FOR AGENDA

0451

EBS/89/198

CONFIDENTIAL

October 17, 1989

To: Members of the Executive Board

From: The Secretary

Subject: The Gambia - Staff Report for the 1989 Article IV Consultation and Request for the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with The Gambia and its request for the second annual arrangement under the enhanced structural adjustment facility. Proposed decisions appear on pages 28 and 29.

This subject, together with the policy framework paper for The Gambia (EBD/89/321, 10/16/89), will be brought to the agenda for discussion on a date to be announced.

Mr. van Til (ext. 8386) or Mr. Barth (ext. 6755) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

THE GAMBIA

Staff Report for the 1989 Article IV Consultation and Request for the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

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

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

Approved by Mamoudou Touré and A. Basu

October 16, 1989

I. Introduction

The 1989 Article IV consultation discussions with The Gambia, together with the negotiation of a second annual arrangement under the enhanced structural adjustment facility (ESAF), were held in Banjul during the period August 15-September 2, 1989. The Gambian representatives included the Honorable S.S. Sabally, Minister of Finance and Trade; Mr. A.A.B. Njie, Governor of the Central Bank of The Gambia; Mr. M.M. Jagne, Permanent Secretary to the Ministry of Finance and Trade; and other senior officials concerned with economic and financial matters. The head of the mission was received by the President, His Excellency Sir Dawda K. Jawara. The staff representatives were Mr. van Til (head-AFR), Mr. Barth (INS), Mr. Gunjal (AFR), Mr. Miyauchi (ETR), Mr. Wang (EP-AFR), and Ms. Lynch (secretary-AFR). Mrs. Williamson, the World Bank's country officer, participated in the discussions on the policy framework paper.

The Gambia continues to avail itself of the transitional arrangements of Article XIV and is on the standard 12-month cycle for Article IV consultations. The last consultation was concluded on November 23, 1988. At the same time, the Fund approved the current three-year arrangement under the ESAF in an amount equivalent to SDR 20.52 million (120 percent of quota) in support of an economic and financial program for the period July 1988-June 1991, and the first annual arrangement thereunder in an amount equivalent to SDR 6.84 million (40 percent of quota) in support of the program for July 1988-June 1989. In concluding the 1988 Article IV consultation, Executive Directors noted with satisfaction that The Gambia had continued to adhere to the policies under its program supported by an arrangement under the structural adjustment facility (SAF) and that most of the key objectives had been achieved, in particular the further economic expansion, the deceleration in inflation, the buildup of foreign reserves, and the reduction in external payments arrears. However, it was also noted that, despite improvements in recent years, The Gambia's external payments position remained vulnerable, which called for further efforts to accelerate growth and diversification, and sustained implementation of structural adjustment. In this context, Directors emphasized the need for continued appropriate exchange rate, interest rate, demand management, and external debt and reserve policies.

Under the first annual ESAF arrangement, the first loan of SDR 3.42 million was disbursed on December 15, 1988, and the second loan for the same amount was disbursed on May 31, 1989, following the observance of the performance criteria for end-December 1988 and the completion on April 12, 1989 of the midterm review. As of September 30, 1989 The Gambia's outstanding use of Fund credit was equivalent to SDR 26.15 million, or 152.9 percent of quota (Table 1). The amount available under the second annual arrangement is equivalent to SDR 6.84 million, with both the first and second loan equivalent to SDR 3.42 million. Taking account of prospective disbursements under the ESAF and scheduled repurchases, The Gambia's outstanding use of Fund credit would be equivalent to SDR 32.03 million or 187.3 percent of quota by June 30, 1991.

In a letter to the Managing Director, dated September 27, 1989, the Government of The Gambia requested a second annual arrangement under the ESAF in an amount equivalent to SDR 6.84 million (40 percent of quota) in support of an economic and financial program for the period July 1989-June 1990 (Appendix I). The program is described in the memorandum on economic and financial policies attached to the authorities' letter of request. In a letter dated October 16, 1989, the authorities have transmitted to the Managing Director of the Fund and the President of the World Bank their updated policy framework paper (PFP) covering the three-year period July 1989-June 1992 (EBD/89/321). The PFP is expected to be considered by the Committee of the Whole of the Bank on November 7, 1989.

The Fund and World Bank staffs have collaborated closely on The Gambia's adjustment efforts. On June 8, 1989, the Bank approved a second structural adjustment credit of US$23 million in conjunction with cofinancing from the African Development Bank (US$6 million) and The Netherlands (US$2.5 million). As of July 31, 1989, the Bank's cumulative commitments to The Gambia totaled US$108.8 million, of which US$73.0 million had been disbursed.

For the purposes of this report, the following appendices are attached: the proposed ESAF arrangement, with the annexed letter of request (Appendix I); The Gambia's relations with the Fund (Appendix II); The Gambia's relations with the World Bank group (Appendix III); a discussion of outstanding statistical issues (Appendix IV); basic economic data (Appendix V); and selected social and demographic indicators (Appendix VI).

Table 1. The Gambia: Fund Position, June 1989-June 1992

	Outstanding at June 30, 1989	1989 Jul.-Sep.	1989 Oct.-Dec.	1990 Jan.-Mar.	1990 Apr.-Jun.	1990 Jul.-Sep.	1990 Oct.-Dec.	1991 Jan.-Mar.	1991 Apr.-Jun.	1991 Jul.-Dec.	1992 Jan.-Jun.
					(In millions of SDRs)						
Transactions under tranche policies (net) 1/	...	...	-0.89	-0.13	-0.29	-0.38	-0.54	-0.64	-0.80	-1.15	-1.02
Purchases	...	...	...	...	...	...	...	...	...	...	...
Ordinary resources	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Borrowed resources	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Repurchases	...	...	0.89	0.13	0.29	0.38	0.54	0.64	0.80	1.15	1.02
Ordinary resources	(...)	(...)	(0.13)	(0.13)	(0.13)	(0.38)	(0.38)	(0.64)	(0.64)	(1.15)	(1.02)
Borrowed resources	(...)	(...)	(0.76)	(...)	(0.16)	(...)	(0.16)	(...)	(0.16)	(...)	(...)
Transactions under special facilities (net) 2/	...	...	-0.59	-0.59	-0.59	-0.59	-0.59	-0.59	-0.59	-0.58	...
Purchases	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Repurchases	(...)	(...)	(0.59)	(0.59)	(0.59)	(0.59)	(0.59)	(0.59)	(0.59)	(0.58)	(...)
Transactions under the structural/enhanced structural adjustment facility (net)	...	...	3.42	...	3.42	...	3.42	...	3.42	...	-0.34
Disbursements	(...)	(...)	(3.42)	(...)	(3.42)	(...)	(3.42)	(...)	(3.42)	(...)	(...)
Repayments	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(0.34)
Total Fund credit outstanding (end of period)	26.15	26.15	28.09	27.37	29.91	28.94	31.23	30.00	32.03	30.30	28.94
Under tranche policies	6.05	6.05	5.16	5.03	4.74	4.36	3.82	3.18	2.38	1.23	0.21
Under special facilities	4.71	4.71	4.12	3.53	2.94	2.35	1.76	1.17	0.58	...	...
Under structural/enhanced structural adjustment facility	15.39	15.39	18.81	18.81	22.23	22.23	25.65	25.65	29.07	29.07	28.73
					(As percent of quota)						
Total Fund credit outstanding (end of period)	152.92	152.92	164.27	160.06	174.91	169.24	182.63	175.44	187.31	177.19	169.24
Under tranche policies	35.38	35.38	30.18	29.42	27.72	25.50	22.34	18.60	13.92	7.19	1.23
Under special facilities	27.54	27.54	24.09	20.64	17.19	13.74	10.29	6.84	3.39	...	...
Under structural/enhanced structural adjustment facility	90.00	90.00	110.00	110.00	130.00	130.00	150.00	150.00	170.00	170.00	168.01

Source: IMF, Treasurer's Department.

1/ Ordinary and borrowed resources.
2/ Compensatory financing facility.

II. Background and Performance in 1988/89

Since the adoption in mid-1985 of a comprehensive medium-term economic adjustment program designed to reverse the economic decline experienced from the mid-1970s onward and to provide the basis for a resumption of sustained economic growth, The Gambia has made considerable progress in reducing internal and external imbalances and strengthening its growth potential. Under the program, supported during 1986/87-1987/88 (July/June) by a stand-by arrangement and two annual arrangements under the SAF, and during 1988/89 by a first annual arrangement under the ESAF, the authorities have successfully implemented wide-ranging structural reforms coupled with prudent monetary and fiscal policies. The structural reforms included the liberalization of the trade system, the reform of the exchange system, the introduction of flexibility in interest rates, the promotion of private sector activity through the provision of appropriate price and other incentives, particularly in agriculture and fisheries, and greater efficiency in public sector operations.

During 1988/89, The Gambia made further progress toward attaining the objectives of its medium-term program and most of the targets were achieved. Economic growth has been steady, the rate of inflation has been declining, and the improvement in the external position has been notable, including a reduction in external payments arrears.

Despite the sharp decline in the production of groundnuts as a result of adverse weather conditions and locust infestation, the growth of real gross domestic product (GDP) during 1988/89 is estimated at 4.6 percent, compared with a program target of 4.3 percent, as economic activity in most sectors was buoyant (Table 2). In particular, strong growth was recorded in agricultural production (other than groundnuts), tourism, and trade. The rate of inflation, as measured by the consumer price index on an end-of-period basis, decelerated to 8.0 percent from 9.2 percent in the previous year, but slightly exceeded the program target of 7.5 percent. The budget deficit (excluding foreign grants) was reduced significantly, from 22.0 percent of GDP in 1987/88 to 6.8 percent of GDP in 1988/89, well below the program target of 8.3 percent of GDP, mainly on account of buoyant tax revenue. Including foreign grants, the budget recorded a surplus of 2.3 percent of GDP in 1988/89 compared with a deficit of 9.4 percent in the previous year. Total expenditure and net lending exceeded the program target by 1.7 percent, but total revenue and grants surpassed the budget estimates by 8.6 percent. However, the composition of expenditure differed markedly from the program, with current expenditure some 7.0 percent higher than programmed, taking into account the civil service salary adjustment of January 1989, and development outlays remaining well below the program target. The overruns in current expenditure were related to an unanticipated adjustment in pensions and allowances following the 1989 salary adjustment, cost overruns for foreign missions as a result of exchange rate movements, and higher domestic interest payments associated with an increased volume of government securities offered to the

Table 2. The Gambia: Selected Economic and Financial Indicators, 1985/86-1991/92

	1985/86	1986/87	1987/88	1988/89 Prog.	1988/89 Est.	1989/90 Prog.	1990/91 Projections	1991/92 Projections
	(Annual percentage changes, unless otherwise specified)							
National income and prices								
GDP at constant prices	-0.3	5.4	5.5	4.3	4.6	4.5	4.5	4.5
GDP deflator	28.1	19.0	10.0	11.6	13.8	9.0	8.0	6.5
Nominal GDP (in millions of dalasis)	859.3	1,078.1	1,250.9	1,456.0	1,489.5	1,696.6	1,914.8	2,131.0
Consumer price index (period average)	35.0	46.2	12.4	9.4	10.8	9.0	8.0	6.5
Consumer price index (end of period)	70.4	22.3	9.2	7.5	8.0	6.5	6.0	5.0
External sector								
Exports, f.o.b. (in SDRs) 1/	-4.6	-5.7	6.1	9.3	30.9	8.1	6.0	6.6
Imports, f.o.b. (in SDRs) 1/	-1.6	6.9	1.4	11.4	23.4	7.2	6.8	6.7
Export volume 2/	9.0	-5.3	45.5	12.5	3.9	9.6	11.1	6.4
Import volume 3/	-4.1	10.4	0.1	4.8	9.3	3.8	3.8	3.8
Terms of trade	-41.7	-2.8	-6.2	-6.5	-1.7	-7.4	-6.3	--
Nominal effective exchange rate	-15.7	-43.6	4.9	...	8.3	...	...	...
Real effective exchange rate	-1.2	-18.5	7.4	...	3.9	...	...	...
Government budget								
Revenue and grants	48.6	78.6	3.1	7.2	16.4	11.2	6.5	4.5
Total expenditure and net lending	8.6	90.3	12.0	-16.5	-15.0	32.9	-6.9	7.8
Current expenditure	24.9	65.9	37.7	-29.6	-18.2	18.0	-2.1	7.1
Development expenditure and net lending	-13.1	142.1	-24.4	17.0	-9.1	70.3	-14.3	8.9
Money and credit								
Net domestic assets 4/	121.1	-131.8	-21.2	-27.7	-8.4	-33.4	-36.6	0.8
Credit to the Government 4/	4.5	-72.6	8.4	-47.9	-19.7	-18.2	-40.7	-3.2
Credit to public enterprises 4/	29.1	-0.3	-35.2	10.5	7.9	-17.1	1.5	1.3
Credit to the private sector 4/	13.5	-4.1	5.5	9.8	8.2	6.6	4.6	2.7
Broad money	24.5	43.9	20.5	25.3	8.3	16.8	13.0	14.7
Velocity (GDP relative to broad money)	3.9	3.8	3.5	3.3	3.7	3.5	3.5	3.5
Interest rate on treasury bills (in percent; end of period)	15.0	19.0	16.8	...	18.0	...	...	...
	(In percent of GDP)							
Investment and savings								
Gross investment	15.8	20.4	18.5	19.3	17.9	18.7	20.2	21.3
Gross national savings	15.1	16.3	23.5	21.7	20.7	21.8	23.2	23.7
Government budget								
Surplus or deficit (-), excluding grants 5/	-12.8	-22.0	-22.0	-8.3	-6.8	-5.2	-5.0	-4.6
Surplus or deficit (-), including grants 5/	-6.0	-7.1	-9.4	1.6	2.3	3.7	2.3	1.1
Revenue and grants	31.3	44.5	39.5	36.4	38.7	37.7	35.6	33.4
External sector								
Current account balance								
Excluding official transfers	-29.7	-31.5	-21.0	-19.6	-18.2	-16.8	-15.0	-13.6
Including official transfers	-1.1	-4.1	5.0	2.4	2.8	3.1	3.1	2.6
External debt outstanding, including Fund	203.4	169.7	160.2	144.2	132.2	123.1	123.5	112.6
	(In percent of net exports and travel income) 7/							
External debt service 6/								
Including the Fund	25.0	104.3	49.6	54.9	49.1	49.0	27.3	27.2
Excluding the Fund	15.0	71.1	38.0	46.5	41.4	42.3	20.2	22.8
	(In millions of SDRs)							
Current account balance								
Excluding official transfers	-32.2	-37.3	-29.2	-31.3	-29.6	-29.7	-28.7	-28.1
Including official transfers	-1.2	-4.9	7.0	3.8	4.5	5.5	5.9	5.3
Overall balance of payments	-11.6	25.8	13.7	22.9	5.5	21.4	25.4	8.0
External payments arrears (end of period) 8/	81.3	41.8	32.3	19.3	20.7	--	--	--
Gross official reserves (end of period)	1.4	10.9	20.4	32.8	16.8	27.7	55.2	60.2
(equivalent months of imports, c.i.f.)	0.2	1.4	2.6	3.8	1.8	2.7	5.0	5.1

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

1/ Estimates in 1988/89 reflect in part a more comprehensive coverage of re-exports and imports, owing to improvements in customs administration.
2/ Excluding re-exports.
3/ Excluding imports for re-exports.
4/ In percent of broad money at the beginning of the period.
5/ Figure in 1989/90 excludes exceptional budgetary provision of D 111.0 million, equivalent to 6.5 percent of GDP.
6/ Including IMF charges and repurchases and cash payments for arrears reduction.
7/ Net exports defined as total exports minus imports used for re-exports.
8/ Figure in 1988/89 includes an amount of SDR 6.4 million, which had been classified as part of the arrears, but was rescheduled under the London Club in 1987/88.

public in support of interest rate policy. The lower-than-programmed development expenditures stemmed mainly from delays in the execution of two large foreign-financed projects. On the revenue side, foreign grants fell short of program estimates on account of lower-than-programmed project grants. However, domestic receipts were significantly above the program estimates, reflecting not only the successful implementation of the sales tax and the broadening of its base during the year, but also further improvements in tax administration.

During 1988/89, broad money rose by only 8.3 percent compared with a growth of nominal GDP of 19.1 percent. The resulting increase in velocity was partly due to the withdrawal of deposits with the banking system associated with disturbances in the subregion as well as to the sizable purchases by the private sector and public enterprises of government securities, which offer an attractive remuneration compared with the prevailing deposit rates. As in the previous two years, the growth in broad money was accommodated entirely by an increase in net foreign assets of the banking system, while net domestic assets declined by 8.4 percent relative to the stock of broad money at the beginning of the period. The decline in net domestic assets was largely attributable to the sizable accumulation of government deposits, which more than compensated the increases in credit to the private sector and public enterprises. Despite the decline in inflation, nominal interest rates increased somewhat during 1988/89, broadly in line with interest rate movements in the subregion.

As to external developments, the overall balance of payments surplus of SDR 5.5 million fell considerably short of the programmed surplus of SDR 22.9 million, owing mainly to the late conclusion of negotiations on a second structural adjustment credit with the World Bank and lower-than-programmed project disbursements. The current account deficit (excluding official transfers) of SDR 29.6 million, equivalent to 18.2 percent of GDP, compared with 21 percent in the previous year, turned out broadly in conformity with the program target. Despite the considerable shortfall in net capital inflows, external payments arrears were reduced by SDR 11.6 million, compared with the benchmark of SDR 10.0 million. However, gross official reserves declined to SDR 16.8 million by end-June 1989, equivalent to 1.8 months of imports, well below the benchmark of SDR 29.4 million.

A central element of the Government's adjustment strategy was the introduction in January 1986 of a floating exchange rate system within the framework of an interbank market. Between May 1986 and March 1989, the differential between the exchange rates in the parallel and interbank markets remained within 3 percent. During this period, the size of the parallel market was greatly reduced and now accounts for only a minor portion of the foreign exchange transactions. However, following the disruption of re-export trade associated with the disturbances in the subregion during the final quarter of 1988/89, the differential between the parallel market and interbank rates widened to some 10 percent. Subsequently, in early September 1989 the interbank rate depreciated from D 12.2 per pound sterling to D 13.1 per pound sterling, virtually eliminating the differential (Chart 1). As to developments in The Gambia's nominal and real effective exchange rates, after the sharp initial depreciation of the dalasi following the introduction of the floating exchange system, the cumulative depreciation of the dalasi during 1985/86-1986/87 amounted to 52.5 percent in nominal terms and 19.5 percent in real terms. Subsequently, however, the rate gradually appreciated in real terms on an average basis, by 7.4 percent in 1987/88 and 3.9 percent in 1988/89 (Chart 2). On an end-of-period basis the rate depreciated in real effective terms by about 2 percent in 1988/89. Moreover, the recent depreciation of the dalasi is likely to contribute to a further strengthening of The Gambia's competitive position.

All performance criteria and quantitative benchmarks under the first annual ESAF arrangement were observed, with the exception of the end-June 1989 quantitative benchmarks on net domestic assets of the banking system, net bank credit to the Government, and the minimum level of official foreign reserves, which, in contrast with the other test dates, were not adjusted for the temporary shortfall in foreign inflows. Corrected for the shortfall of D 121.8 million, net domestic assets of the banking system and net bank credit to the Government were well below the limits, reflecting an appropriate degree of domestic adjustment. Structural measures under the program focused on reform in the civil service grade and pay structure, further progress in public enterprise reform and divestiture, and the rationalization and widening of the domestic tax base, as well as the strengthening of tax administration. As indicated in Table 3, progress in these areas was made and observance of the structural benchmarks was broadly satisfactory.

III. Objectives and Policies for the Period 1989/90-1991/92

As outlined in the updated PFP (EBD/89/321), the Government's major macroeconomic objectives for the period 1989/90-1991/92 are as follows: (i) an annual rate of growth of real GDP of about 4.5 percent, with the increased activity expected to be broadly based as a result of the Government's policy of encouraging private sector activity; (ii) a reduction in the rate of inflation, from 8.0 percent in 1988/89 to 5.0 percent in 1991/92; and (iii) a substantial decline in the current account deficit (excluding official transfers), from 18.2 percent of GDP in 1988/89 to 13.6 percent in 1991/92, which, with the maintenance of an appropriate debt profile, would be consistent with declines in both the external debt service and debt relative to GDP and could be financed by normal concessional inflows. Major objectives continue to be the full normalization of The Gambia's relations with its external creditors and a buildup of official reserves. Therefore, all external payments arrears will be eliminated by end-June 1990, and official reserves are programmed to increase steadily to the equivalent of 5.1 months of imports in 1991/92. At the same time, an important element of the adjustment program is to address the needs of the poorest and most

Table 3. The Gambia: Performance Under the Program Supported by the First Annual Arrangement Under the ESAF, July 1988–June 1989

	1988				1989			
	Sept. Prog.	Sept. Actual	Dec. Prog.	Dec. Actual	March Prog.	March Actual	June Prog.	June Actual
Performance criteria and quantitative benchmarks 1/	(In millions of dalasis)							
Net domestic assets of the banking system 2/	241.5 3/	216.2	267.2 4/	250.5	359.8 5/	232.8	115.6	191.6
Net claims on the Government	-18.9 3/ 6/	-40.8	-19.5 4/ 7/	-66.5	-20.4 5/ 8/	-85.6	-226.9 9/	-115.2
Gross bank credit to the GPMB	46.8	46.3	47.8	43.7	115.6	73.5	88.1	75.1
Government transfers to the GPMB	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2
	(In millions of SDRs)							
External payments arrears 10/	30.6 11/	30.2	28.9 11/	28.0	40.7 11/ 12/	25.6	22.3 11/	20.7
Short-term public debt outstanding 13/	—	—	—	—	—	—	—	—
Contracting or guaranteeing of new medium- or long-term nonconcessional public debt in the 1- to 5- and 1- to 12-year maturity ranges	—	—	—	—	—	—	—	—
Gross official reserves	12.0	14.3	12.0	13.1	19.6	20.0	29.4	16.8

Structural benchmarks	Status
A new civil service grade structure to be introduced by September 30, 1988.	Implemented on November 1, 1988, retroactive to January 1, 1988.
A public investment program for 1989/90–1991/92 to be prepared in consultation with the World Bank by April 30, 1989.	The public investment program was finalized in June 1989.
The new sales tax to be fully implemented by June 30, 1989.	The tax was applied to all economic sectors, with the exception of international tour packages contracted for the 1988/89 tourist season, and fuel purchases by The Gambia Public Transport Corporation and The Gambia Utilities Corporation.
Actions to be taken during 1988/89 to minimize revenue leakages from the misclassification of imports as duty-free items.	A special team conducted on-site inspections of the usage of goods accorded duty-free privileges.
Performance contracts to be signed with The Gambia Telecommunications Company (GAMTEL), the Social Security and Housing Finance Corporation (SSHFC), and The Gambia Public Transport Corporation (GPTC) by June 30, 1989.	Owing to delays encountered in the recruitment of consultants to provide technical assistance in the preparation of performance contracts, it is now expected that the contracts with the SSHFC and the GPTC will be signed by end-December 1989, and the contract with the GAMTEL by end-February 1990.

Sources: EBS/88/214; and information provided by the Gambian authorities.

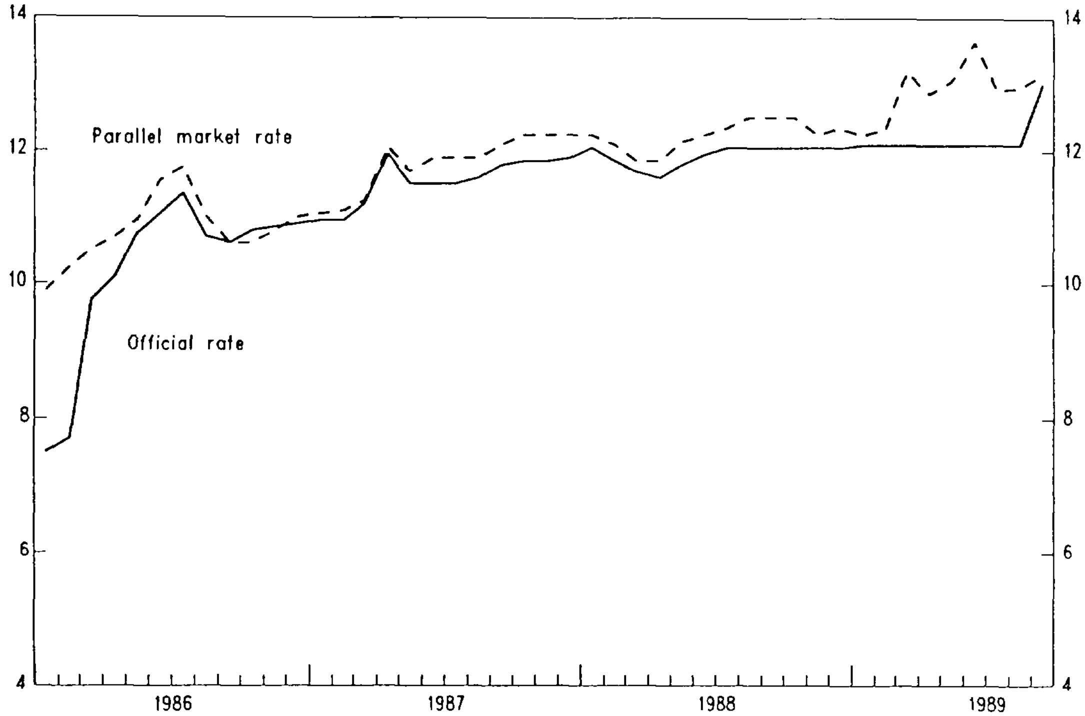
1/ All targets for end-December 1988 were quantitative performance criteria, except for gross bank credit to the GPMB and government transfers to the GPMB.
2/ Excludes the counterpart of valuation changes in net foreign assets of the CBG.
3/ Adjusted to reflect the cumulative excess of D 4.8 million in external cash loans and grants and commodity assistance (loans and grants) over the program estimate for the period July–September 1988 and the cumulative shortfall of D 7.5 million in the payment of the domestic counterpart of all nonreschedulable government debt service obligations falling due during this period.
4/ Adjusted to reflect the cumulative excess of D 1.6 million in external cash loans and grants and commodity assistance (loans and grants) over the program estimate for the period July–December 1988.
5/ Adjusted to reflect the cumulative shortfall of D 123.1 million in external cash loans and grants and commodity assistance (loans and grants) from the program estimate for the period July 1988–March 1989.
6/ Adjusted to reflect the cumulative excess of D 0.6 million of recovery of principal by the Government with respect to the Managed Fund over the program estimate for the period July–September 1988.
7/ Adjusted to reflect the cumulative excess of D 0.7 million of recovery of principal by the Government with respect to the Managed Fund over the program estimate for the period July 1988–December 1988.
8/ Adjusted to reflect the cumulative excess of D 0.7 million of recovery of principal by the Government with respect to the Managed Fund over the program estimate for the period July 1988–March 1989.
9/ Adjusted to reflect the cumulative excess of D 0.3 million of recovery of principal by the Government with respect to the Managed Fund over the program estimate for the period July 1988–June 1989.
10/ After rescheduling and valued at end-June 1988 exchange rates.
11/ Revised to include the disclosure of SDR 6.3 million of arrears.
12/ Adjusted to reflect the cumulative shortfall of SDR 13.5 million in certain cash external financing from the program estimate for the period July 1988–March 1989.
13/ Excludes trade-related credits.

CHART 1

THE GAMBIA

EVOLUTION OF EXCHANGE RATES: D/£, DECEMBER 1985-SEPTEMBER 1989

(End of period)



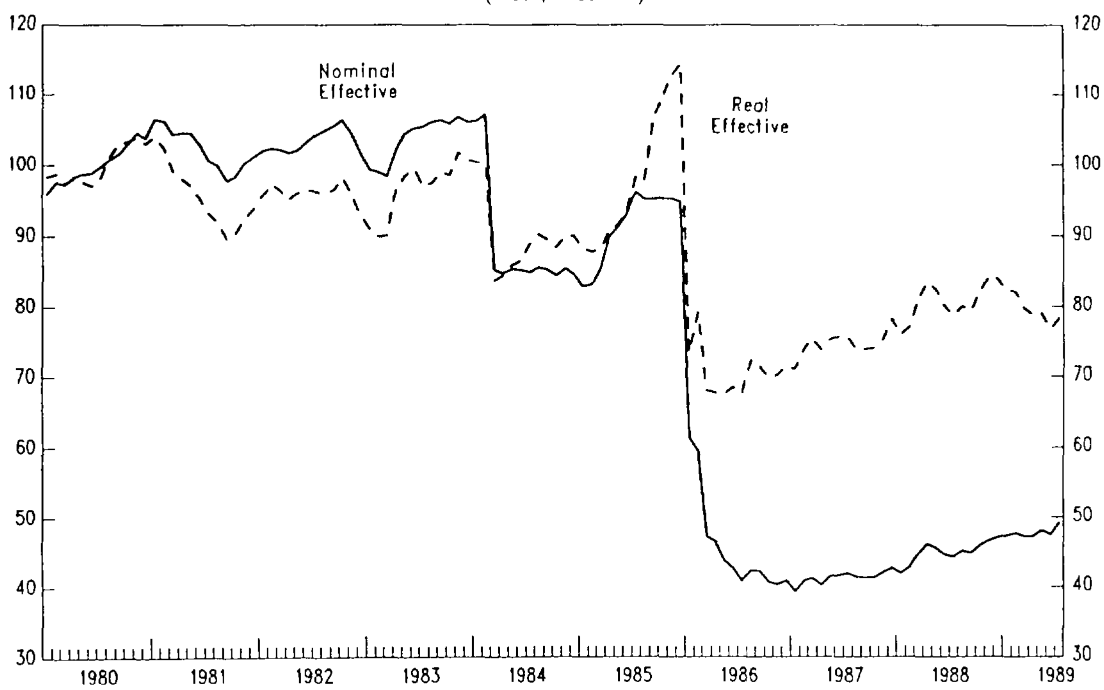
Source: Data provided by the Gambian authorities.

CHART 2

THE GAMBIA

DEVELOPMENTS IN EFFECTIVE EXCHANGE RATES, JANUARY 1980-JULY 1989

(Index; 1980=100)



Source: IMF, Information Notice System.

vulnerable segments of the population in the rural and urban areas through the provision of alternative employment opportunities, including community fishery centers, artisanal coastal fisheries, and pilot horticultural projects.

To attain these basic objectives, the Government has accorded high priority to continuing the judicious macroeconomic policies pursued in recent years, while strengthening structural reforms in the financial and public enterprise sectors in the context of a broadly based development strategy. In particular, the program comprises: (i) reforms in groundnut producer price policy and marketing arrangements; (ii) increased investment for infrastructure, education, and health; (iii) continuation of public enterprise reform through divestitures and maintenance of the system of performance contracts; (iv) operational and financial restructuring of the government-owned Gambia Commercial and Development Bank (GCDB); and (v) sectoral policies to promote the development of agriculture, tourism, and industry.

1. Sources of economic growth

The attainment of the growth objectives under the program would require an expansion in gross investment relative to GDP from an estimated 17.9 percent in 1988/89 to 21.3 percent in 1991/92, reflecting rises in both private and public investment from 7.2 percent to 9.5 percent and 10.7 percent to 11.8 percent of GDP, respectively. The financing of projected investment would come increasingly from domestic savings, which would rise by an estimated 3.6 percentage points to 12.1 percent of GDP in 1991/92; about two thirds of the increment in the savings rate would be generated by the budget. A key element in promoting the mobilization of domestic savings is the maintenance of positive real interest rates.

The Gambia's growth prospects are mainly in agriculture, fisheries, small-scale industry, and tourism. The agricultural sector has expanded by an annual average rate of about 4.7 percent in the past three years, notwithstanding the unfavorable weather conditions and the subsequent decline in groundnut production in 1988/89. The sectoral projections supporting the overall growth target indicate that agricultural GDP would expand on average by 4.5 percent during the program period. The sustained growth prospects in agriculture, assuming normal weather conditions, would stem from the liberalized policies with respect to cereals pricing, marketing, and trade, and from steady improvements in the supply and distribution of seeds, fertilizers, and other essential inputs, as well as from newly developed activities in horticulture. With respect to fisheries, investment has increased significantly in recent years, helped by the exchange rate reform and the waiving of the fish export taxes upon proof of remittance of foreign exchange earnings. In addition, the authorities have encouraged the development of artisanal fisheries with foreign assistance. In the next few years priority will be given to improving the management of fisheries resources with a view to ensuring balanced growth in this sector. To this end, a fisheries resource management program is being implemented, which aims at enhancing surveillance and conserving deepwater fisheries resources.

Tourism and supporting services have been expanding significantly over the last few years, and their growth potential is considered favorable. The buoyant development in tourist activities can be attributed to improved profitability and to the successful establishment of a tourist market in Europe. To enhance prospects for tourism further, the authorities intend to promote the full utilization of the tourism development area along the coast and tourism in the country's interior, while establishing effective controls on quality standards of hotels and restaurants. The public investment program provides for the necessary infrastructure improvements. Thus, the projections assume an average growth of value added in the services sector of 4.4 percent per annum, which is consistent with the growth recorded in recent years.

Developments in the industrial sector (which contributes about 10 percent of GDP) have been uneven, with an average rate of growth of 6.3 percent per annum recorded over the past three years. Future growth prospects lie mainly in small-scale enterprises. The new investment code, adopted in 1988, and the Government's program to divest its interests in a number of industrial activities, provide increased incentives to domestic and foreign investors. Also, the private enterprise development project, supported by the World Bank, which aims at strengthening the institutions involved in the promotion of private investment, is contributing to the growth prospects of the private sector. These policies would contribute to the diversification of the production base and generate employment and foreign exchange earnings. Accordingly, it is assumed that industrial activity would grow on average by 5.0 percent per annum.

2. Exchange rate and other pricing policies

Since the introduction in 1986 of the floating exchange rate system in the framework of an interbank market, The Gambia has been able to pursue a flexible exchange rate policy, which has significantly enhanced the role of the commercial banks in the intermediation of foreign exchange transactions. As a result, foreign exchange transactions in the parallel market have diminished substantially and the differential between the interbank and parallel market rates has been virtually eliminated. The Government will continue to monitor carefully the evolution of the system to ensure its orderly and flexible functioning and its contribution to the diversification of The Gambia's export base.

To ensure a pass-through of exchange rate effects and other costs to consumers, the Government has regularly adjusted prices of petroleum products, public utilities, and public transport. The Government will continue to review these prices and tariffs and make adjustments when necessary to reflect developments in costs, including those associated with further exchange rate movements.

3. Fiscal policy

An important aim of the program is to reduce the overall budgetary deficit (excluding foreign grants) so as to sustain the financing of expenditures from domestically generated resources. Accordingly, the program calls for a reduction of the deficit (excluding foreign grants) from 6.8 percent of GDP in 1988/89 to 4.6 percent in 1991/92, mainly through continued expenditure restraint (Table 4). Total expenditure and net lending is programmed to decline from 34.6 percent of GDP in 1988/89 to 32.3 percent in 1991/92.

Over the 1989/90-1991/92 period, tax revenues are projected to grow at an average annual rate of about 10 percent, broadly commensurate with the growth of the relevant tax base. Based on existing commitments, foreign grants accruing to the budget are projected to decline from 9.1 percent of GDP in 1988/89 to 5.7 percent in 1991/92. With respect to expenditures, the Government will continue to exert strict control over outlays, while taking appropriate measures to restructure public expenditure and enhance efficiency in the provision of public services and implementation of development projects, particularly in infrastructure and in the social sectors. In this regard, an important measure is the elimination of subsidies to the Gambia Produce Marketing Board (GPMB) for current operations as of 1989/90. Current expenditures as a whole are projected to grow at an average annual rate of only 7 percent during 1989/90-1991/92, well below the projected rate of growth of nominal GDP. Part of this increase reflects the full-year effect of the higher levels of civil service wages and salaries, following the implementation of a new grade structure and the wage and salary adjustment in January 1989. There will be no further civil service wage awards in 1989/90, and during the remainder of the program period pay increases in the civil service will be determined on the basis of developments in productivity and the availability of domestic budgetary resources; in any case, the overall wage bill relative to total domestic revenues will not exceed 26.5 percent. As external grants and net foreign borrowing are projected to exceed programmed budget deficits (excluding foreign grants), the Government is expected to increase substantially its net creditor position with the banking system throughout the period.

4. Public investment program

In the area of public investment planning, the Government has introduced a three-year "rolling" public investment program (PIP) linked to the annual preparation of the budget. The PIP is reviewed annually and includes only projects for which financing has been assured and which meet project selection criteria, including: (i) the completion of adequate feasibility studies; (ii) the attainment of an economic rate of return (where calculable) of at least 15 percent and for projects where the economic rate of return is not calculable, projects must be selected on the basis of least-cost alternatives; and (iii) the compatibility of the recurrent cost implications with future recurrent budgets. Among

Table 4. The Gambia: Central Government Operations, 1985/86-1991/92

	1985/86	1986/87	1987/88	1988/89 Prog.	1988/89 Est.	1989/90 Prog.	1990/91 Projections	1991/92 Projections
	(In millions of dalasis)							
Total revenue and grants	268.6	479.8	494.7	530.2	575.7	640.1	681.8	712.1
Revenue	209.5	318.6	337.9	385.9	440.1	489.0	542.6	590.5
Taxes on income and property	32.1	41.5	44.0	46.2	57.2	67.2	75.8	84.4
Taxes on goods and services	13.1	18.3	23.1	84.2	125.0	136.6	154.2	171.6
Taxes on international trade	147.3	239.6	242.3	221.5	215.6	245.7	266.7	284.6
Other taxes	0.5	0.7	0.9	0.6	0.6	--	--	--
Nontax revenue and capital revenue	16.5	18.5	27.6	33.4	41.7	39.5	45.9	49.9
Foreign grants 1/	59.1	161.2	156.8	144.3	135.6	151.1	139.2	121.6
Total expenditure and net lending	284.8	542.0	607.1	507.1	515.9	685.5	638.2	687.7
Current expenditure	189.1	313.8	432.1	304.2	353.3	417.1	408.2	437.2
Personal emoluments, pensions, and allowances	62.9	66.1	68.6	85.0	100.2	128.9	140.0	150.0
Interest	37.7	68.4	73.4	74.8	87.3	84.1	83.2	84.2
Internal	15.7	26.6	37.3	29.7	38.5	36.2	37.2	38.2
External	22.0	41.8	36.1	45.1	48.8	47.9	46.0	46.0
Other charges	61.9	87.9	126.2	130.0	150.8	163.6	185.0	203.0
Transfers to parastatals 2/	26.6	91.4	163.9	14.4	15.0	40.5	--	--
Of which: GPMB	(12.4)	(83.0)	(130.7)	(13.2)	(13.2)	(40.5)	(--)	(--)
Development expenditure and net lending	94.8	229.5	173.4	202.9	157.6	268.4	230.0	250.5
Development expenditure	91.1	161.0	176.1	204.9	159.9	182.0	220.0	250.5
Net lending 3/	3.7	68.5	-2.7	-2.0	-2.3	86.4	10.0	--
Of which: Managed Fund	(...)	(72.6)	(-2.7)	(-2.0)	(-2.3)	(-4.0)	(--)	(--)
Unallocated expenditure	0.9	-1.3	1.6	--	5.0	--	--	--
Change in arrears (decrease -)	-35.0	-14.1	-5.4	--	-25.5	-2.9	--	--
Surplus or deficit (-)								
Excluding foreign grants	-110.3	-237.6	-274.6	-121.2	-101.3	-199.4	-95.6	-97.2
Including foreign grants	-51.2	-76.4	-117.8	23.1	34.3	-48.3	43.6	24.4
Financing	51.2	76.4	117.8	-23.1	-34.3	48.3	-43.6	-24.4
Foreign (net)	7.1	241.4	73.8	169.5	15.3	129.4	162.8	-2.8
Borrowing	36.6	301.0	129.1	247.5	92.2	224.6	254.6	127.0
Repayments	-29.5	-64.2	-60.4	-78.0	-76.9	-95.2	-91.9	-129.9
Net debt relief	...	4.6	5.1	--	--	--	--	--
Domestic	44.1	-165.0	44.0	-192.6	-49.6	-81.2	-206.3	-21.6
Banking system	20.4	-165.0	27.4	-189.1	-77.7	-77.7	-202.8	-18.1
Nonbank	23.7	...	20.1	--	31.6	--	--	--
Sinking fund for debt relief	...	...	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5
	(In percent of GDP)							
Domestic revenue	24.4	29.6	27.0	26.5	29.5	28.8	28.3	27.7
Total expenditure and net lending	33.1	50.3	48.5	34.8	34.6	40.4	33.3	32.3
Surplus/Deficit (-)								
Excluding foreign grants	-12.8	-22.0	-22.0	-8.3	-6.8	-11.8	-5.0	-4.6
Including foreign grants	-6.0	-7.1	-9.4	1.6	2.3	-2.8	2.3	1.1

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

1/ Foreign grants correspond to official unrequited transfers in the balance of payments (less technical assistance grants).

2/ Figure in 1989/90 represents exceptional provision of D 40.5 million for the liquidation of debt of the Gambia Produce Marketing Board (GPMB) to the Central Bank of the Gambia (CBG).

3/ Figure in 1989/90 includes exceptional provision of D 48.0 million for the liquidation of the Gambia Cooperative Union's (GCU) debt to the Gambia Commercial and Development Bank, D 5.0 million of the GCU's debt to the GPMB, D 15.0 million for the GPMB's debt to the CBG, and D 2.5 million associated with the liquidation of the Agricultural Development Bank.

projects that meet these criteria, priority is being given to those that support rehabilitation and maintenance of existing assets and to projects in support of long-term human resource development. In May/June of each year, the Government will update its three-year PIP, taking into account resource availability, public debt-servicing capacity, and the overall stance of fiscal policy.

The public investment program for 1989/90-1991/92 provides for development outlays equivalent to D 182 million in 1989/90, D 220 million in 1990/91, and D 250 million in 1991/92. These amounts reflect the need to provide adequate infrastructure and support services to complement investment by the private sector and to promote human resource development, while remaining consistent with the availability of resources on concessional terms. Over the 1989/90-1991/92 period, outlays on infrastructure would constitute about 45 percent of total planned development expenditures, while the agriculture and natural resources sector and the health and education sectors would each account for about 20 percent.

5. Monetary policy and financial sector reform

Monetary and credit policies are designed to help achieve the inflation, growth, and balance of payments objectives. It is assumed that over the program period the income velocity of broad money will decline somewhat, reversing last year's rise in velocity (Table 5). However, the increased demand for dalasi-denominated financial assets, which is supported by substantially positive real interest rates, would be accommodated entirely by the improvement in the net foreign assets position of the banking system as net domestic assets are programmed to continue to decline. Accordingly, the credit demand of the private sector and public enterprises, which is growing in line with nominal GDP, will be offset by a substantial buildup of government deposits with the banking system.

With a view to improving efficiency in credit policy, the Central Bank of The Gambia (CBG) will develop a system of indirect credit controls to replace the present system of credit ceilings on individual banks. To this end, net domestic assets of the Central Bank would form the focal point of managing liquidity in the economy and in order to better control the creation of reserve money, the Central Bank would normally refrain from commercial lending activities. Interest rate policy continues to be supportive of the mobilization of domestic savings and the promotion of efficiency in credit allocation. The biweekly tender system for treasury bills has contributed to the maintenance of positive real interest rates.

As to the reform of the financial sector, the authorities attach high priority to the operational and financial restructuring of the government-owned Gambia Commercial and Development Bank. Based on the recommendation of a diagnostic study, a new Board of Directors was appointed in November 1988 and the recruitment of a new managing

Table 5. The Gambia: Monetary Survey, 1985/86-1991/92

	1985/86	1986/87	1987/88	1988/89 Prog.	1988/89 Est.	1989/90 Sept. Program	1989/90 Dec. Program	1989/90 March Program	1989/90 June Program	1990/91 Projections	1991/92 Projections
	(In millions of dalasis; end of period)										
Net foreign assets	-584.7	-313.2	-176.0	33.1	-149.8	-107.5	-36.7	46.5	64.2	311.3	389.4
Monetary authorities	-595.4	-333.4	-192.1	17.0	-155.8	-113.5	-42.7	40.5	58.2	305.3	383.4
Foreign assets	11.4	97.7	255.8	369.9	232.4	248.6	291.5	323.0	338.9	606.4	654.4
Foreign liabilities	-606.8	-431.1	-447.9	-352.9	-388.2	-362.0	-334.2	-282.5	-280.7	-301.1	-271.0
Commercial banks	10.7	20.2	16.1	16.1	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Net domestic assets	594.2	294.4	224.9	115.6	191.6	173.6	137.6	140.8	49.1	-133.3	-128.8
Domestic credit	501.3	326.0	256.2	146.6	241.8	243.8	207.8	211.0	119.3	-53.1	-48.6
Claims on the Government (net)	100.3	-64.9	-37.5	-226.9	-115.2	-16.5	-76.9	-136.1	-192.9	-395.7	-413.8
Claims on public enterprises	217.4	216.7	101.4	142.7	132.5	29.1	46.5	101.8	59.5	67.2	74.7
GPMB 1/	132.8	156.0	56.0	88.1	75.1	16.7	23.2	72.7	...	...	...
Non-GPMB	84.6	60.7	45.4	54.6	57.4	12.4	23.3	29.1	...	...	...
Claims on the private sector	183.6	174.2	192.3	230.8	224.5	231.2	238.2	245.3	252.7	275.5	290.4
Other items, net	92.9	-31.6	-31.3	-31.0	-50.2	-70.2	-70.2	-70.2	-70.2	-80.2	-80.2
Revaluation account	237.4	392.8	392.2	392.2	433.5	433.5	433.5	433.5	433.5	433.5	433.5
SDR allocation	-19.5	-46.8	-46.8	-46.8	-48.3	-48.3	-48.3	-48.3	-48.3	-48.3	-48.3
Broad money	227.4	327.2	394.3	494.1	427.0	451.3	486.1	572.5	498.5	563.2	645.8
Money	129.5	192.4	222.1	...	235.2	...	...	...	...	...	...
Quasi-money	97.9	134.8	172.2	...	191.8	...	...	...	...	...	...
Memorandum items:	(In units indicated)										
Nominal GDP (in millions of dalasis)	859.3	1,078.1	1,250.9	1,456.0	1,489.5	...	...	...	1,696.6	1,914.8	2,131.0
(percentage change)	27.7	25.5	16.0	16.4	19.1	...	...	...	13.9	12.9	11.3
Velocity											
(GDP relative to broad money)	3.9	3.8	3.5	3.3	3.7	...	...	...	3.5	3.5	3.5
Percentage changes in											
Net domestic assets	59.3	-50.5	-23.6	-48.6	-14.8	...	...	...	-74.4	-371.2	-3.3
Claims on the Government (net)	9.0	-164.7	-42.2	503.7	207.2	...	...	...	67.4	105.2	4.6
Claims on the private sector	15.5	-5.1	10.4	20.0	16.7	...	...	...	12.6	9.0	5.4
Claims on public enterprises	32.4	-0.3	-53.2	40.7	30.7	...	...	...	-55.1	12.9	11.3
Contribution to the growth of broad money											
Net foreign assets	-132.9	83.0	34.8	42.3	6.1	...	...	...	42.9	43.9	12.1
Net domestic assets	97.2	-91.6	-17.6	-22.1	-7.8	...	...	...	-28.6	-32.4	0.7

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

1/ GPMB, the Gambia Produce Marketing Board.

director is at an advanced stage. The financial restructuring, including a schedule for the recovery of outstanding loans, involves a strengthening of the capital base, for which the Government has allocated D 20 million in this year's budget and a provisional D 10 million in that of 1990/91. However, a full assessment of the financial restructuring needs will only be completed by end-February 1990, at which time the impact of the managerial and operational changes will also be assessed.

6. Balance of payments outlook

Notwithstanding the progress made over the past three years, the authorities recognize that the country's medium-term external position remains vulnerable, because, even with the attainment of the targets of the present three-year program, the external current account deficit (excluding official transfers) in 1991/92 would still amount to almost 14 percent of GDP (Table 6).

The major external sector assumptions underlying the program are as follows: (i) the volume of exports of groundnut products would increase on average by 7.8 percent a year; (ii) in line with developments in world market prices, the export price of groundnut products would decline on average by 3.6 percent a year during 1989/90-1990/91, and recover somewhat in 1991/92; (iii) the value of re-exports would rise on average by 6.6 percent a year; (iv) the value of travel income is projected to increase on average by 8.3 percent annually, consistent with the expected rise in tourism activity during the program period; and (v) the terms of trade would worsen by an annual average of 4.5 percent.

In view of the sensitivity of the medium-term balance of payments projections to changes in the external environment and in domestic adjustment policies, three alternative scenarios are presented in Table 7 to illustrate the likely impact of lower re-export trade (Scenario A), stagnating tourism (Scenario B), and lower groundnut export prices (Scenario C). Except for Scenario C, the scenarios show that the improvement in the current account balance would be significantly less than in the baseline projection, with adverse implications for the buildup of reserves. Scenarios A and B indicate that if re-export trade were supressed owing to political or economic circumstances in the subregion or if tourism did not increase, the current account would deteriorate significantly and financing gaps totaling SDR 14 million and SDR 28 million, respectively, would emerge during the period of 1989/90-1993/94, which would reduce gross official reserves in 1993/94 by the equivalent of one to two months of imports from the level assumed in the baseline scenario (about five months of imports). On the other hand, Scenario C suggests that a lower groundnut export price would only marginally affect The Gambia's external viability, assuming no other changes in the external environment.

Over the period 1989/90-1991/92, if The Gambia is to achieve the expansion and diversification of its production base needed to achieve a

Table 6. The Gambia: Balance of Payments, 1985/86-1993/94

	1985/86	1986/87	1987/88	1988/89 Prog.	1988/89 Est.	1989/90 Prog.	1990/91 Projections	1991/92 Projections	1992/93 Projections	1993/94 Projections
	(In millions of SDRs)									
Exports, f.o.b. 1/	59.3	55.9	59.3	64.8	77.6	83.9	88.9	94.8	100.4	106.5
Of which: groundnuts	(8.5)	(9.8)	(13.5)	(14.3)	(13.2)	(13.4)	(14.4)	(15.7)	(16.6)	(17.5)
Of which: re-exports 1/	(46.6)	(43.8)	(42.2)	(46.2)	(59.4)	(64.7)	(68.2)	(72.0)	(75.9)	(80.1)
Imports, f.o.b. 1/	-73.7	-78.8	-79.9	-89.0	-98.6	-105.7	-112.9	-120.5	-128.5	-136.9
Of which: for re-exports 1/	(-26.6)	(-25.0)	(-24.1)	(-26.4)	(-35.0)	(-36.9)	(-39.0)	(-41.1)	(-43.4)	(-45.8)
Trade balance	-14.4	-22.9	-20.6	-24.2	-21.0	-21.8	-23.9	-25.7	-28.1	-30.4
Interest (net)	-12.2	-15.2	-10.6	-8.3	-8.9	-9.4	-6.8	-4.7	-3.9	-3.1
Other services (net)	-10.4	-5.1	-4.5	-5.7	-5.7	-5.0	-5.0	-4.6	-4.1	-3.5
Of which: travel income	(20.6)	(27.5)	(28.0)	(29.4)	(31.4)	(34.5)	(36.9)	(39.9)	(43.1)	(46.5)
Private unrequited transfers (net)	4.8	6.0	6.6	7.0	6.0	6.5	7.0	7.0	7.0	7.0
Current account balance, excluding official tranfers	-32.2	-37.3	-29.2	-31.3	-29.6	-29.7	-28.7	-28.1	-29.1	-30.0
Official unrequited transfers (net)	31.0	32.4	36.2	35.1	34.1	35.2	34.6	33.4	34.5	34.0
Current account balance, including net official transfers	-1.2	-4.9	7.0	3.9	4.5	5.5	5.9	5.3	5.4	4.0
Capital account	-2.6	33.5	9.0	19.0	2.8	15.9	19.5	2.7	2.6	3.5
Official loans (net)	-4.6	28.5	6.5	16.8	0.4	13.3	16.7	-0.3	-0.6	0.1
Project loans	6.6	12.1	12.6	13.4	10.0	11.3	12.1	13.1	14.0	15.1
World Bank SAC 2/	--	25.0	1.7	13.5	--	11.8	14.0	--	--	--
Amortization	-11.2	-8.6	-7.8	-10.1	-9.6	-9.8	-9.4	-13.4	-14.6	-15.0
Private capital	2.0	5.0	2.5	2.2	2.4	2.6	2.8	3.0	3.2	3.4
Net errors and omissions	-7.8	-2.8	-2.3	--	-1.8	--	--	--	--	--
Overall balance	-11.6	25.8	13.7	22.9	5.5	21.4	25.4	8.0	8.0	7.5
Financing	11.6	-25.8	-13.7	-22.9	-5.5	-21.4	-25.4	-8.0	-8.0	-7.5
Gross official reserves (increase -)	0.4	-9.5	-9.5	-12.4	3.6	-10.9	-27.5	-4.9	-6.3	-5.4
Repurchases/repayments, IMF	-9.1	-4.4	-4.2	-3.2	-3.2	-3.1	-4.7	-3.1	-1.7	-2.1
Change in arrears (increase +)	20.3	-29.0	-6.9	-13.0	-11.6	-14.2	--	--	--	--
Purchases/loans, IMF	--	11.2	7.2	6.8	6.8	6.8	6.8	--	--	--
Exceptional financing 3/	--	3.0	1.5	--	--	--	--	--	--	--
Deposits with the Bank of England 4/	--	2.9	-1.8	-1.1	-1.1	--	--	--	--	--
Memorandum items:	(In units indicated)									
Current account balance										
In percent of GDP										
Excluding official transfers	-29.7	-31.5	-21.0	-19.6	-18.2	-16.8	-15.0	-13.6	-13.0	-12.5
Including official transfers	-1.1	-4.1	5.0	2.5	2.8	3.1	3.1	2.6	2.4	1.7
Gross official reserves (end of period; in millions of SDRs)	1.4	10.9	20.4	32.8	16.8	27.7	55.2	60.2	66.5	71.9
Debt service 5/										
Including the Fund	25.0	104.3	49.6	54.9	49.1	49.0	27.3	27.2	24.4	23.0
Excluding the Fund	15.0	71.1	38.0	46.5	41.4	42.3	20.2	22.8	21.9	20.4

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

1/ Estimates in 1988/89 reflect in part a more comprehensive coverage of re-exports and imports, owing to improvements in customs administration.
2/ Including cofinancing.
3/ In connection with reschedulings with Paris Club and London Club.
4/ In respect of Paris Club reschedulings.
5/ In percent of net exports and travel income, where net exports are defined as total exports minus imports used for re-exports.

Table 7. The Gambia: Medium-term Outlook of the Balance of Payments, Alternative Scenarios, 1988/89-1993/94

(In percent, unless otherwise specified)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
			Baseline scenario 1/			
Re-exports (volume growth)	39.5	1.3	1.8	2.0	2.1	2.3
Travel income (value growth)	12.1	10.0	7.0	8.0	8.0	8.0
Groundnut exports (unit value change)	2.6	-3.1	-4.2	2.4	3.3	3.3
Imports for doemstic use (volume growth)	9.3	3.8	3.8	3.8	3.8	3.8
Current account to GDP ratio 2/	-18.2	-16.8	-15.0	-13.6	-13.0	-12.5
Debt service ratio 3/	49.1	49.0	27.3	27.2	24.4	23.0
Financing gap 4/	—	—	—	—	—	—
			Scenario A (Lower re-export trade)			
Re-exports (volume growth)	39.5	-3.9	—	—	—	—
Travel income (value growth)	12.1	10.0	7.0	8.0	8.0	8.0
Groundnut exports (unit value change)	2.6	-3.1	-4.2	2.4	3.3	3.3
Imports for domestic use (volume growth)	9.3	3.8	3.8	3.8	3.8	3.8
Current account to GDP ratio 2/	-18.2	-18.5	-15.9	-14.8	-14.5	-14.2
Debt service ratio 3/	49.1	51.1	27.8	27.8	25.2	23.8
Financing gap 4/	—	3.0	1.6	2.4	3.2	4.1
			Scenario B (No volume change in tourism)			
Re-exports (volume growth)	39.5	1.3	1.8	2.0	2.1	2.3
Travel income (value growth)	12.1	4.1	3.6	3.5	3.3	3.1
Groundnut exports (unit value change)	2.6	-3.1	-4.2	2.4	3.3	3.3
Imports for domestic use (volume growth)	9.3	3.8	3.8	3.8	3.8	3.8
Current account to GDP ratio 2/	-18.2	-17.8	-16.6	-16.1	-16.5	-16.9
Debt service ratio 3/	49.1	50.3	28.4	28.8	26.4	25.3
Financing gap 4/	—	1.8	3.1	5.2	7.7	10.6
			Scenario C (Lower groundnut export price)			
Re-exports (volume growth)	39.5	1.3	1.8	2.0	2.1	2.3
Travel income (value growth)	12.1	10.0	7.0	8.0	8.0	8.0
Groundnut exports (unit value change)	2.6	-4.8	-10.0	—	—	—
Imports for domestic use (volume growth)	9.3	3.8	3.8	3.8	3.8	3.8
Current account to GDP ratio 2/	-18.2	-16.8	-15.0	-13.8	-13.4	-13.1
Debt service ratio 3/	49.1	49.0	27.3	27.3	24.7	23.3
Financing gap 4/	—	—	—	0.3	0.9	1.6

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

1/ Based on scenario presented in Table 6.
2/ Excluding official transfers.
3/ Including the Fund; in percent of exports of local produce, value added in re-exports, and travel income.
4/ In millions of SDR.

viable external position and attain the program targets for arrears and reserves, substantial external assistance and financing (SDR 188 million) will be required. While the Government will continue to observe the moratorium on contracting or guaranteeing new nonconcessional external loans, the authorities expect that bilateral and multilateral donors will continue to support The Gambia's adjustment efforts and structural reforms. Official transfers are projected to average SDR 34.4 million a year and long-term concessional loan disbursements, SDR 20.8 million a year, including disbursements under the World Bank's second structural adjustment credit of SDR 18.4 million during 1989/90-1990/91. These inflows are expected to be complemented by modest but sustained private capital inflows averaging SDR 2.8 million a year. The remaining external financing requirements are expected to be covered by the second and third annual arrangements under the ESAF, providing SDR 13.6 million during 1989/90-1990/91. Consistent with the balance of payments projections, The Gambia's external debt service would decline substantially, from 49.1 percent in 1988/89 to 27.2 percent in 1991/92, reflecting the elimination of external payments arrears as well as a further improvement of the maturity and interest rate structure of the debt. Total external public debt relative to GDP would decline from 132.2 percent in 1988/89 to 112.6 percent in 1991/92.

7. Social impact of the adjustment program

Since the adoption of the Economic Recovery Program (ERP), The Gambia's real GDP has grown on average by 5.0 percent per annum, and real per capita income and consumption have steadily increased. Moreover, the rate of inflation has been significantly reduced, while the expansion of private sector activity has enhanced employment opportunities. The Government has protected those adversely affected by the adjustment efforts through a number of special schemes. Retrenched public sector workers have been assisted in finding gainful employment through employment counseling, access to entrepreneurship training, vocational training, and credit for the establishment of business ventures in priority sectors. In addition, employment and income opportunities are being provided with donor support in community fisheries centers, artisanal coastal fisheries, and pilot horticultural projects, while further employment generation in small- and medium-scale industries is expected from the enterprise development project that is being financed by the World Bank. The Government, with donor assistance, has been able to protect the basic social services and is placing high priority on improving health and education. Maternal and child health services have been expanding, both in the rural and urban areas. A recently held nationwide immunization campaign against childhood diseases has contributed to a significant improvement in the national immunization average, while the ongoing rehabilitation of regional health centers is expected to improve medical services in the rural areas. In education, efforts are under way to upgrade the skills of teachers and improve the supply of educational materials. In the period ahead, the authorities will focus on increasing primary education enrollment and improving the quality of education. In order to monitor the economic and social impact of the adjustment program more effectively, a nationwide survey on living standards is being established with assistance from the African Development Fund, the World Bank, and the United Nations Development Program. It is expected that this survey will generate more detailed social data, which would improve the formulation of economic policies and social programs to help ensure the equitable participation of all income groups in the benefits of development.

IV. The Program for 1989/90

Consistent with the medium-term framework of the program, the basic macroeconomic objectives for 1989/90 are as follows: (i) to achieve a rate of growth of real GDP of about 4.5 percent; (ii) to reduce the rate of inflation, on an end-of-period basis, from 8.0 percent in 1988/89 to 6.5 percent in 1989/90; and (iii) to generate an overall balance of payments surplus of about SDR 21 million, which would permit the programmed elimination of the remaining external payments arrears of SDR 14.2 million by end-June 1990 and an increase in official reserves to about SDR 28 million, equivalent to 2.7 months of imports.

The attainment of these objectives will depend importantly on the continuation of a flexible exchange rate policy aimed at maintaining The Gambia's competitive position and diversifying its export base, the pursuit of prudent fiscal and monetary policies, the further strengthening of structural reforms in the state enterprise sector, and the easing of infrastructure bottlenecks.

1. Economic and financial policies

a. Groundnut marketing and pricing policies

As of FY 1989/90, an important change has been introduced in groundnut marketing and pricing policies with a view to improving the efficiency and stimulating competition in this sector. Budgetary operating subsidies have been eliminated and the GPMB will determine its own purchase price for groundnuts only at the time of procurement--which is around the beginning of December--taking into account developments in costs and world market prices. To strengthen the financial position of the GPMB, the Government has assumed a large portion of the historical debt to the Central Bank, which has enabled the company to reduce its outstanding debt to the CBG. Moreover, the new marketing arrangements with the Gambia Cooperative Union (GCU) and private traders, which have resulted in the elimination of the buying allowance and part of the transport costs, as well as the suspension of export taxes on groundnuts would provide additional room for the GPMB to offer a competitive purchase price to the farmers. In addition, to reinforce its financial position, the GPMB will streamline operations by concentrating on the processing and marketing of groundnuts, while withdrawing from other activities. In this context, the company will divest its holdings in a number of enterprises and offer for sale its rice mills and cotton ginnery. Moreover, in view of the significantly improved communication facilities, the need to maintain a marketing company in the United Kingdom has ceased to exist, and thus the GPMB has decided to close its subsidiary in London and divest the assets.

b. Fiscal policy and public investment

The Government's objective for 1989/90 is to limit the overall budget deficit (excluding foreign grants), apart from the exceptional provision discussed below, to D 88.4 million, or 5.2 percent of GDP; including the exceptional provision, the budget deficit (excluding foreign grants) would reach 11.8 percent of GDP. The budget provides for an increase of 18 percent in current expenditures, largely reflecting the exceptional provision and the full impact of the civil service salary increase of about 55 percent that was granted at the beginning of January 1989. Thus, personal emoluments, pensions, and allowances are programmed to increase by more than 28 percent; however, no further increase in personal emoluments, pensions, and allowances will be granted during 1989/90. Other charges (which include outlays for operations and maintenance, travel, embassies, supplies, and services) are budgeted to rise by only 8.5 percent and particular attention will be paid to the monitoring of these expenditures to avoid overruns that have occurred in the past. The program provides for an increase of almost 14 percent in development outlays, consistent with the public investment program agreed with the World Bank; foreign loans and grants are programmed to finance 88 percent of development expenditure. The sectoral distribution of development projects in 1989/90 is broadly similar to that in the previous year, with the emphasis placed on improving the economic and social infrastructure. Investments in infrastructure (transport, communications, and public utilities) constitute 52 percent of total development outlays, projects in the agriculture and natural resource sector 19 percent, and health and education projects 16 percent, the latter having been increased from 12 percent in 1988/89. On the revenue side, measures have been taken to extend the coverage of the sales tax, levy import duties on fuel purchases of the Gambia Utilities Corporation (GUC) and the Gambia Public Transport Corporation (GPTC), adjust the import duty rates on a number of commodities to bring them in line with the rates prevailing in neighboring countries, and suspend the export tax on groundnuts and groundnut products. The imposition of import duties on fuel purchases by the GUC and GPTC would raise revenue by about D 15 million, the adjustment in other import duties is expected to yield about D 6 million, and the extension of the coverage of the sales tax would yield about D 0.5 million; the revenue loss from the suspension of the export tax on groundnuts is estimated at about D 5 million. The net revenue yield of these measures would amount to about 1 percent of GDP. As it is projected that external grants plus net foreign borrowing will be well in excess of the budget deficit, the Government's net creditor position with the banking system is expected to increase by the equivalent of 18 percent of the end-June 1989 stock of broad money.

c. Public enterprise reform

As part of the restructuring of the public enterprise sector, the Government has decided to make an exceptional provision in 1989/90 of D 111 million, about 6.5 percent of GDP, for the liquidation of the debt of certain public enterprises. Of the total, D 55.5 million would be used for the repayment of the debt of the GPMB to the CBG; D 53.0 million would cover the repayment of unrecoverable debt of the GCU to the GCDB (D 48.0 million) and the GPMB (D 5.0 million), and the remainder of D 2.5 million would provide for the settlement of claims arising from the liquidation of the Agricultural Development Bank. The Government has determined that the settlement of the historical debts of the GPMB and the GCU, coupled with additional restructuring measures, would improve their financial positions so that no further budgetary allocations to these enterprises would be necessary. With respect to the restructuring of the GCDB, part of the GCDB's recapitalization needs, estimated at D 30 million, will be provided during 1989/90 by a budgetary capital subscription of D 20 million. The scope of the Government's involvement in commercially oriented enterprises will be reduced further in 1989/90. The Government's holdings in an insurance company, a dockyard, and a vehicle repair shop will be offered for sale during the first half of 1989/90, and bids are being awaited for the Government's holdings in a brewery. In addition, bids are currently being evaluated for the sale of the Government's holdings in a hotel, brick plant, fish processing and marketing company, and a tour company. Regarding the public enterprises that remain in the public sector, third-year performance contracts were recently signed with the GUC and the Gambia Port Authority, and one will be signed with the GPMB by end-February 1990. In addition, first-year performance contracts will be signed with the GPTC and the Social Security and Housing Finance Corporation (SSHFC) by December 1989 and with the Gambia Telecommunications Company (GAMTEL) by February 1990.

d. Monetary policy and financial sector reform

The monetary and credit program for 1989/90 takes into account a projected growth of broad money of 16.7 percent compared with a 13.9 percent growth in nominal GDP, reflecting some decline in the income velocity of money as a result of a likely rise in real interest rates and a possible further financial deepening associated with the improved economic environment. The programmed improvement in the net foreign assets position of the banking system of 50.1 percent of broad money at the beginning of the period would exceed the increased demand for money; therefore, net domestic assets are programmed to decline by 33.4 percent of initial broad money, mainly through a sizable buildup of government deposits with the banking system. Meanwhile, credit to the private sector and public enterprises is projected to increase in line with the growth in nominal GDP, while the seasonal financing needs of the GPMB will be covered through credit from the Central Bank. The financing of GPMB's crop purchases assumes a volume of about 50,000 tons at a price of about D 1250 per ton. Interest rate policy will be guided by the need to maintain substantially positive real interest rates, taking into account interest rate developments in neighboring countries. The biweekly tender system of treasury bills and other government securities provides a useful framework for influencing the structure of interest rates.

During 1989/90, further progress is expected to be made in the rehabilitation and restructuring of the GCDB, the largest government-owned commercial bank and an important source of term lending. The financial restructuring includes a credit recovery program and the recapitalization of the bank, for which purpose the Government has allocated D 20 million in the 1989/90 budget. Further recapitalization needs will be determined on the basis of an assessment of the GCDB's performance, which is to be completed by end-February 1990.

e. Balance of payments and external debt

In the external sector, the current account deficit (excluding official transfers) in 1989/90 is projected to remain virtually unchanged at about SDR 30 million, which, in relation to GDP, will result in a decline in the deficit to 16.8 percent from 18.2 percent in 1988/89. The growth in exports of goods and services will be driven largely by re-export trade and buoyant tourist receipts; although the volume of groundnut exports is expected to rebound from last year's low, the projected decline in the export prices will result in virtually unchanged export proceeds from groundnuts. The improvement in the capital account of SDR 13.1 million reflects the disbursement of the first tranche under the World Bank's second structural adjustment credit and a somewhat higher level of disbursements of project loans. Consequently, The Gambia's external position is projected to improve markedly, with an overall balance of payments surplus of SDR 21.4 million, which, after taking into account prospective disbursements of SDR 6.84 million under the ESAF arrangement, will permit the elimination of all remaining external payments arrears of SDR 14.2 million, and the buildup of gross official reserves by SDR 11 million, equivalent to 2.7 months of imports.

The objectives of the authorities' external debt management policy are to improve the maturity profile of The Gambia's external debt and to reduce the debt service burden by securing official assistance in the form of grants or highly concessional loans, and by strictly limiting borrowing from nonconcessional sources. Accordingly, the authorities will avoid contracting external loans on nonconcessional terms. Although the external debt service ratio (including debt service to the Fund) in 1989/90 will remain virtually unchanged at about 49 percent, the external public debt relative to GDP will decline to 123.1 percent from 132.2 percent in 1988/89 (Table 8). The Gambia's capacity to repay the Fund will improve significantly in 1989/90 and beyond. Fund repurchases and charges in percent of gross international reserves are programmed to decline from 31.4 percent in 1988/89 to 18.2 percent in 1989/90 and to 3.6 percent in 1993/94.

Table 8. The Gambia: External Public Debt Outstanding and Debt Service, 1985/86-1993/94

(In millions of SDRs)

	1985/86	1986/87	1987/88	1988/89		1989/90	1990/91	1991/92	1992/93	1993/94
				Prog.	Est.	Prog.		Projections		
External public debt	220.9	201.1	222.1	229.4	214.5	217.3	236.1	232.8	230.5	228.5
Medium- and long-term	111.9	136.5	165.4	183.0	173.1	187.0	203.8	203.6	203.0	203.1
Arrears 1/	81.3	41.8	32.3	19.3	14.2	--	--	--	--	--
IMF	27.7	22.8	24.5	27.1	27.1	30.3	32.3	29.2	27.5	25.4
External public debt service	12.2	56.5	29.4	34.8	33.5	36.9	21.9	23.5	22.7	22.9
Principal	2.7	42.0	18.9	26.3	24.4	27.1	14.1	16.5	16.3	17.1
Medium- and long-term	-0.0	25.8	13.4	22.2	20.3	23.4	9.3	13.4	14.6	15.0
IMF repurchases/repayments	2.7	16.2	5.5	4.1	4.1	3.7	4.8	3.1	1.7	2.1
Interest	9.5	14.5	10.4	8.5	9.1	9.9	7.8	7.1	6.4	5.8
Medium- and long-term	2.3	6.3	6.2	6.2	6.9	6.8	6.6	6.4	5.8	5.3
Short-term	5.0	6.4	2.9	1.1	1.0	1.6	0.3	--	--	--
IMF charges	2.2	1.8	1.4	1.2	1.2	1.4	0.9	0.7	0.6	0.5
Memorandum items:										
External public debt (in percent of GDP)	203.4	169.7	160.2	144.2	132.2	123.1	123.5	112.6	103.3	95.1
Debt service ratio 2/	25.0	104.3	49.6	54.9	49.1	49.0	27.3	27.2	24.4	23.0
IMF	10.0	33.2	11.6	8.4	7.8	6.7	7.1	4.4	2.5	2.6
Others	15.0	71.1	38.0	46.5	41.4	42.3	20.2	22.8	21.9	20.4
Fund repurchases and charges (in percent of total debt service payments)	40.2	31.8	23.4	15.2	15.8	13.7	26.0	16.1	10.1	11.4
(in percent of gross international reserves)	350.0	165.1	33.7	16.1	31.4	18.2	10.3	6.3	3.5	3.6

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

1/ Figure in 1988/89 excludes an amount of SDR 6.4 million, which previously had been classified as part of the arrears, but was rescheduled under the London Club in 1987/88.

2/ As percent of exports of local produce, value added in re-exports, and travel income.

The Gambia intends to maintain its present arrangement for the advance acquisition of SDRs to facilitate the service of The Gambia's obligations to the Fund for the period of the ESAF arrangement.

2. Performance criteria and benchmarks

To monitor progress under the second annual arrangement under the ESAF, the performance criteria for end-December 1989 and quantitative benchmarks for end-September 1989, end-March 1990, and end-June 1990, as indicated in Table 1 of the attachment to Appendix I, comprise quarterly limits on: (i) net domestic assets of the banking system; (ii) net claims on the Government by the banking system; (iii) total outstanding external payments arrears; (iv) short-term public debt outstanding (excluding trade-related credits); (v) new nonconcessional external loans contracted or guaranteed by the Government in the maturity ranges of 1-5 years and 1-12 years; and (vi) the minimum level of gross official foreign reserves. In addition, quantitative benchmarks for end-September 1989, end-December 1989, end-March 1990, and end-June 1990 have been established with respect to (i) transfers and lending by the Government to the GPMB and (ii) gross bank credit of the GPMB. The standard clauses concerning the exchange and trade system will constitute performance criteria for end-December 1989 and benchmarks for the other quarters of the program year, and completion of the midterm review by end-April 1990, is a prerequisite for disbursement of the second loan under the second annual ESAF arrangement. The midterm review will pay particular attention to the functioning of the new marketing arrangements for groundnuts and the associated financial performance of the GPMB, the GCU, and the Gambia River Transport Company, as well as to the progress made in the financial restructuring of the GCDB. In addition, there will be an assessment of whether the programmed external financing has materialized and has not been delayed because of a lack of policy implementation.

The closing of GPMB's subsidiary company in London, the Gambia Produce Marketing Company (GPMC), and the offering for sale of its office space will constitute a structural performance criterion for end-December 1989. Moreover, the following structural benchmarks have been established for monitoring policy implementation: (i) the completion of assessment of the GCDB's operational and financial performance [end-February 1990]; (ii) the offering for sale of the GPMB's holdings in Citro Products Gambia Limited, the GCDB, and the National Trading Corporation (NTC), and the offering for sale of two rice mills and the cotton ginnery [end-March 1990]; (iii) the adoption of a public investment program for 1990/91-1992/93, consistent with the medium-term macroeconomic objectives [end-May 1990]; and (iv) the adjustment of the sales tax to 10 percent on international tour packages, with effect from the 1990/91 tourist season [end-May 1990] (Table 3, attachment to Appendix I).

V. Staff Appraisal

During 1988/89, The Gambia made further progress toward attaining the objectives of its medium-term adjustment program, and most of the targets under the first annual arrangement under the ESAF were achieved. Despite a sharp decline in the production of groundnuts as a result of adverse weather conditions, the broadly based growth of real GDP exceeded the program target, the rate of inflation decelerated further, and the current account deficit narrowed appreciably. However, the overall balance of payments surplus was considerably below the program target, owing largely to delays in disbursements under the World Bank's second structural adjustment credit. As a result, taking account of the reduction in external payments arrears, gross official reserves declined from the equivalent of 2.6 months of imports at end-June 1988 to the equivalent of 1.8 months of imports at end-June 1989.

Appropriately tight fiscal and monetary policies contributed importantly to these results. The budget deficit (excluding foreign grants) was reduced to 6.8 percent of GDP, well below the program target of 8.3 percent; including foreign grants, the budget balance recorded a surplus of 2.3 percent compared with a program target of 1.6 percent. The favorable fiscal outturn reflected buoyant tax revenue, largely on account of the successful implementation of the new sales tax and improvements in the administration of import duties, and total expenditure and net lending was kept close to the program level. However, the composition of expenditure differed markedly from the original budget, with development expenditure remaining substantially below budgeted amounts and current expenditure exceeding budgetary provisions, which reflected not only some weaknesses in the monitoring of current outlays, but also unanticipated increases in interest payments associated with domestic nonbank borrowing in support of the auction market for treasury bills. Monetary and credit policies were appropriately restrained, and a flexible interest rate policy that was responsive to interest rate developments in the subregion resulted in the maintenance of positive real interest rates.

All the quantitative benchmarks and performance criteria under the first annual arrangement were observed, except for quantitative benchmarks for end-June 1989 on net domestic assets of the banking system, net bank credit to the Government, and the minimum level of official reserves; the nonobservance of these benchmarks was attributable to the temporary shortfall in foreign inflows rather than to a lack of policy implementation. As to the structural benchmarks, observance was broadly satisfactory, although minor delays were encountered in meeting some of the target dates.

Since the adoption of the Economic Recovery Program in mid-1985, The Gambia has made considerable progress in reducing internal and external imbalances and removing structural impediments to growth. Nevertheless, in view of its small domestic market and open economy, the country remains vulnerable to adverse external developments and faces formidable constraints posed by its poorly developed infrastructure, rapid population growth, high illiteracy rate, and environmental deterioration. The Government's program for the period July 1989-June 1992, as described in the updated policy framework paper, addresses these problems through consistent structural and macroeconomic policies that should contribute to reducing The Gambia's vulnerability and removing constraints to its development. The macroeconomic objectives of the adjustment program for this period are as follows: (i) to achieve an average annual growth of real GDP of 4.5 percent; (ii) to progressively reduce the rate of inflation to 5.0 percent in 1991/92; (iii) to achieve a substantial reduction in the current account deficit (excluding foreign grants) from 18.2 percent of GDP in 1988/89 to 13.6 percent in 1991/92; and (iv) to generate overall balance of payments surpluses, averaging about SDR 18 million a year, which would be consistent with the accumulation of official reserves to the equivalent of 5.1 months of imports by 1991/92.

Consistent with the medium-term framework, the program for 1989/90 builds upon the progress already made in key areas of macroeconomic policies and continues to emphasize a flexible exchange rate policy to promote diversification of the export base, a flexible interest rate policy to stimulate the mobilization of domestic savings, appropriately tight fiscal and monetary policies to sustain noninflationary growth in the economy, and prudent external debt management policies to reduce the debt service burden. The structural reform measures that will be vigorously pursued in the year ahead focus on efficiency improvements in the marketing and processing of groundnuts, the further rationalization of the public enterprise sector through divestiture and extension of the system of performance contracts for public enterprises remaining in the Government's portfolio, and the financial and operational restructuring of the largest commercial bank.

In pursuing this program of structural and financial adjustment, the authorities will need to monitor developments in a number of key areas. First, it will be important to maintain strict budgetary discipline in the execution of the 1989/90 budget, particularly with respect to current expenditure. Second, the external environment has become more uncertain as a result of the recent events in the subregion, which may have an adverse impact on re-export trade. As indicated in the balance of payments scenarios, lower re-export trade would lead to the emergence of sizable financing gaps, which would call for additional domestic adjustment measures and possibly, increased external financing. Third, The Gambia's growth potential relies heavily on agriculture and tourism. While intensified efforts will need to be made in improving the operations and reducing the costs of the public enterprises involved in the processing, marketing, and transportation of groundnuts, the further expansion and diversification of agricultural production both for import substitution and exports will require productivity gains and a strengthening of The Gambia's competitive position. In achieving the latter, exchange rate policy will need to take into account the prospects of a deterioration in the terms of trade and the vulnerability of the external outlook. The further growth of the tourist industry will require the provision of improved infrastructure so as to attract private foreign investment that can assist in the expansion of capacity in this sector. Finally, the authorities' reform efforts must be supported by substantial official external assistance on concessional terms that will take into account the heavy debt service burden and the need to build up reserves to more adequate levels.

The exchange restrictions arising from some external payments arrears and the multiple currency practice arising from the cost of domestic currency counterpart deposits required of purchasers of foreign exchange prior to the payment of some external obligations in arrears are subject to Fund approval under Article VIII, Section 2(a), and Article VIII, Sections 2(a) and (3), respectively. The multiple currency practice arising from the waiver of the fish export tax upon proof of the repatriation of the foreign exchange earnings is subject to Fund approval under Article VIII, Section 3. In view of the actions already taken and the further actions envisaged for the elimination of the external payments arrears, and the temporary character of the multiple currency practice arising from the waiver of the tax on fish exports upon proof of repatriation of the foreign exchange, the staff recommends the approval of their retention by The Gambia until November 30, or the conclusion of the next Article IV consultation with The Gambia, whichever is earlier.

Given the successful implementation of structural adjustment policies in The Gambia in recent years and in view of the continued commitment shown by the Gambian authorities, the staff strongly believes that the updated medium-term program and the program for 1989/90 will contribute to achieving The Gambia's economic and financial objectives.

It is recommended that the next Article IV consultation with The Gambia be held on the standard 12-month cycle.

VI. Proposed Decisions

In view of the foregoing, the following draft decisions are proposed for adoption by the Executive Board:

(a) 1989 Consultation

1. The Fund takes this decision relating to The Gambia's exchange measures subject to Article VIII, Sections 2(a) and 3, in concluding the 1989 Article XIV consultation with The Gambia, in the light of the 1989 Article IV consultation with The Gambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The exchange restrictions evidenced by some commercial external payments arrears and the multiple currency practices arising from the cost of domestic currency counterpart deposits required of purchasers of foreign exchange prior to the payment of external obligations in arrears, and from the waiver of the tax on fish exports upon proof of repratriation of the foreign exchange, are subject to Fund approval under Article VIII. The Fund notes the intention of the authorities to remove these restrictions and multiple currency practices as soon as possible, and in the circumstances of The Gambia, the Fund grants approval for their retention until November 30, or the conclusion of the next Article IV consultation with The Gambia, whichever is earlier.

(b) ESAF Arrangement

1. The Government of The Gambia has requested the second annual arrangement under the enhanced structural adjustment facility.

2. The Fund has appraised the progress of The Gambia in implementing economic policies and achieving objectives under the program supported by the first annual arrangement, and notes the updated policy framework paper (EBD/89/291).

3. The Fund approves the arrangement set forth in EBS/89/198.

The Gambia - Second Annual Arrangement Under the
Enhanced Structural Adjustment Facility

Attached hereto is a letter with an annexed memorandum on economic and financial policies dated September 27, 1989, from the Minister of Finance and Trade and the Governor of the Central Bank of The Gambia, requesting from the International Monetary Fund the second annual arrangement under the enhanced structural adjustment facility and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions, and subject to the regulations for the administration of the enhanced structural adjustment facility and the instrument to establish the enhanced structural adjustment facility trust:

1. Under the second annual arrangement:

(a) the first loan, in an amount equivalent to SDR 3.42 million, will be available on November 30, 1989 at the request of The Gambia; and

(b) the second loan, in an amount equivalent to SDR 3.42 million, will be available on May 15, 1990 at the request of The Gambia subject to paragraph 2 below.

2. The Gambia will not request disbursement of the second loan specified in paragraph 1 (b) above:

(a) if the Managing Director finds that the data at the end of December 1989 indicate that

(i) the limit on net domestic assets of the banking system, or

(ii) the limit on net claims on the Government by the banking system, or

(iii) the limit on total external payments arrears, or

(iv) the target for gross official reserves of the Central Bank of The Gambia, or

(v) the limit on the contracting or guaranteeing by the Government of nonconcessional external loans, or

(vi) the structural performance criterion on the closing of the Gambia Produce Marketing Board's subsidiary company in London and the offer for sale of its office building referred to in paragraphs 14 and 15 of the attached memorandum is not observed; or

(b) if The Gambia

(i) imposed or intensified restrictions on payments and transfers for current international transactions, or

(ii) introduced or modified multiple currency practices, or

(iii) concluded bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposed or intensified import restrictions for balance of payments reasons; or

(c) until the Fund has determined that the midterm review of The Gambia's program referred to in paragraph 14 of the attached memorandum has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1 (b) above may be made available only after consultation has taken place between the Fund and The Gambia, and understandings have been reached regarding the circumstances in which The Gambia may request that second loan.

3. Before approving the third annual arrangement, the Fund will appraise the progress of The Gambia in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the indicators referred to in paragraphs 14 and 15 of the attached memorandum;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII; and

(e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 3 of the attached letter, The Gambia will provide the Fund with such information as the Fund requests in connection with the progress of The Gambia in implementing the policies and reaching the objectives supported by these arrangements.

5. In accordance with paragraph 4 of the attached letter, during the period of the second annual arrangement, The Gambia will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the second annual arrangement and while The Gambia has outstanding financial obligations to the Fund arising from loans under that arrangement, The Gambia will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on The Gambia's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to The Gambia or of representatives of The Gambia to the Fund.

THE REPUBLIC OF THE GAMBIA

September 27, 1989

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington D.C. 20431
U.S.A.

Dear Mr. Camdessus:

1. The objectives of The Gambia's updated three-year program of economic and financial adjustment are set out in the policy framework paper for the period July 1989-June 1992, which was prepared in close collaboration with the staffs of the Fund and the World Bank and which is being transmitted to you today.

2. The attached Memorandum on Economic and Financial Policies of The Gambia, based on the policy framework paper referred to above, sets out the objectives and policies that the Government of The Gambia intends to pursue in the three-year period starting from July 1, 1989, as well as the objectives and policies for the year ending June 1990. In support of these objectives and policies, the Government hereby requests a second annual arrangement under the enhanced structural adjustment facility in an amount equivalent to SDR 6.84 million.

3. The Government will provide the Fund with such information as the Fund requests in connection with The Gambia's progress in implementing the economic and financial policies and achieving the objectives of the program.

4. The Government believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. During the period of the second annual arrangement, the Government will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the second annual arrangement and while The Gambia has outstanding financial obligations to the Fund arising from loans under that arrangement, the Government will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on The Gambia's economic and financial policies.

5. In addition, the Government will conduct with the Fund a midterm review of its second annual program, to be completed not later than April 30, 1990.

Sincerely yours,

Saihou S. Sabally
Minister of Finance
and Trade

Abdou A.B. Njie
Governor of the
Central Bank of The Gambia

Attachment: Memorandum on Economic and Financial Policies

Memorandum on Economic and Financial Policies
of the Republic of The Gambia
for the Period July 1, 1989-June 30, 1990

1. In support of our Economic Recovery Program (ERP), the Fund approved for The Gambia on November 23, 1988 a three-year arrangement under the enhanced structural adjustment facility (ESAF), in an amount equivalent to SDR 20.52 million or 120 percent of quota, and the first annual arrangement thereunder, in an amount equivalent to SDR 6.84 million or 40 percent of quota.

2. During the first annual arrangement under the ESAF, covering the period July 1988-June 1989, The Gambia has made further progress toward attaining the objectives of its medium-term program. As a result of the continued implementation of structural reforms and the maintenance of a liberalized trade and exchange system, coupled with prudent fiscal and monetary policies, The Gambia has experienced steady economic growth, declining inflation, and a notable improvement in its external position. Provisional data indicate that despite a substantial decline in groundnut production as a result of adverse weather conditions and locust infestation, economic activity has remained generally buoyant and broadly based. The growth in real gross domestic product (GDP) is estimated at 4.6 percent, compared with the program target of 4.3 percent; inflation, as measured by the consumer price index on an end-of-period basis, decelerated further to 8.0 percent from 9.2 percent in the previous year, but exceeded the program target of 7.5 percent; the budgetary deficit (excluding official grants) was reduced significantly from 22.0 percent of GDP in 1987/88 to 6.8 percent of GDP in 1988/89, even more than the program target of 8.3 percent of GDP; the overall balance of payments surplus of SDR 5.5 million fell considerably short of the programmed surplus of SDR 22.9 million, owing mainly to the postponement of disbursements under the World Bank's second structural adjustment credit and lower-than-programmed project disbursements. Nonetheless, despite the shortfall in foreign inflows, external payments arrears were reduced by SDR 11.6 million, compared with the benchmark of SDR 10.0 million. However, gross official reserves declined to SDR 16.8 million by end-June 1989, equivalent to 1.8 months of imports, well below the benchmark of SDR 29.4 million.

3. All the quantitative benchmarks and performance criteria under the first annual arrangement under the ESAF were observed, except for the quantitative benchmarks for end-June 1989 on net domestic assets of the banking system, net bank credit to the Government, and the minimum level of official foreign reserves, owing to the shortfall in foreign inflows referred to above. With respect to the structural benchmarks, observance was as follows: (i) the new civil service grade structure, which was to be introduced by September 30, 1988, was implemented on November 1, 1988; (ii) the public investment program for 1989/90-1991/92 was prepared in consultation with the World Bank in May 1989; (iii) by June 30, 1989, the sales tax was applied to all economic sectors, with

the exception of international tour packages, and fuel purchases by the Gambia Public Transport Corporation (GPTC) and The Gambia Utilities Corporation (GUC); (iv) during 1988/89, successful actions were taken to reduce revenue leakages from the misclassification of imports as duty-free items; and (v) the performance contracts to be signed by June 30, 1989 with The Gambia Telecommunications Company (GAMTEL), the Social Security and Housing Finance Corporation (SSHFC), and the GPTC have lagged behind schedule, owing to delays in the recruitment of consultants and in obtaining external funding for technical assistance.

Objectives and Policies for the Period 1989/90-1991/92

4. Since the adoption of the ERP in mid-1985, The Gambia has made considerable progress in reducing internal and external imbalances and removing structural impediments to growth. Nevertheless, in view of its small domestic market and open economy, The Gambia remains vulnerable to adverse external developments, and faces formidable constraints posed by its poorly developed infrastructure, rapid population growth, high illiteracy rate, and environmental deterioration. Against this background, as outlined in our updated policy framework paper, the Government's task is to consolidate the gains achieved in previous years and to ensure that the economy remains on a path of sustained growth. This will involve maintaining prudent macroeconomic policies, strengthening the institutional framework, and implementing a broadly based development strategy, which includes addressing the needs of the poorest and most vulnerable groups of society. The basic macroeconomic objectives of the 1989/90-1991/92 period are as follows: (i) to achieve an average annual rate of growth of real GDP of about 4.5 percent; (ii) to progressively reduce the rate of inflation to 5.0 percent in 1991/92; (iii) to achieve a substantial reduction in the current account deficit (excluding official grants) from 18.2 percent of GDP in 1988/89 to 13.6 percent of GDP in 1991/92, while ensuring an adequate level of imports; and (iv) to generate overall balance of payments surpluses, averaging about SDR 18 million, which would be consistent with the elimination of all outstanding external payment arrears in 1989/90 and the accumulation of official reserves to the equivalent of 5.1 months of imports by 1991/92.

5. The major external sector assumptions underlying the program are as follows: (i) the volume of exports of groundnut products is projected to increase in 1989/90 by 4.7 percent and thereafter on average by 9.0 percent; (ii) in line with developments in world market prices, the export price of groundnut products is projected to decline on average by 3.6 percent during 1989/90-1990/91, and to recover somewhat in 1991/92; (iii) the value of re-exports is projected to rise on average by 6.6 percent a year; (iv) the value of travel income is projected to increase on average by 8.3 percent annually, consistent with the expected rise in tourism activity during the program period; and (v) the terms of trade are projected to worsen by an annual average of 4.5 percent.

6. The attainment of the objectives under the program will require the continuation of appropriate exchange rate, fiscal, and monetary policies, while strengthening the implementation of structural adjustment measures aimed at improving the incentive structure of the economy and stimulating private sector activity. The stance of fiscal policy over this three-year period provides for a reduction in the budgetary deficit (excluding official grants) from 6.8 percent of GDP in 1988/89 to 4.6 percent of GDP in 1991/92, reflecting the need to sustain increasingly the level of expenditures by domestically generated resources. Monetary and credit policies are designed to foster the growth of the economy, consistent with the inflation and balance of payments targets. In this respect, the maintenance of positive real interest rates, supported by the operations of the treasury bill auction market, is a key element in promoting the mobilization of financial savings. Also, with a view to improving efficiency in credit policy, the Central Bank of The Gambia (CBG) will develop a system of monetary control whereby overall liquidity is managed primarily through control of the central bank's net domestic assets, instead of the present system of credit ceilings on individual banks. To facilitate the transition to a system of indirect liquidity control, the CBG would normally refrain from lending to private or public enterprises. Regarding the structural adjustment policies, which are comprehensively described in the updated PFP, the Government will continue to address the reform and divestiture of public enterprises, while stepped-up efforts will be made to complete the restructuring of the Gambia Commercial and Development Bank (GCDB). The Government's sectoral policies to promote the growth in agriculture, industry, fisheries, and tourism emphasize the need to improve the physical and social infrastructure in support of private sector activities. Accordingly, the public investment program for this period attaches priority to transport and communications, utilities, health, and education.

The Program for July 1989-June 1990

7. Consistent with the medium-term framework of the program, the basic macroeconomic objectives for 1989/90 are as follows: (i) to achieve a rate of growth of real GDP of about 4.5 percent; (ii) to reduce the rate of inflation, on an end-of-period basis, from 8.0 percent in 1988/89 to 6.5 percent in 1989/90; and (iii) to generate an overall balance of payments surplus of about SDR 21 million, which would permit the programmed elimination of all remaining external payments arrears by end-June 1990, while allowing for an increase in official reserves to almost SDR 28 million, equivalent to 2.7 months of imports.

8. The Government recognizes that the attainment of these objectives will depend importantly on the continuation of a flexible exchange rate policy, judicious fiscal and monetary policies, and the further strengthening of structural aspects of the adjustment program, in particular the reform of the state enterprise sector, the stimulation of

private sector activity, and sectoral policies related to agriculture, fisheries, tourism, health, education, and the environment.

9. As of the beginning of this fiscal year, a fundamental change has been introduced with respect to groundnut pricing policy. The Government has decided to eliminate the subsidies to the Gambia Produce Marketing Board (GPMB), which will now have to operate on a purely commercial basis without financial support from the Government. To avoid operational deficits, the GPMB will determine its own purchase price for groundnuts only at the time of procurement, which normally starts around the beginning of December. On the basis of present costs and revenue estimates, including a projected groundnut export price of about D 1,700 per ton, the GPMB's financial operations in 1989/90 would break even with a volume of purchases of about 50,000 tons; these projections take into account the cost savings resulting from the Government's assumption of D 55.5 million of the GPMB's D 77.2 million debt to the CBG, as well as the new marketing arrangements with the Gambia Cooperative Union (GCU) and private traders, which result in the elimination of the buying allowance and part of the transport costs, and the suspension of export taxes on groundnuts.

10. The budget for 1989/90 aims at further limiting the overall budget deficit (excluding foreign grants), apart from the exceptional provision discussed below, to D 88.4 million, or 5.2 percent of GDP, compared with 6.8 percent of GDP in 1988/89; including the exceptional provision, the budget deficit (excluding foreign grants) would reach 11.8 percent of GDP. Total expenditure and net lending is programmed to increase by 32.9 percent to D 685.5 million, while the budget provides for an increase in current expenditures of 18.0 percent to D 417.1 million, largely on account of the exceptional provision and the full impact of the civil service salary increase of about 55 percent that was granted at the beginning of January 1989. Thus, personal emoluments, pensions, and allowances are programmed to increase by 28.6 percent to D 128.9 million. However, no further increase in personal emoluments, pensions, and allowances will be granted during 1989/90, while particular attention will be paid to the monitoring of current outlays in accordance with the budget provisions. The program provides for an increase in development outlays (excluding net lending) of almost 14 percent to D 182 million, consistent with the public investment program agreed with the World Bank. Of the total development outlays, 88 percent will be financed through foreign loans and grants. The 1989/90 budget incorporates discretionary tax measures with a net revenue yield of about D 17 million or 1 percent of GDP. These measures include: (i) the application of the sales tax to international tour packages at a rate of 6 percent, (ii) the application of the sales tax to fuel purchases by the GPTC and the GUC at the normal rate of 10 percent, (iii) the levying of import duties on fuel purchases by the GPTC and the GUC; with respect to the GUC, the application of the full rate of 211 percent will be phased in over a period of four years; and (iv) the adjustment of import duty rates on a number of items, with increases for poultry products and soft drinks. As part of the restructuring of the public enterprise

sector, and in the context of commitments including those under the second structural adjustment credit from the World Bank, the Government has decided to make an exceptional provision of D 111 million for the liquidation of the debt of certain public entities. Of the total budgetary allocation for this purpose, D 55.5 million would be used for the repayment of the debt of the GPMB to the CBG; D 53 million would cover the repayment of unrecoverable debt of the GCU to the GCDB (D 48 million) and the GPMB (D 5 million), and the remainder of D 2.5 million would provide for the settlement of claims arising from the liquidation of the Agricultural Development Bank. On the basis of a thorough financial and operational assessment, the Government has determined that the settlement of the historical debts of the GPMB and the GCU coupled with further restructuring measures would improve their financial position to the extent that no further budgetary allocations to these institutions would be necessary. In this context, with a view to rationalizing further the GPMB's operations and strengthening its financial position, the following measures will be implemented during 1989/90: (i) the closing of the GPMB's subsidiary company in London and sale of its assets, including office space; (ii) the divestment of the GPMB's holdings in the National Trading Company, the GCDB, and Citro Products Gambia Limited; and (iii) the sale of two rice mills and a cotton ginnery. The proceeds of these divestments will be earmarked for the repayment of the GPMB's remaining debt of D 16.7 million as of end-September 1989 to the CBG.

11. Monetary and credit policies for 1989/90 have been designed to help achieve the growth, inflation, and balance of payments objectives. The increase in broad money is projected at 16.8 percent, assuming some decline in the income velocity of money. Given the programmed improvement in the net foreign assets position of the banking system, net domestic assets are programmed to decline by 33.4 percent of broad money at the beginning of the period. Thus, the increased demand for money balances would be accommodated entirely by the improvement in the net foreign assets position. As a result of the sizable increase in government deposits, sufficient room is provided for credit expansion to private and public enterprises. In support of interest rate policy, the authorities will continue to conduct biweekly auctions for treasury bills. While maintaining the present system of direct credit controls on commercial banks, the Government intends to move gradually to a market-based system of indirect liquidity controls in which the targeting of the net domestic assets of the CBG would form the focal point. To facilitate this transition, the CBG would normally refrain from lending to public and private enterprises. In the meantime, lending will continue to be limited to the seasonal crop financing of the GPMB.

12. An intensification of the structural reforms in the financial and nonfinancial public enterprise sectors and the stimulation of private sector activity form an important part of the Government's adjustment program for 1989/90. As detailed in the updated policy framework paper, the managerial, financial, and operational restructuring of the GCDB will receive high priority. Part of the recapitalization needs of the

GCDB, which are estimated at about D 30 million, will be provided during this fiscal year through a capital subscription of D 20 million from the budget. Additional budgetary support for the restructuring is provided through the repayment to the GCDB of the unrecoverable debt of the GCU of D 48 million. With a view to reducing further the scope of the government's involvement in commercially oriented enterprises, the government's holdings in the Gambia National Insurance Corporation, the Dockyard, and the Kotu Mechanical Workshop will be offered for sale by December 1989. Currently, bids are being evaluated for the Government's holdings in the African Hotel, the Kanifing Brick Plant, the Fish Processing and Marketing Company, and the Gambia National Tours Company, while the Ferry Services has been transformed into a mixed company; in the meantime, bids are being awaited for the government's holdings in the Banjul Breweries. Regarding the public enterprises that remain in the Government's portfolio, third-year performance contracts were recently signed with the GUC and the Gambia Port Authority and will be signed with the GPMB by end-February 1990. In addition, first-year performance contracts will be signed with the GPTC and the SSFHC by December 1989, and with the GAMTEL by February 1990.

13. With the implementation of the policies described above, The Gambia's external position is projected to improve markedly, with an overall balance of payments surplus of SDR 21.4 million, compared with a surplus of SDR 5.5 million last year. The current account deficit (excluding official grants) is projected to remain virtually unchanged at about SDR 30 million, which will result in a decline in the deficit relative to GDP to 16.8 percent from 18.2 percent in 1988/89. The growth in exports of goods and services will be driven largely by re-export trade and buoyant tourist receipts; while the volume of groundnut exports is expected to rebound from last year's low, the projected decline in the export price will result in virtually unchanged export proceeds. The improvement in the capital account of SDR 13.1 million reflects the disbursement of the first tranche under the World Bank's second structural adjustment credit and a somewhat higher level of disbursements of project loans. The overall balance of payments outcome will permit the complete elimination of all remaining external payments arrears of SDR 14.2 million and the accumulation of gross official reserves of about SDR 11 million.

14. To monitor progress under the second annual arrangement under the ESAF, the performance criteria for end-December 1989 and quantitative benchmarks for end-September 1989, end-March 1990, and end-June 1990, as indicated in the attached Table 1, comprise quarterly limits on: (i) net domestic assets of the banking system; (ii) net claims on the Government by the banking system; (iii) total outstanding external payments arrears; (iv) short-term public debt outstanding (excluding trade-related credits); (v) new nonconcessional external loans contracted or guaranteed by the Government in the maturity ranges of 1-5 years and 1-12 years: and (vi) the minimum level of gross official foreign reserves. In addition, quantitative benchmarks for end-September 1989, end-December 1989, end-March 1990, and end-June 1990 have been

established with respect to (i) transfers and lending by the Government to the GPMB and (ii) gross bank credit of the GPMB. The standard clauses concerning the exchange and trade system will constitute performance criteria for end-December 1989 and benchmarks for the other quarters of the program year, while completion of the midterm review, by end-April 1990, will be required for disbursement of the second loan under the second annual ESAF arrangement. The midterm review will pay particular attention to the functioning of the new marketing arrangements for groundnuts and the associated financial performance of the GPMB, the GCU, and the Gambia River Transport Company, as well as to the progress made in the financial restructuring of the GCDB.

15. As indicated in Table 3, the closing of GPMB's subsidiary company in London, the Gambia Produce Marketing Company (GPMC), and the offering for sale of its office space will constitute a structural performance criterion for end-December 1989. Moreover, the following structural benchmarks have been established for monitoring policy implementations: (i) the completion of assessment of the GCDB's operational and financial performance [end-February 1990]; (ii) the offering for sale of the GPMB's holdings in Citro Products Gambia Limited, the GCDB, and the National Trading Corporation (NTC), and the offering for sale of two rice mills and the cotton ginnery [end-March 1990]; (iii) the adoption of a public investment program for 1990/91-1992/93, consistent with the medium-term macroeconomic objectives [end-May 1990]; (iv) the adjustment of the sales tax on international tour packages with effect from the 1990/91 tourist season, to 10 percent [end-May 1990].

16. The Gambia will maintain its present arrangement for the advance acquisition of SDRs to facilitate the service of The Gambia's obligations to the Fund for the period of the ESAF arrangement.

Table 1. The Gambia: Quantitative Performance Criteria and Benchmarks for the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1989/90

	1989			1990	
	June Actual	Sept.	Dec. 1/	March	June
	(In millions of dalasis; end of period)				
Net domestic assets 2/ 3/	191.6	173.6	137.6	140.8	49.1
Net credit to the Government 3/	-115.2	-16.5	-76.9	-136.1	-192.9
Gross bank credit to the GPMB	75.1	16.7	23.2	72.7	45.1
	(In millions of dalasis; end of period)				
Government transfers and lending to the GPMB	—	55.5	55.5	55.5	55.5
	(In millions of SDRs; end of period)				
External payments arrears 4/ 5/	14.2	11.6	7.1	2.6	—
Short-term public sector outstanding debt 6/	—	—	—	—	—
Contracting or guaranteeing by Government of medium- or long-term nonconcessional debt in the 1- to 5- and 1- to 12-year maturity ranges during period	—	—	—	—	—
Gross official reserves 7/	16.8	17.5	20.9	23.1	23.7

1/ All targets for end-December 1989 are quantitative performance criteria, except gross bank credit to the Gambia Produce Marketing Board (GPMB) and government transfers and lending to the GPMB, which constitute quantitative benchmarks.

2/ Excludes the revaluation account of the Central Bank of The Gambia.

3/ The limits for September 1989, December 1989, March 1990, and June 1990 will be adjusted downward or upward by the full amount of the cumulative excess or shortfall of certain nonproject external financing, compared with the program estimates for the period July-September 1989, July-December 1989, July 1989-March 1990, and July 1989-June 1990, respectively (Table 2).

4/ Revised June 1989 base excludes an amount of SDR 6.4 million, which had been classified as part of the arrears, but was rescheduled under the London Club in 1987/88. Valued at end-June 1989 exchange rates.

5/ The limits for September 1989, December 1989, March 1990, and June 1990 will be adjusted downward or upward by the full amount of additional rescheduling or by the full amount of disclosure of arrears that modifies the end-June 1989 stock.

6/ Excludes trade-related credits.

7/ The targets for September 1989, December 1989, March 1990, and June 1990 will be adjusted upward or downward by the full amount of the cumulative excess or shortfall of certain cash external financing, compared with the program estimates for the periods July-September 1989, July-December 1989, July 1989-March 1990, and July 1989-June 1990, respectively (Table 2).

Table 2. The Gambia: Program Estimates of Nonproject External Financing and Cash External Financing, 1989/90

	July 1989 to			
	Sept. 1989	Dec. 1989	March 1990	June 1990
	(In millions of dalasis)			
World Bank SAC	66.3	66.3	121.7	134.2
IDA (SAC-2)	(46.8)	(46.8)	(89.7)	(89.7)
Netherlands (SAC-1)	(19.5)	(19.5)	(19.5)	(19.5)
Saudi Fund (SAC-1)	(--)	(--)	(12.5)	(25.0)
STABEX 1/	--	13.3	13.3	13.3
USAID 1/	--	15.6	15.6	15.6
United Kingdom	2.5	10.9	10.9	10.9
Commodity grants	8.0	25.9	33.9	41.8
Fuel	(8.0)	(15.9)	(23.9)	(31.8)
Rice	(--)	(10.0)	(10.0)	(10.0)
Total nonproject external financing	76.7	132.0	195.4	215.8
	(In millions of SDRs)			
World Bank SAC	6.8	6.8	12.5	13.8
IDA (SAC-2)	(4.8)	(4.8)	(9.2)	(9.2)
Netherlands (SAC-1)	(2.0)	(2.0)	(2.0)	(2.0)
Saudi Fund (SAC-1)	(--)	(--)	(1.3)	(2.6)
STABEX	--	1.4	1.4	1.4
USAID	--	1.6	1.6	1.6
United Kingdom	0.2	1.1	1.1	1.1
Total cash external financing	7.0	10.9	16.6	17.9

1/ STABEX, Stabilization System for Export Earnings; USAID, U.S. Agency for International Development.

Table 3. The Gambia: Structural Performance Criterion and Benchmarks for the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1989/90

Measures	Target Date
Structural performance criterion:	
Closing of the Gambia Produce Marketing Board's (GPMB) subsidiary company in London (GPMC), and the offer for sale of its office building.	End-December 1989
Structural benchmarks:	
Completion of assessment of the Gambia Commercial and Development Bank's (GCDB) operational and financial performance.	End-February 1990
Offering for sale of GPMB's holdings in Citro Products Gambia Limited, the GCDB, and the National Trading Corporation, and two rice mills and the cotton ginnery.	End-March 1990
Adoption of a public investment program for 1990/91-1992/93, consistent with the medium-term macroeconomic objectives.	End-May 1990
Adjustment of the sales tax on international tour packages with effect from the 1990/91 tourist season to 10 percent.	End-May 1990

The Gambia - Relations with the Fund
(As of September 30, 1989)

I. Membership status

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

A. Financial Relations

II. General department

(a) Quota:	SDR 17.1 million		
(b) Fund holdings of Gambian dalasis:	SDR 28.2 million (164.7 percent of quota)		

	SDR million	Percent of quota
(c) Fund holdings subject to repurchase and charges:	23.1	134.9
i. General resources account	11.1	64.9
Compensatory financing facility	4.7	27.5
Credit tranches	5.1	30.0
Supplementary financing facility	0.6	3.5
Enlarged access resources	0.7	3.8
ii. Special disbursement account	12.0	70.0
(d) Reserve tranche position	0.1	0.3

III. Current arrangements, previous stand-by arrangements and special facilities

(a) Stand-by arrangements during the last ten years:

Arrangement	Duration	Amount	Utilization	Undrawn balance
		(In millions of SDRs)		
Current arrangement:				
ESAF arrangement	11/23/88-11/22/91	20.52	6.84	14.68
Previous arrangements:				
Stand-by	9/17/86-10/16/87	5.13	5.13	--
Stand-by	4/23/84-4/22/85	12.83	2.63	10.20
Stand-by	2/22/82-2/21/83	16.90	16.90	--
Stand-by	11/2/79-11/1/80	1.60	1.60	--

The Gambia - Relations with the Fund (continued)

(b) Special facilities:

Compensatory financing facility	09/25/86	SDR 4.7 million
	06/08/81	SDR 9.0 million
	11/27/78	SDR 4.5 million
	03/30/77	SDR 3.5 million

IV. SDR department

(a) Net cumulative allocation:	SDR 5.12 million
(b) Holdings:	SDR 3.12 million

V. Administered accounts

(a) Trust Fund loans:

(i) Disbursed	SDR 6.84 million
(ii) Outstanding	SDR 0.54 million

(b) SFF Subsidy Account:

(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	SDR 0.65 million

(c) ESAF loans: Trust Account

(i) Disbursed	SDR 3.42 million
(ii) Outstanding	SDR 3.42 million

VI. Financial obligations due to the Fund

	Overdue Financial Obligations Sept. 30, 1989	Principal and Interest Due 1989 Oct. 1- Dec. 31	1990	1991
		(In millions of SDRs)		
Principal	--	1.78	3.92	4.39
Repurchases	--	1.48	3.71	4.37
TF repayments	--	0.30	0.21	0.03

The Gambia - Relations with the Fund (continued)

Charges and interest, including SDR, TF, and SAF and ESAF (prov.)	--	0.31	1.05	0.63
Total	--	2.09	4.98	5.03

B. Nonfinancial Relations

VII. Exchange rate arrangement

Prior to January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D 5 = £1. On January 20, 1986, a flexible system was introduced under which the exchange rate is fully determined by market forces in an interbank market. The Gambia has exchange restrictions arising from external payments arrears which are subject to approval under Article VIII.

VIII. Article IV consultation

The 1988 Article IV consultation discussions with The Gambia were held in Banjul during the period August 2-23, 1988. The staff report (EBS/88/214) was discussed by the Executive Board on November 23, 1988, and the decision was as follows:

1. The Fund takes this decision relating to The Gambia's exchange measures subject to Article VIII, Sections 2(a) and 3, in concluding the 1988 Article XIV consultation with The Gambia and in light of the 1988 Article IV consultation with The Gambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 as amended ("Surveillance over Exchange Rate Policies").

2. The exchange restrictions evidenced by the commercial external payments arrears and a multiple currency practice arising from the cost of domestic currency counterpart deposits required of purchasers of foreign exchange prior to the payment of external obligations in arrears maintained by The Gambia are subject to Fund approval under Article VIII, Sections 2(a) and 3, respectively. The Fund notes the intention of the authorities to remove these restrictions and the multiple currency practice as soon as possible, and, in the circumstances of The Gambia, the Fund grants approval for their retention until November 22, 1989, or the conclusion of the next Article IV consultation with The Gambia, whichever is earlier.

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

The Gambia - Relations with the Fund (concluded)

IX. Technical assistance

CBD: Two members of the CBD panel of experts are currently assigned to the Central Bank of The Gambia as Economic Advisor and Foreign Exchange Advisor, and Research Advisor, respectively.

Missions:

Subject	Staff member	Date
Balance of payments	Mr. Hoezoo	May 1985
Government finance	Mr. Lim	January 1986

No money and banking missions have visited The Gambia in recent years, although Mr. Kennedy provided some technical assistance in money and banking during the course of a consultation mission from May 19-June 6, 1986.

The Gambia--Relations with the World Bank Group
(As of July 31, 1989)

1. The major objectives of the Bank's assistance to The Gambia are to support Government's efforts to (i) promote efficient development of private sector activities, (ii) increase efficiency in the utilization of public resources, and (iii) alleviate long-term human and physical resource constraints. The achievement of these objectives is crucial to the attainment of sustainable long-term growth in per capita incomes with equity. This calls for comprehensive measures to promote a favorable policy and institutional environment; focus Government's role on economic management, rather than on direct involvement in productive activities; and reorient public resources to the development of infrastructure/support services to the private sector and the social services.

2. The Bank's assistance strategy to achieve these objectives acknowledges that structural reforms are an overriding prerequisite for long-term growth. To this end, the Bank approved on June 8, 1989 a second structural adjustment credit (SAC II) in support of policy and institutional reforms that will help promote the efficient development of private sector activities through further improvements in the macroeconomic policy environment; restoration of health to the financial sector; and efficiency improvements in groundnut production, processing, and marketing. SAC II will further increase efficiency in the utilization of public resources by supporting: (i) the Government's move toward a public expenditure programming approach to budgeting facilitate adequate funding of priority programs and maximize their impact, while identifying those expenditures that should be reduced, eliminated, or postponed; (ii) the restructuring of government agencies in line with the Government's focus on economic management and promotion of private sector activity; and (iii) the Government's withdrawal from productive activities where the private sector can be more efficient, while monitoring closely the performance of remaining public enterprises through performance contracts. To alleviate long-term human and physical constraints, SAC II will support the Government's efforts to increase the share of resources in the recurrent budget allocated to education, with emphasis on primary education, and health, with emphasis on basic health care and family planning services; and Government's focus on efficient rehabilitation and maintenance of infrastructure in the public investment program.

3. Other forthcoming and ongoing Bank operations will likewise contribute to the achievement of the Bank's assistance objectives and complement the Government's efforts that are supported by SAC II. To alleviate long-term human resource constraints, an education project is under preparation which aims at supporting education reforms that focus on improving the quality of primary and secondary education and increasing enrollments. A women in development project that is being prepared will also form part of the Bank's efforts to enhance long-term human resource development.

The Gambia--Relations with the World Bank Group (continued)

4. Support for alleviating human resource constraints is also being provided through the ongoing health development project, which complements the Government's own resources for programs to control population growth, increase health coverage, and improve the efficiency of health services.

5. Other ongoing projects in the transport (highways and port), utility (water, electricity), and urban sectors will promote the development of private sector activities by supporting maintenance/rehabilitation of infrastructure and support services to the private sector, while also contributing to increased efficiency in the utilization of public resources by strengthening management capacity in implementing agencies. Moreover, small- and medium-scale private sector activities are being promoted through the enterprise development project. In agriculture, these efforts are being reinforced through improved extension and other support services through the second agricultural development project.

The Gambia--Relations with the World Bank Group (concluded)

The Gambia: World Bank Lending Operations
as of May 31, 1989

(In millions of U.S. dollars)

	Total	Disbursed	Undisbursed
IDA			
Structural adjustment 1/	17.46	17.46	--
Agriculture	16.29	10.30	5.99
Urban development	13.32	8.24	5.08
Transport	22.91	18.23	4.68
Public utilities	7.83	0.58	7.25
Tourism	4.00	4.00	--
Energy	1.45	1.38	0.07
Education	5.50	5.50	--
Population, health, and nutrition	5.94	1.45	4.49
Development finance	3.00	3.00	--
Enterprise development	9.04	--	9.04
Total	106.74	70.14	36.60
Repayments	0.83		
Total outstanding (including undisbursed)	105.91		
IFC investment	2.90	2.90	--

Source: The World Bank.

1/ Comprises the first and second Structural Adjustment Credit, excluding cofinancing.

The Gambia--Statistical Issues

1. Outstanding statistical issues

Real sector

In general, the coverage of statistics on the real sector needs improvement. The data on external trade need to be updated beyond 1986. In addition, the authorities have not responded to the Fund's proposal to publish indices of nominal and real effective exchange rates in *IFS*.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published for The Gambia in the October 1989 issue of *IFS*. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of The Gambia, which during the past year have been provided on a timely basis, although the currentness of the data could be improved.

Status of IFS Data

		Latest Data in October 1989 IFS
Real Sector	- National Accounts	1986
	- Prices CPI:	Dec. 1988
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982
	- Financing	1982
	- Debt	1982
Monetary Accounts	- Monetary Authorities	June 1989
	- Deposit Money Banks	June 1989
	- Other Banking Institutions	March 1989
Interest Rates	- Discount Rate	June 1989
	- Bank Lending/ Deposit Rate	June 1989
	- Bond Yields	n.a.
External Sector	- Merchandise Trade	
	Values	June 1988
	Prices (Exports groundnuts, groundnut oil)	July 1989
	- Balance of Payments	1987
	- International Reserves	June 1989
	- Exchange Rates	July 1989

The Gambia--Statistical Issues (concluded)

3. Coverage, currentness, and reporting of data in GFS yearbook

Partial and preliminary data through 1987 are published in the 1988 GFS Yearbook and cover the budgetary central government operations.

4. Technical assistance missions in statistics (1985-present)

Subject	Staff Member	Date
Balance of Payments	Mr. Hoezoo	May 1985
Government Finance	Mr. E. Lim	January 1986

The Gambia - Basic Data

Area, population, and GDP per capita

Area	11.3 thousand square kilometers
Population: Total (1988)	800,200
Growth rate	3.5 percent
GDP per capita (1988)	US$ 220

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 Estimate
Gross domestic product						
GDP (at 1976/77 market prices) (millions of dalasis)	422.0	435.2	434.0	457.6	482.8	505.2
Of which (percent of total):						
agriculture	(28.3)	(29.3)	(30.7)	(32.4)	(31.7)	(30.4)
manufacturing	(6.0)	(5.5)	(5.5)	(5.7)	(5.8)	(5.1)
trade (excluding groundnut marketing)	(14.6)	(18.1)	(16.5)	(14.9)	(15.4)	(...)
GDP (in millions of dalasis at current market prices)	598.5	672.7	859.3	1,078.1	1,250.9	1,489.5
Gross domestic investment (as percent of GDP)	17.3	19.2	15.8	20.4	18.5	17.9
Gross national savings (as percent of GDP)	7.5	10.5	15.1	16.3	23.5	20.7
Annual percentage change						
GDP at constant 1976/77 prices	-0.3	3.1	-0.3	5.4	5.5	4.6
GDP deflator	14.9	9.0	28.1	19.0	10.0	13.8
Consumer price index						
(period average)	15.6	21.8	35.0	46.2	12.4	10.8
(end of period)	21.1	12.4	70.4	22.3	9.2	8.0
Central government finance	(In millions of dalasis)					
Revenue	127.6	148.5	209.5	318.6	337.9	440.1
Foreign grants	26.0	32.3	59.1	161.2	156.8	135.6
Expenditure and net lending	210.9	262.3	284.8	542.0	607.1	515.9
Recurrent	140.6	151.4	189.1	313.8	432.1	353.3
Development	70.3	109.1	91.1	161.0	176.1	159.9
Unallocated expenditure and net lending	...	1.9	4.6	67.2	-1.1	2.7
Change in arrears (decrease -)	20.5	23.2	-35.0	-14.1	-5.4	-25.5
Overall deficit (-)						
Excluding grants	-62.8	-90.6	-110.3	-237.6	-274.6	-101.3
Including grants	-36.8	-58.3	-51.2	-76.4	-117.8	34.3
Financing	36.8	58.3	51.2	76.4	117.8	-34.3
Foreign (net)	21.2	38.0	7.1	241.4	73.8	15.3
Domestic (net)	15.6	20.3	44.1	-165.0	44.0	-49.6
Of which: banking system	(5.4)	(14.5)	(20.4)	(-165.0)	(27.4)	(-77.7)

The Gambia - Basic Data (concluded)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 Estimate
Money and credit	(Annual changes as percent of beginning-of-period stock of broad money)					
Domestic credit	39.3	13.5	47.2	-77.1	-21.3	-3.7
Government	2.9	10.6	4.5	-72.6	8.4	-19.7
Public enterprises	44.6	2.5	29.1	-0.3	-35.2	7.9
Private sector	-8.2	0.4	13.5	-4.1	5.5	8.2
Money plus quasi-money	3.2	32.9	24.5	43.9	20.5	8.3
Balance of payments	(In millions of SDRs)					
Exports, f.o.b.	86.1	62.1	59.3	55.9	59.3	77.6
Imports, f.o.b.	-96.1	-74.9	-73.7	-78.8	-79.9	-98.6
Trade balance	-10.0	-12.8	-14.4	-22.9	-20.6	-21.0
Services and private transfers (net)	-26.4	-22.1	-17.8	-14.4	-8.6	-8.6
Current account, excluding official transfers	-36.4	-34.9	-32.2	-37.3	-29.2	-29.6
Capital account	9.5	5.7	-2.6	33.5	9.0	2.8
Official	8.7	5.2	-4.6	28.5	6.5	0.4
Private	0.8	0.5	2.0	5.0	2.5	2.4
Overall surplus or deficit	-18.5	-5.6	-11.6	25.8	13.7	5.5
Current account deficit excluding official transfers (as percent of GDP)	-18.8	-21.1	-29.7	-31.5	-21.0	-18.2
Gross official foreign reserves (end of period)						
Amount	5.4	1.8	1.4	10.9	20.4	16.8
In months of imports, c.i.f.	0.6	0.3	0.2	1.4	2.6	1.8
External public debt						
Amount	217.6	223.3	220.9	201.1	222.1	214.5
Debt service ratio 1/						
Including the Fund	19.6	21.5	25.0	104.3	49.6	49.1
Excluding the Fund	16.4	12.5	15.0	71.1	38.0	41.4

1/ As percent of exports of local produce, value added in re-exports, and travel income.

The Gambia: Social and Demographic Indicators 1/

Area	11.3 thousand square kilometers
Population	800,200
Rate of growth	3.5 percent
Density	70.8 per square kilometer
Population characteristics	
Life expectancy at birth (years)	43.0
Infant mortality (percent)	16.0
Child death rate (percent)	4.5
Health	
Population per physician (thousands)	11.6
Population per hospital bed (thousands)	0.6
Access to safe water (in percent)	
Total	45
Urban	100
Rural	33
Energy consumption	
Energy consumption per capita (kilogram of oil equivalent)	78
Nutrition	
Calorie intake (per day)	2,252
Per capita protein intake (grams per day)	52
Education	
Primary school enrollment (percentage)	60
Pupil-teacher ratio (primary school)	23:1

Source: World Bank.

1/ Estimates refer to the latest available year between 1980 and 1988.