

**FOR
AGENDA**

EBS/88/214

CONFIDENTIAL

October 20, 1988

To: Members of the Executive Board

From: The Secretary

Subject: The Gambia - Staff Report for the 1988 Article IV Consultation
and Request for Arrangements Under the Enhanced Structural
Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with The Gambia and its request for arrangements under the enhanced structural adjustment facility. Draft decisions appear on pages 29 and 30.

This subject, together with the policy framework paper for The Gambia (EBD/88/289, 10/19/88), will be brought to the agenda for discussion on a date to be announced.

Mr. Rothman (ext. 8652) or Mr. Gunjal (ext. 8658) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

THE GAMBIA

Staff Report for the 1988 Article IV Consultation
and Request for Arrangements 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 G.E. Gondwe and A. Basu

October 19, 1988

I. Introduction

The 1988 Article IV consultation discussions with The Gambia together with discussions on an updated medium-term policy framework paper (PFP) and an economic and financial program that could be supported by the use of Fund resources under the enhanced structural adjustment facility (ESAF) were held in Banjul during the period August 2-23, 1988. The Gambian representatives included the Honorable S.S. Sisay, Minister of Finance and Trade; the Honorable M. Jatta, Minister of Economic Planning and Industrial Development; Mr. M.M. Jagne, Acting Governor of the Central Bank of The Gambia and Permanent Secretary to the Ministry of Finance and Trade; and other senior officials. The head of the mission was received by the President, His Excellency Sir Dawda K. Jawara. The staff representatives were Mr. S. Rothman (head-AFR), Mr. U. Gunjal (AFR), Ms. G. Bartoli (FAD), Mr. A. Miyauchi (ETR), and Miss R. Casaromani (secretary-AFR). Ms. D. Jansen of the World Bank participated in the PFP discussions.

In the attached letter from the Minister of Finance and Trade and the Acting Governor of the Central Bank of The Gambia dated October 11, 1988, the authorities have requested a three-year arrangement under the ESAF in an amount equivalent to SDR 20.52 million (120 percent of The Gambia's quota) in support of an economic and financial program for the period July 1988-June 1991, as well as the first annual arrangement thereunder in an amount equivalent to SDR 6.84 million (40 percent of quota) in support of a program for the period July 1988-June 1989. The authorities' program is described in the Memorandum on Economic and Financial Policies attached to the authorities' letter. The requested three-year ESAF arrangement would replace The Gambia's three-year arrangement under the structural adjustment facility (SAF) approved on September 17, 1986, under which The Gambia has received loans equivalent

to SDR 3.42 million (20 percent of quota) and SDR 5.13 million (30 percent of quota) under the first and second annual arrangements, respectively. The authorities are requesting replacing the SAF by an ESAF arrangement in order to secure additional financing to support higher economic growth and to bolster their still relatively weak foreign reserve position. At the same time, given the three-year program's balance of payments projections, it is envisaged that The Gambia's financing needs can be accommodated by an ESAF arrangement in an amount which is less than the expected average access. In a letter dated October 11, 1988, the authorities have transmitted to the Managing Director of the Fund their updated PFP covering the three-year period July 1988-June 1991. The PFP was circulated to the Executive Board of the Fund on October 19, 1988 (EBD/88/289) and was transmitted to the Executive Board of the World Bank at the same time. It is expected to be considered by the Committee of the Whole of the Bank in early November.

The Fund and World Bank staffs have collaborated closely in the discussions with the Gambian authorities. On August 26, 1986, the World Bank approved a structural adjustment credit (SAC--including cofinancing) of US\$37 million, and, except for the Saudi Fund cofinancing component (US\$3.2 million), the SAC has been fully disbursed. Discussions on a second SAC of US\$33 million (including cofinancing) are currently at an advanced stage.

As of September 30, 1988, The Gambia's outstanding use of Fund credit was equivalent to SDR 22.35 million, or 130.7 percent of quota (Table 1). Taking account of scheduled repurchases and the prospective disbursements under the ESAF, net credit from the Fund at end-June 1989 would amount to SDR 26.49 million, or 154.91 percent of quota. By end-June 1991, net credit from the Fund would amount to SDR 32.35 million, or 189.18 percent of quota.

The Gambia continues to avail itself of the transitional arrangements of Article XIV. The Gambia is on the standard 12-month Article IV consultation cycle. The staff report for the 1987 Article IV consultation and review under stand-by arrangement (EBS/87/170) and the report on recent economic developments were considered by the Executive Board on August 31, 1987. At that time, Executive Directors noted that, associated with adherence to program policies, the major objectives for 1986/87 had been attained and singled out the substantial reduction in external payments arrears and reconstitution of reserves. Directors observed that further improvement would require redressing the sizable groundnut subsidy and correcting the still large budget deficit and welcomed the focus being placed by the authorities on these key areas. It was emphasized that despite the marked improvement in 1986/87, The Gambia's external position remained vulnerable, which clearly called for the continuing rigorous implementation of policies under The Gambia's SAF-supported program.

Table 1. The Gambia: Fund Position Through June 1991

	Sept. 30, 1988	1988	1989			1990		1991
		Oct.- Dec.	Jan.- March	April- June	July- Dec.	Jan.- June	July- Dec.	Jan.- June
(In millions of SDRs)								
Transactions under tranche policies (net) <u>1/</u>	-1.10	-0.50	-1.10	-0.89	-0.42	-0.93	-1.45	
Purchases	—	—	—	—	—	—	—	
Ordinary resources	—	—	—	—	—	—	—	
Borrowed resources	—	—	—	—	—	—	—	
Repurchases	1.10	0.50	1.10	0.89	0.42	0.93	1.45	
Ordinary resources	0.16	0.16	0.16	0.13	0.26	0.77	1.28	
Borrowed resources	0.94	0.34	0.94	0.76	0.16	0.16	0.16	
Transactions under special facilities (net) <u>2/</u>	—	—	—	-0.59	-1.18	-1.18	-1.18	
Purchases	—	—	—	—	—	—	—	
Repurchases	—	—	—	0.59	1.18	1.18	1.18	
Transactions under the structural/enhanced structural adjustment facility (net)	3.42	—	3.42	3.42	3.42	3.42	3.42	
Disbursements	3.42	—	3.42	3.42	3.42	3.42	3.42	
Repayments	—	—	—	—	—	—	—	
Total Fund credit outstanding (end of period)	22.35	24.67	24.17	26.49	28.43	30.25	31.56	32.35
Under tranche policies	9.09	7.99	7.49	6.39	5.50	5.08	4.15	2.70
Special facilities	4.71	4.71	4.71	4.71	4.12	2.94	1.76	0.58
Structural/enhanced structural adjustment facility	8.55	11.97	11.97	15.39	18.81	22.23	25.65	29.07
(As percent of quota)								
Total Fund credit outstanding (end of period)	130.70	144.27	141.34	154.91	166.25	176.90	184.56	189.18
Under tranche policies	53.16	46.73	43.80	37.37	32.16	29.71	24.27	15.79
Special facilities	27.54	27.54	27.54	27.54	24.09	17.19	10.29	3.39
Structural/enhanced structural adjustment facility	50.00	70.00	70.00	90.00	110.00	130.00	150.00	170.00

Source: IMF, Treasurer's Department.

1/ Ordinary and borrowed resources.

2/ Compensatory financing facility.

Summaries of The Gambia's relations with the Fund and the World Bank Group and outstanding statistical issues are contained in Appendices I, II and III, respectively. Social and demographic indicators are contained in Appendix IV, and basic data are presented in Appendix V.

II. Background and Performance in 1987/88

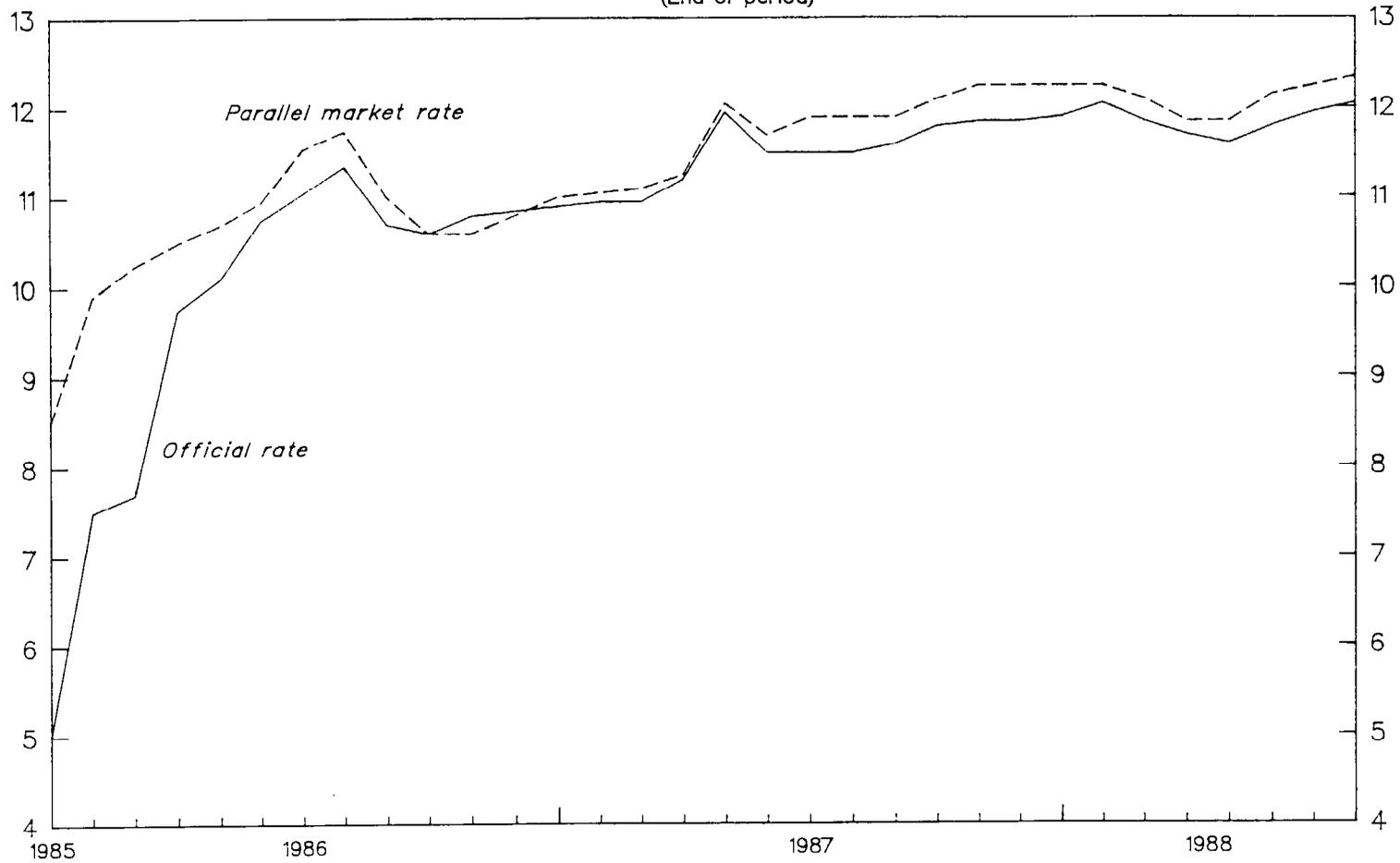
From the mid-1970's onwards, The Gambia's economic and financial situation deteriorated markedly, and, by early 1985, the underlying internal and external imbalances had assumed major proportions owing to a combination of adverse external factors, expansionary financial policies, and inappropriate exchange rate and other pricing policies. In the latter part of this period, these growing imbalances were reflected in real economic decline, accelerating inflation, and the emergence of external payments arrears (including those to the Fund). Moreover, as evidenced by broad indicators such as sizable current account deficits, debt servicing problems, and a weak reserve position, The Gambia's balance of payments problems have been of a protracted nature. To halt the deterioration, the Government adopted in mid-1985 a comprehensive medium-term Economic Recovery Program (ERP), the centerpiece of which was an exchange rate reform. The authorities' program for 1986/87 (July/June) under the ERP was supported by the Fund with a stand-by arrangement and the first annual arrangement under the SAF and called mainly for the continuation of appropriate exchange rate and pricing policies; a major interest rate reform; a more prudent budget and credit stance; public sector structural reforms; and improved external debt and reserve management. As discussed in EBS/87/170 (July 31, 1987) and EBS/87/236 (November 19, 1987), the adjustment program for 1986/87 was implemented successfully and the major targets of the program were achieved.

The authorities' 1987/88 program was supported by the second annual arrangement under the SAF, with the basic thrust of policies unchanged. Further progress was made in policy implementation and most of the program targets were attained. Of particular note, the fiscal outturn was again broadly as planned; restraint in overall credit policy was maintained; interest rate policy exhibited appropriate flexibility by providing real positive rates of return on financial assets; the floating exchange rate system for the dalasi continued to function properly, with virtually no premium in the parallel market (Chart 1); 1/ and a rescheduling agreement with London Club creditors was signed in January 1988.

As indicated in Table 2, the growth in real gross domestic product (GDP) during 1987/88 is estimated at 5.5 percent, compared with a program target of 4 percent, as groundnut production increased further, there was a rebound in commercial activity, and transport and

1/ On September 30, 1988, SDR 1 = D 9.27.

CHART 1
THE GAMBIA
EVOLUTION OF EXCHANGE RATES: D/£, DECEMBER 1985 – JULY 1988
(End of period)



Source: Data provided by the Gambian authorities.



Table 2. The Gambia: Selected Economic and Financial Indicators, 1985/86-1990/91

	1985/86	1986/87	1987/88		1988/89	1989/90	1990/91
	Rev.	Rev.	Prog.	Est.	Projections		
(Annual percentage changes, unless otherwise specified)							
National income and prices							
GDP at constant prices	-0.3	5.4	4.0	5.5	4.3	3.9	3.9
GDP deflator	28.1	19.0	11.8	12.1	9.5	8.0	7.0
Consumer prices							
Average annual basis	35.0	46.0	15.0	12.4	9.4	7.0	6.2
End-period to end-period	70.4	22.3	12.5	9.2	7.5	6.5	6.0
External sector							
Exports, f.o.b. (in SDRs)	-4.5	-3.1	5.6	5.7	6.8	6.6	6.6
Imports, f.o.b. (in SDRs)	-2.0	10.9	8.2	1.2	7.7	6.4	6.2
Export volume (excluding re-exports)	9.0	-5.3	1.4	45.5	12.2	3.5	3.5
Import volume (excluding imports for re-export)	-4.1	14.5	4.8	--	4.8	3.7	3.3
Terms of trade (in SDRs; deterioration -)	-41.7	-2.8	1.8	-6.2	-6.3	2.6	2.6
Nominal effective exchange rate (depreciation -)	-15.7	-43.6	...	4.7	...	...	...
Real effective exchange rate (depreciation -)	-1.2	-18.3	...	7.1	...	...	...
Government budget							
Revenue (excluding grants)	41.1	51.9	6.7	6.1	14.2	9.6	5.3
Expenditure and net lending	8.6	90.3	5.4	12.0	-16.5	2.6	5.8
Of which:							
development expenditure	(-16.5)	(76.7)	(15.0)	(9.4)	(16.4)	(7.4)	(7.3)
(Annual changes as percent of beginning-of-period stock of broad money)							
Money and credit							
Domestic credit	38.5	-77.7	-37.9	-21.3	-27.7	...	...
Government	4.5	-73.9	-26.9	8.4	-48.0	...	...
GPHB	13.3	10.7	-25.4	-30.6	8.1	...	...
Other public enterprises	7.3	-10.5	3.7	-4.6	2.3	...	...
Private sector	13.4	-4.1	10.7	5.5	9.8	...	...
Money plus quasi-money	24.6	43.9	17.2	20.5	25.3	...	...
Velocity of circulation	3.7	3.6	3.3	3.5	3.3	...	...
Interest rate on Treasury Bills (end of period)	15.0	19.0	...	16.8	...	...	...
(In percent of GDP)							
Consumption	92.3	93.8	91.9	93.6	89.7	87.9	87.3
Investment	15.8	20.4	21.1	18.9	19.3	18.8	18.6
Resource gap	-8.5	-17.5	-12.9	-12.6	-12.9	-12.2	-11.5
Government surplus/deficit (-)							
(cash basis)							
Excluding grants	-13.0	-22.0	-18.7	-21.5	-8.3	-6.0	-5.8
Of which: transfer to the GPHB	(-1.5)	(-7.7)	(-10.4)	(-10.3)	(-0.9)	(-)	(-)
Including grants	-6.1	-7.1	-7.1	-9.2	1.6	1.9	0.8
Of which:							
domestic financing (net)	(5.2)	(-15.3)	(-8.5)	(3.4)	(-13.2)	(-11.7)	(-4.8)
foreign financing (net)	(0.8)	(22.4)	(15.6)	(5.8)	(11.6)	(9.8)	(4.0)
External current account	-29.7	-33.0	-26.6	-24.0	-22.4	-21.1	-19.5
External public debt outstanding (end of period) ^{1/}	202.5	182.3	172.5	168.8	161.8	155.8	151.3
(In percent of net exports and travel income) ^{2/}							
External debt service ^{3/}	23.9	106.0	69.2	49.2	54.9	49.7	27.3
(In SDRs per ton)							
Official groundnut exports							
Unit value	266	129	154	138	151	161	171
Domestic producer price	223	199	165	163	120	...	...
(In millions of SDRs)							
External current account	-32.2	-39.1	-34.0	-31.1	-31.3	-31.5	-31.2
Overall balance of payments (before exceptional financing)	-11.6	27.3	28.4	12.1	21.2	19.3	11.9
External payments arrears	88.2 ^{4/}	38.3	16.1	26.0	13.0	--	--
Gross official reserves	1.4	10.9	18.9	20.4	32.8	44.4	58.5
In months of imports, c.i.f.	0.2	1.4	2.2	2.5	3.8	4.8	6.0

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

^{1/} Disbursed public and publicly guaranteed debt, including outstanding use of Fund credit.

^{2/} Net exports defined as total exports minus imports used for re-exports.

^{3/} Includes IMF charges and repurchases and cash payments for arrears reduction.

^{4/} Includes SDR 10.3 million in arrears to the Fund as of end-June 1986.

communications activities remained buoyant. Also, the rate of inflation decelerated to 9.2 percent (as measured by the consumer price index on an end-period to end-period basis), compared with a program target of 12.5 percent, and the external current account deficit (excluding official transfers) is estimated at SDR 31 million (24 percent of GDP), compared with a program target of SDR 34 million, mainly because higher-than-anticipated groundnut exports more than compensated for a decline in net re-exports. On the other hand, owing mainly to a delay in the conclusion of discussions on the second World Bank SAC, disbursements under which would have amounted to SDR 13 million, the overall balance of payments surplus (before exceptional financing) is estimated at some SDR 12 million, compared with the program projection of about SDR 28.5 million. Nevertheless, for 1987/88 as a whole, The Gambia increased its gross official foreign reserves by SDR 9.5 million (to the equivalent of 2.5 months' imports) and reduced its external payments arrears on a cash basis by SDR 6.9 million. Except for the restrictions evidenced by the remaining external payments arrears, The Gambia maintains no restrictions on current or capital international transactions nor trade controls.

As shown in Table 3, adherence to the SAF arrangement's structural policy benchmarks was satisfactory, except that the introduction of a new Civil Service grade structure was delayed owing to the need to remedy inadequacies in the structure proposed by consultants, namely an inappropriate differentiation of responsibilities. Moreover, apart from nonobservance of the quarterly limits on net domestic assets of the banking system for technical reasons, the SAF arrangement's quantitative benchmarks were complied with through March 1988. ^{1/} At end-June 1988, there was nonobservance of (i) the limit on net domestic assets of the banking system due to the technical reasons referred to and the delay of the second SAC; (ii) the limit on net bank credit to Government due to the delay of the second SAC and an unanticipated repayment by the Government of the debt of The Gambia Utilities Corporation (GUC) to the Central Bank of The Gambia (CBG); and (iii) the minimum reduction in external payments arrears due to the delay of the second SAC.

III. Objectives and Policies for the Period 1988/89-1990/91

As outlined in the updated PFP, taking into account a recent reassessment of medium-term external financing prospects as well as the growth potential of the economy, the Government's major objectives for the period 1988/89-1990/91 are (i) sustained and broadly-based growth in real GDP of about 4 percent per annum (compared with an objective of 3.5-4 percent in the previous PFP), thus permitting a further, albeit modest, recovery in real per capita income; (ii) a further deceleration in the rate of inflation to 6 percent by 1990/91; and (iii) the complete

^{1/} Other domestic assets, which had been highly unstable and difficult to predict, did not decrease, as projected under the program, but remained constant.

Table 3. The Gambia: Benchmarks for the Second Annual Arrangement
Under the Structural Adjustment Facility, 1987/88 (July/June)

<u>1. External policies</u>	<u>Status of observance</u>
Total external payments arrears to be reduced through cash payments (by at least SDR 18 million by end-June 1988).	Observed through March 1988, but not through June 1988.
Short-term public sector debt outstanding not to be increased above the level of end-June 1987.	Observed through June 1988.
No contracting or guaranteeing of new medium- or long-term nonconcessional external debt by the public sector in the 1- to 12-year maturity range.	Observed through June 1988.
Gross official reserves to be increased (by at least SDR 8.0 million by end-June 1988).	Observed through June 1988.
<u>2. Fiscal policies</u>	
Government transfer to the GPMB to be limited to D 130.7 million.	Observed through June 1988.
A new Personnel Management Office (PMO) to be established by January 1, 1988.	Observed. The PMO became operational in February 1988.
A new Civil Service grade structure to be implemented by January 1, 1988.	Not observed.
A public investment program (PIP) for 1988/89-1990/91 to be prepared in consultation with the World Bank by June 1, 1988.	Observed, with no outstanding issues.
A roster of all nonproject technical assistance activities to be prepared by March 31, 1988.	The roster was prepared by early May 1988.
A general sales tax to be introduced and a reform of income tax law to be implemented by March 31, 1988.	Parliament approved the income tax reform in February 1988 (effective January 1, 1988) and the sales tax law in April 1988. The latter became effective with the 1988/89 fiscal year.

Table 3. The Gambia: Benchmarks for the Second Annual Arrangement
Under the Structural Adjustment Facility, 1987/88 (July/June) (concluded)

3. Monetary and credit policies

Quarterly limits on net domestic assets of the banking system.	Not observed through June 1988.
Quarterly limits on net bank credit to Government.	Observed through March 1988, but not through June 1988.
Quarterly limits on gross credit to The Gambia Produce Marketing Board (GPMB).	Observed through June 1988.

4. Public enterprises

Performance contracts with The Gambia Produce Marketing Board (GPMB), The Gambia Utilities Corporation (GUC) and The Gambia Port Authority (GPA) to be signed by January 1, 1988.	Observed.
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5. Sectoral policies

A revised investment code to be enacted by January 31, 1988.	Parliament approved the revised investment code in February 1988.
A time-bound action plan for recovery of outstanding Gambia Cooperative Union (GCU) loans to be prepared by January 1, 1988.	Observed.
The preferential buying allowance of the GCU to be reduced by November 15, 1987.	Observed. The preferential buying allowance of the GCU was eliminated.

Source: Memorandum on Economic and Financial Policies of the Republic of The Gambia for the Period July 1, 1988-June 30, 1991, Tables 1 and 2.

elimination of external payments arrears by 1989/90 plus an accelerated buildup in external reserves to the equivalent of 6 months' imports in 1990/91 to support The Gambia's liberalized exchange and trade system, make available a much needed cushion for contingencies (especially given the economy's vulnerability to adverse weather conditions), and help ensure the timely servicing of external debt obligations.

The three-year program aims at reducing the external current account deficit from 24 percent of GDP in 1987/88 to 19.5 percent in 1990/91, which, with the maintenance of an appropriate debt profile, would be consistent with declines in both the external debt service and debt/GDP ratios (Table 4). Moreover, the deficit by 1990/91 would be sustainable in that it would be financed totally by normal concessional inflows. The current account target is premised mainly on growth in groundnut and nontraditional exports (e.g., fish and horticultural products) and re-exports, more buoyant tourism earnings, restraint in overall import growth to below that of aggregate output, and reduced net interest payments.

The program builds upon the major progress already made in key areas, emphasizing the continuation of appropriate exchange rate, interest rate, demand management, and external debt and reserve policies. An important policy objective is to reduce the Government budget deficit (on a cash basis and excluding grants) from 21.5 percent of GDP in 1987/88 to about 6 percent in 1990/91 (Table 5). At the same time, there will be an intensification of the Government's structural adjustment efforts, which are to be supported also by the second World Bank SAC. These include the elimination of the subsidy to the groundnut sector in 1989/90; specific policies to promote growth in agriculture, industry, fisheries, and tourism; continued reform of the public enterprises and stepped-up government divestiture of holdings; and further improvement in the allocative efficiency of government expenditures, including to increase the productivity of investment.

1. Sectoral policies for expanding production

In the agricultural sector, the Government's priorities are to rationalize the groundnut subsector, reform the agricultural credit system, and reorganize the Ministry of Agriculture.

Regarding groundnuts, in a further rationalization of pricing policy, the Government reduced the domestic producer price for the 1988/89 crop season by about 27 percent (following a cut of almost 17 percent in the producer price in 1987/88), implying a decline in the subsidy element from 4 percent of GDP in 1987/88 to about 1 percent in 1988/89. With this action, it is anticipated that, for the first time in recent years, the producer price will not exceed the export unit value. The sharp declines in the domestic producer price have been necessitated in large part by the inefficiency of The Gambia Produce Marketing Board (GPMB). In this regard, a strengthened performance

Table 4: The Gambia: Balance of Payments, 1985/86-1992/93

(In millions of SDRs)

	1985/86	1986/87	1987/88		1988/89	1989/90	1990/91	1991/92	1992/93
	Revised	Revised	Prog.	Est.			Projections		
Current account	-32.2	-39.1	-34.0	-31.1	-31.3	-31.5	-31.2	-30.9	-31.6
Exports, f.o.b.	59.3	57.4	60.5	60.7	64.8	69.1	73.7	78.6	83.2
Of which: groundnuts	8.5	9.8	11.2	13.5	14.3	15.6	17.0	18.6	19.6
Imports, f.o.b.	-73.7	-81.7	-84.9	-82.7	-89.0	-94.7	-100.6	-106.8	-113.3
Net interest	-12.2	-15.2	-10.5	-10.6	-8.3	-6.9	-5.5	-4.3	-3.6
Other services (net)	-10.4	-5.6	-5.9	-5.0	-5.7	-5.9	-5.8	-5.4	-4.8
Of which: travel income	20.6	27.5	29.2	28.0	29.4	31.2	33.3	36.0	38.9
Private transfers (net)	4.8	6.0	6.8	6.6	7.0	7.0	7.0	7.0	7.0
Capital account	20.6	66.4	62.4	43.2	52.5	50.8	43.1	37.8	37.1
Official transfers	31.0	32.4	37.9	34.6	33.5	32.3	33.5	33.1	33.2
Official loans (net)	-4.6	28.5	20.9	6.5	16.8	16.1	7.0	1.9	0.9
Project-related loans ^{1/}	6.6	12.1	12.4	12.6	13.4	14.5	15.5	15.3	15.3
World Bank SAC	—	25.0	17.3	1.7	13.5	11.6	—	—	—
Amortization	-11.2	-8.6	-8.8	-7.8	-10.1	-10.1	-8.5	-13.4	-14.4
Private capital	2.0	5.0	3.6	2.5	2.2	2.4	2.6	2.8	3.0
Net errors and omissions	-7.8	0.5	—	-0.4	—	—	—	—	—
Overall balance (before exceptional financing)	-11.6	27.3	28.4	12.1	21.2	19.3	11.9	6.9	5.5
Financing	11.6	-27.3	-28.4	-12.1	-21.2	-19.3	-11.9	-6.9	-5.5
Gross official reserves	0.4	-9.5	-11.6	-9.5	-12.4	-11.7	-14.1	-3.8	-3.8
Repurchases/repayments IMF	-9.1	-5.9	-4.2	-4.2	-3.2	-3.1	-4.7	-3.1	-1.7
Reduction in arrears (-)	20.3	-29.0	-22.2	-6.9	-13.0	-13.0	—	—	—
Exceptional financing	—	17.1	9.6	8.5	7.3	8.4	6.8	—	—
USAID (BOP-support grant)	—	—	1.6	1.6	1.6	1.6	—	—	—
IMF	—	11.2	7.2	7.2	6.8	6.8	6.8	—	—
Debt relief	—	3.0	0.8	1.5	—	—	—	—	—
Other ^{2/}	—	2.9	—	-1.8	-1.1	—	—	—	—
Residual financing gap (-)	—	—	—	—	—	—	—	—	—
Memorandum items:									
Current account (percent of GDP)	-29.7	-33.0	-27.2	-24.0	-22.4	-21.1	-19.5	-18.1	-17.2
External public debt ^{3/} (percent of GDP)	202.5	182.3	176.4	168.8	161.8	155.8	151.3	140.7	131.0
Debt service ^{4/} (percent of net exports and travel income) ^{5/}	24.9	106.0	69.2	49.2	54.9	49.7	27.3	29.0	25.7
Gross official reserves									
End-of-period stock	1.4	10.9	29.3	20.4	32.8	44.4	58.5	62.3	66.1
In months of imports, c.i.f.	0.2	1.4	3.5	2.5	3.8	4.8	6.0	6.0	6.0

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

^{1/} Includes scheduled disbursements under loans contracted prior to June 1988 and expected new commitments.

^{2/} Deposits with the Bank of England in respect of Paris Club rescheduling of September 1986.

^{3/} Disbursed public and publicly guaranteed debt, including outstanding use of Fund credit.

^{4/} Includes IMF charges and repurchases and cash payments for arrears reduction.

^{5/} Net exports defined as total exports minus imports used for re-exports.

Table 5. The Gambia: Central Government Operations, 1985/86-1990/91

(In millions of dalasis)

	1985/86	1986/87	1987/88		1988/89	1989/90	1990/91
		Rev.	Prog. 1/	Est.	Program	Proj.	Proj.
(In millions of dalasis)							
Revenue and grants	268.6	479.8	484.7	494.7	530.2	551.9	565.1
Revenue	209.5	318.6	340.0	337.9	385.9	422.9	445.5
Grants 2/	59.1	161.2	144.7	156.8	144.3	129.0	119.6
Expenditure and net lending	284.8	542.0	573.8	607.1	507.1	520.2	550.4
Current expenditure	189.1	313.8	393.1	432.0	304.2	302.2	316.4
Personal emoluments, pensions, and allowances	(62.9)	(66.1)	(73.6)	(68.6)	(85.0)	(91.8)	(98.2)
Interest due	(37.7)	(68.4)	(75.5)	(73.4)	(74.8)	(70.0)	(67.9)
Internal	[15.7]	[26.6]	[34.4]	[37.3]	[29.7]	[26.5]	[24.3]
External	[22.0]	[41.8]	[41.1]	[36.1]	[45.1]	[43.5]	[43.6]
Other charges	(61.9)	(87.9)	(108.0)	(126.2)	(130.0)	(140.4)	(150.2)
Subsidies and transfers	(26.6)	(91.4)	(136.0)	(163.9)	(14.4)	(--)	(--)
Of which: GPMB	[12.4]	[83.0]	[130.7]	[130.7]	[13.2]	[--]	[--]
Development expenditure 2/	91.1	161.0	186.0	176.1	204.9	220.0	236.1
Net lending	3.7	68.5	-5.3	-2.7	-2.0	-2.0	-2.0
Of which: Managed Fund	(--)	(72.6)	(--)	(-2.7)	(-2.0)	(-2.0)	(-2.0)
Unallocated expenditure	0.9	-1.3	--	1.7	--	--	--
Change in arrears (decrease -)	-35.0	-14.1	--	-5.4	--	--	--
Overall surplus/deficit (-) (cash basis)							
Excluding grants	-110.3	-237.5	-233.8	-274.6	-121.2	-97.3	-104.9
Including grants	-51.2	-76.4	-89.1	-117.8	23.1	31.7	14.7
Financing	51.2	76.4	89.1	117.8	-23.1	-31.7	-14.7
Foreign (net)	7.1	241.4	195.3	73.8	169.5	160.0	71.8
Gross borrowing	(36.6)	(301.0)	(270.8)	(129.1)	(247.5)	(239.7)	(142.6)
Amortization due	(-29.5)	(-64.2)	(-68.5)	(-60.4)	(-78.0)	(-79.7)	(-70.8)
Net debt relief	(--)	(4.6)	(-7.0)	(5.1)	(--)	(--)	(--)
Domestic	44.1	-165.0	-106.2	44.0	-192.6	-191.7	-86.5
Banking system	(20.4)	(-165.0)	(-102.7)	(27.4)	(-189.1)	(-188.2)	(-83.0)
Other	(23.7)	(--)	(--)	(20.1)	(--)	(--)	(--)
Sinking fund for debt relief	(--)	(--)	(-3.5)	(-3.5)	(-3.5)	(-3.5)	(-3.5)
(In percent of GDP)							
Surplus/deficit (-) (cash basis)							
Excluding grants	-13.0	-22.0	-18.7	-21.5	-8.3	-6.0	-5.8
Including grants	-6.1	-7.1	-7.1	-9.2	1.6	1.9	0.8

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

1/ Adjusted to include a USAID BOP-support grant of D 14.6 million.

2/ Grants are on an estimated basis and correspond to grants in the balance of payments (less technical assistance grants). The grant-financed portion of development expenditure is also on an estimated basis.

contract with the GPMB will be signed by end-1988, and a study will be undertaken to review the operations of the GPMB to determine how its efficiency could be further improved, including by the possible privatization of additional GPMB activities, as well as to examine the potential for, and benefits of, increasing competition in the marketing and processing of groundnuts. In this connection, in 1987/88 the preferential buying allowance of The Gambia Cooperative Union (GCU) was eliminated with a view to liberalizing domestic marketing arrangements of groundnuts by placing private traders on the same competitive footing. An action program based on the study will be implemented by the start of the 1989/90 marketing season.

With respect to agricultural credit, in 1987/88 new eligibility criteria were instituted for GCU loans, which led to the denial of fresh loans to farmers in default. Also, a time-bound action program for the recovery of outstanding GCU loans is being implemented. As the loan recovery by the GCU progresses, the GCU will seek to reduce arrears on its own outstanding debt to the banking system.

The Government's comprehensive program for the reorganization of the Ministry of Agriculture involves narrowing the focus of the Ministry's functions to those that cannot be handled by the private sector (e.g., research, extension and animal health support services, resource management, and sector planning). Considerable progress was made during 1987/88 in the organizational restructuring of the Ministry, and progress is expected during 1989 in privatizing its commercial and service activities. The Government is also actively encouraging the private sector to enter input marketing (fertilizer, seeds, and implements) and the provision of other agricultural services, e.g., seed multiplication, crop spraying, veterinary services, and tractor ploughing. In this context, the Government will maintain its policy of not subsidizing agricultural inputs including, notably, fertilizers. Also, during 1989/90 the Government expects to implement an action program for agricultural diversification.

Regarding industry, the new investment code adopted in early 1988, which provides tax credits to companies that either export at least half of their output or generate domestic value added of more than 60 per cent, is expected to stimulate further investment from domestic and foreign sources. In addition, the Government is taking steps to encourage term-lending by the commercial banks and to strengthen institutional support systems for small-scale enterprises.

Investment in fisheries has increased significantly over the past two years since the exchange rate reform and the waiving of fish export taxes upon proof of remittance of foreign exchange earnings. To further encourage the private sector, the Government recently decided to discontinue its investment in a fishing company. By end-1988 the Government will implement a fisheries resource management program, with priorities aimed at developing a surveillance capability to conserve aquatic resources, tightening licensing agreements in order to increase income

accruing to the the economy from fishing, providing infrastructure, training, and credit facilities to artisanal fishermen, and encouraging the development of aquaculture of high-value species.

In response to improved profitability, tourism has also begun to attract additional foreign private investment. The Government's strategy in this sector centers on the divestiture of its holdings and a continued moratorium on government loan guarantees. To maximize tourism earnings, the Government expects to adopt during 1989/90 a program to promote the economic utilization of the presently designated tourism area, the development of tourism in the interior, and the growth of artisanal industries, while also providing effective measures to ensure quality standards of hotels and restaurants.

2. Public sector management

As noted above, an important medium-term policy aim is a sharp reduction in the overall budgetary deficit. In 1987/88, the budget deficit had been expected to remain high at 18.7 percent of GDP, as the SAF-supported program provided for the repayment of the bulk of the debt of the GPMB to the CBG (equivalent to 6.4 percent of GDP). Excluding the Government's unanticipated repayment of the GUC's debt to the CBG, equivalent to 2 percent of GDP, the fiscal outturn--a deficit of 19.5 percent of GDP--was broadly as planned. The repayments of both of these major public sector enterprise debts were effected from the Government's growing net creditor position with the CBG and were consistent with the ongoing financial restructuring of the public enterprise sector. The Government aims to reduce the deficit to 8.3 percent of GDP in 1988/89 and to narrow it to 5.8 percent of GDP by 1990/91 through continued expenditure restraint and further efforts at generating revenues.

In the area of taxation, during 1988/89 the general sales tax is being implemented at a uniform 10 percent rate at the manufacturer-importer level. In the course of the year, the coverage of the tax will be extended to include hotels, restaurants, nightclubs, cinemas, and casinos. The authorities believe that with a progressively broader coverage, the introduction of the sales tax will yield a net increase in revenues, despite the accompanying elimination of the import tax and excises on services and reductions in customs duties and excises on goods so as not to increase the tax burden on specific goods. Regarding taxes on international trade, the Government has, with the 1988/89 budget, reduced to zero the import duties on rice and tea in order to offset the increases in their world market prices and rationalized duties on several other consumer goods to simplify collection. At the same time, a major administrative effort is being mounted to minimize revenue leakages from the misclassification of imports as duty free items by verifying the actual use for development purposes of imports accorded duty free status. Finally, to increase the efficiency of the income tax system and curtail widespread tax evasion, the income tax law

was reformed (effective January 1, 1988) by reducing the number of tax brackets, raising and unifying the standard allowance, reducing the highest marginal tax rates, incorporating certain sources of nonwage income into the taxable base, and enhancing the legal power of the tax authorities.

With respect to expenditures, the Government will continue to focus upon controlling outlays on subsidies and personal emoluments and to give priority to maintenance and development needs. Most strikingly, current expenditure is projected to decline by some 27 percent over the 1988/89-1990/91 period due to the planned elimination of subsidies and transfers to parastatals as a result of more flexible pricing policies and improvements in efficiency. As external grants plus net foreign borrowing is projected to be well in excess of the programmed budget deficits, the Government is expected to increase its net creditor position with the banking system throughout the period.

The basic objective of the Government's Civil Service reform program is to create a better trained, professionally managed, and adequately remunerated Civil Service of appropriate size and composition. During 1987/88, the Government developed a comprehensive Administrative Reform Program for the period 1987-90, which includes, inter alia, measures to improve Civil Service personnel management. The two most significant measures have been the establishment of a Personnel Management Office, which became operational in February 1988, and the introduction of a new Civil Service grade structure in September 1988.

In the area of public investment planning, the Government reached an agreement with the World Bank staff in early 1988 on the size and composition of the public investment program (PIP) for 1988/89-1990/91, in which priority for new investments continues to be given to the rehabilitation of infrastructure and the development of support services for the promotion of private sector activity. Also, the improved project selection criteria adopted in 1987/88, including the requirement of a minimum rate of return (where calculable) of at least 15 percent, are to be maintained. The Government will agree with World Bank staff by end-April 1989 on the PIP for 1989/90-1991/92. Since only project-related technical assistance activities are included in the PIP, the Government has prepared a consolidated roster of nonproject technical assistance activities, which specifies the sources of funding and includes projections for the following three years.

The Government has adopted a comprehensive plan for rationalizing the public enterprise sector, involving the phased divestiture of most of the Government's holdings and the negotiation of performance contracts with those enterprises which are to remain within the Government's portfolio. During 1987/88, the Government's minority shareholdings in a commercial bank, a trading company, and an ice plant were sold to the public, and a leasing agreement was concluded with a foreign company for operating a wholly government-owned major hotel.

Moreover, the Government signed full-year performance contracts with The Gambia's three largest nonfinancial public enterprises--the GPMB, the GUC, and The Gambia Port Authority (GPA).

For 1988/89, government shares in another trading company have already been floated, while those in The Gambia National Insurance Corporation are to be offered for sale in March 1989. In addition, the Government is on the verge of completing the sale of its holdings in a hotel, a cold storage company, and a sawmill, and the leasing of another ice plant. It will also continue to monitor closely the implementation of the performance contracts with the GPMB, GUC, and GPA. Moreover, it will negotiate and sign by end-June 1989 performance contracts with The Gambia Telecommunications Company (GAMTEL), the Social Security and Housing Finance Corporation (SSHFC), and The Gambia Public Transport Corporation (GPTC). Finally, during 1988/89 the Government will implement an action program for the financial, managerial, and operational reform of The Gambia's largest commercial Bank (The Gambia Commercial and Development Bank--GCDB).

3. Exchange rate and other pricing policies

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. Since mid-March 1986, the interbank rate for the dalasi has moved narrowly between D 10.95 and D 12.10 per pound sterling (compared with the prefloat rate of D 5 per pound sterling). The interbank exchange system, supported by a liberalized interest rate policy, has functioned smoothly and has resulted in the virtual elimination of the differential between the interbank and parallel market rates. Moreover, the new system has encouraged bank intermediation of foreign exchange receipts previously channeled through the parallel market and has helped the authorities increase official reserves. The Government will continue to monitor carefully the evolution of the system to ensure its orderly functioning. Regarding the real effective exchange rate, after depreciating by some 18 percent during 1986/87 reflecting the sharp initial depreciation of the dalasi with the introduction of the floating exchange rate system, it appreciated by about 7 percent during 1987/88 as a result of both an appreciation in the nominal effective rate and more rapid inflation in The Gambia than in trading partner countries (Chart 2).

To ensure a pass-through of exchange rate effects on prices to consumers, the Government has continued to follow a pragmatic approach to the pricing of petroleum products, public utilities, and bus transport. During 1987/88, water and electricity tariffs were again increased (by varying percentage margins). The pass-through effects of the sharp depreciation of the dalasi in early 1986 have already occurred, but the Government will continue to review these prices and tariffs and make more frequent adjustments when necessary to reflect developments in costs, including those associated with further exchange rate movements.

4. Monetary and credit policies

The Government is continuing to support its fiscal policy with a monetary and credit policy aimed at further moderating inflation, generating domestic financial savings, and achieving its external targets. In establishing the annual credit programs, principal consideration continues to be given to a prudent rate of monetary growth and the projected buildup in gross official foreign reserves and reduction in external payments arrears. Consistent with the projected monetary growth and an increase in net foreign assets of the banking system, appropriate limits will continue to be placed on the net domestic assets of the banking system, with sublimits on net bank credit to Government and on gross bank credit to the GPMB. To buttress monetary and credit policy, the reserve ratio requirements will continue to be adjusted, as required, and government securities will be tendered in a sufficient volume to provide a remunerative domestic outlet for possible excess liquidity.

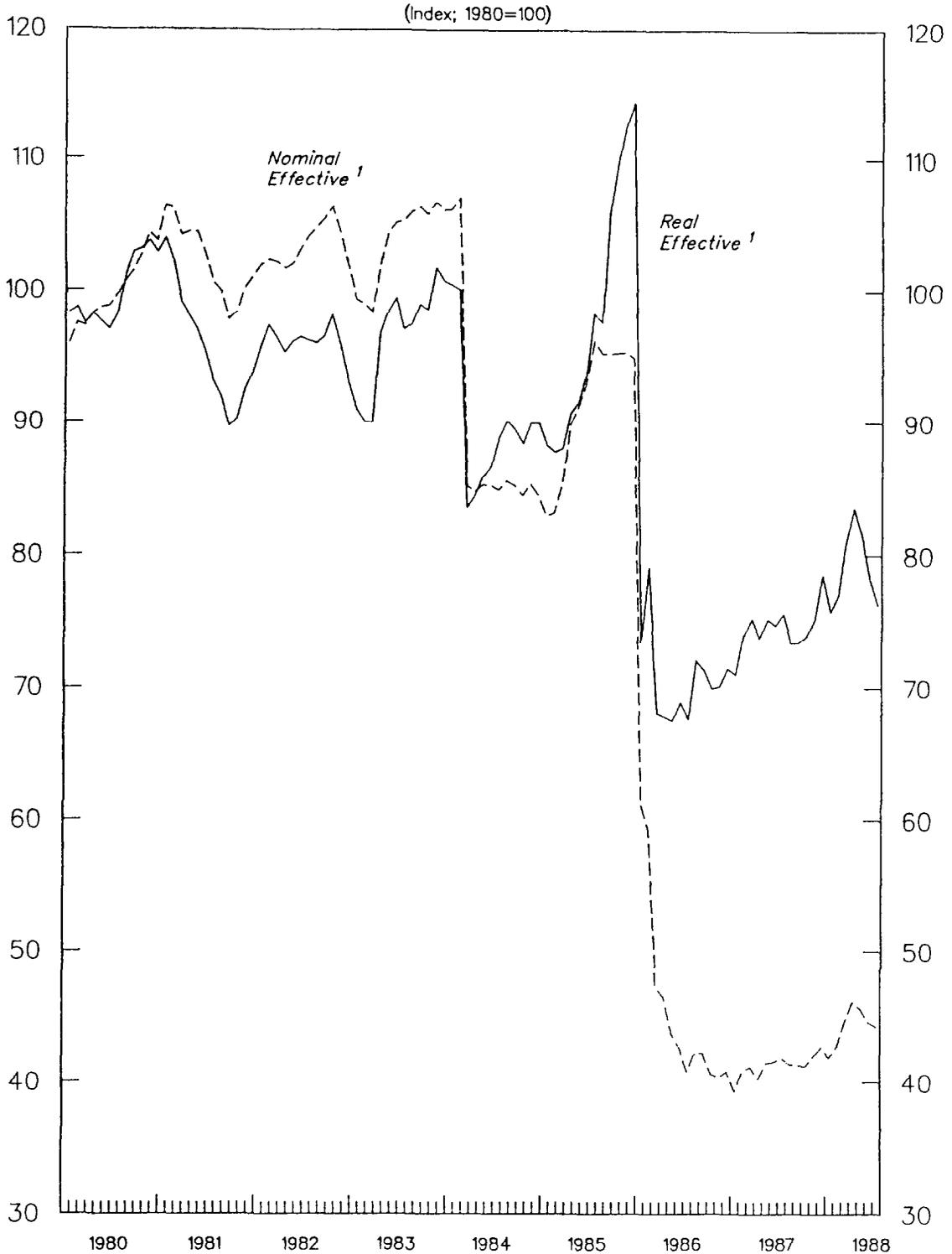
The flexible interest rate policy adopted in July 1986 has exhibited appropriate flexibility. Despite a recent decline in the Treasury Bill rate to 16 percent from its peak of 20 percent, real rates of return on financial assets have remained positive, in view of the sharp deceleration in inflation. To facilitate the continuation of an appropriate interest rate policy and offer a wider range of financial assets, the Government will seek to change the pattern of its security issues from predominantly short-term Treasury Bills, as at present, by relying increasingly on medium-term obligations. Moreover, to make government securities accessible to a larger segment of the nonbank public, offerings will be made in much smaller denominations than the current minimum of D 100,000. The new securities will be available to both the commercial banks and nonbank public, and the interest rates on these issues will be reflected in the entire interest rate structure.

5. External assistance and financing requirements

Notwithstanding the progress made over the past two years, The Gambian authorities recognize that the country's medium-term external position remains vulnerable, as, even with the attainment of the present three-year program's targets, the external current account deficit in 1990/91 would still amount to almost 20 percent of GDP. Moreover, as shown in Scenario B in Table 6, under assumptions of lower real export growth and marginally higher import prices than in the program's balance of payments projections (Scenario A), the current account deficit would be 24 percent of GDP in 1992/93, with seriously adverse implications for reserves.

Over the period 1988/89-1990/91, if The Gambia is to achieve the expansion and diversification of its production base needed to achieve a viable external position and attain the program targets for arrears and reserves, substantial external assistance and financing

CHART 2
THE GAMBIA
DEVELOPMENTS IN EFFECTIVE EXCHANGE RATES,
JANUARY 1980-JULY 1988



Source: IMF, Information Notice System.
¹ Trade-weighted.



Table 6. The Gambia: Summary Medium-Term Balance of Payments Scenarios, 1987/88-1992/93

(In millions of SDRs)

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93				
	<u>Scenario A</u>									
Exports, f.o.b.	60.7	64.8	69.1	73.7	78.6	83.2				
Of which: groundnuts	13.5	14.3	15.6	17.0	18.6	19.6				
other domestic exports	3.6	4.3	4.7	5.2	5.7	6.3				
Imports, f.o.b.	-82.7	-89.0	-94.7	-100.6	-106.8	-113.3				
Current account	-31.1	-31.3	-31.5	-31.2	-30.9	-31.6				
Percent of GDP	-24.0	-22.4	-21.1	-19.5	-18.1	-17.2				
Overall surplus/deficit (-)	12.1	21.2	19.3	11.9	6.9	5.5				
Gross official reserves										
End-of-period stock	20.4	32.8	44.4	58.5	62.3	66.1				
In months of imports, c.i.f.	2.5	3.8	4.8	6.0	6.0	6.0				
	<u>Scenario B</u>									
Exports, f.o.b.	60.7	63.7	67.3	71.2	75.2	78.9				
Of which: groundnuts	13.5	13.6	14.5	15.5	16.5	17.0				
other domestic exports	3.6	3.9	4.1	4.3	4.5	4.7				
Imports, f.o.b.	-82.7	-90.2	-97.4	-104.8	-112.8	-121.5				
Current account	-31.1	-33.9	-36.9	-39.8	-43.4	-48.5				
Percent of GDP	-24.0	-23.8	-23.7	-23.5	-23.5	-24.1				
Overall surplus/deficit (-)	12.1	18.5	13.9	3.3	-5.6	-11.4				
Gross official reserves										
End-of-period stock	20.4	30.1	36.4	41.8	33.1	20.1				
In months of imports, c.i.f.	2.5	3.4	3.8	4.1	3.0	1.7				
	<u>Different Assumptions Between Scenarios A and B</u>									
	<u>1988/89</u>		<u>1989/90</u>		<u>1990/91</u>		<u>1991/92</u>		<u>1992/93</u>	
	A	B	A	B	A	B	A	B	A	B
	(Percentage changes)									
Volume of groundnut exports	11.4	6.9	2.5	—	2.5	—	2.5	—	2.5	—
Volume of other domestic exports	15.5	4.4	6.8	1.9	6.8	1.9	6.8	1.9	6.8	1.9
Import prices	3.4	5.4	3.0	5.0	3.0	5.0	3.0	5.0	3.0	5.0

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

(SDR 197.5 million) will be required. While the Government will continue to observe the moratorium on contracting or guaranteeing new nonconcessional external debt, the authorities expect that bilateral and multilateral donors will continue to support The Gambia's adjustment efforts and structural reforms. In particular, crucial financing during this period is expected from (i) the second World Bank SAC (including cofinancing) amounting to about SDR 25 million over 1988/89-1989/90 and (ii) the annual arrangements under the ESAF, providing SDR 20.52 million over 1988/89-1990/91. The authorities expect these inflows to be complemented by modestly rising technical assistance grants and project-related grants and loans from other multilateral and bilateral donors and by modest but sustained private capital account surpluses. Based on the above, it is expected that the financing requirements will be met. In addition, based on the program's balance of payments projections, there would appear to be no significant cause for concern regarding The Gambia's capacity to service its debt to the Fund. In this connection, The Gambia is maintaining its arrangement for the advance acquisition of SDRs and has recently had a good payments record.

6. Social impact and long-term issues

As described above, improvements in the policy environment (coupled with favorable weather) led to an increase in real GDP of over 5 percent in both 1986/87 and 1987/88, successfully reversing the previous economic decline and resulting in increases in real per capita GDP. The rate of inflation was significantly lowered and a climate more conducive to the growth of the private sector has emerged, providing enhanced employment opportunities throughout the economy. Moreover, as a result of the exchange rate and trade reforms, there have been increased availabilities of imported goods and agricultural inputs. The authorities believe that the policies adopted for the 1988/89-1990/91 period should continue to contribute to broadly-based economic growth and provide further increases in per capita incomes. Although the lower domestic producer price for groundnuts in 1988/89 could adversely affect rural incomes, this should be mitigated to some extent by increased unrecorded groundnut exports at higher prices, by higher groundnut production resulting from productivity gains, and by expanded production of sesame and cereals. In addition, to raise farm incomes, measures are being taken to improve services to farmers, to increase the efficiency of groundnut marketing and processing, as well as to diversify production. To address the problem of transitional unemployment among retrenched public sector workers, a Civil Service Resettlement Program was established, which provided employment counselling, entrepreneurship and specialized technical training, and financial assistance for new business ventures. There are indications that the retrenched workers have been absorbed into private employment more readily than initially expected, owing to the revived economy, particularly in the agricultural sector. In addition, several new donor-assisted programs are being undertaken in rural areas, such as labor-intensive road maintenance and locally-administered construction schemes. Despite the constraints on the overall government budget, the basic social services provided by the

Government--health and education--have been protected with external financial assistance. Priority continues to be accorded to broadening the range of these services and targeting them more precisely.

The Gambia, with a per capita income in 1987 estimated at about US\$230, is one of Africa's least developed countries. Given its resource endowment and small domestic market, the long-term potential of the country appears to be mainly in a diversified agricultural sector and in expanded fishing, tourism, and entrepot trade activities. The Government recognizes that The Gambia's capacity to fully develop and exploit the potential in the various sectors will depend crucially on its ability to overcome the pressing constraints imposed by continued high population growth rates, high rates of adult illiteracy, and relatively poor health conditions, despite recent success achieved by government-supported programs promoting family planning services and providing improved health care and educational facilities.

IV. The Program for 1988/89

1. Objectives

The main quantitative objectives of the Government's program for 1988/89 are a rate of growth of 4.3 percent in real GDP, a further deceleration of inflation to 7.5 percent, and another reduction in external payments arrears plus a further reconstitution of foreign reserves. The program calls for containing the external current account deficit at about SDR 31 million (its 1987/88 level), which implies a decline in its ratio to GDP by about 1.5 percentage points to 22.4 percent.

2. Policies

A key policy variable, namely the groundnut producer price, has been set with the aim of curtailing the budgetary transfer to the GPMB to about 1 percent of GDP, compared with a transfer (for current operations) of some 4 percent of GDP in 1987/88. Taking into account projections for world market prices and further cost-saving efforts by the GPMB, in June the domestic producer price for 1988/89 was announced, implying a reduction of about 27 percent from the 1987/88 price and an almost 40 percent cut from the 1986/87 price. However, should world market prices in the near term improve significantly, the authorities would wish to review, in consultation with the Fund, the producer price for 1988/89 with a view to passing on some of the gains to producers after eliminating both the subsidy to the GPMB and the GPMB's debt (apart from seasonal credit) to the banking system.

The Government's fiscal objective for 1988/89 is to limit the overall budgetary deficit to 8.3 percent of GDP. Much of the reduction in the deficit would result from the nonrecurrence of the two exceptional transfers in 1987/88 totaling 8.3 percent of GDP--namely the

repayment of the large public enterprise debts to the CBG. In addition, as noted above, the budgetary transfer to the GPMB for current operations will be sharply curtailed, and "other charges" (which include outlays for maintenance, travel, embassies, supplies, and services) will be contained at close to their 1987/88 level, after an increase of 43.5 percent last year (which exceeded the program level by about 17 percent) mainly for urgently required maintenance and more adequate levels of supplies. The authorities have emphasized that the supplementary outlays for "other charges" in 1987/88 which have a recurrent character have been fully provided for in the 1988/89 budget. An increase of 24 percent has been budgeted for personal emoluments and pensions, which takes account of both the cost of the new Civil Service grade structure and a prospective long-delayed general wage and salary adjustment. Development outlays will be permitted to rise by almost 16.5 percent, in line with the public investment program agreed with the World Bank. On the revenue side, as discussed above, measures are being taken to administer effectively the reformed income tax law, to fully implement the new sales tax, and to minimize revenue leakages from the misclassification of imports as duty free items. External grants plus net foreign borrowing is projected to be well in excess of the budget deficit, with the result that the Government's net creditor position with the banking system in 1988/89 is expected to increase by the equivalent of 48 percent of the end-June 1988 money supply.

The authorities' monetary and credit program for 1988/89 takes account of a possible further financial deepening associated with the improved economic environment and rising real positive interest rates and therefore makes allowance for another decline in the income-velocity of money. Thus, the demand for money balances is projected to increase by 18.5 percent in 1988/89 on an average annual basis, compared with an increase in nominal GDP of 14 percent (Table 7). Given the program target for the increase in the net foreign assets of the banking system (equivalent to 53 percent of beginning-of-period money supply), net domestic assets of the banking system (defined to exclude the counterpart of valuation changes in the net foreign assets of the CBG) are programmed to decline by the equivalent of 28 percent of beginning-of-period money supply. This is consistent with the programmed increase in the Government's net creditor position with the banking system; the increased credit requirements of the GPMB (equivalent to 8 percent of beginning-of-period money supply); and adequate growth in credit to the private sector and other public enterprises (equivalent to 12 percent of beginning-of-period money supply). As in the two-year period ended June 1988, the increase in the demand for money in 1988/89 would be accommodated entirely by an increase in net foreign assets. During the first half of 1988/89, broad money is expected to decline slightly due to a contractionary development of net foreign assets associated mainly with the seasonally low level of groundnut export and tourism receipts. By contrast, during the second half of 1988/89, money plus quasi-money is projected to rise sharply with the receipt of the bulk of groundnut export and tourism earnings. To reinforce their monetary and credit program, as discussed above, the authorities will continue to adjust the

Table 7. The Gambia: Monetary Survey, June 1986-June 1989

(In millions of dalasis; end of period)

	1986	1987	1988	1988		1989		
	June	June	June	Sept.	Dec.	March	June	
				Program				
Net foreign assets	<u>-584.7</u>	<u>-313.2</u>	<u>-176.0</u>	<u>-219.5</u>	<u>-231.6</u>	<u>-92.1</u>	<u>33.1</u>	
Monetary authorities	-595.4	-333.4	-192.1	-235.6	-247.7	-108.2	17.0	
Foreign assets	(11.4)	(97.7)	(255.8)	(189.5)	(180.3)	(280.2)	(369.9)	
Foreign liabilities	(-606.8)	(-431.1)	(-447.9)	(-425.1)	(-428.0)	(-388.4)	(-352.9)	
Commercial banks	10.7	20.2	16.1	16.1	16.1	16.1	16.1	
Net domestic assets	<u>594.2</u>	<u>294.5</u>	<u>224.9</u>	<u>253.8</u>	<u>268.8</u>	<u>236.7</u>	<u>115.6</u>	
Domestic credit	501.3	326.2	256.4	285.3	300.3	268.2	147.1	
Government (net)	(100.3)	(-64.7)	(-37.3)	(-5.8)	(-17.0)	(-142.6)	(-226.4)	
Public enterprises	(217.4)	(216.7)	(101.4)	(89.2)	(105.8)	(189.7)	(142.7)	
GPMB	[132.8]	[156.0]	[56.0]	[46.8]	[47.8]	[115.6]	[88.1]	
NorGPMB	[84.6]	[60.7]	[45.5]	[42.4]	[58.0]	[74.1]	[54.6]	
Private sector	(183.6)	(174.2)	(192.3)	(201.9)	(211.5)	(221.1)	(230.8)	
Other	92.9	-31.8	-31.5	-31.5	-31.5	-31.5	-31.5	
Revaluation account	<u>237.4</u>	<u>392.8</u>	<u>392.2</u>	<u>392.2</u>	<u>392.2</u>	<u>392.2</u>	<u>392.2</u>	
SDR allocation	<u>-19.5</u>	<u>-46.8</u>	<u>-46.8</u>	<u>-46.8</u>	<u>-46.8</u>	<u>-46.8</u>	<u>-46.8</u>	
Money plus quasi-money	<u>227.4</u>	<u>327.3</u>	<u>394.3</u>	<u>379.7</u>	<u>382.6</u>	<u>490.0</u>	<u>494.1</u>	
Money	129.5	192.4	222.1	...	...	...	...
Quasi-money	97.9	134.9	172.2	...	...	...	...

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

reserve ratios, as required, and will take actions to improve the maturity structure and acceptability of government securities so as to provide a remunerative domestic outlet for possible excess liquidity and to facilitate the continuation of an appropriate interest rate policy.

In the external sector, the current account deficit in 1988/89 is projected to remain virtually unchanged at about SDR 31 million, despite a projected 6 percent deterioration in the terms of trade, as higher imports, consistent with the projected expansion in output and investment, are expected to be compensated for by a rebound in re-exports, continued growth in groundnut and other domestic exports and in tourism receipts, and another reduction in net interest payments. A marked improvement is foreseen for the capital account, largely reflecting disbursements under the second World Bank SAC (SDR 13.5 million), and an increased balance of payments surplus of some SDR 21 million is expected. After taking into account prospective disbursements under the ESAF of SDR 6.84 million, the authorities aim to reduce external payments arrears on a cash basis by at least SDR 10 million, while continuing to build up gross official foreign reserves by at least SDR 9 million, to the equivalent of 3.4 months' imports.

3. Benchmarks and performance criteria for 1988/89

The program's benchmarks for monitoring structural policy implementation in 1988/89, as shown in Table 8, relate to: (i) implementation of a new Civil Service grade structure; (ii) preparation of a public investment program for 1989/90-1991/92; (iii) full implementation of the new sales tax; (iv) progress in minimizing revenue leakages from the misclassification of imports as duty free items; and (v) the signing of performance contracts with GAMTEL, the SSHFC, and the GPTC.

The quantitative benchmarks for 1988/89, set forth in Table 9, comprise quarterly limits on: (i) the net domestic assets of the banking system (defined to exclude the counterpart of valuation changes in the net foreign assets of the CBG); (ii) net bank credit to Government; (iii) gross bank credit to the GPMB; (iv) the Government transfer to the GPMB; (v) total external payments arrears; (vi) short-term external public debt outstanding; (vii) new external loans on nonconcessional terms contracted or guaranteed by the Government in the maturity ranges of 1-5 years and 1-12 years; and (viii) the minimum level of gross foreign reserves to be held by the CBG.

The quantitative performance criteria under the first annual ESAF arrangement for end-December 1988, as also set forth in Table 9, include (i), (ii), and (v-viii) above. The standard clause regarding the exchange and payments system shall also constitute a performance criterion. The disbursement of the second loan under the first annual ESAF arrangement will also be subject to a mid-term review with the Fund, to be completed by end-March 1989. This review will pay particular attention to the implementation of the sales tax, progress in

Table 8. The Gambia: Structural Benchmarks
for the First Annual Arrangement Under the
Enhanced Structural Adjustment Facility, 1988/89

Policy measures	Timing
1. Introduce a new Civil Service grade structure	By September 30, 1988
2. Prepare a public investment program for 1989/90-1991/92 in consultation with the World Bank	By April 30, 1989
3. Full implementation of the new sales tax	By June 30, 1989
4. Actions to minimize revenue leakages from the misclassification of imports as duty free items	During 1988/89
5. Sign performance contracts with The Gambia Telecommunications Company, the Social Security and Housing Finance Corporation, and The Gambia Public Transport Corporation	By June 30, 1989

Source: Memorandum on Economic and Financial Policies of the Republic of The Gambia for the Period July 1, 1988-June 30, 1991, Table 3.

Table 9. The Gambia: Quantitative Performance Criteria and Benchmarks
for the First Annual Arrangement Under the
Enhanced Structural Adjustment Facility, 1988/89

Performance criteria and quantitative benchmarks	Stock at June 30, 1988	Maximum cumulative change from July 1, 1988 to			
		Sept. 30, 1988 Bench- marks	Dec. 31, 1988 Perf. crit.	March 31, 1989 Bench- marks	June 30, 1989 Bench- marks
(In millions of dalasis)					
Domestic sector					
Net domestic assets <u>1/ 2/ 3/</u>	224.9	28.9	43.9	11.8	-109.3
Net credit to Government <u>2/ 3/ 4/</u>	-37.3	31.5	20.3	-105.3	-189.1
Performance criteria and quantitative benchmarks	Stock at June 30, 1988	Maximum stock at the end of			
		Sept. 30, 1988 Bench- marks	Dec. 31, 1988 Perf. crit.	March 31, 1989 Bench- marks	June 30, 1989 Bench- marks
(In millions of SDRs)					
External sector					
Total arrears <u>5/ 6/</u>	26.0	24.3	22.6	20.9	16.0
Short-term public sector debt outstanding <u>7/</u>	--	--	--	--	--
Contracting or guaranteeing of new medium- or long-term nonconcessional debt by the public sector in the 1-5 and 1-12 year maturity ranges during period	--	--	--	--	--
Performance criterion and quantitative benchmark	Stock at June 30, 1988	Minimum stock at the end of			
		Sept. 30, 1988 Bench- mark	Dec. 31, 1988 Perf. crit.	March 31, 1989 Bench- mark	June 30, 1989 Bench- mark
(In millions of SDRs)					
External sector					
Gross official reserves	20.4	12.0	12.0	19.6	29.4
Quantitative benchmark	Stock at June 30, 1988	Maximum cumulative change from July 1, 1988 to			
		Sept. 30, 1988	Dec. 31, 1988	March 31, 1989	June 30, 1989
(In millions of dalasis)					
Domestic sector					
Gross bank credit to the GPMB	56.0	-9.2	-8.2	59.6	32.1

Table 9. The Gambia: Quantitative Performance Criteria and Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1988/89 (concluded)

Quantitative benchmark	Maximum level at the end of			
	Sept. 30, 1988	Dec. 31, 1988	March 31, 1989	June 30, 1989
(In millions of dalasis)				
Domestic sector				
Government transfer to the GPMB	13.2	13.2	13.2	13.2

Source: Memorandum on Economic and Financial Policies of the Republic of The Gambia for the Period July 1, 1988-June 30, 1991, Tables 4 and 5.

1/ Excludes the counterpart of valuation changes in net foreign assets of the CBG.

2/ The limits for September, December, and March will be adjusted downward or upward by the full amount of the cumulative excess or shortfall of external cash loans and grants and commodity assistance (loans and grants), compared with the program estimates for the periods July-September 1988, July-December 1988, and July 1988-March 1989, respectively; and the limit for June will be adjusted downward by the full amount of the cumulative excess of such loans and grants over the program estimate for the period July 1988-June 1989.

3/ The limits for September, December, March, and June will be adjusted downward by the full amount of the cumulative shortfall in the payment of the domestic counterpart of all government debt service obligations falling due during the periods July-September 1988, July-December 1988, July 1988-March 1989, and July 1988-June 1989, respectively.

4/ The limits for September, December, March, and June will be adjusted downward by the full amount of the cumulative excess of recovery of principal by the Government with respect to the Managed Fund, compared with the program estimates for the periods July-September 1988, July-December 1988, July 1988-March 1989, and July 1988-June 1989.

5/ The limits for September, December, and March will be adjusted downward or upward 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 1988, July-December 1988, and July 1988-March 1989, respectively; and the limit for June will be adjusted downward by the full amount of the cumulative excess of such financing over the program estimate for the period July 1988-June 1989. Also, these limits will be adjusted downward or upward by the full amount of additional rescheduling or by the full amount of disclosure of arrears which modifies the end-June 1988 stock.

6/ After rescheduling and valued at end-June 1988 exchange rates.

7/ Excludes trade-related credits.

minimizing revenue leakages from the misclassification of imports as duty free items (as evidenced by growth in customs duties above that in the value of imports), and the effectiveness in limiting outlays on "other charges" to the budgeted level.

V. Staff Appraisal

During 1987/88 The Gambia made further progress in policy implementation and most of the targets of the SAF-supported program were attained. Growth in real GDP was again higher than anticipated; there was another pronounced deceleration in the rate of inflation; the external current account deficit was somewhat smaller than programmed; and the authorities continued to reduce external payments arrears and build up foreign reserves. Of particular importance in achieving these gains were adherence to the program's fiscal stance; the maintenance of restraint in overall credit policy; appropriate flexibility in the conduct of interest rate policy; and the continued proper functioning of the floating exchange rate system. At end-June 1988 most of the SAF arrangement's quantitative benchmarks were observed, with the deviations from several benchmarks attributable to technical reasons, a delay in the conclusion of a second World Bank SAC, and an unanticipated repayment by the Government of public enterprise debt. Moreover, adherence to the SAF arrangement's structural policy benchmarks was also broadly satisfactory. A revised investment code was enacted; a recovery plan for outstanding agricultural cooperative loans was implemented; the preferential buying allowance of the cooperative was eliminated; a new Personnel Management Office became operational; a public investment program for 1988/89-1990/91 was prepared; a roster of nonproject technical assistance activities was completed; performance contracts with the three largest nonfinancial public enterprises became effective; a reform of the income tax law was implemented; and a general sales tax was approved.

Despite the broadly-based improvements over the past two years, The Gambia's external payments position remains vulnerable and heavily dependent upon official transfers and concessional lending, which clearly calls for further vigorous implementation of policies under the proposed ESAF-supported program.

Within the context of updating their PFP to cover the period 1988/89-1990/91, the Gambian authorities have reassessed medium-term external financing prospects as well as the growth potential of the Gambian economy, and, on this basis, have raised slightly the target annual rate of growth for real GDP from 3.5-4.0 percent to 4 percent to permit a further recovery in real per capita income. The external current account deficit (excluding official transfers) is programmed to decline steadily in relation to GDP to a level which, with the maintenance of an appropriate debt profile, would be consistent with reductions in both the external debt service and debt/GDP ratios.

For The Gambia's recent success to be consolidated and expanded, it is vital that bilateral and multilateral donors continue to support The Gambia's adjustment efforts and structural reforms, with crucial financing being sought from a second World Bank SAC and the three-year arrangement under the ESAF. Assuming modest but sustained surpluses in the private capital account, the anticipated financing is projected to be sufficient to enable The Gambia to eliminate its remaining external payments arrears by end-1989/90 and to accumulate external reserves to the equivalent of 6 months' imports in 1990/91. Also, based on the program's balance of payments projections, there would appear to be no significant cause for concern regarding The Gambia's capacity to service its debt to the Fund. In this connection, the staff notes that The Gambia is maintaining its arrangement for the advance acquisition of SDRs and its recently good payments record.

As spelled out in the updated PFP, the program for the period 1988/89-1990/91 builds upon the major progress already made in key areas and correctly emphasizes the continuation of appropriate exchange rate, interest rate, demand management (especially a sharp curtailment of the budget deficit), and external debt and reserve policies. In addition, given The Gambia's low per capita income and need to exploit fully its economic potential and provide widespread benefits of development, it will also be essential for the authorities to implement effectively their stated policies for promoting growth in agriculture, industry, fisheries, and tourism; continuing reform of the public enterprises and stepped-up government divestiture of holdings; and further improving the allocative efficiency of government expenditures.

The Government has set feasible objectives for 1988/89, including a rate of growth of 4.3 percent in real GDP; a continued deceleration in inflation; a narrowing of the external current account deficit in relation to GDP; and a further reduction in external payments arrears plus another increase in foreign reserves.

A key policy variable, namely the groundnut producer price, has been set with the appropriate aim of curtailing the budgetary subsidy to the GPMB to about 1 percent of GDP, from 4 percent in 1987/88. The budget deficit target is premised mainly on the nonrecurrence of the exceptional transfers in 1987/88 in respect of the repayment of large public enterprise debts and the sharply curtailed subsidy to the GPMB. However, adherence to the target will also depend importantly on containing "other charges" at close to their 1987/88 level and on implementing the new Civil Service grade structure and long-delayed general wage and salary adjustment in a manner consistent with the budgetary provision for personnel emoluments. The authorities are appropriately permitting a pickup in the pace of development outlays in 1988/89 in accord with the public investment program agreed with the World Bank. On the revenue side, strong efforts must be made to administer effectively the reformed income tax law, to fully implement the new sales tax, and to minimize revenue leakages from the misclassification of imports as duty free items.

The Gambian authorities are again to be commended for their continued implementation of prudent financial policies. The monetary and credit program for 1988/89 takes adequate account of a possible further financial deepening in the economy and the projected increase in the net foreign assets of the banking system. To ensure that, as over the past two years, there is no positive domestic contribution to monetary growth, net domestic assets of the banking system are programmed to decline sharply. However, if there is any indication of money demand falling short of the program's projection, the authorities will need to tighten the credit program. Moreover, the authorities should ensure that the interest rates on the new securities to be issued by the Government are reflected in the entire interest rate structure.

Although the external current account deficit in 1988/89 is programmed to remain virtually unchanged, an increased overall balance of payments surplus is expected, largely reflecting prospective disbursements under the second World Bank SAC. Taking into account, also, the expected ESAF disbursements, the staff supports the authorities' decision to use this opportunity to further reduce external payments arrears and to increase gross official foreign reserves to the equivalent of almost 3.5 months' imports.

In view of the progress already achieved, the continued commitment shown by the Gambian authorities, and the policies spelled out for the period 1988/89-1990/91, the staff strongly endorses the updated Gambian three-year program and the detailed program presented for 1988/89.

The Gambian program includes a comprehensive plan for eliminating external payments arrears. Therefore, the staff recommends approval of the exchange restrictions evidenced by these arrears and the multiple currency practice arising from the cost of advanced domestic currency counterpart deposits required to be made by purchasers of foreign exchange prior to the payment of external obligations in arrears.

The staff proposes that the next Article IV consultation be held on the standard 12-month cycle.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board.

A. 1988 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 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 , 1989, or the conclusion of the next Article IV consultation with The Gambia, whichever is earlier.

B. Three-Year and First Annual Arrangements Under the ESAF

1. The Government of The Gambia has requested a three-year structural adjustment arrangement under the enhanced structural adjustment facility and the first annual arrangement thereunder.

2. The Fund notes the updated policy framework paper for The Gambia set forth in EBD/88/289.
3. The Fund approves the arrangements set forth in EBS/88/214.

The Gambia - Enhanced Structural Adjustment Facility:
Three-year and First Annual Arrangements

Attached hereto is a letter with an attached memorandum on Economic and Financial Policies dated October 11, 1988, from the Minister of Finance and Trade and the Acting Governor of the Central Bank of The Gambia, requesting from the International Monetary Fund a three-year arrangement under the enhanced structural adjustment facility and the first annual arrangement thereunder and setting forth

- (i) the objectives and policies of the program to be supported by the three-year arrangement; and
- (ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements in accordance with the following provisions, and subject to the Regulations for the administration of the structural adjustment facility and the Instrument to Establish the Enhanced Structural Adjustment Facility Trust:

1. (a) For a period of three years from November , 1988, The Gambia will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 20.52 million. Of this amount, the equivalent of SDR 2,308,500 shall be provided from the structural adjustment facility within the Special Disbursement Account, and the equivalent of SDR 18,211,500 shall be provided from the Enhanced Structural Adjustment Facility Trust, subject to any changes in the amount of access to the structural adjustment facility.

(b) The amount of the annual arrangements will be the equivalent of SDR 6.84 million for the first annual arrangement; the equivalent of SDR 6.84 million for the second annual arrangement; and the equivalent of SDR 6.84 million for the third annual arrangement.

(c) Under the first annual arrangement:

- (i) the first loan, in an amount equivalent to SDR 3.42 million, will be available December 15, 1988 at the request of The Gambia; and
- (ii) the second loan, in an amount equivalent to SDR 3.42 million, will be available on May 31, 1989 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(c)(ii) above

(a) if the Managing Director finds that the data at the end of December 1988 indicate that:

- (i) the limit on net domestic assets of the banking system described in paragraph 13 of the attached memorandum was not observed; or
- (ii) the limit on net bank credit to the Government described in paragraph 13 of the attached memorandum was not observed; or
- (iii) the limit on total external payments arrears described in paragraph 13 of the attached memorandum was not observed; or
- (iv) the limit on short-term external public debt outstanding described in paragraph 13 of the attached memorandum was not observed; or
- (v) the limit on new external loans on nonconcessional terms contracted or guaranteed by the Government in the maturity ranges of 1-5 years and 1-12 years described in paragraph 13 of the attached memorandum was not observed; or
- (vi) the target on the minimum level of gross foreign reserves to be held by the Central Bank of The Gambia described in paragraph 13 of the attached memorandum was 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 mid-term 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(c)(ii) 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 second 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 first annual arrangement, taking into account primarily:

(a) the indicators described in paragraphs 12 and 13 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 first 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 first 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

October 11, 1988

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

Dear Mr. Camdessus,

1. The objectives of a three-year program of economic and financial adjustment are set out in the policy framework paper (PFP) for the period July 1988-June 1991, which was prepared in 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 Republic of The Gambia, based on the PFP 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, 1988, and the objectives and policies for the first annual program thereunder. In support of these objectives and policies, The Gambia hereby requests a three-year arrangement under the enhanced structural adjustment facility in an amount equivalent to SDR 20.52 million and the first annual arrangement thereunder in an amount equivalent to SDR 6.84 million.

3. The Gambia 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 on Economic and Financial Policies 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 first 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 Gambia or whenever the Managing Director requests such a consultation. Moreover, after the period of the first 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.

5. In addition, The Gambia will conduct with the Fund a mid-term review of its first annual program, to be completed not later than March 31, 1989.

Sincerely yours,

/s/
S.S. Sisay
Minister of Finance
and Trade

/s/
M.M. Jagne
Acting Governor
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, 1988-JUNE 30, 1991

1. On September 17, 1986, the Fund approved for The Gambia a three-year arrangement in an amount equivalent to SDR 10.9 million (or 63.5 percent of The Gambia's quota in the Fund) and a first annual arrangement in an amount equivalent to SDR 3.42 million (or 20 percent of quota) under the structural adjustment facility (SAF) as well as a 13-month stand-by arrangement in an amount equivalent to SDR 5.13 million (or 30 percent of quota) in support of a continuation in 1986/87 (July-June) of our Economic Recovery Program (ERP) adopted in mid-1985. In the context of the second review under the stand-by arrangement (in a letter to you dated July 21, 1987) and in the context of our request for a second annual arrangement under the SAF (in a letter to you dated November 4, 1987), we explained in detail that the adjustment program of the Government for 1986/87 was implemented successfully, and that, largely as a result, the major program objectives were achieved. On December 23, 1987, the Fund approved the second annual arrangement under the SAF in an amount equivalent to SDR 5.13 million (or 30 percent of quota) in support of our adjustment program under the ERP for 1987/88.

2. Additional progress was made during 1987/88 and most of the program targets were attained. Of particular note, the fiscal outturn was broadly as planned; restraint in overall credit policy was maintained; the interest rate policy exhibited appropriate flexibility by providing real positive rates of return on available financial assets; the floating exchange rate system for the dalasi continued to function properly, with virtually no premium in the parallel market; and a rescheduling agreement with London Club creditors was signed in January 1988. The growth in real gross domestic product (GDP) is estimated at 5.5 percent, compared with the program target of 4 percent, and, as in 1986/87, was broadly based; the rate of inflation decelerated to 9.2 percent (as measured by the consumer price index on an end-period to end-period basis), compared with the program target of 12.5 percent; and the external current account deficit (excluding official transfers) is estimated at SDR 31 million (24 percent of GDP), compared with a program target of SDR 34 million, mainly because higher-than-anticipated groundnut exports more than compensated for a decline in net re-exports. On the other hand, owing mainly to a delay in the conclusion of a second structural adjustment credit (SAC) with the World Bank, the overall balance of payments surplus (excluding exceptional financing 1/) is estimated at some SDR 12 million, compared with the program projection of about SDR 28.5 million. Nevertheless, for 1987/88 as a whole, The Gambia increased its gross official foreign reserves by

1/ Defined to include purchases and loans from the IMF, USAID balance of payments-support grant, and net debt relief.

SDR 9.5 million (to the equivalent of 2.5 months' imports) and reduced its external payments arrears on a cash basis by SDR 6.9 million. Except for the restrictions evidenced by the remaining external payments arrears, The Gambia has no restrictions on current or capital international transactions nor trade controls.

3. As shown in Table 1, adherence to the SAF arrangement's structural policy benchmarks was satisfactory, except that the introduction of a new Civil Service grade structure was delayed owing to the need to remedy inadequacies in the proposed structure prepared by consultants. Moreover, as indicated in Table 2, apart from nonobservance of the quarterly limits on net domestic assets of the banking system for technical reasons, the SAF arrangement's quantitative benchmarks were complied with through March 1988. ^{1/} At end-June 1988, however, there was nonobservance of the limit on net domestic assets of the banking system due to the technical reasons referred to and the delayed conclusion of the second SAC, the limit on net bank credit to Government due to the delayed conclusion of the second SAC and an unanticipated repayment by the Government of the debt of The Gambia Utilities Corporation (GUC) to the Central Bank of The Gambia (CBG), and the minimum reduction in external payments arrears due to the delayed conclusion of the second SAC. None of these deviations from the benchmarks reflected slippages in policy implementation.

Objectives and Policies for the Period 1988/89-1990/91

4. As outlined in our updated policy framework paper (PFP), the Government's major objectives for the period 1988/89-1990/91 are (i) sustained growth in real GDP of about 4 percent per annum, (ii) a further deceleration in the rate of inflation to 6 percent by 1990/91, and (iii) the complete elimination of external payments arrears by 1989/90 plus an accelerated buildup in external reserves to the equivalent of 6 months' imports in 1990/91. Our three-year program aims at containing the external current account deficit at about SDR 31 million (its 1987/88 level). This would imply a decline in the deficit from 24 percent of GDP in 1987/88 to 19.5 percent in 1990/91, and, with the maintenance of an appropriate debt profile, would be consistent with declines in both the external debt service and debt/GDP ratios. Moreover, the deficit by 1990/91 would be sustainable in that it would be financed totally by normal concessional inflows. The current account target is premised mainly on growth in groundnut and nontraditional exports (e.g., fish and horticultural products) and re-exports, more buoyant tourism earnings, restraint in overall import growth to below that of aggregate output, and reduced net interest payments, reflecting mainly the elimination of interest on external payments arrears and

^{1/} Other domestic assets, which had been highly unstable and difficult to predict, did not decrease, as projected under the program, but remained constant.

higher interest earnings from foreign reserves. Regarding the capital account, based on conservative assumptions, official transfers and private inflows are projected to be essentially unchanged. Although project-related loan disbursements are expected to increase modestly, the capital account surplus is projected to show a pronounced decline after the final disbursement of the second SAC in 1989/90. Nevertheless, after taking into account the prospective exceptional financing (mainly disbursements of SDR 20.52 million under the enhanced structural adjustment facility--ESAF), The Gambia would be able both to eliminate its remaining external payments arrears by end- 1989/90 and to achieve its 1990/91 reserve target.

5. Our program builds upon the major progress already made in key areas, emphasizing the continuation of appropriate exchange rate, interest rate, demand management, and external debt and reserve policies. An important policy objective is to reduce the government budget deficit (on a cash basis and excluding grants) from 21.5 percent of GDP in 1987/88 to about 6 percent in 1990/91. In addition, there will be an intensification of the structural adjustment efforts currently under way (which are to be supported also by the second World Bank SAC). As elaborated in the PFP, these include the elimination of the subsidy to the groundnut sector in 1989/90; specific policies to promote growth in agriculture, industry, fisheries, and tourism; continued reform of the public enterprises and stepped-up government divestiture of holdings; and further improvement in the allocative efficiency of government expenditures.

Program for 1988/89

6. The Government's program for 1988/89 seeks to achieve a rate of growth of almost 4.5 percent in real GDP, a lower rate of inflation (7.5 percent), and another reduction in external payments arrears plus a further reconstitution of gross official foreign reserves.

7. The Government recognizes clearly that attainment of the above objectives will depend importantly upon appropriate groundnut producer pricing as well as adherence to the fiscal policy stance adopted for 1988/89.

8. The groundnut producer price for 1988/89 was set with the aim of curtailing the budgetary transfer to The Gambia Produce Marketing Board (GPMB) to D 13 million (or about 1 percent of GDP), compared with a transfer (for current operations) of D 50 million (or some 4 percent of GDP) in 1987/88. Therefore, based on projections for world market prices and further cost-saving efforts by the GPMB, on June 24, 1988 the domestic producer price was set at D 1,100 per ton for the 1988/89 season; this represents a reduction of about 27 percent from the 1987/88 price and an almost 40 percent cut from the 1986/87 price. However, should world market prices in the coming months improve significantly (in terms of dalasis), the Government would review, in consultation with

the Fund, its producer price for 1988/89 with a view to passing on some of the gains to producers to maintain adequate incentives after eliminating both the subsidy to the GPMB and the GPMB's debt (apart from seasonal credit) to the banking system.

9. Regarding fiscal policy, the objective for 1988/89 is to limit the overall budgetary deficit to D 121 million, or 8.3 percent of GDP, compared with an estimated deficit of D 275 million, or 21.5 percent of GDP, in 1987/88. Much of the reduction in the deficit will result from the nonrecurrence of two exceptional transfers in 1987/88 totaling 8.3 percent of GDP--namely the repayment of the bulk of the GPMB's debt and of the GUC's debt to the CBG. The repayments of the debt of both of these major public sector enterprises were effected from the Government's growing net creditor position with the CBG and were consistent with the ongoing financial restructuring of the public enterprise sector. In addition, as noted above, the budgetary transfer to the GPMB for current operations will be sharply curtailed. Also, "other charges" will be contained at close to their 1987/88 level. In that year, such outlays exceeded the program level, which had already provided for an increase of 23 percent for urgently required maintenance and more adequate levels of materials and supplies, by about 17 percent. The excess was associated mainly with a deferred adjustment for embassies' expenditures to reflect the greatly depreciated level of the dalasi reached in 1986/87 and maintenance-related outlays and equipment purchases for the rehabilitation of the country's infrastructure. Those supplementary outlays in 1987/88 which have a recurrent character have been fully provided for in the 1988/89 budget. An increase of 24 percent has been budgeted for personal emoluments and pensions, which takes account of both the cost of the new Civil Service grade structure and a long-delayed general wage and salary adjustment. The program provides for a pickup in the pace of development outlays--an increase of almost 16.5 percent above the 1987/88 level--in line with the public investment program agreed with the World Bank. On the revenue side, enhanced performance is expected from measures being taken to administer effectively the reformed income tax law, to fully implement the new sales tax, and to minimize revenue leakages from the misclassification of imports as duty free items. Actions to effect the latter are expected to result, alone, in growth of 2.5 percent in customs duties. Based on the prospect of another high level of net foreign financing, the Government's net creditor position with the banking system in 1988/89 is programmed to increase by the equivalent of 48 percent of the end-June 1988 money supply.

10. The monetary and credit program for 1988/89 takes account of a possible further financial deepening associated with the improved economic environment and sustained real positive interest rates on available financial assets and therefore makes allowance for another decline in the income velocity of money. Thus, the demand for increased money balances in 1988/89 is projected at 25 percent on an end-period to end-period basis and at 18.5 percent on an average annual basis, compared with an increase in nominal GDP of 14 percent. Given this

projected increase in the demand for money and the program target for the increase in the net foreign assets of the banking system (equivalent to 53 percent of beginning-of-period money supply), the program calls for a decline in the net domestic assets of the banking system (defined to exclude the counterpart of valuation changes in the net foreign assets of the CBG) equivalent to 28 percent of beginning-of-period money supply. This is consistent with the programmed increase in the Government's creditor position with the banking system; the increased credit requirements of the GPMB (equivalent to 8 percent of beginning-of-period money supply); and adequate growth in credit to the private sector and other public enterprises (equivalent to 12 percent of beginning-of-period money supply). Therefore, as in the two-year period ended June 1988, the increase in the demand for money in 1988/89 would be accommodated entirely by an increase in net foreign assets. To buttress the monetary and credit program, the reserve ratio requirements will continue to be adjusted, as required, and the Government stands ready to tender securities in a sufficient volume to provide a remunerative domestic outlet for possible excess liquidity and to facilitate the continuation of an appropriate interest rate policy. With respect to the latter, to offer a wider range of financial assets, the Government will seek to change the pattern of its security issues from one of predominantly short-term Treasury Bills, as presently, to one with an increasing share of medium-term obligations. Moreover, to make government securities accessible to a larger segment of the nonbank public, offerings will be made in much smaller denominations than the current minimum of D 100,000.

11. The external current account deficit in 1988/89 is projected to remain virtually unchanged at about SDR 31 million, which implies a decline in its ratio to GDP by about 1.5 percentage points (to 22.4 percent), as higher imports, consistent with the projected expansion in output and investment, are expected to be compensated for by a rebound in re-exports, continued growth in groundnut and other domestic exports and in tourism receipts, and another reduction in net interest payments. A marked improvement is foreseen in the capital account, reflecting largely disbursements under the second World Bank SAC (SDR 13.5 million), and an increased overall balance of payments surplus (excluding exceptional financing) of some SDR 21 million is expected. Exceptional financing of about SDR 7.5 million is projected mainly on the basis of disbursements (SDR 6.84 million) under the first annual ESAF arrangement. During 1988/89 The Gambia aims to reduce external payments arrears on a cash basis by at least SDR 10 million, while continuing to build up gross official foreign reserves by a least SDR 9 million, to the equivalent of 3.4 months' imports.

12. Structural policies for 1988/89 are spelled out in the updated PFP, and the benchmarks for monitoring structural policy implementation under the first annual arrangement under the ESAF are shown in Table 3 and relate to: (i) implementation of a new Civil Service grade structure; (ii) preparation of a public investment program for 1989/90-1991/92; (iii) full implementation of the new sales tax; (iv) progress in

minimizing revenue leakages from the misclassification of imports as duty free items; and (v) the signing of performance contracts with The Gambia Telecommunications Company, the Social Security and Housing Finance Corporation, and The Gambia Public Transport Corporation.

13. For the first annual arrangement under the ESAF, the quantitative benchmarks, as set forth in Table 4, comprise quarterly limits on: (i) the net domestic assets of the banking system (defined to exclude the counterpart of valuation changes in the net foreign assets of the CBG); (ii) net bank credit to Government; (iii) gross bank credit to the GPMB; (iv) the government transfer to the GPMB; (v) total external payments arrears; (vi) short-term external public debt outstanding; and (vii) new external loans on nonconcessional terms contracted or guaranteed by the Government in the maturity ranges of 1-5 years and 1-12 years; and quarterly targets on (viii) the minimum level of gross foreign reserves to be held by the CBG.

14. The quantitative performance criteria under the first annual ESAF arrangement for end-December 1988, as also set forth in Table 4, include (i), (ii), and (v-viii) in paragraph 13 above. The standard clause regarding the exchange and payments system shall also constitute a performance criterion under the first annual arrangement. The disbursement of the second loan under the first annual ESAF arrangement will also be subject to a mid-term review with the Fund, to be completed by end-March 1989. The mid-term review will pay particular attention to the implementation of the sales tax, progress in minimizing revenue leakages from the misclassification of imports as duty free items (as evidenced by growth in customs duties above that in the value of imports), and the effectiveness in limiting outlays on "other charges" to the budgeted level.

15. 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 its ESAF arrangement.

Table 1. The Gambia: Structural Benchmarks for the
Second Annual Arrangement Under the Structural
Adjustment Facility, 1987/88

Policy measures	Status of observance
1. Sectoral policies	
A revised investment code to be enacted by January 31, 1988.	Parliament approved the revised investment code in February 1988.
A time-bound action plan for recovery of outstanding Gambia Cooperation Union (GCU) loans to be prepared by January 1, 1988.	Observed.
The preferential buying allowance of the GCU to be reduced by November 15, 1987.	Observed. The preferential buying of the GCU was eliminated.
2. Administrative Reform Program	
A new Personnel Management Office (PMO) to be established by January 1, 1988.	Observed. The PMO became operational in February 1988.
A new Civil Service grade structure to be implemented by January 1, 1988.	Not observed. Delayed owing to the need to remedy inadequacies in the proposed structure prepared by consultants.
3. Public expenditure	
A public investment program for 1988/89-1990/91 to be prepared in consultation with the World Bank by June 1, 1988.	Observed, with no outstanding issues.
A roster of all nonproject technical assistance activities to be prepared by March 31, 1988.	The roster was prepared by early May 1988.
4. Public enterprises	
Performance contracts with The Gambia Produce Marketing Board, The Gambia Utilities Corporation, and The Gambia Port Authority to be signed by January 1, 1988.	Observed.
5. Fiscal policy	
A general sales tax to be introduced and a reform of income tax law to be implemented by March 31, 1988.	Parliament approved the income tax reform in February 1988 (effective January 1, 1988) and the sales tax law in April 1988. The latter became effective with the 1988/89 fiscal year.

Table 2. The Gambia: Quantitative Benchmarks for the Second Annual Arrangement
Under the Structural Adjustment Facility, 1987/88

	Stock at June 30, 1987 (Revised)	Maximum cumulative change from July 1, 1987 to			
		Oct. 31, 1987	Dec. 31, 1987	March 31, 1988	June 30, 1988
(In millions of dalasis)					
Domestic sector					
Net domestic assets <u>1/</u>	294.5				
Program		-50.5 <u>2/</u>	-33.7 <u>3/</u>	-49.0 <u>4/</u>	-239.5
Actual		-40.5	-23.7	9.4	-69.6
Margin (-) or excess		10.0	10.0	58.4	169.9
Net credit to Government	-64.7				
Program		87.4 <u>2/</u>	55.1 <u>3/</u>	32.8 <u>4/</u>	-102.5
Actual		73.4	43.6	26.2	27.4
Margin (-) or excess		-14.0	-11.5	-6.6	129.9
Gross credit to GPMB	156.0				
Program		-122.9	-118.4	-57.5	-83.0
Actual		-126.4	-133.4	-82.9	-100.0
Margin (-) or excess		-3.5	-15.0	-25.4	-17.0
Government transfer to GPMB					
Program		130.7	130.7	130.7	130.7
Actual		130.7	130.7	130.7	130.7
Margin (-) or excess		--	--	--	--
(In millions of SDRs)					
External sector					
Total arrears	38.3 <u>5/</u>				
Program		35.6 <u>5/</u>	34.6 <u>5/6/</u>	30.1 <u>5/7/</u>	20.3 <u>5/</u>
Actual		35.0	34.1	30.0	31.4
Margin (-) or excess		-0.6	-0.5	-0.1	11.1
Short-term public sector debt outstanding <u>8/</u>	7.0				
Program		7.0	7.0	7.0	7.0
Actual		4.9	4.9	4.8	4.8
Margin (-) or excess		-2.1	-2.1	-2.2	-2.2
Contracting or guaranteeing of new medium- or long-term nonconcessional external debt by public sector in 1-12 year maturity range during period <u>9/</u>					
Program		--	--	--	--
Actual		--	--	--	--
Margin (-) or excess		--	--	--	--

Table 2. The Gambia: Quantitative Benchmarks for the Second Annual Arrangement Under the Structural Adjustment Facility, 1987/88 (concluded)

	Stock at June 30, 1987 (Revised)	Minimum cumulative increase from July 1, 1987 to			
		Oct. 31, 1987	Dec. 31, 1987	March 31, 1988	June 30, 1988
(In millions of SDRs)					
External sector					
Gross official reserves	10.9				
Program		1.2	1.6	4.8	8.0
Actual		2.2	4.0	4.8	9.5
Margin (+) or shortfall (-)		1.0	2.4	--	1.5

Sources: EBS/87/236; and data provided by the Gambian authorities.

1/ Excludes the counterpart of valuation changes in the net foreign assets of the CBG.

2/ Adjusted to reflect the cumulative excess of D 3.8 million in external cash loans and grants and commodity assistance (loans and grants) over the program estimate for the period July-October 1987 and the cumulative shortfall of D 0.4 million in the payment of the domestic counterpart of all nonreschedulable government debt service obligations falling due during this period.

3/ Adjusted to reflect the cumulative excess of D 1.2 million in external cash loans and grants and commodity assistance (loans and grants) over the program estimate for the period July-December 1987.

4/ Adjusted to reflect the cumulative shortfall of D 27.4 million in external cash loans and grants and commodity assistance (loans and grants) from the program estimate for the period July 1987-March 1988.

5/ Revised to reflect the rescheduling of arrears by the London Club (SDR 6.7 million) and valued at end-August 1987 exchange rates.

6/ Adjusted to reflect the shortfall of SDR 0.8 million in certain exceptional foreign financing from the program estimate for the period July-December 1987.

7/ Adjusted to reflect the shortfall of SDR 5.3 million in certain exceptional foreign financing from the program estimate for the period July 1987-March 1988.

8/ Excludes import-related credits.

9/ Excludes refinancing loans contracted in the context of possible multilateral rescheduling arrangements.

Table 3. The Gambia: Structural Benchmarks
for the First Annual Arrangement Under the
Enhanced Structural Adjustment Facility, 1988/89

Policy measures	Timing
1. Introduce a new Civil Service grade structure	By September 30, 1988
2. Prepare a public investment program for 1989/90-1991/92 in consultation with the World Bank	By April 30, 1989
3. Full implementation of the new sales tax	By June 30, 1989
4. Actions to minimize revenue leakages from the misclassification of imports as duty free items	During 1988/89
5. Sign performance contracts with The Gambia Telecommunications Company, the Social Security and Housing Finance Corporation, and The Gambia Public Transport Corporation	By June 30, 1989

Table 4. The Gambia: Quantitative Performance Criteria and Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1988/89

Performance criteria and quantitative benchmarks	Stock at June 30, 1988	Maximum cumulative change from July 1, 1988 to			
		Sept. 30, 1988 Bench- marks	Dec. 31, 1988 Perf. crit.	March 31, 1989 Bench- marks	June 30, 1989 Bench- marks
(In millions of dalasis)					
Domestic sector					
Net domestic assets <u>1/ 2/ 3/</u>	224.9	28.9	43.9	11.8	-109.3
Net credit to Government <u>2/ 3/ 4/</u>	-37.3	31.5	20.3	-105.3	-189.1
Performance criteria and quantitative benchmarks	Stock at June 30, 1988	Maximum stock at the end of			
		Sept. 30, 1988 Bench- marks	Dec. 31, 1988 Perf. crit.	March 31, 1989 Bench- marks	June 30, 1989 Bench- marks
(In millions of SDRs)					
External sector					
Total arrears <u>5/ 6/</u>	26.0	24.3	22.6	20.9	16.0
Short-term public sector debt outstanding <u>7/</u>	--	--	--	--	--
Contracting or guaranteeing of new medium- or long-term nonconcessional debt by the public sector in the 1-5 and 1-12 year maturity ranges during period	--	--	--	--	--
Performance criterion and quantitative benchmark	Stock at June 30, 1988	Minimum stock at the end of			
		Sept. 30, 1988 Bench- mark	Dec. 31, 1988 Perf. crit.	March 31, 1989 Bench- mark	June 30, 1989 Bench- mark
(In millions of SDRs)					
External sector					
Gross official reserves	20.4	12.0	12.0	19.6	29.4
Quantitative benchmark	Stock at June 30, 1988	Maximum cumulative change from July 1, 1988 to			
		Sept. 30, 1988	Dec. 31, 1988	March 31, 1989	June 30, 1989
(In millions of dalasis)					
Domestic sector					
Gross bank credit to the GPMB	56.0	-9.2	-8.2	59.6	32.1

Table 4. The Gambia: Quantitative Performance Criteria and Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1988/89 (concluded)

Quantitative benchmark	Maximum level at the end of			
	Sept. 30, 1988	Dec. 31, 1988	March 31, 1989	June 30, 1989
(In millions of dalasis)				
Domestic sector				
Government transfer to the GPMB	13.2	13.2	13.2	13.2

1/ Excludes the counterpart of valuation changes in net foreign assets of the CBG.

2/ The limits for September, December, and March will be adjusted downward or upward by the full amount of the cumulative excess or shortfall of external cash loans and grants and commodity assistance (loans and grants), compared with the program estimates for the periods July-September 1988, July-December 1988, and July 1988-March 1989, respectively; and the limit for June will be adjusted downward by the full amount of the cumulative excess of such loans and grants over the program estimate for the period July 1988-June 1989 (Table 5).

3/ The limits for September, December, March, and June will be adjusted downward by the full amount of the cumulative shortfall in the payment of the domestic counterpart of all government debt service obligations falling due during the periods July-September 1988, July-December 1988, July 1988-March 1989, and July 1988-June 1989, respectively (Table 5).

4/ The limits for September, December, March, and June will be adjusted downward by the full amount of the cumulative excess of recovery of principal by the Government with respect to the Managed Fund, compared with the program estimates for the periods July-September 1988, July-December 1988, July 1988-March 1989, and July 1988-June 1989 (Table 5).

5/ The limits for September, December, and March will be adjusted downward or upward 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 1988, July-December 1988, and July 1988-March 1989, respectively; and the limit for June will be adjusted downward by the full amount of the cumulative excess of such financing over the program estimate for the period July 1988-June 1989 (Table 5). Also, these limits will be adjusted downward or upward by the full amount of additional rescheduling or by the full amount of disclosure of arrears which modifies the end-June 1988 stock.

6/ After rescheduling and valued at end-June 1988 exchange rates.

7/ Excludes trade-related credits.

Table 5. The Gambia: Program Estimates of Nonproject External Financing, Debt Service Obligations, Repayments Under Managed Fund, and Cash External Financing, 1988/89

	July-Sept. 1983	July-Dec. 1983	July 1988- March 1989	July 1988- June 1989
	(In millions of dalasis)			
Second SAC <u>1/</u>	--	--	124.2	124.2
STABEX	12.0	12.0	12.0	12.0
USAID	--	--	--	14.7
Commodity grants	10.0	24.0	38.0	56.0
Total nonproject external financing	22.0	36.0	174.2	206.9
	(In millions of dalasis)			
Debt service obligations	43.4	62.0	103.3	123.1
	(In millions of dalasis)			
Repayments under Managed Fund	1.2	1.2	1.2	2.0
	(In millions of SDRs)			
Second SAC <u>1/</u>	--	--	13.5	13.5
STABEX	1.3	1.3	1.3	1.3
USAID	--	--	--	1.6
Total cash external financing	1.3	1.3	14.8	16.4

1/ Includes disbursements from the World Bank and cofinancing.

The Gambia--Relations with the Fund
(As of September 30, 1988)

I. Membership status

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

A. Financial Relations

II. General department

- (a) Quota: SDR 17.10 million
(b) Fund holdings of Gambian dalasis: SDR 30.87 million
(180.5 percent of quota)

	<u>SDR million</u>	<u>Percent of quota</u>
(c) Fund holdings subject to repurchase and charges:	13.8	80.7
Of which: compensatory		
financing facility	4.7	27.5
credit tranches	5.6	32.9
supplementary		
financing facility	1.8	10.5
enlarged access		
resources	1.7	9.8
(d) Structural adjustment facility	8.5	50.0
(e) Reserve tranche position	SDR 45,633	

III. Previous stand-by arrangements and special facilities

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

<u>Arrangement</u>	<u>Duration</u>	<u>Amount</u>	<u>Utilization</u>	<u>Undrawn balance</u>
(In millions of SDRs)				
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
	06/03/81	SDR 9.0 million
	11/22/78	SDR 4.5 million
	03/16/77	SDR 3.5 million

IV. SDR department

(a) Net cumulative allocation:	SDR 5.12 million
(b) Holdings:	SDR 0.92 million

V. Administered accounts

(a) Trust Fund loans:	
(i) Disbursed	SDR 6.84 million
(ii) Outstanding	SDR 1.32 million
(b) SFF Subsidy Account:	
(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	SDR 0.61 million

VI. Financial obligations due to the Fund

	Overdue Financial Obligations Sept. 30, 1988	<u>Principal and Interest Due</u>			
		<u>Oct.-Dec.</u> 1988	1989	1990	1991
		(In millions of SDRs)			
Principal	--	<u>1.40</u>	<u>3.86</u>	<u>3.92</u>	<u>4.40</u>
Repurchases	--	<u>1.10</u>	<u>3.08</u>	<u>3.71</u>	<u>4.37</u>
TF repayments	--	0.30	0.78	0.21	0.03
Charges and interest, including SDR, TF, and SAF (prov.)	--	<u>0.26</u>	<u>1.23</u>	<u>0.99</u>	<u>0.64</u>
Total	--	<u>1.66</u>	<u>5.09</u>	<u>4.91</u>	<u>5.04</u>

The Gambia--Relations with the Fund (continued)

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 to be 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 1987 Article IV consultation discussions with The Gambia were held in Banjul during the period June 2-16, 1987. The staff report (EBS/87/170) was discussed by the Executive Board on August 31, 1987, 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 1987 Article XIV consultation with The Gambia and in the light of the 1987 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 Gambia maintains the restrictive exchange measures described in EBS/87/170, in accordance with Article XIV, Section 2, except that the restrictions evidenced by commercial external payments arrears and the multiple currency practice arising from the costs to purchasers of foreign exchange of counterpart deposits required for arrears are subject to approval by the Fund under Article VIII, Sections 2(a) and 3, respectively. The Fund urges the authorities to remove these restrictions as soon as possible.

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

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.

The Gambia--Relations with the Fund (concluded)

Missions:

<u>Subject</u>	<u>Staff Member</u>	<u>Date</u>
Balance of payments	Mr. Hoesoo	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: World Bank Lending Operations
as of August 31, 1988

(In millions of U.S. dollars)

	Total	Disbursed	Undisbursed
IDA			
Structural adjustment <u>1/</u>	17.46	17.46	--
Agriculture	16.53	9.58	6.95
Urban development	13.50	7.26	6.24
Transport	23.06	16.95	6.11
Public utilities	8.12	--	8.12
Tourism	4.00	4.00	--
Energy	1.45	1.38	0.07
Education	5.50	5.50	--
Population, health, and nutrition	6.11	1.16	4.95
Development finance	<u>3.00</u>	<u>3.00</u>	<u>--</u>
Total	98.73	66.29	32.44
Repayments	0.63		
Total outstanding (including undisbursed)	98.10		
IFC investment	2.90	2.90	--

Source: IBRD.

1/ IDA and Special Facility for Africa (SFA) portions of the SAC package only. Total SAC package was approximately US\$36 million, including U.K. grant of US\$4.3 million equivalent, African Development Bank cofinancing of US\$11 million equivalent, and a Saudi Fund contribution of US\$3.2 million equivalent. All portions except the Saudi Fund loan have been fully disbursed.

The Gambia--Statistical Issues

1. Outstanding statistical issues

a. Government finance

The 1987 GFS Yearbook and September 1988 IFS contain data on the Consolidated Central Government only through 1983. Data for 1984 and provisional data for 1985-87 have been received for publication in the 1988 GFS Yearbook. The provisional data received, however, do not include data for the financing and debt tables.

b. Monetary accounts

An important statistical issue outstanding concerns the noncurrentness of the monetary data reported to the Bureau of Statistics for publication in IFS.

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

The table below shows the currentness and coverage of data published in the country page for The Gambia in the September 1988 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 an infrequent basis.

The Gambia--Statistical Issues (concluded)

Status of IFS Data

		<u>Latest Data in Sept. 1988 IFS</u>
Real Sector	- National Accounts	1986 (GDP only)
	- Prices	Feb. 1988
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1983
	- Financing	1983
	- Debt	1982
Monetary Accounts	- Monetary Authorities	Feb. 1988
	- Deposit Money Banks	March 1988
	- Other Financial Institutions	Q2 1987
Interest Rates	- Discount Rate	Feb. 1988
	- Bank Lending/Deposit Rate	Feb. 1988
	- Government Bond Yield	n.a.
External Sector	- Merchandise Trade:	
	Values: Exports	Q2 1987
	Imports	Q2 1987
	Prices: Unit value of exports:	
	groundnuts	March 1988
	groundnut oil	June 1988
	- Balance of payments	1987 ^{1/}
	- Intl. Reserves	Q2 1987
	- Exchange Rates	July 1988

^{1/} Year ending June 30, 1987.

The Gambia: Social and Demographic Indicators

<u>Area</u>	11.3 thousand square kilometers
<u>Population (1987)</u>	797,000
Rate of growth	3.5 percent (1987)
Density	70.5 per square kilometer
<u>Population characteristics (1987)</u>	
Life expectancy at birth (years)	43
Infant mortality (percent)	16
Child death rate (percent)	4.5
<u>Health</u>	
Population per physician (thousands)	11.6
Population per hospital bed (thousands)	0.6
<u>Access to safe water (in percent)</u>	
Total	45
Urban	100
Rural	33
<u>Energy consumption (1986)</u>	
Energy consumption per capita (kg of oil equivalent)	78
<u>Nutrition</u>	
Calorie intake (per day)	2,252
Per capita protein intake (grams per day)	52
<u>Education</u>	
Primary school enrollment (percentage)	60
Pupil-teacher ratio (primary school)	23 : 1

Source: World Bank.

THE GAMBIA - Basic DataArea, population, and GDP per capita

Area	11.3 thousand square kilometers
Population: Total (1987)	797,000
Growth rate	3.5 percent
GDP per capita (1987/88)	SDR 160

	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u> Estimate
<u>Gross domestic product</u>					
GDP (at 1976/77 market prices) (millions of dalasis)	422.0	435.2	434.0	457.6	482.7
Of which (percent of total):					
agriculture	(28.2)	(29.3)	(30.7)	(32.4)	(31.7)
manufacturing	(6.0)	(5.5)	(5.5)	(5.7)	(5.8)
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	1,275.0
Gross domestic investment (as percent of GDP)	17.3	19.2	15.8	20.4	18.9
Gross domestic savings (as percent of GDP)	-2.1	-4.6	7.7	6.2	6.4
Annual percentage change					
GDP at constant 1976/77 prices	-4.6	3.1	-0.3	5.4	5.5
GDP deflator	18.8	9.0	28.1	19.0	12.1
Consumer price index (period average)	15.6	21.8	35.0	46.0	12.4
Consumer price index (end-period)	21.1	12.4	70.4	22.3	9.2

Central government finance

(In millions of dalasis)

Revenue	127.6	148.5	209.5	318.6	337.9
Foreign grants	26.0	32.3	59.1	161.2	156.8
Expenditure and net lending	210.9	262.3	284.8	542.0	607.1
Recurrent	140.6	151.4	189.1	313.8	432.0
Development	70.3	109.1	91.1	161.0	176.1
Unallocated expenditure and net lending	—	1.8	4.6	67.2	-1.0
Change in arrears (decrease -)	20.5	23.2	-35.0	-14.1	-5.4
Overall deficit (-)					
Excluding grants	-62.8	-90.6	-110.3	-237.5	-274.6
Including grants	-36.8	-58.3	-51.2	-76.4	-117.8
Financing	36.8	58.3	51.2	76.4	117.8
Foreign (net)	21.2	38.0	7.1	241.4	73.8
Domestic (net)	15.6	20.3	44.1	-165.0	44.0
Of which: banking system	(5.4)	(14.5)	(20.4)	(-165.0)	(27.4)

THE GAMBIA - Basic Data (concluded)

	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u> Estimate
<u>Money and credit</u>	<u>(Annual changes as percent of beginning-of-period stock of broad money)</u>				
Domestic credit	36.0	13.6	38.5	-77.7	-21.3
Government	1.8	10.6	4.5	-73.9	8.4
GPMB	5.9	-13.3	13.3	10.7	-30.6
Other public enterprises	8.2	15.9	7.3	-10.5	-4.6
Private sector	20.2	0.4	13.4	-4.1	5.5
Money plus quasi-money	1.9	32.8	24.6	43.9	20.5
<u>Balance of payments</u>	<u>(In millions of SDRs)</u>				
Exports, f.o.b.	86.1	62.1	59.3	57.4	60.7
Imports, f.o.b.	-96.1	-74.9	-73.7	-81.7	-82.7
Trade balance	-10.0	-12.8	-14.4	-24.3	-22.0
Services and private transfers (net)	-26.4	-22.1	-17.8	-14.8	-9.0
Current account (net)	-36.4	-35.0	-32.2	-39.1	-31.1
Capital account (net)	17.9	29.3	20.6	66.4	43.2
Official	32.4	33.8	26.4	60.9	41.1
Private	-14.5	-4.5	-5.8	5.5	2.1
Overall surplus or deficit	-18.5	-5.6	-11.6	27.3	12.1
Current account deficit excluding official transfers (as percent of GDP)	18.8	21.6	29.7	33.0	24.0
<u>Gross official foreign reserves</u> (end of period)					
Amount	5.3	1.8	1.4	10.9	20.4
In weeks of imports, c.i.f.	2.4	1.1	0.8	5.9	11.0
<u>External public debt</u>					
Amount <u>1/</u>	143.3	152.4	152.9	172.3	180.1
Debt service as percent of net exports of goods and travel income <u>2/</u>	19.6	21.5	24.9	106.0	49.2

1/ Disbursed public- and publicly-guaranteed debt, including outstanding use of Fund credit.

2/ Net exports defined as total exports minus imports used for re-exports.