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INFORMATION

September 18, 1985

To: Members of the Executive Board
From: The Secretary
Subject: The Gambia - Staff Report for the 1985 Article IV Consultation

The attached supplement to the staff report for the 1985 Article IV consultation with The Gambia has been prepared on the basis of additional information.

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

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

THE GAMBIA

Staff Report for the 1985 Article IV Consultation
Supplementary Information

Prepared by the African Department

(In consultation with the Exchange and Trade
Relations Department)

Approved by G.E. Gondwe and Eduard Brau

September 17, 1985

As described in the staff report for the 1985 Article IV Consultation with The Gambia (SM/85/244, 8/23/85), during the consultation discussions the staff assisted the Gambian authorities in drawing up a comprehensive program of economic and financial adjustment. At the request of the authorities, a staff team 1/ visited Banjul during the period August 27-September 3, 1985 to assess recent economic developments and progress in the implementation of the adjustment program, and to assist the authorities in their preparations for a Donors' Conference scheduled to take place in London on September 25-26. On the basis of this visit, the following supplementary information has become available.

1. The exchange system and pricing policies

The Gambian authorities reaffirmed their intention to introduce as soon as possible a flexible exchange rate which would be accompanied by a liberalization of the exchange system. To this end, they have requested technical assistance from the Fund's Central Banking Department. They are also in the process of requesting technical assistance from bilateral sources to support the foreign exchange operations of the largest commercial bank.

Since the consultation mission, the spread between the parallel exchange rate and the official exchange rate has widened further, reaching 50 percent in early September, compared with 30 percent in July. This increase was attributed by the authorities to shortfalls in earnings from the re-export trade (following actions recently taken by some neighbouring countries) and speculative factors.

1/ The staff team consisted of Mr. D. Donovan (Head-AFR), Miss C. Hoban (AFR), Miss A. Cheasty (FAD), and Mrs. K. Sturgill (Secretary-SEC).

The authorities indicated that, in order to maintain competitiveness with neighbouring countries, the agricultural producer prices announced by the Government in early July, particularly for groundnuts, may have to be reviewed prior to the purchasing season to take account of movements in the parallel exchange rate. They believe, however, that the introduction of the new exchange system could ensure that higher producer prices can be sustained without operating losses being incurred by the Gambia Produce Marketing Board (GPMB). In the case of rice, a key element of the authorities' price liberalization policy was the granting of permission to the private sector in early July to import and sell rice freely. At the time of the staff visit, however, no private sector rice imports had as yet taken place, partly because the GPMB had continued to sell small amounts of its remaining stocks at the previous price of D 111 per 100 kg bag, whereas the prevailing unofficial market price was believed to be in the order of D 170-D 200 per bag; the latter price also approximates the official price prevailing in neighbouring countries when converted at the parallel exchange rate. In these circumstances, it seemed important to provide a further signal that the decontrol of rice importation and distribution was likely to entail wholesale and retail sales at freely-determined prices that were significantly higher than the previous price. The authorities have subsequently informed the staff that in early September the GPMB had begun selling rice obtained under a bilateral commodity assistance agreement at a price equivalent to D 152 per bag.

Petroleum product prices were raised uniformly in August by 7 percent to reflect higher import duties.

2. Fiscal policy and public sector reform

Revised data indicate that the overall budget deficit of the Central Government (including grants) for 1984/85 (July/June) was equivalent to 13.6 percent of GDP, compared with 12.4 percent estimated in June, and that domestic bank financing amounting to D 15.2 million, as against a previous estimate of D 5.7 million. The higher deficit was entirely attributable to an upward revision in expenditures (mainly current outlays).

For 1985/86, the Government has maintained its objective of reducing the overall budget deficit to the equivalent of 6.4 percent of GDP. Revenue measures (mainly changes in import duties) with an estimated yield of D 17.2 million in 1985/86 were implemented on August 22. In addition, a service charge on telecommunications yielding D 0.8 million is to be implemented following legislative approval planned for October. However, it is likely that the authorities' 1985/86 forecast for total revenue will have to be reviewed (and possibly revised downwards) in light of recent developments affecting the re-export trade which is a major source of budgetary revenue.

With the goal of containing total expenditure in line with the authorities' target for 1985/86 described in the staff report, the following measures are being taken: (i) in early September, directives were issued reducing expenditures on "other charges" covered by the quarterly allocation system to levels consistent with program estimates; (ii) a mechanism is to be in place by end-September to ensure reduced levels of expenditures on other charges not covered by the quarterly allocation system; (iii) following completion of the staff audit (see below), revised limits on personal emoluments consistent with the targeted annual expenditure totals are to be enforced; (iv) by mid-September, the quarterly allocations of domestic counterpart funds for development expenditure are to be revised downwards and "reserved" amounts are to be eliminated; (v) a system of monitoring development expenditure financed by foreign loans and grants on a monthly basis has been introduced and a priority list of projects is being established in order to ensure (if necessary, through a slowdown of disbursements or cancellation of projects) that overruns do not take place; and (vi) the technical unit within the Ministry of Finance designed to monitor all aspects of budgetary performance monthly is to be fully operational by end-September.

As the first part of a fundamental reform of the size and structure of the civil service, a staff audit (previously planned for completion by end-August) is now expected to be completed by end-September. Decisions on reductions in the Government's establishment, including vacant posts and temporary workers, are to be taken in early October. The authorities are also proceeding with their plan to announce by end-December 1985 a comprehensive plan for restructuring the civil service, based on a study to be completed with U.K. technical assistance.

3. Monetary and credit policies

In the consultation report, it was noted that due to recent reporting inaccuracies with respect to the net foreign assets of one of the commercial banks, important components of the monetary survey data were not reliable. While the authorities provided the staff team with some revisions of the relevant data, further adjustments remain to be carried out, and the authorities plan to complete most of these by end-September. Based on the revisions undertaken to date, it appears that total domestic credit expanded by 3 percent in the year ended June 1985, or by about the same rate as the staff report estimate for the period June 1984-May 1985. As credit to the private sector declined during this period, the overall increase was explained entirely by the increase in net claims on the Government (19 percent) and by a small increase (1.6 percent) in credit to public enterprises; within the latter, credit to the GPMB fell by 16.4 percent, while credit to other public enterprises rose by 42 percent.

In early September, the Central Bank of The Gambia implemented the following measures: (i) an increase in the discount rate on Treasury bills and in the rate on central bank advances from 8 percent to 15 percent (except for production credits extended by the Central Bank to the Gambia Commercial and Development Bank for on-lending to the Gambia Cooperative Union for which the rate has been raised from 6 percent to 12 percent); (ii) removal of the ceilings on commercial banks' deposit and lending rates; (iii) commensurate with the above adjustments, the establishment of minimum deposit rates ranging between 13 percent and 17 percent (legislation concerning minimum rates is to be introduced in early October); (iv) quarterly ceilings for end-September and end-December 1985 on credit extended to both the private sector and public enterprises other than the GPMB (credit to the GPMB will be limited separately); and (v) increases in the minimum reserve ratios from 4-6 percent to 8-10 percent.

4. External outlook

With respect to prospects for the 1985/86 groundnut crop, the authorities indicated that while recent rainfall has been both adequate and timely, the quantity and quality of seeds planted was disappointing, partly due to the low level of the 1984/85 crop and the fact that some farmers had apparently switched to the production of food crops. Taking all these factors into account, the authorities have maintained their original projections of a marketed groundnut crop of 60,000 tons, compared with the 45,000-ton outcome of 1984/85. Other elements in the balance of payments have not changed significantly, and thus the projections for 1985/86 and the medium-term (Tables 3 and 4 of SM/85/244) still appear broadly reasonable. These projections indicate the presence of large ex ante foreign financing gaps in the short to medium-term.

With a view to seeking foreign assistance to meet these financing needs, a Donors' Conference has been arranged by the Government of The Gambia, in association with the Government of the United Kingdom, the World Bank, and the UNDP, to take place in London on September 25-26. The conference is to be chaired by a World Bank official. The Fund staff team, in close collaboration with the World Bank staff, assisted the authorities in the preparation of their position paper for the Conference, which describes the Government's adjustment efforts and the size of the external financing gaps.