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INFORMATION

August 23, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: The Gambia - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with The Gambia, which has been tentatively scheduled for Board discussion on Friday, September 20, 1985. A draft decision appears on page 18.

Mr. Donovan (ext. 8652) 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 1985 Article IV Consultation

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

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

Approved by A.D. Ouattara and Eduard Brau

August 23, 1985

I. Introduction

The 1985 Article IV consultation discussions with The Gambia were held in Banjul during the period June 24-July 10, 1985. The Gambian representatives included the Honorable S.S. Sisay, Minister of Finance and Trade; Mr. T.G.G. Senghore, Governor of the Central Bank of The Gambia; Mr. M.G. Bala-Gaye, Permanent Secretary in the Ministry of Finance and Trade; and other senior officials. Mr. E.I.M. Mtei, Executive Director for The Gambia, also participated in the discussions. The staff team consisted of Messrs. D. Donovan (Head-AFR), K. Dublin (AFR), Miss A. Cheasty (FAD), Mr. T. Sasaki (ETR), and Miss L. Allardice (Secretary-BUR). The mission was received by the President, His Excellency Sir Dawda K. Jawara.

The most recent stand-by arrangement with The Gambia was approved on April 23, 1984, in an amount of SDR 12.83 million, representing 75 percent of The Gambia's quota of SDR 17.1 million. The Gambia made only one purchase under the arrangement which was canceled on April 25, 1985. As of August 9, 1985, The Gambia's outstanding use of Fund credit amounted to SDR 24.8 million, or 145 percent of quota: of this, SDR 5.6 million represents purchases under the compensatory financing facility. Since late 1984, The Gambia has encountered increasing difficulties in meeting its financial obligations to the Fund. On April 8, 1985, the Executive Board noted a complaint relating to The Gambia's overdue obligations to the Fund. While these obligations were settled on April 25, 1985, and the complaint was withdrawn, arrears to the Fund re-emerged almost immediately. As of August 19, 1985, overdue obligations to the Fund amounted to SDR 2.5 million.

Summaries of The Gambia's relations with the Fund and the IBRD, and of outstanding statistical issues, are contained in Appendices I, II, and III, respectively. Series on selected economic and financial

indicators, on basic data, and on the medium-term balance of payments outlook are provided in Appendices IV, V, and VI, respectively. The staff report for the 1984 Article IV consultation (SM/84/239) was discussed on November 26, 1984 (see SUR/84/115). The Gambia continues to avail itself of the transitional arrangements of Article XIV.

## II. Background and Recent Economic Developments

### 1. Background

During the decade following independence in 1965, The Gambia followed fairly prudent financial policies which maintained broad equilibrium in the balance of payments. However, from the mid-1970s, the public sector began to expand rapidly. Rising imports, associated with both increasing government consumption (government employment approximately doubled in the five years ending 1979/80) <sup>1/</sup> and a surge in development expenditures (supported by increased foreign assistance), caused the trade balance to move into deficit after 1979. The emerging external sector pressures were to some extent masked by unusually large capital inflows in 1980/81 and 1981/82, and although the overall budget deficit (before grants) rose sharply during the period, this was largely offset by exceptionally high levels of official transfers. However, during 1982/83, following a return of capital flows to more normal levels and a fall in world groundnut prices (groundnuts comprise over 80 percent of domestic exports), total domestic credit and liquidity rose dramatically. International reserves fell precipitously and external arrears began to mount. Also about this time, a widespread parallel exchange market emerged, through which most of the foreign exchange flows associated with the re-export trade were channeled. <sup>2/</sup>

The adjustment program supported by a stand-by arrangement approved in early 1984 aimed at reducing the external current account deficit for 1983/84 to the equivalent of 21 percent of GDP and the overall budget deficit to the equivalent of 10 percent of GDP. Several important measures were taken by the authorities, including a 25 percent devaluation of the dalasi, adjustments in key prices and discretionary revenue measures planned to yield 2.7 percent of GDP. However, the program's fiscal, credit, and external sector targets for 1983/84 were not met, partly because of unforeseen delays in the marketing of the groundnut crop. <sup>3/</sup> External confidence was not sufficiently restored and the

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<sup>1/</sup> Fiscal year ending June 30.

<sup>2/</sup> Imports for re-export currently represent about half of total imports and contribute about half of tax revenue. Re-exports account for almost two thirds of total exports. The re-export trade benefits from relatively low import tariffs in The Gambia.

<sup>3/</sup> For a detailed review of developments under the 1983/84 program, see the staff report for the 1984 Article IV consultation (SM/84/239).

parallel exchange market discount quickly re-emerged. None of the quantitative performance criteria for end-June 1984 were observed, and the first review under the arrangement was not completed, partly because the external sector outlook began to weaken considerably in early 1985; also, by then arrears to the Fund had emerged.

## 2. Developments in 1984/85

The economic and financial difficulties experienced by The Gambia during the past several years worsened sharply in 1984/85. Largely due to late rains and pest infestation, production of groundnuts is estimated to have fallen from 114,000 tons in 1983/84 to 65,000 tons in 1984/85, leading to a decline in real GDP of almost 10 percent. At the same time, domestic demand pressures intensified, and recorded inflation rose to about 20 percent, compared with 16 percent in 1983/84. <sup>1/</sup> The scope of the parallel foreign exchange market continued to expand, and foreign exchange receipts accruing to the banking system declined. <sup>2/</sup> Gross official reserves were exhausted, and external arrears accumulated further. In recent months the authorities have faced growing difficulties in ensuring continued supplies of essential imports such as petroleum and rice.

The deterioration in The Gambia's economic and financial position affected most sectors of the economy severely. Despite the authorities' decision to raise the retail price of rice in early 1985, thereby eliminating the rice subsidy, the Gambian Produce Marketing Board (GPMB) is now expected to show an overall deficit of D 7 million in 1984/85 (financial year ending September 30), compared with an originally planned surplus of D 16 million: this deficit may be financed partly by recourse to bank credit or (possibly) by the domestic proceeds of commodity aid sales. The less favorable outcome for the GPMB is largely due to the unanticipated need to raise the groundnut producer price by 26 percent in early 1985 (this followed the announcement of an increase in the Senegalese producer price), and to lower-than-expected groundnut purchases, mainly reflecting the poor harvest.

The overall budgetary deficit (on a commitment basis and excluding grants) of the Central Government is estimated to have risen from 14.1 percent of GDP in 1983/84 to 17.3 percent of GDP in 1984/85, compared with a budget target of 10.1 percent (Table 1). Including grants, the deficit rose by almost 3 percentage points of GDP to 12.4 percent of GDP compared with a budget target of 6.2 percent. These estimates do not take account of any outstanding unpaid domestic obligations of Government. Total revenue rose by 16 percent (compared with a projected increase in the budget of 27 percent), largely reflecting the full-year impact of the 1984 devaluation on import duties: the shortfall in

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<sup>1/</sup> The official price indices may understate actual inflation to the extent that shortages of items subject to official price control occur.

<sup>2/</sup> As of mid-1985, the parallel market premium for foreign exchange was reportedly in the order of 30 percent.

Table 1. The Gambia: Central Government Operations, 1982/83-1985/86

	1982/83	1983/84	1984/ 85		1985/86	
		Provisional actual	Budget estimate 1/	Revised estimate	Budget	Revised estimate 2/
(In millions of dalasis)						
Revenue and grants	122.5	153.6	189.0	179.1	224.1	210.1
Revenue	105.5	127.6	162.4	147.8	189.0	178.0
Grants	16.9	26.0	26.6	31.3	35.1	32.1
Expenditure and net lending	179.1	210.9	231.7	257.7	266.2	252.4
Current expenditure 3/	112.6	140.6	149.6	143.1	165.5	151.7
Development expenditure	66.5	70.3	84.4	110.7	100.7	100.7
Net lending	--	--	-2.3	--	--	--
Unallocable expenditure	--	--	--	3.9	--	--
Overall deficit (partial commitment basis)						
Excluding grants	-73.5	-83.3	-69.3	-109.9	-77.2	-74.4
Including grants	-56.6	-57.3	-42.7	-78.6	-42.1	-42.3
Increase in external arrears (not recorded in blocked account)	--	20.5	--	25.7 4/	--	--
Debt service	(--)	(...)	(--)	(22.5)	(--)	(--)
Other commitments 5/	(--)	(...)	(--)	(3.2)	(--)	(--)
Overall deficit (cash basis)						
Excluding grants	-73.5	-62.8	-69.3	-84.2	-77.2	-74.4
Including grants	-56.6	-36.8	-42.7	-52.9	-42.1	-42.3
Financing	56.6	36.8	42.7	52.9	42.1	42.3
Foreign (net)	31.2	21.2	29.4	40.3	26.1	24.8
Gross borrowing	(36.7)	(32.1)	(...)	(52.2)	(54.5)	(56.0)
Amortization	(5.5)	(10.9)	(...)	(21.9)	(28.5)	(31.2)
Domestic (net)	25.4	15.6	13.2	12.6	16.0	17.5
Banking system	(23.7)	(5.4)	(11.0)	(5.7) 4/	(11.04)	(12.5)
Other	(1.7)	(10.2)	(2.2)	(6.9)	(5.0) 6/	(5.0) 6/
(As percent of GDP)						
Revenue	20.1	21.6	23.7	23.3	25.1	23.6
Grants	3.2	4.4	3.9	4.9	4.7	4.3
Current expenditure	21.4	23.8	21.8	22.6	22.0	20.1
Development expenditure	12.7	11.9	12.3	17.5	13.4	13.4
Total expenditure (including net lending)	34.1	35.6	33.7	40.7	35.4	33.5
Deficit (partial commitment basis)						
Excluding grants	14.0	14.1	10.1	17.3	10.2	9.9
Including grants	10.8	9.7	6.2	12.4	5.6	5.6
Increase in external arrears	--	3.5	--	4.0	--	--
Foreign financing (net)	5.9	3.6	4.3	6.4	3.5	3.3
Domestic financing (net)	4.8	2.6	1.9	2.0	2.1	2.3
Of which: banking system	(4.5)	(0.9)	(1.6)	(0.9)	(1.5)	(1.7)
Memorandum items:						
GDP at current market prices	524.9	591.6	686.9	633.5	753.0	753.0
Beginning money stock	104.0	134.8	142.9	139.9	187.2 7/	187.2 7/
Ratio of bank financing to beginning money stock (in percent)	22.8	4.0	7.7	4.1	5.9	6.7

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

1/ As shown in SM/84/239 (October 25, 1984).

2/ Announced budget estimates revised in light of more recent data on the actual 1984/85 outcome. Includes intended additional revenue measures with an annual yield of D 20.5 million and planned current expenditure savings of D 5 million.

3/ Current expenditure includes interest payments on a commitment basis.

4/ As of June 21, 1985. Subsequently, between then and July 5, 1985, D 27.1 million was deposited in the Blocked Special Deposit Account (SDA) and, correspondingly, net credit to Government (as shown in the central bank accounts) was increased by D 23.5 million.

5/ Consists of transfers to international organizations and payments abroad for goods and services.

6/ Assumes a bond issue of D 7.5 million.

7/ Actual, as of end-May 1985.

revenue stemmed mainly from difficulties in collecting revenues from parastatals and hotels as well as from lower export duties on account of the poor harvest. While current expenditure remained almost unchanged from the level of the previous year, development expenditure increased by 57 percent (compared with a budgeted increase of 20 percent): the authorities explained that the overrun largely reflected the availability of higher-than-expected levels of foreign financing tied to specific projects. Although budgetary recourse to domestic bank financing was lower than envisaged (D 5.7 million compared with D 11 million budgeted), this was due to the fact that arrears of D 25.7 million developed in respect of the nonpayment of the domestic counterpart of part of external arrears into a blocked account.

Based on provisional monetary data, total domestic credit rose by 3 percent in the 11 months ended May 1985 (Table 2). However, because of a reported increase in the net foreign assets of the commercial banks, <sup>1/</sup> this continued expansion in credit led to a recorded rise of 34 percent in broad money during the corresponding period. As real GDP declined, the latter has been a major factor contributing to the acceleration of domestic inflation.

As a result of the shortfall in groundnut exports, the external current account deficit, which had declined during the two years ending 1982/83, is estimated to have widened from 19 percent of GDP in 1983/84 to 26 percent of GDP in 1984/85 (Table 3), while the overall balance of payments deficit is estimated at SDR 8 million. External payments arrears to all creditors rose to about SDR 55 million at end-June 1985, equivalent to over two and one half times 1984/85 domestic exports. As of end-1984, total external medium- and long-term public debt (on a contracted basis, and including outstanding use of Fund credit) amounted to an estimated SDR 323 million, equivalent to 211 percent of 1984/85 GDP.

### III. Report on the Discussions

The Gambian representatives stated that the economic and financial difficulties facing The Gambia could no longer be regarded as temporary. They recognized that the extreme seriousness of the current situation called for a comprehensive and far-reaching set of adjustment measures in order to help restore financial equilibrium and lay the basis for sustained economic growth. The mission assisted the authorities in preparing a draft memorandum of economic policies embodying their proposed adjustment strategy, the main elements of which are described

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<sup>1/</sup> During the mission, it became apparent that certain data reported by one of the commercial banks (relating to its net foreign asset position) contained significant recording inaccuracies that may partly explain the large swings in velocity that occurred during 1983/84 and 1984/85. The authorities have indicated that they intend to communicate a revised monetary series to the staff shortly.

Table 2. The Gambia: Monetary Survey, 1981-85

(In millions of dalasis; end of period)

	1981	1982	1983	1984		1985	
				June	Dec.	March	May
Net foreign assets	-112.5	-140.3	-226.3	-307.4	-321.5	-307.1	-281.2
Monetary authorities	-71.1	-114.5	-200.4	-289.4	-321.8	-321.8	-299.7
Foreign assets	46.9	12.4	7.6	24.4	14.0	11.1	18.7
Foreign liabilities <u>1/</u>	-118.0	-126.9	-208.0	-313.8	-335.8	-332.9	-318.4
Commercial banks	-41.4	-25.8	-25.9	-18.0	0.3	14.7	18.5
Domestic credit	221.4	240.2	348.0	384.0	413.3	420.7	397.3
Claims on Government (net) <u>2/</u>	54.7	37.2	75.1	80.5	116.4	101.9	95.2 <u>3/</u>
Claims on public enterprises	69.1	97.9	141.8	160.5	153.8	171.4	156.8
Of which: GPMB	(...)	(36.7)	(103.4)	(111.3)	(77.2)	(103.6)	(92.0)
Claims on private sector	97.6	105.1	131.1	143.0	143.1	147.4	145.3
Money and quasi-money	89.6	104.0	134.9	139.8	172.7	187.4	187.2
Money	60.0	64.0	82.5	79.9	102.5	108.8	104.6
Quasi-money	29.6	40.0	52.4	59.9	70.2	78.6	82.6
Other items (net)	19.3	-4.1	-13.2	-63.2	-80.9	-73.8	-71.1

Source: Data provided by the Gambian authorities.

1/ Excludes government debt service arrears the domestic counterpart of which was not credited to the Special Deposit Account.

2/ Includes actual financing provided to credit the special deposit account.

3/ Data available through June 21 indicate a decline in net central bank credit to Government of D 9.7 million.

Table 3. The Gambia: Balance of Payments, 1982/83-1985/86

(In millions of SDRs)

	1982/83	1983/84	1984/85 Est.	1985/86 Proj.
Merchandise trade, f.o.b.	-4.24	-9.97	-14.68	-14.42
Exports, f.o.b.	77.47	86.11	58.70	62.08
Imports, f.o.b.	-81.71	-96.08	-73.38	-76.50
Services and private transfers	-22.85	-26.43	-25.51	-28.23
Freight and insurance	-13.64	-16.04	-12.25	-12.76
Travel	14.12	18.36	17.09	18.77
Other services	-25.67	-32.24	-33.03	-36.94
Private transfers	2.34	3.49	2.68	2.70
Current account	-27.09	-36.40	-40.19	-42.65
Capital account	-1.38	18.23	32.42	36.04
Official loans and transfers (net)	34.56	32.37	37.52	35.25
Official transfers	23.74	23.70	28.57	30.75
Official loans	10.82	8.67	8.95	4.50
Private capital (net)	-35.94	-14.14	-5.10	0.79
Long-term	2.91	0.75	0.77	0.79
Short-term, errors and omissions	-38.85	-14.89	-5.87	--
Overall balance	-28.47	-18.17	-7.77	-6.61
Financing	28.47	18.17	7.77	6.61
IMF (net)	6.65	0.75	-4.32	...
Purchase	8.78	2.63	--	...
Repurchases	-2.13	-1.88	-4.32	-10.25
Net foreign assets of monetary authorities	-6.89	3.45	4.09	...
Arrears	28.71	13.97	8.00	...
Central bank	...	...	0.16	...
Commercial	...	...	-2.96	...
Government,	...	...	10.80	...
Of which: recorded in SDA	(...)	(...)	(3.52)	(...)
not recorded in SDA	(...)	(...)	(7.28) 1/	(...)
<u>Memorandum items:</u>				
External current account (percent of GDP)	14.6	19.1	26.3	22.0
Gross official reserves (end of period)				
Amount	2.6	5.2	...	...
Weeks of imports	1.7	2.8	...	...
Exchange rate (dalasis/SDR)	2.7488	3.0923	4.1500	4.2520

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

1/ I.e., the domestic counterpart of the external arrears was not paid into the Special Deposit Account (SDA).



below. This strategy is also reflected in a separate draft Economic Recovery Program which was prepared with the assistance of IBRD staff and which establishes the broad outlines of macroeconomic and sectoral policies for the next several years. 1/

In view of the characteristics of the economy and the causes of the present disequilibria, the authorities' adjustment strategy comprises three closely interrelated elements: first, exchange rate and pricing policies that adequately take into account the inherently high degree of openness of the economy; second, prudent demand management policies to prevent external imbalances that might otherwise result from fluctuations in income from the groundnut sector; and third, a reduction in the size and role of the public sector to a level consistent with the small size and limited resource base of the economy. The authorities' draft Economic Recovery Program places special emphasis on alleviating supply constraints, in particular, diversifying the productive base and expanding exports, increasing domestic rain-fed agricultural production, and improving the efficiency of the public sector, including the productivity of the public investment program.

#### 1. Exchange rate policies

The authorities have concluded that the present fixed exchange rate system, as well as the level of the official exchange rate, are inappropriate in The Gambia's current circumstances. First, the recently announced increase in the 1985/86 groundnut producer price (see section 2) to a level competitive with that of neighboring countries, in the absence of a change in the official exchange rate, could not be sustained without considerable recourse to bank credit by the GPMB. Second, the domestic prices of certain imported commodities have been set on the basis of the official exchange rate at levels significantly lower than those of some neighboring countries, especially when the existing parallel exchange rate discount is taken into account: thus, scarce official foreign exchange resources may have been financing reexports of these items. Third, the sizable foreign exchange transactions of the re-export trade (including the conversion of amounts required to pay for local costs) have been conducted largely outside the banking system, due to both the parallel exchange rate discount and the unavailability of official foreign exchange for most private sector transactions. 2/

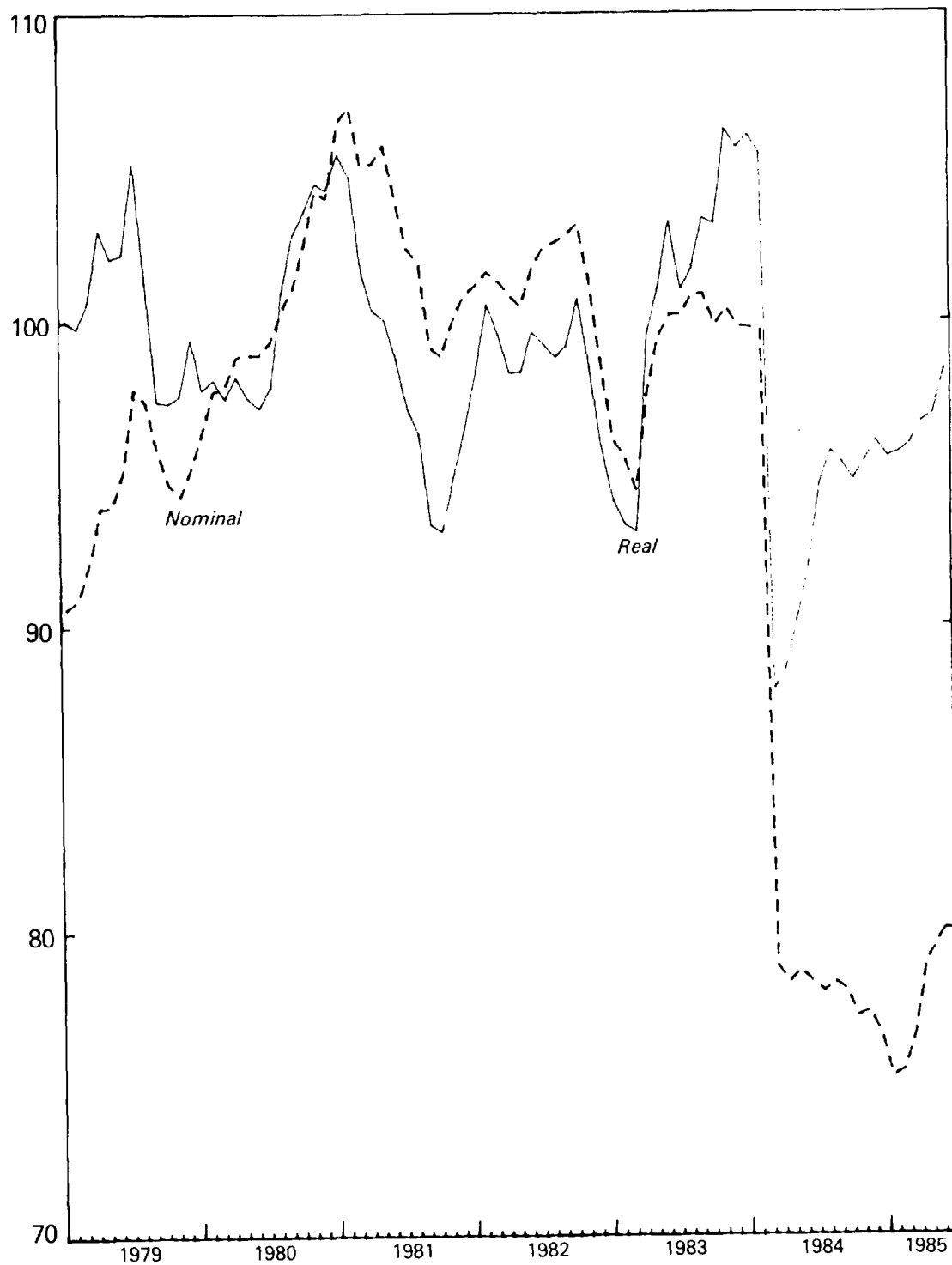
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1/ The Fund and Bank staff have collaborated closely in their discussions with the Gambian authorities. An IBRD staff member visited The Gambia to discuss the Economic Recovery Program with the authorities during the Fund consultation mission.

2/ As noted above, the parallel exchange market discount quickly re-emerged following the 1984 devaluation, partly because the authorities were unable to liberalize private sector access to foreign exchange in the face of continuing excess demand pressures. By mid-1985, much of the depreciation of the real effective exchange rate in early 1984 had been reversed (see Chart), largely due to an intensification of domestic inflation.

CHART  
THE GAMBIA  
REAL AND NOMINAL EFFECTIVE  
EXCHANGE RATES, 1979-85

(Index: 1980 = 100)<sup>1</sup>



Source: IMF, Exchange and Trade Relations Department.  
<sup>1</sup> Trade weighted.



The authorities believe that a fundamental reform of the exchange system is required in order to achieve a better balance between the economy's aggregate demand for, and aggregate supply of, foreign exchange and to provide a clearer measure of the real price or scarcity value of foreign exchange as a guide to appropriate pricing decisions. They intend to introduce a new exchange rate system, under which the exchange rate would be determined by market forces with the participation of the commercial banks and the Central Bank. In support of such a system, liberalized import licensing and exchange control procedures would be introduced, providing for (i) permission to import all commodities (except for certain items prohibited for religious or security reasons) under open general license; and (ii) the automatic approval by the Central Bank (within a specified number of business days), of all applications for foreign exchange in respect of permissible imports and all other current international transactions (without limit). In order to help establish and operate the new arrangements, the authorities have requested technical assistance from the Fund's Central Banking Department.

## 2. Pricing policies

The authorities stated that their intended approach to pricing policy will take adequate account of the openness of the economy: (i) in the case of agricultural producer prices, the Government announced an increase of 58 percent in the producer price of groundnuts to D 980 per ton in July 1985. The adequacy of this price (which at present is competitive with that prevailing in neighboring countries, taking the existing parallel exchange rate into account) will be reviewed at the start of the purchasing season. Increases of 43 percent and 33 percent were also announced in the producer prices of cotton and rice, respectively; in the view of the IBRD staff, these prices at present provide an adequately remunerative return to farmers; (ii) the price of fertilizer was raised by 38 percent in April 1985 and the authorities intend, by end-December 1985, to adjust fertilizer prices further to eliminate any remaining subsidies. Also, public sector fertilizer imports will be confined to the accumulation of strategic stocks, and the private sector may import and sell fertilizer without being subject to price control; (iii) in view of the need to lessen the foreign exchange requirements for imports by the public sector, the authorities announced, effective July 3, 1985, decontrol of the retail price of rice and clarified that the private sector can import and sell rice freely. Also, official imports of rice will be limited to those under possible aid arrangements and those intended for the accumulation of strategic stocks: the Gambian representatives explained that any sales of these amounts would take place at the prevailing market price. The intended new exchange rate arrangements, on the basis of likely trends in world prices and presently uncommitted resources that could be made available, are likely to ensure that the GPMB does not incur a net financial loss in 1985/86 as a result of the above measures; (iv) consistent with their present policy, the authorities intend to review prices of petroleum and petroleum products periodically in order to incorporate possible changes in costs, including those likely to result from fluctuations in the exchange rate following

the introduction of a new exchange system: petroleum prices are to be raised shortly following an intended increase in specific import duties; (v) electricity and water charges and transportation charges will also be adjusted to effect the pass-through of any changes in the exchange rate. In addition, in order to improve the present extremely weak financial position of the Gambia Utilities Corporation, electricity and water charges are to be further adjusted by 6 percent and 15 percent, respectively, on January 1, 1986, in the context of a proposed IBRD water supply and electricity project; (vi) finally, the authorities expressed their intention to review the above pricing policies in light of the actual operation of the new exchange rate system.

### 3. Public sector policies

The 1985/86 budget announced at end-June 1985, aimed at reducing the overall deficit (before grants) by 7 percentage points of GDP to the equivalent of about 10 percent of GDP. Total revenue and grants were projected at D 224 million; this included estimated discretionary revenue measures of D 15 million (mainly increases in import taxes and duties, and adjustments in government fees and charges). Total expenditure was budgeted at D 266 million.

The budgetary projections discussed by the mission with the authorities (shown as "revised estimates" in Table 1) differed from those in the budget, as they took into account more recent data on the provisional 1984/85 outcome. On the basis of these revised projections (which do not, however, make any allowance for the budgetary impact of the intended change in exchange arrangements), and after taking into account further revenue measures (to be announced shortly) which are expected to yield D 18 million, total revenue and grants are projected to rise by 17 percent. Total expenditures would decline by 2 percent compared with the 1984/85 outcome. Current expenditure would not be allowed to increase by more than 6 percent. Within this total, and before consideration of additional planned savings of D 5 million stemming from the civil service reform plan (see below), the nominal salary bill would rise by no more than 4 percent (reflecting normal regradings), and the increase in expenditure on "other charges" (mainly material and supplies--which have been seriously depleted in recent years) would be constrained to 15 percent. Development expenditures would be limited to D 100.7 million compared with D 110.7 million in 1984/85: within this total, the authorities indicated their intention to place relatively greater emphasis on maintenance and rehabilitation. The above estimates would imply an overall budgetary deficit equivalent to about 5.6 percent of GDP. However, to take account of the budgetary impact of the likely change in exchange rate arrangements, the authorities have set a target for the 1985/86 overall budget deficit/GDP ratio of 6.4 percent. In addition, it is planned to limit domestic bank financing to zero; this latter target will be possible if additional external budgetary financing of about D 15 million (in the form of cash assistance or debt relief) can be obtained or if further adjustment is undertaken.

The Gambian representatives emphasized that their fiscal targets for 1985/86 were ambitious and did not make any allowance for unforeseen developments. They noted, in particular, the uncertainties surrounding the prospects for sustained revenue growth from imports associated with the re-export trade. On the expenditure side, a special unit is being established within the Ministry of Finance to monitor monthly, in close liaison with the Ministry of Economic Planning and Development (responsible for development expenditure outlays) and the Central Bank, the execution of the budget, in particular, the evolution of total expenditures, including expenditures on wages and salaries, development expenditures, and payments in respect of the domestic counterpart of external debt service, and movements in net bank credit to Government.

The authorities recognize that an underlying cause of the current difficulties is the unsustainable size of the public sector when viewed in light of the resource base of the economy. While in recent years considerable success has been achieved in limiting increases in public service personnel, a fundamental reform of the size and structure of the civil service is now an urgent priority. Following a comprehensive staff audit, the authorities intend to decide upon and implement by mid-September 1985 appropriate reductions in the number of public service personnel, including temporary workers. In addition, before the end of 1985, based on a study to be completed with U.K. technical assistance, the authorities intend to announce a comprehensive plan for restructuring the civil service, including further reductions in total employment.

In the present circumstances, the authorities believe that development expenditures must be curtailed to a level consistent with the economy's absorptive and debt servicing capacity. Accordingly, they have decided to reduce the size of the remainder of the Second Five-Year Development Program by 17.5 percent to a total of D 640 million and to stretch out its implementation period from 4 to 6 years (i.e., to 1989/90). By end-1985, a list of projects consistent with the revised targets is to be established with IBRD assistance.

The overall financial performance of the public enterprise sector has been disappointing in recent years (for example, credit extended to enterprises other than the GPMB rose by 38 percent in the 11 months ended May 1985). It is expected that the price adjustments already described will improve the financial position of several enterprises significantly. In addition, by end-1985, with IBRD assistance, performance contracts setting forth the specific financial responsibilities of each key enterprise are to be established. The authorities also intend (possibly with technical assistance from the Fund) to establish by end-1985 a complete listing of intra-public sector arrears, together with a schedule for their elimination.

#### 4. Monetary and credit policies

The mission emphasized that a crucial element in support of the new exchange system is the adoption of a prudent credit policy stance and a flexible interest rate policy. For 1985/86, the authorities provisionally intend to limit (i) the growth of total domestic credit to 9 percent; (ii) the increase in net credit to Government to zero (see above); and (iii) the increase in credit to public enterprises other than the GPMB, as well as that to the GPMB, to 10 percent. Assuming a small increase in the net foreign assets of the banking system, the above targets would be consistent with a growth in domestic liquidity of about 20 percent during 1985/86 (compared with provisional estimates of 34 percent growth in 1984/85). The authorities believe that, assuming a positive real growth rate for 1985/86 (stemming from a recovery in groundnut production), the rate of inflation could be held to around 20 percent, notwithstanding the possible inflationary impact of movements in the exchange rate. However, they intend to revise the above credit program in light of the finalized monetary data for end-June 1985 and the latest prospects for the 1985/86 crop.

In order to encourage the mobilization of financial resources within the domestic banking system, the authorities intend shortly to (i) raise the discount rate on Treasury bills and the rate on central bank advances by several percentage points; (ii) abolish ceilings on deposit and lending rates; and (iii) raise significantly commercial banks' reserve requirement ratios. It is also intended to introduce minimum deposit rates consistent with the above interest rate adjustments. The allocation of the ceilings on private sector credit applicable to individual banks is to be rationalized to take adequate account of the deposit and reserve position of each bank. In order to strengthen the present extremely weak position of the largest bank, the Gambian Commercial and Development Bank (GCDB), a major financial restructuring will be undertaken whereby part of the GCDB's short-term debt owed to the Central Bank, and which corresponds to non-performing loans extended by the GCDB under government guarantee, will be converted into a long-term concessional loan, the interest on which will be paid from budgetary resources: the loan recovery program of the GCDB will also be strengthened significantly. Specific measures are to be taken, with IBRD assistance, to improve the institutional and managerial capacity of the GCDB; also, specialized technical assistance is to be sought in the area of GCDB's foreign exchange operations.

#### 5. External sector prospects

Assuming an increase in groundnut purchases to 60,000 tons (from 45,000 tons in 1984/85), it is estimated that on the basis of the policies described above, the external current account as a proportion of GDP could be reduced from 26 percent in 1984/85 to 22 percent in 1985/86 and that the overall balance of payments deficit could be held to about

SDR 6-7 million. These estimates assume, inter alia, a fall of about 10 percent in world groundnut prices; a roughly unchanged volume of imports; and an improvement in the short-term capital and "errors and omissions" component (which has tended to reflect mainly recourse by the re-export trade to the parallel market), following the implementation of the flexible exchange rate system. The Gambian representatives noted that the projection for groundnut purchases might be somewhat conservative. On the other hand, they expressed reservations concerning the possibility of a major shift of foreign exchange activity in the short run away from the parallel market, as it would undoubtedly take some time for confidence in the new exchange system to develop sufficiently. They also indicated that in order to help finance the prospective external deficit for 1985/86, and to provide for some modest buildup in international reserves and a cash reduction in non-reschedulable external payments arrears, they intend to approach the international community for external financial assistance (including debt relief).

#### IV. Medium Term Prospects

Assuming for illustrative purposes (Scenario A, Table 4, and Appendix VI) (i) an annual increase of 10,000 tons in GPMB groundnut purchases from the projected 1985/86 level of 60,000 tons; (ii) an annual fall of 5 percent in world groundnut prices; (iii) a 3 percent annual growth in the value of other domestic exports; (iv) an unchanged volume of rice imports and of imports for re-exports (as well as of re-exports); (v) an annual rise of 3 percent in long-term inflows and in project-related imports; and (vi) zero short-term capital and "errors and omissions", the staff estimates that the external current account deficit would decline very slightly, from SDR 40 million in 1984/85 to SDR 37 million in 1989/90. During the same period, the overall balance would move from a deficit of almost SDR 8 million to a surplus of SDR 2 million, while the implied requirement for exceptional financing (after taking account of repurchases to the Fund) would fall from about SDR 17 million in 1985/86 to approximately zero. The effect of a more optimistic set of assumptions is illustrated in the alternative Scenario B which assumes 1985/86 groundnut purchases of 80,000 tons (rising to 120,000 tons by 1989/90) <sup>1/</sup>, an annual increase of 10 percent in the value of other domestic exports, and a decline of 4,000 tons per year in the volume of rice imports to 20,000 tons by 1989/90; other assumptions are unchanged from those in Scenario A. Under these latter assumptions, between 1984/85 and 1989/90, the current account deficit would decline to SDR 26 million; the overall deficit would move to a surplus of SDR 13 million; and the possible need for exceptional financing would be reduced to about SDR 1 million by 1987/88. It should be noted that neither of the above scenarios takes into account the need to build up reserves and effect some cash reduction in external payments arrears.

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<sup>1/</sup> This level would still be slightly below the peak level of 127,000 tons attained in 1982/83.



Table 4. The Gambia: Summary Medium Term Balance of Payments and Debt Service Scenario, 1984/85-1989/90

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
<u>Scenario A 1/</u>						
(In millions of SDRs)						
Balance of payments						
Exports	58.7	62.1	65.6	69.5	73.3	77.0
Current account	-40.2	-42.7	-40.9	-39.3	-38.0	-36.7
Overall deficit	-7.8	-6.6	-5.6	-2.2	0.3	1.9
Debt service payments 2/	19.0	30.8	29.9	28.5	30.2	31.5
a. Percent of exports of domestic goods and services						
Including IMF	49.1	75.0	67.9	60.0	59.5	58.4
Excluding IMF	28.9	41.5	39.5	46.7	50.4	55.3
b. Percent of (a) plus part of re-exports (including IMF) 3/	38.7	59.0	53.7	47.7	47.4	46.7
<u>Scenario B 1/</u>						
(In millions of SDRs)						
Balance of payments						
Exports	58.7	67.4	71.3	75.3	79.1	83.0
Current account	-40.2	-37.4	-34.2	-31.3	-28.8	-25.9
Overall deficit	-7.8	-1.3	1.2	5.8	9.6	12.7
Debt service payments 2/	19.0	30.7	29.7	28.1	29.5	30.6
a. Percent of exports of domestic goods and nonfactor services						
Including IMF	49.1	65.4	59.4	52.8	52.5	51.7
Excluding IMF	28.9	36.1	42.4	41.0	44.3	48.9
b. Percent of (a) plus part of re-exports (including IMF) 3/	38.7	52.9	48.1	42.9	42.7	42.1

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

1/ Principal assumptions of the two scenarios are as follows:

	<u>1984/85</u>		<u>1985/86</u>		<u>1986/87</u>		<u>1987/88</u>		<u>1988/89</u>		<u>1989/90</u>	
	A	B	A	B	A	B	A	B	A	B	A	B
Groundnut purchases (thousands of tons)	45	45	60	80	70	90	80	100	90	110	100	120
Rice import volume (thousands of tons)	24	24	36	36	36	32	36	28	36	24	36	20
Other domestic exports (annual rate of increase)	3.0	10.0	3.0	10.0	3.0	10.0	3.0	10.0	3.0	10.0	3.0	10.0

2/ Includes debt service on existing medium- and long-term public debt, interest on short-term debt, IMF repurchases and charges, debt service on new long-term loans (from Appendix Table VI - assumed to be on concessional terms) and on possible "exceptional financing" (from Appendix Table VI adjusted for an additional SDR 4 million annual requirement for rebuilding of reserves and reducing external payment arrears: SDR 5 million per year of such financing assumed to be on commercial terms (8 percent interest and 3-year grace period) with the remainder on concessional terms, i.e., 2 percent interest and extended grace period).

3/ I.e., the estimated markup (36 percent of imports for re-exports) that is converted for payment of local costs.

The above results illustrate the crucial importance of the outlook for groundnut production and world prices in assessing the medium-term prospects. Although the 1984/85 outcome for the groundnut crop was particularly unfavorable due to special factors, there are significant uncertainties present as regards the extent to which production can be restored to the high levels achieved during the seventies. Apart from pricing policies, much will depend on climatic factors, as well as the authorities' success in overcoming other obstacles such as inadequate distribution of high-quality seeds and plant infestation. The authorities, recognizing these uncertainties, have emphasized, as a central element of their medium-term strategy, the need to promote diversification of production and exports.

Under either scenario, the debt service burden would remain extremely heavy in the years to come. The debt service ratio (under Scenario A - taking account only of domestic exports and services (i.e. travel receipts) in the denominator) would rise to 75 percent in 1985/86 before declining to just under 60 percent by 1989/90; excluding payments due to the Fund, the ratio would rise from 42 percent to 55 percent. <sup>1/</sup> If Scenario B is assumed, the debt service ratio is roughly 8 percentage points lower throughout the period, while inclusion in the denominator of that part of re-exports converted to pay for local costs reduces the ratio further, by about 11 percentage points on average.

#### V. Staff Appraisal

While the exceptionally difficult year experienced by the Gambian economy in 1984/85 partly reflects the poor performance of the groundnut sector, the near-term outlook is not significantly more favorable. Without remedial action, it is clear that the underlying internal and external imbalances of the economy would intensify further, and the external liquidity position would become increasingly untenable. The authorities recognize that the gravity of the current situation calls for the urgent implementation of a comprehensive adjustment program to tackle the present deeprooted economic and financial disequilibria, and the staff urges the authorities to act decisively.

In the staff's view, the intended implementation of a flexible exchange rate system will be a major step toward pricing and allocating available foreign exchange resources more productively and efficiently, although it will undoubtedly take some time for confidence to be restored

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<sup>1/</sup> These calculations take into account debt service payments on possible exceptional financing as shown in Appendix Table VI adjusted upwards in each year by SDR 4 million to reflect an increase in reserves and a reduction in arrears.

and for a consequent rechanneling of private foreign exchange transactions into the banking system. A flexible exchange rate, together with appropriate pricing policies, will also help to promote export diversification, a key objective given the somewhat uncertain medium-term prospects for the groundnut sector. The recent increases in agricultural producer prices are needed to maintain international competitiveness and to help shift domestic resources toward the agricultural sector: the intention to review these prices before the purchasing season is to be welcomed. The staff also urges the authorities to implement IBRD recommendations designed to reduce non-market impediments to agricultural development. The decontrol of the retail price of rice represents a major step in the direction of price liberalization and will reduce the foreign exchange import requirements of the public sector. The intention to adjust prices of petroleum and petroleum products (and related charges) to ensure full pass through of any changes in the exchange rate is appropriate. The staff also believes that these adjustments should be undertaken frequently, not only to ensure that prices are maintained at levels consistent with those in neighboring countries but also to provide an adequate revenue contribution to the budget.

Strict adherence to tight demand management policies is needed for exchange rate and pricing reforms to succeed, as reflected, most importantly, in the intended sharp reduction in the overall budgetary deficit/GDP ratio and the elimination of bank financing of the budget. However, the possible need for additional fiscal adjustment should not be ruled out, in light of the uncertain external financing prospects and the high level of official debt service obligations. The staff agrees that since the prospects for sustained revenue growth are limited, the major brunt of fiscal adjustment for the foreseeable future will need to be borne by expenditure cutbacks, particularly in wage and salary expenditures. To this end, the staff urges the authorities to proceed resolutely and expeditiously with their civil service reform program. Close monitoring of expenditure commitments and cash outlays is also essential to ensure that commitments do not exceed allocations and that a further build-up of arrears does not occur. Particularly careful attention needs to be paid to development expenditures and debt service payments. As regards credit policy, it will be important to ensure a sharp curtailment of credit expansion to the enterprise sector. In addition, it will be essential to ensure that monetary and credit data are monitored accurately: the staff welcomes the authorities' intention to seek technical assistance in this area, as well as in establishing and operating the new exchange system. The intended increase in interest rates will also help to attain the needed external adjustment; however, the staff believes that interest rate policy should be flexible and should aim at achieving interest rate levels that are positive in real terms.

Notwithstanding the authorities' intended adjustment measures, The Gambia's external liquidity position will remain extremely tight in the period ahead. The staff urges that all necessary steps be taken to ensure that The Gambia becomes, and remains, current in its financial

obligations to the Fund. In this context, only rigorous and sustained adjustment can succeed in reducing external imbalances to manageable proportions. The staff agrees with the authorities, however, that successful adjustment will be greatly enhanced by the provision of additional external assistance.

The Gambia's accumulation of commercial and official external payments arrears in respect of current international transactions manifests an exchange restriction subject to approval under Article VIII. The Gambia also maintains a multiple currency practice arising from the costs to purchasers of foreign exchange of counterpart deposits required for arrears. It is not proposed that the Fund approve these restrictions at this time.

Consistent with the 12-month cycle envisaged for consultation discussions with The Gambia, the authorities have proposed that the next Article IV consultation discussions take place around the period April-May 1986.

VI. Proposed Decision

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

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 1985 Article XIV consultation with The Gambia, in the light of the 1985 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's exchange system contains restrictions on payments and transfers for current international transactions, involving a restriction giving rise to external payments arrears, and a multiple currency practice, as described in SM/85/..., which are subject to approval under Article VIII. The Fund urges the authorities to remove these restrictions as soon as possible.

The Gambia--Fund Relations  
(As of August 9, 1985)

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 41.87 million (244.88 percent of quota)

	<u>SDR million</u>	<u>Percent of quota</u>
(c) Fund holdings subject to repurchase and charges:	24.80	145.0
Of which: compensatory financing facility	(5.63)	(32.9)
credit tranches	(8.97)	(52.5)
supplementary financing facility	(4.79)	(28.0)
enlarged access resources	(5.41)	(31.6)
(d) Reserve tranche position:	SDR 38,614	

III. Previous stand-bys and special facilities

- (a) Most recent stand-by arrangement: 1/
- |                      |   |
|----------------------|---|
| (i) Duration         | From April 23, 1984<br>to July 22, 1985 |
| (ii) Amount          | SDR 12.83 million                       |
| (iii) Utilization    | SDR 2.63 million                        |
| (iv) Undrawn balance | SDR 10.20 million                       |

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1/ The arrangement was canceled on April 22, 1985.

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

<u>Arrangement</u>	<u>Duration</u>	<u>Amount</u>	<u>Utilization</u>	<u>Undrawn balance</u>
(In millions of SDRs)				
Stand-by	4/23/84-7/22/85	12.83	2.63	10.20
Stand-by	2/22/82-2/21/83	16.90	16.90	--
Stand-by	5/18/78-5/17/79	15.00	15.00	--

(c) Special facilities

Compensatory financing facility	6/3/81 SDR 9.0 million
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IV. SDR Department

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

V. Administered accounts

(a) Trust Fund loans:	
(i) Disbursed	SDR 6.84 million
(ii) Outstanding	SDR 5.77 million
(b) SFF Subsidy Account:	
(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	SDR 0.23 million

<u>VI. Overdue obligations to the Fund</u>	SDR 2,529,243
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B. Nonfinancial Relations

VII. Exchange rate arrangement

The Gambian currency, the dalasi, is 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.

VIII. Article IV consultation

The 1984 Article IV consultation discussions with The Gambia were held in Banjul during the period May 25-June 8, 1984. The staff report (SM/84/239) was discussed by the Executive Board on November 26, 1984, and the decision was:

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 1984 Article XIV consultation with The Gambia, in the light of the 1984 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's exchange system contains restrictions on payments and transfers for current international transactions, involving external payments arrears, and a multiple currency practice, as described in SM/84/254, which are subject to approval under Article VIII. 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

- (a) CBD: A member of the CBD panel of experts completed his assignment (in July 1985) with the Central Bank of The Gambia as head of the Research and Statistics Department. The authorities have requested his replacement by a CBD expert to be assigned as Research Advisor.
- (b) Fiscal: A member of the FAD panel of experts completed his assignment (in July 1985) to the Ministry of Finance to advise on fiscal operations.



The Gambia: World Bank Lending Operations  
as of February 28, 1985

(In millions of U.S. dollars)

	Total	Disbursed <u>1/</u>	Undisbursed <u>1/</u>
IDA			
Agricultural projects	14.26	5.97	8.29
Urban development projects	13.95	4.64	9.31
Transport projects	15.74	12.69	3.05
Infrastructure and tourism	4.00	4.00	--
Energy project	1.35	0.93	0.42
Education project	5.50	5.50	--
Total	<u>54.80</u>	<u>33.73</u>	<u>21.07</u>
Repayments	0.26		
Total outstanding (including undisbursed) <u>2/</u>	<u>54.44</u>		
IFC investment	2.9		

Source: IBRD.

1/ Beginning in 1981, credits have been denominated in Special Drawing Rights. The dollar figures in these columns represent the dollar equivalents at the time of payment for the "Disbursed" amounts and the dollar equivalents as of June 30, 1985, for the "Undisbursed" amounts.

2/ Prior to exchange rate adjustments.

The Gambia - Statistical Issues

1. Outstanding statistical issues

a. National accounts

The authorities have recently completed an extensive revision of national income accounts (current and constant price data) covering the period through 1981/82. These accounts will be reviewed in the Bureau of Statistics and used to revise the IFS data series, as appropriate.

b. Prices

The 1974 base for the CPI is somewhat out-of-date. The mission suggested to the authorities that they consider constructing a new CPI based on a new household expenditure survey.

c. Government finance

IFS data are annual and correspond to data reported for the Government Finance Statistics Yearbook. The latest data available for publication relate to 1978 and no new data have been received in response to GFS questionnaires.

d. Monetary accounts

IFS monetary data differ from those used by the area department in two respects. First, differences in the treatment of Fund accounts result in different figures for net foreign assets and net claims on Government of the monetary authorities. Second, the figures for commercial banks' deposits with the monetary authorities in IFS are substantially higher than in the RED.

During the mission it became apparent that certain data reported by one of the commercial banks (relating to its net foreign asset position) contained significant inaccuracies. Revised data are expected to be communicated to the Fund shortly.

e. Balance of payments

A staff member of the Bureau of Statistics visited The Gambia in May 1985 on a balance of payments technical assistance mission. The draft report of the mission is expected to be ready by August 1985 for transmittal to the authorities for comment. Staff estimates contained in the RED continue to be based on special estimating techniques (particularly as regards the treatment of border trade).

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

The table below shows the currentness and coverage of data published in the country page for The Gambia in the August 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of The Gambia. During the past year, no data have been provided on government finance or the balance of payments, but most other data have been provided on a fairly timely basis. However, the monetary data have often been reported in batches covering three or four months at a time, and there have been some problems with their consistency--assets and liabilities not balancing.

Status of IFS Data

		<u>Latest Data in June 1985 IFS</u>
Real Sector	- National Accounts (GDP only)	1982
	- Prices	April 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1978
	- Financing	1978
	- Debt	1978
Monetary Accounts	- Monetary Authorities	April 1985
	- Deposit Money Banks	April 1985
	- Other Financial Institutions	
	(Deposits of Post Office Savings)	March 1985
External Sector	- Merchandise Trade: Values	Feb. 1985
	Prices	Feb. 1985
	- Balance of Payments	1981
	- International Reserves	June 1985
	- Exchange Rates	June 1985

## The Gambia: Selected Economic and Financial Indicators, 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84 Prov. Actual	1984/85 Budget	Rev. Est.
(Annual percentages, unless otherwise specified)						
National income and prices						
GDP at constant prices	-7.9	9.1	15.3	-7.8	...	-9.6
GDP deflator	5.2	—	-1.7	24.3	...	19.6
Consumer prices	7.9	9.2	9.3	15.6	...	20.0
External sector						
(on the basis of SDRs)						
Exports, f.o.b.	-17.4	-5.5	15.2	11.1	...	-31.8
Imports, c.i.f.	-2.2	-17.8	-4.7	17.6	...	-23.6
Export volume, f.o.b.	-59.0	56.7	61.4	-16.1	...	-39.6
Import volume, c.i.f.	-31.9	14.5	3.0	1.8	...	-38.0
Terms of trade						
(- deterioration) <u>1/</u>	23.2	-40.7	12.3	71.1	...	1.9
Nominal effective exchange rate						
(- depreciation) <u>2/</u>	5.1	-4.1	-1.3	-6.6	...	-16.5
Real effective exchange rate						
(- depreciation) <u>2/</u>	1.5	-1.2	0.9	1.2	...	-3.4
Government finances						
Revenue and grants	-4.1	41.8	-17.3	25.4	23.0	16.6
Total expenditure	11.1	16.6	-3.1	17.8	9.9	22.2
Money and credit						
Domestic credit	26.2	8.5	44.9	10.3	...	0.9
Government	91.2	-32.0	101.9	7.2	...	6.2
GPMB	...	...	181.7	7.6	...	-17.3
Private sector	7.3	7.7	24.7	9.1	...	1.6
Money and quasi-money	17.4	16.1	29.7	3.6	...	33.9
Velocity (GDP relative to M2)	4.6	4.3	3.8	4.2	...	3.4
Interest rate (percent) <u>3/</u>	2.5	7.5	7.5	9.5	...	9.5
(In percent of GDP)						
Central Government						
Overall deficit (-)						
(excluding grants)	-19.6	-20.1	-14.0	-14.1	-10.1	-17.3
Overall budget deficit (-)						
(including grants)	-13.5	-7.9	-10.8	-9.7	-6.2	-12.4
Increase in external arrears	--	--	--	3.5	—	4.0
Domestic financing	1.0	0.5	4.8	2.6	1.9	2.0
Banking system	1.8	-0.4	4.5	0.9	1.6	0.9
Foreign financing	12.5	7.5	5.9	3.6	4.3	6.4
Gross domestic investment	26.1	25.1	21.3	18.7	...	21.3
Gross domestic savings	--	1.3	4.8	7.1	...	7.3
Current account deficit						
(excluding transfers)	-28.0	-24.2	-14.6	-19.1	...	-26.3
External debt <u>4/</u>	98.9	111.6	120.9	133.1	...	193.1 <u>5/</u>
Debt service (ratio to domestic exports and nonfactor services) <u>6/</u>	4.2	25.8	24.8	31.6	...	49.1
(In millions of SDRs, unless otherwise specified)						
Overall balance of payments deficit	-8.7	-14.5	-28.5	-18.2	...	-7.8
Gross official reserves						
(weeks of imports, end of period)	9.9	2.6	1.7	2.8	...	...
External payments arrears (end of period)	19.7	3.4	32.1	46.1	...	54.1 <u>7/</u>

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

1/ The export price index reflects groundnut prices only.2/ Trade weighted.3/ Maximum short-term deposit rate.4/ Medium- and long-term debt as recorded by IBRD. Does not include outstanding use of Fund credit or short-term debt.5/ As of end-December 1984.6/ Includes debt service on medium- and long-term debt, interest on short-term debt, and IMF repurchases and charges.7/ Excluding overdue obligations to the Fund.

THE GAMBIA - Basic Data

Area, population, and GDP per capita

Area	10,360 square kilometers
Population: Total (1985)	745,000
Growth rate	3.5 percent
GDP per capita (1984/85)	SDR 205

	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u> Prov. actual	<u>1984/85</u> Estimate
<u>Gross domestic product</u>					
GDP (at 1976/77 market prices) (millions of dalasis)	341.6	372.6	429.6	396.5	358.3
Of which (percent of total):					
agriculture	30.3	36.6	39.2	33.7	31.3
manufacturing	5.2	6.5	6.0	6.4	6.3
trade	19.3	16.5	15.4	14.9	14.0
GDP (in millions of dalasis at current market prices)	411.7	451.2	511.2	587.9	635.0
Gross domestic investment (as percent of GDP)	26.1	25.1	21.3	18.4	21.3
Gross domestic savings (as percent of GDP)	--	1.3	4.8	7.1	7.3
Annual percentage change					
GDP at constant 1976/77 prices	-7.9	9.1	15.3	-7.8	-9.6
GDP deflator	5.2	--	-1.7	24.3	19.6
Consumer price index	7.9	8.2	9.3	15.6	20.0

Central government finance

(In millions of dalasis)

Recurrent revenue	80.2	91.4	105.5	127.6	147.8
Foreign grants	24.3	56.8	16.9	26.0	31.3
Total expenditure	158.6	184.9	179.1	210.9	257.7
Recurrent	89.3	116.1	112.6	140.6	143.1 <sup>1/</sup>
Development	69.8	68.8	66.5	70.3	110.7
Net lending	-0.5	...	...	...	...
Overall deficit (-)					
Excluding grants	-78.4	-93.5	-73.5	-83.3	-109.9
Overall deficit (-)					
Including grants	-54.1	-36.7	-56.6	-57.3	-78.6
Unrecorded increase in external arrears	--	--	--	20.5	25.7

THE GAMBIA - Basic Data (continued)

	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u> Prov. actual	<u>1984/85</u> Estimate
<u>Central government finance</u> (In millions of dalasis)					
Overall deficit (cash basis)	-54.1	-36.7	-56.6	-36.8	-52.9
Financing	54.1	36.7	56.6	36.8	52.9
Foreign (net)	50.1	34.7	31.2	21.2	40.3
Domestic (net)	4.1	2.1	25.4	15.6	12.6
Banking system	7.3	-1.7	23.7	5.4	5.0
<u>Money and credit</u> (Percent change)					
Domestic credit	26.2	8.5	44.9	10.3	3.5 2/
Government	91.2	-32.0	101.9	7.2	18.3 2/
GPMB	...	...	181.7	7.6	-17.3 2/
Private sector	7.3	7.7	24.7	9.1	1.6 2/
Money and quasi-money	17.4	16.1	29.7	3.6	33.9 2/
<u>Balance of payments</u> (In millions of SDRs)					
Exports, f.o.b.	71.2	67.3	77.5	86.1	58.7
Imports, f.o.b.	-104.3	-85.7	-81.7	-96.1	-73.4
Trade balance	-33.1	-18.4	-4.2	-10.0	-14.7
Services and private transfers (net)	-20.5	-25.9	-22.9	-26.4	-25.5
Current account (net)	-53.3	-44.3	-27.1	-36.4	-40.2
Capital account (net)	44.5	29.8	1.4	18.2	32.4
Official	52.4	54.0	34.5	32.4	37.5
Private	-7.8	-24.2	-33.1	-14.2	-5.1
Overall surplus or deficit	-8.7	-14.5	-28.5	-18.2	-7.8
Current account deficit (excluding transfers) (as percent of GDP)	28.0	24.2	14.6	19.1	26.3
<u>Gross official foreign reserves</u> (end of period)					
Amount	19.8	4.3	2.6	5.2	...
In weeks of imports	9.9	2.6	1.7	2.8	...
<u>External public debt</u>					
Committed (including undisbursed) (end of period) 3/	188.2	204.0	224.9	253.1	295.5 4/

THE GAMBIA - Basic Data (concluded)

	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u> Prov. actual	<u>1984/85</u> Estimate
<u>External public debt</u>	<u>(In millions of SDRs)</u>				
Debt service as percent of domestic exports of goods and nonfactor services <u>5/</u>					
Including IMF	4.2	25.8	24.8	31.6	49.1
Excluding IMF	4.1	21.5	19.8	22.3	28.9

1/ Does not include D 3.9 million of unallocable expenditure.

2/ As of end-May 1985.

3/ Medium- and long- term public debt as recorded by IBRD. Does not include outstanding use of Fund credit or short-term debt.

4/ As of end-December 1984.

5/ Includes debt service on medium- and long-term debt, interest on short-term debt, and IMF repurchases and charges.

The Gambia: Illustrative Medium Term Balance of Payments  
Outlook, 1984/85-1989/90, Scenario A

(In millions of SDRs) 1/

	1984/85 Est.	1985/86 Est.	1986/87	1987/88	1988/89	1989/90
Exports, f.o.b.	58.70	62.08	65.64	69.48	73.28	76.98
Groundnuts 2/	15.86	16.41	17.76	19.28	20.60	21.75
Other domestic exports	3.59	3.62	3.73	3.84	4.00	4.12
Total re-exports	39.25	42.05	44.15	46.36	48.68	51.11
Imports, f.o.b.	-73.38	-76.50	-79.53	-82.69	-85.98	-89.41
Domestic consumption	-42.60	-43.45	-44.83	-46.25	-47.72	-49.24
Rice 3/	(-4.79)	(-7.45)	(-7.75)	(-8.06)	(-8.38)	(-8.72)
Other	(-37.81)	(-36.00)	(-37.08)	(-38.19)	(-39.34)	(-40.52)
Imports for re-exports	-30.78	-33.05	-34.70	-36.44	-38.26	-40.17
Services (net)	-25.51	-28.23	-27.03	-26.04	-25.28	-24.27
Freight and insurance	-12.25	-12.76	-13.27	-13.80	-14.35	-14.92
Travel	17.09	18.77	20.27	21.89	23.64	25.53
Other	-30.35	-34.24	-34.03	-34.13	-34.57	-34.88
Technical assistance	(-12.72)	(-13.99)	(-14.69)	(-15.42)	(-16.20)	(-17.00)
Public interest payments 4/	(-8.66)	(-11.16)	(-10.10)	(-9.43)	(-8.81)	(-8.16)
Other	(-8.97)	(-9.09)	(-9.24)	(-9.28)	(-9.56)	(-9.72)
Current account	-40.19	-42.65	-40.92	-39.25	-37.98	-36.70
Official loans and transfers (net)	37.52	35.25	34.54	36.25	37.46	37.73
Official transfers	28.57	30.75	32.29	33.90	35.60	37.38
Official loans	8.95	4.50	2.25	2.35	1.86	0.35
Inflows	(14.99)	(13.17)	(13.57)	(13.98)	(14.40)	(14.83)
Amortization 5/	(-6.04)	(-8.67)	(-11.32)	(-11.63)	(-12.54)	(-14.48)
Private capital (net)	-5.10	0.79	0.81	0.84	0.86	0.89
Long-term	0.77	0.79	0.81	0.84	0.86	0.89
Short-term, errors and omissions	-5.87	--	--	--	--	--
Net foreign assets changes in commercial banks	(...)	(...)	(--)	(--)	(--)	(--)
Overall balance	-7.77	-6.61	-5.57	-2.16	0.34	1.92
Financing	7.77	6.61	5.57	2.16	-0.34	-1.92
1. Use of Fund resources (net)	-4.32	-10.25	-5.86	-4.20	-3.20	-0.93
2. Exceptional financing 6/	12.09	16.86	11.43	6.36	2.86	-0.99

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

1/ Exchange rates used are D 3.0923/SDR 1 for 1983/84, D 4.150/SDR 1 for 1984/85, and D 4.2520/SDR 1 for 1985/86, and thereafter.

2/ Assumes 60,000 tons in 1985/86 rising by 10,000 tons per year to 100,000 tons in 1989/90; world prices are assumed to decline by 10 percent in 1985/86 and by 5 percent per annum thereafter.

3/ Assumes unchanged volume of 36,000 tons per annum.

4/ Includes interest on medium- and long-term debt (including new loans) and on short-term debt (stock of latter assumed unchanged). Does include servicing of exceptional financing (see Table 4).

5/ Includes amortization on medium- and long-term debt (including new loans but excluding exceptional financing).

6/ Calculated residually.



