INTERNATIONAL MONETARY FUND

THE GAMBIA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY, CANCELLATION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND PROPOSAL FOR A STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the Staff of the International Monetary Fund (IMF) and the International Development Association (IDA).[1]

This debt sustainability analysis for low-income countries (DSA) confirms[2] a moderate risk of external debt distress for The Gambia, while public debt continues to pose significant risks. With one exception, Gambian external debt indicators remain below established thresholds in baseline and historical projections. The debt to exports ratio breaches the established threshold for only one year, 2015, driven by a temporary, exogenous shock to exports. This and another indicator, the present value of debt to GDP, breach their thresholds under a one-time depreciation shock before subsiding. The stock of total public debt is significantly above the indicative threshold and is a major source of concern. Considering the elevated level and recent rapid growth of public debt, The Gambia faces a heightened overall risk of debt distress.

[1] The DSA was prepared jointly by Bank and Fund staff, in consultation with the Debt Management Unit of the Gambian Ministry of Finance and Economic Affairs. The fiscal year for The Gambia is January 1- December 31.

[2] The previous DSA was prepared in May 2013 (IMF Country Report No. 13/139).

UNDERLYING ASSUMPTIONS

1. The macroeconomic framework underlying the DSA incorporates estimated shocks to tourism exports and agricultural output as well as the authorities' consolidation program. The regional Ebola outbreak has deterred tourists from traveling to The Gambia, likely resulting in a 60 percent decline in the country's principal export in 2014/15 tourism season. Erratic rainfall patterns and border closures due to the Ebola crisis have also weighed on traditional exports and related imports causing a short term decline in the growth of trade flows. Both are expected to recover after 2016 and long-run growth forecasts remain roughly unchanged compared with the previous DSA. Downside risks to growth remain, particularly in the recovery in tourism, and are captured in the negative growth shock scenario.

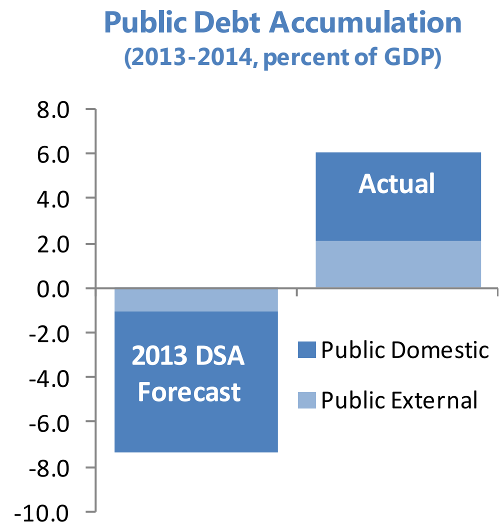
2. Debt accumulation has been significantly larger anticipated in the 2013 DSA due to fiscal slippages. Fiscal execution fell short of program targets in the second half of 2013, while further slippages, support for SOEs, and losses associated with Ebola caused further significant accumulation of debt in 2014. In total, the net present value of public debt rose by six percent of GDP from end-2012 to end-2014, against a forecast of a 7 percent fall. This number difference would be even starker but for the change in discount rate used to assess public debt between the last DSA and this one (see below). Continuing trends identified in the previous DSA, new debt accumulation was primarily domestic. Domestically denominated debt accounted for two thirds of net borrowing and raising the domestic share of public debt to 45 percent, up from 33 percent in

Text Table 1. The Gambia: Selected Macroeconomic Indicators

	2013	2014	2015	2016	2017	2018	2019	2020-2034
Real GDP Growth (percent)								
Current DSA	4.8	-0.2	5.1	8.7	6.2	5.9	5.9	5.9
Previous DSA[1]	9.0	8.5	6.5	5.9	5.9		5.5	
CA deficit (percent of GDP)[2]								
Current DSA	10.7	12.6	13.5	10.2	9.5	9.1	9.0	8.6
Previous DSA	16.2	14.4	13.6	13.3	13		13.6	
Exports of goods and services growth (percent)[3]								
Current DSA	-6.0	-11.3	-26.1	42.7	15.5	12.4	9.1	7.7
Previous DSA	6.6	7.4	7.6	7.6	7.8		7.0	
Imports of goods and services growth (percent)[3]								
Current DSA	-7.2	-0.9	-9.9	10.3	10.9	10.1	8.5	7.5
Previous DSA	0.6	4.4	5.7	6.6	6.7		7.5	
Overall fiscal deficit[4]								
Current DSA[5]	8.6	13.3	3.2	1.6	1.9	0.9	1.0	1.1
Previous DSA	1.7	1.7	1.7	1.3	1.3		0.9	

[1] May 2013 (IMF Country report No. 13/139)
[2] Includes worker's remittances
[3] In currnt dollar terms, including reexports.
[4] Includes reexports and grants.
[5] Deficit forecast through 2028

2008. Domestic debt is shorter in duration and comes at a higher interest rate increasing both the costs and the risks of the debt stock.



3. The medium-term fiscal outlook includes the fiscal consolidation the authorities committed to in the MEFP, recovery of growth, and therefore improved revenue performance. Revenues are expected to perform well over the medium term owing to recent improvements in revenue collection efficiency with the help of Fund technical assistance, as well as the various revenue measures listed in the MEFP, including the elimination of fuel subsidies that took place in late 2014. The government has also committed to finding solutions to SOE's financial problems which will also boost revenue collection going forward. The fiscal consolidation anticipated in the previous DSA did not take place during 2013–14, but the authorities have committed to a strong fiscal adjustment starting in 2015 in order to return to fiscal sustainability and have begun implementing necessary actions to realize their ambitious fiscal consolidation target.

4. A recent revision to historical BOP estimates has reduced historical and forecast debt dynamics residuals. The IMF's BOP estimates have recently been harmonized with the authorities' estimates. At the time of the last DSA, staff maintained separate estimates for BOP data from those of the authorities. Staff estimated, for example, a current account deficit of 16.2 percent for 2013, while the authorities estimated a current account surplus (see Text Table 1). Staff estimates had difficulty explaining actual rates of accumulated external debt (see Text Table 2). Recent TA from the IMF and DFID, along with a sustained revision effort at the CBG, have brought the authorities estimates into better alignment with external debt data and the rest of the macroframework. Staff has adopted these estimates in the current macroeconomic framework and this DSA. While these revisions have not significantly affected the forecast path of external debt, the current account deficits are now in the high single digits and historical debt dynamics residuals are smaller and unbiased compared with the previous DSA.

Text Table 2. The Gambia: BOP Data Revision and Debt Dynamics, 2011

	Authorities' Previous Estimates	Staff's Pevious Estimates	Harmonized Estimates
External debt (percent GDP)	**46.0**	**46.0**	**46.0**
Change in external debt	2.8	2.8	2.8
Identified net debt-creating flows	-7.4	11.8	8.4
of which: Non-interest current account deficit	**-11.1**	**14.7**	**11.3**
Residual (3-4) 3/	**10.2**	**-9.0**	**-5.6**

5. **The adoption of a uniform 5 percent discount rate on NPV calculations has improved the debt outlook.** Consistent with the policy adopted by the IMF Board of Directors, the net present value of debt is now assessed at a uniform 5 percent discount rate. The discount rate used in the previous DSA was 3 percent. This change reduced the NPV of the stock of external debt by about 4 percent of GDP and that of total public debt by about 5 percent. These reductions were offset by unanticipated borrowing during 2013–14.

EXTERNAL DSA

6. **External debt indicators are not projected to breach established debt thresholds for a sustained period.**[3] Due to the dramatic decline in tourism and erratic rains, most debt indicators are projected to spike in 2015, temporarily breaching the threshold for the present value of external debt to exports ratio. This is a denominator-driven effect which is anticipated to fall back below the threshold after 2016, failing to meet the standard of a sustained breach. All other indicators peak below established thresholds and moderate further over the forecast horizon.

7. **Alternative scenarios indicate different long-run paths for debt distress indicators but remain below established thresholds.** Forecast indicator paths under a historical scenario are slightly more optimistic than those under the baseline, principally due to a slightly lower current account deficit in the initial years of the forecast (9.2 percent of GDP). An alternative scenario with less favorable financing yields results similar to the baseline scenario with mildly more pessimistic long run implications. In that scenario the present value of debt never falls below 27 percent of GDP and rises to 30 by the end of the forecast period. Both alternative scenarios remain below established thresholds for all indicators in all periods except, as with the baseline, in the case of the exports ratio in 2015 driven by the external shock.

8. **The thresholds are breached for sustained periods under the shock scenarios, most notably under a 30 percent depreciation scenario.** Shock scenario indicators based on exports roughly track the

[3] This DSA was prepared with a base year of 2013 and a first year of projection of 2014. Many of the underlying data for 2014 remain staff estimates in absence of finalized data from the authorities. In addition, 2015 forecasts present a poor basis for shock scenarios as the extreme shock which forms the basis of the RCF is already part of the baseline.

extremely poor baseline path anticipated for 2015, for example in the debt to exports ratio, indicating that the current Ebola shock is of the order of magnitude intended to be captured by the shock scenarios. The only indicator to feature a sustained breach in established thresholds is the debt to GDP ratio, where a 30 percent depreciation would cause external debt to spike at nearly 50 percent of GDP in 2015 and remain above the threshold until 2020. These results highlight the small, open character of the Gambian economy and its exposure to exchange rate variation. Prudent fiscal and monetary policies of the kind designed in the rapid credit facility (RCF) arrangement with the staff-monitored program will be critical to minimizing the risk of such a scenario materializing.

PUBLIC DSA

9. Total public debt is currently significantly in excess of its indicative threshold and is not expected to fall below it until 2019. The Gambia's total public debt currently stands at 100 percent of GDP in nominal terms and just above 80 percent of GDP in net present value terms, more than 25 percent above the indicative threshold for public debt distress. Even under the significant fiscal consolidation foreseen under the baseline of our framework, public debt would not fall below the threshold until 2019.

10. Public debt dynamics are vulnerable to a shock to domestic interest rates. All domestic public debt is in T-bills with maturity less than one year. A spike in T-bill rates since mid-2013, as well as the significantly larger-than-expected domestic borrowing during 2013–14, largely explains the noticeable increase in public debt to GDP ratio over the past two years.[4] The baseline scenario assumes that T-bill rates gradually will decline to the levels observed in early 2013 by 2017 as the strong fiscal consolidation brings down the net domestic borrowing to GDP ratio from over 12 percent in 2014 to 1 percent in 2015 and ½ percent in 2016 and thereafter. If T-bill rates stay at the levels observed in late 2014 for the next several years, public debt would remain above 80 percent of GDP at end-2019, even assuming the same primary deficit path as in the baseline. This highlights the importance for the authorities of implementing strictly their ambitious fiscal consolidation plan to bring down the T-bill rates.

11. Given the short maturity and elevated stock of domestic debt, The Gambia is subject to a high rollover risk of domestic debt. The government's medium-term debt strategy envisages issuing longer-term bonds which would eventually help reduce the high rollover risk. However, as domestic interest rates are prohibitively high at this time, issuing longer-term bonds will need to wait until the authorities' fiscal adjustment is firmly in place and has helped to reduce T-bill yields.

12. Alternative scenarios indicate a more tenuous path to return to a lower overall risk of debt distress. Under the historical scenario, which features a relatively mild primary deficit of 0.2 percent of GDP, the public debt ratio would fall more slowly, declining only to 65 percent of GDP in the next 10 years and remaining above the indicative threshold for the entire forecast period. Fixing the primary balance at its estimated level in 2014, a deficit of 7.4 percent of GDP yields an explosive path for public debt which rises

[4] The 12-month T-bill rate increased from 10¾ percent in April 2014 to 18½ percent in October 2013 and has hovered around that level since then, reflecting the fiscal slippages since mid-2013 and impact of the regional Ebola outbreak starting in mid-2014. ,

continuously over the forecast period. 2014 featured an exceptionally high fiscal deficit, so this scenario should not be considered a likely outcome, but it serves to illustrate the unsustainable nature of recent fiscal slippages.

13. Shock scenarios remain closer to the baseline forecast than the historical scenarios. For all three indicators, the 30 percent depreciation scenario was the most extreme shock, as in the external DSA. These results highlight again the country's exposure to external conditions and the centrality of prudent policy-making. The authorities' commitment not to intervene in foreign exchange markets paired with determined fiscal consolidation will help prevent such a sharp depreciation scenario from materializing. Unlike the alternative scenarios, the shock scenarios have the same long-run features as the baseline, with public debt indicators falling substantially with consolidation once the shock has run its course.

CONCLUSION

14. This debt sustainability analysis confirms the finding of the previous DSA of a moderate risk of external debt distress in The Gambia. While the export ratio breaches the threshold in the baseline this is a temporary breach driven by the shock to tourism services exports, the motivation for the authorities; request for the Fund support under the RCF. In all other years and for all other indicators forecast remain below established thresholds in the baseline and historical scenarios. The shocks scenarios, the 30 percent depreciation in particular, drive indicators to sustained breaches as in the previous DSA.

15. The indicators of total public debt distress risk are much more elevated, justifying a heightened overall risk of debt distress. Public debt levels are well above indicative thresholds. The authorities will need to take concerted and sustained efforts to bring the public debt below established thresholds of acceptable risk. The fiscal outcomes of the past two years and the exogenous shocks exerting pressure on the Gambian economy make the authorities' current consolidation plan all the more critical.

Table 1. The Gambia: External Debt Sustainability Framework, Baseline Scenario, 2011–2034 1/

(in percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**46.0**	**48.0**	**50.3**			**57.7**	**60.3**	**55.9**	**53.2**	**49.7**	**46.6**		**34.8**	**21.8**	
of which: public and publicly guaranteed (PPG)	44.1	43.7	46.2			54.6	57.6	53.2	50.5	47.0	43.9		32.1	19.1	
Change in external debt	2.7	2.0	2.3			7.4	2.7	-4.4	-2.7	-3.5	-3.1		-1.9	-0.9	
Identified net debt-creating flows	8.1	-3.8	1.8			3.6	0.7	-4.7	-3.3	-2.9	-2.7		-1.6	-0.9	
Non-interest current account deficit	**11.4**	**7.1**	**9.9**	**9.2**	**3.6**	**12.6**	**13.5**	**10.1**	**9.4**	**9.0**	**8.8**		**8.6**	**8.0**	8.4
Deficit in balance of goods and services	14.6	13.4	12.2			16.5	20.6	14.9	13.9	13.5	13.3		12.5	11.1	
Exports	26.5	30.9	29.4			28.4	22.1	30.2	32.2	33.4	33.7		33.0	31.5	
Imports	41.1	44.3	41.6			44.9	42.7	45.1	46.2	46.9	47.0		45.5	42.6	
Net current transfers (negative = inflow)	-5.9	-8.7	-4.0	-8.0	2.8	-6.9	-10.5	-8.6	-8.3	-8.1	-7.9		-6.7	-5.0	-6.2
of which: official	0.0	-1.0	0.0			0.0	-4.4	-0.8	-0.7	-0.8	-0.8		-0.5	-0.4	
Other current account flows (negative = net inflow)	2.7	2.4	1.7			3.0	3.4	3.9	3.7	3.6	3.4		2.8	1.9	
Net FDI (negative = inflow)	**-6.7**	**-11.2**	**-9.5**	**-9.3**	**1.5**	**-9.2**	**-9.7**	**-10.0**	**-9.6**	**-9.0**	**-8.9**		**-8.4**	**-7.9**	-8.3
Endogenous debt dynamics 2/	**3.4**	**0.3**	**1.4**			**0.1**	**-3.1**	**-4.9**	**-3.1**	**-2.8**	**-2.6**		**-1.8**	**-1.0**	
Contribution from nominal interest rate	0.9	0.9	0.8			0.0	0.1	0.1	0.1	0.1	0.2		0.2	0.3	
Contribution from real GDP growth	2.0	-2.5	-2.3			0.1	-3.1	-5.0	-3.2	-2.9	-2.7		-2.0	-1.2	
Contribution from price and exchange rate changes	0.6	1.9	2.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-5.4**	**5.8**	**0.5**			**3.8**	**2.0**	**0.3**	**0.6**	**-0.6**	**-0.5**		**-0.3**	**0.0**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	31.9			36.3	38.4	36.0	34.6	32.8	31.1		24.1	15.4	
In percent of exports	...	...	108.8			128.0	173.7	119.2	107.5	98.1	92.3		73.1	49.0	
PV of PPG external debt	**...**	**...**	**27.9**			**33.2**	**35.7**	**33.3**	**31.9**	**30.1**	**28.4**		**21.4**	**12.7**	
In percent of exports	**...**	**...**	**95.0**			**117.2**	**161.2**	**110.3**	**99.1**	**90.1**	**84.3**		**64.9**	**40.3**	
In percent of government revenues	**...**	**...**	**171.1**			**179.5**	**170.9**	**154.1**	**144.8**	**135.1**	**127.4**		**97.7**	**60.1**	
Debt service-to-exports ratio (in percent)	**9.0**	**8.6**	**8.9**			**8.3**	**11.7**	**8.2**	**7.0**	**6.6**	**6.3**		**5.6**	**3.9**	
PPG debt service-to-exports ratio (in percent)	**9.0**	**8.6**	**8.9**			**8.3**	**11.7**	**8.2**	**7.0**	**6.6**	**6.3**		**5.6**	**3.9**	
PPG debt service-to-revenue ratio (in percent)	**14.8**	**16.2**	**16.0**			**12.7**	**12.4**	**11.4**	**10.3**	**9.9**	**9.5**		**8.4**	**5.8**	
Total gross financing need (Millions of U.S. dollars)	92.5	3.7	66.3			84.0	74.9	43.2	39.9	44.2	46.9		69.4	131.0	
Non-interest current account deficit that stabilizes debt ratio	8.7	5.1	7.6			5.2	10.8	14.6	12.1	12.4	12.0		10.5	8.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-4.3	5.6	4.8	3.6	3.8	-0.2	5.1	8.7	6.2	5.9	5.9	5.3	5.9	5.9	5.9
GDP deflator in US dollar terms (change in percent)	-1.4	-4.1	-5.7	2.7	9.4	-8.0	-9.9	-3.8	2.0	2.3	2.2	-2.5	2.2	2.2	2.2
Effective interest rate (percent) 5/	1.9	1.9	1.7	1.6	0.4	0.0	0.1	0.2	0.2	0.3	0.3	0.2	0.7	1.2	0.8
Growth of exports of G&S (US dollar terms, in percent)	5.0	18.1	-6.0	3.4	7.0	-11.3	-26.1	42.7	15.5	12.4	9.1	7.1	7.7	7.8	7.7
Growth of imports of G&S (US dollar terms, in percent)	-9.3	9.2	-7.2	3.5	8.3	-0.9	-9.9	10.3	10.9	10.1	8.5	4.8	7.5	7.6	7.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	45.0	38.8	44.8	44.7	44.6	44.5	43.7	41.8	35.2	39.8
Government revenues (excluding grants, in percent of GDP)	16.1	16.4	16.3			18.5	20.9	21.6	22.1	22.3	22.3		21.9	21.1	21.7
Aid flows (in Millions of US dollars) 7/	71.3	109.1	54.9			67.3	62.4	57.8	61.6	55.4	58.7		74.1	111.9	
of which: Grants	46.0	81.4	20.2			28.8	47.6	29.6	29.7	31.7	33.7		40.7	65.4	
of which: Concessional loans	25.3	27.7	34.7			38.5	14.7	28.2	31.8	23.7	24.9		33.4	46.6	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.6	7.4	5.2	5.0	4.4	4.3		3.6	2.5	3.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			68.5	78.4	73.0	71.4	76.3	76.4		73.1	70.5	72.3
Memorandum items:															
Nominal GDP (Millions of US dollars)	898.3	910.0	898.8			825.4	781.4	816.6	884.4	958.1	1037.2		1540.7	3399.6	
Nominal dollar GDP growth	-5.6	1.3	-1.2			-8.2	-5.3	4.5	8.3	8.3	8.3	2.6	8.2	8.2	8.2
PV of PPG external debt (in Millions of US dollars)			237.8			251.7	259.9	268.2	279.2	285.1	291.2		325.8	426.3	
(PVt-PVt-1)/GDPt-1 (in percent)						1.5	1.0	1.1	1.3	0.7	0.6	1.0	0.5	0.5	0.5
Gross workers' remittances (Millions of US dollars)	27.2	61.8	48.7			50.0	53.1	56.0	59.1	62.3	65.7		85.5	144.6	
PV of PPG external debt (in percent of GDP + remittances)	...	...	26.5			31.3	33.4	31.2	29.9	28.3	26.7		20.3	12.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	80.2			96.6	123.3	89.9	82.1	75.4	71.0		55.5	35.5	
Debt service of PPG external debt (in percent of exports + remittance	...	...	7.5			6.8	9.0	6.7	5.8	5.5	5.3		4.8	3.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. Debt values may vary marginally from those in the accompanying staff report due to exchange rate conventions.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

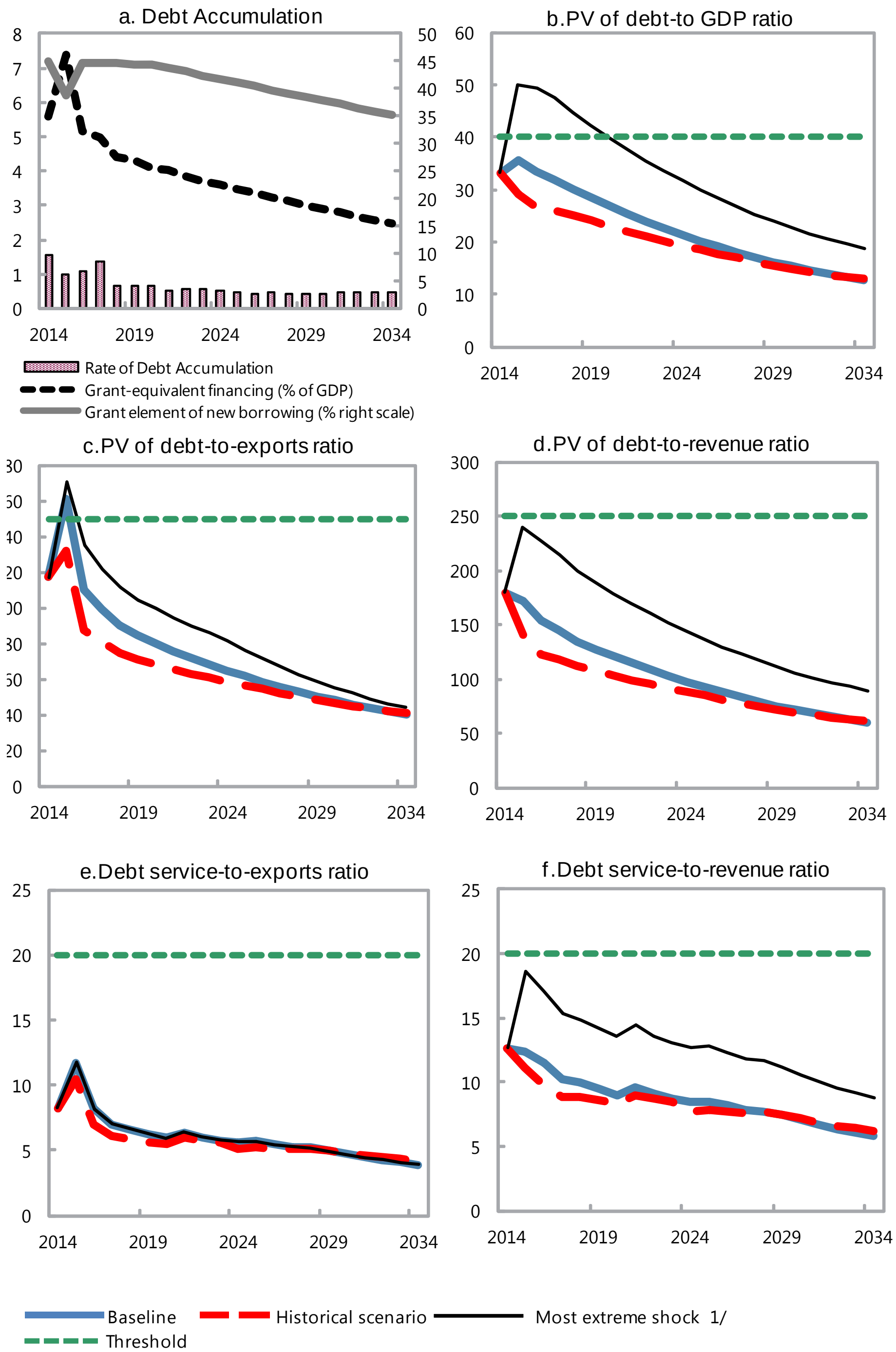
5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Figure 1. The Gambia: Indicators of Public and Publicly Guaranteed External Debt under Alternates Scenarios, 2014–2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Non-debt flows shock; in d. to a One-time depreciation shock; in e. to a Growth shock and in figure f. to a One-time depreciation shock

Table 2a. The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	33	36	33	32	30	28	**21**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	33	29	26	26	25	24	**19**	13
A2. New public sector loans on less favorable terms in 2014-2034 2	33	34	34	34	32	31	**26**	21
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	33	35	38	36	34	32	**24**	14
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	33	29	31	30	28	26	**20**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	33	32	33	31	30	28	**21**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	33	38	41	39	37	35	**27**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	33	29	34	32	30	29	**22**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	33	50	49	47	45	42	**32**	19
PV of debt-to-exports ratio								
Baseline	117	161	110	99	90	84	**65**	40
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	117	132	88	81	75	71	**58**	41
A2. New public sector loans on less favorable terms in 2014-2034 2	117	153	113	105	97	93	**80**	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	117	150	109	98	89	83	**64**	40
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	117	100	116	104	94	88	**68**	44
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	117	150	109	98	89	83	**64**	40
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	117	171	135	122	111	104	**81**	44
B5. Combination of B1-B4 using one-half standard deviation shocks	117	104	118	106	96	90	**70**	43
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	117	150	109	98	89	83	**64**	40
PV of debt-to-revenue ratio								
Baseline	180	171	154	145	135	127	**98**	60
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	180	140	122	118	112	108	**88**	61
A2. New public sector loans on less favorable terms in 2014-2034 2	180	162	159	153	146	140	**121**	97
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	180	168	174	164	153	144	**111**	68
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	180	139	143	134	125	118	**91**	58
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	180	154	151	142	133	125	**96**	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	180	181	189	178	166	157	**122**	65
B5. Combination of B1-B4 using one-half standard deviation shocks	180	141	155	146	136	129	**99**	60
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	180	239	228	215	200	189	**145**	89

Table 2b. The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034 (continued)

(In percent)

				Debt service-to-exports ratio				
Baseline	8	12	8	7	7	6	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	8	10	7	6	6	6	**5**	4
A2. New public sector loans on less favorable terms in 2014-2034 2	8	12	8	7	7	7	**6**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	8	12	8	7	7	6	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	8	9	9	8	7	7	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	8	12	8	7	7	6	**6**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	8	12	9	8	7	7	**7**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	8	9	8	7	7	7	**6**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	8	12	8	7	7	6	**6**	4
				Debt service-to-revenue ratio				
Baseline	13	12	11	10	10	9	**8**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	13	11	10	9	9	9	**8**	6
A2. New public sector loans on less favorable terms in 2014-2034 2	13	12	11	11	11	10	**10**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	13	13	13	12	11	11	**10**	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	13	12	11	10	10	9	**7**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	13	12	11	10	10	9	**8**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	13	12	12	11	11	10	**10**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	13	12	11	10	10	10	**8**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	13	19	17	15	15	14	**13**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	38	38	38	38	38	38	**38**	38

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. The Gambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–2034 1/

	Actual			Average 5/	Standard Deviation 5/	Estimate				Projections					
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	77.3	77.0	83.3			101.7	101.5	92.3	86.1	79.6	73.9		51.2	27.3	
of which: foreign-currency denominated	44.1	43.7	46.2			54.6	57.6	53.2	50.5	47.0	43.9		32.1	19.1	
Change in public sector debt	7.6	-0.3	6.4			18.4	-0.2	-9.2	-6.2	-6.5	-5.7		-3.7	-1.6	
Identified debt-creating flows	7.7	2.2	5.9			16.9	0.0	-9.2	-6.2	-6.5	-5.9		-3.6	-1.7	
Primary deficit	0.7	0.6	4.6	0.2	2.3	8.4	-3.3	-3.2	-2.2	-2.4	-1.8	-0.8	-0.5	-0.1	-0.4
Revenue and grants	21.2	25.3	18.5			22.0	27.0	25.3	25.4	25.6	25.6		24.6	23.0	
of which: grants	5.1	8.9	2.2			3.5	6.1	3.6	3.4	3.3	3.3		2.6	1.9	
Primary (noninterest) expenditure	21.9	26.0	23.1			30.4	23.7	22.1	23.2	23.2	23.7		24.0	23.0	
Automatic debt dynamics	7.0	1.5	1.3			8.5	3.9	-6.0	-4.0	-4.0	-4.0		-3.0	-1.6	
Contribution from interest rate/growth differential	4.5	-2.5	-1.8			1.9	-1.6	-6.1	-4.1	-4.1	-4.1		-3.0	-1.6	
of which: contribution from average real interest rate	1.4	1.6	1.7			1.8	3.4	2.0	1.3	0.7	0.4		0.1	0.0	
of which: contribution from real GDP growth	3.1	-4.1	-3.5			0.2	-5.0	-8.1	-5.4	-4.8	-4.5		-3.1	-1.6	
Contribution from real exchange rate depreciation	2.5	4.0	3.1			6.5	5.5	0.1	0.1	0.1	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	-0.6	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	-0.6	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.0	-2.5	0.5			1.5	-0.2	0.0	0.0	0.0	0.1		-0.1	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	65.0			80.3	79.6	72.4	67.6	62.7	58.5		40.6	20.9	
of which: foreign-currency denominated	...	...	27.9			33.2	35.7	33.3	31.9	30.1	28.4		21.4	12.7	
of which: external	...	...	27.9			33.2	35.7	33.3	31.9	30.1	28.4		21.4	12.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	35.7	36.3	40.5			50.5	48.1	42.6	39.3	35.1	32.3		21.5	9.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	350.5			365.1	295.2	286.9	265.9	245.0	228.5		165.1	90.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	398.8			433.9	381.5	335.0	306.5	281.3	261.8		185.0	99.1	
of which: external 3/	...	...	171.1			179.5	170.9	154.1	144.8	135.1	127.4		97.7	60.1	
Debt service-to-revenue and grants ratio (in percent) 4/	25.2	22.3	31.7			32.7	33.6	28.3	24.9	21.2	18.6		13.3	7.8	
Debt service-to-revenue ratio (in percent) 4/	33.2	34.5	36.0			38.9	43.4	33.1	28.7	24.4	21.3		14.9	8.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-6.9	0.9	-1.8			-9.9	-3.1	6.0	4.0	4.1	3.9		3.1	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-4.3	5.6	4.8	3.6	3.8	-0.2	5.1	8.7	6.2	5.9	5.9	5.3	5.9	5.9	5.9
Average nominal interest rate on forex debt (in percent)	2.0	2.0	1.9	1.7	0.4	0.0	0.1	0.2	0.2	0.3	0.4	0.2	0.7	1.4	0.9
Average real interest rate on domestic debt (in percent)	6.1	5.3	4.9	31.6	72.4	6.8	8.9	7.1	6.5	5.0	4.0	6.4	2.6	2.1	2.5
Real exchange rate depreciation (in percent, + indicates depreciation	5.9	9.6	7.3	0.4	11.6	14.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.7	4.5	5.7	4.7	2.9	6.6	5.8	4.7	4.8	4.8	4.8	5.2	4.8	4.8	4.8
Growth of real primary spending (deflated by GDP deflator, in percer	-2.6	24.9	-6.7	1.7	8.4	31.4	-18.3	1.5	11.4	5.9	8.6	6.7	5.8	5.3	5.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	45.0	38.8	44.8	44.7	44.6	44.5	43.7	41.8	35.2	...

Sources: Country authorities; and staff estimates and projections.

1/ Comprises domestically denominated central government debt, and general government external debt, gross.

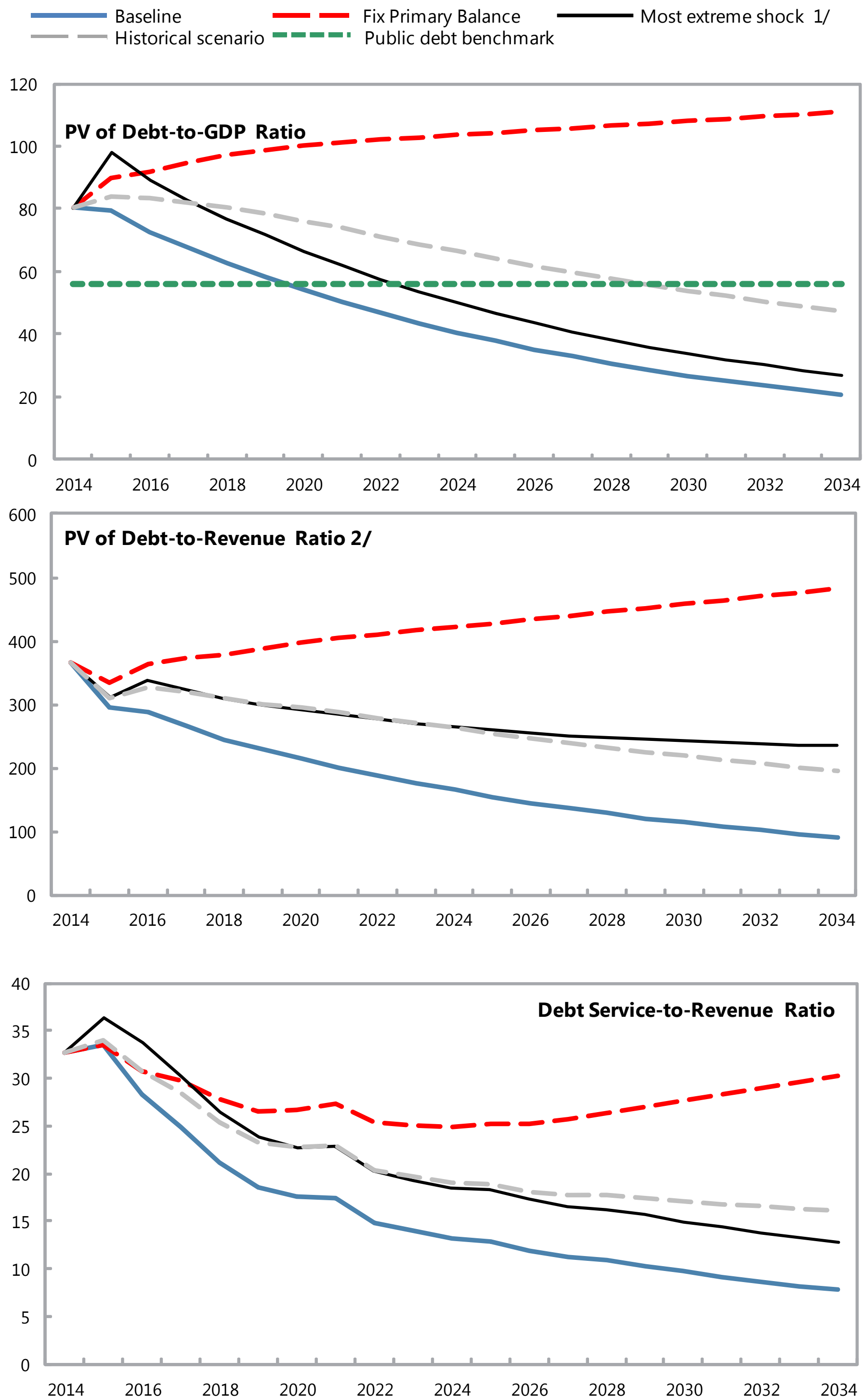
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Figure 2. The Gambia: Indicators of Public Debt Under Alternative Scenarios, 2014–2034 [1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

Table 4. The Gambia: Sensitivity Analysis for Key Indicators of Public Debt 2014–2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	80	80	72	68	63	58	41	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	80	84	83	82	80	78	66	47
A2. Primary balance is unchanged from 2014	80	90	92	95	97	99	104	111
A3. Permanently lower GDP growth 1/	80	80	74	70	66	63	51	47
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20:	80	85	87	84	81	78	66	55
B2. Primary balance is at historical average minus one standard deviations in 2015-201	80	85	82	76	71	66	46	24
B3. Combination of B1-B2 using one half standard deviation shocks	80	87	88	84	80	77	62	47
B4. One-time 30 percent real depreciation in 2015	80	98	89	83	77	72	50	27
B5. 10 percent of GDP increase in other debt-creating flows in 2015	80	89	80	75	69	64	45	24
PV of Debt-to-Revenue Ratio 2/								
Baseline	365	295	287	266	245	229	165	91
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	365	311	327	318	309	301	263	196
A2. Primary balance is unchanged from 2014	365	334	364	373	379	387	422	482
A3. Permanently lower GDP growth 1/	365	298	292	275	257	244	205	202
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20:	365	311	337	323	309	299	264	235
B2. Primary balance is at historical average minus one standard deviations in 2015-201	365	315	325	300	276	257	187	105
B3. Combination of B1-B2 using one half standard deviation shocks	365	319	345	327	309	296	249	203
B4. One-time 30 percent real depreciation in 2015	365	364	353	325	300	280	203	117
B5. 10 percent of GDP increase in other debt-creating flows in 2015	365	328	318	294	270	252	184	103
Debt Service-to-Revenue Ratio 2/								
Baseline	33	34	28	25	21	19	13	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	33	34	31	28	25	23	19	16
A2. Primary balance is unchanged from 2014	33	34	31	30	28	27	25	30
A3. Permanently lower GDP growth 1/	33	34	29	26	22	20	16	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20:	33	35	32	29	25	23	19	16
B2. Primary balance is at historical average minus one standard deviations in 2015-201	33	34	30	27	23	20	14	9
B3. Combination of B1-B2 using one half standard deviation shocks	33	34	32	29	25	23	18	15
B4. One-time 30 percent real depreciation in 2015	33	36	34	30	26	24	19	13
B5. 10 percent of GDP increase in other debt-creating flows in 2015	33	34	30	27	23	20	14	9

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

THE GAMBIA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY, CANCELLATION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND PROPOSAL FOR A STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

March 4, 2015

Prepared By

Staff of the International Monetary Fund in Consultation with the World Bank

CONTENTS

RELATIONS WITH THE FUND

(As of January 31, 2015)

Membership status. Joined September 21, 1967. The Gambia accepted the obligations under Article VIII, Sections 2(a), 3, and 4, of the Fund's Articles of Agreements on January 21, 1993. It maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

General Resources Account	SDR Million	% Quota
Quota	31.10	100.00
Fund holdings of currency	29.59	95.14
Reserve Tranche Position	1.54	4.96

SDR Department	SDR Million	% Allocation
Net cumulative allocation	29.77	100.00
Holdings	21.04	70.69

Outstanding Purchases and Loans	SDR Million	% Quota
ECF arrangements	31.28	100.57

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	May 25, 2012	May 24, 2015	18.66	10.89
ECF	Feb. 21, 2007	Mar. 31, 2011	24.88	22.55
ECF	Jul. 18, 2002	Jul. 17, 2005	20.22	2.89

Projected Payments to Fund (SDR million; based on current use of resources and present holdings of SDRs)[1]

	Forthcoming				
	2015	2016	2017	2018	2017
Principal	3.64	4.28	5.24	5.53	4.58
Charges/interest	0.00	0.00	0.00	0.00	0.03
Total	3.65	4.28	5.25	5.54	4.60

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date[2]	Dec. 11, 2000
Assistance committed (year-end 2000 NPV terms)[3]	
Total assistance (US$ million)	66.60
Of which: IMF assistance (US$ million)	2.30
SDR equivalent, million	1.80
Completion point date	Dec. 19, 2007
Disbursement of IMF assistance (SDR million)	2.29
Assistance disbursed to the member	1.80
Interim assistance	0.44
Completion point balance	1.36
Additional disbursement of interest income[4]	0.49

Implementation of Multilateral Debt Relief Initiative (MDRI)

MDRI-eligible debt (SDR million)[5]	9.42
Financed by: MDRI Trust	7.44
Remaining HIPC resources	1.98

Debt Relief by Facility (SDR million)

[2] The Fund approved the decision on 12/15/2000 as Decision 12365-(00/126). The World Bank Board decision was taken on 12/14/2000.

[3] Assistance committed under the enhanced HIPC Initiative is expressed in net present value (NPV) terms at the decision point.

[4] Under the enhanced HIPC Initiative, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[5] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
December 2007	N/A	9.42	9.42

Safeguards assessments

Safeguards assessments of the Central Bank of The Gambia (CBG) were completed in February 2004, February 2007, November 2009, and July 2012. The 2012 update report concluded that the CBG governance has strengthened since the 2009 assessment. The recent assessment stressed that continued and effective oversight by both the Board and the Audit Committee will be important to ensure that key areas of CBG operations such as transactions with the government, controls around IT systems, and compilation of program data are adequately monitored to mitigate heightened risk. The CBG is facing capacity issues in accounting and internal audit that need to be addressed in the near term. Future amendment of the CBG Law would provide the opportunity to strengthen CBG autonomy by the incorporation of safeguards recommendations in this area.

Exchange rate arrangement

Until January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D5 = £1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. Effective February 2, 2009, the classification of the de facto exchange rate arrangement has been changed from managed floating with no predetermined path for the exchange rate to floating, retroactively to April 30, 2008, due to the revision of the classification methodology. As of end–January 2015, the midpoint exchange rate in the interbank market was D45.23 per U.S. dollar. The Gambia has accepted the obligations of Article VIII, Sections 2(a), 3 and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained solely for the preservation of national or international security, which have been notified to the Fund in accordance with the procedures set forth in Executive Board decision 144-(52/51). In October 2012, a presidential directive was issued that attempted to impose a fixed, overly appreciated exchange rate on The Gambia's FX market. The directive was lifted a few weeks later. LEG in discussion with MCM later concluded that the FX measures adopted under the directive did not give rise to an exchange restriction or multiple currency practice in breach of the obligations under Article VIII, Sections 2(a) and 3. Staff continues to engage with the authorities in order to finalize its assessment of The Gambia's exchange system.

Last Article IV consultation

The Executive Board concluded the 2013 Article IV consultation (IMF Country Report No. 13/289) on September 11, 2013.

Technical assistance

The Fund has been providing The Gambia with extensive technical assistance in macroeconomic, fiscal, and monetary areas, and in improving the compilation of macroeconomic statistics. Specific technical assistance projects since 2008 are the following:

Fiscal Affairs Department	
August 2014	TA mission advised on revenue administration
February/March 2014	TA mission advised on the implementation of the Medium Term Expenditure Framework and program based budgeting
February 2013	TA mission advised on tax policy reform options
January/February 2013	TA mission advised on reorganization of MOFEA to strengthen budget and MTEF reforms and fiscal reporting
June 2012 -	A resident advisor advised on PFM.
June 2012 -	A resident advisor advised on revenue administration.
April 2012 -	A resident advisor advised on VAT preparations and implementations.
February/March 2012	A couple of experts advised on PFM.
January/February 2012	An IMF regional advisor visited twice to provide TA on revenue administration and VAT preparations.
September 2011	A couple of experts advised on PFM (preparing a Budget Framework Paper) and on VAT preparations.
August 2011	Peripatetic expert advised on improving compliance and tax administration.
April/May 2011	TA mission advised on VAT preparations.
April 2011	TA mission reviewed the pricing formula for petroleum products.
February/March 2011	TA mission reviewed status of revenue administration reforms, including VAT implementation plans.

November/December 2010	Peripatetic expert advised on VAT preparations.
August 2010	Peripatetic expert advised on VAT preparations.
June 2010	TA mission on public financial management (PFM).
April/May 2010	TA mission advised on improvements in revenue administration and provided input into the design of tax reforms.
April 2009	TA mission advised on measures to reform the tax system.
July 2008	Peripatetic regional advisor followed up on the work of the August/September 2007 FAD mission.
Monetary and Capital Markets Department	
March 2014	TA mission on banking supervision (manual of guidelines for regulatory returns)
March 2014	TA mission advised on monetary operations and liquidity management
April/May 2013	TA mission on banking supervision.
September/October 2012	Technical expert advised on monetary operations and liquidity forecasting.
January 2012	Technical expert advised the CBG on amending its Manual of Guidelines and Instructions to strengthen bank supervision.
September 2011	TA mission conducted stress testing and helped built capacity in this area.
February/March 2011	TA mission conducted a diagnostic assessment of the banking system.
March/April 2010	Technical expert advised the CBG on banking supervision.
January 2010	Technical expert advised on monetary operations and liquidity forecasting.
January 2009	Technical expert advised the CBG on banking supervision.
Statistics Department	
February 2015	Mission advised on the compilation of financial soundness indicators for the banking sector.

February 2015	Mission advised on economic census.
January/ February 2015	DfID-funded TA mission advised on the compilation of mutually consistent BOP and IIP statements.
October 2014	Mission on advised on national accounts and economic census.
October/November 2013	Mission advised on the compilation of national accounts.
July/ August 2013	Mission advised the compilation of price statistics.
February/March 2013	DfID-funded TA mission advised the authorities on improving BOP statistics.
January/February 2012	Technical expert advised on improving the compilation of price statistics.
September 2011	DfID-funded TA mission advised the authorities on improving BOP statistics.
July 2011	DfID-funded short-term expert advised the authorities on improving national accounts statistics.
March/April 2011	DfID-funded TA mission advised the authorities on improving BOP statistics.
September 2010	DfID-funded short-term expert advised the authorities on improving national accounts statistics.
August/September 2010	DfID-funded TA mission advised the authorities on improving BOP and IIP statistics.
February 2010	TA mission advised on measures to improve monetary and financial statistics.
June 2008	Fourth visit of the DfID-funded TA mission assisted the authorities in improving the compilation of national accounts statistics, particularly in rebasing the GDP series and in calculating GDP by the expenditure approach, using the results from the 2004 Economic Census.
April/May 2008	Follow-up visit of a 2006 TA mission to assist the CBG in improving the compilation of monetary and financial statistics and in preparing the standardized report forms for reporting monetary data to the IMF.
March 2008	Third visit of the DfID-funded TA mission assisted the authorities in improving the compilation of national accounts statistics, particularly in rebasing the GDP series and in calculating GDP by

	the expenditure approach, using the results from the 2004 Economic Census.
Others	
February 2012	An LEG expert held a VAT workshop for stakeholders and helped finalize the new VAT law and related background materials.
December 2011	An LEG expert helped draft the new VAT law.

Resident Representative

Mr. Gaston, K Mpatswe was appointed the Fund's Resident Representative to The Gambia in August 2013.

JOINT BANK-FUND WORK PROGRAM

The Gambia: Joint Bank-Fund Work Program, April 2013 – April 2014

Title	Products	Timing of Missions	Target Board Date
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Economic Management and Public Financial Management** 1. Economic Governance Reform Grant **Human Development** 2. Maternal and Child Nutrition and Health Results Based Financing	 April 2015 (tentative) February 2015	 May 2015 April 24, 2015
Fund work program in next 12 months	**Policy Advice** 1. Staff Visit 2. Article IV consultation 3. SMP Review 4. Successor ECF discussion **Technical Assistance** 5. Monetary operations 6. Bank supervision	 April 2015 June 2015 November 2015 February 2016 March 2015 March 2015	 August 2015 April 2016
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on: CPIA, PFM reform, and civil service reform.		
Bank request to Fund	Periodic updates on macroeconomic framework.	April/May 2015 (tentative)	n.a.
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Joint DSA	June 2014	August 2015

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 15/155
FOR IMMEDIATE RELEASE
April 2, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$10.8 Million Disbursement Under the Rapid Credit Facility for The Gambia

The Executive Board of the International Monetary Fund (IMF) today approved emergency financial assistance under the Rapid Credit Facility (RCF) [1] in the amount equivalent to SDR7.775 million (about US$10.8 million) for The Gambia to enable the authorities to meet their urgent balance of payment and fiscal needs.

The Executive Board noted the authorities' cancellation of the Extended Credit Facility (ECF) arrangement for The Gambia that was approved on May 25, 2012 to support the government's economic program (see Press Release No. 12/191). In addition, the Board was informed about the IMF Managing Director's approval of a one-year staff-monitored program (SMP)[2] to guide policy implementation.

Though The Gambia remains completely free of Ebola, the crisis has caused a deep decline in tourism related activities, the economy's principal foreign currency earner. A projected decline of about 60 percent in tourism, The Gambia's principal export, will strain the country's balance of payments. The shocks, coming in the wake of an extended period of weak policy implementation have exacerbated an already fragile macroeconomic situation. To address their difficulties, the Gambian authorities have taken bold steps in their 2015 budget, developed an ambitious reform agenda for public enterprises in the energy and telecommunication sectors, and made strong efforts to secure donor support.

The IMF financial assistance is intended to address urgent balance of payments needs that have arisen on account of the shock. It will help fill budgetary gaps while the authorities implement economic and structural policies aimed at restoring macroeconomic stability, and reducing poverty. The Executive Board's approval of the RCF disbursement will also enable

[1] The RCF provides rapid financial support in a single, up-front payout for low-income countries facing urgent financing needs. Financial assistance under the RCF is provided as an outright disbursement to Poverty Reduction and Growth Trust (PRGT)-eligible members that face an urgent balance of payments need, and where a full-fledged economic program is either not necessary or not feasible.

[2] An SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

the authorities to engage in further discussions with the donor community regarding assistance to meet their remaining financing needs. The Board's approval enables the immediate disbursement of the full amount of the RCF loan, which is equivalent to 25 percent of The Gambia's quota in the IMF.

Following the Executive Board discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"The Gambia is facing urgent balance of payments needs triggered mostly by the impact of the regional Ebola outbreak on tourism. Although the country remains free of Ebola, the regional outbreak is expected to cut by more than half tourism receipts for the 2014/15 season, giving rise to an urgent balance of payments need. At the same time, the delayed summer rain has led to a significant drop in agricultural production with serious implications for growth in 2014 and food security. Policy slippages and persistent financial difficulties in public enterprises have exacerbated the problems and pushed The Gambia's Extended Credit Facility (ECF) arrangement off track.

"The authorities have taken a number of upfront policy actions. The 2015 budget envisages lowering net domestic borrowing, anchored by revenue and expenditure measures, and complemented by stepped-up budget support from external donors. The authorities have taken steps to begin resolving the financial problems of key public enterprises and intend to take measures to secure their medium-term fiscal consolidation and poverty reduction objectives.

"The envisaged adjustment and structural reforms, if properly implemented, would contribute significantly to addressing The Gambia's present difficulties and achieving the targets envisaged in the Programme for Accelerated Growth and Employment. Such measures should also help lower domestic interest rates and thus alleviate medium-term spending pressures associated with the currently very high level of domestic interest costs. In light of the large fiscal cost of poor performing public enterprises in 2014, the authorities should promptly identify contingency plans to protect budgetary outcomes in 2015 from unexpected shocks. They should also meet their external debt obligations in a timely manner. Further measures, beyond those incorporated in the 2015 budget, are also required to undertake a deeper restructuring of the budget and public enterprises to put the medium-term fiscal position on a sound footing.

"Determined and strong policy implementation under the Rapid Credit Facility is critical to restore macroeconomic stability and to catalyze the critical donor financing. The Staff-Monitored Program will help enhance policy implementation and establish a good track record, which remain fundamental for a possible future Fund-supported program."

Statement by Ms. Kapwepwe, Executive Director and Mr. Saidy, Senior Advisor to the Executive Director for The Gambia
April 2, 2015

Introduction

The Gambian authorities extend their appreciation to staff for the constructive policy dialogue and broadly share the thrust of the staff report. They are especially thankful to the Executive Board and Fund Management for their continued support and policy guidance against the backdrop of a challenging domestic and international environment. Cognizant of options to restore fiscal prudence and maintain macroeconomic stability while promoting inclusive growth, they have embarked on improving macroeconomic management through increased fiscal consolidation and public financial management reforms. Accordingly, measures to enhance domestic revenue mobilization have been introduced while commitment to prudent expenditure management has been renewed.

While The Gambia remains Ebola free, the indirect impact of the Ebola outbreak in the sub-region through tourism and trade has been significant. In addition, the poor crop harvest due to the drought has led to lower exports. In light of these developments, the external shocks have exerted additional pressure to the already fragile fiscal and external positions. Consequently, the 2nd ECF Review could not be completed before the program expires in May 2015. However, given the significant weakening of the balance of payments position due to the severe impact of the shocks, the authorities are requesting IMF support under the Rapid Credit Facility (RCF). They also wish to pair the RCF with a Staff Monitored Program to enhance implementation of their planned fiscal adjustment measures and the Program for Accelerated Growth and Employment (PAGE).

Recent economic developments, outlook and policies

The Gambian economy has been severely impacted by the drought and crop failure. The situation has been made worse by the regional effect of the Ebola outbreak, which has cut tourism receipts by more than half for the 2014/15 season. As a result, real GDP is estimated to contract by ¼ percent in 2014 and a slower recovery is projected for 2015. Consumer price developments show an acceleration in inflationary pressures as inflation rose to 7 percent in January 2015 from 5.5 percent in earlier months. The external current account deficit including budget support widened relative to a year earlier. Gross international reserves in months of import cover declined to 3.6 at end-2014 from 5.2 at end-2013.

My authorities' principal policy objective over the near and medium term is to maintain a stable macroeconomic environment to support robust and sustainable inclusive growth. GDP growth is expected to return to trend in the medium term as government pursues prudent fiscal and monetary policies, and increase investment in infrastructure and agriculture. The external current account deficit is expected to narrow in the medium term, on account of the expected recovery in exports and increase in services. Gross international reserves are projected to increase to 5.1 months of imports of goods and services by the end of 2018. The exchange rate is expected to maintain its relative stability over the medium term, while inflation is targeted at 5 percent.

On the fiscal front, the authorities are committed to implement strong fiscal measures, both on the revenue and expenditure sides. This is a necessary condition which will complement the efforts of the Central Bank in its conduct of monetary policy. Government has made the commitment not to take-up any contingent liabilities on behalf of any Public Enterprises (PEs) going forward and existing liabilities incurred by PEs will be restructured for eventual repayments. In addition, government has undertaken to reform all PE's to improve efficiencies and put them on a sound financial footing. This will include among others, helping institutions like the National Water and Electricity Company to improve collection of outstanding payments.

Fiscal policy

My Gambian authorities remain committed to ensuring fiscal discipline to reduce the deficit and domestic borrowing in order to maintain medium-to long-term fiscal sustainability. To this end, the budget was anchored on limiting NDB to 1 percent of GDP by year-end. This will generate savings, rebuild buffers and support macroeconomic stability and growth. Given the challenges in scaling-up resources to effectively implement PAGE, far-reaching policy measures will be pursued to strengthen mobilization of domestic resources to complement donor financing of government programs and projects. In addition, the authorities plan to introduce performance contracts, management contracts, and leasing as part of the public sector reform. Furthermore, my authorities have established the Public Private Partnership (PPP) Unit in the Ministry of Finance and Economic Affairs and a PPP policy has already been developed to provide the framework for government to partner with the private sector in national development.

On the expenditure front, my authorities are committed to pursuing tight expenditure controls while switching spending towards their strategic priority infrastructure and social sector projects. Accordingly, the authorities have started implementing the plan to reduce embassies, restrict travel of civil servants and will introduce a comprehensive vehicle policy. Furthermore, the strategic planning exercise in all ministries to facilitate more efficient allocation of public finances is expected to be completed by 2016.

Debt management policy

My authorities are concerned that the recent debt sustainability analysis conducted by the IMF and World Bank indicates that the country faces heightened overall risk of debt distress. Cognizant of the threats to debt sustainability, external financing of infrastructural and other social sector projects will be at concessional terms, while innovative ways of mobilizing external resources are crafted. On the domestic front, as market conditions allow, the authorities will endeavor to extend the maturity of domestic public debt by introducing longer-term instruments such as bonds aimed at reducing rollover risks. Finally, the authorities remain committed to their ambitious fiscal consolidation plan to bring down the public debt level and the T-bill rates.

Monetary policy

The monetary policy stance will be geared towards ensuring macroeconomic stability. In this regard, further strengthening of the monetary policy framework will be pursued including, through continued improvement of liquidity forecasting and management. In addition, the fiscal authorities will collaborate with the central bank by participating in the regular meetings of the interagency committee and by improving its weekly forecasting of the public sector borrowing requirement. Furthermore, monetary operation will be deepened to enhance the effectiveness of monetary instruments in sterilizing domestic liquidity.

Financial sector policy

The banking sector continued to be sound, safe and resilient. There has been strong asset growth and increased competition in deposit mobilization. Also, solvency remains strong and all banks were within the capital adequacy ratio prudential limit.

Looking ahead, the monetary authority will pursue series of structural reforms to guarantee financial stability. This will include developing a national crisis resolution framework, which will be extended to cross border in the sub-region. Plans are underway to migrate from a hybrid (compliance and risk-based) to a fully risk-based supervisory framework, once the architecture to implement risk-base supervision is completed. In addition, the central bank will continue to conduct top-down stress testing using simple sensitivity-based models to assess the resilience of the banking system to various shocks. Furthermore, an electronic reporting system for commercial banks for the timely reporting of data as well as facilitation of onsite and offsite supervision has been established. Finally, capacity for macro-prudential analysis will continue to be enhanced.

Conclusion

The authorities remain commitment to sound macroeconomic management and inclusive growth underpinned by prudent public financial management. In this context, they intend to direct policy efforts towards narrowing the budget deficit as the key to reducing the debt burden and related interest payments. They appreciate the support from the Fund and the international community and count on the continuation of such support to realize their development goals.