (EBM/82/22). A draft decision to further extend the approval of the restrictions arising from external arrears is proposed in this paper.

II. Review of Developments

Economic and financial developments in The Gambia through mid-1981 have been reviewed in detail in the staff report on the 1981 Article IV consultation discussions (SM/81/113) and in the report on recent economic developments (SM/81/124); these developments were also summarized and updated in the paper on The Gambia's request for the stand-by arrangement (EBS/82/17). Consequently, only brief references are made here to developments in 1980/81, for the purpose of reviewing the performance during the first six months of the stand-by arrangement; such a review would also provide a basis for discussing the objectives and policies for fiscal year 1982/83.

The broad objectives of the program supported by the current stand-by arrangement are to reduce internal and external imbalances, while continuing to diversify the economy. Under the program, the external current account deficit (excluding grants) was projected to be reduced from 41.1 per cent of GDP in 1980/81 to 30.3 per cent of GDP in 1981/82 and 23.6 per cent of GDP in 1982/83, while the overall balance of payments deficit, which stood at 4.1 per cent of GDP in 1980/81, was forecast to be reduced to 1.2 per cent of GDP in both 1981/82 and 1982/83. These targets reflect the assumptions made regarding groundnut exports and the terms of trade, as well as the effects of policies being implemented by the authorities. These policies include a reduction in the ratio of the overall budgetary deficit (including grants) to GDP from 10 per cent in 1980/81 to 9.2 per cent in 1981/82 and to 8.2 per cent in 1982/83, while keeping the ratio of the associated domestic bank financing at about 1 per cent of GDP; credit restraint fostered, in part, by increased interest rates; and improvements in resource allocation through the price mechanism.

Table 2. The Gambia: Evolution of Quarterly Quantitative Performance Criteria for the period through December 31, 1982

(In millions of dalasis; end of period)

	1981				1982			
	March	June	Sept.	Dec. <u>1/</u>	March	June	Sept.	Dec. <u>1/</u>
Net credit to Government <u>2/</u>								
Ceiling	...	...	...	23.00 <u>1/</u>	35.00	37.50	40.32	43.4
Actual	35.10	32.50	16.20	23.50	30.40	37.00	39.44	
Total domestic credit <u>3/</u>								
Ceiling	...	...	...	243.00 <u>1/</u>	250.30	236.10	259.90	290.60
Actual	202.30	205.70	195.80	227.40	234.10	240.10 <u>4/</u>	245.82	
External payments arrears <u>5/</u>								
Ceiling	...	...	...	42.00 <u>1/</u>	40.00	38.00	34.50 <u>6/</u>	28.00
Actual	--	46.60	33.00	42.20	24.20	30.50	30.79	
New external borrowing (cumulative) 1-10 years maturity <u>7/</u>								
Ceiling	--	--	--	15.00 <u>1/</u>	15.00	15.00	15.00	15.00
Actual	--	--	--	--	--	--	--	

Sources: EBS/82/17; Annex C and data provided by the Gambian authorities.

1/ Not performance criteria.

2/ Defined as the sum of the banking system's claims on the Government, less government deposits, plus any use by the Government of the local currency counterpart of purchases from the Fund.

3/ Defined as the sum of net credit to the government plus claims on the private sector (including official entities).

4/ The small excess was due to a temporary delay in the shipment of groundnut exports.

5/ Defined as the sum of arrears in respect of official debt service payments and in respect of commercial payments.

6/ Also reflects delay in Fund purchase linked to June performance criteria due to delay in completing the mid-year review in June 1982.

7/ Starting from November 5, 1981 through December 31, 1982.

As far as policy implementation is concerned, virtually all the measures detailed in the "Policy Memorandum" attached to the letter of the Minister of Finance, dated January 14, 1982 were implemented. In this context, among other things, producer prices for rice and groundnuts for 1981/82 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 increased by 19 per cent in July 1982; the Government embarked upon the process of strengthening the liquidity position of The Gambia Produce Marketing Board (GPMB) by transferring certain assets to the Board; in addition, the Government now transfers 25 per cent of STABEX receipts to the GPMB and 15 per cent to The Gambia Cooperative Union, (GCU); and, following the increase in retail prices of petroleum products by over 58 per cent between July and November 1981, petroleum pricing policy is now such that prices fully cover import costs; electricity tariffs were raised by 15 per cent in October 1981 as agreed between the Gambian Government and the IBRD. In the fiscal area, revenue measures slated to yield an amount equivalent to 3.7 per cent of GDP were introduced in the 1981/82 budget with petroleum-related taxes increased by between 54-200 per cent; and an effective government expenditure monitoring scheme was introduced under the program. With respect to monetary policies, commercial banks were requested to place all the local currency counterpart deposits to external arrears in a blocked interest-bearing account with the Central Bank (these deposits are now excluded, as required by law, in calculations of the required liquidity ratios of the banks). Commercial banks' deposit rates were raised from a range of 5.5-9.0 per cent to 7.5-12.0 per cent in late 1981, and the 15 per cent ceiling on advances was removed; and quarterly quantitative credit guidelines applicable to each commercial bank are being implemented. An improved and effective system of monitoring crop financing is now being implemented. Understandings pertaining to debt policy and to the trade and exchange system continue to be scrupulously observed. In addition, although not part of the program measures, The Gambia Ports Authority charges were increased by 30 per cent in April 1982.

Largely as a result of these measures, all the performance criteria under the program were virtually met (Table 2). Similarly, economic and financial developments in 1981/82 indicate that, in many areas, the economy performed better than estimated in the program (Table 3). Aided by good weather conditions, the Gambian economy registered a sharp recovery in 1981/82; real GDP is estimated to have increased by 11.2 per cent. Although the increase is slightly less than the program assumption of 13.2 per cent, the outturn follows five years of continuous declines in real GDP. Increased production in the agricultural sector was mainly responsible for the recovery; the sector as a whole registered a 27 per cent increase. Domestic expenditures (including both consumption and investment), were lower than program targets (Appendix Table I). The inflation rate, which was originally targeted at 11 per cent for 1981/82, decelerated sharply to 8 per cent.

Table 3. The Gambia: Selected Economic and Financial Indicators, 1978/79-1982/83

	1978/79	1979/80	1980/81	1981/82	1982/83		
				Prog.	Rev. est.	Orig. prog.	Rev. prog.
(Annual per cent changes, unless otherwise specified)							
National income and prices							
GDP at constant prices	0.1	-5.0	-7.8	13.2	11.2	7.6	9.7
GDP deflator	12.2	3.5	12.2	11.0	7.8	10.0	8.2
Consumer prices	7.6	5.0	10.0	11.0	8.1	10.0	8.0
External sector							
(on the basis of SDRs)							
Exports f.o.b.	14.1	15.7	-26.2	29.5	9.7	14.6	30.8
Imports c.i.f.	9.8	43.9	-5.1	-5.1	-23.1	9.2	10.4
Export volume f.o.b.	5.5	6.8	-42.4	55.3	23.7	1.2	7.1
Import volume c.i.f.	-3.2	6.6	-16.6	-14.4	-18.0	1.1	8.1
Terms of trade							
(-deterioration)	-4.5	-19.8	12.5	-22.8	-10.2	1.0	21.2
Nominal effective 1/ exchange-rate (depreciation)	-0.3	4.6	5.1	...	-2.6	...	...
Real effective 1/ exchange-rate (-depreciation)	-0.6	-3.5	1.5	...	-4.5	...	...
Government finances							
Revenue and grants	-5.3	18.2	-5.9	37.3	38.6	1.6	-1.8
Total expenditure	-12.4	17.6	0.7	30.9	28.4	2.7	-3.4
Money and credit							
Domestic credit	51.9	39.2	16.8	14.8	16.7	11.0	11.6
Credit to Government	60.3	5.0	10.9	15.4	13.8	15.2	16.8
Private sector							
(including public enterprises)	49.4	48.9	18.0	14.7	17.3	10.2	10.6
Money and quasi-money	-2.0	-0.2	18.4	22.2	29.0	18.0	18.5
Velocity (GDP rela- tive to M2)	18.1	18.3	21.0	20.5	22.6	20.4	22.4
Interest rate							
(annual rate, one year year saving deposit; end-June) 2/	7.0	8.0	8.0	9.0	9.0	12.0	12.0
(In per cent of GDP, unless otherwise specified)							
Central government							
overall budget deficit	7.2	8.5	10.0	9.2	8.6	8.2	8.1
Domestic bank financing	2.6	0.4	0.8	1.0	0.9	0.9	1.0
Foreign financing	5.0	7.5	10.0	8.0	7.1	6.9	6.6
Gross domestic investment	20.2	27.4	20.6	23.6	23.8	19.4	17.4
Gross domestic savings	4.1	-2.7	-5.5	-1.7	1.6	2.1	4.5
Current account deficit (excluding grants)	23.8	38.7	41.1	30.3	27.4	23.6	19.2
Current account deficit (including grants)	10.5	21.3	16.6	9.8	8.5	9.2	6.3
External debt							
(including IMF)	17.8	29.4	44.1	59.1	61.8	64.2	67.1
External debt (excluding IMF)	14.6	25.4	32.5	48.4	50.6	52.1	54.5
Debt service ratio to export earnings	--	--	0.3	7.0	9.2	10.9	10.6
(In millions of SDRs, unless otherwise specified)							
Overall balance of payments deficit	11.0	16.6	7.4	2.7	1.6	2.8	1.2
Gross official reserves (months of imports; end of period)	1.1	0.6	2.3	2.3	1.9	1.8	1.9
External payments arrears (end of period; millions of dalasi)	--	--	46.6	38.0	30.5	23.0	23.0

1/ Import-weighted; averages of quarterly figures.

2/ Level in per cent.

In the fiscal sector, the revised estimates for 1981/82 indicate that total revenue and grants amounted to D 142.2 million, or slightly more than the program forecast of D 140.9 million. Total expenditures of D 184.7 million were D 3.5 million less than the program forecast of D 188.2 million. Effective use of the expenditure monitoring and control system set up under the program was primarily responsible for the better-than-programmed outturn on expenditures. The overall deficit of D 42.5 million (8.6 per cent of GDP) was significantly less than the program target of D 47.3 million (9.2 per cent of GDP), (Chart 1). Correspondingly, the associated bank financing of D 4.5 million (0.9 per cent of GDP) was less than the program target of D 5.0 million (or 1.0 per cent of GDP), making it possible for the Government to meet the sub-ceiling on net credit from the banking system through June 1982.

Developments in the monetary sector through June 1982 show no substantial deviation from the program targets. However, an unavoidable slowdown in the shipment of groundnut exports temporarily raised the level of total domestic credit at end-June 1982 to D 240.1 million, slightly exceeding the program ceiling of D 236.1 million by D 4.0 million (1.7 per cent of total). This small and temporary excess, coupled with the more favorable balance of payments outturn for 1981/82 (see below), resulted in the money supply increasing by an estimated 29.0 per cent, compared with the program estimate of 22.2 per cent for 1981/82.

In the external sector, exports were below expectations, mainly because groundnut deliveries which amounted to 82,000 tons, fell short of the program estimates of 100,000 tons, and of lower groundnut prices. As expected, tourism receipts declined due to the adverse publicity from the abortive coup d'etat of July 1981. Although export earnings increased by only 9.8 per cent to SDR 47.1 million, compared to a program target of SDR 55.6 million, The Gambia's balance of payments position improved substantially in 1981/82. The principal reason for the better-than-programmed improvement in the balance of payments in 1981/82 was the sharp fall in merchandise imports. In the program projections, imports were expected to decline from SDR 101.3 million in 1980/81 to SDR 96.4 million in 1981/82; however, revised estimates show that imports dropped faster than programmed to SDR 78.2 million in 1981/82. Although the factors responsible for the expected decline in imports were fully anticipated at the inception of the program, the extent of their intensity in reducing import demand was not fully foreseen. These factors were: first, the low levels of export earnings and real income in recent years, (following successive poor harvests of groundnut); second, recent tariff increases enacted to contain both domestic demand and the re-export trade; third, the uncertainties following the looting involved in the events of July 1981, which decreased the demand for inventories during the year; fourth, the restrictive monetary measures implemented under the program and the accompanying budgetary restraint, especially the scaled-down development program. The continued depreciation in the real import weighted exchange rate of the dalasi 1/ also contributed to restraining import demand (Chart 2).

1/ The dalasi is pegged to the pound sterling.

Consequently, the current account performed better than programmed: the deficit decreased from SDR 75.8 million in 1980/81 (41.1 per cent of GDP) to SDR 53.9 million (27.4 per cent of GDP) in 1981/82, compared with a program projection of SDR 62.9 million (30.3 per cent of GDP). As a result of the better-than-programmed improvement in the current account, the overall balance of payments deficit fell markedly from SDR 7.4 million (4.0 per cent of GDP) in 1980/81 to SDR 1.6 million (0.8 per cent of GDP) in 1981/82, compared with a program target of SDR 2.7 million (1.2 per cent of GDP), (Chart 1). The favorable developments in the balance of payments enabled The Gambia to reduce external payments arrears by more than the program target from D 42.2 million in December 1981 to D 30.5 million in June 1982, the program target being D 38 million.

III. The Program and Economic Outlook for 1982/83

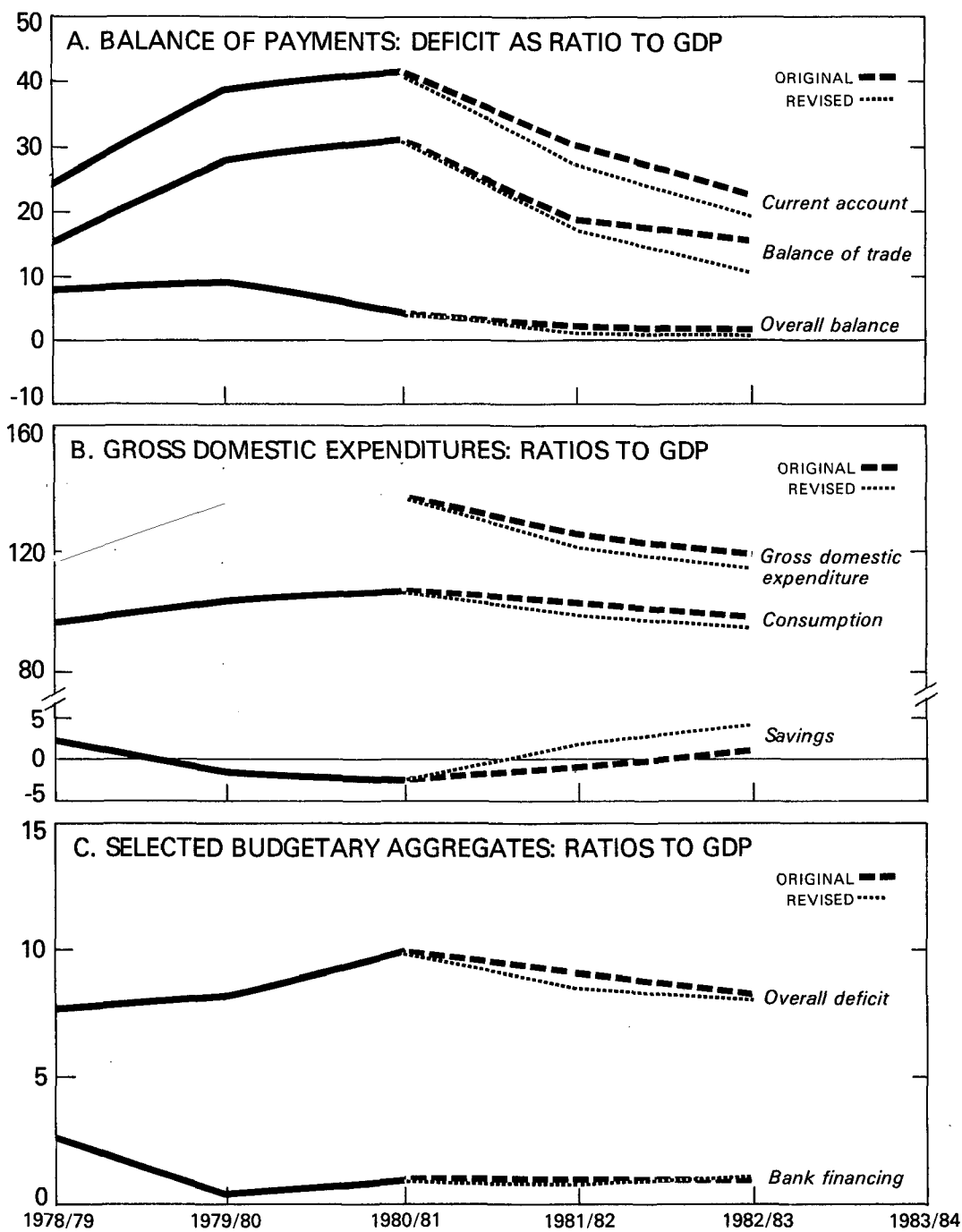
In the attached letter from the Vice President and Acting Minister of Finance, the Gambian authorities reiterate their economic and financial objectives under the stand-by program and detail the policies for achieving those objectives. In detailing these policies, the Government sees the 1982/83 program as a continuation, and, in certain areas, a strengthening of the policies adopted in 1981/82. Consequently, since the broad stance of policies was described in EBS/82/17, which presented the program in support of which the stand-by arrangement was approved, only policy adjustments subsequent to the formulation of the initial program or those which were not described in detail in the program are discussed in this section. The salient features of the 1982/83 program are summarized in Table 4.

Revised projections indicate that in 1982/83, the economy is likely to perform better than originally programmed: real GDP is expected to increase by 9.7 per cent, compared with a program estimate of 7.6 per cent. Although the agricultural sector is projected to grow at a lower rate (because of the downward revision in the level of groundnut production from 100,000 tons to 95,000 tons), the performance of the other sectors, especially retail trade and tourism, is expected to show substantial gains in 1982/83.

a. Production and pricing policies

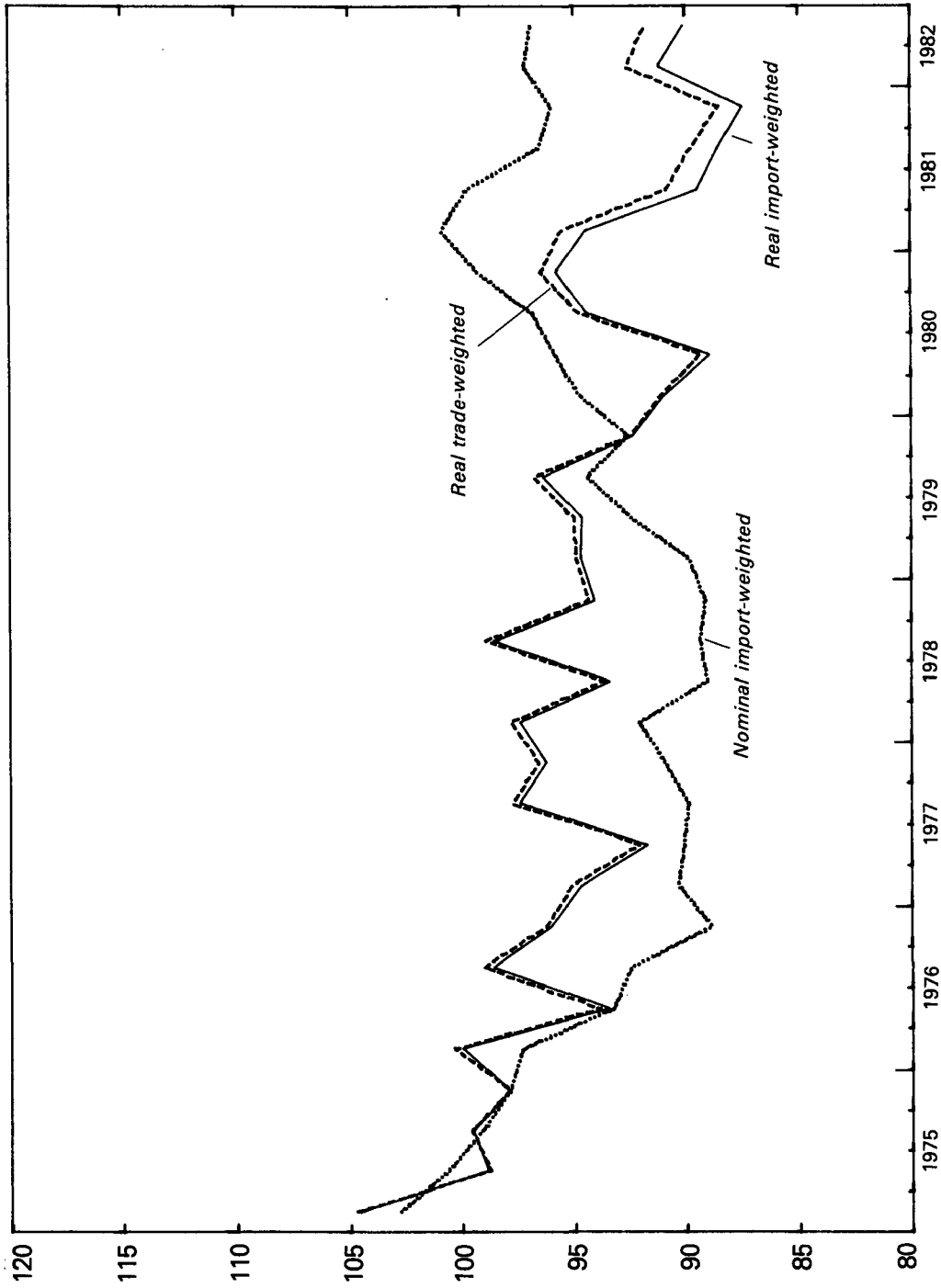
In line with the policy framework laid down in the second Five-Year Development Plan 1981/82-1985/86, the Government intends in 1982/83 to continue implementing policies which further the objective of diversifying the agricultural base. In pursuit of this objective, the authorities have increased the proportion of development resources going to agriculture in the 1982/83 budget. The enhanced resources provided to this sector are being complemented with a structure of pricing incentives which make production for export and import substitution more attractive. Thus, in addition to the increase in groundnut producer prices in 1981/82, the producer prices for groundnuts have been increased by another 4 per cent in 1982/83; as in the previous year, the higher prices were announced

CHART 1
THE GAMBIA
SELECTED MACROECONOMIC INDICATORS



Source: EBS/82/17, Tables 5, 6, and Appendix Table I.

CHART 2
THE GAMBIA
INDICES OF EFFECTIVE EXCHANGE RATES
(1975 = 100)



Source: IMF, Data Fund.

Table 4. The Gambia: Summary of 1982/83 Program

	1982/83	
	Original	Revised
<u>Main Assumptions</u>		
Groundnut deliveries	100,000 tons	95,000 tons
Export value of groundnuts	D 68.9 million	D 65.5 million
Improvement in terms of trade	1.0 per cent	21.2 per cent
Real GDP growth	7.6 per cent	9.7 per cent
<u>Targets</u>		
Inflation (per cent)	10.0	8.0
Balance of payments		
Current account deficit (excluding grants)	D 144.1 million (23.6 per cent of GDP)	D 112.4 million (19.2 per cent of GDP)
Current account deficit (including grants)	D 55.9 million (9.2 per cent of GDP)	D 36.8 million (6.3 per cent of GDP)
Overall deficit	D 7.0 million (1.2 per cent of GDP)	D 3.1 million (0.5 per cent of GDP)
<u>Principal elements</u>		
<u>Producer prices:</u>		
Groundnuts - increase of 4 per cent in 1982/83, following increase of 8.7 per cent in 1981/82.		
<u>Retail prices:</u>		
<u>Rice</u> - maintenance of price at level that at least covers costs, following 20.6 per cent increase in 1981/82		
<u>Fertilizer</u> - increase in fertilizer prices of 19 per cent announced in June 1982; further increase of 25 per cent to be announced by June 1983, thus halving the level of subsidy; phasing out of fertilizer subsidies by the end of 1984/85.		
<u>Public transportation</u> - bus fare increases to be implemented after rehabilitation of present fleet.		
<u>Energy</u> - continue full pass-through pricing policy for petroleum products; - petroleum taxes increased by 13-17 per cent in 1982/83, following 54-200 per cent increase in 1981/82.		
<u>Budget</u> - Overall deficit (including grants) to be reduced to 8.1 per cent of GDP in 1982/83 compared with original program target of 8.2 per cent. - discretionary revenue effort equivalent to 1.4 per cent of GDP in 1982/83, following effort of 3.7 per cent of GDP in 1981/82. Bank financing of 1.0 per cent of GDP, or about at the same level as in the original program (0.9 per cent of GDP). - system of government expenditure allocation and control, put in place in 1981/82, consolidated and extended in 1982/83.		
<u>Nonfinancial public enterprises:</u> Proposals for monitoring these entities slated to go into effect by end of fiscal year.		
<u>Money and credit:</u> Reduce total credit expansion in 1982/83 to 11.6 per cent compared with original program target of 14.8 per cent and limit monetary expansion to 18.5 per cent compared with original program projection of 22.2 per cent.		
<u>External medium-term borrowing:</u> Commitments to be limited during 1982 to a maximum D 15 million. No commitment incurred so far in this regard by September 30, 1982.		
<u>External arrears:</u> Arrears to be reduced further to at least D 23.0 million in 1982/83, following 35.6 per cent reduction in 1981/82.		

ahead of the planting season. Efforts to assist and improve agricultural institutions are being pursued: stated amounts of STABEX receipts continue to be provided to the GPMB and the GCU; in addition the GCU, the principal smallholder agricultural credit institution is being reorganized as part of a World Bank supported Second Agricultural Development Project. The management of the GCU is being strengthened, its capital structure is being revamped in order to enable the institution to cope with an increased volume of activity, and stricter credit control methods are being instituted in order to improve the rate of debt recovery. Finally, following on the 19 per cent increase in fertilizer prices announced in July this year, a further increase of at least 25 per cent will become effective by June 1983. On the basis of that increase, the authorities would attain their objective of halving fertilizer subsidies by 1983/84; this measure should also assist further in improving the financial position of the GPMB.

In the energy sector, the Gambian authorities intend to continue to use fiscal and pricing policies to achieve energy conservation. In particular, they intend to continue to adjust domestic petroleum prices to fully cover import costs, and the pricing of goods and services provided by utility-related parastatal organizations will also follow economic pricing rules and will fully cover costs.

b. Fiscal policy

The focus of fiscal policy in 1982/83 will be the continued reduction in the overall fiscal deficit (including grants), relative to GDP, from an estimated 8.6 per cent in 1981/82 to a projected 8.1 per cent; bank financing of this deficit will remain at about 1 per cent of GDP in 1982/83. Additional steps have been taken through the tax system to promote conservation of energy, and other significant reforms of the tax system are being initiated, drawing in part on the recommendations of a technical assistance mission from the Fund which visited Banjul in November/December 1981. The most important development so far in 1982/83 has been the consolidation and further extension of the expenditure control mechanisms which worked effectively in 1981/82.

The 1982/83 fiscal program envisages an overall deficit of D 47.0 million, compared with an original program target of D 50.1 million, on the basis of estimated revenues and grants of D 140 million, and of estimated total expenditures of D 187 million, (Table 5). The bulk of the deficit will be financed by concessional foreign loans; the balance (about D 8.7 million) will be financed through the banking system (D 6.2 million), and domestic non-bank sources (D 2.5 million). On the revenue side, the budget introduced new revenue measures amounting to D 8.3 million, (about 1.4 per cent of GDP), the details of which are provided in Appendix Table II. In this regard, it may be noted that the petroleum tax increases in the budget are expected to yield D 1.9 million and constitute a 14-17 per cent increase, over and above the 54-200 per cent tax increase on these items in 1981/82. Drawing on Fund technical assistance, the budget has introduced

Table 5. The Gambia: Central Government Budgetary Operations, 1979/80-1982/83

	1979/80	1980/81	1981/82		1982/83	
			Program	Revised estimate	Program	Revised program
(In millions of dalasis)						
Revenue and grants	109.0	102.6	140.9	142.2	143.1	139.6
Revenue	98.2	81.0	88.6	88.3	115.8	110.7
Grants	10.8	21.6	52.3	53.9	27.3	28.9 ^{1/}
STABEX	(9.1)	(12.5)	(14.3)	(9.5)	(5.0)	(9.6)
Expenditures	142.8	143.8	188.2	184.7	193.2	186.6
Current expenditure	87.7	92.5	112.5	113.5	115.0	118.4 ^{2/}
Development expenditure and net lending	55.1	51.3	75.7	71.2	78.2	68.2 ^{3/}
Overall surplus/deficit	-33.8	-41.2	-47.3	-42.5	-50.1	-47.0
Financing	33.8	41.2	47.3	42.5	50.1	47.0
External (net)	29.8	41.0	41.3	35.0	41.9	38.3
Domestic	4.0	0.2	6.0	7.5	8.2	8.7
Banking system	(1.5)	(3.2)	(5.0)	(4.5)	(5.7)	(6.2)
Non-bank	(2.5)	(-3.0)	(1.0)	(3.0)	(2.5)	(2.5)
Memorandum items:						
			(In per cent of GDP)			
Revenues	24.7	19.8	17.2	17.9	19.0	19.0
Grants	2.7	5.3	10.2	10.9	4.5	5.0
Total expenditure	36.0	35.1	36.5	37.5	31.7	32.0
Deficit	8.5	10.0	9.2	8.6	8.2	8.1
Bank financing	0.4	0.8	1.0	0.9	0.9	1.0

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

^{1/} Incorporates D 2.5 million beyond Budget figure for cash grants to be received during year.

^{2/} Incorporates expected saving below Budget figure of D 1.9 million on wages and salaries, and upward adjustment of D 6.1 million to allow for possible overspending on "other charges."

^{3/} D 12 million in domestically funded development expenditure (GLF) plus D 57.2 million in externally funded development expenditure less D 1 million in loan repayments. Authorities are committed to maintaining GLF at or below D 12 million; D 57.2 million reflects an 85 per cent implementation rate applied to an appropriation of D 67.3 million.

a major reform in the area of company income taxation: from 1982/83 onwards, these taxes are to be paid at the time that a profit declaration is made, rather than with a delay of one year as in the past; this reform should enhance the collection process substantially. In addition, consonant with the recommendations of the Fund's technical assistance mission, the authorities have instituted a drive to collect tax arrears (particularly in relation to company taxes) and to strengthen administrative procedures in order to avoid the accumulation of tax arrears in the future.

Current expenditure is estimated at D 118.4 million in 1982/83, while development expenditure is estimated at D 68.2 million. As noted earlier, the major development on the expenditure side has been the consolidation and extension of the expenditure control mechanisms which were put in place in 1981/82. In this respect, the pre-audit system introduced in 1981/82 for payments made in Banjul has been extended to the provincial sub-Treasuries and the Ministry of Works. Strict controls on the use of government vehicles have been implemented through close monitoring of vehicle use; and a new and efficient fuel allocation system has been instituted. In addition, the government vehicle fleet is to be reduced by more than was envisaged when the budget was presented. Government rental payments and remittances to Gambian embassies are to be made on a quarterly basis, facilitating scrutiny and control. 1/

c. Credit and monetary policies

The authorities will continue to follow monetary and credit policies which have assisted in moderating aggregate demand and inflationary pressures in the economy, while at the same time ensuring that the credit requirements of the productive sectors are being met. In this context, both the quantitative credit guidelines and the discretionary policies which were used successfully last year, and detailed in EBS/82/17, will be employed again in 1982/83.

Credit to the Government is programmed to increase by 16.7 per cent from D 37.0 million in June 1982 to D 43.2 million in June 1983; total domestic credit, which amounted to D 240.1 million in June 1982, is projected at D 267.9 million in June 1983. Assuming that the Government will fully utilize its allowance for credit under the program, these increases imply that the rate of growth in total domestic credit is being reduced from 16.6 per cent in 1981/82 to 11.6 per cent in 1982/83 (Appendix Table III).

1/ These measures notwithstanding, the budgetary projections in Table 5 include an additional D 6.1 million allowance over and above estimated budgetary expenditures, in order to take care of possible underprovisions in the 'Other charges' component of current expenditure, as there has been some overspending in this area in recent years; the figures cited in the text already incorporate this additional allowance.

These projected movements in total domestic credit, coupled with the projected movements in the net foreign assets of the banking system are expected to result in an increase in the money supply, broadly defined, of 18.5 per cent; this growth is consistent with the projected increase in nominal GDP in 1982/83, and is less than the expansion in money supply in the previous year. Quarterly ceilings, which constitute performance criteria, were set on total domestic credit and on net credit to the Government for end-September 1982; indicative ceilings have been set for end-December 1982. In setting these ceilings, account has been taken of the seasonality of credit demand of the private sector, trends in the Government's credit requirements, including the probable timing of STABEX receipts. In addition, specific assumptions have been made regarding the probable volume and timing of groundnut deliveries and exports. Meanwhile, preliminary data reported by the Gambian authorities indicate that all the credit ceilings for September 30, 1982 have been met.

In view of the large upward adjustments in interest rates in November 1981, many of the deposit rates are now positive in real terms, while the lending rate on credit for commercial purposes has been freed, subject to a floor rate of 15 per cent. Under the circumstances, the authorities do not contemplate further action on interest rates at this time; however, they are keeping interest rates under review.

d. The external sector

The revised program for 1982/83 is expected to bring about a further improvement in the country's balance of payments, over and above the original program targets. The revised balance of payments projections indicate that the current account deficit (excluding grants), would decline from SDR 53.9 million (27.4 per cent of GDP) in 1981/82 to SDR 44.4 million (19.2 per cent of GDP), compared to an original target of SDR 58.5 million (23.6 per cent of GDP). Similarly, the overall deficit is projected to improve from SDR 1.6 million or 0.8 per cent of GDP in 1981/82 to SDR 1.2 million or 0.5 per cent of GDP in 1982/83, compared with an original target of about SDR 2.8 million (1.1 per cent of GDP), (Table 6). The improved current account performance is in part due to more favorable terms of trade than were assumed in the original program. However, the better-than-expected performance on the current account would be partially offset by an expected decline in net official capital inflows from the program projection of SDR 54.3 million to SDR 45.0 million.

Merchandise exports at SDR 61.6 million in 1982/83 remain close to the original program target of SDR 63.7 million, but represent an increase of 30.8 per cent from 1981/82. These projections incorporate an increase in the level of groundnut deliveries from 82,000 tons in 1981/82 to 95,000 tons in 1982/83, implying a continued recovery of groundnut production to normal levels, and increases in export unit prices, as groundnut and oil prices are expected to recover in 1982/83. After the adverse publicity effect of the aborted coup d'etat of July 1981, the tourism industry is

Table 6. The Gambia: Balance of Payments, 1979/80-1982/83

(In millions of SDRs) 1/2/

	1979/80	1980/81	1981/82		1982/83	
			Program	Estimated actual	Original program	Revised program
Merchandish trade, f.o.b.	-48.6	-58.4	-40.8	-31.1	-41.5	-24.8
Exports	58.1	42.9	55.6	47.1	63.7	61.6
Imports	-106.7	-101.3	-96.4	-78.2	-105.2	-86.3
Services and private transfers	-17.2	-17.4	-22.1	-22.8	-17.0	-19.4
Freight and insurance	-17.8	-16.9	-15.9	-12.7	-17.4	-14.1
Travel (credit)	13.8	15.9	11.3	9.9	18.8	15.1
Other services	-16.0	-19.2	-20.3	-22.7	-21.3	-23.5
Private transfers	2.8	2.8	2.7	2.8	3.0	2.8
Current account	-65.9	-75.8	-62.9	-53.9	-58.5	-44.4
Capital account	49.3	68.3	60.2	52.3	55.7	43.1
Official capital (net)	46.1	69.0	60.2	51.2	54.3	45.0
Official transfers	29.6	45.2	42.5	37.2	35.8	29.9
Official loans	16.5	23.8	17.7	14.0	18.5	15.1
Private capital (net)	3.1	-0.6	0.1	1.1	1.4	-1.8
Long-term	-1.1	1.8	7.1	5.4	3.3	3.2
Short-term, errors and omissions	8.9	-3.2	-6.4	-6.9	-1.9	-5.0
Commercial banks	-1.3	-3.3	1.2	1.2	--	--
GPMB	-3.3	4.1	-1.8	1.4	--	--
Overall balance	-16.6	-7.4	-2.7	-1.6	-2.8	-1.2
Reserves and related items (- increase)	16.6	7.4	2.7	1.6	2.8	1.2
SDRs	-0.4	0.9	--	--	--	--
IMF reserve position	--	--	--	--	--	--
Use of IMF resources	1.3	8.8	6.8 3/	6.8 3/	6.4 3/	6.4 3/
Foreign exchange and other items	6.7	-13.8	-0.6	1.3	2.7	-2.2
Arrears	9.0	11.6	-3.5	-6.4	-6.3	-3.0 4/

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

1/ Actual exchange rates: D 1 = SDR 0.429 in 1979/80; D 1 = SDR 0.450 in 1980/81; D 1 = SDR 0.403 for program projection and D 1 = SDR 0.399 for estimated actual in 1981/82; and D 1 = SDR 0.406 for program projection and D 1 = SDR 0.395 for revised projection for 1982/83.

2/ May not add up due to rounding in converting from dalasis to SDRs.

3/ Net of repurchase obligations.

4/ Projected reduction in arrears for 1982/83.

expected to experience a major recovery in fiscal year 1982/83, with travel receipts rising from an estimated SDR 9.9 million in 1981/82 to a projected SDR 15.1 million in 1982/83. Unlike in the previous year, merchandise imports are expected to rise to SDR 86.3 million in 1982/83, from the level of SDR 78.2 million in 1981/82, implying an increase of 8.1 per cent in real terms. This projected increase reflects the expected recovery in incomes and the rehabilitation program in the commercial sector.

As originally programmed, the Government had planned to reduce external arrears in 1981/82 by a minimum of D 8.6 million (or 18.5 per cent) from D 46.6 million at the end of June 1981 to D 38.0 million at the end of June 1982, and, in 1982/83, by another D 15 million to D 23.0 million at the end of June 1983. As discussed earlier, the economic recovery in 1981/82 and the success of the stabilization program in containing external demand pressures led to a substantial improvement in the balance of payments. Consequently, The Gambia was able to reduce external payments arrears by much more than the program target, from D 46.6 million in June 1981 to D 30.5 million in June 1982; the authorities still intend to reduce external arrears to at least D 23.0 million in 1982/83. The ceiling for September 30, 1982 of D 34.5 million provides for a temporary rise in arrears because of the exceptionally large reductions effected in the first half of 1982 and the delay in Fund purchase linked to both the June 1982 performance criteria and the completion of the mid-year review. The indicative target for December 31, 1982 of D 28.0 million provides for a substantial decline in arrears in the last quarter of 1982; arrears would be reduced by a third during CY 1982 as a whole. Preliminary data cabled by the authorities indicate that the ceiling for September 30 had been met, with practically no increase in arrears during the quarter. As in the previous year, in order to continue to facilitate the orderly retirement of arrears, the Central Bank's guidelines to the commercial banks are being implemented.

The Government continues in its attempt to increase the proportion of export proceeds surrendered to the banking system, especially from re-exports, fish products, and tourism. In this respect, the reactivation of a bonded warehouse system for re-exports is being considered.

The Gambia's external public debt has been contracted mainly on concessionary terms. The ratio of debt service payments to export earnings which had remained low, rose to an estimated 9 per cent (including Fund repurchases) in 1981/82. It is the authorities' intention to preserve The Gambia's favorable debt service profile and to continue to exercise vigilance with respect to the maturity structure of its indebtedness. Consequently, during the period of the stand-by arrangement, the authorities do not intend to undertake any government or government-guaranteed nonconcessionary external borrowing in the 1-10 years maturity range. External loans with maturities of greater than 10 years may receive government guarantees only when they are to be used to finance activities consistent with the priorities of the country's Development Plan. There has been no external borrowing in the 1-10 years maturity range since the start of the program and up to end-September 1982.

Recent developments and the prospects for the rest of the stand-by period indicate that The Gambia's exports remain competitive, and that the continued implementation of the adjustment measures under the program should permit the maintenance of the official exchange rate of the dalasi at its present level. The Gambia maintains a relatively liberal system of trade. It is the Government's intention not to introduce new or intensify existing restrictions on payments or transfers for current international transactions or on imports for balance of payments purposes.

IV. Staff Appraisal and Proposed Decision

In spite of daunting internal and external economic and financial problems, complicated by the political developments of mid-1981, the Gambian authorities have continued to make determined and successful efforts to implement the adjustment program supported by the stand-by arrangement, initiating and implementing measures beyond those called for in the original program. Largely as a result of these efforts and the return of normal weather conditions, (after years of severe weather-related problems), the authorities have been able to set the economy on a course of sustained economic growth, and to reduce the large external and internal imbalances which had characterized the economy.

The results of the adjustment efforts of the authorities are evident in the fact that The Gambia has been able to meet all performance criteria since the approval of the stand-by arrangement, except for a small, temporary and unavoidable excess in total domestic credit in June due to delays in groundnut shipments; preliminary data for end-September indicate that all performance criteria for that date were also met. There has also been a marked improvement, in many cases over-and-above the original program targets, in the major economic and financial indicators. Thus, as the authorities intensified their efforts to restrain expenditures, the overall fiscal deficits are being reduced below the original program targets, both in absolute terms and as a ratio to GDP. Overall credit expansion has so far also been below program targets, largely because of the new and effective credit control mechanism, and the new crop financing monitoring system, under which, for the first time in years, crop credits were appropriately used, and then fully repaid. These factors, including the salutary effects of agricultural pricing policies on the output of major food crops, have contributed substantially to a significant deceleration of the inflation rate to well below program targets. These developments, coupled with more favorable external terms of trade and the effects of the demand management and import-substituting policies, have contributed to a significantly larger-than-programmed reduction in the current account deficit of the balance of payments; this improvement has been sufficiently large to more than offset the less favorable outturn in the capital account of the balance of payments, resulting in a larger-than-programmed reduction in the overall balance of payments deficit. The authorities' determined efforts to reduce external arrears, which is manifest in the substantially larger-than-programmed quarterly reduction in arrears, is also assisting in the elimina-

tion of the mark-up of imports to cover risks of nonpayment or delayed payments: this policy has also contributed to the return of confidence in the economy.

Nevertheless, the authorities recognize that, despite these efforts and the progress made so far, the economic and financial situation remains difficult, calling for continued adjustment. The high level of recurrent budgetary expenditures continues to constrain the development effort. For this reason, the staff feels that future budgetary policies would seem to call, not only for a further reduction of the fiscal deficit, but also for a reorientation of public expenditures towards development. Similarly, despite the success of the stabilization measures in curbing import demand, the current account deficit in the balance of payments remains quite high; the staff feels that the authorities' efforts in this area need to be continued and intensified, particularly given the volatile and unpredictable nature of external grant receipts. At the same time, the authorities' efforts to maintain the liberal nature of The Gambia's trade and payment system should also be continued. In this context, commendable efforts are being made to reduce external arrears, and, thereby, to eliminate the associated multiple currency practice.

In the opinion of the staff, the objectives and policies for fiscal year 1982/83, described in the annexed letter, represent a continuation of the policies enunciated in the original program, and testify to the perseverance of the authorities in the implementation of the program. In view of this, and given the highly satisfactory course of the program so far, the staff feels that the efforts being made by the Gambian authorities deserve the continuing support of the Fund.

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

1. The Government of The Gambia has consulted with the Fund in accordance with paragraph 27 of the letter of intent attached to the stand-by arrangement for The Gambia (EBS/82/17, Supp. 1 February 24, 1982) in order to reach appropriate understandings with the Fund.
2. The letter of October 8, 1982 from the Vice President and Acting Minister of Finance shall be attached to the stand-by arrangement for The Gambia, and the letter of January 14, 1982 annexed to it shall be read as supplemented by the letter of October 8, 1982.

3. The Fund extends approval (under Decision 7223 - (82/133), adopted October 6, 1982) for the maintenance by The Gambia of the restrictions arising from the existence of external payments arrears until May 30, 1983, or the completion of the next Article IV consultation, whichever is the earlier.

The Gambia - Relations with the Fund
(As of September 30, 1982)

IMF data

Data of membership	September 21, 1967
Quota	SDR 13.5 million
Intervention currency and the rate	Pound Sterling; £1 = D4
SDR/Local currency equivalent	SDR 1 = D 2.5107
Total currency holdings	SDR 35.30 million, or 261.5 per cent of quota
Holdings subject to an exclusion:	SDR 4.10 million, or 30.4 per cent of quota
Enlarged access	
Compensatory financing	SDR 12.38 million, or 91.7 per cent of quota
Special Drawing Account:	
Net cumulative allocation	SDR 5.12 million
Holdings	SDR 55,463 (1.08 per cent of net cumulative allocation)
Trust Fund loans disbursements	SDR 6.84 million
Direct distribution of profits from gold sales (four distributions)	US\$ 1.11 million
Gold distribution	5,819.577 fine ounces

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
Last Article IV consultation and Preliminary discussion on Use of Fund resources	March 1981

The Gambia: World Bank Lending Operations
(As of July 31, 1982)

(In millions of U.S. dollars)

	<u>Amount</u>	
	<u>Disbursed</u>	<u>Undisbursed</u>
Purpose		
Port of Banjul project	2.2	--
Agricultural project	1.3	--
Improvement of Port of Banjul	2.4	--
Infrastructure and tourism development	3.8	0.2
Rural development project	4.1	0.0
Education project	4.6	0.9
Rural and urban enterprises project	1.7	1.3
Highway maintenance	2.0	3.0
Energy project	--	<u>1.5</u>
Total <u>1/</u>	22.1	6.9

Source: IBRD.

October 8, 1982

Dear Mr. de Larosière:

1. In our letter of January 14, 1982, the Government of The Gambia requested a one-year stand-by arrangement for calendar year 1982 in an amount equivalent to SDR 16.9 million (125 per cent of quota). However, the period of the stand-by arrangement spans parts of two fiscal years 1981/82 (July-June) and 1982/83; consequently, while detailed targets and policies were set for the period through June 1982, several of the policies were also formulated with a view to encompassing the entire program period. Indeed, a large number of these measures were put in place at the outset of the program. In addition, it was planned to conduct with the Fund a review of the program, with a view largely to establish detailed targets for 1982/83, and to reach understandings on exchange rate policy, by mid-June 1982. Although the review took place as scheduled, it was completed in early September 1982. This letter will review economic and financial developments in the first half of the program period, detail the targets for the balance of the program period, and describe the major policies which we intend to pursue in order to achieve the program objectives. In this context, the financial program for 1982/83 is still envisaged as a continuation, and in certain respects, a strengthening of the policies described in our letter of January 14, 1982. Furthermore, as indicated in our President's letter of November 30, 1981 to you, we do not expect any fundamental changes in either our fiscal or monetary system during the period of our stand-by arrangement.

2. In order to put the review of the economic and financial developments in the first half of the program period in perspective, it may be useful first to describe the targets we set for ourselves under the program, then summarize the policies which we have implemented so far in pursuit of these targets, and finally indicate our best estimates, of the likely outcome in 1981/82, both with respect to these targets and the performance criteria up to June 30, 1982. The broad targets under the program were delineated with a view to reduce internal and external imbalances, while continuing to diversify the economy. Consequently, the external current account deficit (excluding grants), was forecast to be reduced from 41.1 per cent of GDP in 1980/81 to 30.3 per cent of GDP in 1981/82 and 23.6 per cent of estimated GDP in 1982/83, while the overall balance of payments deficit which stood at 4.1 per cent of estimated GDP in 1980/81, was forecast to be reduced to 1.2 per cent of estimated GDP in both 1981/82 and in 1982/83. These targets reflected specific assumptions regarding the volume, value and timing of groundnut exports and the terms of trade, as well as the effects of policies which are being implemented by the Gambian Government. These policies included a reduction in the ratio of the overall budgetary deficit to GDP from 10 per cent in 1980/81 to 9.2 per cent in 1981/82 and a projected 8.2 per cent in 1982/83, while keeping the ratio of the associated domestic bank financing to GDP at about 1 per cent; credit restraint fostered, in part, by increased interest rates; and improvements in resource allocation through the price mechanism.

3. With regard to policy implementation, we have continued to implement virtually all the measures under the financial program described in detail in the Policy Memorandum accompanying our letter of January 14, 1982. In this context, producer prices for rice and groundnuts for 1981/82 were increased by 10 per cent and 8.7 per cent respectively; the retail price of rice was increased by 20.6 per cent in January 1982; an increase of 19 per cent in fertilizer prices was announced in July 1982; certain assets were transferred to The Gambia Produce Marketing Board (GPMB), to improve the liquidity position of the Board; similarly, specified amounts of STABEX receipts are now being provided to the GPMB and The Gambia Cooperative Union; for its part, the GPMB continues to implement cost-reducing measures; retail pricing policies for petroleum products continue to fully cover import cost (petroleum prices were increased by over 58 per cent between July and November 1981, and taxi fares were raised by 33.3 per cent); petroleum-related taxes were increased by 54-200 per cent; and electricity tariffs were adjusted upwards by 15 per cent as agreed between the Gambian Government and the IBRD, effective October 1, 1981. Where financial policies are concerned, revenue measures announced in the 1981/82 budget and slated to yield D 18.2 million, equivalent to some 3.7 per cent of estimated GDP, were implemented; a monitorable system of government expenditure controls which was introduced under the program, has been consolidated and extended significantly to further enhance its effectiveness; wide-ranging monetary measures, including substantial increases in interest rates were implemented in November 1981, and are effectively reinforced by quarterly quantitative credit guidelines applicable to each of the commercial banks; and an improved and effective system of monitoring crop financing credit to limit its diversion to nonseasonal purposes was implemented. The guidelines issued to the commercial banks for reducing the pipeline of external payments arrears are being applied, and revised and stricter guidelines for external loan guarantees are in force. Understandings pertaining to the trade and exchange system also continue to be observed. Two measures which we still intend to implement are the intended increases in bus fares, and the proposals for monitoring parastatals by the National Investment Board (NIB); the modalities for the implementation of these measures are described elsewhere in this letter. By contrast, while not part of the program measures, The Gambia Ports Authority charges have already been increased in April 1982 by 30 per cent.

4. Because of the policies being implemented by the Government, all of the quantitative performance criteria for end-March 1982, the first test date, were met with large margins. In addition, no commitment has been made on the allowance (D 15 million), for external borrowing in the 1-10 years' maturity range; there has also been no intensification of restrictions. Similarly all the performance criteria for June 30 have also been met with one minor exception. This exception pertains to total domestic credit, which is heavily dominated at that time of year by trends in the repayment of crop financing credits; such credits led to a temporary excess of D 4.0 million, (about 1.7 per cent), over the June 30 ceiling for total domestic credit. The reason was that, while the banks continued to stay within

their total credit allocations for the April-June quarter, and while, unlike in previous years, our new crop financing monitoring system has worked effectively in preventing the diversion of crop credits to nonseasonal uses, so that, for the first time, all credits to purchasing agents have been repaid, the specific assumptions referred to in paragraph 2 above regarding the timing of groundnut exports by the GPMB failed to materialize, through no fault of ours. Specifically, contrary to previous patterns and our expectations, the GPMB could not realize all the receipts from groundnut exports by the end of June 1982, our second test date; a storm off the Mauritanian coast delayed the arrival of three ships to evacuate our produce, thus slowing down the movement of groundnut exports. Owing to the sudden and unexpected nature of this development, so close to our second test date, it was virtually impossible to initiate and implement a realistic effort to recall other nonseasonal loans, without adversely affecting confidence in the business community; this sector is presently engaged in reconstruction following the lootings during the abortive coup d'etat of July 1981. We also seriously considered an emergency charter arrangement, but abandoned the idea because of contractual reasons and the additional expense involved, particularly in the light of our other financial objectives and targets under the stabilization program. In addition, the recent adoption of more stringent regulations on aflatoxin in Europe has precluded marketing of our groundnut-cake in the European markets, leaving only liquidity-short alternative markets (Nigeria). Low international demand for crude groundnut-oil along with large carryover of international stocks added to the problems of marketing our products.

5. Despite these exogenous developments, the broad targets for 1981/82 under the program have been attained, and, in some cases, surpassed, in large measure because of the effects of the policies which we are implementing. Revised estimates indicated that groundnut deliveries to the GPMB (about 82,000 tons) fell short of the program expectations (about 100,000 tons) and average groundnut prices were lower than expected by about 20.0 per cent. However, tourist arrivals in 1981/82 are now estimated to have declined by about 22.0 per cent, compared with an earlier expectation of a 25 per cent decline. Similarly, cotton, palm kernel and rice production increased as targeted. In addition, contrary to our earlier expectations, our import price for rice dropped quite sharply in 1981/82. More importantly, the demand management policies which we are implementing under the program are succeeding in containing import demand which had contributed in the past to the rapid depletion of our external reserves, and the emergence of external payment arrears.

6. The net effect of the development noted above is a reduction in the current account deficit of the balance of payments by more than program targets: from a level of D 168.4 million in 1980/81 (41.1 per cent of GDP), the current account deficit is estimated to have declined to D 135.1 million in 1981/82 (27.4 per cent of GDP), compared with program targets of D 156.2 million (30.3 per cent of GDP). Similarly, from a level of D 16.5 million in 1980/81 (4.1 per cent of GDP), the overall balance of payments deficit

is estimated to have declined in 1981/82 to D 4.1 million (about 1.0 per cent of GDP), compared with program targets of D 6.7 million (1.2 per cent of GDP). These estimates already incorporate the effect of the marketing problems noted earlier on export earnings. Largely because of the better-than-programmed balance of payments outturn for 1981/82, and despite the delay in realizing our full export receipts in 1981/82, we have been able to reduce external payments arrears, by some D 16.1 million, or almost twice the required D 8.6 million reduction envisaged under the program by the end of June 1982. In the fiscal area, we have also been able, thanks to our new and effective expenditure control and monitoring system, to reduce the overall budgetary deficit below program targets. In this context, revised estimates for 1981/82 indicate that the overall deficit (D 41.2 million in 1980/81 or 10.0 per cent of GDP), was D 42.5 million (about 8.6 per cent of GDP), compared with a program target of D 47.3 million (about 9.2 per cent of GDP); the associated bank financing at D 4.5 million was lower-than-programmed. In the monetary sector, the effect of the marketing problems noted earlier on total domestic credit, and the implications of the more favorable balance of payments outturn on the projected net foreign asset of the banking sector have resulted in an estimated increase of about 27.0 per cent in money supply, compared with program assumptions of 22.2 per cent.

7. Other aspects of recent developments under the program are noteworthy. The increase in the retail price of rice coupled with the drop in rice import prices have resulted in profits for the GPMB on its rice operations despite the increase in rice producer prices, which have had a favorable effect on output. In addition, various pricing measures in the economy have combined to enhance efficient allocation of resources. These policy measures have not been easy and all segments of the population have been called upon to adjust to the difficult economic situation facing The Gambia. Notwithstanding these efforts and our progress so far, the economic situation still remains difficult, and the general feeling hitherto that what was needed to overcome our problems was one good crop year, such as we had in 1981/82, has now given way to the recognition that the economic and financial situation still calls for continued adjustment in order to consolidate the gains which we have made so far. Consequently, the Government does not now intend to relax in its pursuit of policies appropriate to restore internal and external balance, nor will we forsake our concerns to maintain an adequate rate of economic growth and improve the welfare of the Gambian people. In addition to the attainment of the targets noted earlier, these considerations have also influenced our formulation of policies for 1982/83.

8. Agricultural production and pricing policies will continue to be geared toward strengthening production incentives and improving resource allocation through the price mechanism. Thus, following from the increase in groundnut producer prices in 1981/82, the producer price for groundnuts have been increased by another 4 per cent in 1982/83; as in the previous year, these prices have been announced ahead of the planting season, to assist farmers in making appropriate resource-allocation decisions. Although the GPMB's

decisions. Although the GPMB's financial position has improved in the present year, it will continue to endeavour to implement further cost-reduction measures in the period ahead. As noted earlier, the retail price of rice was increased by 20.6 per cent in January 1982, as a first step in our efforts to eliminate the existing rice subsidies by 1983/84. However, this increase, coupled with the recent decline in rice import prices, have already resulted in a surplus on GPMB's rice account. Consequently, and in view of our expectations that rice import prices will be maintained at about their present levels during the 1982/83 fiscal year, the need for a further increase in the retail price of rice is now no longer pressing; this expectation has also led us to reconsider and to shelve the idea of differential retail pricing for imported and domestic rice. We are fully committed to maintaining the price of rice at a level that would at least cover costs, and, accordingly, will review the situation as developments warrant. In the case of fertilizer prices, an increase of at least 25 per cent will be announced by June 1983; this increase is higher than originally envisaged under the program. Similarly, our earlier intention to halve fertilizer subsidies by 1983/84 should be attained; however we are now contemplating to eliminate these subsidies, at the latest, by the end of 1984/85. In the energy sector, we intend to continue with our full pass-through pricing policies for petroleum products. Consistent with this policy, we also intend to implement the expected increase in bus fares by the Public Transport Corporation within the next four months. The implementation of this measure is being delayed until we have improved the level of existing bus services. In this context, we have signed a Memorandum of Understanding with the West German Government under which, among other things, we expect to take delivery of a new fleet of some 50 buses including a two-year supply of spare parts, some of which we will use to rehabilitate the presently immobilized fleet of buses. We feel that, until such rehabilitation is completed, it would be difficult to either determine or implement appropriate bus fare increases.

9. The programmed reduction in the overall budgetary deficit from the original targets for 1982/83 is about D 3.1 million to about D 47.0 million or 8.1 per cent of GDP, compared to D 50.1 million or 8.2 per cent of GDP required under the program; the target associated bank financing of D 6.2 million is equivalent to an estimated 1 per cent of GDP. As noted earlier, bank financing of the budget in 1981/82 (D 4.5 million) was lower than programmed by D 0.5 million; consequently, the programmed bank financing of the budget for 1982/83 is fully consistent with the total of D 10.7 million under the program for both 1981/82 and 1982/83. In order to give effect to these targets, the 1982/83 budget includes new revenue measures amounting to D 8.3 million, or some 1.4 per cent of estimated 1982/83 GDP. Some of the revenue measures are based on the findings of the tax mission which visited Banjul in November/December 1981, and include an increase, ranging from some 14 per cent to 17 per cent, in petroleum taxes over and above the petroleum tax increases of 54-200 per cent in the 1981/82 budget. As in the previous year, expenditure policies for 1982/83 will continue to be cautious. In implementing our expenditure policies for 1982/83, we

will continue our close scrutiny and monitoring of expenditures. To this end, quarterly allotments of expenditures for 1982/83 have been worked out (Attachment I); these quarterly allotments will continue to be governed by the principles detailed in Attachment III of our original Memorandum on Economic and Financial Policies of The Gambia. The allotments also reflect our decision allowing no wage or salary increase in 1982/83. As in the recent past, the projected levels of the overall budgetary deficit and bank financing are contingent largely upon the realization and the timing of STABEX receipts which are expected to be received during the financial year. The Government is still concerned that the financial performance of public enterprise should contribute to our overall objectives to achieve more efficient use of resources. Consequently, we intend to implement measures for monitoring parastatals during the current fiscal year, and have taken account of this in deriving total domestic credit expansion for the fiscal year.

10. The monetary authorities are satisfied that the present levels of domestic interest rates which were increased sharply in November 1981, remain broadly appropriate in the context of our overall economic policies and the prevailing rate of inflation; nevertheless, we will continue to keep interest rates under review. Furthermore, the lending rates have been satisfactorily complemented by the measures affecting the liquidity ratios of the commercial banks, the quarterly quantitative credit guidelines issued to the commercial banks and the strict monitoring system for crop financing credits. In view of our favorable experience with these policies, we intend to continue along the same lines in 1982/83. In light of our overall balance of payments objectives, money supply, broadly defined, will be restrained to an overall growth of 18.5 per cent; this growth is in line with the projected growth of 18.5 per cent in nominal GDP in 1982/83. For purposes of enforcing and monitoring our credit targets, we intend to limit total domestic credit by the banking system, and net claims on the Government as indicated in the attached table (see Attachment II). In setting these targets, account has been taken of the seasonality of credit demand in The Gambia, the prospective implementation of the measures relating to the monitoring of the parastatals by the NIB, trends in the Government's credit requirements, including the probable timing of estimated STABEX receipts for 1982/83. In addition, specific assumptions have been made regarding the probable volume and timing of groundnut deliveries and exports. The ceilings also reflect our expectations that there will be no change in our fiscal and monetary system during the program period.

11. Prospective balance of payments developments in 1982/83 are expected to evolve along the lines envisaged originally in the Policy Memorandum accompanying our letter of January 14, 1982, and to show further improvement over and above the original program targets. Thus, the current account deficit is projected to decline more sharply to D 112.3 million (about 19.2 per cent of projected GDP) compared with a program target of D 144.1 million (about 23.6 per cent of projected GDP); similarly, the

overall deficit is also projected to decline more sharply to D 3.1 million (about 0.5 per cent of projected GDP), compared with a program target of D 6.9 million (about 1.2 per cent of projected GDP). These expectations are predicated on the assumptions and policies detailed in the accompanying Policy Memorandum to our letter of January 14, 1982, with minor adjustments, largely to reflect recent price developments for exports and imports. Our policies with respect to external borrowing are also as detailed in the accompanying memorandum to that letter. In addition, we intend to reduce external arrears by a minimum of D 15 million below the June 1982 estimated outturn to D 23.0 million or less by end-June 1983; indeed, as noted earlier, we have already begun to move in this direction by reducing arrears by more than the amount programmed in 1981/82. The phasing of the targeted reduction in arrears for September 30 and December 31, 1982 are as shown in the attached table (see Attachment II). Recent developments and the prospects remain competitive, and that the continued vigorous implementation of the adjustment measures under the program should permit the maintenance of the official exchange rate of the dalasi at its present level. Nevertheless, The Gambia's exchange rate policy will still be kept under review in the light of changing circumstances. The Gambia maintains a relatively liberal system of trade. It is the Government's intention not to introduce new or intensify existing restrictions on current international transactions for balance of payments purposes.

12. The Government of The Gambia believes that the policies set forth in this letter are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. In accordance with the Fund's policies on consultation, the Gambian authorities will remain in close consultation with you regarding the implementation of the program, and will provide the Fund staff with all relevant information in connection with the progress made in achieving the program's objectives.

Sincerely yours,

/s/

Hon. B. B. Darbo
Vice President and Acting
Minister of Finance

The Gambia: Quarterly Quantitative Performance Criteria
for the period through December 31, 1982

(In millions of dalasis; end of period)

	1981				1982			
	March	June	Sept.	Dec. <u>1/</u>	March	June	Sept.	Dec. <u>1/</u>
Net credit to Government <u>2/</u>								
Ceiling	...	...	...	23.0 <u>1/</u>	35.00	37.50	40.32	43.20
Actual	35.10	32.50	16.20	23.50	30.40	37.00		
Total domestic credit <u>3/</u>								
Ceiling	...	...	...	243.0 <u>1/</u>	250.30	236.10	259.90	290.60
Actual	202.30	205.70	195.80	227.40	234.10	240.10		
External payments arrears <u>4/</u>								
Ceiling	...	...	...	42.0 <u>1/</u>	40.00	38.00	34.50 <u>5/</u>	28.00
Actual	--	46.60	33.00	42.20	24.20	30.50		
New external borrowing (cumulative) 1-10 years maturity <u>6/</u>								
Ceiling	--	--	--	15.00 <u>1/</u>	15.00	15.00	15.00	15.00
Actual	--	--	--	--	--	--		

Sources: EBS/82/17; data provided by the Gambian authorities.

1/ Not performance criteria.

2/ Defined as the sum of the banking system's claims on the Government, less government deposits, plus any use by the Government of the local currency counterpart of SDR allocations, plus any use by the Government of the local counterpart of purchases from the Fund.

3/ Defined as the sum of net credit to the Government plus claims on the private sector (including official entities).

4/ Defined as the sum of arrears in respect of official debt service payments and in respect of commercial payments.

5/ Also reflects delay in completing the mid-year review in June 1982.

6/ Starting from November 5, 1981 through December 31, 1982

Table I. The Gambia: Supply and Use of Resources,
1978/79-1982/83

(In millions of dalasis, at current prices)

	1978/79	1979/80	1980/81	1981/82 Program Estimates	1981/82 Estimated Actuals	1982/83 Program Projections	1982/83 Revised Program
Gross domestic product	403.6	397.0	410.0	515.0	492.4	609.7	583.4
Minus: Exports of goods and services ^{1/}	-161.8	-168.7	-130.7	-166.0	-142.8	-203.2	-194.3
Plus: Imports of goods and services ^{2/}	238.2	307.8	279.1	293.0	248.7	315.1	276.8
Gross domestic expenditure	480.0	536.1	558.4	642.0	598.3	721.6	665.9
Consumption ^{3/}							
Private	387.0	407.9	432.5	523.6	484.1	596.8	557.3
Public	318.5	320.2	340.0	411.1	370.6	481.8	438.9
	68.5	87.7	92.5	112.5	113.5	115.0	118.4
Investment							
Private	81.5	108.7	84.6	121.6	117.4	118.5	102.3
Official entities	20.0	20.0	25.0	40.4	40.4	34.3	34.3
Government	9.2	34.6	8.3	5.5	5.5	6.0	6.0
	52.3	54.1	51.3	75.7	71.2	78.2	62.0
Changes in stocks	11.5	19.5	41.3	-3.2	-3.2	6.3	6.3
Resource gap	-76.4	-139.1	-148.4	-127.0	-105.9	-111.9	-82.5
Domestic savings	16.6	-10.9	-22.5	-8.6	8.0	12.9	26.1
Memorandum items:							
Ratio of							
Investment to GDP	20.2	27.4	20.6	23.6	23.8	19.4	17.5
Domestic savings to GDP	4.1	-2.7	-5.5	-1.7	1.6	2.1	4.5
Private consumption to GDP	78.9	80.7	82.9	79.8	75.3	79.0	75.2

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

^{1/} Exports defined to include exports in the balance of payments, plus travel credits in the balance of payments.

^{2/} Imports defined to include imports i.f.f., plus other sources and private transfers in the balance of payments.

^{3/} Consumption excludes technical assistance.

Table II. The Gambia: Revenue Measures Relating to the 1982/83 Budget
(In millions of dalasis)

	Rate change	Estimated yield budget
Company income tax	Collection of arrears and payment of tax when profit declaration is made	2.000
Airport departure fees	From D 15 to D 20 per passenger	0.300
Air ticket surcharge	From 5 per cent to 7.5 per cent	0.300
Aviation through-put charge	From D 0.25 to D 0.27 per liter	0.100
Business registration fees	Various	0.500
Excise duty on beer	From D 82 to D 87 per liter	0.125
Hotel bed tax	From D 2 to D 3 per person per night	0.600
Hire of government plant and machinery	Various	0.050
Postal charges	Various	0.030
Road tax:		
Auto/motor vehicles	From D 15 to D 20	
Private vehicles	From D 30 to D 50	
Commercial taxis	From D 75 to D 100	0.200
Commercial goods and buses over 12 passengers	From D 700 to D 1,000	
Rent on goods - Yundum Airport	Various	0.020
Sale of assets	Used vehicles	0.700
Stamp duty	Various	0.100
Import tax	From 2 per cent to 2.5 per cent	0.800
Import duties on gasoline products	Increase by D 0.1 per liter	1.900
Export duties:		
Shrimp and lobster	From 10 to 20 per cent	
Fresh fish	From 5 to 15 per cent	
Smoked and salted fish	From 6 to 15 per cent	0.600
Frozen fish	From 5 to 15 per cent	
	Also upward revision of administrative values	
<u>Total estimated revenue yield</u>		<u>8.325</u>

Source: Data provided by the Gambian authorities.

Table III. The Gambia: Monetary Survey, June 1980 to June 1983

(In million of dalasis)

	1980	1981				1982				1983
	June	March	June	Sept.	Dec.	March	June	Sept. Program	Dec.	June Program
Foreign assets (net)	-51.0	-76.6	-66.9	-77.5	-84.5	-81.1	-78.3	-82.2	-86.0	-81.4
Domestic credit	176.1	210.2	205.7	196.1	227.4	234.1	240.1	259.9	290.6	267.9
Government (net)	29.3	33.2	32.5	14.1	23.5	30.4	37.0	40.3	43.2	43.2
Private sector and official entities	146.8	177.0	173.2	182.0	203.7	203.7	203.1	219.6	247.4	224.7
Money and quasi-money	72.8	86.1	86.2	84.1	110.5	110.5	111.2	125.1	151.0	131.8
Other items	52.3	47.5	52.6	34.5	42.5	42.5	50.6	52.6	53.6	54.7

Source: Central Bank of The Gambia; and staff projections.

Table IV. The Gambia: Principal Assumptions of Balance of Payments Projections, 1978/79-1982/83

	1978/79	1979/80	1980/81	1981/82		1982/83	
				Program	Estimated actuals	Original targets	Revised targets
Exports, f.o.b. <u>1/</u>	128.6	135.5	93.4	137.9	118.0	156.9	155.9
Percentage change							
Volume	5.5	6.8	-42.4	55.3	23.7	1.2	7.1
Unit value	5.4	-1.3	20.0	-6.9	-7.5 <u>2/</u>	12.4	25.0
Groundnut pro- ducts <u>1/</u>	62.8	55.3	26.9	58.5	43.0	68.9	65.5
Percentage change	-3.6	24.7	-63.9	158.0	82.2	--	15.8
Unit value <u>2/</u>	3.1	-29.4	34.9	-15.7	-11.2	17.7	28.2 <u>2/</u>
Fish and fish products <u>1/</u>	3.7	6.6	6.4	7.6	7.0	13.4	9.3
Percentage change							
Volume	-18.0	-8.5	-2.2	6.6	--	40.4	26.2
Unit value <u>3/</u>	57.5	97.8	-1.5	12.5	13.3	25.0	5.0
Imports, c.i.f. <u>1/</u>	221.7	290.4	262.7	274.4	227.9	302.0	253.6
Percentage change							
Volume	-3.2	6.6	-16.6	-14.4	-18.0	1.1	8.1
Unit value	10.4	22.9	8.5	22.0	3.0	8.9	3.1
Food <u>1/</u>	48.8	63.9	63.8	66.0	73.4	69.0	80.7
Percentage change							
Volume	-10.7	13.7	6.6	-13.1	1.1	-2.4	3.5
Unit value	16.0	15.2	-6.3	19.0	14.3	7.1	6.5
Tourism expenditures (credit only) <u>1/</u>	33.2	32.2	35.4	28.1	24.8	46.4	38.3
Percentage change							
Number of guests	53.4	-7.8	-13.7	-21.7	-28.9	45.7	40.2
Average expen- diture	21.7	4.4	27.2	1.6	7.5	13.1	10.8

Sources: Central Bank of The Gambia; and staff projections.

1/ In millions of dalasis.

2/ Changes in unit value also reflect shifts in production mix.

3/ Unit value prices of fish heavily reflect export valuation changes.

Table V. The Gambia: Debt Service Projections,
1981/82-1986/87

(In millions of dalasis)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Amortization	7.7	14.1	15.0	26.0	31.3	19.0
Public sector	4.7	8.4	10.2	12.2	12.2	12.3
Repayment to IMF	3.0	5.7	4.8	13.8	19.1	6.7
Interest	5.5	6.6	6.5	7.0	7.1	7.7
Total payments	13.2	20.7	21.5	33.0	38.4	26.7
Exports of goods and Services	142.8	194.3	213.7	235.1	258.6	284.5
Debt service (total payments as per cent of exports)	9.2	10.6	10.1	14.0	14.8	9.4

Source: Data provided by the Gambian authorities and staff estimates.