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The Gambia
Financial and
Private Enterprise Development
Project

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A Study on
The Short-Term Economic Outlook

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CURRENCY EQUIVALENTS

Currency Unit: Dalasi (D)

Exchange Rates[1]

Pre-February 1984: 1 pound sterling = D4.00
After February 1984: 1 pound sterling = D5.00

Annual Average D/US$
(Fiscal Years)

1981	1.85
1982	2.13
1983	2.46
1984	3.08
1985	4.15
1986[2]	7.26
1987	7.12
1988	6.88
1989	7.71
1990	8.24
1991	8.32
1992	8.51
1993	9.40
1994	9.50[3]

FISCAL YEAR

Government: July 1-June 30

[1] The peg of The Gambian Dalasi was replaced in January 1986 with a flexible exchange rate system in the context of an inter bank market. The implementation of the Exchange Control Act was also suspended, resulting essentially in the lifting of all restrictions on current as well as capital, international transactions.

[2] End of fiscal period beginning 1986.

[3] A premium of D100 is charged for foreign exchange exceeding US$200.

ACRONYMS AND ABBREVIATIONS

ARP	Administrative Reform Project
CBG	Central Bank of The Gambia
CFAF	Communauté Financière Africaine Franc
CSP	Country Strategy Paper
EU	European Union
ERP	Economic Recovery Program
GOTG	Government of The Gambia
GPA	Gambia Port Authority
IDA	International Development Association
IMF	International Monetary Fund
NGO	Nongovernmental Organization
ODA	Overseas Development Administration
SPA	Study for Poverty Alleviation
USAID	United States Agency for International Development
WAMU	West African Monetary Union

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I. Introduction

This special economic report forms part of the close-out evaluation of the FAPE project which was terminated on January 31, 1994. The report reviews current and prospective impact of discontinued donor assistance and disruption of tourism on balance of payments and future economic growth, evaluates the economic performance of the Gambian economy, and outlines the policy requirements for sustaining development through the next two years.

The Gambia, a small country which until recently had a history of political and social stability and a reputation for sound economic management, is at the crossroads of economic collapse. Economic reforms that have been in place over the past nine years stand the chance of being eroded. Growth is uncertain, the capacity of the country to meet its external commitments could be in jeopardy, and it is unclear how long the Government, under present economic conditions, would be able to meet its financial obligations. At the same time, it is not apparent when donor assistance will resume even if a revised time table is announced.

For a long time, the Gambia has come to depend on the production and export of groundnuts, tourism, trade, and a large infusion of external grants for its survival. But the weakening of the international groundnut market, the disruptions in the transit trade, the travel embargo imposed on The Gambia by the United Kingdom and some Scandinavian countries, and the suspension of donor assistance, have threatened the economic and social fabric of the country and put at risk some of the fundamental reforms of the ERP years. The next two years will determine if the economic and, in particular, the social cohesion of this peaceful country can hold.

II. Recent Developments and the Current Predicament

On July 22, 1994, the Armed Forces of the Gambia took over the reins of power from the democratically elected government. The donor community reacted to this change with the suspension of all program assistance, in particular, technical assistance, and balance of payment (BOP) and budgetary support. The European Union (EU) and United Kingdom/ODA further threatened to consider new programs and projects on a case-by-case basis. Even so, the new government, in a letter to the international community in August 1994, pledged itself to (i) continue with the ERP/PSD; and (ii) quickly return the country to democratic and constitutional rule.

When the government announced in November 1994 that it would complete its rectification program and hand over power to a newly elected government in December 1998, USAID terminated all assistance except for humanitarian aid through nongovernmental organizations (NGOs). By law, the U.S. Government cannot provide assistance to regimes that usurp power by force from duly elected governments. Thus, the U.S ongoing government to government program is being terminated in The Gambia; assistance may have continued if the return to constitutional and democratic rule had occurred within nine months. After political disturbances in the mid-November, the British and Scandinavian governments issued travel advisory notices that urged their citizens not to travel to The Gambia, except when necessary.

The political changes and donors' reaction thus far have had a serious impact on the Gambian economy.

A. The Real Sector

Revised GDP at market prices growth for FY1994 is now estimated at negative 5.2% relative to the 4% projected in July 1994. Thanks to the good rains last year, agricultural production, mainly cereals and groundnuts, grew at 9%, thus lowering the demand for imported food items. The industrial sector, however, declined 10.6% compared to the previous year. In the manufacturing sector, the continuing problems in the transit trade and political uncertainties in the country are pushing companies to consider relocating to other parts of the subregion, for example Guinea Bissau. The slowdown in construction activities is creating huge inventory problems for Gacem, Mettalum, and the sawmills, and it is not clear what the impact will be on employment.

The growth rate for the services sector has been revised downwards to negative 7.1% over the previous period. This is on account of (i) the travel advisory imposed on The Gambia by the United Kingdom and the Scandinavian countries and its linkage effect on other subsectors; and (ii) the consequences of the continued border closure with Senegal on the re-export trade. The U.K's travel embargo has grounded the tourism industry. As a major employer, the tourism sector plays a crucial role in the economy. It currently contributes 12% of GDP, and over 14% of the total labor force; and if its links with other sectors such as horticulture, restaurant services, and taxi and bus tour operators are added, its importance is much greater. In the first six weeks of the travel embargo, tourist arrivals declined from 40,385 to 22,409 or by more than 50% over the previous period. Already, the smaller volume of arrivals has created significant excess capacity at the hotels, and occupancy rates are now estimated to be less that 30%. Accompanying this has been the fall in the volume of international calls for Gamtel. It is also expected that the demand for agricultural products will fall which may affect planting and investment decisions next year.

B. Fiscal and Monetary Policy

Over the last six months, fiscal management in The Gambia has suffered. Although expenditures have been reduced in response to falling revenues and suspension/termination of program assistance, there is a limit to how much can be absorbed. In the first half of the fiscal year, recurrent expenditures have risen by 4% (i.e., from D277 million in 1993/94 to D288.2 million in 1994/95), while revenues over the same period have fallen by about 3%. Thus, the overall revised deficit before external financing for FY1994/95 is now projected at D86 million or 2.8% of GDP. This is not a great deal more than the figure of D80.6 million which prevailed in 1992/93, and significantly less than the overall deficit of D98 million in 1993/94. Nevertheless, there are other factors which compound the financing problems of the Government at this juncture and which make for a much more serious situation.

In that context, a key factor has been the termination of budget support by the donors. In the past, the overall deficit was financed by a combination of external and domestic borrowing, and from a variety of sources: USAID, the EU, UK/ODA, Switzerland, multilateral agencies, the central bank, commercial banks, and the private sector. Today, financing of the deficit in its entirety would have to be raised domestically. The potentially destabilizing effects of so high a level of borrowing, especially from the banking system and the parastatals, cannot be ignored. Yet, given the large size of the domestic financing requirements, no other avenue is open to the government.

Not surprisingly, inflationary expectations are on the rise. The loss in business confidence, and uncertainties surrounding the ability of the government to meet the void in the importation of basic commodities—should it arise—have led to speculation and, in some instances, hoarding. Over the last five months, prices for the lower income population of Banjul/Kombo have risen by more than 5% over the previous period.

This has influenced interest rates. Lending rates at the end of July stood at 23%. By the end of December 1994, lending rates averaged 25%. But other factors, such as increased borrowing from the private sector, have contributed to the rising interest rates as well. Following the rising inflation and interest rates has been the depreciation of the dalasi to major currencies such as the dollar and pound sterling. By the end of December, traders at the open market were trading US$1 for D10.4, a depreciation of 9.5% compared with rates a year ago. At the commercial banks, rates compared well with the previous period, except that a premium of D100 is now charged for exchanges exceeding US$200.

C. The Balance of Payments

The impact of recent political and economic developments on the Gambia's external trade is still unfolding. The continuing border closure with Senegal is expected to further aggravate re-exports. The travel embargo on the country will depress the tourism trade. At the same time, imports are expected to decline by about 12.6%. The deficit of the current account balance is expected to deteriorate further from US$50 million in 1993/94 to over US$59 million in 1994/95. Net capital inflows including grants will amount to only US$32 million thereby generating an overall balance of US$ -27 million. To achieve external balance, the country would have to run down reserves by this amount, thus bringing gross reserves to US$59 million, down from US$87 million a year ago.

In the context of the recent economic developments, and given the Gambia's average monthly import bill of US$20 million, this does not provide adequate reserves for the government. If the economic situation continues to deteriorate and donors fail to resume their assistance, gross reserves could be wiped out in a matter of months.

III. Emerging Problems, Opportunities, and Uncertainties

As the decade of the 1990s reaches its mid-point, the formulation and implementation of development policy in The Gambia will have to contend with a different economic and political environment abroad and at home than the two and half decades since independence. Among the salient changes abroad that are already beginning to affect The Gambia are the following:

- the fear of shifting political and economic alignments in Europe and the United States diverting attention and development resources away from Africa and towards Europe, Latin America, and Southeast Asia;

- the closure of The Gambia's border with Senegal and its negative impact on transit trade and domestic economic activities;

- more cautious international investors (who seek financing from risk averse international capital markets which apply stricter lending conditions and extract higher risk premiums on sovereign lending) may find it riskier investing in The Gambia;

At home, policy making will have to contend with the possibilities of increased tensions between the donor community and the government, the increased restlessness and disaffection of Gambians, the decline in business confidence, and the reduced room to maneuver in policy making imposed by cessation of donor assistance.

Some of these changes, of course, could provide insights for further study such as the relevance of donor assistance to the country's overall development. But there are also emerging problems and uncertainties that demand urgent attention. One is the closure of the Gambia-Senegal border that has affected the country's transit trade with Mali, Guinea Bissau, Guinea, and Sierra Leone; the second is liquidity problem emanating from the suspension of foreign aid; and the third is the sustainability of the ERP. These will be treated in turn.

A. The Transit Trade Problem

Gambia's re-export trade accounts for 75% of merchandise exports and contributes about US$5 million to international reserves. Through imports, this sector contributes more than 40% to international trade taxes and has direct and indirect linkages to the communications, transportation, and hotel and restaurant sectors. The major participants in the re-export trade are Senegal, Mali, Guinea, Guinea Bissau, and Sierra Leone.

In July and August 1993, re-export trade suffered two major shocks. First, Senegal closed its borders with The Gambia in an effort to check undocumented trade between the two countries. Then, a month later, the BCAO devalued the CFA by 50% and began to undertake structural adjustment measures to remove imbalances in the economies of its member countries. These actions in the short run have resulted in (i) significant reduction of international trade taxes on nonoil commodities; and (ii) losses of market share of some Gambian enterprises in the re-export importing countries, especially in Guinea Bissau. Several attempts were made by the previous government to reach accommodation with Senegal but a resolution could not be reached before the military coup in July 1994. The new government is continuing to reach some understanding with Senegal, but it appears that, for now, return to constitutional and democratic rule has been implicitly linked with progress on the re-opening of the border for trading activities.

Meanwhile, in the medium- to longer-term, the Gambia may lose its competitiveness in the transit trade as fiscal and institutional reforms in the importing countries take hold. This brings into sharp focus investments that are underway to strengthen the country's comparative advantage in the re-export trade, in particular, the proposed investment by GPA to rehabilitate and expand the port of Banjul. Unless the border problem is quickly resolved, it may be uneconomical to complete this project, more so, if the government does not pursue the Gateway concept.

B. Liquidity Problem

Following the military takeover in July 1994, donors suspended balance of payments (BOP) support and in one case terminated all assistance to The Gambia. It is noteworthy that external grants contribute more than a third of the country's budgetary resources. While an announcement of a shorter time table would enhance the future prospects of resumption of donor assistance, it is not likely that The Gambia may receive significant program aid to support its budget and balance of payments until there is tangible progress to return the country to constitutional rule. In addition, even if the travel advisories imposed by the British and the Scandinavian Governments are rescinded, it may take about six months before the tourist industry reaches its historical levels. Thus, in the immediate short-term, the government faces very severe liquidity constraint.

The evidence is summarized in the following key indicators:

- gross international reserves as of end 1994 stood at US$59 million and is projected to decline by US$30 million in 1995;

- the overall deficit for 1994/95 is estimated at 2.8% of GDP to be financed totally from domestic sources;

- about 95% of the fiscal deficit will be covered by borrowing from the banking system—an unprecedented development that has dire implications for holding down the rate of price inflation and protecting the value of the dalasi;

- the GDP growth rate for 1994/95 is now projected at -5.2 over the previous period;

- of all the sectors, tourism seems to have been most severely affected with a fall in tourist arrivals expected to be less than 40,000 compared to over 100,000 the previous year;

The sharp deterioration in the fiscal accounts stems from the suspension of donor assistance, notwithstanding the accompanying budget cuts that were put in place. Sooner rather than later, the government needs to take measures to reach a compromise with donors to enable resumption of donor assistance to the country.

C. The Short Run Liquidity Constraints

The customary procedure for preparing a government budget starts by projecting the current and the capital account program and then considering how the anticipated deficit may be financed. However, in the current Gambian situation, financing is likely to be a binding constraint and the government may do well to reverse the customary procedure by tailoring its current account and capital expenditure program to fit the limited financing available.

External financing prospects for the government are unlikely to improve in 1995 and may even deteriorate further. Total debt service on the external debt is projected at US$28.2 million or 18.1% of exports of goods and services. At present, it is not clear what position the donors will take concerning the recent announcement on the revised time table. Even if their reaction is positive, it is still not clear when BOP support, technical assistance, training and capacity building to The Gambia will resume. Much will depend upon the confidence of the donor community in the revised time table and government's commitment to reestablish the macroeconomic framework conducive to stability and growth.

As far as domestic financing is concerned, the Government is subject to the same constraints that applied in 1994. Financing from the commercial banks and the private sector is already at an unprecedented all time high. Further increases will not be forthcoming and, indeed, could not be furnished without crowding-out the private sector. This raises an important issue. What should be done by the present government to allow for early resumption of aid? While this question would have to be answered by the government, donors also have a moral responsibility to ensure that the reforms which they have supported and which would form the basis for the diversification of the economy and private sector development are not allowed to erode. Thus, a compromise solution will have to be sought in true partnership by the Government and the donors.

D. Maintaining the Gains of the Economic Recovery Program

Already, the gains of the ERP have come under increasing strain. The divestiture program is threatened, and the central bank is under pressure (i) to grant loan guarantees to the private sector for the importation of basic commodities; and (ii) to impose currency restrictions to control capital flight. So far, the bank, in collaboration with the Ministry of Finance, has been successful in protecting the gains of the ERP. The challenge is whether the Ministry and the bank could continue to resist the pressure of rolling back some of the reforms that have been put in place.

E. The Political Economy of Donor Assistance

The termination of donor assistance also affords the opportunity for government to review the political economy of donor assistance to the country. In particular, an analysis of the types of reforms advocated; their sequencing; donor conditionalities, and their effect on government operations as well as the development process; and how future assistance should be designed should be undertaken.

IV. The Economic Outlook

A. Base Case Scenario

It will be a very risky business to project the future course of economic development in The Gambia. First and foremost, recent data is not easily available and when accessible, are rudimentary. The projections are thus, purely indicative; they only present broad magnitudes of the directions of the economy in the next two years and offer the policy maker some guidepost for future action in the context of the resource constraints that the country may be facing. Several assumptions including the following were made for the base case scenario:

- the border closure with Senegal would remain in force at least until the end of 1995;
- based on a credible time table of 24 months, and no further civil disturbances, the embargo on tourism would be removed shortly and the industry would be back on its feet at year end;
- pipeline projects would resume but program assistance may not be forthcoming until early 1996; and
- export and import price projections based on World Bank's commodity price projections were used.

Revised real GDP growth for 1994/95 is estimated at -5.2% down from the previous target of about 4.0%. The economic situation is projected to deteriorate further in 1995/96 with a growth rate of -2.0%. Except for the agriculture sector, the other major sectors are expected to post negative growth. The manufacturing sector will decline by 10.3% while services will fall on average by almost 6%. The underlying reason for the bad performance is the continued border closure with Senegal and the travel embargo by UK and the Scandinavian countries. The growth in agriculture is predicated on continued good rains.

Between 1994-96, The Gambia's export prices are assumed to increase by about 3.2% while import prices will increase by almost 2% resulting in favorable merchandise terms of trade over the projected period. Inflation is projected to rise modestly to about 7% on account of the expansionary monetary policy that may be necessary if full donor support is not realized. As a result, the exchange rate is expected to show a moderate depreciation over the projection period.

The balance of payments over the next two years is projected to deteriorate. The deficit of the current account balance will average US$61 million per year, while net capital inflows, including official transfers, will average US$32 million. This implies that if donor assistance is not realized over the projection period, to meet its external commitments the government may have to run down its external reserves. Thus, by the end of 1995, gross international reserves are projected to decline to US$39.2 million or just about two months of import cover in 1995. This assumes no further external shocks that may make it necessary to further draw on reserves.

Table 1
The Gambia: Key Economic Indicators, 1991/92-1994/95

	Actual	Preliminary		Projections	
	1991/92	1992/93	1993/94	1994/95	1995/96
GDP Growth Rate	4.1	2.2	0.8	-5.2	-2.0
GDP/Capita Growth Rate	0.7	-1.8	-3.1	-8.9	-5.9
Consumption/Capita Growth Rate	—	-0.7	-0.1	-4.4	-4.4
Total DOD (in US$)	344.6	356.5	367.5	359.8	354.8
DOD/XGS	166.1	163.9	217.0	204.3	227.6
Debt Service (in US$)	31.7	34.0	34.2	35.3	28.2
Debt Service/XGS	15.3	15.6	20.2	20.0	18.1
Interest/XGS (paid)	3.4	3.3	3.9	3.3	3.2
Gross Investment/GDP	17.8	19.2	19.8	18.2	17.8
Exports/GDP (Current Prices)	63.0	60.0	51.5	42.0	40.8
Imports/GDP (Current Prices)	78.3	75.5	66.7	60.2	63.3
Current Account (in US$)	-43.6	-48.7	-49.8	-58.7	-63.2
Current Account/GDP	-13.5	-13.7	-13.2	-5.7	-19.1
Current Account/XGNFS	-21.4	-22.9	-25.7	-37.5	-46.9
Terms of Trade Index	100.0	102.7	106.8	107.6	106.8

Source: MFEA & CBG projections.

Table 2
Actual and Projected Balance of Payments
(US$ million)

	1992	1993	1994	1995
Resource Balance	-55	-57	-68	-74
Export GNFS	213	194	157	135
Imports GNFS	268	251	224	209
Net Factor Income	-6	-6	-5	-5
Net Transfer	12	13	14	16
Current Acccunt Balance	-49	-50	-59	-63
Capital Account	54	56	29	30
Official Grants	29	31	16	15
Net Disbursement	4	3	10	11
Disbursement	22	21	29	28
Amortization	18	18	19	17
Other	1	9	—	—
Foreign Direct Investment	10	11	3	4
Overall Balance	5	6	-30	-33

Source: Statistical Appendix

B. The Best Case Scenario and External Financing Requirements

This scenario assumes a more positive response of the donors to the time table and willingness to provide immediate budgetary and balance of payments support to The Gambia. Preparation of pipeline projects including the ARP, SPA, and other new projects funded by EU and UK/ODA will begin before the end of 1995. It further assumes significant progress with Senegal to reopen the border for transit trade. Under these assumptions, gross fixed capital formation will increase from about 1.6% of GDP to 19.8% of GDP in 1995/96. Tourism and the re-export trade are projected to show modest growth and the current account balance will improve slightly.

Even so, The Gambia will require substantial foreign capital inflows to finance not only its Public Investment Program (PIP), and comply with debt service obligations, but also substantial resources to build up reserves. The current account of the balance of payments will record substantial deficits, projected to average about US$64 million per year. Capital inflows required to finance the projected current account deficit and to cover amortization payments average US$52 million per year. The major sources of financing will be grants, concessional loans for balance of payments support, and project assistance. Foreign direct investment is projected to average about US$6 million per year during 1994/95-1995/96.

Table 3
Projected External Financing Requirements
(US$ million)

	1994	1995
Financing Requirements	76	82
Current Account	55	73
Amortization	19	17
Net Reserves	2	10
Financing Sources	59	58
Foreign Investment	6	6
Sale of Assets	—	—
Debt Relief	—	—
Grants	29	28
Loans	29	28
Financing Group	17	24

Source: Statistical Appendix

The Gambia's total aid requirements after private capital flows during 1994/95 and 1995/96 fiscal years will amount to US$160 million or US$80 million per year on average. Of this, US$117 million, or US$58.5 million per year have been identified in the form of loans or grants. This leaves an external financing gap of US$41 million for the next two years.

C. Worst Case Scenario

This assumes a two year time table, but with no donor assistance. It is further assumed that the tourism embargo will stay in place, and no substantial progress will be made with Senegal to reopen the borders for transit trade. In effect, the worst case scenario assumes no new programs/projects from either the multilateral or bilateral donors. The underlying reasons for these assumption are (i) absence of adequate monitorable benchmarks for return to democratic constitutional rule; and (ii) lack of donor confidence in the revised time table.

Under these assumptions, GDP growth is projected to deteriorate sharply from -1% in 1994 to -3.8% in 1995 due to the worsening performance of the tourism, trade, manufacturing, and construction sectors. Accompanying the negative growth is the significant decline in gross fixed capital formation attributable in part to a lower level of private sector investment and reduction in the PIP.

Table 4
The Gambia: Key Economic Indicators, 1991/92–994/95

	Actual	Preliminary		Projections	
	1991/92	1992/93	1993/94	1994/95	1995/96
GDP Growth Rate	4.1	2.2	0.8	-5.2	-3.8
GDP/Capita Growth Rate	0.7	-1.8	-3.1	-4.8	-7.6
Total DOD (in US$)	344.6	356.5	367.5	359.8	351.3
DOD/XGS	166.1	163.9	217.0	204.3	246.2
Debt Service (in US$)	31.7	34.0	34.2	35.3	28.2
Debt Service/XGS	15.3	15.6	20.2	20.0	19.8
Interest/XGS (paid)	3.4	3.3	3.9	3.3	3.2
Gross Investment/GDP	17.8	19.2	19.8	18.2	16.5
Current Account (in US$)	-43.6	-48.7	-49.8	-58.6	70.9
Current Account/GDP	-13.5	-13.7	-13.2	-15.0	-20.9
Current Account/XGNFS	-21.4	-22.9	-25.7	-37.4	-58.3

Source: MFEA & CBG projections.

The balance of payments is also projected to further worsen. The deficit of the current account balance over 1995 and 1996 will average about US$72.3 million, while long term capital inflows, including official capital grants, will total US$64 million or US$32 million per year. Thus, the overall balance of the balance of payments will reach almost US$34 million per year over the next two years. Given the country's external reserves of US$59 million at end 1994, The Gambia will run into problems with servicing its external debt service obligations. This will certainly cut off the country from further borrowing from the World Bank and the IMF until the arrears, if any, are cleared.

Table 5
The Gambia: Summary of Projected Balance of Payments
(US$ million)

	1994/95	1995/96	1996/97
Current Account Balance	-59	-71	-74
Capital accounts[4]	30	29	28
Overall Balance	-29	-42	-46
Memorandum Item			
Gross Official Reserves	59	17	-29
Gross Reserves (weeks of imports)	14	5	0
GDP (US$ million)	340	339	342

Source: MFEA & CBG

V. Policies for Sustained Development[5]

Policy making in The Gambia today takes place within an environment very different from that of the past. On the external front, The Gambia faces uncertainty in the resumption of aid from its donors, constraints in its transit trade, and skepticism of the future of the tourism industry. Domestically, The Gambia faces political crises, serious short-term macroeconomic imbalances, and loss in business confidence in the private sector. It is still not clear how government intends to approach some of these seemingly intractable problems, but it may be worthwhile if attention is focussed on the following issues.

A. Transition to Constitutional and Democratic Rule

Perhaps, the surest way of resumption of external assistance to The Gambia, and to the restoration of business confidence, is quick return of the country to constitutional rule. The euphoria surrounding the announcement of the two year time table has brought some relief to the government. But the real issue of sustainability of national support to the military government and restoration of political stability to the country will depend on (i) resumption of donor assistance to the country; (ii) the removal of the travel embargo on the tourism trade; and (iii) progress in

[4] Includes IMF net credit.

[5] This section assumes some form of rapprochement between the Government and the donor community on resumption of aid to The Gambia.

resolving the transit trade issues with Senegal. These issues are directly linked to the quick return to civilian rule. Thus, the government faces two mutually exclusive choices: either (i) to hand over power to a transitional government perhaps within eight months and allow the interim government to conduct elections and complete the commissions of enquiry; or (ii) hang on to power for the next 18 months and risk external assistance over the period.

Maybe the best course of action for the government will be to seek constructive engagement with the donor community so as to determine the optimal sequencing of the transitional period in exchange for immediate resumption of donor assistance to the country.

B. Macroeconomic Policies for Adjustment

For most of the period since the ERP, The Gambia's record of macroeconomic management has been very good. It has successfully maintained a stable flexible exchange rate with the support of prudent monetary policies. The authorities managed to contain fiscal deficits within a range that could be financed internally and externally without difficulty, implemented a monetary policy that generated a tolerable rate of inflation, and secured an increase in foreign exchange reserves. However, over the past several months, the withdrawal of foreign aid, slump in tourism and trade, and expansionary monetary policies have contributed to a deterioration of external competitiveness while further exacerbating dependency on external financing. Consequently, a sharp increase in the fiscal deficit in FY94/95 combined with reduced external inflows have resulted in imbalances in internal and external accounts that necessitated urgent stabilization measures.

The adjustment measures required have to focus on the two main imbalances. The first is to sharply reverse the fiscal deficit in the consolidated public accounts and reduce the inordinately large volume of government borrowing from the public enterprises. In the current state of uncertainty, the reduction in the fiscal deficit is paramount. The second is the need to rebuild the foreign exchange reserve stock. These two lines of action are mutually supportive. A reduction in the fiscal deficit will reduce pressures on the balance of payments and contribute to an increase in reserves.

Reducing the fiscal deficit will require a major cut in extra-budgetary expenditures. The main emphasis should be placed on reducing recurrent expenditure levels, including defense spending. Consideration should also be given to a freeze on civil service hiring. Capital expenditures should be postponed in such a way as to protect the maintenance of the existing capital stock and high priority economic and social infrastructure. In summary, the short-term stabilization program should focus on expenditure reduction measures which are at the same time consistent with the long-run objective of restoring The Gambia's external competitiveness.

Major revenue reform policies have already taken place and tinkering with them further could have an adverse impact on incentives. But given the size of the deficit and the need to reduce absorption, it will be necessary to (i) redouble efforts on tax administration; (ii) minimize revenue leakages; and (iii) strictly enforce penalties for tax defaulters. If public expenditures and revenue administration can be restructured along the lines suggested here, it should be possible to restore a viable balance in the fiscal accounts by the end of 1996/97. On the external side, the government will have to secure grants and concessional credit from the donor community to provide balance of payments support, allow the replenishing of reserves, and generally, to facilitate the adjustment process.

C. Tourism

Throughout the 1980s and into the 1990s, the dynamic performance of the tourism sector has been one of the main sources of growth in the economy. The growth of tourism over the period, however, is mainly attributable to the relatively low cost of a holiday and European tourists who enjoy The Gambia. These favorable external circumstances mask a number of disturbing features affecting the Gambia tourism industry:

- Control of tourism packages and pricing are determined by tour operators in Europe, depriving the government of critical foreign exchange to improve the sector; and

- Highly undiversified tourist product centered mainly on beaches makes it difficult to attract high end tourists.

The main focus of a strategy to promote tourism should center on: (i) implementation of a consistent package of macroeconomic reforms and policies; (ii) public sector expenditure on maintenance, roads, and other tourism related infrastructure; (iii) approaches to diversify the tourist product; and (iv) increased promotion of The Gambia's tourism in Europe and the United States.

D. Summary and Conclusion

The Gambia faces a severe test in the next two years. Recent policies and reactions have adversely affected the economy and brought economic life to a virtual standstill. The emerging problems and uncertainties in the economy will only exacerbate the current economic conditions. The economic outlook for the future even with the resumption of donor assistance is not optimistic. But for now, this appears to be the last chance to reverse a deteriorating economic situation. The decisions that will be made by the military government in the coming months will determine if progress can be made in resuming donor assistance. Even so, the interest of the nation will be better served, if a compromise position can be reached between donors and the government on the sequencing of the transitional program.

Annex 1

THE GAMBIA - KEY ECONOMIC INDICATORS, 1991/92-1994/95

	Actual	Prelim.				
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
GDP Growth Rate	4.0	2.1	0.8	-5.2	-2.0	-0.3
GDP/Capita Growth Rate	1.1	-1.9	-3.1	-8.9	-5.9	-4.2
Consumption/Capita Growth Rate		0.3	-2.3	-4.4	-4.4	-1.7
Total DOD a/ (in US$)	344.6	356.5	364.3	359.8	354.8	362.1
DOD/XGS b/	156.5	154.9	171.9	204.3	227.6	226.1
Debt Service (in US$)	31.7	34.0	34.2	35.3	28.2	25.2
Debt Service/XGS	14.4	14.8	16.1	20.0	18.1	15.7
Interest/XGS (paid)	3.2	3.1	3.1	3.3	3.2	2.8
Gross Investment/GDP	18.8	19.2	19.8	18.2	17.8	17.2
Domestic Savings/GDP	3.5	1.3	0.5	-4.4	-6.1	-8.8
National Savings/GDP	5.3	4.7	5.3	0.7	-1.0	-2.3
Exports/GDP (Current Prices)	63.0	60.0	51.5	42.0	40.8	39.6
Imports/GDP (Current Prices)	78.3	75.5	66.7	60.2	63.3	64.2
Current Account (in US$)	-43.6	-48.7	-49.8	-58.7	-63.2	-68.0
Current Account/GDP	-13.5	-13.7	-13.2	-15.7	-19.1	-20.0
Current Account/XGNFS	-21.4	-22.9	-25.7	-37.5	-46.9	-50.5
Terms of Trade Index	100.0	102.7	106.8	107.6	106.8	106.9

Source: MFEA & CBG projections.

Annex 2

THE GAMBIA -- ACTUAL AND PROJECTED NATIONAL ACCOUNTS, FY91-FY95
(1991 constant prices)

A. National Accounts Indicators as Shares of GDP/GDY (%)

	Actual	Prelim.	Projections			
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Gross Domestic Product m.p.	100.0	98.7	97.6	97.8	98.3	98.3
Net Indirect Taxes	18.2	18.9	16.6	15.4	15.1	15.2
Agriculture	22.9	20.8	24.2	27.6	29.7	31.2
Industry	11.9	12.2	12.1	10.9	10.7	10.6
(of which Manufacturing)	5.9	6.1	5.8	5.2	5.0	5.0
(of which Mining)	0.0	0.0	0.0	0.0	0.0	0.0
Services	47.0	46.8	44.7	43.9	42.7	41.4
Resource Balance	-15.3	-17.6	-18.9	-22.2	-23.6	-25.7
Exports of GNFS	63.0	61.8	53.1	44.2	38.2	37.1
Imports of GNFS	78.3	79.4	71.9	66.4	61.8	62.9
Total Expenditures	115.3	116.6	116.9	120.5	122.2	124.4
Total Consumption	96.5	97.4	97.1	102.3	104.4	107.2
Private Consumption	83.5	84.2	83.5	87.3	88.6	90.7
General Government	13.1	13.3	13.6	14.9	15.9	16.5
Gross Domestic Investment	18.8	19.2	19.8	18.2	17.8	17.2
Terms of Trade Adjustment	0.0	1.3	2.4	2.2	1.7	1.7
Gross Domestic Income	100.0	100.0	100.0	100.0	100.0	100.0
Gross National Income	98.3	98.3	98.4	98.5	98.4	98.6
Gross National Product	98.3	97.1	96.0	96.3	96.7	96.9
Gross Domestic Saving	3.5	1.3	0.5	-4.4	-6.1	-8.8
Net Factor Income	-1.7	-1.7	-1.6	-1.5	-1.6	-1.4
Net Current Transfers	3.5	3.7	3.9	4.5	5.0	6.4
Gross National Saving	5.3	3.3	2.7	-1.5	-2.7	-3.9

Source: Ministry of Finance and Economic Affairs.

Annex 3

THE GAMBIA - NATIONAL ACCOUNTS GROWTH RATES BY SECTOR

	Actual	Prelim.	Projections			
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Gross Domestic Product m.p.	4.0	2.1	0.8	-5.2	-2.0	-0.3
Net Indirect Taxes	..	7.1	-10.2	-12.2	-4.3	0.2
Agriculture	-3.1	-6.0	18.4	8.0	5.0	4.5
Industry	-8.5	6.7	1.0	-15.0	-4.1	-1.3
(of which Manufacturing)	-1.2	5.3	-2.9	-15.0	-5.5	0.0
(of which Mining)	-12.2	14.8	10.0	9.0	5.1	5.0
Services	2.2	3.0	-2.6	-7.1	-5.2	-3.5
Exports of GNFS a/	-5.3	1.5	-12.4	-21.3	-15.8	-3.1
Imports of GNFS a/	-2.7	4.9	-7.6	-12.7	-9.3	1.4
Total Expenditures	..	4.4	2.1	-2.5	-1.0	1.4
Total Consumption	..	4.4	1.7	-0.4	-0.5	2.3
Private Consumption	..	4.3	1.2	-1.1	-1.1	2.1
General Government	..	5.0	5.0	3.5	3.5	3.5
Gross Domestic Investment	..	4.3	4.0	-12.9	-4.2	-3.6
Gross Domestic Income	..	3.4	2.0	-5.5	-2.5	-0.3
Gross National Income	..	3.4	2.1	-5.4	-2.6	-0.1
Gross National Product	..	2.1	0.9	-5.2	-2.1	-0.1
Gross Domestic Saving	83.7	-23.5	14.4	-174.2	91.6	60.6

Source: Ministry of Finance and Economic Affairs.

Annex 4

THE GAMBIA - ACTUAL AND PROJECTED NATIONAL ACCOUNTS, FY1991-FY1995
(FY1991 dalasi million)

	Actual	Prelim.	Projections			
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Gross Domestic Product m.p.	2,948	3,010	3,035	2,877	2,818	2,811
Net Indirect Taxes	537	575	516	453	434	435
Agriculture	675	634	751	811	852	890
Industry	350	373	377	321	308	303
(of which Manufacturing)	175	185	179	152	144	144
(of which Mining)	1	1	1	1	1	1
Services	1,386	1,428	1,391	1,292	1,225	1,182
Resource Balance	(452)	(538)	(587)	(654)	(677)	(736)
Exports of GNFS	1,856	1,884	1,651	1,300	1,095	1,061
Imports of GNFS	2,308	2,422	2,238	1,954	1,772	1,797
Total Expenditures	3,399	3,548	3,622	3,532	3,496	3,546
Total Consumption	2,845	2,970	3,021	3,008	2,994	3,063
Private Consumption	2,461	2,566	2,597	2,569	2,540	2,593
General Government	385	404	424	439	454	470
Gross Domestic Investment	554	578	601	524	502	483
Gross Domestic Income	2,948	3,048	3,111	2,941	2,866	2,858
Gross National Income	2,899	2,998	3,061	2,896	2,821	2,817
Gross National Product	2,899	2,959	2,986	2,832	2,773	2,770
Gross Domestic Saving	102	78	90	(67)	(128)	(205)
Net Factor Income	(49)	(51)	(50)	(45)	(45)	(41)
Net Current Transfers	104	113	121	132	144	182
Gross National Saving	157	140	161	20	(29)	(63)

Source: Ministry of Finance and Economic Affairs.

Annex 5

THE GAMBIA -- EXTERNAL TRADE, FY1991-FY1995

A. Volume, Value and Prices	Actual	Prelim.	Projections			
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Merchandise Exports	Volume Index 1990=10100					
Groundnuts/Groudnuts Products	100.0	83.5	78.1	83.1	88.6	93.0
Cotton Seeds/Lint	100.0	100.0	100.0	100.0	100.0	100.0
Sea Food	100.0	103.5	112.6	118.2	124.1	130.3
Horticultural Products	100.0	101.0	113.6	127.8	140.6	154.7
Re-Exports	100.0	108.5	70.5	52.9	42.3	38.1
Other Goods	100.0	51.5	92.7	94.5	97.5	100.4
Total Merch. Exports FOB	100.0	103.5	73.6	60.0	52.3	49.7
Merchandise Exports	Value (US$ million)					
Groundnuts/Groudnuts Products	14.7	11.7	11.8	14.2	14.3	15.7
Cotton Seeds/Lint	0.2	0.2	0.2	0.2	0.3	0.3
Sea Food	2.9	3.0	3.3	3.5	3.8	4.0
Horticultural Products	1.8	1.9	2.1	2.5	2.8	3.2
Re-Exports	116.4	130.5	89.2	68.2	56.3	52.2
Other Goods	5.5	2.9	5.4	5.7	6.0	6.3
Total Merch. Exports FOB	141.6	150.2	112.1	94.3	83.4	81.6
Merchandise Imports	Volume Index 1990=10100					
Food	100.00	102.12	102.29	76.04	60.55	53.54
Other Consumer Goods	100.00	102.12	102.29	77.51	57.89	49.48
Petroleum	100.00	107.84	110.28	104.54	103.46	103.49
Imports for Re-Exports	100.00	112.84	82.76	60.90	52.45	63.90
Capital Goods	100.00	100.86	102.07	102.07	91.34	88.02
Merchandise Imports	Value (US$ million)					
Food	35.86	35.15	35.44	28.90	23.37	21.05
Other Consumer Goods	17.99	17.45	18.36	14.18	10.93	9.61
Petroleum	21.31	21.00	20.29	18.27	18.44	18.80
Imports for Re-Exports	71.29	83.07	62.26	46.71	41.50	52.05
Capital Goods	41.83	43.57	45.28	46.17	42.62	42.28
Country Indices	Price Indices 1990=1=100					
Merchandise Exports	100.0	102.5	107.6	111.0	112.7	116.0
Merchandise Imports	100.0	99.8	100.8	103.1	105.5	108.5
Merch. Terms of Trade	100.0	102.7	106.8	107.6	106.8	106.9

Annex 6

THE GAMBIA - BALANCE OF PAYMENTS, FY1991-FY1995
(US$ million)

	Actual	Prelim.	Projections				
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
A. Exports of Goods & NFS	204	213	194	157	135	135	141
1. Merchandise (FOB)	142	150	112	94	83	82	85
2. Non-Factor Services	62	63	81	62	51	53	56
B. Imports of Goods & NFS	254	268	251	224	209	218	226
1. Merchandise (CIF)	188	200	182	154	137	144	149
2. Non-Factor Services	65	68	69	70	72	74	76
C. Resource Balance	(50)	(55)	(57)	(68)	(74)	(84)	(85)
D. Net Factor Income	(5)	(6)	(6)	(5)	(5)	(4)	(4)
1. Factor Receipts	5	5	5	5	5	6	6
2. Factor Payments	10	11	11	10	10	10	10
Interest on LT	6	7	6	5	5	4	4
Total Interest	7	7	7	6	5	4	4
E. Net Current Transfers	11	12	13	14	16	20	14
F. Current Account Balance	(44)	(49)	(50)	(59)	(63)	(68)	(75)
G. Long-Term Capital Inflow	56	43	41	32	33	38	43
1. Direct Investment	10	10	6	6	6	6	6
2. Official Capital Grants	32	29	31	16	15	18	22
3. Net LT Loans (DRS data)	14	4	3	10	11	13	15
a. Disbursements	26	22	21	29	28	26	25
b. Repayments	13	18	18	19	17	12	11
5. Other Inflows	0	0	0	0	0	0	0
H. Total Other Items (net)	7	7	9	0	0	0	0
1. Net Short Term Capital	0	0	0	0	0	0	0
2. Capital Flows N.E.I.	0	0	9	0	0	0	0
3. Errors and Omissions	7	7	0	0	0	0	0
I. Changes in Net Reserves	-19	-1	-0	27	31	30	32
1. Net Credit from the IMF	0	(2)	(3)	(5)	(6)	(5)	(5)
3. Other Reserve Changes	0	(2)	3	4	3	(2)	(1)
Memorandum Item:							
GDP (Mlns. of Current US$)	323.9	354.8	376.0	372.5	330.4	339.3	351.0
Gross International Reserves	92.2	97.0	96.8	69.8	39.2	9.2	-22.7
Gross Reserves (Wks. of Imp.)	18.9	18.8	20.1	16.2	9.8	2.2	-5.2

Source: MFEA & CBG.

Annex 7

THE GAMBIA - ACTUAL AND PROJECTED EXTERNAL DEBT, 1991-1995
(US$ million)

	Actual	Prelim.	Projections				
	1991	1992	1993	1994	1995	1996	1997
A. Disbursements							
1. Public & Publicly Guar. LT	19	36	31	21	18	28	24
Official Creditors	19	36	31	21	18	28	24
Multilateral	17	33	28	19	17	27	23
of which IBRD	0	0	0	0	0	0	0
of which IDA	7	23	18	11	7	6	4
Bilateral	2	2	3	2	1	1	1
Private Creditors	0	0	0	0	0	0	0
Suppliers	0	0	0	0	0	0	0
Financial Markets	0	0	0	0	0	0	0
2. Private Non-Guar. LT	0	0	0	0	0	0	0
3. Total LT Disbursements	19	36	31	21	18	28	24
4. IMF Purchases	5	0	0	0	0	0	0
5. Net Short-Term Capital	0	0	0	0	0	0	0
6. Total incl. IMF & Net ST	23	36	31	21	18	28	24
B. Repayments							
1. Public & Publicly Guar. LT	21	25	25	25	17	15	13
Official Creditors	12	16	16	17	17	15	13
Multilateral	5	7	7	7	7	7	8
of which IBRD	0	0	0	0	0	0	0
of which IDA	0	1	1	1	1	2	2
Bilateral	7	9	9	10	9	8	5
Private Creditors	9	9	9	8	0	0	0
Suppliers	5	5	5	4	0	0	0
Financial Markets/Bonds	4	4	4	4	0	0	0
2. Private Non-Guar. LT	0	0	0	0	0	0	0
3. Total LT Repayments	21	25	25	25	17	15	13
4. IMF Repurchases	4	2	3	5	6	5	5
5. Total LT Repay.+IMF Repur.	25	27	28	29	23	21	18

Annex 7

THE GAMBIA - ACTUAL AND PROJECTED EXTERNAL DEBT, 1991/92-1995/96

(US$ million)

	Actual	Prelim.	Projections				
	1991	1992	1993	1994	1995	1996	1997
C. Interest							
1. Public & Publicly Guar. LT	6	7	6	5	5	4	4
Official Creditors	5	6	6	5	5	4	4
Multilateral	3	3	3	3	3	3	3
of which IBRD	0	0	0	0	0	0	0
of which IDA	1	1	1	1	1	1	1
Bilateral a/	2	3	2	2	2	1	1
Private Creditors	1	1	1	0	0	0	0
Suppliers	0	0	0	0	0	0	0
Financial Markets/Bond	1	1	0	0	0	0	0
2. Private Non-Guar. LT	0	0	0	0	0	0	0
3. Total LT Interest	6	7	6	5	5	4	4
4. IMF Service Charges	1	0	0	0	0	0	0
5. Interest on ST Debt	0	0	0	0	0	0	0
6. Total incl. IMF & Net ST	7	7	7	6	5	4	4
D. External Debt (DOD)							
1. Public & Publicly Guar. LT	306	320	330	330	332	344	355
Official Creditors	294	312	326	330	332	344	355
Multilateral	221	245	266	278	288	307	323
of which IBRD	0	0	0	0	0	0	0
of which IDA	108	131	148	158	163	168	169
Bilateral	73	66	60	52	44	37	33
Private Creditors	12	8	4	0	0	0	0
Suppliers	0	0	0	0	0	0	0
Financial Markets/Bonds	12	8	4	0	0	0	0
2. Private Non-Guar. LT	0	0	0	0	0	0	0
3. Total Long-Term DOD	306	320	330	330	332	344	355
4. IMF Credit	39	37	34	30	23	18	12
5. Short-Term Debt b/	0	0	0	0	0	0	0
6. Total incl. IMF & Net ST	345	356	364	360	355	362	367

Source: Ministry of Finance and Economic Affairs.