

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

EBS/87/236

CONFIDENTIAL

November 19, 1987

To: Members of the Executive Board

From: The Secretary

Subject: The Gambia - Request for Second Annual Arrangement Under
the Structural Adjustment Facility

Attached for consideration by the Executive Directors is a paper on The Gambia's request for the second annual arrangement under the structural adjustment arrangement for The Gambia which, together with the policy framework paper (EBD/87/300, 11/19/87), will be brought to the agenda for discussion on a date to be announced. Draft decisions appear on page 27.

Mr. Rothman (ext. 8652) or Mr. Dublin (ext. 8656) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)



INTERNATIONAL MONETARY FUND

THE GAMBIA

Request for Second Annual Arrangement Under the
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 A.D. Ouattara and Eduard Brau

November 18, 1987

I. Introduction

On September 17, 1986, the Fund approved for The Gambia a three-year arrangement for the period 1986/87 (July/June) - 1988/89 in an amount now equivalent to SDR 10.9 million (63.5 percent of The Gambia's quota) and a first annual arrangement in an amount equivalent to SDR 3.42 million (20 percent of quota) under the structural adjustment facility (SAF) in support of an economic and financial program covering 1986/87 (EBS/86/189). At the same time, the Fund approved a 13-month stand-by arrangement for The Gambia in an amount equivalent to SDR 5.13 million (30 percent of quota) and a drawing under the compensatory financing facility (CFF) in an amount equivalent to SDR 4.71 million (27.5 percent of quota). The Gambia made all of the purchases under the stand-by arrangement.

In the attached letter of the Minister of Finance and Trade and the Governor of the Central Bank of The Gambia dated November 4, 1987, the authorities have requested the second annual arrangement under the SAF in an amount of SDR 5.13 million (30 percent of quota) in support of their economic and financial program for 1987/88. 1/ Discussions on the

1/ In their letter, the Gambian authorities request that, although their request for a second annual arrangement is being submitted several months after the beginning of their fiscal year (July 1), the fiscal year be retained as the program year. In the context of the second review under the recent stand-by arrangement (completed on August 31, 1987), the Government implemented important policy measures relating to groundnut producer pricing policy and the overall fiscal stance for 1987/88. The delay in the submission of their economic and financial program for 1987/88 has resulted mainly from the prior need to verify performance in 1986/87 and to complete the second review under the stand-by arrangement as scheduled (i.e., by September 15, 1987).

second annual program outlined in the authorities' letter of request took place in Banjul during September 8-22, 1987 and at headquarters during September 30-October 1, 1987. 1/ Also, following joint discussions with the staffs of the Fund and the World Bank during these periods, 2/ in a letter dated November 4, 1987, the authorities have transmitted to the Managing Director of the Fund an updated medium-term policy framework paper (PFP) covering the three-year period July 1, 1987 to June 30, 1990. The PFP was circulated to the Executive Board of the Fund on November 19, 1987 (EBD/87/300) 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 December.

The Fund and World Bank staffs have collaborated closely in assisting the authorities in addressing their economic and financial problems. On August 26, 1986, the World Bank approved a structural adjustment credit (SAC--including cofinancing) of US\$37.0 million, comprising US\$18.0 million from the Special Facility for Africa and IDA, US\$4.3 million in Special Joint Financing from the United Kingdom, and cofinancing of US\$11.5 million from the African Development Fund and US\$3.2 million from the Saudi Fund. Except for the Saudi Fund cofinancing, the SAC has now been fully disbursed. Negotiations for a second SAC are expected to commence shortly.

As of October 30, 1987, the Fund's holdings of dalasis 3/ subject to repurchase were equivalent to SDR 17.34 million, or 101.4 percent of quota. Taking account of scheduled repurchases, the Fund's holdings of dalasis subject to repurchase would amount to SDR 14.30 million, or 83.6 percent of quota, at end-June 1988 (Table 1). Including SDR 3.42 million presently outstanding under the SAF and the prospective second disbursement of SDR 5.13 million, net credit from the Fund at that time would amount to SDR 22.85 million, or 133.62 percent of quota. The Gambian authorities are maintaining arrangements by which The Gambia has periodically acquired SDRs to be used to service its obligations to the Fund.

The staff report for the 1987 Article IV consultation and second review under the stand-by arrangement (EBS/87/170) and the report on recent economic developments (SM/87/210) were considered by the Executive Board on August 31, 1987.

Summaries of The Gambia's relations with the Fund and the World Bank Group are contained in Appendices I and II, respectively.

1/ The staff team for the discussions comprised Messrs. Rothman (head), Dublin, Gunjal, Tersman (all-AFR), de la Torre (ETR), and Ms. Edmondson (secretary-RES).

2/ Ms. Bruns and Ms. Williamson of the World Bank also participated in these discussions.

3/ On October 30, 1987, SDR 1 = D 9.13622.

Table 1. The Gambia: Fund Position Through June 1988

	October 30, 1987	1987		1988	
		Nov.	Dec.	Jan.- March	April- June
(In millions of SDRs)					
Transactions under tranche policies (net) <u>1/</u>		-1.44	--	-0.50	-1.10
Purchases		--	--	--	--
Ordinary resources		--	--	--	--
Borrowed resources		--	--	--	--
Repurchases		1.44	--	0.50	1.10
Ordinary resources		0.50	--	0.16	0.16
Borrowed resources		0.94	--	0.34	0.94
Transactions under special facilities (net) <u>2/</u>		--	--	--	--
Disbursements		--	--	--	--
Repayments		--	--	--	--
Transactions under the structural adjustment facility (net)					
Disbursements		--	5.13	--	--
Repayments		--	--	--	--
Total Fund credit outstanding (end of period)	20.76	19.32	24.45	23.95	22.85
Under tranche policies	12.63	11.19	11.19	10.69	9.59
Special facilities	4.71	4.71	4.71	4.71	4.71
Structural adjustment facility	3.42	3.42	8.55	8.55	8.55
(As percent of quota)					
Total Fund credit outstanding (end of period)	121.40	112.98	142.98	140.06	133.62
Under tranche policies	73.86	65.44	65.44	62.52	56.08
Special facilities	27.54	27.54	27.54	27.54	27.54
Structural adjustment facility	20.00	20.00	50.00	50.00	50.00

Source: IMF, Treasurer's Department.

1/ Ordinary and borrowed resources.

2/ Compensatory financing facility.

II. Background and Performance in 1986/87

From the mid-1970s onward, 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, the growing imbalances were reflected in sporadic economic growth, accelerating inflation, and the emergence of external payments arrears (including to the Fund--Table 2).

In mid-1985 the Gambian authorities began to implement a comprehensive three-year adjustment program (Economic Recovery Program --ERP) which focused on a more appropriate exchange rate and other pricing policies, supported by a sharply restrained demand-management stance. Beneficial results included a rebound in real gross domestic product (GDP) after two consecutive years of decline, and a marked narrowing of the budget deficit on a partial commitment basis and excluding grants. However, the growth in domestic credit remained inordinately high, the pace of inflation quickened further, and the overall balance of payments deficit widened, leading to the accumulation of additional external payments arrears.

Recognizing that the serious economic and financial problems confronting The Gambia could be corrected only through a sustained adjustment effort, in mid-1986 the Gambian authorities extended the ERP to cover 1986/87-1988/89, in support of which the three-year structural adjustment arrangement under the SAF and a first annual arrangement thereunder as well as the recent stand-by arrangement were approved. The policy content of the extended ERP included the continuation of more appropriate exchange rate, interest rate, and other pricing policies; a restrained budget and monetary and credit stance; public sector structural reforms; and better external debt management. It also included, importantly, several elements of financial restructuring (e.g., a planned reduction in external payments arrears and reform of the largest commercial bank and major public enterprises).

As described in EBS/87/170 and in the letter attached to the present report, the adjustment program for 1986/87 was implemented successfully and the major program objectives were achieved. In particular, the floating exchange rate system introduced in early 1986 continued to function satisfactorily, supported by a liberalized interest rate policy, and generally restrained financial policies were pursued. Moreover, The Gambia's adjustment efforts and structural reforms elicited a high level of financial support from the international community. In this regard, a rescheduling agreement was concluded with Paris Club creditors and the bilateral agreements signed broadly on schedule; a rescheduling agreement with London Club creditors is expected to be signed by end-November.

Table 2. The Gambia: Selected Economic and Financial Indicators, 1984/85-1989/90

	1984/85	1985/86	1986/87		1987/88	1988/89	1989/90
			Prog.	Est.	Projections		
(Annual percentage change; unless otherwise specified)							
National income and prices							
GDP at constant prices	-0.2	5.6	3.3	6.1	4.0	3.6	3.8
GDP deflator	16.6	18.0	10.5	15.2	11.8	8.1	6.8
Consumer prices							
Average annual basis	21.8	35.0	15.0	46.0 ^{1/}	15.0	10.0	8.0
End-period to end-period	12.4	70.4	...	20.2	12.5	8.5	7.5
External sector							
Exports, f.o.b. (in SDRs)	-27.9	-4.5	-2.3	-12.1	4.5	6.5	6.5
Imports, f.o.b. (in SDRs)	-22.1	-2.0	-1.3	6.8	8.2	7.2	7.4
Export volume (excluding re-exports)	-34.7	9.0	...	-28.0	-6.5	4.5	5.0
Import volume (excluding imports for re-export)	-9.2	-4.1	...	3.1	4.8	5.0	5.0
Terms of trade (in SDRs; deterioration -)	-1.5	-41.7	...	-12.4	1.8	3.0	3.4
Nominal effective exchange rate (depreciation -) ^{2/}	-12.7	-20.1	...	-41.4	...	...	...
Real effective exchange rate (depreciation -) ^{2/}	-5.1	-3.4	...	-18.0	...	...	...
Government budget							
Revenue (excluding grants)	16.4	41.1	43.0	52.1	6.7	13.4	11.8
Expenditure (commitment basis)	24.4	8.6	62.5	91.2	5.4	-13.0	2.3
Of which: development expenditure	(55.1)	(-16.5)	(81.1)	(77.6)	(15.0)	(10.2)	(7.3)
(Annual changes as percent of beginning-of-period stock of broad money)							
Money and credit							
Domestic credit	13.6	38.5	-31.5	-77.7	-37.9	...	...
Government	10.6	4.5	-59.8	-73.9	-26.9	...	...
GPMB	-13.3	13.3	9.8	10.7	-25.4	...	...
Other public enterprises	15.9	7.3	3.6	-10.5	3.7	...	...
Private sector	0.4	13.4	14.9	-4.1	10.7	...	...
Money plus quasi-money	32.8	24.6	16.3	43.9	17.2	...	...
Velocity of circulation	4.2	3.7	3.7	3.6	3.3	...	...
Interest rate (end of period) ^{3/}	9.5	13.0	...	15.0	...	...	...
(In percent of GDP)							
Gross domestic investment	20.1	16.7	...	21.8	21.1	21.0	21.0
Gross national savings	-0.7	-4.2	...	-9.7	-5.1	-1.7	2.3
Resource gap	11.2	7.7	...	13.4	12.9	13.1	12.9
Government deficit (partial commitment basis excluding grants)	-16.3	-8.7	-17.5	-21.3	-18.9	-8.2	-5.2
Of which: transfer to the GPMB	(-)	(-1.4)	(-8.8)	(-7.8)	(-10.6)	(-0.9)	(-0.3)
Government deficit (cash basis)							
Excluding grants	-13.0	-12.7	-17.5	-22.6	-18.9	-8.2	-5.2
Including grants	-8.4	-5.9	-3.0	-7.3	-8.4	-0.3	2.2
Of which: domestic financing (net)	(2.9)	(5.1)	(-14.0)	(-15.2)	(-7.4)	(-10.9)	(-4.5)
foreign financing (net)	(5.5)	(0.8)	(17.0)	(22.6)	(15.8)	(11.2)	(2.4)
External current account	-20.8	-20.9	-32.6	-33.6 ^{4/}	-31.6 ^{4/}	-28.1	-24.5
External public debt outstanding (disturbed) ^{5/}	94.3	100.3	...	160.4	165.4	166.4	158.2
(In percent of domestic exports of goods and nonfactor services)							
External debt service ^{6/}	45.6	82.6	74.3	54.7 ^{7/}	53.2 ^{7/}	52.8	48.6
(In millions of SDRs)							
External current account	-34.9	-33.2	-35.1	-39.4 ^{4/}	-39.9 ^{4/}	-38.1	-35.5
Overall balance of payments (before exceptional financing)	-3.8	-19.3	-20.4	-0.4	3.0	2.4	5.1
External payments arrears	66.0	88.2 ^{8/}	77.8	47.7	25.5	5.7	-
Gross official reserves	4.0	1.3	6.8	17.7	29.3	31.3	34.4
In months of imports, c.i.f.	0.6	0.2	1.0	2.3	3.5	3.5	3.6

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

^{1/} Owing to a sharp acceleration in inflation in the first half of 1986, the average rate of inflation in 1986/87 was high, despite a deceleration through the period.

^{2/} Trade-weighted.

^{3/} Minimum three-month time deposit rate.

^{4/} Includes moratorium interest due Paris Club creditors.

^{5/} End of period, medium and long-term public and publicly guaranteed debt; excludes outstanding use of Fund credit.

^{6/} Includes IMF charges and repurchases, but excludes interest on short-term debt.

^{7/} After rescheduling.

^{8/} Includes SDR 10.3 million in arrears to the Fund as of end-June 1986.

Estimates put the growth in real GDP in 1986/87 at 6 percent, compared with the program target of 3.3 percent, and the increase in aggregate activity was broadly based. Meanwhile, the rate of increase in the consumer price index (end-period to end-period) dropped to about 20 percent, from 70 percent in 1985/86, when the inflation rate reflected the effects of the sharp depreciation of the dalasi in early 1986. The budget deficit on a partial commitment basis and excluding grants was equal to 21.3 percent of GDP, compared with a target of 17.5 percent under the program (Table 3). The deficit included, however, the assumption by the Government in January 1987 (with the establishment of the Managed Fund) of government-guaranteed loans (equivalent to about 7 percent of GDP) extended by the Gambia Commercial and Development Bank to certain private and public enterprises, as had been agreed under the stand-by arrangement, but which had not been reflected in the original budget deficit target. With a level of external grants and net foreign financing higher than initially envisaged, there was a pronounced decline in net bank credit to the Government and the emergence of a government net creditor position with the banking system. The growth in money supply (44 percent)--although considerably higher than had been initially expected (16 percent)--derived entirely from an increase in net foreign assets of the banking system (Table 4).

In the external sector, the current account deficit widened from SDR 33 million to about SDR 40 million (33.6 percent of GDP), or SDR 5 million above the program target, as increased receipts from tourism and private transfers were insufficient to offset a strong increase in imports, associated with more buoyant activity, and lower receipts from recorded groundnut and other domestic exports (Table 5). However, the overall balance of payments (excluding exceptional financing) was virtually in equilibrium, compared with an initially programmed deficit of SDR 20.4 million, principally because the private capital account recorded a relatively large surplus, which reflected the domestic intermediation of foreign exchange transactions--associated mainly with unrecorded exports--previously channeled outside of the banking system. In addition, exceptional financing associated with disbursements under the World Bank SAC (including cofinancing) was considerably larger than programmed. As a result, the buildup in gross official foreign reserves plus the reduction in external payments arrears (excluding the settlement in July 1986 of overdue obligations to the Fund--SDR 10.3 million) amounted to about SDR 35 million, compared with the initial program objective of SDR 5.5 million.

Structural policy measures in five key areas were identified as benchmarks under the SAF program for 1986/87. As indicated in Table 6, substantial and timely progress was made in all of the specified areas. A thorough revision of the investment code was undertaken; a large civil service retrenchment program was carried out and a comprehensive, multiyear administrative reform program prepared; stringent criteria for project selection were instituted for the public investment program (PIP) and a core program for 1986/87-1988/89 was

Table 3. The Gambia: Central Government Operations, 1984/85-1989/90

	1984/85	1985/86	1986/87		1987/88	1988/89	1989/90
			Program	Est.	Prog.	Projections	
(In millions of dalasis)							
Revenue and grants	180.8	268.6	434.8	480.6	469.9	494.6	544.6
Revenue	148.5	209.5	297.0	318.6	340.0	385.6	431.1
Grants	32.3	59.1	137.8	162.0	129.9	109.0	113.5
Expenditure and net lending	262.3	284.8	462.9	544.5	573.8	499.1	510.4
Current expenditure	151.4	178.8	301.6	314.0	393.1	294.1	290.4
Personal emoluments, pensions, and allowances	(58.3)	(62.9)	(65.8)	(66.3)	(73.6)	(81.4)	(83.4)
Interest due	(29.2)	(37.7)	(62.6)	(68.4)	(75.5)	(81.9)	(73.7)
Internal	[18.2]	[15.7]	[17.0]	[26.6]	[34.4]	[34.4]	[34.4]
External	[11.0]	[22.0]	[45.6]	[41.8]	[41.1]	[47.5]	[39.3]
Other charges	(63.6)	(61.9)	(90.2)	(87.9)	(108.0)	(118.8)	(128.3)
Transfers to parastatals	(0.3)	(16.3)	(83.0)	(91.4)	(136.0)	(12.0)	(5.0)
Of which: GPMB	[--]	[12.4]	[83.0]	[83.0]	[130.7]	[12.0]	[5.0]
Development expenditure	109.1	91.1	165.0	161.8	186.0	205.0	220.0
Unallocated expenditure	1.8	11.2	--	--	--	--	--
Net lending	--	3.7	-3.7	68.7	-5.3	--	--
Of which: Managed Fund	(--)	(--)	(...)	(72.8)	(-5.3)	(--)	(--)
Overall deficit (partial commitment basis, excluding grants)	-113.8	-75.3	-165.9	-225.9	-233.8	-113.5	-79.3
Overall deficit (partial commitment basis, including grants)	-81.5	-16.2	-28.1	-63.9	-103.8	-4.5	34.2
Change in arrears	23.2	-35.0	--	-14.1 ^{1/}	--	--	--
Overall deficit (cash basis, excluding grants)	-90.6	-110.3	-165.9	-240.0	-233.8	-113.5	-79.3
Overall deficit (cash basis, including grants)	-58.3	-51.2	-28.1	-78.0	-103.8	-4.5	34.2
Financing	58.3	51.2	28.1	78.0	103.8	4.5	-34.2
Foreign (net)	38.0	7.1	161.1	239.7	195.2	155.2	37.4
Gross borrowing	(59.9)	(36.6)	(218.5)	(299.7)	(270.8)	(256.6)	(143.4)
Amortization due	(-21.9)	(-29.5)	(-70.0)	(-64.6)	(-68.5)	(-101.4)	(-105.9)
Net debt relief	(--)	(--)	(12.6)	(4.6)	(-7.0)	(--)	(--)
Domestic	20.3	44.1	-133.0	-161.7	-91.4	-130.8	-71.6
Banking system	(14.5)	(20.4)	(-138.0)	(-168.0)	(-87.9)	(-147.3)	(-68.1)
Other	(5.8)	(23.7)	(5.0)	(6.3)	(--)	(--)	(--)
Sinking fund for debt relief	(--)	(--)	(--)	(--)	(-3.5) ^{2/}	(-3.5) ^{2/}	(-3.5) ^{2/}
(In percent of GDP)							
Deficit (partial commitment basis)							
Excluding grants	-16.3	-8.7	-17.5	-21.3 ^{3/}	-18.9	-8.2	-5.2
Including grants	-11.7	-1.9	-3.0	-6.0	-8.4	-0.3	2.2
Deficit (cash basis)							
Excluding grants	-13.0	-12.7	-17.5	-22.6	-18.9	-8.2	-5.2
Including grants	-8.4	-5.9	-3.0	-7.3	-8.4	-0.3	2.2
Memorandum item: (In millions of dalasis)							
GDP at current prices	698	869	947	1,062	1,235	1,382	1,533

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

^{1/} Reflects reduction in external payments arrears, mainly in respect of oil.

^{2/} Represents annual payment of 20 percent of estimated debt relief to newly created sinking fund.

^{3/} Excluding grants and the establishment of the Managed Fund, the deficit was equal to 14.4 percent of GDP.

Table 4. The Gambia: Monetary Survey, June 1986-June 1988

(In millions of dalasis; end of period)

	1986	1987				1988		
	June	June		Revised Base	Oct.	Dec.	March	June
		Revised Program	Actual		Program	Program		
Net foreign assets	<u>-534.9</u>	<u>-371.3</u>	<u>-266.9</u>	<u>-266.9</u>	<u>-209.9</u>	<u>-228.7</u>	<u>-96.1</u>	<u>14.5</u>
Monetary authorities	<u>-595.5</u>	<u>-380.2</u>	<u>-287.1</u>	<u>-287.1</u>	<u>-230.1</u>	<u>-248.9</u>	<u>-116.3</u>	<u>-5.7</u>
Foreign assets	(11.3)	(70.4)	(161.5)	(161.5)	(177.4)	(182.7)	(235.7)	(267.4)
Foreign liabilities	(-606.8)	(-450.6)	(-448.6)	(-448.6)	(-407.5)	(-431.6)	(-352.0)	(-273.1)
Commercial banks	10.7	8.9	20.2	20.2	20.2	20.2	20.2	20.2
Net domestic assets	<u>555.4</u>	<u>269.9</u>	<u>164.4</u>	<u>257.8</u> ^{1/}	<u>211.5</u>	<u>225.3</u>	<u>196.0</u>	<u>32.9</u>
Domestic credit	<u>501.1</u>	<u>366.6</u>	<u>324.4</u>	<u>324.4</u>	<u>303.1</u>	<u>320.9</u>	<u>328.6</u>	<u>200.5</u>
Government (net)	(100.3)	(-14.0) ^{2/}	(-67.7) ^{2/}	(-67.7) ^{2/}	(23.9) ^{3/}	(-11.4)	(-47.7)	(-155.6)
Public enterprises	(217.3)	(247.1) ^{4/}	(217.9) ^{4/}	(217.9) ^{4/}	(94.2) ^{3/}	(132.1)	(173.5)	(147.0)
Of which: GPMB ^{5/}	[132.8]	[159.1]	[157.2]	[157.2]	[34.3] ^{3/}	[38.8]	[99.7]	[74.2]
Private sector	(183.5)	(133.5) ^{6/}	(174.2) ^{6/}	(174.2) ^{6/}	(185.0)	(200.2)	(202.8)	(209.1)
Other	54.3	-96.7	-160.0	-66.6	-91.6	-95.6	-132.6	-167.6
Revaluation account	<u>237.4</u>	<u>342.9</u>	<u>383.0</u>	<u>383.0</u>	<u>383.0</u>	<u>383.0</u>	<u>383.0</u>	<u>383.0</u>
SDR allocation	<u>19.5</u>	<u>46.5</u>	<u>46.7</u>	<u>46.7</u>	<u>46.7</u>	<u>46.7</u>	<u>46.7</u>	<u>46.7</u>
Money plus quasi-money	<u>227.4</u>	<u>288.0</u>	<u>327.3</u>	<u>327.3</u>	<u>337.9</u>	<u>332.9</u>	<u>436.2</u>	<u>383.7</u>
Money	129.5	...	192.4	192.4	...	...	...	...
Quasi-money	97.9	...	134.9	134.9	...	...	...	...

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

^{1/} Adjusted for the reclassification of other net domestic assets to allow for treatment of the counterpart of the SDR allocation as a liability.^{2/} Includes D 72.8 million in net bank credit to the Government in respect of the Managed Fund.^{3/} Reflects repayment by the Government of the GPMB's accumulated debt (D 95.8 million) to the CBG in October.^{4/} Reflects assumption by the Government of D 38.9 million in bank credit to the public enterprises in connection with the Managed Fund.^{5/} Revised to include the GPMB's suspense account (D 15.6 million) with the CBG.^{6/} Reflects assumption by the Government of D 33.9 million in bank credit to the private sector in connection with the Managed Fund.

Table 5. The Gambia: Balance of Payments, 1985/86-1991/92

(In millions of SDRs)

	1985/86	1986/87		1987/88	1988/89	1989/90	1990/91	1991/92
		Prog.	Est.					
Current account	-33.2	-35.0	-39.4	-39.9	-38.1	-35.5	-37.1	-39.8
Exports, f.o.b. <u>1/</u>	59.3	57.9	52.1	54.5	58.0	61.8	66.2	71.2
Of which: groundnuts	8.5	7.8	5.7	5.2	5.5	5.9	6.8	7.8
Imports, f.o.b.	-73.4	-72.4	-78.4	-84.9	-90.9	-97.7	-105.0	-112.6
Net interest	-12.2	-14.9	-13.9	-10.5	-6.6	-3.8	-2.8	-2.9
Other services and private transfers (net)	-6.9	-5.6	0.8	0.9	1.5	4.3	4.5	4.6
Capital account	13.9	14.6	39.1	42.9	40.5	40.6	41.3	40.5
Official transfers	23.3	21.8	27.3	29.8	31.1	32.3	33.4	34.0
Official loans (net)	-4.6	2.1	3.5	3.6	3.2	3.3	4.9	3.6
Disbursements <u>2/</u>	6.6	12.0	12.1	12.4	14.6	15.7	16.7	17.5
Amortization	-11.2	-9.9	-8.6	-8.8	-11.4	-12.5	-11.9	-13.9
Private capital and errors and omissions	-4.8	-9.3	8.3	9.6	6.2	5.0	3.0	3.0
Overall balance (before exceptional financing)	-19.3	-20.4	-0.4	3.0	2.4	5.1	4.1	0.7
Financing	19.3	20.4	0.4	-3.0	-2.4	-5.1	-4.1	-0.7
Gross official reserves	0.4	-5.5	-16.3	-11.6	-2.1	-3.1	-5.2	-4.2
Repurchases from IMF	-9.1	-5.9	-5.9	-4.2	-3.2	-3.1	-4.1	-1.5
Change in arrears <u>3/</u>	20.3	-10.3	-29.0	-22.2	-19.8	-5.7	--	--
Exceptional financing	7.7	42.1	51.6	35.0	22.6	6.8	5.2	5.0
Commodity aid and STABEX	7.7	10.4	9.9	8.1	5.2	5.2	5.2	5.0
USAID (BOP-support grant)	--	--	--	1.6	1.6	1.6	--	--
World Bank SAC <u>4/</u>	--	15.0	25.0	17.3	13.5	--	--	--
IMF purchases	--	11.9	11.2	7.2	2.3	--	--	--
Debt relief <u>5/</u>	--	4.8	3.0	0.8	--	--	--	--
Other	--	--	2.5 <u>6/</u>	--	--	--	--	--
<u>Memorandum items:</u>								
Current account (as percent of GDP)	-20.9	-32.6	-33.6	-31.6	-28.1	-24.5	-23.9	-23.9
Gross official reserves								
End-of-period stock	1.4	6.8	17.7	29.3	31.3	34.4	39.6	43.8
In months of c.i.f. imports	0.2	1.0	2.3	3.5	3.5	3.6	3.9	4.0
Arrears reschedulings	--	...	-11.4	-13.4	--	--	--	--
<u>(Percentage changes)</u>								
<u>Principal assumptions:</u>								
Real GDP				4.0	3.6	3.8	4.0	4.2
Recorded groundnut exports								
Volume				-13.5	--	--	7.5	8.0
Unit value				5.5	6.5	6.5	6.5	7.0
Investment imports (volume)				6.5	7.0	6.9	6.3	6.0
Travel receipts				6.0	7.0	7.0	7.0	7.0
Terms of trade				1.8	3.0	3.4	3.4	3.9

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

1/ Includes an estimate for re-exports.

2/ Includes existing and expected commitments.

3/ Excludes change in arrears due to rescheduling.

4/ Includes cofinancing.

5/ Debt relief spills over into 1987/88 because the consolidation period was from October 1, 1986 to September 30, 1987.

6/ Deposits in respect of Paris Club reschedulings, undrawn by creditors as of June 30, 1987.

Table 6. The Gambia: Benchmarks of Implementation of
Structural Policy Measures for the 1986/87 Program
Under the Structural Adjustment Facility.

Policy measures	Dates	
	Program	Actual
1. <u>Sectoral policies</u>		
Revise investment code	Dec. 1986	May 1987
2. <u>Civil service reform</u>		
Fully implement the government employment retrenchment program	Oct. 1986	Oct. 1986
Prepare an Administrative Reform Program, including pay and grading reforms	Feb. 1987	March 1987
3. <u>Public investment</u>		
Prepare revised public investment program for 1986/87-1988/89	Dec. 1986	Dec. 1986
4. <u>Public enterprises</u>		
Prepare divestiture and rationalization plan for 1986/87-1988/89	Dec. 1986	Nov. 1986
5. <u>Fiscal policy</u>		
Elaborate proposals for increasing the revenue contribution of domestic taxes, for implementation in fiscal year 1987/88	March 1987	March 1987

Sources: EBS/86/189; and information provided by the Gambian authorities.

identified; a comprehensive plan for rationalizing the public enterprise sector was adopted; and specific proposals were developed for increasing the share of revenues from domestic taxes. This progress is described in detail in paragraphs 6-9 of the PFP. Moreover, apart from the nonobservance of one performance criterion at end-September 1986 (i.e., on net bank credit to Government) for largely technical reasons, The Gambia met all of the stand-by arrangement's performance criteria, which served also as quantitative benchmarks under the SAF arrangement, and all the indicative targets (Tables 7 and 8).

III. Objectives and Policies for 1987/88-1989/90

Based mainly on a reassessment of medium-term external financing prospects, the macroeconomic targets for the program have been adjusted slightly. The updated PFP includes as objectives: (i) growth in real GDP of 3.5-4.0 percent per annum, compared with the initial annual target of 3.3 percent, thus permitting a steady, albeit modest, recovery in real per capita income and consumption and some improvement in private investment; (ii) a further deceleration in the rate of inflation to about 8 percent by 1989/90, from the initial target rate of 10 percent for 1988/89; (iii) a narrowing of the external current account deficit (excluding official transfers) from 33.6 percent of GDP in 1986/87 to 24.5 percent in 1989/90, compared with the original PFP three-year improvement of 11.5 percentage points of GDP; and (iv) the complete elimination of external payments arrears plus a substantial buildup in external reserves to the equivalent of about 3.5 months of imports by 1989/90 to support The Gambia's liberalized exchange and trade system.

For the period 1987/88-1989/90, in addition to the continued conduct of appropriate exchange rate, interest rate, demand-management, and external debt and reserve policies, the PFP contains specific policies for promoting growth in agriculture, industry, fisheries, and tourism; improving public sector management; and rationalizing the price structure.

1. Sectoral policies for expanding production

In the agricultural sector, the Government's priorities are to rationalize the groundnut subsector and align domestic producer prices in this activity more closely with world market prices, reform the agricultural credit system, and streamline the Ministry of Agriculture. Regarding groundnuts, the Government has already reduced the producer price for the 1987/88 season by almost 17 percent, implying a fall in the subsidy element from 8 percent in 1986/87 to 4 percent in 1987/88. In addition, the Government plans to liberalize the domestic marketing of groundnuts in the 1987/88 season by reducing substantially the preferential buying allowance of the parastatal credit and marketing agency, the Gambia Cooperative Union (GCU), in order to place private groundnut traders on a more competitive footing. With respect to credit

Table 7. The Gambia: Quantitative Performance Criteria
Under Stand-By Arrangement, End-September
and End-December 1986

	Stock at June 30, 1986	Maximum Cumulative Change from July 1, 1986 to	
		Sept. 30, 1986	Dec. 31, 1986
(In millions of dalasis)			
Net domestic assets <u>1/</u>	555.4		
Program		28.8 <u>2/</u>	-43.3 <u>3/</u>
Actual		-141.5	-269.7
Margin (-) or excess		-170.3	-226.4
Net credit to Government	100.3		
Program		3.2 <u>2/</u>	-134.3 <u>3/</u>
Actual		26.1	-137.6
Margin (-) or excess		22.9	-3.3
Gross credit to the GPMB	132.8 <u>4/</u>		
Program		-13.6	-9.2
Actual		-42.6	-29.6
Margin (-) or excess		-29.0	-20.4
(In millions of SDRs)			
Total external arrears	77.82 <u>5/</u>		
Program		77.82	77.82 <u>6/</u>
Actual		73.03	70.93 <u>6/</u>
Margin (-) or excess		-4.79	-6.89
Short-term public sector debt outstanding	9.62 <u>5/</u>		
Program		9.62	8.62
Actual		9.24	7.83
Margin (-) or excess		-0.38	-0.79
Contracting or guaranteeing of new nonconcessional external debt by the public sector in the 1-12 year maturity range during period			
Program		--	--
Actual		--	--
Margin (-) or excess		--	--

Sources: FBS/86/189; and data provided by the Gambian authorities.

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

2/ Adjusted to reflect the shortfall of D 34.2 million in external cash loans and grants and commodity assistance (loans and grants) from the original program estimate for July-September 1986.

3/ Adjusted to reflect the excess of D 70.3 million of external cash loans and grants and commodity assistance (loans and grants) over the original program estimate for July-December 1986.

4/ Revised to include the GPMB's suspense account (D 15.6 million) with the CBG.

5/ Revised to reflect updated exchange rates, cancellations of certain loans before end-June 1986, and the disclosure of additional short-term debt at the Paris Club.

6/ Excludes debt relief provided by the rescheduling exercise.

Table 8. The Gambia: Quantitative Performance Criteria and Indicative Targets Under Stand-by Arrangement, End-March and End-June 1987

	Stock at June 30, 1986	Maximum Cumulative Change from July 1, 1986 to	
		March 31, 1987	June 30, 1987
(In millions of dalasis)			
Net domestic assets <u>1/</u>	555.4		
Program		-179.8	-329.6 <u>2/</u>
Actual		-212.9	-391.0
Margin (-) or excess		-33.1	-61.4
Net credit to Government	100.3		
Program		-27.9	-159.2 <u>2/3/</u>
Actual		-31.3	-168.0
Margin (-) or excess		-3.4	-8.8
Gross credit to the GPMB	132.8 <u>4/</u>		
Program		36.1	26.3
Actual		35.2	24.4
Margin (-) or excess		-0.9	-1.9
(In millions of SDRs)			
	Stock at Dec. 31, 1986	Maximum Stock at the End of	
		March 31, 1987	June 30, 1987
(In millions of SDRs)			
Total external arrears	56.2 <u>5/</u>		
Program		54.7	47.9 <u>6/</u>
Actual		54.2	47.7
Margin (-) or excess		-0.5	-0.2
Short-term public sector debt outstanding <u>7/</u>	7.8		
Program		7.3	6.8
Actual		6.4	6.7
Margin (-) or excess		-0.9	-0.1
Contracting or guaranteeing of new nonconcessional external debt by the public sector in the 1-12 year maturity range during period			
Program		--	--
Actual		--	--
Margin (-) or excess		--	--
(In millions of SDRs)			
	Stock at June 30, 1986	Minimum Cumulative Increase	
		March 31, 1987	June 30, 1987
(In millions of SDRs)			
Gross official foreign reserves	1.3 <u>8/</u>		
Program		0.5	6.0
Actual		7.9	16.4
Margin (+) or shortfall (-)		7.4	10.4

Sources: EBS/87/66; and data provided by the Gambian authorities.

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

2/ Adjusted to reflect the cumulative excess of D 44.1 million in external cash loans and grants and commodity assistance (loans and grants) over the program estimate for the period July 1986-June 1987 (D 269.5 million).

3/ Adjusted to reflect the cumulative recovery of principal by the Government with respect to the Managed Fund in the period January-June 1987 (D 0.8 million).

4/ Revised to include the GPMB's suspense account (D 15.6 million) with the CBG.

5/ After rescheduling and calculated at end-December 1986 exchange rates.

6/ Adjusted to reflect the cumulative excess of SDR 5.3 million in certain exceptional foreign financing over the program estimate for the period January-June 1987 (SDR 5.5 million).

7/ Excludes import-related credits and specified bridging finance.

8/ Revised.

reform, the Government has begun implementing a plan to improve the GCU's lending procedures. New credit eligibility criteria were instituted for the 1987/88 season, which led to a denial of fresh loans to the farmers in default. The Government is also actively encouraging the private sector to participate in input marketing and the provision of credit. As a first step, in June 1987 the Government auctioned its fertilizer stocks to the public, and the GCU set the 1987 retail fertilizer prices to reflect landed import plus distribution costs. This policy of not subsidizing fertilizers will be maintained. The Government has also adopted a comprehensive plan, the implementation of which will start in 1987/88, to streamline the Ministry of Agriculture by restricting the Ministry's functions to those areas that cannot be handled by the private sector and by effecting an appropriate reduction and redeployment of staff.

Regarding small-scale industry, the Government is enacting a revised investment code and is taking steps to encourage expanded term-lending by the commercial banks and to strengthen institutional support systems. In the fisheries sector, government priorities are (i) to develop a fishing surveillance capability to prevent overfishing, (ii) to tighten licensing arrangements to increase income accruing to the economy from fishing, (iii) to provide infrastructure, training, and credit facilities to artisanal fishermen to enable them to supply local processing companies, and (iv) to complete divestiture of the government-owned fishing company. The Government's strategy for tourism centers on the divestiture of government ownership and a continued moratorium on government loan guarantees for the construction of hotels.

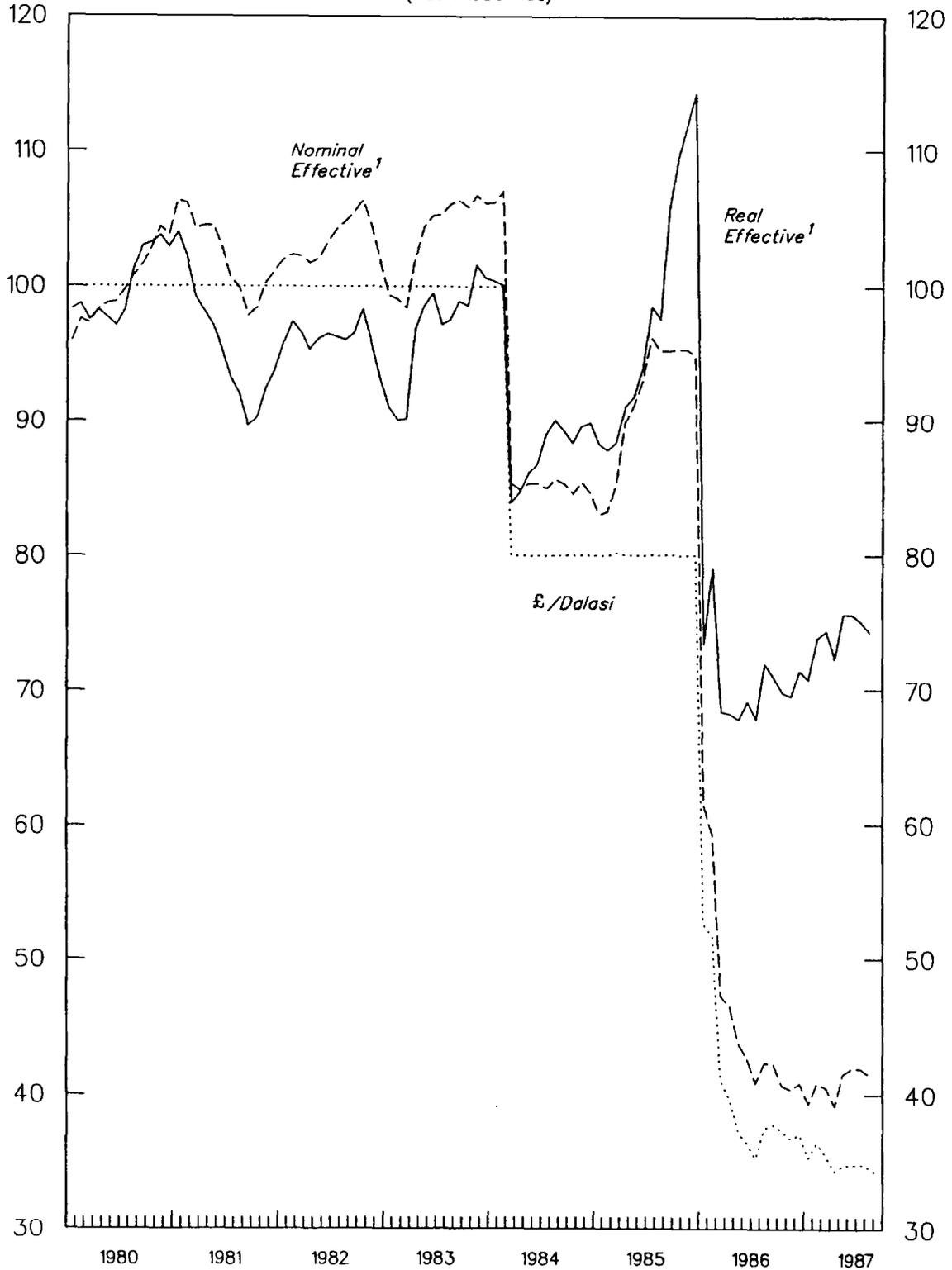
2. Public sector management

An important medium-term policy aim is to reduce annually the overall budgetary deficit (on a partial commitment basis and excluding grants) from 21.3 percent of GDP in 1986/87 to about 5 percent of GDP in 1989/90. As external grants and net foreign borrowing are projected to be well in excess of the budget deficits throughout the period, the Government should continue to increase its net creditor position with the banking system. In 1987/88, however, the deficit is expected to remain high at 18.9 percent of GDP, owing to a large one-time transfer to the Gambia Produce Marketing Board (GPMB) for the repayment of its accumulated debt to the Central Bank of The Gambia (CBG), equivalent to almost 8 percent of GDP. ^{1/} Revenue performance is expected to improve as a result of measures being adopted in 1987/88 to strengthen tax administration further and the introduction of a general sales tax and reform of the income tax law. In addition, expenditure restraint will

^{1/} This operation will have no direct overall monetary impact. However, to the extent that reduced CBG interest earnings resulting from the repayment of the GPMB's debt are not offset by increased other CBG earnings, including from increased holdings of foreign exchange, CBG profits and transfers to the Government could be affected.

CHART 1
THE GAMBIA
EXCHANGE RATE DEVELOPMENTS, 1980-87

(Index: 1980=100)



Sources: IMF, Information Notice System, *International Financial Statistics*.
1 Trade-weighted.



be continued. Much of the reduction in the deficit will result from the virtual elimination by 1989/90 of the subsidy provided to the GPMB (equivalent to less than 3 percent of GDP for 1987/88)--an elimination made possible by the reduction in the GPMB's interest payments due to the repayment of the its accumulated debt, further appropriate changes in producer prices for groundnuts, and efficiency gains accruing to the GPMB due to the implementation in 1988 of a performance contract.

Following the civil service retrenchment of 1986--which constituted a reduction of more than 20 percent of total government employment--further reforms in the civil service will be effected through the implementation of the Administrative Reform Program (ARP) and the introduction of a new civil service grade structure.

In the area of public investment planning, the Government is committed to establishing a closer monitoring of ongoing projects and achieving greater accuracy in expenditure estimates, while ensuring that project selection remains rigorous. Before the beginning of the 1988/89 fiscal year, the Government will reach understandings with the World Bank staff on the size and composition of the PIP for 1988/89-1990/91, including all project-related technical assistance. Also, by end-March 1988, the Government will prepare a consolidated roster of all nonproject technical assistance activities. Prior to preparation of the 1988/89 budget, the Government will discuss with staffs of the Fund and World Bank appropriate adjustments to the budget to reflect a more complete accounting of technical assistance.

To advance the rationalization of the public enterprise sector, the Government will continue during 1987/88 to implement the parastatal divestiture program adopted during 1986/87. It will also negotiate and sign, before January 1, 1988, full-year performance contracts with the three largest public enterprises--the GPMB, the Gambia Utilities Corporation (GUC), and the Gambia Port Authority (GPA). In addition, work on contracts for some other parastatals will begin during 1987/88, and contracts for GAMTEL (the telecommunications company), the Gambia Public Transport Corporation, and the Social Security and Housing Finance Corporation will be negotiated before the end of calendar 1988.

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. By mid-March 1986 the interbank rate of the dalasi had depreciated to D 10 per pound sterling (compared with the prefloat rate of D 5 per pound sterling--Chart 1). Since then, the rate has moved narrowly between D 10.95 and D 11.85 per pound sterling. The Government will continue to monitor carefully the evolution of the system to ensure its proper functioning.

To ensure a pass-through of exchange rate effects on prices to consumers, the Government has adopted a pragmatic approach to the

pricing of petroleum products, selected public utilities, and bus transport. During January-June 1986, the prices of premium gasoline and gas oil were raised by a cumulative 103 percent and 40 percent, respectively. Water and electricity tariffs were increased by 15 percent and 9 percent, respectively, in July 1986; by 15 percent and 6 percent, respectively, in January 1987; and by a uniform 15 percent in July 1987. Further increases of 15 percent and 6 percent, respectively, are planned for January 1988. Bus fares were raised on average by 40 percent in April 1987, following a similar increase in 1986. The pass-through effects of the sharp depreciation of the dalasi in early 1986 have already occurred, and the Government will continue to review these prices and tariffs and make adjustments when necessary to reflect developments in costs, including those associated with further exchange rate movements.

4. Monetary and credit policies

For the medium term, monetary and credit policy is directed at further moderating inflation, generating increased domestic financial savings, and attaining the Government's external targets. In establishing the annual credit program, principal consideration will continue 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 help ensure adherence to the limits on net domestic assets, the lending activities of the commercial banks will continue to be monitored closely in relation to ceilings established for individual banks, and further increases in bank reserve requirements will be effected, if required.

The authorities have adopted a flexible interest rate policy by virtue of which market forces now play a significantly larger role in determining levels of key interest rates in the economy. Since July 1986, these rates have been set on the basis of a biweekly tender system for treasury bills, and rates have fluctuated between 16 percent and 20 percent (compared with the earlier fixed rate of 15 percent). Moreover, new government securities that were marketed to the nonbank public in late June 1987 carried an effective yield of 21 percent. Given the recent decline in the rate of inflation, real rates of return on available financial assets have become positive. The present flexibility in the conduct of interest rate policy will be maintained in view of the need to stem possible pressures on domestic prices and the foreign exchange market.

5. External assistance and financing requirements

The Gambian authorities recognize that although the balance of payments outturn in 1986/87 was encouraging, the country's medium-term

external position remains vulnerable. Notwithstanding an expected rebound in recorded groundnut exports beginning in 1988/89, a favorable outlook for nongroundnut exports (including, importantly, for re-exports and fish) and tourism receipts, and a projected decline in interest payments, the narrowing of the current account deficit is presently projected to be less than that expected in the original PFP, attributable mainly to lower than originally anticipated receipts from recorded groundnut exports and to higher import levels associated with higher investment and output. The current account deficit in 1989/90 would still be equivalent to almost 25 percent of GDP, reflecting, in addition to the factors mentioned above, the necessarily relatively slow pace of restructuring the Gambian economy. Moreover, to the extent that significant levels of net exports are recorded in the private capital account, the current account deficit is overstated. The revised medium-term projections also take into account, importantly, The Gambia's need to attain adequate levels of reserves (about 3.5 months' imports) and the Government's aim to complete the normalization of debtor-creditor relations by eliminating all outstanding payments arrears by 1989/90.

In the context of this medium-term scenario, and if The Gambia is to achieve the economic growth and diversification needed to remove the systemic obstacles to external viability, significant external assistance and financing (about SDR 220 million) over the 1987/88-1989/90 period will be required. While, on the one hand, the Government is continuing to observe its moratorium on contracting or guaranteeing new nonconcessional external debt, on the other hand, in view of the considerable financial support thus far elicited from the international community, it expects continued bilateral and multilateral support for The Gambia's adjustment efforts and structural reforms. Assuming modest increases in technical assistance grants and based on existing and expected new project-related grant and loan commitments from multilateral and bilateral donors, normal official capital inflows of SDR 136 million are projected. In addition, crucial financing over the 1987/88-1989/90 period is being sought from (i) a second World Bank SAC (including cofinancing) amounting to about SDR 26.5 million over 1987/88-1988/89; (ii) the second and third annual arrangements under the SAF (SDR 7.4 million over 1987/88-1988/89); and (iii) a three-year USAID African Economic Policy Reform Program (SDR 1.6 million per year, starting in 1987/88). Based on the above, and assuming sustained surpluses in the private capital account supported by the continued application of flexible interest and exchange rate policies and a steady inflow of foreign direct investment, it is expected that the financing requirements will be met. Moreover, apart from the recent purchases (SDR 2.05 million) under The Gambia's stand-by arrangement, the projected financing over the 1987/88-1989/90 period would be wholly on concessional terms, with an average interest rate of about 2 percent.

6. Social impact and long-term issues

The implementation of the ERP has brought about a significant improvement in rural incomes since 1985/86, a development which has

assisted in narrowing the marked divergence which traditionally existed between urban and rural standards of living. The increase in rural incomes is attributable to sharp increases in agricultural producer prices and to the appreciable expansion in farm production. In contrast, urban incomes have been adversely affected by a general public sector wage freeze, the widespread government retrenchment program, the effects of exchange rate depreciation, and other pricing reforms. Based mainly on projections of the expansion of food crop production and total groundnut production (including for unrecorded exports), rural incomes are expected to grow moderately through 1989/90. The recent improvement in the performance of the agricultural sector has generated expanded employment opportunities in rural areas, absorbing some of the workers who were laid off by the Government. Others have benefited from a government-sponsored program which provides employment counseling, job retraining assistance, and credit facilities for new business ventures.

Despite the severe budget constraints, the basic social services provided by the Government--health and education--have been protected with external financial assistance. Priority is presently being accorded to broadening the range of these services and of targeting them more precisely.

The Gambia, with a per capita income in 1987 estimated at US\$230, is one of Africa's least developed countries. Given the small domestic market and the relative lack of resources, development of the manufacturing sector has been limited. Nevertheless, several areas of long-term potential have been identified. These include agricultural intensification and development of export-oriented horticulture, fisheries, tourism, export-oriented manufacturing, and entrepôt trade and services. It is clearly recognized that, without a substantial improvement in the long-term international price for groundnuts, the importance of this crop in the economy will likely diminish. The Gambia's capacity to fully develop and exploit the potential in other sectors will, however, depend crucially on its ability to overcome the more pressing constraints imposed by continued high population growth rates, high rates of adult illiteracy, and poor health conditions, despite recent success achieved by government-supported programs promoting family planning services and providing improved health care and educational facilities.

IV. Program for 1987/88

1. Objectives

The main quantitative objectives of the Government's program for 1987/88 are a rate of growth of 4 percent in real GDP; a much lower rate of inflation (12.5 percent on an end-period to end-period basis, compared with 20 percent in 1986/87); a narrowing of the external current account deficit in relation to GDP (to 31.6 percent from 33.6 percent in 1986/87); and a further reduction in the stock of

external payments arrears plus an additional increase in gross official foreign reserves.

2. Policies

To achieve the above objectives, the authorities intend to make further substantial progress in the implementation of structural policies, with continued emphasis accorded to the proper functioning of the interbank exchange rate system and a flexible interest rate policy. The authorities also recognize that attainment of the objectives for 1987/88 will depend on adherence to the specific measures relating to groundnut producer pricing and fiscal policies developed in the context of the second review under the recent stand-by arrangement.

Concerning groundnut producer pricing, on June 26, 1987 the domestic producer price was reduced by 16.7 percent for the 1987/88 crop season, thus narrowing the differential with respect to export unit values from 23 percent in 1986/87 to a projected 7 percent in 1987/88. At the time of the second review under the stand-by arrangement, it had been estimated that this cut would enable the Government to reduce the budgetary subsidy to the GPMB to the equivalent of 4 percent of GDP, compared with a subsidy in 1986/87 of about 8 percent of GDP. In addition, as also agreed in the context of the second review, the Government has recently utilized part of its growing net creditor position with the CBG to repay the GPMB's accumulated debt to the CBG (D 95.8 million, or almost 8 percent of GDP), which will further reduce the budgetary subsidy in 1987/88 (to below 3 percent of GDP) by alleviating heavy GPMB interest payments. As a result of these two actions, the government transfer to the GPMB in 1987/88 is D 130.7 million, or 10.6 percent of GDP (Appendix III).

The Government's fiscal stance for 1987/88, which takes into account the large transfer to the GPMB, aims at containing the budget deficit on a partial commitment basis and excluding grants to D 233.8 million, or 18.9 percent of GDP, compared with a deficit (including the establishment of the Managed Fund) of D 225.9 million, or 21.3 percent of GDP in 1986/87. As in 1986/87, external grants plus net foreign borrowing are projected to be well in excess of the budget deficit, with the result that the Government is expected to increase its net creditor position with the banking system by D 87.9 million.

To adhere to their 1987/88 budget deficit target, the authorities are making further efforts to boost revenues and restrain expenditures. On the revenue side, improvements are continuing to be made in tax administration through the strengthening of the central revenues and customs departments. In addition, the authorities have indicated that in late 1987/88 a general sales tax will be introduced and a reform of the income tax law will be implemented. With regard to expenditures, outlays on personal emoluments are expected to rise by 11 percent, reflecting mainly augmented allowances and the implementation on January 1, 1988 of a recommended restructuring of

salary grades, with the additional cost of these adjustments estimated to be below the full-year reduction in expenditure associated with the recent retrenchment exercise. The authorities have reiterated their intention not to effect a general salary increase for the public sector in 1987/88. On the other hand, a relatively large increase (23 percent) is being provided for "other charges," especially for urgently required maintenance and more adequate levels of materials and supplies. After the sharp rise (78 percent) in development expenditure in 1986/87 from a particularly low level in 1985/86, the authorities intend to limit the increase in 1987/88 to 15 percent, to a level of D 186 million, in accordance with the core public investment program agreed with the World Bank.

The authorities' monetary and credit program for 1987/88 takes account principally of a possible further financial deepening in the economy (i.e., allows for another decline in the income velocity of money) and the projected increase in the net foreign assets of the banking system--mainly the buildup in gross official foreign reserves and the reduction in external payments arrears. Moreover, it has been designed to ensure that, for the second consecutive year, there is no positive domestic contribution to monetary growth. Therefore, based on a projected increase in money balances of 17 percent (or 26 percent on an average annual basis, compared with an increase in nominal GDP of almost 16.5 percent) and a rise in the net foreign assets of the banking system of almost SDR 31 million, appropriate limits are being 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. Net domestic assets of the banking system are programmed to decline by the equivalent of 69 percent of beginning-of-period money supply. This is consistent with the programmed decrease in net bank credit to Government (equivalent to 27 percent of beginning-of-period money supply); a decline in credit to the GPMB (equivalent to 25 percent of beginning-of-period money supply); adequate growth in credit to the private sector and other public enterprises (20 percent); and a further decline in the domestic asset counterpart of external payments arrears.

In the external sector, the current account deficit in 1987/88 is projected to remain virtually unchanged at about SDR 40 million, which implies a decline equivalent to two percentage points of GDP, as an augmented level of imports, in line with the projected expansion in output and investment, is expected to be compensated by lower net interest payments, growing tourism receipts, and a recovery in nongroundnut exports, including re-exports. The Gambian authorities recognize that, although world groundnut prices are expected to improve, recorded groundnut exports will decline (the present forecast is by about 14 percent), in line with a projected reduction in GPMB purchases associated with the decline in the domestic producer price. However, they expect that, with anticipated further strong growth in groundnut production and continued confidence in exchange and interest rate policies, inflows from unrecorded groundnut exports through the private capital account will increase. This, complemented by modest increases

in official transfers and net official borrowing, is expected to result in a surplus of SDR 3 million in the overall balance of payments (excluding exceptional financing). Exceptional financing in 1987/88 is projected at SDR 35 million, compared with SDR 51.6 million in 1986/87, and includes, inter alia, the purchase of SDR 2.05 million under the recent stand-by arrangement, the expected second annual disbursement under the SAF (SDR 5.13 million), and expected disbursements of SDR 13 million from a second World Bank SAC (including cofinancing). During 1987/88 the authorities aim to reduce The Gambia's external payments arrears on a cash basis by at least SDR 18 million and to continue to build up gross official foreign reserves by at least SDR 8 million, to the equivalent of 3.1 months of imports. In the present circumstances, the Gambian authorities do not intend to request a new stand-by arrangement for 1987/88.

3. Benchmarks for 1987/88

The benchmarks for monitoring structural policy implementation for 1987/88 are shown in Table 9 and relate to (i) enactment of the revised investment code; (ii) the action plan for agricultural credit reform; (iii) the liberalization of domestic groundnut marketing channels; (iv) actions under the Administrative Reform Program; (v) preparation of a public investment program for 1988/89-1990/91; (vi) more complete accounting of technical assistance activities; (vii) the signing of performance contracts with several major public enterprises--the GPMB, the GUC, and the GPA; and (viii) the introduction of the general sales tax and implementation of the reform of the income tax law.

The quantitative benchmarks for 1987/88, as set forth in Table 10, comprise limits for October 1987 and quarterly thereafter 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 range of 1-12 years; and targets for October 1987 and quarterly thereafter on (viii) the minimum level of gross foreign reserves to be held by the CBG.

Table 9. The Gambia: Benchmarks of Implementation of
Structural Policy Measures for the 1987/88 Program
Under the Structural Adjustment Facility

Policy measures	Dates
<hr/>	
1. <u>Sectoral policies</u>	
Enact revised investment code	By January 31, 1988
Prepare time-bound action plan for recovery of all outstanding GCU loans	By January 1, 1988
Reduce preferential buying allowance of the GCU	By November 15, 1987
2. <u>Administrative Reform Program</u>	
Establish new Personnel Management Office	By January 1, 1988
Implement new civil service grade structure	By January 1, 1988
3. <u>Public expenditure</u>	
Prepare public investment program for 1988/89-1990/91 in consultation with the World Bank	By June 1, 1988
Prepare roster of all nonproject technical assistance activities	By March 31, 1988
4. <u>Public enterprises</u>	
Sign performance contracts with GPMB, GUC, and GPA	By January 1, 1988
5. <u>Fiscal policy</u>	
Introduce the general sales tax and implement reform of income tax law	By March 31, 1988

Source: Letter from the Gambian authorities dated November 4, 1987.

Table 10. The Gambia: Quantitative Benchmarks Under the Structural Adjustment Facility Arrangement for 1987/89

	Stock at June 30, 1987	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>1/2/3/</u>	257.8	-46.3	-32.5	-61.8	-224.9
Net credit to					
Government <u>2/3/4/</u>	-67.7	91.6	56.3	20.0	-87.9
Gross credit to the GPMB	157.2	-122.9	-118.4	-57.5	-83.0
Government transfer to the GPMB		130.7	130.7	130.7	130.7
(In millions of SDRs)					
External sector					
Total external arrears <u>5/</u>	46.7 <u>6/</u>	44.0	42.2	33.2	28.7
Short-term public sector debt outstanding <u>7/</u>	7.0 <u>8/</u>	7.0	7.0	7.0	7.0
Contracting or guaranteeing of new medium- or long- term nonconcessional external debt by the public sector in the 1-12 year maturity range during period <u>9/</u>		--	--	--	--
(In millions of SDRs)					
Gross official foreign reserves	17.7	1.2	1.6	4.8	8.0

Source: Letter from the Gambian authorities dated November 4, 1987.

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

2/ The limits for October, 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-October 1987, July-December 1987, and July 1987-March 1988, 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 1987-June 1988.

3/ The limits for October, 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 nonreschedulable government debt service obligations falling due during the periods July-October 1987, July-December 1987, July 1987-March 1988, and July 1987-June 1988, respectively.

4/ The limits for October, 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-October 1987, July-December 1987, July-March 1988, and July 1987-June 1988.

5/ The limits for October, December, and March will be adjusted downward or upward by the full amount of the cumulative excess or shortfall of certain exceptional foreign financing, compared with the program estimates for the periods July-October 1987, July-December 1987, and July 1987-March 1988, 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 1987-June 1988. 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 1987 stock.

6/ After rescheduling and valued at end-August 1987 exchange rates.

7/ Excludes import-related credits.

8/ Valued at end-August 1987 exchange rates.

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

V. Staff Appraisal

As noted on the occasion of the second review under the Fund's recent stand-by arrangement for The Gambia, the major objectives of the adjustment program for 1986/87 were achieved. Growth in real GDP was higher than anticipated; the rate of inflation declined markedly; and, most strikingly, aided by a high level of exceptional financing, the increase in gross official foreign reserves plus the reduction in external payments arrears was considerably larger than expected. Of particular importance in achieving this broadly based improvement were the continued smooth functioning of the interbank exchange rate system and implementation of a more flexible interest rate policy; adherence to the program's fiscal stance; and a restrained overall credit policy. At end-June 1987 The Gambia observed all the performance criteria of the stand-by arrangement and met its indicative target on gross official foreign reserves. The implementation of structural policies identified as benchmarks for 1986/87 under The Gambia's first year SAF program was equally encouraging, with substantial and timely progress made in all key areas. A thorough revision of the investment code was undertaken; a large civil service retrenchment program was carried out, and a comprehensive, multiyear administrative reform program was prepared; stringent criteria for project selection were instituted for the public investment program and a core program for 1986/87-1988/89 was identified; a comprehensive plan for rationalizing the public enterprise sector was adopted; and specific proposals were put forward for increasing the share of revenues from domestic taxes.

Nevertheless, The Gambia's external payments position remains vulnerable and heavily dependent upon official transfers and concessional lending, which clearly calls for further efforts to bring the current account to a sustainable level through continued vigorous implementation of policies under the SAF-supported program.

Within the context of updating their PFP to cover the period 1987/88-1989/90, the Gambian authorities reassessed medium-term external financing prospects and, on this basis, raised marginally the target annual rate of growth for real GDP from 3.3 percent to 3.5-4.0 percent to permit a recovery in real per capita income and consumption. The external current account deficit (excluding official transfers) is programmed to decline steadily, although the improvement is somewhat less than that envisaged in the original PFP, largely because of lower than initially projected recorded groundnut exports and increased import levels to support the higher than originally projected economic growth. Regarding the required financing, it is expected that bilateral and multilateral donors will continue to support The Gambia's adjustment efforts and structural reforms, with crucial financing being sought from a second World Bank SAC and the second and third annual arrangements under the SAF. Assuming sustained surpluses in the private capital account, which will require the continued conduct of flexible interest and exchange rate policies and a steady inflow of foreign direct investment, financing is projected to be sufficient to enable The Gambia

to eliminate all of its external payments arrears and to accumulate external reserves to the equivalent of about 3.5 months of imports without further recourse to debt relief from Paris and London Club creditors.

As spelled out in the updated PFP, for the period 1987/88-1989/90 the Gambian authorities will continue to pursue appropriate exchange rate, interest rate, demand-management, and external debt and reserve policies. In addition, it will be essential for the authorities to implement effectively their stated policies for promoting growth in agriculture, industry, fisheries, and tourism; improving public sector management; and rationalizing the price structure.

The Government has set feasible objectives for 1987/88, including a rate of growth of 4 percent in real GDP; a much lower rate of inflation; a narrowing of the external current account deficit in relation to GDP; and another increase in external reserves plus a further reduction in external payments arrears.

The elaboration of the authorities' economic and financial program for 1987/88 was greatly facilitated by the timely adoption and implementation of measures in the context of the second review under the recent stand-by arrangement. These included a reduction of almost 17 percent in the domestic groundnut producer price (to align it more closely to the world market level and curtail the budgetary subsidy to the GPMB) and further restraint in the overall fiscal stance.

To adhere to the budget deficit target, further improvements will need to be made in tax administration, with special efforts directed toward strengthening the central revenue and customs departments. Moreover, the authorities should introduce the sales tax and implement the reform of the income tax law in a timely manner. Regarding expenditures, personal emoluments are expected to rise only modestly, due, importantly, to the decision not to grant a general salary increase in 1987/88. However, a relatively large increase is being provided for urgently required maintenance and more adequate levels of materials and supplies. It is particularly important that the reform of the GPMB proceed as scheduled and that the budgetary transfer to the GPMB not exceed the program limit. Following the steep rise in development spending in 1986/87 from a particularly low level the previous year, the authorities are appropriately limiting the increase in 1987/88 in accord with the core public investment program agreed with the World Bank.

The Gambian authorities are to be commended for their continued implementation of prudent financial policies. The monetary and credit program for 1987/88 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 in 1986/87, there is no positive domestic contribution to monetary growth, net domestic assets of the banking system are programmed to decline sharply.

Although the external current account deficit in 1987/88 is programmed to remain virtually unchanged, inflows from unrecorded groundnut exports through the private capital account are expected to increase. In addition, modest increases are expected in official transfers and net official loans, and a small overall balance of payments surplus (excluding exceptional financing) is projected. Exceptional financing in 1987/88, although significantly lower than in 1986/87, is still expected to remain relatively high. In view of The Gambia's vulnerability to changes in the external environment, the staff supports the authorities' decision to use this opportunity to further reduce external payments arrears sharply and to increase gross official foreign reserves to the equivalent of just over three months of imports.

In view of the progress already achieved, the continued commitment shown by the Gambian authorities, and the policies spelled out for the period 1987/88-1989/90, the staff strongly endorses the updated Gambian three-year program and the detailed program presented for 1987/88.

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.

VI. Proposed Decision

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

(i) Second Arrangement Under the SAF

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

2. The Fund has appraised the progress of The Gambia in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper EBD/87/300.

3. The Fund approves the arrangement set forth in EBS/87/236.

(ii) Exchange System

The Fund grants approval for the retention by The Gambia of the exchange restrictions evidenced by external payments arrears, and of the exchange restrictions remaining pending the execution of the rescheduling agreements with each individual creditor until August 31, 1988, or the next Article IV consultation with The Gambia, whichever is earlier.

The Gambia - Structural Adjustment Facility:
Second Annual Arrangement

Attached hereto is a letter dated November 4, 1987 from the Minister of Finance and Trade and the Governor of the Central Bank of The Gambia requesting from the Fund the second annual arrangement under the three-year structural adjustment arrangement and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

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

1. The second loan in the amount equivalent to SDR 5.13 million is available for disbursement at the request of The Gambia.
2. Before approving the third annual arrangement, the Fund will appraise the progress of The Gambia in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:
 - a. the indicators specified in paragraphs 12 and 13 of the attached letter and set forth in Tables 4 and 5 of that letter;
 - b. imposition of restrictions on payments and transfers for current international transactions;
 - c. introduction 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.
3. In accordance with paragraph 15 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 the second annual arrangement.

4. In accordance with paragraph 15 of the attached letter, The Gambia will consult with the Managing Director of the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because of deviations from any of the indicators under paragraph 2 above or because he considers that consultation on the program is desirable. 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

November 4, 1987

Mr. M. Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. On September 17, 1986 the Fund approved for The Gambia a three-year arrangement with a presently effective 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 adopted in 1985. In the context of the two reviews under the stand-by arrangement, we described in a letter to you dated March 19, 1987 and in the attached memorandum and in a letter to you dated July 21, 1987 progress in policy implementation and economic and financial developments. In brief, the adjustment program adopted by the Government in mid-1986 was implemented successfully, and, as a result, the major program objectives were achieved. In particular, the floating exchange rate system introduced in early 1986 continued to function satisfactorily, supported by a liberalized interest rate policy, and generally restrained financial policies were pursued. Also, to enhance our overall policy effort, a rescheduling agreement was concluded with Paris Club creditors, with the bilateral agreements signed broadly on schedule, and a rescheduling agreement with London Club creditors is expected to be signed by end-November. Favorable developments included higher-than-anticipated growth in real gross domestic product (GDP); a marked deceleration in the rate of inflation (as measured by the consumer price index on an end-period to end-period basis); and, most strikingly, an increase in gross official foreign reserves plus a reduction in external payments arrears considerably larger than planned.

2. Regarding the structural benchmarks for the first year SAF program, as indicated in Table 1, notwithstanding two slight slippages, substantial and timely progress was made in all of the specified areas. A thorough revision of the investment code was undertaken; a large civil service retrenchment program was carried out and a comprehensive, multi-year administrative reform program prepared; stringent criteria for project selection were instituted for the public investment program and a core program for 1986/87-1988/89 was identified; a comprehensive plan for rationalizing the public enterprise

sector was adopted; and specific proposals were put forward for increasing the share of revenues from domestic taxes. Moreover, apart from the nonobservance of one performance criterion at end-September 1986 (i.e., on net bank credit to Government) for largely technical reasons, The Gambia met all the stand-by arrangement's performance criteria, which served also as quantitative benchmarks under the SAF arrangement, and all the indicative targets (Tables 2 and 3).

3. In collaboration with the staffs of the Fund and World Bank, we have recently updated our initial policy framework paper (PFP), which covered the period 1986/87-1988/89. The new PFP covers the period 1987/88-1989/90 and thus elaborates objectives and policies for the remaining two years of the original three-year period and for an additional year. The PFP is being transmitted today to you and the President of the World Bank. To underpin our continuing efforts to promote adjustment with growth in the context of our updated PFP, this letter sets out the objectives and policies that the Government of The Gambia intends to pursue for the period July 1, 1987-June 30, 1988, for which balance of payments assistance is needed. In support of these objectives and policies, the Government of The Gambia hereby requests from the Fund a second annual arrangement under the SAF, equivalent to SDR 5.13 million, corresponding to 30 percent of The Gambia's quota in the Fund. Although we are submitting our request for a second annual arrangement several months after the beginning of our fiscal year (July 1), we request that The Gambian fiscal year be retained as the program year, as the Government determines its policies on this basis. In this regard and in the context of the second review under our recent stand-by arrangement, the Government made important policy commitments and has already implemented the associated measures relating to groundnut producer pricing policy and the overall fiscal stance for 1987/88.

4. The revised PFP includes as medium-term objectives: (i) growth in real GDP of 3.5-4.0 percent per annum, compared with the initial annual target of 3.3 percent, thus permitting a steady, albeit modest, recovery in real per capita income and consumption and an improvement in private investment; (ii) a further deceleration in the rate of inflation to about 8 percent by 1989/90, from the initial target rate of 10 percent for 1988/89; (iii) a narrowing of the external current account deficit (excluding official transfers) from 33.6 percent of GDP in 1986/87 to 24.5 percent in 1989/90, compared with the original PFP three-year improvement of 11.5 percentage points of GDP; and (iv) the complete elimination of external payments arrears plus a substantial buildup in external reserves to the equivalent of about 3.5 months of imports to support The Gambia's liberalized exchange and trade system.

5. For the period 1987/88-1989/90, in addition to the continued conduct of appropriate exchange rate, interest rate, demand management, and external debt and reserve policies, the PFP contains specific policies for promoting growth in agriculture (rationalizing the groundnut sector, reforming the credit system, and streamlining the

Ministry of Agriculture), industry (revising the investment code and encouraging term lending), fisheries (improving surveillance, infrastructure, training, and credit facilities), and tourism (divestiture); improving public sector management (strengthening tax administration, implementing a sales tax and reforming the income tax law, restructuring the civil service, improving investment project selection and the monitoring of project expenditure and technical assistance, and divestiture of major public sector enterprises); and rationalizing the price structure (particularly for petroleum products, selected public utilities, and transportation).

6. The Government's program for 1987/88, in support of which a second loan under the SAF is being requested, has as its main objectives a rate of growth of 4 percent in real GDP; a lower rate of inflation (12.5 percent, compared with 20 percent in 1986/87); a narrowing of the external current account deficit in relation to GDP (to 31.6 percent from 33.6 percent in 1986/87); and another reduction in the level of external payments arrears plus a further reconstitution of gross official foreign reserves.

7. To achieve the above objectives, further substantial progress will be made in the implementation of structural policies as detailed in the updated PFP, while emphasis will continue to be accorded the proper functioning of the interbank exchange rate system and the flexible interest rate policy. Attainment of the objectives for 1987/88 will depend also on adherence to the specific measures relating to groundnut producer pricing and fiscal policies agreed upon in the context of the second review under the recent stand-by arrangement.

8. With respect to groundnut producer pricing, on June 26, 1987 the domestic producer price was reduced by 16.7 percent for the 1987/88 crop season, thus narrowing the differential with export unit values from 23 percent in 1986/87 to a projected 7 percent in 1987/88. It had been estimated that this cut would enable the Government to reduce the budgetary subsidy to the Gambia Produce Marketing Board (GPMB) to the equivalent of 4 percent of GDP, compared with a subsidy in 1986/87 of about 8 percent of GDP. In addition, the Government has recently used part of its growing net creditor position with the Central Bank of The Gambia (CBG) to repay the GPMB's accumulated debt to the CBG (D 95.8 million, or almost 8 percent of GDP), which will further reduce the budgetary subsidy in 1987/88 to below 3 percent of GDP by alleviating heavy GPMB interest payments. Reflecting these two actions, the government transfer to the GPMB in 1987/88 is D 130.7 million, or 10.6 percent of GDP.

9. The Government's fiscal stance for 1987/88, which takes into account the large transfer to the GPMB, aims at containing the budget deficit on a partial commitment basis and excluding grants to D 233.8 million, or 18.9 percent of GDP, compared with a deficit of D 225.9 million, or 21.3 percent of GDP in 1986/87--a deficit which included the assumption by the Government in January 1987 of

government-guaranteed loans (equivalent to about 7 percent of GDP) extended by the Gambia Commercial and Development Bank to certain private and public enterprises, as had been agreed under the stand-by arrangement. To adhere to the 1987/88 budget deficit target, efforts are currently under way both to boost revenues and restrain expenditures. With regard to revenues, improvements continue to be made in tax administration through the strengthening of the central revenues and customs departments. Moreover, in late 1987/88 a general sales tax will be introduced and a reform of the income tax law (involving a reduction in the number of tax brackets, the elimination of the highest marginal tax rates, and the incorporation of certain sources of nonwage income) will be implemented. Concerning expenditures, outlays on personal emoluments are projected to rise by a modest 11 percent, reflecting mainly augmented allowances and the implementation on January 1, 1988 of a recommended restructuring of salary grades, with the additional cost of these adjustments estimated to be below the full-year reduction in expenditure associated with the recent retrenchment exercise. No general salary increase is planned in 1987/88 for the public sector. However, a relatively large increase (23 percent) is being provided for "other charges," especially for urgently required maintenance and more adequate levels of materials and supplies. Following the steep rise (78 percent) in development expenditure in 1986/87 from a particularly low level in 1985/86, the Government will limit the increase in 1987/88 to 15 percent, to a level of D 186 million, in accord with the core public investment program agreed with the World Bank. As in 1986/87, external grants plus net foreign borrowing is projected to be well in excess of the budget deficit, and the Government is therefore expected to increase its net creditor position with the banking system by D 87.9 million.

10. The monetary and credit program for 1987/88 takes account principally of a possible further financial deepening in the economy (i.e., allows for another decline in the income velocity of money) and the projected increase in the net foreign assets of the banking system--mainly the buildup in gross official foreign reserves and the reduction in external payments arrears. Thus, based on a projected increase in money balances of 17 percent (or 26 percent on an average annual basis, compared with an increase in nominal GDP of almost 16.5 percent) and a rise in the net foreign assets of the banking system of D 281.4 million, 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 D 224.9 million, equivalent to 69 percent of beginning-of-period money supply. This is consistent with the programmed decrease in net bank credit to Government (equivalent to 27 percent of beginning-of-period money supply); a decline in credit to the GPMB (equivalent to 25 percent of beginning-of-period money supply); adequate growth in credit to the private sector and other public enterprises (20 percent); and a further decline in other domestic assets associated with the reduction in external payments arrears. Therefore, for the second consecutive year, the increase in demand for money in 1987/88 would be accommodated entirely by an increase in net foreign assets.

11. The external current account deficit in 1987/88 is projected to remain virtually unchanged at about SDR 40 million, which implies a decline in its ratio to GDP by two percentage points (to 31.6 percent), as higher imports, consistent with the projected expansion in output and investment, are expected to be compensated by lower net interest payments, growing tourism receipts, and a recovery in nongroundnut exports, including re-exports. Although world groundnut prices are expected to improve, recorded groundnut exports are forecast to decline in volume by about 14 percent, in line with a projected reduction in GPMB purchases. However, with the anticipated strong growth in groundnut production and continued confidence in exchange and interest rate policies, inflows from unrecorded groundnut exports through the private capital account are expected to increase. This, together with modest increases in official transfers and net official loans, is expected to result in a surplus of SDR 3 million in the overall balance of payments (excluding exceptional financing). Exceptional financing for 1987/88, although significantly lower than in 1986/87, is expected to amount to SDR 35 million, including, inter alia, purchases of SDR 2.05 million under the recent stand-by arrangement, the second annual disbursement of SDR 5.13 million under the SAF, disbursements of SDR 13 million associated with a second World Bank SAC (including cofinancing), and a first disbursement of SDR 1.6 million under a USAID African Economic Policy Reform Program. During 1987/88 The Gambia aims to reduce external payments arrears on a cash basis by at least SDR 18 million, while continuing to build up gross official foreign reserves by at least SDR 8 million, to the equivalent of 3.1 months of imports.

12. Structural policies for 1987/88 are spelled out in the updated PFP, and the benchmarks for monitoring structural policy implementation are shown in Table 4 and relate to (i) enactment of the revised investment code; (ii) the action plan for agricultural credit reform; (iii) the liberalization of domestic groundnut marketing channels through a reduction in the preferential buying allowance of the Gambia Cooperative Union (GCU); (iv) actions under the Administrative Reform Program; (v) preparation of a public investment program for 1988/89-1990/91; (vi) more complete accounting of technical assistance activities; (vii) the signing of performance contracts with several major public enterprises--the GPMB, the Gambia Utilities Corporation (GUC), and the Gambia Port Authority (GPA); and (viii) the introduction of the general sales tax and implementation of the reform of the income tax law.

13. The quantitative benchmarks for 1987/88 set forth in Table 5 comprise limits for October 1987 and quarterly thereafter 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 range of 1-12 years. There are also targets

for October 1987 and quarterly thereafter on the minimum level of gross foreign reserves to be held by the CBG.

14. The Gambia will maintain its present arrangement for the advance acquisition of SDRs to be used to service The Gambia's obligations to the Fund for the remainder of its SAF arrangement.

15. The Government of The Gambia believes that the policies and measures described in this letter and in its updated PFP are appropriate to attain the objectives of its program for 1987/88, but it will take any further measures that may become necessary for this purpose. The Government will consult with the Managing Director of the Fund on the adoption of any measure which may become appropriate, either on its own initiative, or if the Managing Director requests such consultations. In addition, the Government will remain in close contact with the staffs of the Fund and the World Bank on developments and progress in implementing these policies, and the PFP will be updated annually as the program is implemented. The Gambia will provide the Fund with such information as the Fund requests in connection with its progress in implementing the policies and achieving the objectives of the program. The Government of The Gambia remains convinced of the need to sustain its medium-term adjustment efforts, and, in this endeavor, counts on the continued assistance of the Fund.

Sincerely,

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

/s/
T.G.G. Senghore
Governor
Central Bank of The Gambia

Table 1. The Gambia: Benchmarks of Implementation of
Structural Policy Measures for the 1986/87 Program
Under the Structural Adjustment Facility

Policy measures	Dates	
	Program	Actual
<u>1. Sectoral policies</u>		
Revise investment code	Dec. 1986	May 1987
<u>2. Civil service reform</u>		
Fully implement the government employment retrenchment program	Oct. 1986	Oct. 1986
Prepare an Administrative Reform Program, including pay and grading reforms	Feb. 1987	March 1987
<u>3. Public investment</u>		
Prepare revised public investment program for 1986/87-1988/89	Dec. 1986	Dec. 1986
<u>4. Public enterprises</u>		
Prepare divestiture and rationalization plan for 1986/87-1988/89	Dec. 1986	Nov. 1986
<u>5. Fiscal policy</u>		
Elaborate proposals for increasing the revenue contribution of domestic taxes, for implementation in fiscal year 1987/88	March 1987	March 1987

Sources: EBS/86/189; and information provided by the Gambian authorities.

Table 2. The Gambia: Quantitative Performance Criteria
Under Stand-By Arrangement, End-September
and End-December 1986

	Stock at June 30, 1986	Maximum Cumulative Change from July 1, 1986 to	
		Sept. 30, 1986	Dec. 31, 1986
(In millions of dalasis)			
Net domestic assets <u>1/</u>	555.4		
Program		28.8 <u>2/</u>	-43.3 <u>3/</u>
Actual		-141.5	-269.7
Margin (-) or excess		-170.3	-226.4
Net credit to Government	100.3		
Program		3.2 <u>2/</u>	-134.3 <u>3/</u>
Actual		26.1	-137.6
Margin (-) or excess		22.9	-3.3
Gross credit to the GPMB	132.8 <u>4/</u>		
Program		-13.6	-9.2
Actual		-42.6	-29.6
Margin (-) or excess		-29.0	-20.4
(In millions of SDRs)			
Total external arrears	77.82 <u>5/</u>		
Program		77.92	77.82 <u>6/</u>
Actual		73.03	70.93 <u>6/</u>
Margin (-) or excess		-4.79	-6.89
Short-term public sector debt outstanding	9.62 <u>5/</u>		
Program		9.62	9.62
Actual		8.24	7.83
Margin (-) or excess		-0.38	-0.79
Contracting or guaranteeing of new nonconcessional external debt by the public sector in the 1-12 year maturity range during period			
Program		--	--
Actual		--	--
Margin (-) or excess		--	--

Sources: EBS/86/189; and data provided by the Gambian authorities.

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

2/ Adjusted to reflect the shortfall of D 34.2 million in external cash loans and grants and commodity assistance (loans and grants) from the original program estimate for July-September 1986.

3/ Adjusted to reflect the excess of D 70.3 million of external cash loans and grants and commodity assistance (loans and grants) over the original program estimate for July-December 1986.

4/ Revised to include the GPMB's suspense account (D 15.6 million) with the CBG.

5/ Revised to reflect updated exchange rates, cancellations of certain loans before end-June 1986, and the disclosure of additional short-term debt at the Paris Club.

6/ Excludes debt relief provided by the rescheduling exercise.

Table 3. The Gambia: Quantitative Performance Criteria and Indicative Targets Under Stand-by Arrangement, End-March and End-June 1987

	Stock at June 30, 1986	Maximum Cumulative Change from July 1, 1986 to	
		March 31, 1987	June 30, 1987
(In millions of dalasis)			
Net domestic assets <u>1/</u>	555.4		
Program		-179.9	-329.6 <u>2/</u>
Actual		-212.9	-391.0
Margin (-) or excess		-33.1	-61.4
Net credit to Government	100.3		
Program		-27.9	-159.2 <u>2/3/</u>
Actual		-31.3	-168.0
Margin (-) or excess		-3.4	-8.8
Gross credit to the GPMB	132.8 <u>4/</u>		
Program		36.1	26.3
Actual		35.2	24.4
Margin (-) or excess		-0.9	-1.9
(In millions of SDRs)			
Total external arrears	56.2 <u>5/</u>		
Program		54.7	47.9 <u>6/</u>
Actual		54.2	47.7
Margin (-) or excess		-0.5	-0.2
Short-term public sector debt outstanding <u>7/</u>	7.8		
Program		7.3	6.9
Actual		6.4	6.7
Margin (-) or excess		-0.9	-0.1
Contracting or guaranteeing of new nonconcessional external debt by the public sector in the 1-12 year maturity range during period			
Program		--	--
Actual		--	--
Margin (-) or excess		--	--
(In millions of SDRs)			
Minimum Cumulative Increase			
	Stock at June 30, 1986	March 31, 1987	June 30, 1987
(In millions of SDRs)			
Gross official foreign reserves	1.3 <u>8/</u>		
Program		0.5	6.0
Actual		7.9	16.4
Margin (+) or shortfall (-)		7.4	10.4

Sources: EBS/87/66; and data provided by the Gambian authorities.

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

2/ Adjusted to reflect the cumulative excess of D 44.1 million in external cash loans and grants and commodity assistance (loans and grants) over the program estimate for the period July 1986-June 1987 (D 269.5 million).

3/ Adjusted to reflect the cumulative recovery of principal by the Government with respect to the Managed Fund in the period January-June 1987 (D 0.8 million).

4/ Revised to include the GPMB's suspense account (D 15.6 million) with the CBG.

5/ After rescheduling and calculated at end-December 1986 exchange rates.

6/ Adjusted to reflect the cumulative excess of SDR 5.3 million in certain exceptional foreign financing over the program estimate for the period January-June 1987 (SDR 5.5 million).

7/ Excludes import-related credits and specified bridging finance.

8/ Revised.

Table 4. The Gambia: Benchmarks of Implementation of
Structural Policy Measures for the 1987/88 Program
Under the Structural Adjustment Facility

Policy measures	Dates
<u>1. Sectoral policies</u>	
Enact revised investment code	By January 31, 1988
Prepare time-bound action plan for recovery of all outstanding GCU loans	By January 1, 1988
Reduce preferential buying allowance of the GCU	By November 15, 1987
<u>2. Administrative Reform Program</u>	
Establish new Personnel Management Office	By January 1, 1988
Implement new civil service grade structure	By January 1, 1988
<u>3. Public expenditure</u>	
Prepare public investment program for 1988/89-1990/91 in consultation with the World Bank	By June 1, 1988
Prepare roster of all nonproject technical assistance activities	By March 31, 1988
<u>4. Public enterprises</u>	
Sign performance contracts with GPMB, GUC, and GPA	By January 1, 1988
<u>5. Fiscal policy</u>	
Introduce the general sales tax and implement reform of income tax law	By March 31, 1988

Table 5. The Gambia: Quantitative Benchmarks Under the Structural Adjustment Facility Arrangement for 1987/88

	Stock at June 30, 1987	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 ^{1/2/3/}	257.9	-46.3	-32.5	-61.9	-224.9
Net credit to Government ^{2/3/4/}	-67.7	91.6	56.3	20.0	-87.9
Gross credit to the GPMB	157.2	-122.9	-118.4	-57.5	-83.0
Government transfer to the GPMB		130.7	130.7	130.7	130.7
(In millions of SDRs)					
External sector					
Total external arrears ^{5/}	46.7 ^{6/}	44.0	42.2	33.2	28.7
Short-term public sector debt outstanding ^{7/}	7.0 ^{8/}	7.0	7.0	7.0	7.0
Contracting or guaranteeing of new medium- or long- term nonconcessional external debt by the public sector in the 1-12 year maturity range during period ^{9/}		--	--	--	--
(In millions of SDRs)					
Gross official foreign reserves					
	17.7	1.2	1.6	4.9	8.0

^{1/} Excludes the counterpart of valuation changes in net foreign assets of the CAG.

^{2/} The limits for October, 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-October 1987, July-December 1987, and July 1987-March 1988, 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 1987-June 1988 (Table 6).

^{3/} The limits for October, 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 nonreschedulable government debt service obligations falling due during the periods July-October 1987, July-December 1987, July 1987-March 1988, and July 1987-June 1988, respectively (Table 6).

^{4/} The limits for October, 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-October 1987, July-December 1987, July 1987-March 1988, and July 1987-June 1988 (Table 6).

^{5/} The limits for October, December, and March will be adjusted downward or upward by the full amount of the cumulative excess or shortfall of certain exceptional foreign financing, compared with the program estimates for the periods July-October 1987, July-December 1987, and July 1987-March 1988, 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 1987-June 1988 (Table 6). 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 1987 stock.

^{6/} After rescheduling and valued at end-August 1987 exchange rates.

^{7/} Excludes import-related credits.

^{8/} Valued at end-August 1987 exchange rates.

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

Table 6. The Gambia: Program Estimates of Nonproject External Financing, Debt Service, Repayments Under Managed Fund, and Exceptional Financing, 1987/88

	July-Oct. 1987	July-Dec. 1987	July 1987- March 1988	July 1987- June 1988
(In millions of dalasis)				
Cash loans	16.0	23.6	65.0	157.7
SAC <u>1/</u>	(16.0)	(23.6)	(65.0)	(157.7)
Cash and commodity grants	49.5	57.0	62.5	74.1
STABEX	(35.6)	(35.6)	(35.6)	(35.6)
Fuel	(7.3)	(11.0)	(16.5)	(23.5)
Rice	(6.6)	(10.4)	(10.4)	(15.0)
Total nonproject external financing	<u>65.5</u>	<u>80.6</u>	<u>127.5</u>	<u>231.8</u>
(In millions of SDRs)				
Interest <u>2/3/</u>	3.4	3.7	5.3	6.0
Principal <u>2/</u>	2.3	2.8	5.7	6.7
Total debt service	<u>5.7</u>	<u>6.5</u>	<u>11.0</u>	<u>12.7</u>
(In millions of dalasis)				
Repayments under Managed Fund	--	<u>5.3</u>	<u>5.3</u>	<u>5.3</u>
(In millions of SDRs)				
Cash loans	1.8	2.6	7.1	17.3
First SAC	(1.8)	(2.6)	(3.4)	(4.3)
World Bank	0.4	0.4	0.4	0.4
ADF	1.3	1.3	1.3	1.3
SF	--	0.8	1.6	2.5
Second SAC	(--)	(--)	(3.7)	(13.0)
World Bank	--	--	--	7.0
United Kingdom	--	--	3.7	3.7
ADF	--	--	--	2.3
Cash grants	3.9	3.9	5.5	5.5
STABEX	(3.9)	(3.9)	(3.9)	(3.9)
USAID	(--)	(--)	(1.6)	(1.6)
Total exceptional financing	<u>5.7</u>	<u>6.5</u>	<u>12.6</u>	<u>22.8</u>

1/ Includes disbursements under first and possible second SACs from the World Bank (including cofinancing).

2/ After debt relief.

3/ Includes moratorium interest payments.

The Gambia--Relations with the Fund
(As of October 31, 1987)

I. Membership status

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

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 17.10 million
(b) Fund holdings of Gambian dalasis: SDR 34.41 million
(201.23 percent of quota)

	<u>SDR</u> <u>million</u>	<u>Percent</u> <u>of quota</u>
(c) Fund holdings subject to repurchase and charges	17.34	101.41
Of which: compensatory		
financing facility	(4.71)	(27.54)
credit tranches	(6.62)	(38.68)
supplementary		
financing facility	(2.99)	(17.49)
enlarged access resources	(3.02)	(17.66)
(d) 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	--
Stand-by	5/18/77-5/17/78	2.53	2.53	--

The Gambia--Relations with the Fund (continued)

(b) Special facilities:

Compensatory financing facility	9/25/86	SDR 4.7 million
	6/3/81	SDR 9.0 million
	11/22/78	SDR 4.5 million
	3/16/77	SDR 3.5 million

IV. SDR Department

(a) Net cumulative allocation:	SDR 5.12 million
(b) Holdings:	SDR 3.98 million

V. Administered accounts

(a) Trust Fund loans:

(i) Disbursed	SDR 6.84 million
(ii) Outstanding	SDR 2.40 million

(b) SFF Subsidy Account:

(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	SDR 0.53 million

(c) Structural adjustment facility:

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

VI. Financial obligations due to the Fund

Overdue Financial Obligations Oct. 31, 1987	<u>Principal and Interest Due</u>			
	<u>Nov.-Dec.</u> 1987	1988	1989	1990

(In millions of SDRs)

Principal	--	<u>1.6</u>	<u>4.4</u>	<u>3.9</u>	<u>3.9</u>
Repurchases	--	<u>1.4</u>	<u>3.2</u>	<u>3.1</u>	<u>3.7</u>
TF repayments	--	<u>0.2</u>	<u>1.2</u>	<u>0.8</u>	<u>0.2</u>
Charges and interest, including SDR, TF, and SAF (prov.)	--	<u>0.2</u>	<u>1.2</u>	<u>1.0</u>	<u>0.7</u>
Total	--	<u>1.8</u>	<u>5.6</u>	<u>4.8</u>	<u>4.6</u>

The Gambia--Relations with the Fund (concluded)

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. The Gambia has exchange restrictions arising from external payments arrears which are subject to approval under Article VIII. 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.

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, 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 SM/87/210, in accordance with Article XIV, Section 2, except that the restrictions evidenced by the accumulation of 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: World Bank Lending Operations
As of August 30, 1987

(In millions of U.S. dollars)

	Total	Disbursed <u>1/</u>	Undisbursed <u>2/</u>
IDA			
Structural adjustment <u>2/</u>	18.00	18.00	--
Agriculture	16.10	8.53	8.07
Urban development	16.44	7.80	8.64
Transport	23.05	15.93	7.12
Public utilities <u>3/</u>	8.15	--	8.15
Tourism	4.00	4.00	--
Energy	1.45	1.28	0.17
Education	5.50	5.50	--
Population, health, and nutrition <u>4/</u>	6.08	--	6.08
Total	98.77	61.04	38.23
Repayments	0.48	--	--
Total outstanding (including undisbursed) <u>5/</u>	98.29	--	--
IFC investment	2.90	2.90	--

Source: IBRD.

1/ Beginning in 1981, credits have been denominated in special drawing rights. The dollar figures in these columns represent the dollar equivalent at the time of payment for the "Disbursed" amounts and the dollar equivalent as of August 1987 for the "Undisbursed" amounts.

2/ IDA and SFA credit only. Total SAC package is now approximately US\$37 million, including U.K. grant of US\$4.3 million equivalent, African Development Bank cofinancing of US\$11.5 million equivalent, and a Saudi Fund contribution of US\$3.2 million equivalent.

3/ Cr. 1724-GM (Water Supply and Electricity) not yet effective.

4/ Cr. 1760-GM (National Health Development) not yet effective.

5/ Prior to exchange rate adjustments.

The Gambia: Projection of Gross Bank Credit to the GPMB,
1987/88 (July-June) 1/

(In millions of dalasis)

Stock of bank credit at end-June 1987	157.2 <u>2/</u>
Net deficit in current operations	8.3
Government transfer (-)	-50.0
Stock of bank credit at end-September 1987 (Est.)	115.5 <u>2/</u>
Expenses	<u>0.7</u>
Producer payments, buying, and processing <u>3/</u>	--
Overhead	0.4
Bank interest	0.3
Export duty	--
Revenues (-)	<u>-1.2</u>
Other income (net)	-0.1
Local groundnut oil sales	-1.1
Groundnut export sales	--
Government transfer (-)	-80.7
Stock of bank credit at end-October 1987 (Proj.)	34.3
Expenses	<u>6.9</u>
Producer payments, buying, and processing <u>3/</u>	5.4
Overhead	0.9
Bank interest	0.6
Export duty	--
Revenues (-)	<u>-2.4</u>
Other income (net)	-0.1
Local groundnut oil sales	-2.3
Groundnut export sales	--
Stock of bank credit at end-December 1987 (Proj.)	38.8
Expenses	<u>91.1</u>
Producer payments, buying, and processing <u>3/</u>	85.7
Overhead	1.4
Bank interest	1.0
Export duty	3.0

The Gambia: Projection of Gross Bank Credit to the GPMB,
1987/88 (July-June) 1/ (concluded)

(In millions of dalasis)

Revenues (-)	-30.2
Other income (net)	-0.2
Local groundnut oil sales	-3.4
Groundnut export sales	-26.6
Stock of bank credit at end-March 1988 (Proj.)	99.7
Expenses	23.7
Producer payments, buying, and processing <u>3/</u>	16.1
Overhead	1.4
Bank interest	1.0
Export duty	5.2
Revenues (-)	-49.2
Other income (net)	-0.2
Local groundnut oil sales	-3.4
Groundnut export sales	-45.6
Stock of bank credit at end-June 1988 (Proj.)	74.2
<u>Memorandum item:</u>	
Total government transfer	130.7

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

1/ The following pattern of GPMB's purchases and export sales of groundnuts is assumed:

	<u>Purchases</u> <u>(percent)</u>	<u>Exports</u> <u>(percent)</u>
October 1987	--	--
November-December 1987	5	--
January-March 1988	80	35
April-June 1988	15	60
July-September 1988	--	5
	<u>100</u>	<u>100</u>

2/ Includes the GPMB's suspense account (D 15.6 million) with the CBG.

3/ Comprises payments to producers, agents' fees, and transport, storage, and processing costs, estimated at D 1,880 per ton, of which D 1,500 goes to producers of groundnuts.

