

EBS/86/158

CONFIDENTIAL

July 21, 1986

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: The Gambia - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Gambian dalasi.

Mr. Belanger (ext. 8671) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

THE GAMBIA

Real Effective Exchange Rate - Information Notice

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

(In consultation with the Legal Department  
and the Research Department)

Approved by Rattan J. Bhatia and W. A. Beveridge

July 18, 1986

The recent evolution of The Gambia's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, the dalasi had depreciated in real effective terms by 37.5 percent since the last occasion on which the Executive Board had an opportunity to discuss The Gambia's exchange rate policy--the 1985 Article IV consultation in September 1985. 1/

The dalasi was pegged to the pound sterling until January 1986 at a rate of D 5 = £1. On January 20, 1986, the peg to sterling was abolished and a flexible exchange rate system was introduced with the exchange rate determined on the basis of demand and supply in the foreign exchange market. In the first fixing session under the new system, the exchange rate was set at D 7.45 per pound sterling, a depreciation of more than 30 percent. Subsequently, the dalasi continued to depreciate gradually to reach about D 10 per pound sterling, or close to the parallel market exchange rate, by the middle of March; the exchange rate has remained fairly stable since that time.

Staff Appraisal

The recent real effective depreciation of the dalasi is consistent with the views expressed by Executive Directors in concluding the 1985 Article IV consultation in September 1985. At that time, Directors noted with concern the serious deterioration in the economic and financial situation of The Gambia and called for the urgent introduction of a comprehensive program of adjustment. They indicated that, given the inherently open nature of the economy, the adoption of a flexible exchange rate system, with an accompanying liberalization of external

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1/ Chairman's summing up circulated as SUR/85/110, 9/26/85.

payments, was a crucial element in restoring confidence and ensuring that private sector foreign exchange transactions were rechanneled through the banking system. These views were reiterated more recently by Directors in reviewing the complaint relating to The Gambia's overdue financial obligations to the Fund. <sup>1/</sup> The staff believes that the recent adoption by the authorities of a flexible exchange rate system, and the substantial real depreciation of the dalasi that has resulted, are an important step toward redressing economic and financial imbalances in The Gambia.

Article IV consultation discussions were held in The Gambia during May 20 - June 2, 1986. The staff report for the consultation, which is expected to be circulated to the Executive Board in August, will review and appraise recent developments in the exchange rate for the dalasi and in underlying economic and financial policies.

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<sup>1/</sup> At EBM/86/75, 5/2/86. Background information for the discussion was provided in "The Gambia--Overdue Obligations to the Fund--Further Review of Decision to Limit Use of the Fund's General Resources" EBS/86/97 (4/28/86).

Table 1. The Gambia: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1981						
III	95.7	101.1	94.6	78.9	106.4	107.8
IV	94.7	99.9	94.8	81.0	109.4	109.5
1982						
I	99.2	101.3	97.9	79.4	115.2	114.7
II	98.9	101.0	98.0	76.5	117.4	116.3
III	99.2	102.5	96.7	74.2	117.8	119.1
IV	98.2	101.0	97.2	70.9	120.1	120.3
1983						
I	93.1	95.3	97.7	65.9	122.2	121.8
II	101.7	99.1	102.6	66.9	129.9	128.8
III	102.2	100.6	101.6	64.9	131.0	132.4
IV	104.8	100.0	104.7	63.2	137.4	137.5
1984						
I	99.3	92.8	107.3	57.5	142.6	142.3
II	90.7	78.4	115.7	48.0	155.5	154.2
III	95.4	78.1	122.2	44.6	166.5	168.0
IV	95.2	77.0	123.6	41.8	170.8	171.0
1985						
I	95.2	75.7	125.7	38.4	176.3	176.0
II	98.3	79.6	123.5	43.2	176.3	174.8
III	105.6	81.0	130.5	47.3	187.7	189.4
IV	115.4	79.3	145.7	49.4	211.6	211.8
1986						
I	72.5	43.9	167.1	28.6	244.6	244.1
Monthly						
1985						
Sep. <u>3/</u>	110.4	80.5	137.1	46.9	197.7	201.7
Oct.	114.0	79.7	143.0	48.9	206.7	207.9
Nov.	115.0	79.4	144.8	49.5	210.3	211.5
Dec.	117.4	78.7	149.2	49.8	217.6	216.1
1986						
Jan.	76.8	51.2	150.2	32.6	219.6	218.8
Feb.	72.6	43.2	168.0	28.2	246.0	245.9
March	68.1	37.2	183.0	25.0	268.0	267.5
April	68.9	37.1	185.7	25.0	272.0	269.3
Percentage change						
Sep. 1985- April 1986	-37.5	-53.9	35.5	-46.8	37.6	

Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

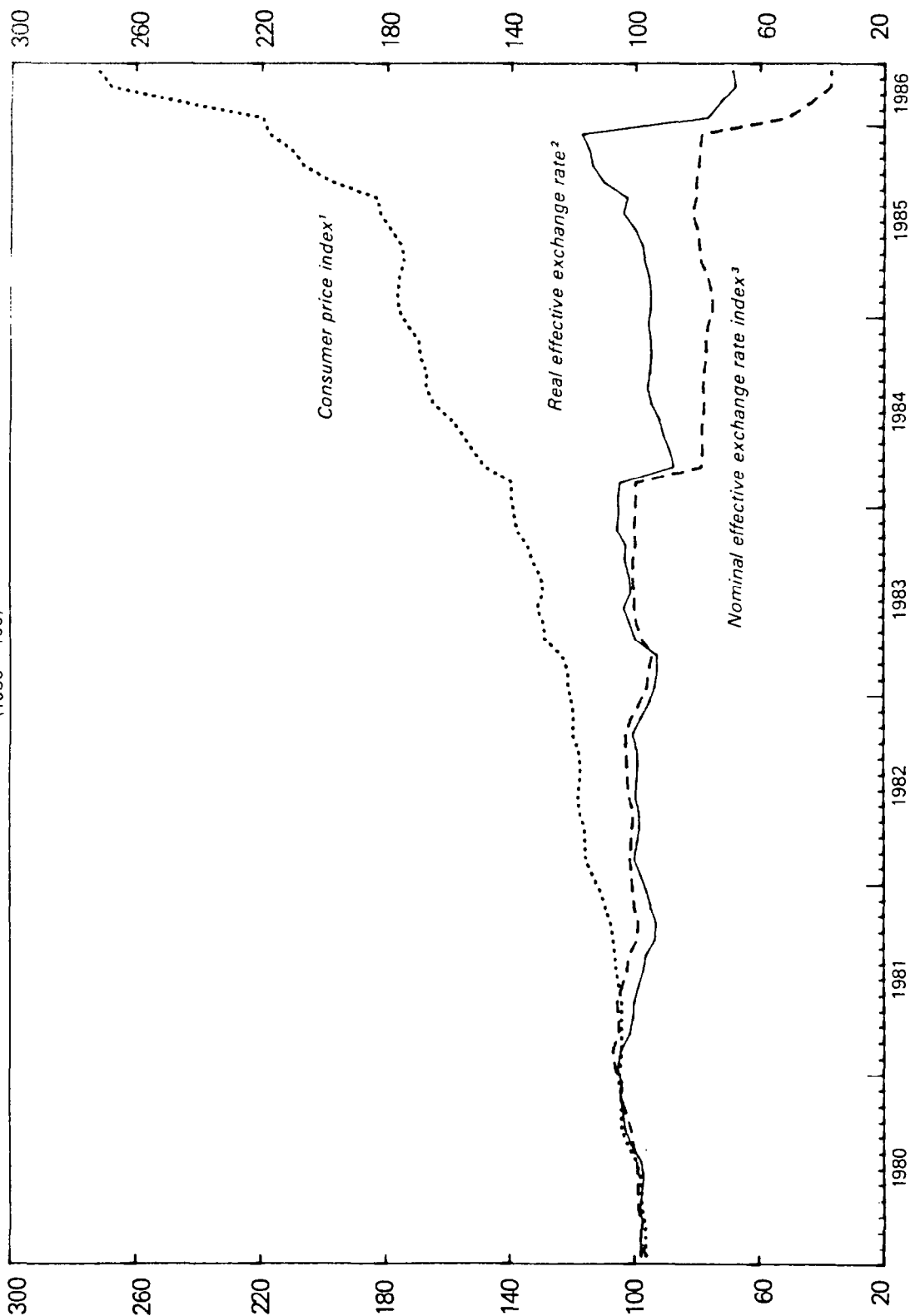
3/ Date of latest consideration by Executive Board.



# THE GAMBIA

## INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE

(1980 = 100)



Source: Information Notice System.

<sup>1</sup>Seasonally adjusted.

<sup>2</sup>Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation.

<sup>3</sup>Trade-weighted index of nominal exchange rate.