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AGENDA**

EBS/87/170

CONFIDENTIAL

July 31, 1987

To: Members of the Executive Board

From: The Secretary

Subject: The Gambia - Staff Report for the 1987 Article IV Consultation
and Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with The Gambia and a review under its stand-by arrangement, which is proposed to be brought to the agenda for discussion on Monday, August 31, 1987. Draft decisions appear on pages 26 and 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.

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INTERNATIONAL MONETARY FUND

THE GAMBIA

Staff Report for the 1987 Article IV Consultation and
Review Under Stand-By Arrangement

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 W.A. Beveridge

July 29, 1987

I. Introduction

The 1987 Article IV consultation discussions with The Gambia as well as discussions for the second review under The Gambia's current stand-by arrangement were held in Banjul during the period June 2-16, 1987. The Gambian representatives included the Honorable S.S. Sisay, Minister of Finance and Trade; the Honorable M. Jatta, Minister of Economic Planning and Industrial Development; Mr. T.G.G. Senghore, Governor of the Central Bank of The Gambia; Mr. M.M. Jagne, Permanent Secretary to the Ministry of Finance and Trade; and other senior officials. The head of the mission was received by the President, His Excellency Sir Dawda K. Jawara. The staff representatives were Messrs. S. Rothman (head), K. Dublin, U. Gunjal, J. Kinyua (all-AFR), A. de la Torre (ETR), and Ms. Y. Coker (secretary-AFR).

The current 13-month stand-by arrangement for The Gambia, in an amount equivalent to SDR 5.13 million, or 30 percent of quota, was approved by the Fund on September 17, 1986 (EBS/86/189), in support of an economic and financial program covering 1986/87 (July-June). At the same time, the Fund approved a three-year arrangement and the first annual arrangement under the structural adjustment facility (SAF), in the amount of SDR 3.42 million, and a drawing under the compensatory financing facility (CFF), in the amount of SDR 4.71 million. The first review under the stand-by arrangement was concluded on April 24, 1987 (EBS/87/66). For the second review, the attached letter of the Minister of Finance and Trade and the Governor of the Central Bank of The Gambia discusses The Gambia's economic and financial performance over the course of 1986/87 in relation to the program's objectives, and, as required for the review, describes the Gambian authorities' targets and intentions with respect to both producer pricing policy for groundnuts and overall fiscal policy for 1987/88.

Under the present stand-by arrangement, The Gambia has made three purchases totaling SDR 3.08 million. A fourth purchase (SDR 1.03 million) is now available to The Gambia, and the fifth purchase (SDR 1.02 million) is subject to observance of the end-June 1987 performance criteria, as well as completion of the second review (Table 1).

As of June 30, 1987, the Fund's holdings of dalasis ^{1/} subject to repurchase were equivalent to SDR 16.46 million, or 96.25 percent of quota. If the remaining purchases under the stand-by arrangement are made, and after taking account of scheduled repurchases, the Fund's holdings of dalasis subject to repurchase would amount to SDR 17.51 million, or 102.39 percent of quota, by the end of the stand-by arrangement (Table 2). Including SDR 3.42 million outstanding under the SAF, net credit from the Fund at that time would amount to SDR 20.93 million, or 122.39 percent of quota. Following an 18-month period in which The Gambia was in arrears to the Fund, in July 1986 The Gambia settled its overdue obligations to the Fund, which, at that time, amounted to SDR 10.7 million, or 63 percent of quota. Subsequently, The Gambia has met all its payments to the Fund as scheduled. Moreover, 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 Gambia continues to avail itself of the transitional arrangements of Article XIV.

The Gambia is on the standard 12-month Article IV consultation cycle. The staff report for the 1986 Article IV consultation and the report on recent economic developments (EBS/86/189 and SM/86/216, respectively) were considered by the Executive Board on September 17, 1986.

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

II. Background and Program for 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 as a result of expansionary financial policies and inappropriate domestic pricing and exchange rate policies. In the more recent period, the growing imbalances were reflected in sporadic economic growth, accelerating inflation, and the emergence of external payments arrears (including to the Fund--Table 3).

^{1/} On June 30, 1987, SDR 1 = D 9.13155.

Table 1. The Gambia: Schedule of Purchases During Period
of Stand-By Arrangement, September 1986-October 1987

Amount	Scheduled availability date	Conditions necessary for purchase <u>1/</u>
SDR 1.03 million	September 17, 1986	Board approval of program.
SDR 1.02 million <u>2/</u>	After October 29, 1986	Compliance with quantitative performance criteria as of September 30, 1986.
SDR 1.03 million	After March 14, 1987 <u>3/</u>	Compliance with quantitative performance criteria as of December 31, 1986 and completion of first program review.
SDR 1.03 million	After April 29, 1987	Compliance with quantitative performance criteria as of March 31, 1987.
SDR 1.02 million	After August 31, 1987	Compliance with quantitative performance criteria as of June 30, 1987 and completion of second program review.

Source: EBS/86/189.

1/ Other than generally applicable conditions under the arrangement and nonquantitative performance criteria (including the performance clause on the exchange and trade system).

2/ Purchase was not made owing to nonobservance (for largely technical reasons) of the end-September performance criterion in respect of net bank credit to Government.

3/ The second and third purchases, SDR 1.02 million and SDR 1.03 million, respectively, were made following the completion of the first review of the program on April 24, 1987.

Table 2. The Gambia: Fund Position During Period of Stand-By Arrangement

	August 31, 1986	1986		1987		
		Sept.	Oct.- Dec.	Jan.- March	April- June	July- Sept.
(In millions of SDRs)						
Transactions under tranche policies (net) <u>1/</u>		0.69	-1.77	-1.34	0.64	1.05
Purchases		1.03	--	--	2.05	2.05
Ordinary resources		1.03	--	--	2.05	2.05
Borrowed resources		--	--	--	--	--
Repurchases		0.34	1.77	1.34	1.41	1.00
Ordinary resources		--	1.00	1.00	0.64	0.66
Borrowed resources		0.34	0.77	0.34	0.77	0.34
Transactions under special facilities (net) <u>2/</u>		4.71	--	--	--	--
Purchases		4.71	--	--	--	--
Repurchases		--	--	--	--	--
Transactions under the structural adjustment facility (net)						
Disbursements		3.42	--	--	--	--
Repayments		--	--	--	--	--
Total Fund credit outstanding (end of period)	13.53	22.35	20.58	19.24	19.88	20.93
Under tranche policies	13.53	14.22	12.45	11.11	11.75	12.80
Special facilities	--	4.71	4.71	4.71	4.71	4.71
Structural adjustment facility	--	3.42	3.42	3.42	3.42	3.42
(As percent of quota)						
Total Fund credit outstanding (end of period)	79.12	130.70	120.35	112.51	116.25	122.39
Under tranche policies	79.12	83.16	72.81	64.97	68.71	74.85
Special facilities	--	27.54	27.54	27.54	27.54	27.54
Structural adjustment facility	--	20.00	20.00	20.00	20.00	20.00

Sources: IMF, Treasurer's Department; and EBS/86/189.

1/ Ordinary and borrowed resources.

2/ Compensatory financing facility.

Table 3. The Gambia: Selected Economic and Financial Indicators, 1982/83-1986/87

	1982/83	1983/84	1984/85	1985/86	1986/87	
					Prog.	Est.
(Annual percentage change; unless otherwise specified)						
National income and prices						
GDP at constant prices	13.5	-7.2	-0.2	5.6	3.5	6.0
GDP deflator	1.7	23.7	16.6	18.0	10.5	15.2
Consumer prices (average annual basis)	9.3	15.6	21.8	35.0	15.0	45.1 ^{1/} 2/
Consumer prices (end-period)	11.5	21.1	12.4	70.4	--	19.3 ^{1/}
External sector						
Exports, f.o.b. (in SDRs)	15.2	11.1	-27.9	-4.5	-2.3	-12.1
Imports, f.o.b. (in SDRs)	-4.7	17.6	-22.1	-2.0	-1.3	6.8
Export volume (excluding re-exports)	8.5	-6.0	-34.7	9.0	...	-28.0
Import volume (excluding imports for re-export)	-9.1	-27.4	-9.2	-4.1	...	3.1
Terms of trade (in SDRs; deterioration -)	1.1	-0.3	-1.5	-41.7	...	-12.4
Nominal effective exchange rate (depreciation -) ^{3/}	-1.3	-3.7	-12.7	-20.1	...	-41.4
Real effective exchange rate (depreciation -) ^{3/}	0.9	1.2	-5.1	-3.4	...	-18.0
Government budget						
Revenue (excluding grants)	15.4	20.9	16.4	41.1	43.0	44.2
Expenditure (commitment basis)	-3.1	17.7	24.4	8.6	62.5	91.6 ^{4/}
Money and credit						
Domestic credit	35.8	17.8	4.7	16.9	-15.0	-38.7
Government	47.5	32.7	18.7	9.0	-137.5 ^{4/}	-154.9 ^{4/}
GMB	90.6	9.4	-16.4	26.0	19.3	16.5
Other public enterprises	...	...	44.1	18.7	10.3	-39.6 ^{5/}
Private sector	12.6	16.3	0.4	15.4	29.8	-10.1 ^{5/}
Money plus quasi-money	35.1	7.4	32.8	24.6	16.3	28.3
Velocity of circulation	4.2	3.6	4.2	3.2	3.7	3.7
Interest rate (end of period) ^{6/}	7.5	9.5	9.5	13.0	...	18.0
(In percent of GDP)						
Government deficit (partial commitment basis)						
Excluding grants	-14.1	-13.9	-16.3	-8.7	-17.5	-22.9 ^{4/}
Including grants	-10.8	-9.6	-11.7	-1.9	-3.0	-8.0 ^{4/}
Government deficit (cash basis)						
Excluding grants	-14.1	-10.5	-13.0	-12.7	-17.5	-24.0 ^{4/}
Including grants	-10.8	-6.1	-8.4	-5.9	-3.0	-9.0 ^{4/}
Of which: domestic financing (net)	(4.8)	(2.6)	(2.9)	(5.1)	(-14.0)	(-14.7)
foreign financing (net)	(6.0)	(3.5)	(5.5)	(0.8)	(17.0)	(23.7)
External current account (deficit -)						
Excluding official transfers	-14.3	-18.8	-20.8	-20.9	-32.6	-31.6
Including official transfers	-1.7	-6.6	-3.7	-2.8	-2.7	3.6
External payments arrears (end of period) ^{7/}	17.3	30.8	39.2	54.2	...	41.2
External public debt outstanding (disbursed) ^{8/}	74.3	77.5	94.3	100.3	...	140.7 ^{9/}
(In percent of domestic exports of goods and nonfactor services)						
External debt service ^{10/}	29.7	30.0	45.6	82.5	74.3	54.6 ^{9/}
(In millions of SDRs)						
External current account (deficit -) (excluding official transfers)	-27.1	-36.4	-35.0	-33.2	-35.1	-37.1
Overall balance of payments (deficit -)	-28.5	-24.7	-3.8	-13.5	-10.0	11.3
Change in external payments arrears (including arrears to the Fund and arrears rescheduling) ^{9/}	28.7	20.5	6.4	20.3	...	11/ -38.0
(In weeks of imports, c.i.f.)						
Gross official reserves	5.0	2.6	2.4	1.0	4.2	10.5

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

- ^{1/} July 1986-May 1987.
^{2/} 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.
^{3/} Trade-weighted.
^{4/} Includes Managed Fund.
^{5/} Excludes Managed Fund.
^{6/} Minimum three-month time deposit rate.
^{7/} Including arrears to the Fund.
^{8/} End of period, medium- and long-term public and publicly guaranteed debt; excludes outstanding use of Fund credit.
^{9/} After rescheduling.
^{10/} Includes IMF charges and repurchases, but excludes interest on short-term debt.
^{11/} Zero change in arrears programmed through end-December 1986.

In mid-1985 the Gambian authorities began to implement a comprehensive three-year adjustment program (Economic Recovery Program--ERP), which focused on more appropriate exchange rate and 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, entailing 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 present stand-by arrangement and a three-year structural adjustment arrangement under the SAF and a first annual arrangement thereunder were approved. The objectives for 1986/87 included growth in real GDP of 3.5 percent, a pronounced reduction in the rate of inflation, and, in the external sector, the containment of the current account deficit to SDR 35 million and an increase in the gross foreign reserves of the Central Bank of The Gambia (CBG) and/or reduction in external payments arrears of SDR 5.5 million. These objectives were to be achieved mainly through improved exchange rate, pricing, budget, and monetary and credit policies; public sector structural reforms; and better external debt management.

Quantitative performance criteria included ceilings 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 Gambia Produce Marketing Board (GPMB); (iv) total external payments arrears; (v) short-term external public debt outstanding; and (vi) new external loans on nonconcessional terms contracted or guaranteed by the Government in the maturity range of 1-12 years. Actual performance at end-September and at end-December 1986 in relation to the criteria established at the inception of the program is shown in Table 4. Actual performance at end-March 1987 in relation to the criteria and the indicative target on the minimum level of gross foreign reserves to be held by the CBG established during the first review as well as the criteria and indicative target for end-June 1987 set during that review are presented in Table 5.

III. Performance Under the Stand-By Arrangement

In the context of the first review under the stand-by arrangement, progress in policy implementation and economic and financial developments through end-December 1986 were spelled out in detail in EBS/87/66. In brief, significant strides had been made with respect to policy implementation, and, as a result, The Gambia had already begun to benefit in terms of improved economic and financial performance. In

Table 4. The Gambia: Quantitative Performance Criteria, 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	-275.0
Margin (-) or excess		-170.3	-231.7
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	117.2		
Program		-13.6	-9.2
Actual		-42.6	-29.6
Margin (-) or excess		-29.0	-20.4
(In millions of SDRs)			
Total external arrears	75.95 <u>4/</u>		
Program		75.95	75.95 <u>5/</u>
Actual		71.16	69.06 <u>5/</u>
Margin (-) or excess		-4.79	-6.89
Short-term public sector debt outstanding	9.62 <u>4/</u>		
Program		8.62	8.62
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 reflect updated exchange rates, cancellations of certain loans before end-June 1986, and the disclosure of additional short-term debt at the Paris Club.

5/ Excludes debt relief provided by the rescheduling exercise.

Table 5. The Gambia: Quantitative Performance Criteria and Indicative Targets, 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	-285.5 <u>2/3/</u>
Actual		-212.9	...
Margin (-) or excess		-33.1	...
Net credit to Government	100.3		
Program		-27.9	-114.3 <u>2/3/4/</u>
Actual		-31.3	...
Margin (-) or excess		-3.4	...
Gross credit to the GPMB	117.2		
Program		36.1	26.3
Actual		35.2	...
Margin (-) or excess		-0.9	...
(In millions of SDRs)			
Total external arrears	56.2 <u>5/</u>		
Program		54.7	53.2 <u>6/</u>
Actual		54.2	...
Margin (-) or excess		-0.5	...
Short-term public sector debt outstanding <u>7/</u>	7.8		
Program		7.3	6.8
Actual		6.4	...
Margin (-) or excess		-0.9	...
Contracting or guaranteeing of new nonconcessional external debt by the public sector in the 1-12-year maturity range during period <u>8/</u>			
Program		--	--
Actual		--	...
Margin (-) or excess		--	...
(In millions of SDRs)			
Gross official foreign reserves	1.7		
Program		0.5	6.0
Actual		7.5	...
Margin (+) or shortfall (-)		7.0	...

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/ The ceiling will be adjusted downward by the full amount of the cumulative excess of 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/ The ceiling 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 period July 1986-June 1987 (D 102.8 million).

4/ The ceiling will be adjusted downward by the full amount of the cumulative recovery of principal by the Government with respect to the Managed Fund in the period January-July 1987.

5/ After rescheduling.

6/ The ceiling will be adjusted downward by the full amount of the cumulative excess of certain exceptional 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/ Excludes refinancing loans contracted in the context of possible multilateral rescheduling arrangements.

particular, the floating exchange rate system introduced in early 1986 was continuing to function satisfactorily, supported by a liberalized interest rate policy; government employment had been reduced; and generally cautious financial policies were being pursued. Also, to enhance the overall policy effort, a rescheduling agreement had been concluded with the Paris Club creditors. Encouraging developments included a higher-than-anticipated level of aggregate production; a marked decline in the rate of inflation; a reduction in external payments arrears; and a foreign reserve buildup somewhat larger than initially envisaged. Moreover, apart from the nonobservance of one performance criterion at end-September 1986 (i.e., on net bank credit to Government) attributable largely to technical reasons, The Gambia had complied with all of the stand-by arrangement's performance criteria for both end-September 1986 and end-December 1986.

In connection with the second review, an assessment was recently made of The Gambia's economic and financial performance over the course of 1986/87 in relation to the program's objectives. Estimates put the growth in real GDP in 1986/87 at 6 percent, compared with the program target of 3.5 percent. This growth was broadly based and was attributable largely to an increase of about 40 percent in the important groundnut crop, a pickup in private and public construction activity, expanded tourism, and enhanced private sector confidence and a consequent rise in commercial activity. Meanwhile, as measured by the consumer price index, the rate of inflation has generally continued to show signs of moderation. After having risen by 9 percent over the July-December 1986 period--less than half of the rate over the comparable period in 1985--there was a spurt of 5 percent in consumer prices in January 1987, owing mainly to temporary shortages of rice. Subsequently, however, consumer prices rose by only 4 percent over the February-May period, and it is estimated that the rate of inflation for the 12-month period ended June 1987 was about 20 percent, compared with a rate of 70 percent for the comparable period in the previous year--a rate which was heavily influenced by the sharp depreciation of the dalasi in early 1986. In addition, the increase in the gross foreign reserves of the CBG plus the reduction in external payments arrears have been well above the program's objectives. Moreover, financial performance has been broadly as programmed, and at end-March 1987 The Gambia complied with all of the stand-by arrangement's performance criteria and met its indicative target on gross official reserves.

IV. Report on the Discussions

The discussions focused mainly on The Gambia's domestic and external financial performance in 1986/87, and, as specifically called for under the second review, the authorities' targets and intentions with respect to both producer pricing policy for groundnuts and overall fiscal policy for 1987/88.

1. Fiscal developments

The fiscal program for 1986/87, which included several revenue measures with an estimated yield of 3.2 percent of GDP, sought to limit the budget deficit on a partial commitment basis and excluding grants to D 165.9 million (17.5 percent of GDP), notwithstanding a large planned transfer--D 83 million, or almost 9 percent of initially projected GDP--to the GPMB, an expected substantial increase in development expenditure from a particularly low level in 1985/86, and markedly higher projected external interest payments, owing primarily to the impact of the depreciation of the dalasi (Table 6). However, substantial STABEX grants and project-related grants were anticipated, and the budget was expected to benefit from significant net foreign financing (including disbursement of a World Bank Structural Adjustment Credit--SAC). Accordingly, the outstanding stock of net bank credit to Government over 1986/87 was programmed to decline sharply.

The Gambian authorities' estimates for 1986/87 indicated an outturn broadly consistent with the program targets. Total revenues were estimated at almost 2 percent above the program projection, which the authorities attributed mainly to both a higher level of imports and stricter enforcement of collection procedures. Current expenditures were estimated at some 3.5 percent above the programmed level, with the authorities citing higher domestic interest payments (associated with a rise in interest rates) and an unprogrammed transfer to the Gambia Cooperative Union (for details, see EBS/87/66), which together more than offset savings in other charges, as the principal causes of the deviation. They emphasized that budgetary savings resulting from the reduction in government employment had approximated those anticipated (D 3.0 million) for the January-June 1987 period and that total outlays on personal emoluments in 1986/87 were now estimated at only 1 percent above the program projection. Moreover, development expenditures were expected to have been contained within the programmed level (D 165 million). Based on the above, the budget deficit on a partial commitment basis and excluding grants was estimated at D 170.8 million, or 16.1 percent of presently estimated GDP. Taking into account outlays associated with the establishment in January 1987 of the Managed Fund (whereby the Government assumed D 72.8 million of government-guaranteed loans extended by the Gambia Commercial and Development Bank (GCDB) to certain private and public enterprises) and with an unanticipated reduction in external payments arrears, and, on the other hand, a higher-than-initially-programmed level of grants, the budget deficit on a cash basis and including grants was put at D 95.8 million (9.0 percent of GDP), about the same as that projected at the time of the first review. However, as net foreign financing was expected to have been some D 90 million higher than initially projected--associated mainly with larger-than-envisaged disbursements under the World Bank SAC--and up to D 15 million in government securities were marketed to the nonbank

Table 6. The Gambia: Central Government Operations, 1984/85-1987/88

	1984/85	1985/86	1986/87		1987/88
			Program	Revised estimates	Proj.
(In millions of dalasis)					
Revenue and grants	180.8	268.6	434.8	460.9	470.8
Revenue	148.5	209.5	297.0	302.0	340.0
Grants	32.3	59.1	137.8	158.9	130.8
Expenditure and net lending	262.3	284.8	462.9	545.6	492.2
Current expenditure	151.4	178.8	301.6	312.2	311.9
Personal emoluments, pensions, and allowances	(58.3)	(62.9)	(65.8)	(66.5)	(73.6)
Interest due	(29.2)	(37.7)	(62.6)	(66.3)	(74.6)
Internal	[18.2]	[15.7]	[17.0]	[24.5]	[34.4]
External	[11.0]	[22.0]	[45.6]	[41.8]	[40.2]
Other charges	(63.6)	(61.9)	(90.2)	(88.0)	(108.0)
Transfers to parastatals	(0.3)	(16.3)	(83.0)	(91.4)	(55.7)
Of which: GPMB	[--]	[12.4]	[83.0]	[83.0]	[50.0]
Development expenditure	109.1	91.1	165.0	165.0	186.0
Unallocated expenditure	1.8	11.2	--	--	--
Net lending	--	3.7	-3.7	68.4	-5.7
Of which: Managed Fund	(--)	(--)	(...)	(72.8)	(-5.7)
Overall deficit (partial commitment basis, excluding grants and establishment of the Managed Fund)	-113.8	-75.3	-165.9	-170.8	-152.2
Overall deficit (partial commitment basis, including grants and establishment of the Managed Fund)	-81.5	-16.2	-28.1	-84.7	-21.4
Change in arrears	23.2	-35.0	--	-11.1 ^{1/}	--
Overall deficit (cash basis, excluding grants)	-90.6	-110.3	-165.9	-254.7	-152.2
Overall deficit (cash basis, including grants)	-58.3	-51.2	-28.1	-95.8	-21.4
Financing	58.3	51.2	28.1	95.8	21.4
Foreign (net)	38.0	7.1	161.1	251.5	205.4
Gross borrowing	(59.9)	(36.6)	(218.5)	(301.7)	(254.4)
Amortization due	(-21.9)	(-29.5)	(-70.0)	(-64.2)	(-65.6)
Net debt relief	(--)	(--)	(12.6)	(14.0)	(16.6)
Domestic	20.3	44.1	-133.0	-155.7	-184.0
Banking system	(14.5)	(20.4) ^{2/}	(-138.0)	(-155.4)	(-180.7)
Other	(5.8)	(23.7)	(5.0)	(-0.3)	(--)
Sinking fund for debt relief	(--)	(--)	(--)	(--)	(-3.3) ^{3/}
(In percent of GDP)					
Deficit (partial commitment basis)					
Excluding grants and establishment of the Managed Fund	-16.3	-8.7	-17.5	-16.1	-12.6
Including grants and establishment of the Managed Fund	-11.7	-1.9	-3.0	-8.0	-1.8
Deficit (cash basis)					
Excluding grants	-13.0	-12.7	-17.5	-24.0	-12.6
Including grants	-8.4	-5.9	-3.0	-9.0	-1.8
Memorandum item:	(In millions of dalasis)				
GDP at current prices	698	869	947	1,062	1,206

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/} Includes D 12.1 million bank lending to contractors in respect of government projects executed, but which had not been paid for.

^{3/} Represents annual payment of 20 percent of estimated debt relief to newly created sinking fund.

public in late June, net bank credit to Government was estimated to have declined in 1986/87 even more markedly than programmed initially or at the time of the first review and to have led to a sizable government net creditor position with the banking system.

2. Monetary and credit developments and policies

Data for the three quarters ended March 1987 showed a sharp increase in money plus quasi-money of 57 percent (Table 7). This increase was accommodated entirely by a rise in the net foreign assets of the banking system, which, as the Gambian authorities pointed out, included, importantly, the exchange of foreign currency for dalasi balances. For 1986/87 as a whole, the latest estimate put the increase in broad money at 28 percent, compared with the initial program target of 16 percent and a revised program target of 27 percent. The authorities noted that, as envisaged during the first program review, the increase in net foreign assets over the April-June period, although substantially larger than anticipated, was likely to have been more than offset by a steep decline in net domestic assets, associated, as programmed, mainly with a marked reduction in net bank credit to Government. During 1986/87 real money holdings are estimated to have increased by more than 7 percent, while the income velocity of broad money was essentially unchanged. The staff representatives agreed with the authorities' contention that even if the rate of growth in broad money turned out to be somewhat higher than was presently estimated, this should be viewed as an indication of a financial deepening of the economy, and not of expansionary financial policies, as the higher demand for money balances was being fully met by increases in net foreign assets.

In 1986/87, domestic credit is estimated to have declined by 39 percent, compared with the initially targeted reduction of 15 percent and the revised targeted reduction of 28 percent. Net bank credit to Government (including for the Managed Fund) is estimated to have been reduced by D 155.4 million, or the equivalent of 68 percent of beginning-of-period money supply; credit to the GPMB is estimated to have increased by D 19.3 million; and combined credit to the private sector and to public enterprises (excluding the GPMB and adjusted downward in respect of the Managed Fund) is estimated to have increased by almost 11 percent, compared with the originally implied maximum of 22 percent and the revised maximum of about 13.5 percent. The Gambian authorities noted that all of these estimates were consistent with observance of the performance criteria established for end-June 1987.

The authorities stated that interest rate policy had continued to be administered flexibly. The key treasury bill rate, which had averaged just under 20 percent during the second half of 1986, fell to slightly below 17 percent in March, but had increased again to 19 percent by mid-May, and the new government securities had been marketed to the nonbank public in late June at an effective yield of 21 percent.

Table 7. The Gambia: Monetary Survey, June 1985-June 1987

(In millions of dalasis; end of period)

	1985			1986			March	1987	
	June	Sept.	Dec.	June	Sept.	Dec.		Revised program	Estimate
Net foreign assets	-282.5	-324.3	-332.5	-584.9	-518.5	-396.3	-399.3	-371.3	-290.6
Monetary authorities	-300.8	-328.6	-338.6	-595.5	-526.6	-405.3	-420.0	-380.2	-308.3
Foreign assets	(14.9)	(13.7)	(10.5)	(11.3)	(84.4)	(110.5)	(88.5)	(70.4)	(167.3)
Foreign liabilities	(-315.7)	(-342.3)	(-349.1)	(-606.8)	(-611.0)	(-515.7)	(-508.5)	(-450.6)	(-475.6)
Commercial banks	18.3	4.3	6.1	10.7	8.1	8.9	20.7	8.9	17.7
Net domestic assets	305.8	351.1	471.4	555.4	413.9	280.4	342.5	269.9	167.7
Domestic credit	415.3	457.6	520.8	485.5	470.8	361.5	472.2	351.0	297.4
Government (net)	(92.0)	(130.3)	(141.7)	(100.3)	(126.4)	(-37.3)	(69.0) ^{1/}	(-14.0)	(-55.1) ^{1/}
Public enterprises	(164.2)	(163.5)	(203.1)	(201.7)	(156.3)	(204.8)	(234.2) ^{2/}	(231.5)	(187.5) ^{2/}
Of which: GPMB	(93.0)	(94.0)	(94.8)	(117.2)	(74.6)	(87.6)	(152.4)	(143.5)	(136.5)
Private sector	(159.0)	(163.7)	(175.9)	(183.5)	(188.0)	(194.0)	(169.0) ^{3/}	(133.5)	(165.0) ^{3/}
Other	-109.5	-106.6	-49.4	69.9	-56.9	-81.1	-129.7	-81.1	-129.7
Revaluation account	125.6	125.7	96.2	237.4	310.8	342.9	368.2	342.9	368.2
SDR allocation	33.6	33.6	20.4	19.5	19.5	46.5	46.5	46.5	46.5
Money plus quasi-money	182.5	186.0	255.5	227.4	225.6	273.4	357.9	288.0	291.8
Money	96.5	94.4	160.7	129.5	127.6	164.3	229.8	...	...
Quasi-money	86.1	91.6	94.9	97.9	98.0	109.1	128.1	...	...

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

^{1/} Includes D 72.8 million in net bank credit to the Government in respect of the Managed Fund.

^{2/} Reflects assumption by the Government of D 38.9 million in bank credit to the public sector in connection with the Managed Fund.

^{3/} Reflects assumption by the Government of D 33.9 million in bank credit to the private sector in connection with the Managed Fund.

Moreover, given the decline in the rate of domestic inflation in recent months and increased interest rates on time-and savings deposits, quasi-monetary instruments were now securing a positive real rate of return, which could well lead to a shift to quasi-money holdings. Also, to prevent possible excessive expansion in credit to the private sector and to public enterprises, adjustments were being made to the ceilings established for the individual commercial banks, and, most recently (June 19), the banks' reserve requirements on demand deposits had been increased from 10 percent to 24 percent.

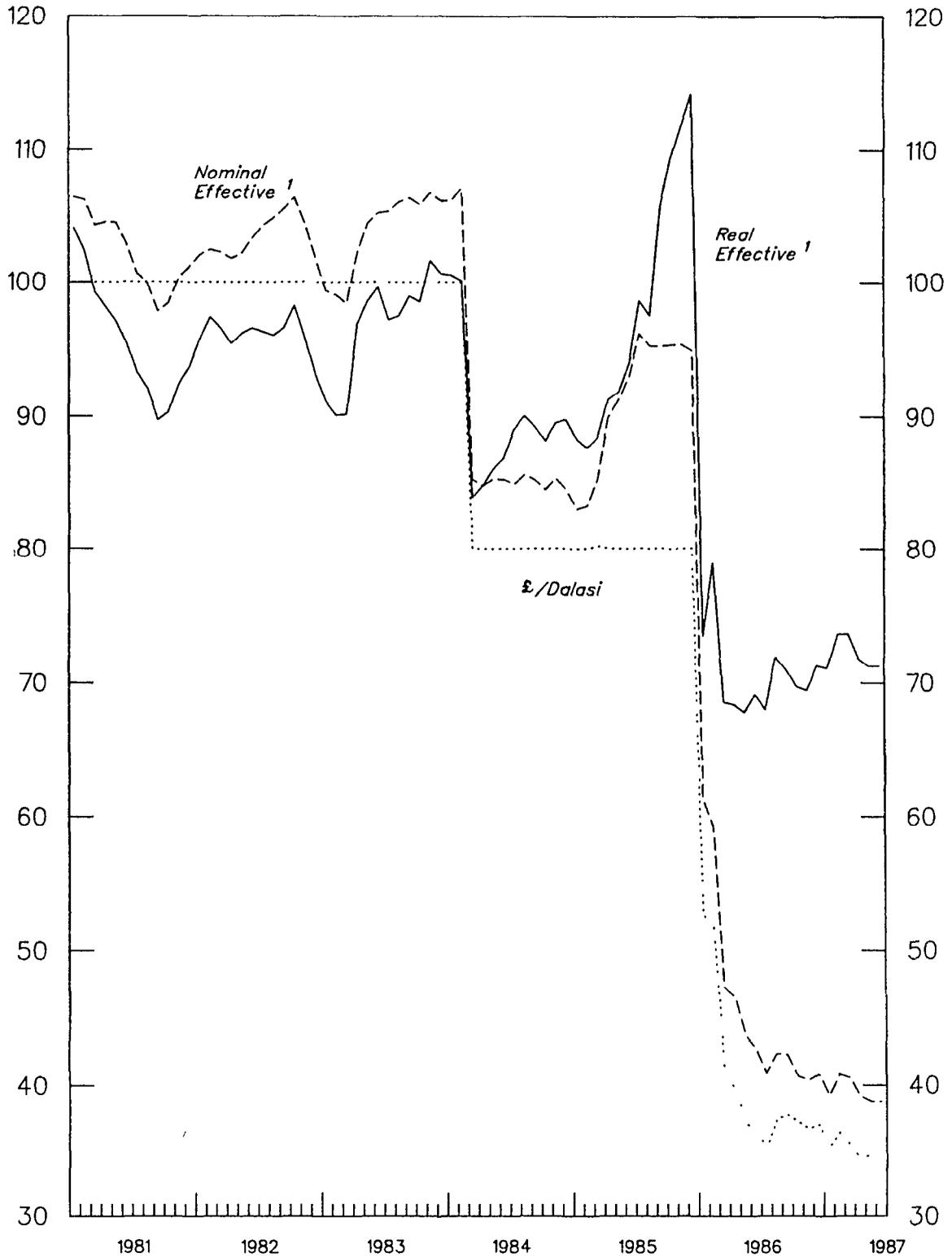
3. External developments and policies

The Gambian authorities repeatedly singled out the importance of the continued smooth functioning of their exchange rate regime. Since January 1986 the exchange rate of the dalasi had been permitted to float within the framework of an interbank market, accompanied by the removal of restrictions on making payments and transfers for all current international transactions. By mid-March 1986 the interbank rate of the dalasi had fallen sharply to D 10 per pound sterling (compared with the prefloat rate of D 5 per pound sterling), resulting in the virtual elimination of the differential between the interbank market and parallel market rates. Subsequently, the rate had fluctuated narrowly. During the period January-May 1987 the rate varied between D 10.95 and D 11.95 per pound sterling, and the rate at end-June was D 11.50 per pound sterling (Chart 1). The Gambian authorities stressed that the stability of the exchange rate had been compatible with the prudent financial policy stance as evidenced by the continued moderation in inflation and the buildup in foreign reserves.

Regarding the external accounts, the original program projections for 1986/87 showed a small widening of the current account deficit (excluding transfers) to SDR 35 million (33 percent of GDP) from SDR 33 million in 1985/86, owing essentially to expectations of reduced receipts from groundnut exports and higher project-related imports (Table 8). The overall balance of payments deficit, however, was forecast to decline to SDR 10 million (from SDR 13.5 million in 1985/86), reflecting an anticipated rise in both official transfers and net official capital inflows.

The most recent estimates put the current account deficit for 1986/87 at SDR 37 million (32 percent of presently estimated GDP), or SDR 2 million above the program projections, as increased receipts from travel and other services and private transfers were insufficient to compensate for more rapidly expanding imports, reflecting buoyant domestic activity, and lower receipts from recorded groundnut and other domestic exports. Official transfers increased sharply in line with augmented external technical assistance, and net official capital inflows were about as programmed. However, the authorities remarked that reflecting mainly enhanced confidence in the interbank system and in the conduct of interest rate policy, there had been a turnaround in the private capital account (which included inflows from unrecorded

CHART 1
THE GAMBIA
EXCHANGE RATE DEVELOPMENTS, 1981-87
(Index: 1980=100)



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

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Table 8. The Gambia: Summary of the Balance of Payments, 1984/85-1987/88

(In millions of SDRs)

	1984/85	1985/86	1986/87			1987/88
			Prog.	Rev.	Est.	Proj.
Merchandise trade, f.o.b.	-12.8	-14.1	-14.5	-15.7	-26.3	-30.2
Exports ^{1/}	62.1	59.3	57.9	59.4	52.1	55.4
Of which: groundnuts	(15.9)	(8.5)	(7.8)	(8.8)	(5.7)	(4.7)
Imports ^{2/}	-74.9	-73.4	-72.4	-75.1	-78.4	-85.6
Net services and private transfers	-22.1	-19.1	-20.6	-16.8	-10.8	-7.5
Freight and insurance	-12.5	-12.6	-12.5	-12.5	-13.1	-14.3
Travel	18.5	20.6	21.6	22.5	27.5	29.2
Other services and private transfers	-28.1	-27.1	-29.7	-26.8	-25.2	-22.4
Current account	-34.9	-33.2	-35.1	-32.5	-37.1	-37.7
Capital account	31.1	19.7	25.1	35.7	48.3	55.2
Official transfers	28.6	28.8	32.2	32.8	41.3	43.1
Of which: commodity aid	(...)	(6.9)	(4.5)	(4.2)	(3.6)	(4.1)
STABEX	(...)	(0.8)	(5.9)	(6.4)	(6.1)	(4.2)
Official loans	5.2	-4.6	2.1	2.5	2.3	5.1
Gross borrowing	(12.2)	(6.6)	(12.0)	(11.1)	(11.1)	(12.4)
Amortization	(-7.0)	(-11.2)	(-9.9)	(-8.6)	(-8.8)	(-7.3)
Private capital (net)	-2.7	-4.5	-9.2	0.4	4.7	7.0
Long-term	(0.8)	(7.4)	(-1.0)	(-1.0)	(-0.7)	(-0.5)
Short-term, errors and omissions	(-3.5)	(-11.9)	(-8.2)	(1.4)	(5.4)	(7.5)
Overall balance	-3.8	-13.5	-10.0	3.2	11.3	17.5
Financing	3.8	13.5	10.0	-3.2	-11.3	-17.5
Net use of Fund resources	-4.3	-9.1	6.0	6.3	5.3	3.0
Purchases	(-)	(-)	(11.9)	(12.2)	(11.2)	(7.2)
Repurchases	(-4.3)	(-9.1)	(-5.9)	(-5.9)	(-5.9)	(-4.2)
Net change in gross official reserves (- increase)	1.7	2.3	-5.5	-6.5	-16.7	...
SAC (including co-financing)	--	--	15.0	19.3	24.3	15.5
Arrears (+ increase) ^{3/}	6.4	20.3	-10.3	-23.6	-28.5	...
Net debt relief	--	--	4.8	1.3	1.8	1.8
Balances with Bank of England ^{4/}	--	--	--	--	2.5	--
Financing gap	--	--	--	--	--	-37.8
<u>Memorandum items:</u>						
Current account (percent of GDP)	-20.8	-20.9	-32.6	-28.1	-31.6	-28.5
Gross official reserves						
End of period stock	4.0	1.7	6.8	8.3	18.4	...
In weeks of c.i.f. imports	2.4	1.0	4.2	4.9	10.5	...
Exchange rate (dalasi/SDR)	4.150	5.459	8.790	9.020	9.052	9.102

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

^{1/} Export figures include an estimate for re-exports.

^{2/} Import figures are adjusted from a c.i.f. to an f.o.b. valuation by subtracting 12.4 percent for freight and 1.9 percent for insurance.

^{3/} Excludes change in arrears due to rescheduling. Figure for 1986/87 includes the settlement of overdue obligations to the Fund (SDR 10.3 million) as of end-June 1986.

^{4/} Cash deposits in respect of Paris Club reschedulings, undrawn by creditors.

exports) and that a surplus of almost SDR 5 million was estimated. Thus, the overall balance of payments was expected to have registered a surplus of SDR 11 million.

Concerning external debt, The Gambia reached a rescheduling agreement with Paris Club creditors in September 1986 pertaining to publicly guaranteed or insured commercial credits and official loans contracted prior to July 1, 1986. ^{1/} Agreements were concluded with France, Norway, and the United Kingdom before the April 30, 1987 target deadline for all bilaterals, and agreements with Austria and the Federal Republic of Germany were expected to be concluded in July. Moreover, contacts have been initiated with Italy and Belgium regarding the negotiations of the bilaterals; depending on the outcome of the reconciliation of data, Belgium may be de minimis. Meanwhile, The Gambia is remaining current with its obligation under its Paris Club agreement to make a minimum monthly deposit of SDR 0.36 million from December 1986 to September 1987, inclusive, in a special account with the Bank of England. In addition, negotiations for debt relief are continuing with the London Club. The authorities reiterated their intention to continue to meet on a timely basis obligations in respect of nonreschedulable debt service and to ensure that the arrangements by which The Gambia had periodically acquired SDRs to be used to service its obligations to the Fund are maintained.

The Gambian authorities highlighted the fact that the reduction in external payments arrears over 1986/87 (excluding the settlement in July 1986 of overdue obligations to the Fund) was likely to be significantly larger than programmed. During the period July 1986-March 1987, external arrears had already decreased by some SDR 22 million, about SDR 12 million of which had been due to cash payments. Considering that the reduction in arrears programmed for April-June 1987 would likely be exceeded with the use of proceeds from higher-than-anticipated loan disbursements, the authorities expected that, for the year as a whole, external arrears would be reduced by some SDR 18 million on a cash payment basis and by about SDR 28 million including arrears rescheduling, which would put the end-June 1987 stock of outstanding external arrears at about SDR 48.3 million, or nearly SDR 5 million below the program ceiling (Table 9).

In the context of the first review, indicative targets were established for end-March 1987 and end-June 1987 on minimum levels of gross foreign reserves to be held by the CBG. The Gambian authorities observed that owing to the more favorable balance of payments developments, the target level for end-March (SDR 2.2 million) had been surpassed by SDR 7 million and that taking account of the level of reserves already attained at end-May (SDR 13.1 million) and prospective inflows in June, including, importantly, further disbursements under the World Bank SAC, the target level for end-June (SDR 7.7 million) was also likely to have been significantly exceeded. Therefore, for 1986/87 the

^{1/} For details, see SM/86/258 and EBS/87/66.

Table 9. The Gambia: External Arrears on Public Debt,
June 1986-June 1987

(In millions of SDRs; end of period)

	1986			1987	
	June	Sept.	Dec. <u>1/</u>	March <u>1/</u>	June <u>1/</u> Est.
Total external arrears on public debt	<u>86.28</u>	<u>71.16</u>	<u>56.14</u>	<u>54.22</u>	<u>48.28</u>
Commercial arrears <u>2/</u>	11.18	9.76	7.45	7.37	...
Short-term debt <u>3/</u>	35.54	33.33	30.68	28.75	...
Medium- and long-term debt	23.80	22.64	18.01	18.10	...
Overdue obligations to the Fund	10.33	--	--	--	--
Other <u>4/</u>	5.43	5.43	--	--	--
<u>Memorandum items:</u>					
Total outstanding medium- and long-term public debt (disbursed only)	159.70	160.50	162.30	162.20	165.00
Total outstanding short-term public debt <u>5/</u>	9.62	8.24	7.83	6.42	5.57

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

1/ After rescheduling.

2/ Private sector arrears for which corresponding deposits have been made at the CBG.

3/ Includes CBG arrears to the West African Clearing House and to commercial banks; overdrafts of the CBG and the GPMB from a commercial bank; and arrears for oil payments.

4/ Short-term debt arrears to Paris Club creditors which were rescheduled in September 1986.

5/ Consists of outstanding overdrafts of the GPMB and the CBG. This is a subcategory of short-term debt (see footnote 3/).

estimated buildup in gross official reserves plus the reduction in external payments arrears (excluding the settlement of overdue obligations to the Fund in July 1986) was put at SDR 35 million, compared with the initial program objective of SDR 5.5 million, and reserves at end-June 1987 were projected to be the equivalent of about 2.4 months' imports.

4. Prospects and policies for 1987/88

For 1987/88 current prospects are for a somewhat lower but still satisfactory rate of real economic growth (about 4 percent). Marginally lower groundnut production and associated activities are projected to be more than offset by a rebound in other agricultural crops (which were adversely affected by various pests in 1986/87) and higher livestock production; further rapid expansion in commercial activity (excluding the marketing of groundnuts) is foreseen; and smaller gains in both construction and tourism are expected. Assuming continued appropriate overall financial policy and exchange rate stability, further moderation in inflation can be expected. Moreover, with the external current account deficit (on conservative assumptions) 1/ projected to be essentially unchanged, the anticipated substantial capital inflows would result in another, larger overall balance of payments surplus. However, the staff representatives emphasized that the realization of the above prospects for 1987/88 and a strengthened basis for sustained economic and financial improvement clearly required that certain fundamental problems be addressed--particularly the sizable government subsidy in respect of groundnut operations and the still large structural budget deficit. Accordingly, policy discussions for the second review centered on these two issues.

a. Producer pricing policy for groundnuts

Under The Gambia's economic and financial program for 1986/87 and in order to provide incentives for increased production and to maximize the potential foreign exchange earnings of the GPMB, the producer price for groundnuts was increased by 43 percent for the 1986/87 crop season. At D 1,800 per ton, the producer price was, as anticipated under the program, well above the world market price; present estimates put the realized export unit value in 1986/87 at D 1,460 per ton, compared with the program estimate of D 1,378. The GPMB's purchases in 1986/87 amounted to approximately 66,000 tons--compared with the program's original projection of 60,000 tons--and required a budgetary transfer of D 83 million (8 percent of presently estimated GDP) as provided for under the program to cover the expected loss to be incurred by the GPMB.

1/ The current account projection for 1987/88 is based on the following main assumptions: (i) a 13.5 percent decline in the volume of official groundnut exports and a 4 percent decline in their unit value; (ii) a 5 percent increase in the volume of imports and a 4 percent increase in their unit value, with the ratio of re-exports to imports held constant; and (iii) a 6 percent increase in tourism receipts.

The Gambian authorities stated that in view of this serious drain on budgetary resources, they had recently decided to realign the producer price more closely with expected world market prices. Therefore, consistent with their commitment to reduce the GPMB's losses and related budgetary subsidies sharply in 1987/88 and to eliminate them essentially by 1988/89, the producer price was reduced by 16.7 percent to D 1,500 per ton for the 1987/88 crop year, compared with a projected export unit value of D 1,404 per ton (a decline of 4 percent from that in 1986/87, owing mainly to the depreciation of the U.S. dollar). With projected groundnut purchases by the GPMB of 57,000 tons and savings on interest associated with a disbursement of the budget subsidy early in the financial year and reduced crop financing requirements, the lower producer price was expected to make possible a cut in the budgetary subsidy to D 50 million, or about 4 percent of GDP (Table 10). The Gambian authorities added, however, that should world market prices in the coming months improve significantly (in terms of dalasis), they would consult with Fund management with a view to apportioning the gains to a reduction in the budget subsidy and to a higher producer price, giving priority to the elimination of the budget subsidy. Moreover, they noted that any cost savings resulting from improved efficiency in operations associated with the implementation of a performance contract to be signed later this year between the GPMB and the Government would additionally reduce the required government transfer. Last, as discussed below, consideration was being given to the Government's paying off in 1987/88 the GPMB's debt to the CBG (on accumulated deficits--D 93.5 million), a move which would result in the elimination of related interest payments, cut the GPMB's deficit, and thereby reduce the government subsidy by up to D 20 million on a full-year basis.

b. Fiscal policies

In the preparation of their 1987/88 budget, the Gambian authorities were guided by their commitment to reduce the overall budgetary deficit on a partial commitment basis and excluding grants to no more than 9 percent of GDP by 1988/89 and to improve the Government's position vis-à-vis the banking system throughout this period. Accordingly, the budget for 1987/88 aims at curtailing the deficit to 12.6 percent of GDP and at building up substantially the Government's net creditor position with the banking system.

Revenues are projected to grow by about 12.5 percent, based on anticipated growth in nominal GDP of 13.5 percent and additional efforts being made to improve the tax administration by strengthening the central revenues and customs departments. The Gambian authorities pointed out that no new taxes or increases in rates were included in the budget and that, in fact, import duties on a number of products were being reduced to reverse the increases of last year, which had had a counterproductive impact on revenues. However, in line with their intention of reducing reliance on international trade taxes, consideration was being given to implementing during 1987/88 a general sales tax, for which a feasibility study had been recently concluded. The

Table 10. The Gambia: Financial Position of the Gambia Produce Marketing Board, 1986/87-1987/88 1/

(Volume in tons; value in millions of dalasis)

	1986/87 (Est.)		1987/88 (Proj.)	
	Volume	Value	Volume	Value
Costs		-143.30		-107.16
Farmer payments	66,000.00	-118.80	57,000.00	-85.50
Board costs 2/	66,000.00	-24.50	57,000.00	-21.66
Sales proceeds	46,050.00	106.80	39,900.00	89.80
Nonedible nuts	22,600.00	54.60	17,955.00	37.61
Edible nuts	500.00	1.20	1,995.00	7.33
Oil	7,750.00	26.90	5,985.00	23.00
Cake	12,700.00	8.50	11,970.00	8.07
Local oil	2,500.00	15.70	1,995.00	13.79
Trading surplus		-36.50		-17.36
Administration		-33.30		-23.60
Of which: bank interest		(-26.00)		(-19.00)
Deficit before duty		-69.80		-40.96
Export duties		-11.80		-8.66
Net deficit		-81.60		-49.62

Sources: The Gambia Produce Marketing Board; and staff projections.

1/ October/September.

2/ Includes buying allowance, transport, storage, and milling costs.

introduction of the general sales tax was expected to yield a modest increase in revenues, as the coverage of the tax would be more comprehensive than that of the existing import taxes which it would replace. The authorities acknowledged that the prospects for generating significant increases in income tax revenues were limited, owing to the already excessive high rates of nominal taxation and the resulting evasion. Nevertheless, to increase somewhat the income tax yield, a reform of the income tax law (involving reductions in the number of tax brackets and in the tax rates and a broadening of the taxable base) was also being considered for implementation in 1987/88. Possible additional receipts from these contemplated measures had not been included in the 1987/88 budget projections.

The authorities stated that, with the envisaged sharp reduction in the subsidy transfer to the GPMB, their aim was to contain current expenditures at about the estimated 1986/87 level. Personal emoluments would rise by 10.7 percent, reflecting mainly augmented allowances and the implementation on January 1, 1988 of a recommended restructuring of salary grades. It was stressed, however, that the additional cost of these adjustments would be below the estimated full-year savings from the recent retrenchment exercise. Of particular importance, no general salary increase was planned in 1987/88 for the public sector. However, in view of a sharp deterioration in the country's physical infrastructure over the past several years, the authorities found it necessary to provide for a relatively large increase (23 percent) in "other charges" (especially for capital maintenance).

Following the steep rise (81 percent) in development expenditure in 1986/87, the budget for 1987/88 calls for limiting the increase to about 13 percent. The Gambian authorities emphasized that the limit on development outlays (D 186 million) was well below that (D 247 million) shown for 1987/88 in their recently agreed Public Investment Program with the World Bank and their initially envisaged implementation level (D 212 million). In view of this substantial scaling back, they intended to discuss with Bank staff the allocation of the available resources consistent with their medium-term development objectives.

Based on the above and some anticipated repayments under the Managed Fund, the budget deficit on a partial commitment basis and excluding grants is set at D 152.2 million. However, with external grants projected at D 130.8 million, the deficit on a commitment basis and including grants would be only D 21.4 million, or about 2 percent of GDP. Moreover, with the prospect of another high level of net foreign financing (D 205.4 million), including possible further debt relief from Paris and London Club creditors and a second World Bank SAC, and taking into account the establishment of a sinking fund (equivalent to 20 percent of debt relief), the Government's creditor position with the banking system would increase by some D 180 million, equivalent to just over 60 percent of estimated end-June 1987 money supply. As mentioned earlier, the Gambian authorities stated that owing to their concern over the large accumulated debt of the GPMB and the implications of this for

the Government's finances generally, they were considering using the Government's projected growing net creditor position with the CBG to pay off this debt. They viewed this measure as fully consistent with their intention to reform the GPMB financially, reduce the GPMB's annual deficit and related budget subsidies, and achieve significant budgetary savings over the coming years. Once implemented, a corresponding reduction would be made in the government subsidy in 1987/88 to the GPMB.

5. Medium-term prospects

A forthcoming mission, tentatively scheduled for early September, will update The Gambia's Policy Framework Paper and negotiate the second annual arrangement under the SAF, and, in that context, will reassess in detail The Gambia's medium-term prospects, especially regarding the balance of payments. Compared with the medium-term scenarios presented in EBS/86/189, a possibly significant change could be a lower level of recorded groundnut exports associated with reduced crop purchases by the GPMB. Also, prospective export prices for groundnuts may be lower than those initially projected. However, with continued interest and exchange rate flexibility, larger inflows from unrecorded groundnut exports through the private capital account could be expected.

V. Staff Appraisal

The Gambia's economic and financial performance during 1986/87 (July-June) indicates achievement of major program objectives. Growth in real GDP was higher than anticipated; the rate of inflation declined markedly; and, most strikingly, the increase in gross official reserves plus the reduction in external payments arrears was considerably larger than expected. In addition, financial performance was broadly as programmed, and at end-March 1987 The Gambia observed all the stand-by arrangement's performance criteria and met its indicative target on gross official reserves.

The favorable developments in 1986/87 were associated largely with relatively strict adherence to program policies, especially the continued smooth functioning of the interbank exchange rate system and appropriate financial restraint, both of which were supported by a more flexible interest rate policy. The budget deficit (on a partial commitment basis and excluding grants and the Managed Fund) is estimated to have been slightly lower than planned as a percentage of GDP. Moreover, 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 the money supply--although considerably higher than expected--was accommodated entirely by an increase in net foreign assets, which reflected, importantly, the substitution of dalasis for foreign currency balances.

In the external sector, the current account deficit is estimated to have increased slightly, a deterioration which is more apparent than real, owing to the exclusion from the current account of an increased level of unrecorded exports. However, the capital account showed a significant improvement. In addition to the higher-than-anticipated official grants and loans, there was a turnaround to a surplus position in the private capital account (including unrecorded exports), attributable mainly to enhanced confidence in the foreign exchange system and in the conduct of interest rate policy. Thus, instead of an initially programmed overall balance of payments deficit of SDR 10 million, a surplus of SDR 11 million is now estimated. Furthermore, with more-than-ample exceptional financing (especially under the World Bank SAC), the estimated increase in gross official reserves plus the reduction in external payments arrears is put at SDR 35 million, compared with the initial program objective of SDR 5.5 million. The bilateral rescheduling agreements with individual Paris Club creditors have proceeded broadly on schedule (with monthly payments being made regularly to a special account with the Bank of England), and negotiations for debt relief are continuing with the London Club.

Prospects for 1987/88 point to a somewhat lower but still satisfactory rate of real economic growth and to continued moderation in inflation. Moreover, with the external current account deficit (on conservative assumptions) projected to be essentially unchanged, the presently expected substantial capital inflows would result in another, larger overall balance of payments surplus. However, realization of the above prospects for 1987/88 and a strengthened basis for sustained economic and financial improvement require that some fundamental problems be addressed--particularly the sizable government subsidy in respect of groundnut operations and the still large structural budget deficit.

In 1986/87 the government subsidy to the GPMB amounted to the equivalent of 8 percent of GDP and was associated largely with a domestic producer price for groundnuts estimated to have been almost 25 percent above the world market price and the GPMB's large interest payments on accumulated debt. Accordingly, the authorities have appropriately reduced the producer price for 1987/88 by almost 17 percent, which would bring it to only about 7 percent above the projected export unit value. Assuming a lower level of purchases by the GPMB and savings on the GPMB's interest bill, this adjustment should make possible a reduction in the budgetary subsidy to the equivalent of 4 percent of GDP. Moreover, the staff welcomes the authorities' intention, should world market prices in the coming months improve significantly (in terms of dalasis), to consult with Fund management with a view to apportioning most of the gains to a further reduction in the subsidy. Also, the staff encourages the authorities to implement quickly and rigorously the planned performance contract for the GPMB so as to effect cost savings and an additional reduction in the required government subsidy.

As regards the 1987/88 budget, the staff commends the authorities for planning to curtail the deficit (on a partial commitment basis and excluding grants) to 12.6 percent of GDP and to build up substantially the Government's newly attained net creditor position with the banking system. The 1987/88 budget deficit target compares with the deficit of about 16 percent of GDP in 1986/87 and is in accordance with the authorities' commitment to reduce the deficit to 9 percent by 1988/89. Revenues are projected to grow broadly in line with the forecast growth in nominal GDP, but, as the budget does not contain any new taxes or increases in tax rates, the staff stresses the urgency of effecting further improvements in tax administration. In addition, the staff strongly recommends as early as possible implementation of the general sales tax and reform of the income tax law during 1987/88.

The sharp curtailment in transfers to the GPMB should help the authorities contain current expenditures at about the estimated 1986/87 level. The staff notes that increased provisions for personal emoluments reflect mainly augmented allowances and the implementation of a recommended restructuring of salary scales, with the additional cost of these adjustments limited to the estimated savings from the recent retrenchment exercise. Also, the staff attaches particular importance to the Government's decision to forgo a general salary increase for the public sector in 1987/88. The staff believes that, in view of the deterioration in The Gambia's physical infrastructure, the provision for a relatively large increase in "other charges" (especially for capital maintenance) is justified and can be accommodated financially. The budgeted increase for development outlays should provide for a modest increase in the real level of public investment, and the staff considers it appropriate that the authorities discuss with World Bank staff the allocation of available resources consistent with The Gambia's medium-term development objectives.

Given projected large external financing inflows, the Government's creditor position with the banking system would improve sharply in 1987/88. Consistent with their objectives of reforming the GPMB financially and of achieving significant associated budgetary savings, the authorities have proposed using part of these balances to pay off the GPMB's debt--a move which the staff believes is appropriate.

In view of the gap between the end of the current program for 1986/87 and the full negotiation of a program for 1987/88--tentatively scheduled for early September--the staff underscores the importance for the authorities of maintaining in the coming months the good track record of overall financial discipline. In this regard, the staff stresses the need to avoid policy and technical slippages which could cause an erosion of the much improved economic and financial position.

The mission tentatively scheduled for early September would entail an updating of The Gambia's Policy Framework Paper, including a reassessment of The Gambia's medium-term balance of payments prospects; a review of progress under the first year of the SAF program and

negotiation of a second annual arrangement thereunder; and possibly the negotiation of a new stand-by arrangement.

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

VI. Proposed Decisions

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

I. 1987 Consultation

1. The Fund takes this decision relating to the Gambia's exchange measures subject to Article VIII, Sections 2(a) and 3 in concluding the 1987 Article XIV consultation with The Gambia and in the light of the 1987 Article IV consultation with The Gambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 as amended ("Surveillance over Exchange Rate Policies").

2. The Gambia maintains the restrictive exchange measures described in EBS/87/170, in accordance with Article XIV, Section 2, except that the restrictions evidenced by commercial external payments arrears and the multiple currency practice arising from the costs to purchasers of foreign exchange of counterpart deposits required for arrears are subject to approval by the Fund under Article VIII, Sections 2(a) and 3, respectively. The Fund urges the authorities to remove these restrictions as soon as possible.

II. Review of Stand-By Arrangement

1. The Gambia has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for The Gambia (EBS/86/189, Supplement 2) as contemplated in paragraph 4 of the letter of the Minister of Finance and Trade and the Governor of the Central Bank of March 19, 1987 attached to the stand-by arrangement, in order to review the progress made in the implementation of the program.

2. The letter dated July 21, 1987, from the Minister of Finance and Trade and the Governor of the Central Bank of The Gambia shall be attached to the stand-by arrangement for The Gambia and the letter of March 19, 1987 shall be read as supplemented by the letter dated July 21, 1987.

3. The Fund finds, pursuant to paragraph 4 of the stand-by arrangement, that the review contemplated in paragraph 4 of the letter dated March 19, 1987 is completed, and decides that no additional understandings are necessary.

THE REPUBLIC OF THE GAMBIA

July 21, 1987

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

Dear Mr. Camdessus:

1. On September 17, 1986 the Fund approved a 13-month stand-by arrangement for The Gambia together with a three-year structural adjustment arrangement under the structural adjustment facility (SAF) and a first annual arrangement thereunder in support of a continuation in 1986/87 (July 1-June 30) of our Economic Recovery Program adopted in 1985. In the context of the first review under the stand-by arrangement, we described in a letter to you dated March 19, 1987 and in the attached memorandum progress in policy implementation and economic and financial developments through end-1986. It was indicated that significant progress had been made with respect to policy implementation and that The Gambia had already begun to benefit in terms of improved economic and financial performance. Of particular note, the floating exchange rate system was continuing to function satisfactorily, supported by a liberalized interest rate policy; government employment had been reduced; and generally cautious financial policies were being pursued. Also, to enhance our policy effort, a rescheduling agreement had been concluded with Paris Club creditors. Encouraging developments included a higher-than-anticipated level of aggregate production; a pronounced decline in the rate of inflation; a reduction in external payments arrears; and a foreign reserve buildup somewhat larger than initially envisaged. Moreover, apart from nonobservance of one performance criterion at end-September 1986 (i.e., on net bank credit to Government) for largely technical reasons, The Gambia had complied with all of the stand-by arrangement's performance criteria for both end-September and end-December 1986 (Table 1).

2. In connection with the second review with the Fund, we have recently verified that The Gambia's economic and financial performance over the course of 1986/87 was in line with the program's objectives. Estimates now put the growth in real gross domestic product (GDP) in 1986/87 at 6 percent, compared with the program target of 3.5 percent, attributable largely to an increase of about 40 percent in the groundnut crop, a pickup in private and public sector construction activity, expanded tourism, and enhanced private sector confidence and a consequent rise in commercial activity. Meanwhile, as measured by the consumer price index, the rate of inflation has generally continued to show signs of moderation and has remained compatible with stability of

the exchange rate. After having risen by 9 percent over the July-December 1986 period--less than half the rate over the comparable period in 1985--there was a spurt of 5 percent in consumer prices in January owing mainly to temporary shortages of rice. Thereafter, consumer prices rose by only 4 percent over the February-May period. In addition, the increase in the gross foreign reserves of the Central Bank of The Gambia (CBG) plus the reduction in external payments arrears have been well above the program's objectives. Moreover, financial performance has been broadly as programmed, and The Gambia complied with all of the stand-by arrangement's performance criteria and met its indicative target on gross official reserves for end-March 1987 and expects to have met all of the performance criteria and the indicative target for end-June, which were established at the time of the first review (Table 2).

3. The remainder of this letter contains a more detailed discussion of The Gambia's domestic and external financial performance during 1986/87 and, in light of our assessment of prospects for 1987/88, describes the Government's targets and intentions with respect to both producer pricing policy for groundnuts and overall fiscal policy.

Producer pricing policy for groundnuts

4. In order to provide incentives for increased production and to maximize the potential foreign exchange earnings of the Gambia Produce Marketing Board (GPMB), the producer price for groundnuts was increased by 43 percent for the 1986/87 crop season. At D 1,800 per ton, the producer price was, as anticipated under the program, well above the world market price; present estimates put the realized export unit value in 1986/87 at D 1,460 per ton, compared with the program estimate of D 1,378. The GPMB's purchases in 1986/87 amounted to approximately 66,000 tons--compared with the program's original projection of 60,000 tons--and required a budgetary transfer of D 83 million (8 percent of GDP) as provided for under the program to cover the expected loss to be incurred by the GPMB, currently estimated at D 82 million for the GPMB's financial year (October 1-September 30). In view of this serious drain on budgetary resources, a decision was recently taken to realign the producer price more closely with expected world market prices. Therefore, consistent with our commitment to reduce the GPMB's losses and related budgetary subsidies sharply in 1987/88 and to essentially eliminate them by 1988/89, the producer price was reduced by 16.7 percent and to D 1,500 per ton for the 1987/88 crop year, compared with a projected export unit value of D 1,404 per ton--a decline of 4 percent from that in 1986/87--owing mainly to the depreciation of the U.S. dollar. This new price was announced on June 26. Current estimates indicate that with projected groundnut purchases by the GPMB of 57,000 tons and savings on interest associated with a more rapid disbursement of the budget subsidy and reduced crop financing requirements, the lower producer price will make possible a cut in the budgetary subsidy to D 50 million, or about 4 percent of GDP. However, should world market prices in the coming months improve significantly (in terms of dalasis),

the Government would consult with Fund management with a view to apportioning the gains to a reduction in the budget subsidy and to a higher producer price, with priority being accorded the elimination of the budget subsidy. Moreover, any cost savings resulting from improved efficiency in operations associated with the implementation of a performance contract to be signed later this year between the GPMB and the Government would reduce even further the required government subsidy. In addition, as discussed in paragraph 9 below, the Government is considering paying off in 1987/88 the GPMB's debt to the CBG (on accumulated deficits--D 93.5 million), a move which would result in the elimination of related interest payments, cut the GPMB's deficit, and thus reduce the government subsidy by up to D 20 million on a full-year basis.

Fiscal developments and policies

5. The fiscal program for 1986/87, which included several revenue measures with an estimated yield of 3.2 percent of GDP, aimed at limiting the budgetary deficit on a partial commitment basis and excluding grants to D 165.9 million (17.5 percent of GDP), notwithstanding the large budgetary transfer to the GPMB, the expected substantial increase in development expenditure from a particularly low level in 1985/86, and markedly higher projected external interest payments, owing primarily to the impact of the depreciation of the dalasi. However, substantial STABEX grants and project-related grants were anticipated, and the budget was expected to benefit from significant net foreign financing (including disbursement of a World Bank Structural Adjustment Credit--SAC). Accordingly, the outstanding stock of net bank credit to Government over 1986/87 was programmed to decline sharply.

6. Estimates for 1986/87 indicate an outturn broadly consistent with the program targets. Total revenues are now estimated at almost 2 percent above the program projection, attributable mainly to both a higher level of imports and improved duty collection procedures. Current expenditures are estimated at 3.5 percent above the programmed level, owing largely to higher domestic interest payments (associated with a rise in interest rates) and an unprogrammed transfer to the Gambia Cooperative Union, which together more than offset savings in other charges. Budgetary savings resulting from the reduction in government employment approximated those anticipated (D 3.0 million) for the January-June 1987 period, and total outlays on personal emoluments in 1986/87 are estimated at only 1 percent above the program projection. Development expenditures are estimated to have been contained within the programmed level (D 165 million). Based on the above, the budget deficit on a partial commitment basis and excluding grants is estimated at D 170.8 million (16.1 percent of currently estimated GDP). Taking into account the establishment in January 1987 of the Managed Fund (whereby the Government assumed D 72.8 million of government-guaranteed loans extended by the Gambia Commercial and Development Bank (GCDB) to certain private and public enterprises), an unanticipated budgetary requirement associated with a reduction in

external payments arrears, and a higher-than-initially programmed level of grants, the budget deficit on a cash basis and including grants is now estimated at D 95.8 million (9.0 percent of GDP), about the same as that (D 94.7 million) projected at the time of the first review. However, with net foreign financing now estimated to have been some D 90 million higher than initially projected--attributable mainly to larger-than- envisaged disbursements under the World Bank SAC--and the marketing of up to D 15 million in government securities to the nonbank public in late June, net bank credit to Government is estimated to have declined in 1986/87 even more markedly than programmed initially or at the time of the first review and to have led to a sizable government net creditor position with the banking system. In addition, all scheduled external debt service payments have been discharged as planned under the program, either directly or by crediting the Special Deposit Account.

7. In the preparation of its 1987/88 budget, the Government took into account prospects for somewhat lower growth in real GDP (about 4 percent) and for continued moderation in the rate of inflation. It was guided by its commitment to reduce the overall budgetary deficit on a partial commitment basis and excluding grants to no more than 9 percent of GDP by 1988/89 and to improve its position vis-à-vis the banking system throughout this period. Accordingly, the budget for 1987/88 aims at curtailing the deficit to 12.6 percent of GDP and at building up substantially the Government's net creditor position with the banking system. Revenues are projected to grow by about 12.5 percent, based on a projected rate of growth in nominal GDP of 13.5 percent and additional efforts being made to improve the tax administration through strengthening the central revenues and customs departments. No new taxes or increases in rates are included in the budget, but import duties on a number of products (including cigarettes and battery cells) will be reduced in an attempt to recapture receipts lost from unrecorded cross-border inflows following recent increases in these duties. Given our intention of reducing reliance on international trade taxes, the Government has recently concluded a study of the feasibility of introducing a general sales tax and is considering its implementation during the 1987/88 fiscal year. The introduction of the general sales tax is expected to yield a modest increase in revenues, as the coverage of the tax will be more comprehensive than that of the existing import taxes which it will replace. Prospects for generating significant increases in income tax revenues are limited due to the already excessively high rates of nominal taxation and the resulting evasion. However, to increase somewhat the income tax yield, a reform of the income tax law (involving reductions in the number of tax brackets and in the tax rates and a broadening of the taxable base) is also being considered for implementation in 1987/88. Possible additional receipts from these contemplated measures have not been included in the 1987/88 budget projections. Moreover, should a major slippage in the achievement of the present revenue target become apparent, offsetting fiscal measures would be promptly adopted so as to contain the budget deficit within the intended limit.

8. Budget projections show current expenditures essentially unchanged from their estimated 1986/87 level, owing to the sharp reduction in subsidy transfers to the GPMB. Personal emoluments are budgeted to rise by 10.7 percent, reflecting mainly augmented allowances and the implementation on January 1, 1988 of a recommended restructuring of grades following the recently completed study of civil service reforms. The additional cost of these adjustments is below the estimated full-year savings from the recent retrenchment exercise. No general salary increases are planned for 1987/88. To help stem an evident deterioration in The Gambia's physical infrastructure, the Government has found it necessary to provide for a relatively large increase (23 percent) in other charges. Following the steep rise (81 percent) in development expenditure in 1986/87, the budget for 1987/88 aims at limiting the increase to about 13 percent. Our limit on development outlays (D 186 million) is well below that (D 247 million) shown for 1987/88 in our recently agreed Public Investment Program with the World Bank and our initially envisaged implementation level (D 212 million). In view of this substantial scaling back, we intend to discuss with Bank staff the allocation of the available resources consistent with our medium-term development objectives.

9. Based on the above and some anticipated repayments under the Managed Fund, the budget deficit on a partial commitment basis and excluding grants is set at D 152.2 million. With external grants projected at D 130.8 million, the deficit on a commitment basis and including grants would be D 21.4 million, or about 2 percent of GDP. However, with the prospect of another high level of net foreign financing (D 205.4 million), including possible further debt relief from Paris and London Club creditors and a second World Bank SAC, and taking into account the establishment of a sinking fund (equivalent to 20 percent of debt relief), the Government's creditor position with the banking system would increase by some D 180 million, equivalent to just over 60 percent of estimated end-June 1987 money supply. Owing to our concern over the large accumulated debt of the GPMB and the implications of this on the Government's finances generally, we are considering using the Government's projected growing net creditor position with the CBG to pay off this debt. This measure, which is consistent with our intention to reform the GPMB financially, would reduce, as noted in paragraph 5 above, the GPMB's annual deficit and related budget subsidies, and, over the coming years, would result in significant budgetary savings. We intend to discuss with Fund staff the modalities and overall financial implications of this proposal with a view to its possible early implementation.

Monetary and credit developments and policies

10. Over the three quarters ending March 1987, the increase in money plus quasi-money was 57 percent and was accommodated entirely by a rise in the net foreign assets of the banking system--including, importantly, the exchange of foreign currency for domestic money balances. For 1986/87 as a whole, the increase in money plus quasi-

money is now estimated at 28 percent, compared with the initial program target of 16 percent and a revised program target of almost 27 percent. As envisaged during the first program review, the increase in net foreign assets over the April-June period, although now substantially larger than anticipated, is estimated to have been more than offset by a steep decline in net domestic assets, associated, as programmed, mainly with a marked reduction in net bank credit to Government. During 1986/87, real holdings of money plus quasi-money are estimated to have increased by more than 7 percent, while the income velocity of broad money was essentially unchanged. Domestic credit is estimated to have declined by 39 percent in 1986/87, compared with the initially targeted reduction of 15 percent and the revised targeted reduction of 28 percent. Net bank credit to Government (including for the Managed Fund) is estimated to have been reduced by D 155.4 million; credit to the GPMB is estimated to have increased by D 19.3 million; and combined credit to the private sector and to public enterprises (excluding the GPMB and adjusted downward in respect of the Managed Fund) is estimated to have increased by almost 11 percent, compared with the originally implied maximum of 22 percent and the revised maximum of about 13.5 percent. All of these estimates are consistent with observance of the performance criteria established for end-June 1987.

11. In recent months, interest rate policy has continued to be administered flexibly. The key treasury bill rate, which had averaged just under 20 percent during the second half of 1986, fell to slightly below 17 percent in March but increased again to 19 percent by mid-May. Moreover, the new government securities referred to in paragraph 6 were issued in June with an effective yield of 21 percent. Also, to prevent excessive expansion in credit to the private sector and to public enterprises, adjustments have been made to the ceilings established for individual banks, and, most recently (June 19), the banks' reserve requirements on demand deposits were increased from 10 percent to 24 percent.

External developments and policies

12. Since January 1986 the exchange rate of the dalasi has been permitted to float within the framework of an interbank market, accompanied by the removal of restrictions on making payments and transfers for all current international transactions. By mid-March 1986 the interbank rate of the dalasi had fallen sharply to D 10 per pound sterling (compared with the prefloat rate of D 5 per pound sterling), resulting in the virtual elimination of the differential between the interbank market and parallel market rates. Subsequently, the rate has fluctuated narrowly. During the period January-May 1987 the rate varied between D 10.95 and D 11.95 per pound sterling, and the rate in early June was D 11.50 per pound sterling.

13. The original program estimates for 1986/87 showed a small widening of the external current account deficit (excluding transfers) to SDR 35 million (33 percent of GDP) from SDR 33 million in 1985/86,

owing essentially to expectations of reduced receipts from groundnut exports and higher project-related imports. The overall balance of payments deficit, however, was forecast to decline to SDR 10 million (from SDR 13.5 million in 1985/86), reflecting an anticipated rise in both official transfers and net official capital inflows. Estimates now put the current account deficit for 1986/87 at SDR 37 million (32 percent of presently estimated GDP), or SDR 2 million above the program projection, as increased receipts from travel and other services and private transfers were insufficient to compensate for more rapidly expanding imports, reflecting buoyant domestic activity, and lower receipts from domestic exports, including from recorded shipments of groundnuts. Official transfers increased sharply in line with augmented external technical assistance, and net official capital inflows were about as programmed. Reflecting mainly enhanced confidence in the interbank system and in the conduct of interest rate policy, there was a turnaround in the private capital account (including unrecorded exports), and a surplus of almost SDR 5 million is presently estimated. Thus, the overall balance of payments in 1986/87 is expected to have registered a relatively large surplus of SDR 11 million.

14. Regarding external debt, The Gambia reached a rescheduling agreement with Paris Club creditors in September 1986 pertaining to publicly guaranteed or insured commercial credits and official loans contracted prior to July 1, 1986. Agreements were concluded with France, Norway, and the United Kingdom before the April 30, 1987 deadline for all bilaterals, and agreements with Austria and the Federal Republic of Germany are expected to be concluded this month. Initial contacts have been made with Italy and Belgium regarding negotiation of the bilaterals; depending on the outcome of the reconciliation of data, Belgium may be de minimis. The Gambia has remained current with its obligation under its Paris Club agreement to make a minimum deposit of SDR 0.36 million at the end of each month from December 1986 to September 1987, inclusive, in a special account with the Bank of England. Meanwhile, we are still in the process of negotiating debt relief with the London Club. We intend to continue to meet on a timely basis obligations in respect of nonreschedulable debt service, and we will ensure that the arrangements by which The Gambia has periodically acquired SDRs to be used to service its obligations to the Fund will be maintained.

15. Over the period July 1986-March 1987 total external payments arrears (excluding the settlement in July 1986 of overdue obligations to the Fund) were reduced by SDR 11.5 million on a cash payment basis, and the relevant performance criteria for end-March were observed. The Government maintains its intention to seek as rapid a reduction as possible in arrears related to nonreschedulable external obligations and in outstanding short-term debt. In this regard, it now appears that the reduction in arrears programmed for the April-June 1987 quarter will be exceeded with the use of proceeds from higher-than-anticipated loan disbursements.

16. In view of The Gambia's heavy debt service obligations and in order to provide a margin for contingencies, indicative targets were established in the context of the first program review for end-March 1987 and end-June 1987 on minimum levels of gross foreign reserves to be held by the CBG. Owing to the more favorable overall balance of payments developments as well as, importantly, disbursements under the World Bank SAC, the target level for end-March (SDR 2.2 million) was surpassed by SDR 7 million, and, in view of the level of reserves already attained at end-May (SDR 13.1 million) and inflows estimated for June, the target level for end-June (SDR 7.7 million) is also likely to have been significantly exceeded. Thus, for 1986/87, the estimated increase in the gross foreign reserves of the CBG plus the estimated reduction in external payments arrears is now put at SDR 35 million, compared with the initial program objective of SDR 5.5 million.

17. As our adjustment efforts continue, The Gambia will consult with the Fund on the adoption of any measures that may be considered appropriate, at the initiative of the Government of The Gambia, or whenever the Managing Director requests such consultation.

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: Quantitative Performance Criteria, 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	-275.0
Margin (-) or excess		-170.3	-231.7
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	117.2		
Program		-13.6	-9.2
Actual		-42.6	-29.6
Margin (-) or excess		-29.0	-20.4
(In millions of SDRs)			
Total external arrears	75.95 <u>4/</u>		
Program		75.95	75.95 <u>5/</u>
Actual		71.16	69.06 <u>5/</u>
Margin (-) or excess		-4.79	-6.89
Short-term public sector debt outstanding	9.62 <u>4/</u>		
Program		8.62	8.62
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 reflect updated exchange rates, cancellations of certain loans before end-June 1986, and the disclosure of additional short-term debt at the Paris Club.

5/ Excludes debt relief provided by the rescheduling exercise.

Table 2. The Gambia: Quantitative Performance Criteria and Indicative Targets, 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	-285.5 <u>2/3/</u>
Actual		-212.9	...
Margin (-) or excess		-33.1	...
Net credit to Government	100.3		
Program		-27.9	-114.3 <u>2/3/4/</u>
Actual		-31.3	...
Margin (-) or excess		-3.4	...
Gross credit to the GPMB	117.2		
Program		36.1	26.3
Actual		35.2	...
Margin (-) or excess		-0.9	...
(In millions of SDRs)			
Total external arrears	56.2 <u>5/</u>		
Program		54.7	53.2 <u>6/</u>
Actual		54.2	...
Margin (-) or excess		-0.5	...
Short-term public sector debt outstanding <u>7/</u>	7.8		
Program		7.3	6.8
Actual		6.4	...
Margin (-) or excess		-0.9	...
Contracting or guaranteeing of new nonconcessional external debt by the public sector in the 1-12-year maturity range during period <u>8/</u>			
Program		--	--
Actual		--	...
Margin (-) or excess		--	...
(In millions of SDRs)			
Gross official foreign reserves	1.7		
Program		0.5	6.0
Actual		7.5	...
Margin (+) or shortfall (-)		7.0	...

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/ The ceiling will be adjusted downward by the full amount of the cumulative excess of 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/ The ceiling 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 period July 1986-June 1987 (D 102.8 million).

4/ The ceiling will be adjusted downward by the full amount of the cumulative recovery of principal by the Government with respect to the Managed Fund in the period January-July 1987.

5/ After rescheduling.

6/ The ceiling will be adjusted downward by the full amount of the cumulative excess of certain exceptional 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/ Excludes refinancing loans contracted in the context of possible multilateral rescheduling arrangements.

The Gambia--Relations with the Fund
(As of June 30, 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 33.53 million
(196.08 percent of quota)

	<u>SDR million</u>	<u>Percent of quota</u>
(c) Fund holdings subject to repurchase and charges	16.46	96.25
Of which: compensatory		
financing facility	(4.71)	(27.54)
credit tranches	(5.39)	(31.52)
supplementary		
financing facility	(2.99)	(17.49)
enlarged access resources	(3.36)	(19.65)
(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>balance</u>	Undrawn
(In millions of SDRs)					
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	6/3/81	SDR 9.0 million
	11/22/78	SDR 4.5 million
	3/16/77	SDR 3.5 million
	9/25/86	SDR 4.7 million

IV. SDR Department

(a) Net cumulative allocation:	SDR 5.12 million
(b) Holdings:	SDR 0.30 million

V. Administered accounts

(a) Trust Fund loans:	
(i) Disbursed	SDR 6.84 million
(ii) Outstanding	SDR 2.87 million
(b) SFF Subsidy Account:	
(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	SDR 0.47 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 June 30, 1987	<u>Principal and Interest Due</u>			
		<u>July-Dec.</u> 1987	1988	1989	1990
Principal	--	3.3	4.4	3.9	3.9
Repurchases	--	2.6	3.2	3.1	3.7
TF repayments	--	0.7	1.2	0.8	0.2
Charges and interest including SDR, TF and SAF (prov.)	--	0.7	1.2	1.0	0.7
Total	--	4.0	5.6	4.8	4.7

B. Nonfinancial Relations (concluded)

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 1986 Article IV consultation discussions with The Gambia were held in Banjul during the periods May 19-June 3 and July 7-18, 1986. The staff report (EBS/86/189) was discussed by the Executive Board on September 17, 1986, 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 and 3, and in concluding the 1986 Article XIV consultation with The Gambia, in the light of the 1986 Article IV consultation with The Gambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Gambia maintains the restrictive exchange measures described in SM/86/216, 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 and 3. 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 April 30, 1987

(In millions of U.S. dollars)

	Total	Disbursed <u>1/</u>	Undisbursed <u>1/</u>
IDA			
Structural Adjustment <u>2/</u>	17.51	9.69	7.82
Agriculture	16.60	8.13	8.47
Urban development	16.55	7.16	9.39
Transport	23.13	15.89	7.24
Public utilities <u>3/</u>	8.23	--	8.23
Tourism	4.00	4.00	--
Energy	1.45	1.24	0.21
Education	5.50	5.50	--
Population, health, and nutrition <u>4/</u>	6.14	--	6.14
Total	<u>99.11</u>	<u>51.61</u>	<u>47.50</u>
Repayments	0.48		
Total outstanding (including undisbursed) <u>5/</u>	98.63		
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 equivalents as of April 1987 for the "Undisbursed" amounts.

2/ IDA and SFA credits only. Total SAL package is now approximately US\$36 million, including U.K. grant of US\$4.5 million equivalent, African Development Bank cofinancing of US\$11 million equivalent, and a Saudi Fund contribution of US\$3.2 million equivalent.

3/ Includes Cr. 1724-GM (Water Supply and Electricity) for US\$7.96 million equivalent not yet effective.

4/ Includes Cr. 1760-GM (National Health Development) for US\$5.94 million equivalent not yet effective.

5/ Prior to exchange rate adjustments.

Status of IFS Data

		<u>Latest Data in July 1987 IFS</u>
Real Sector	- National Accounts	1982 (GDP only)
	- Consumer Prices	December 1986
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982
	- Financing	1982
	- Debt	1982
Monetary Accounts	- Monetary Authorities	January 1987
	- Deposit Money Banks	January 1987
	- Other Financial Institutions	
	Post Office Savings Deposits	Q1 1986
Interest Rates	- Discount Rate	February 1987
	- Bank Lending/Deposit Rate	February 1987
	- Bond Yields	n.a.
External Sector	- Merchandise Trade: Values	September 1986
	Prices: Unit value of groundnuts exports	August 1986
	- Balance of Payments	1983
	- International Reserves	January 1987
	- Exchange Rates	May 1987

The Gambia: Social and Demographic Indicators

<u>Area</u>	11.3 thousand square kilometers
<u>Population</u>	770,000 (1986)
Rate of growth	3.5 percent (1986)
Density	68.1 per square kilometer
<u>Population characteristics (1986)</u>	
Life expectancy at birth (years)	42.2
Infant mortality (percent)	17.0
Child death rate (percent)	4.5
<u>Health (1973)</u>	
Population by physician (thousands)	26.1
Population by hospital bed (thousands)	0.7
<u>Income distribution</u>	...
<u>Distribution of land</u>	...
<u>Access to safe water</u>	...
<u>Energy consumption (1986)</u>	
Energy consumption per capita (kg of oil equivalent)	77.6
<u>Nutrition (1986)</u>	
Calorie intake (percentage of requirements)	95.0
Per capita protein intake (grams per day)	57.5
<u>Education (1986)</u>	
Primary school enrollment (percentage)	68.0
Pupil-teacher ratio (primary school)	22.9 : 1

Source: World Bank.

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

Area	11.3 thousand square kilometers
Population: Total (1986)	770,000
Growth rate	3.5 percent
GDP per capita (1986/87)	SDR 152

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u> Est.
<u>Gross domestic product</u>					
GDP (at 1976/77 market prices) (millions of dalasis)	423.1	392.8	391.9	414.0	439.0
Of which (percent of total):					
agriculture	(30.7)	(25.4)	(24.5)	(26.2)	(25.8)
manufacturing	(4.6)	(4.6)	(4.5)	(4.4)	(4.6)
trade (excluding groundnut marketing)	(15.6)	(15.1)	(19.2)	(18.4)	(19.0)
GDP (in millions of dalasis at current market prices)	522.1	599.4	697.6	869.5	1,062.4
Gross domestic investment (as percent of GDP)	20.9	18.2	19.4	16.7	21.8
Gross domestic saving (as percent of GDP)	9.8	2.3	-0.1	-3.3	-8.2
Annual percentage change					
GDP at constant 1976/77 prices	13.5	-7.2	-0.2	5.6	6.0
GDP deflator	1.7	23.7	16.6	18.0	15.2
Consumer price index (period average)	9.3	15.6	21.8	35.0	45.1 ^{1/} _{2/}
Consumer price index (end-period)	11.5	21.1	12.4	70.4	19.3 _{1/}

Central government finance

(In millions of dalasis)

Recurrent revenue	105.5	127.6	148.5	209.5	302.0
Foreign grants	16.9	26.0	32.3	59.1	158.9
Expenditure and net lending	179.1	210.9	262.3	284.8	545.6
Recurrent	112.6	140.6	151.4	178.8	312.2
Development	66.5	70.3	109.1	91.1	165.0
Unallocated expenditure and net lending	—	—	1.8	14.9	68.4
Overall deficit (-)					
Excluding grants	-73.5	-83.3	-113.8	-75.3	-243.6
Including grants	-56.6	-57.3	-81.5	-16.2	-84.7
Change in arrears (decrease -)	—	20.5	23.2	-35.0	-11.1
Financing	56.6	36.8	58.3	51.2	95.8
Foreign (net)	31.2	21.2	38.0	7.1	251.5
Domestic (net)	25.4	15.6	20.3	44.1	-155.7
Of which: banking system	(23.7)	(5.4)	(14.5)	(20.4)	(-155.4)

1/ July 1986-May 1987.

2/ 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.

THE GAMBIA - Basic Data (concluded)

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u> Est.
<u>Money and credit</u> (Percent change)					
Domestic credit	35.8	17.8	4.7	16.9	-38.7
Government	47.5	32.7	18.7	9.0	-154.9 <u>1/</u>
GRMB	90.6	9.4	-16.4	26.0	16.5
Other public enterprises	...	...	44.1	18.7	-39.6 <u>2/</u>
Private sector	12.6	16.3	0.4	15.4	-10.1 <u>2/</u>
Money and quasi-money	35.1	7.4	32.8	24.6	28.3
<u>Balance of payments</u> (In millions of SDRs)					
Exports, f.o.b.	77.5	86.1	62.1	59.3	52.1
Imports, f.o.b.	-81.7	-96.1	-74.9	-73.4	-78.4
Trade balance	-4.2	-10.0	-12.8	-14.1	-26.3
Services and private transfers (net)	-22.9	-26.4	-22.1	-19.1	-10.8
Current account (net)	-27.1	-36.4	-35.0	-33.2	-37.1
Capital account (net)	-1.4	11.7	31.1	19.7	48.3
Official	34.5	32.4	33.8	24.2	43.6
Private	-35.9	-20.7	-2.7	-4.5	4.7
Overall surplus or deficit	-28.5	-24.7	-3.8	-13.5	11.3
Current account deficit excluding official transfers (as percent of GDP)	14.3	18.8	20.8	20.9	31.6
<u>Gross official foreign reserves</u> (end of period)					
Amount	9.2	5.7	4.0	1.7	18.4
In weeks of imports, c.i.f.	5.0	2.6	2.4	1.0	10.5
<u>External public debt outstanding</u> <u>3/</u>	141.1	150.1	158.6	159.7	165.0 <u>4/</u>
<u>External public debt</u>					
Debt service as percent of exports of goods and nonfactor services <u>5/</u>					
Including IMF	29.7	30.0	45.6	82.5	54.6 <u>4/</u>
Excluding IMF	19.8	21.6	27.2	48.6	33.1 <u>4/</u>

1/ Includes Managed Fund.2/ Excludes Managed Fund.3/ End of period, medium- and long-term, public and publicly guaranteed disbursed debt; excludes outstanding use of Fund credit.4/ After rescheduling.5/ Excludes interest on short-term debt.

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