September 2010
IMF Country Report No. 10/274

The Gambia—2010 Article IV Consultation: Staff Report, Statement by the IMF Staff Representative, Public Information Notice on the Executive Board Discussion, and Statement by the Executive Director for The Gambia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with The Gambia, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 28, 2010, with the officials of The Gambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 9, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of August 19, 2010 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its August 25, 2010 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for The Gambia.

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INTERNATIONAL MONETARY FUND

THE GAMBIA

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with The Gambia
(In consultation with other departments)

Approved by Roger Nord and Jan Kees Martijn

July 9, 2010

Discussions were held in Banjul May 7 to 20, 2010, for the 2010 Article IV consultation. The mission team comprised Mr. Dunn (head), Mr. Reinke, Mr. Vermeulen (all AFR), Mr. Obiora (SPR), Mr. Tereanu (FIN), and Mr. Tjirongo (resident representative). The team met with Minister of Finance Momodou Foon, Central Bank Governor Momodou Bamba Saho, other senior officials, and representatives of commercial banks, the business community, nongovernmental organizations, and The Gambia's development partners.

The Gambia's exchange rate regime is a managed float. It accepted the obligations under Article VIII, sections 2(a), 3, and 4, of the Fund's Articles of Agreement on January 21, 1993. In 2008, the authorities notified the Fund that for security reasons, and in line with UN Security Council resolutions, they imposed some restrictions on the making of payments and transfers for current international transactions. These restrictions still remain in effect.

The Executive Board approved a three-year arrangement for The Gambia under the Extended Credit Facility (ECF) on February 21, 2007 in the amount of SDR 14 million (45 percent of quota). The Executive Board approved an augmentation of SDR 6.215 million on February 18, 2009 and, at the time of the completion of the sixth review on February 19, 2010, a one-year extension of the ECF arrangement and an additional augmentation of SDR 4.67 million to a total amount of SDR 24.88 million (80 percent of quota).

The Gambia reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in December 2007, seven years after reaching the decision point. In addition to debt relief under the HIPC Initiative, The Gambia was approved for the Multilateral Debt Relief Initiative (MDRI).

The previous Article IV consultation was concluded on September 8, 2008. The staff report and PIN are available at *www.imf.org/external/pubs/cat/longres.cfm?sk=22399.0*

Contents

Executive Summary

The Gambian economy has held up well through the global economic crisis, despite sharp drops in tourism and remittances. However, a deterioration in fiscal discipline and high levels of costly short-term government domestic debt create risks to macroeconomic stability.

Macroeconomic stability through the global crisis: Real GDP growth averaged 6 percent a year during 2007–09, while inflation remained in single digits. During the global economic crisis, growth remained high (5.6 percent) in 2009, as a further rebound in agriculture cushioned the impact of sharp drops in tourism and remittances. External current account deficits have widened, financed mostly by foreign direct investment and official loans and grants. Official international reserves are at a comfortable level, aided by the SDR allocation.

Deteriorating fiscal discipline: As a result of large spending overruns, the deficit in the basic fiscal balance increased to nearly 2 percent of GDP in 2009, against a budget target of a small surplus. In early 2010, revenue shortfalls led to additional fiscal slippages. The deficits have been largely financed by a build-up of costly domestic debt, almost all of which has been short-term T-bills.

Opportunities and risks from rapid expansion in banking sector: Between 2007 and early 2010, the number of banks doubled. Financial intermediation has grown substantially, but intense competition among banks and weaker earnings from crisis-hit tourism and construction eroded banks' earnings, credit quality, and capital adequacy. To preserve solvency, the authorities are phasing in a large increase in the minimum capital requirement.

Exchange rate assessment: The exchange rate remained stable against the U.S. dollar throughout 2009 and early 2010, with the central bank mostly refraining from market interventions. Notwithstanding, staff analysis suggests the dalasi was slightly overvalued in 2009. In real effective terms, the dalasi depreciated by about 10 percent by end-year.

Positive outlook, provided that fiscal discipline is restored: As the sectors affected by the global slowdown are expected to recover only gradually, real GDP growth is projected to slow down slightly this year, while inflation is projected to remain low. Over the medium-term, GDP growth is projected to pick up to about 5½ percent a year, as key sectors recover (tourism, construction), while others (wholesale and retail trade and agriculture) maintain solid growth. Restoring fiscal discipline, especially in light of high rollover risks of domestic debt, will be important for achieving this positive outlook.

Performance under the Extended Credit Facility: Through the sixth review, performance was broadly satisfactory, but recent fiscal slippages led to the postponement of the seventh review. Performance relative to other end-March 2010 quantitative targets and structural benchmarks was satisfactory.

I. Background: Achieving Macroeconomic Stability, While Dealing with a Heavy Debt Burden

1. **Following a period of instability during the early 2000's, the Gambian economy improved with the implementation of sound macroeconomic policies and important structural reforms**.[1] Key sectors driving growth included construction, tourism, financial services, and telecommunications, as well as domestically oriented wholesale and retail trade, which all helped to overcome The Gambia's diminishing role as a regional entrepôt. In more recent years, 2007–09, real GDP growth picked up to 6.0 percent a year on average, which outpaced growth in many countries in the region.[2] Even during the global economic crisis, real GDP growth remained high (5.6 percent in 2009), as a continuing rebound in agriculture largely outweighed the impact of a sharp drop in tourism and remittances from Gambians working abroad—the latter being a leading source of financing for home building. Inflation has been kept at single-digit rates since 2004, averaging only 4.8 percent during 2007–09. Reflecting monetary restraint by the Central Bank of The Gambia (CBG) and steadier food prices, inflation fell to 2.8 percent in 2009. Also, regulated prices on electricity and fuel remained fixed during the year (Tables 1–7 and Figures 1–3).

2. **The Gambia still faces a heavy debt burden, despite having received extensive debt relief under the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives in late 2007.**[3] As of end-2009, external debt stood at 34 percent of GDP, while total public sector debt was 54 percent of GDP, reflecting significant—and costly—domestic borrowing. Interest on debt consumed nearly 20 percent of government revenues in 2009 (down from nearly 35 percent a few years earlier), of which just over three-fourths was paid on domestic debt. Moreover, domestic debt consists almost entirely of short-term T-bills, which poses high roll-over risks.

3. **The banking sector has expanded at a rapid pace in recent years.** Between 2007 and early 2010, the number of banks doubled (to 14), helping to fuel a deepening of financial intermediation. During this period, credit to the private sector and public enterprises relative to GDP grew by about 4½ percentage points, to nearly 17 percent of GDP. The new banks

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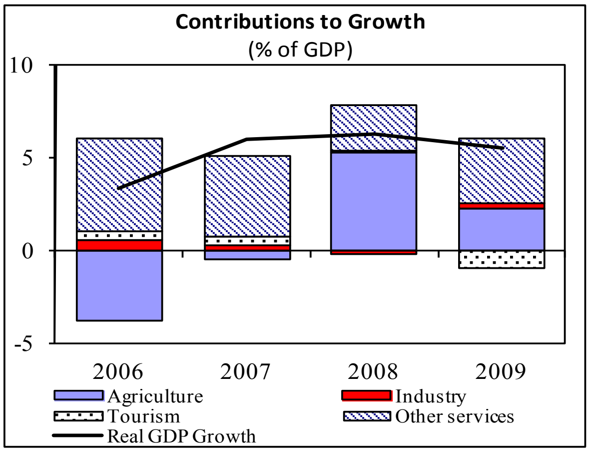
[1] The authorities' policies were supported by a Fund staff monitored program during late 2005–mid 2006, and an arrangement under the Extended Credit Facility (ECF; formerly, Poverty Reduction and Growth Facility) during 2007–10. At the authorities' request, the Fund's Executive Directors approved a one-year extension and augmentation of the ECF arrangement in February 2010. All semi-annual program reviews under the ECF were completed in a timely manner, although the 7th review—the first under the extension—has been delayed because of fiscal slippages.

[2] The Gambia Bureau of Statistics revised GDP data using 2004 as the base year. For 2009, the rebased GDP figure is 30 percent higher than the figure presented in the staff report for the 6th ECF review (Country Report No. 10/61).

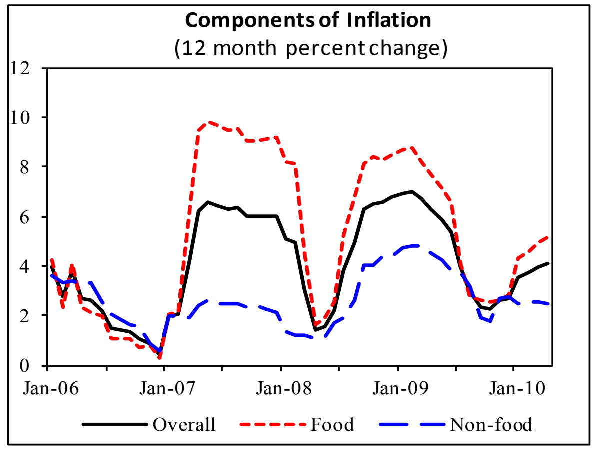
[3] Based on the most recent joint World Bank-IMF debt sustainability analysis (Country Report No. 10/61) completed in January 2010, The Gambia is classified as being at high risk of debt distress.

Figure 1. The Gambia: Recent Economic Developments, 2006-2009

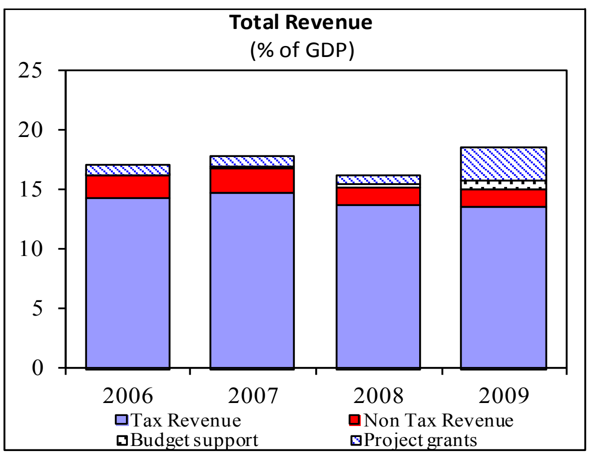
Economic growth held up well in 2009, supported by a continued rebound in agriculture.



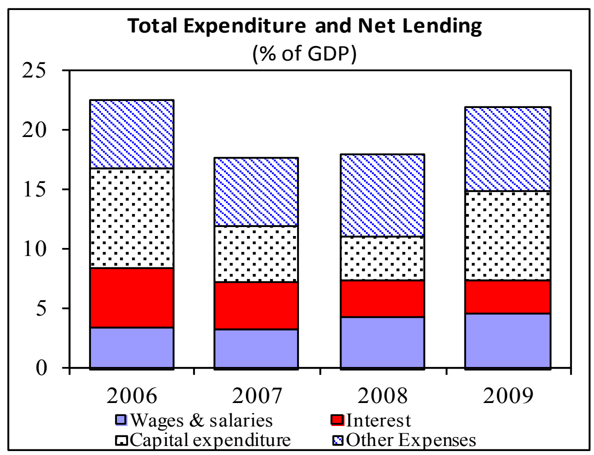
Inflation was low on average but subject to food price and exchange rate volatility.



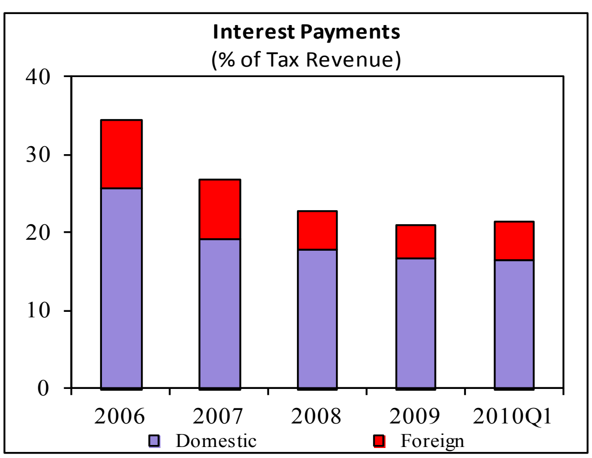
During 2009, revenues were boosted by budget support and other grants...



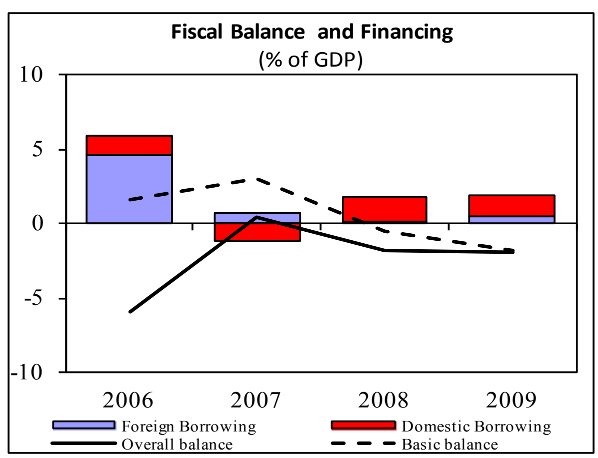
... but capital expenditures rose sharply and caused a deterioration in fiscal performance.



Progress on reducing the government's interest bill began stalling in 2009...



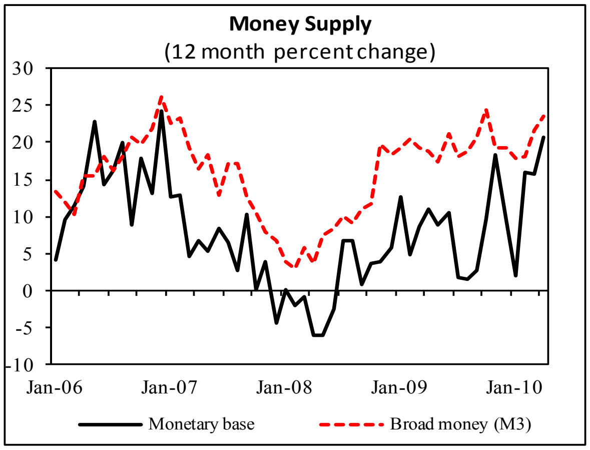
... as government resorted to financing the deficit with expensive domestic borrowing.



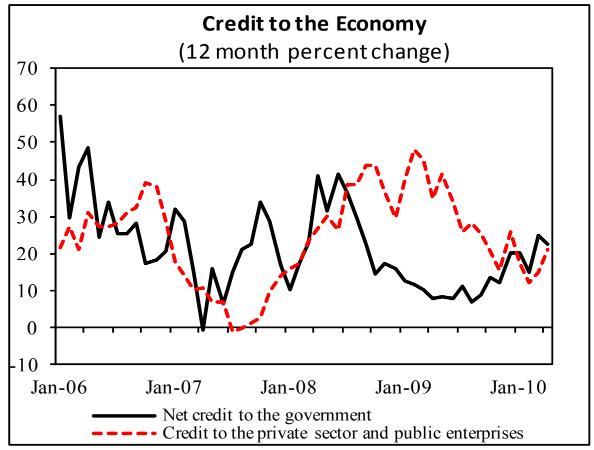
Sources: Gambian authorities; and Fund staff estimates and projections.

Figure 2. The Gambia: Recent Economic Developments, 2006-2009

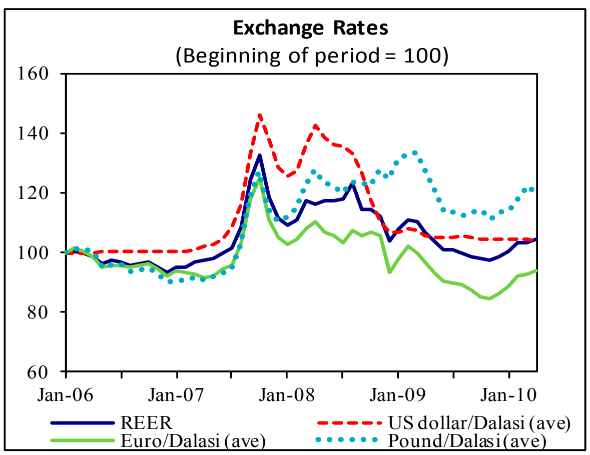
Money growth was volatile but the trend has picked up ...



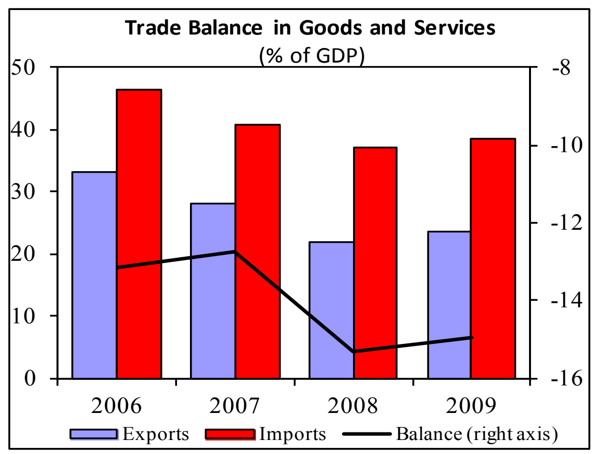
... and government financing needs have led to some crowding out.



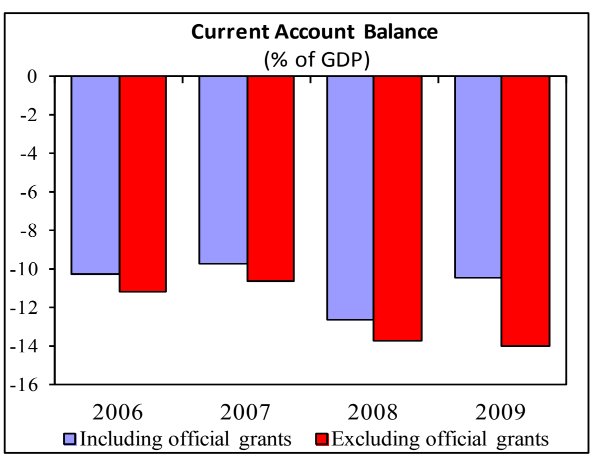
Turmoil in Europe reverses dalasi depreciation seen in 2009 for all currencies but the dollar.



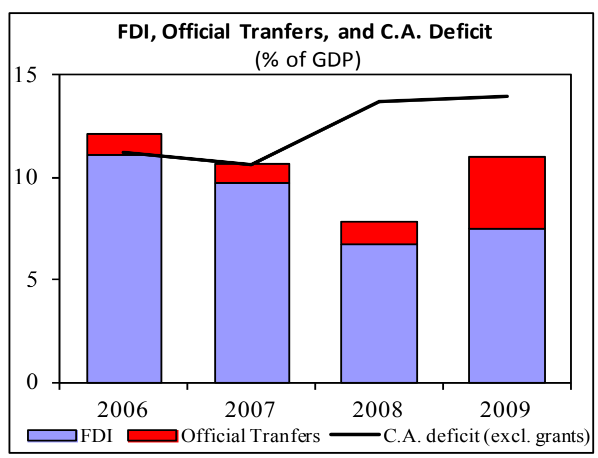
Despite the global crisis, the trade balance improved marginally in 2009.



A tripling of offical transfer helped narrow the current account deficit...



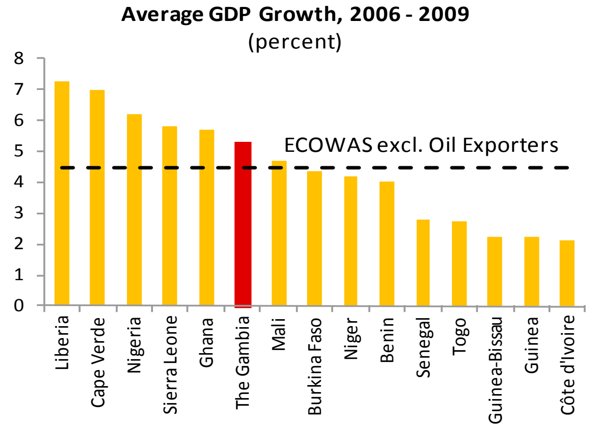
... while the entry of foreign banks helped buffer the impact of the global crisis on FDI.



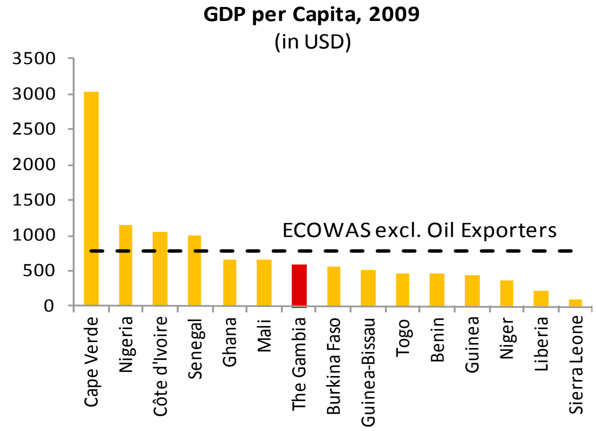
Sources: Gambian authorities; and Fund staff estimates and projections.

Figure 3. The Gambia: Cross Country Comparison

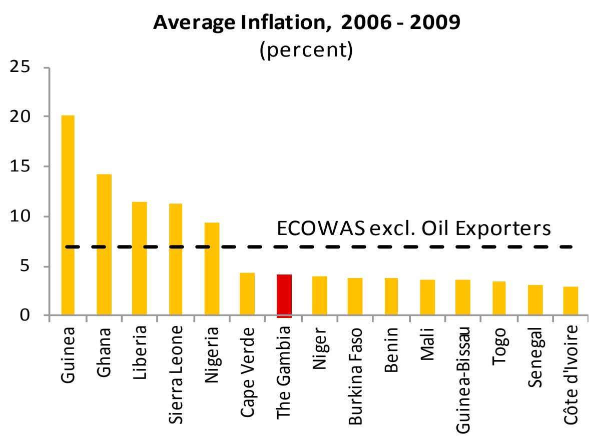
The Gambia maintained comparatively high growth rates during the global crisis...



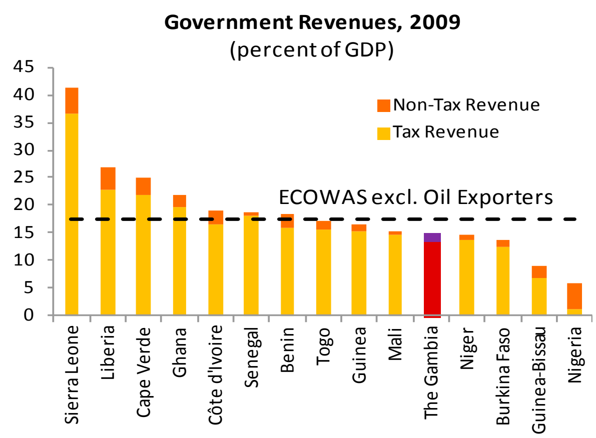
... but GDP per capita remains below average, compared to other ECOWAS countries.



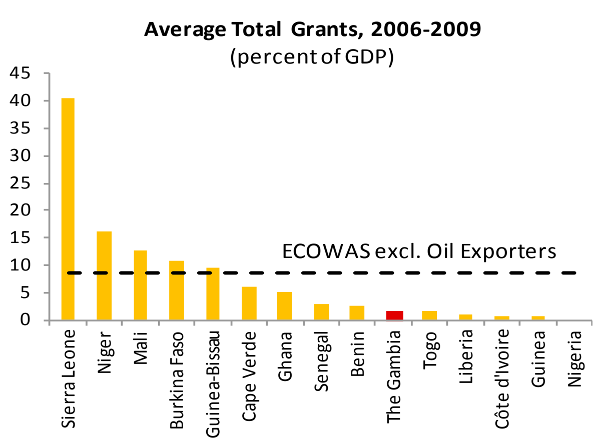
Inflation also compares favorably within the region...



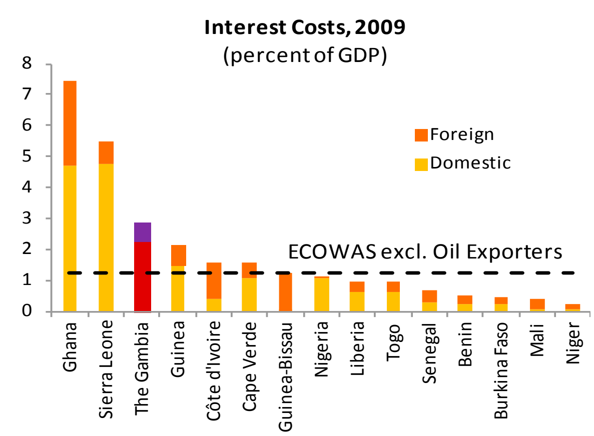
... but government revenue is below average.



During 2009, Gambia received significant amounts of budget support, but grant receipts remain comparatively low...



... and financing, espeially domestic borrowing, remains rather expensive.



Sources: Gambian authorities; and Fund staff estimates and projections.

are mostly foreign-owned, which also generated substantial foreign direct investment. The situation, however, has strained the CBG's capacity for banking supervision, while intense competition among the high number of banks in a relatively small market has contributed to increased risks to the banking system.

4. **The Gambia has made good progress on improving the quality of life for the poor, but poverty is still widespread.**[4] Several Millennium Development Goals (MDGs) are expected to be met, mainly in the areas of education and health (Table 8). The incidence of poverty, however, fell only modestly to 58 percent in 2008, well above the MDG target. Although the authorities adopted a target that 25 percent of government revenues should be used for priority spending identified in The Gambia's Second Poverty Reduction Strategy Paper (PRSP II), such expenditures have only accounted for about 20 percent of revenues in recent years.

II. Recent Economic Developments and Outlook: Weakening Fiscal Discipline Has Complicated Macroeconomic Policies

5. **Since late 2008, fiscal discipline has deteriorated, reflecting both unanticipated spending and, more recently, revenue shortfalls.** In 2009, excessive spending, including supplementary expenditures that were not financed by additional revenues or fiscal savings, was the principal reason for the poor fiscal performance.[5] For the year as a whole, the basic fiscal balance—tax and nontax revenues less total expenditures, excluding foreign financed capital spending (projects)—was in deficit by 1.8 percent of GDP, compared with the budget target of a slight surplus (0.1 percent of GDP). During the first five months of 2010, although spending was roughly contained within budget limits, government revenues fell well short of expectations. In particular, rising world fuel prices eroded revenues from the fuel tax, which is the residual after suppliers' costs and other taxes have been subtracted from fixed retail prices according to a set formula.

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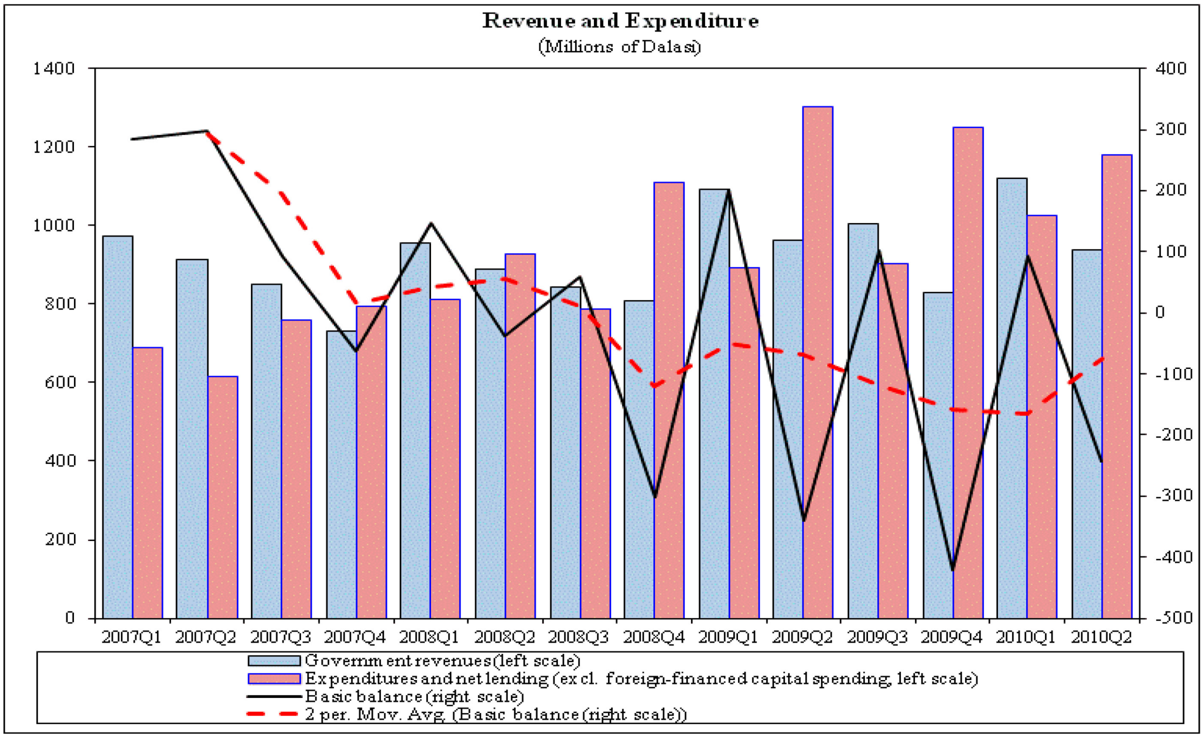
[4] The June 2010 *Millennium Development Goals Report Card* produced by the U.K. Overseas Development Institute places The Gambia in the top five African countries making progress toward achieving the MDG targets.

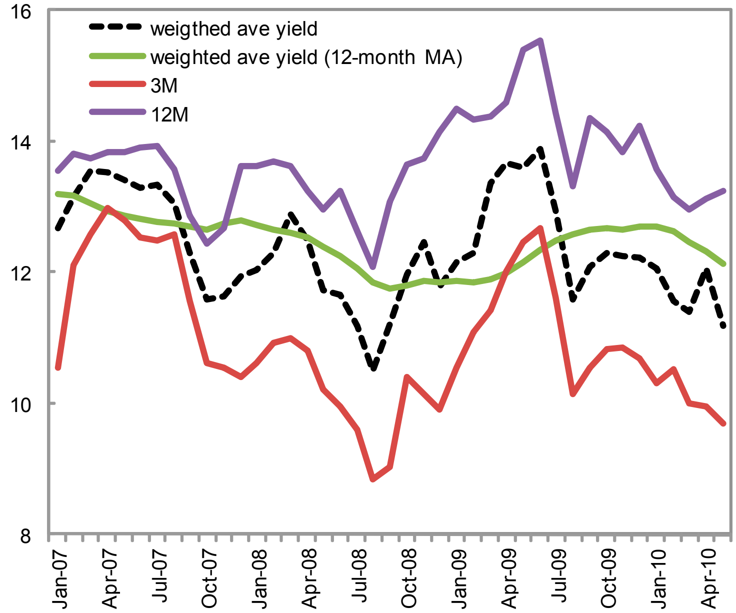
[5] See Country Report No. 10/61for a description of some of the main items accounting for the spending overruns in 2009. To a large extent the overruns reflected insufficient coverage of the budget on items that later became political priorities or legal obligations, such as government's buying back shares of GAMTEL after a failed privatization, and investment in a satellite link by the Gambia Radio and Television Service.



6. **Government's domestic borrowing has had costs for both government and the economy.** The short-term nature of the government's outstanding domestic debt has meant that additional borrowing has also increased the roll-over costs of debt. Moreover, in the highly competitive banking sector, high T-bill yields have raised the cost to banks of attracting large depositors, which has cut into banks' profitability and increased risks to the banking system. Government has also resorted to financing deficits through overdrafts from the CBG,[6] which has resulted in substantial liquidity injections. As a result, the CBG has often reacted by suddenly having to mop up unanticipated excess liquidity—causing greater unpredictability in the money market and T-bill auctions. Overdrafts paying zero interest have also weakened the CBG's balance sheet.

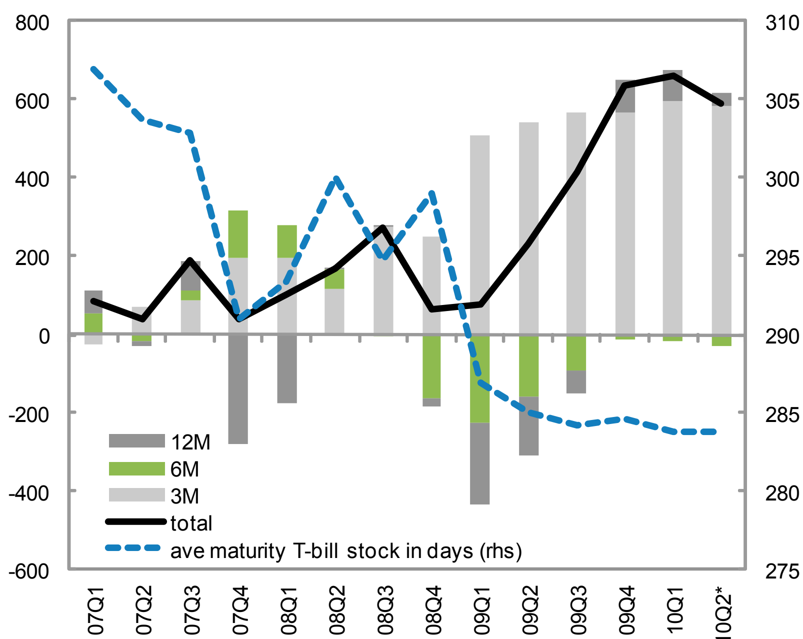
[6] The statutory limit on direct lending to government by the CBG has been exceeded since November 2008. In January 2009, the limit was temporarily raised from 10 percent of the previous year's government revenues to 20 percent, but this too has been continuously exceeded.

T-bills yields by maturity
(in percent)



Source: CBG data and Staff calculations.

Maturity profile of cumulative net issuance since 2007
(in GMD millions)



* Includes only April and May data.
Source: CBG data and Staff calculations.

7. **Gross international reserves recovered to a comfortable level in 2009 (equivalent to 6 months of imported goods and services),[7] largely because of the Fund's SDR allocation and budget support from the World Bank and African Development Bank (AfDB).** At the same time, the dalasi traded in a tight range against the U.S. dollar (26–27 GMD/US$), with relatively little intervention by the CBG. In May 2010, the dalasi broke out of this range, depreciating to just over 29 GMD/US$ by the end of the month, even though the CBG sold a moderate amount (US$3 million) of foreign exchange. In real effective terms, the dalasi depreciated by about 10 percent during 2009.

8. **During the last Article IV consultation,** concluded in September 2008, there was broad agreement between the Gambian authorities and Fund staff on the policy agenda, leading to implementation of some key recommendations (Box 1).

9. **Performance under the program supported by the Fund with an arrangement under the Extended Credit Facility (ECF) worsened beginning in late 2008, with the emergence of fiscal slippages.** Waivers were required for these slippages in two of the last three semi-annual reviews of the ECF arrangement and the 7th ECF review, based on end-March 2010 performance criteria (PCs), has been postponed. As noted, spending overruns were mainly responsible for the fiscal slippages in 2009, while revenue shortfalls were the principal cause of slippages in 2010. In addition to shortfalls in revenues from fuel taxes, [8] corporate income taxes and other taxes on international trade underperformed. Meanwhile, non-fiscal PCs were met and there has been good progress on structural benchmarks in the areas of public financial management (PFM), debt management, liquidity management, and financial sector development, although there were some delays.

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[7] Without the SDR allocation (equivalent to US$39 million), the import coverage of gross reserves amounted to 4.7 months of imported goods and services at end-2009.

[8] In April, world oil prices exceeded budget projections (based on projections by the Fund's Research Department for the October 2009 *World Economic Outlook*) by just over 10 percent.

Box 1. Implementing Recommendations from the 2008 Article IV Consultation

Advice	Status
Fiscal Issues	
Improve fiscal discipline, including budget planning and spending controls.	Fiscal discipline has deteriorated during 2009 and 2010.
Reduce domestic debt to regain fiscal space.	There have been setbacks on the path for reducing the stock of domestic debt.
Reform the fuel price mechanism to allow pass-through of international prices.	The authorities are considering a reform of the fuel pricing formula.
Financial Sector	
Establish a credit reference bureau to support financial deepening.	The credit reference bureau became operational in June 2009.
Improve liquidity management.	Improvements were made, but the recent deterioration in fiscal discipline has made liquidity forecasting more difficult.
Maintain restrained monetary policy and a floating exchange rate in aid of macroeconomic stability.	Fully met. The authorities limited exchange rate interventions to attempts to smooth adjustments in the market determined rate.
Aim for reserves of five months of import cover.	In part due to the SDR allocation, reserves have exceeded the target since mid-2009.
Structural measures	
Implement civil service reform to attract and retain qualified employees.	Civil service reform is ongoing. There were some delays in raising wages due to fiscal pressures.
Governance issues	
Accelerate PFM reform and improve debt management.	Major progress has been achieved in both areas.
Improve macroeconomic data to allow timelier and better informed decision-making.	Some progress on data quality was achieved with the publication of quarterly balance of payments statistics; national accounts data remain weak.

Outlook and Risks

10. **The outlook for the Gambian economy is generally positive for both the near and medium terms.** In 2010, real GDP growth is projected to be just over 5 percent, while inflation, which edged up in early 2010, is expected to remain low (at about 5 percent), despite some pressures arising from increased fuel prices and the recent depreciation of the dalasi against the U.S. dollar. Sectors affected by the global slowdown have stabilized, but their growth is expected to recover only gradually. The external current account deficit, excluding grants, is projected to narrow modestly relative to GDP in 2010, while the overall balance of payments is expected to slip into deficit, mainly reflecting a substantial shortfall in grants arising from delays in budget support from the European Union (EU). Gross international reserves are projected to fall to US$178 million by the end of the year (equivalent to 5.8 months of imports).

11. **In the baseline medium-term scenario, real GDP growth is projected to pick up to nearly 5½ percent a year, while annual inflation would remain at about 5 percent.** Projections for GDP growth are driven by the gradual strengthening in the tourism and construction sectors, as well as continued solid growth in major sectors, such as agriculture and wholesale and retail trade. The underlying policy framework is anchored upon achieving small surpluses in the basic fiscal balance (see Table 3) and a prudent monetary stance. Improved fiscal discipline would allow a gradual reduction in domestic debt (relative to GDP) by about 5 percentage points to just under 16 percent of GDP by end-2015. The external current account deficit, excluding grants, is projected to narrow gradually to about 12 percent of GDP and would be financed by slightly rising private capital inflows (foreign direct and other investment) and fairly steady grants and net official lending (about 3½ percent of GDP a year). To maintain gross international reserves at a minimum of 5 months of import cover, the CBG would need to start accumulating reserves beginning in 2013.

12. **As a small open economy, The Gambia is vulnerable to external shocks; but at the same time some of the major risks to the economy are domestic in origin.** Shocks to The Gambia's terms of trade or demand for its exports of goods and services significantly impact the economy. In addition, shortfalls in private remittances and official transfers can create financing problems. Adverse weather conditions also pose a risk to The Gambia's predominantly rain-fed agriculture. Weak fiscal discipline remains a serious risk to macroeconomic stability, especially as spending pressures build during the run-up to elections in 2011.

III. Policy Discussions: Strengthening Foundations for Sustainable Economic Growth and Poverty Reduction

13. **Discussions centered around core macroeconomic policies to support high sustainable rates of economic growth and a substantial reduction in poverty, as outlined in the authorities' revised PRSP II.** The issues included:

- Achieving greater fiscal discipline to anchor macroeconomic stability;
- Reforming the tax system to raise and stabilize revenues and to improve the business environment;
- Improving public financial management to maximize the effectiveness of government spending;
- Strengthening prudential supervision to ensure a sound financial sector; and
- Maintaining an appropriate exchange rate policy and level of international reserves to guard against external shocks.

To address the high incidence of poverty, the authorities intend to shift the focus of their poverty reduction strategy toward increasing economic growth and employment, including through a stepping up of infrastructure investment. They have initiated preparations of the Program for Accelerated Growth and Employment (PAGE), which would succeed PRSP II in 2012. Although quite preliminary—the first draft of PAGE is scheduled to be completed in early 2011—the mission discussed concerns about debt sustainability of the new strategy.

A. Macroeconomic Policies

14. **Fund staff emphasized the key role of fiscal policy in a sound macroeconomic framework to provide a stable foundation for private-sector led growth in The Gambia.** In particular, by reducing the stock of debt and easing pressure on T-bill yields, the government would reduce the risk of instability inherent in its large rollover requirement of short-term debt, while also generating substantial fiscal savings, which could be used to help finance priority government programs. Moreover, consistent implementation of a moderately tight fiscal policy would facilitate liquidity management and enhance monetary policy. Indeed, by contributing to a more predictable low-inflation environment, monetary policy could further ease pressure on T-bill yields, and interest rates more generally in support of greater financial intermediation.

15. **Improving fiscal operations depends upon achieving a reliable stream of government revenues, together with firm expenditure control.** In this regard, revenue increasing measures and tax reform and PFM reform are critical elements of the macroeconomic policy agenda. Continuing to improve The Gambia's track record on PFM reform, including debt management, could eventually lead to greater access to foreign financing and grants. PFM reform would also lead to increased value-for-money on government spending, which regardless of foreign assistance is critical for a resource constrained government.

The authorities' response

16. **The authorities were in agreement with this broad approach in principle, as evidenced by the policy framework for 2010, although the implementation was derailed by shortfalls in tax revenue.**[9] The government's budget approved in December 2009, targeted a near-zero basic fiscal balance for the year, which would have led to a small nominal decrease in the stock of domestic debt. The authorities also agreed that improvements to monetary and foreign exchange operations could help reduce T-bill yields further, and initiated efforts to improve liquidity forecasting and management. In another step to avoid excessive T-bill issuances, the policy framework called for a "spend and absorb" approach to using donor budget support, whereby liquidity generated by donor financed government spending would be sterilized by CBG sales of the corresponding foreign exchange receipts. Finally, over the next couple of years, the authorities shared the view that the CBG could take steps to enhance competition in the T-bill auction, which would also tend to drive up prices and push down yields.

Fiscal Policy: Restoring Fiscal Discipline

17. **The mission emphasized that positive results from the envisaged macroeconomic framework hinge upon consistent implementation of a moderately tight budget.** The mission proposed strong corrective actions, including immediate revenue measures, to get the basic fiscal balance back on track with the broad objectives of the 2010 budget over the second half of the year. That is, even though the basic fiscal balance for the year as a whole would slip to a deficit of nearly 1 percent of GDP, over the second half, spending would be aligned with revenues so that the basic balance during this period would have a small surplus. During the second half, the government would curb its domestic borrowing needs, helping to ease pressure on T-bill yields going forward. If in the end, revenue measures are insufficient to fully recover the recent shortfalls, spending restraint would be necessary to achieve this objective. In addition, the mission cautioned that the periodic deterioration of fiscal discipline, typically after the passing of a program test date, would weaken credibility and the positive effects of a tighter fiscal stance.

18. **The mission encouraged the authorities to pursue a comprehensive tax reform over the medium term (Box 2).**

[9] Discussions have continued to re-establish a path for fiscal policy that would lead to a gradual reduction in government's domestic debt.

Box 2. Fund Staff's Proposals on Tax Reform

The Gambia's tax system undermines the business climate, yet revenue is volatile and remains below the regional average. The Gambia Revenue Authority (GRA) became operational in 2007 and has made major progress in improving the efficiency and effectiveness of tax collection. Nonetheless, domestic revenues account for only about 15 percent of GDP. Revenue has also been volatile, partly because of fixed retail fuel prices (so tax revenues absorb changing import prices) and varying tax collection priorities. Poor scores on tax compliance and tax payer services are an important reason for the low ranking of Gambia's business climate.

The mission urged the authorities to pursue a comprehensive tax reform, centered on the introduction of value added tax (VAT) by 2013. A broad based VAT has proven to be a reliable revenue source in many countries throughout the world, including sub-Saharan Africa. Moreover a shift toward a more consumption based tax system with improved tax payer services could form the cornerstone to a more enabling environment for business and investment. Preparing for a successful launch of VAT, however, requires that existing systems and policies are improved. This includes an overhaul of the small business tax, further roll-out of self-assessment, the establishment of a tax refund system, and improvements in taxpayer services. Additional steps include the widening the base of the current sales tax and enforcement of excise taxes on domestically produced goods. Capacity constraints in tax administration will guide policy choices to ensure that a new tax system can be run efficiently within the resource constraints faced by the GRA. Also, revenue estimates to be prepared by the GRA will guide policy decisions on questions such as tax rates and exemptions.

Complementary measures are needed to make the tax system efficient and friendlier to tax payers. Several "nuisance" taxes—taxes with low revenue potential but high administrative and compliance costs—could be abolished. This would free resources at the GRA to pursue more revenue-relevant activities and improve the tax environment for the private sector. Tax payer services could be improved by the establishment of a tax and customs tribunal.

The authorities' response

19. **Reflecting their desire to get back on track with fiscal objectives, particularly with the goal of generating fiscal savings from lower interest costs, the authorities implemented significant revenue measures following the mission.** In June, the authorities raised fuel prices for the first time in two years to increase the government's revenue from the embedded residual tax. The authorities are also considering a revision to the fuel pricing formula, which would preserve tax revenues, while allowing flexibility in retail prices to reflect the pass-through of changes in world prices. The authorities were also prepared to apply strict limits on spending for the remainder of 2010, but due to the severity of the slippage, it appeared unlikely that original budget targets for the year could be met.

20. **The authorities agreed that the tax system is in need of reform.** They also clearly stated their commitment to the introduction of a VAT in the context of their membership in ECOWAS (Economic Community of West African States). However, they have yet to decide on the timing of the preparatory intermediate steps to be taken. In particular, they did not commit to

broadening the general sales tax in 2011. They did note that the GRA is in the process of implementing the collection of excise taxes on domestically produced goods, both as a revenue measure and to meet WTO commitments. They also stressed their long-term goal of reducing corporate income tax to enhance the competitiveness of The Gambia within the ECOWAS region.

21. **Delays and uncertainty in budget support grants from the EU (€25 million over 3 years or about 1½ percent of GDP a year) further complicate fiscal operations.** In the absence of the initial disbursement, which was expected in May, the authorities are arranging a bridge loan from the CBG to cover a portion of the shortfall. However, should the delay be extended further, the authorities agreed that a corresponding fiscal adjustment would be necessary to maintain macroeconomic stability. The authorities' dialogue with the EU—mainly on political and human rights issues—is ongoing.

PFM reform

22. **The budget process and expenditure control continue to pose major challenges for the government.** Although the authorities have made significant progress with PFM reforms, and going forward they have embraced a new and comprehensive strategy (adopted by cabinet in February 2010), budget planning for many ministries is still weak. Substantial expenditure needs are often not incorporated in the annual budget and sizeable supplementary budgets during the year have become typical, often putting additional strain on the fiscal balance. The mission encouraged the authorities to continue progress on the PFM reform, particularly in the area of expanding the coverage of the budget and strengthening the budget process, while in the near-term adhering to strict spending limits.[10] The mission also emphasized the need to strengthen the IFMIS for budget monitoring and execution and internal and external audit procedures. In particular, in line with the next phase of the Integrated Financial Management and Information System (IFMIS) project, the mission supported the emphasis to develop the interface for the CBG by end-2011, which strengthens the tools available for maintaining strict compliance with spending ceilings.

The authorities' response

23. **The authorities agreed that expenditure control needed to be strengthened.** They recently announced tight spending limits in an effort to generate basic balance surpluses each month. The authorities also welcomed Fund technical assistance on PFM issues, notably on helping to set priorities for the new reform strategy and to strengthen the budget process. The authorities are keen to pilot a medium-term expenditure framework (MTEF) based on the

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[10] A technical assistance mission from the Fund's Fiscal Affairs Department visited Banjul in June. Advice focused on strengthening the budget process, piloting MTEF, and setting priorities for the PFM reform strategy. Although coverage of the 2011 budget could be expanded, extensive preparations for more substantive reforms would take place during 2010-11 and phased-in beginning with the 2012 budget. The mission's advice was well received by the authorities.

successful case of the Ministry of Basic and Secondary Education. With support from the World Bank and other donors, the authorities are making good progress expanding the coverage of IFMIS and advances have been made with both internal and external audits of government expenditures. The authorities aim to have the IFMIS interface for the CBG implemented by the end of 2011.

Monetary policy and liquidity management

24. **Monetary policy has been effective in helping to control inflation.** Targeting broad money as the intermediate instrument and reserve money as the operational instrument has generally worked well. The mission, however, encouraged a greater focus on average reserve money each month, which has a stronger correspondence to broader monetary aggregates than does the end-period figure. The mission encouraged the authorities to introduce a high degree of predictability and transparency in liquidity management. For example, a desirable goal would be the CBG to eventually announce the size of T-bill auctions well in advance, which would enable banks to better plan ahead and reduce the excess reserves they typically carry. The mission also highlighted the need to project demand patterns for liquidity, as well as the supply side, again, to ensure stability in the money market. In addition, the mission suggested that the authorities explore ways to increase competition in the T-bill auction, such as eventually shifting to a fortnightly auction. But much preparation would be necessary for these longer-term objectives. To lengthen the period between T-bill auctions, it would be necessary for the CBG to develop new short-term instruments, such as REPOs.

25. **Through an analysis on the optimal level of official international reserves for The Gambia, the mission advised the authorities, that the CBG could forego accumulating additional foreign reserve assets for the remainder of this year (Appendix 1).** In particular, by explicitly assigning a cost to holding and accumulating reserves and simulating shocks that reserves would typically be used to guard against, policy makers could make more informed decisions on holding international reserves. However, given a considerable margin of error in the model, the mission recommends a cautious approach to adjustments in reserve levels.

26. **To preserve the CBG's independence and capacity for conducting monetary and foreign exchange operations, there was broad agreement that a reconciliation of the government's accounts in the CBG is in order.** The prolonged period of government's resorting to advances and overdrafts from the CBG for financing—well beyond the statutory limit—had compromised the CBG's balance sheet. As a corrective action, the Ministry of Finance agreed to securitize its net obligation to the CBG with a fixed-term instrument, consistent with the rules for such assets under the CBG Act, paying a positive real rate of return (exact terms are being negotiated between CBG and the Ministry of Finance). Staff suggested that it would be desirable if at least a portion of the claim on government could be met with marketable T-bills, which would facilitate the CBG's introduction of REPO instruments.

The authorities' response

27. **The authorities were in broad agreement with the mission's proposals.** They noted that information on fiscal operations from the Ministry of Finance was now available through the new interagency committee and they expect improvements to liquidity forecasting. It is hoped that during 2011, the CBG would be in position to announce the size and distribution of T-bill auctions one month in advance. The authorities agreed that the CBG's stock of international reserves is currently at a comfortable level, and that the optimization model offers valuable insights. Nevertheless, they too favored a cautious approach to adjusting reserve levels as opposed to an active sell-off. They pointed out that T-bill purchases, instead of more reserve accumulation, would also facilitate the CBGs introduction of REPO instruments.

28. **The authorities welcomed a reconciliation of the government's accounts at the CBG and emphasized that transactions with the government going forward should be in strict compliance with the CBG Act.** In particular, any bridge loan to offset delays in budget support must meet this standard.

B. Financial Sector Policies

29. **As a result of strong competition and a challenging macroeconomic environment, risks to financial stability have increased.**[11] With the entry of seven new banks since 2007, competition for deposits, loans, and qualified staff has intensified significantly. In 2009 and early 2010, this led to a sharp rise in the cost of funds, provisions, and staff remuneration, respectively. In addition, the adverse effects of the global crisis on the tourist and real estate sectors (the latter is largely funded by remittances) amplified the pressures on banks' earnings and credit quality. Earnings for the banking sector as a whole turned negative in 2009, partially driven by increased provisioning for loan losses, although the latter failed to keep pace with the increase in non-performing loans (NPLs: see Table 1 in Appendix 2). The weakening in earnings and credit quality put pressure on bank capitalization. With a capital adequacy ratio of 19 percent, the banking sector at large is still adequately capitalized, but the aggregate number masks a wide dispersion across banks while NPLs are likely to increase further.

30. **Staff commended the authorities for taking steps to mitigate emerging risks, but urged them to take further steps.** Policy measures introduced by the CBG include: (i) raising the capital requirement in two steps from GMD 60 million now to GMD 150 million by end-2010 and to GMD 200 million by end-2012; (ii) introducing a PCA framework, effective January 2010; and (iii) establishing a Credit Reference Bureau in July 2009. However, additional steps are needed to strengthen banking supervision. In the short-term, the CBG needs to: (i) step up its micro-prudential surveillance capacity by addressing resource constraints (e.g., staffing, IT) and using the PCA framework as a dynamic instrument for allocating supervisory attention; (ii) step up its macro-prudential surveillance capacity to identify emerging systemic risks early on and

[11] For a more in-depth analysis, see Appendix 2, "Banking Supervision in a Rapidly Expanding Banking Sector".

take prompt *preventive* action accordingly; (iii) closely monitor banks' capital raising efforts to ensure that they meet the end-year minimum and that parent banks abide to commitments made; (iv) resolve weaknesses in the regulatory framework (see Appendix 2); and (v) resolve start-up problems of the CRB.

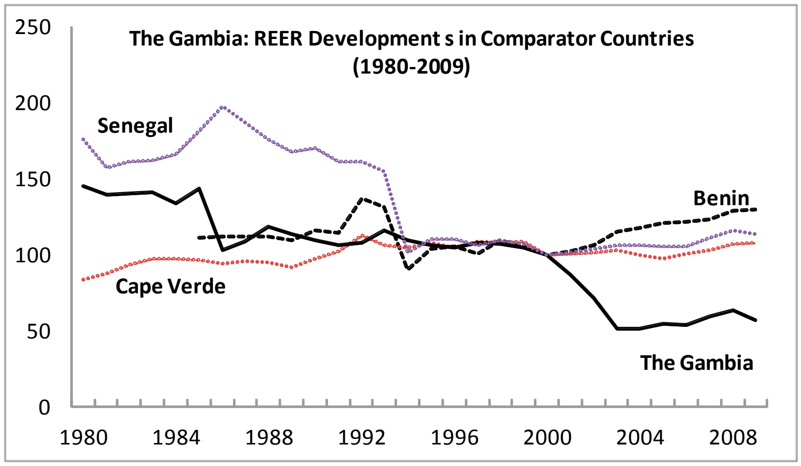
The authorities' response

31. **The authorities agreed with the need for additional steps to enhance the resilience of the financial system and strengthen banking supervision.** Earlier this year, banks were required to submit plans on how they would raise the resources to meet the first increase in the capital requirement by the end-2010. The authorities agreed with the mission that requiring banks to meet a portion of the increase by end-September would provide a meaningful signal on whether the banks are indeed able and willing to meet their obligations. By identifying troubled cases in advance, the CBG would have an opportunity to help resolve problems prior to the end-December action. Furthermore, the CBG is actively seeking new staff to meet critical shortages in the banking supervision department. Finally, subject to available financing, the CBG intends to upgrade its IT infrastructure to free-up staff time that is currently lost on manually entering and processing data.

C. Exchange Rate Assessment and International Competitiveness

32. **A floating exchange rate policy has served The Gambia well by absorbing part of the shock during periods of adjustment.** The CBG has intervened to smooth adjustments to changes in market conditions, without a predetermined path for the exchange rate, ultimately allowing the rate to be fully market determined. Since September 2009, the CBG has remained largely out of the foreign exchange market, entering only to purchase a modest amount of foreign exchange (about US$2 million) in March 2010 to meet a predetermined reserve target and to sell modest amounts (about US$1 million and US$3 million, respectively) in April and May for sterilization purposes. The mission encouraged the authorities to make a clear distinction between foreign exchange sales for sterilization purposes and those for interventions, where the former becomes a very predictable process. An analysis by Fund staff suggests that the dalasi was slightly overvalued during 2009 (Appendix 3).

33. **Developments in the REER as well as survey indicators suggest a modest gain in competitiveness for The Gambia in 2009.** The real effective exchange rate depreciated by about 10 percent in 2009 reflecting modest depreciation of the nominal exchange rate as well as a favorable inflation differential between the Gambia and its major trading partners. In comparison to comparator countries[12] with the West African sub-region, the Gambia's REER has also fallen significantly against these countries suggesting a relative gain in competitiveness for The Gambia. In terms of survey-based indicators, The Gambia slipped maintained its relative global ranking in the World Bank's *Doing Business Index Survey* for 2009 and is only behind Ghana and Nigeria among the countries of the West African Monetary Zone (WAMZ). Similarly, The World Economic Forum's *Global Competitiveness Index* for 2009 indicates a slight improvement in The Gambia's competitiveness as compared to 2008. Although these survey indicators do not necessarily reflect developments in the real exchange rate, they are useful indicators of inherent structural weaknesses that may undermine external stability in the future.



The authorities' response

34. **The authorities agreed with the mission's assessment.** They agreed that systematically using foreign exchange sales to sterilize liquidity generated by government expenditures financed by donors budget support—that is, a "spend and absorb" approach to aid—is appropriate for The Gambia, but they have yet to develop a separate transparent procedure for sterilization operations. On the assessment of the dalasi's alignment with economic fundamentals, they appreciated the insights obtained from the variety of approaches used, but noted that the exchange rate is market determined.

[12] Senegal is one of The Gambia's most important trading partners and is similar in climate and thus has the potential to produce similar agricultural goods. Cape Verde is a strong competitor to The Gambia as a tourist destination for European travelers while Benin serves as a major re-exporter of goods to Nigeria and Togo whereas The Gambia is a major re-exporter of goods to Senegal and Guinea-Bissau

D. Accelerating Growth

35. **The mission focused its attention on the implications for debt sustainability of the authorities' plans for financing large scale public investments.** Given that the Gambia's debt burden remains high, the mission urged the authorities to adhere with its commitment in the country's recently-adopted Medium-Term Debt Strategy (MTDS) to maintain debt sustainability by seeking grants and highly concessional loans to finance these investments. The mission also underscored the point that such new borrowing be channeled toward highly-productive investments with strong growth potentials, which should be verified through in-depth project evaluations. The mission cautioned the authorities, however, that further work is needed on the MTDS. In particular, questionable assumptions underlying the strategy create a bias in favor of domestic borrowing, which is already quite costly. While the mission agreed with the need to establish longer-term maturities for domestic debt, it noted that interest on these bonds is very high in real terms.[13] The mission urged the authorities to first make progress on easing the pressure on T-bill yields by curbing new borrowing, before issuing significant amounts of longer-term bonds. Indeed, it will be important to establish greater credibility that the government aims to reduce its domestic debt over a sustained period to achieve lower yields on government bonds.

36. **The mission encouraged the authorities to explore private sector participation as an alternative form of financing.** However, many public-private partnerships require a well developed institutional framework and caution is warranted. Others, such as a joint public-private telecommunications venture into an international gateway that opens the door to competition can be more immediately viable.

The authorities' response

37. **The Ministry of Economy, National Planning, and Industrial Development was established in February 2010, with the main objective of developing and implementing PAGE.** The authorities plan to have a number of stakeholders meetings during the drafting process. The first draft of the PAGE is expected to be completed by early 2011, with the aim of having a final draft ready for cabinet approval toward the end of the year and implementation beginning in 2012. The authorities explained that an important element in the PAGE will be a major stepping-up of infrastructure investment to address the country's severe shortcomings and to help create a more enabling business environment. The Ministry will coordinate departmental investment plans and carry out cost/benefit analysis on all large investment projects. At present, implementation capacity and institutional details remain to be developed.

38. **The authorities placed much emphasis on maintaining debt sustainability.** They will continue to seek grants or loans on concessional terms to finance designated projects that pass a thorough cost-benefit analysis. The authorities are open to private sector participation in

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[13] In February 2010, the government issued 3-year bonds for the first time, but demand was limited.

infrastructure investment. Indeed, they recently initiated negotiations with the private telecom companies to help finance GAMTEL's connection to a new international submarine fiber-optic cable expected to be completed in 2012.

39. **The authorities acknowledged the need to exercise caution when issuing longer-term government bonds, given the high cost.** They are seeking technical assistance to help update the MTDS with more realistic assumptions and risk analysis.

IV. Economic Statistics

40. **Economic data has shortcomings but are broadly adequate for surveillance.** Although substantial technical assistance efforts in recent years led to some improvements, data accuracy, timeliness and coverage remain weak. The Gambia Bureau of Statistics (GBoS), with the mandate to compile national accounts and price data, suffers from capacity constraints and has yet to implement several recommendations from previous technical assistance missions in national accounts. Data compilation at the Ministry of Finance and the CBG, although stronger overall, also suffer from inadequate resources and technical bottlenecks. In addition, administrative bottlenecks on sharing information with the Fund has impaired analysis and policy discussions. As a result, data submissions have been late, incomplete, and require detailed scrutiny.

V. Staff Appraisal

41. **The Gambian economy has performed well in recent years with strong economic growth and low inflation.** Thanks to a rebound in agriculture, the economy was cushioned from the severe impact of the global crisis on tourism and remittances, which are now expected to recover gradually. The Gambia has made good progress on several MDGs, but poverty is still widespread. Staff encourages the authorities to strive to meet the targets for spending on PRSP II priorities.

42. **The deterioration in fiscal discipline over the past year and a half, threatens The Gambia's positive economic performance.** The large roll-over of short-term debt implies that upward pressure on yields could sharply increase interest costs, which already consume one-fifth of government revenues. The mission welcomes recent measures to increase government revenues, but strong political will is also needed to ensure that spending is contained. By the same token, a credible program to reduce domestic borrowing through greater fiscal discipline could generate substantial fiscal savings.

43. **Recent revenue measures, particularly the increase in fuel prices, would need to be bolstered to have a sustained positive impact.** In the near-term, a new pricing formula for fuels, which preserves tax revenue and allows the pass-through of changes in world prices is called for. In addition, embracing a comprehensive tax reform, including intermediate steps to ensure smooth implementation of a VAT in 2013, would help to build much needed credibility in the government's commitment to fiscal discipline over the longer term.

44. **There has been good progress on public financial management in recent years, and the adoption of the new PFM reform strategy bodes well for further progress in the future**. While it will take a couple of years to implement some of the far-reaching measures, such as the IFMIS interface for the CBG or piloting an MTEF and program budgeting, it will be important to implement effective nearer-term measures. In particular, to guard against spending overruns and large supplementary expenditures, the budget for 2011 would be need to fully cover all ministries and spending agencies from the start. Election year spending pressures, however, will create some risks for the budget.

45. **Government's past recourse to central bank overdrafts has weakened the CBG's balance sheet. If it persists, it could impair monetary and foreign exchange operations.** Reconciliation of the government's accounts vis-à-vis the CBG is a positive step, but statutory limits would need to be observed going forward to safeguard economic stability. In this light, care is needed with the design of the CBG's bridge loan to cover the shortfall in budget support from donors. Should the delay in budget support persist, the loan should be converted to an interest bearing instrument in line with the CBG Act.

46. **Liquidity forecasting and management are set to improve substantially with the information sharing on fiscal operations provided by the recently formed interagency committee.** Depending upon improved fiscal discipline, there is good potential for greater predictability and stability in money market conditions which would facilitate financial intermediation and could help lower interest rates.

47. **The rapid expansion in the number of banks in recent years has created opportunities for deepening and access to financial services, but has also increased the risks to the banking system, especially under the intense competition among banks.** The CBG has appropriately raised the minimum capital requirement, but vigilance and a strong effort to expand the capacity of banking supervision are also needed.

48. **A floating exchange rate policy has served The Gambia well.** Although the dalasi was deemed to be slightly overvalued in 2009, there has been some adjustment since. The Gambia has a comfortable stock of international reserves, thanks in part to the SDR allocation. The authorities' cautious approach to maintaining reserves is also appropriate.

49. **The authorities have highlighted The Gambia's need for infrastructure, which is expected to be a central theme in the next strategy for reducing poverty.** Staff welcomes the authorities' commitment to maintain debt sustainability and to conduct careful project evaluations to make sure that investments are highly productive. Staff also welcomes the authorities' considering private sector participation in infrastructure investment, particularly when competitive market situations can be created.

50. **Staff recommends that the next Article IV consultation be held in accordance with the provisions of Decision No. 12794 of July 15, 2002, as amended, on consultation cycles.** In the event a review is completed under a Fund arrangement within the next 15 months, the next Article IV consultation will take place within 24 months.

Table 1. The Gambia: Selected Economic Indicators

	2007 Act.	2008 Act.	2009 Act.	2010 6th Rev.	2010 6th Rev.[2]	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
National account and prices	(Percent change; unless otherwise indicated)										
Nominal GDP (millions of dalasi)	20,556	22,978	25,805	21,477	28,425	28,425	31,434	34,724	38,356	42,374	46818.9
Nominal GDP	10.0	11.8	12.3	10.0	…	10.2	10.6	10.5	10.5	10.5	10.5
GDP at constant prices	6.0	6.3	5.6	4.8	…	5.0	5.4	5.4	5.4	5.4	5.4
GDP deflator	3.8	5.2	6.4	4.9	…	4.9	4.9	4.8	4.8	4.8	4.8
Consumer prices (average)	5.4	4.5	4.6	3.7	…	3.9	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	6.0	6.8	2.7	5.0	…	5.0	5.0	5.0	5.0	5.0	5.0
External sector											
Exports, f.o.b.	8.8	-4.4	8.5	3.6	…	4.9	4.8	4.9	4.5	4.5	3.0
Of which: domestic exports	-27.9	-0.2	-13.3	11.3	…	12.1	5.9	5.8	0.9	6.7	6.8
Imports, f.o.b.	18.4	17.4	-3.7	6.5	…	6.4	6.4	6.2	6.5	6.3	7.9
Terms of trade (deterioration -)	-6.1	-16.2	-0.8	1.7	…	1.7	1.2	1.1	1.0	2.0	2.0
Nominal exchange rate change (depreciation -)[1]	7.6	8.1	-13.3	…	…	…	…	…	…	…	…
Real effective exchange rate (depreciation -)[1]	9.6	7.5	-10.2	…	…	…	…	…	…	…	…
Money and credit	(Percent change; in beginning-of-year broad money)										
Broad money	6.7	18.4	19.4	10.9	…	12.5	12.1	12.0	12.1	12.1	12.1
Net foreign assets	-3.5	-6.3	3.7	-0.1	…	-0.1	0.1	1.4	2.9	3.9	3.5
Net domestic assets	10.1	24.7	15.7	11.1	…	12.7	12.0	10.6	9.1	8.2	8.7
Credit to the government (net)	-4.1	17.8	3.8	-0.1	…	4.6	1.7	0.9	0.5	0.4	0.4
Credit to the private sector (net)	4.8	6.8	3.5	8.2	…	5.1	7.8	8.3	7.4	6.6	7.1
Other items (net)	9.9	-2.4	4.9	2.5	…	-1.0	0.6	-0.1	0.2	0.2	0.2
Velocity	2.9	2.7	2.5	2.0	…	2.5	2.5	2.4	2.4	2.4	2.3
Average treasury bill rate (in percent)[1]	11.9	11.8	12.0	…	…	…	…	…	…	…	…
Central government budget	(In percent of GDP)										
Domestic revenues	16.9	15.2	15.1	20.5	15.5	14.3	14.6	14.7	14.8	15.0	15.0
Grants	0.9	1.1	3.5	4.9	3.7	2.4	2.4	2.2	2.1	2.1	2.1
Total expenditure and net lending	17.7	18.0	22.0	26.9	20.3	19.5	19.4	19.1	19.0	18.8	18.9
Overall balance	0.4	-1.8	-2.0	-1.4	-1.0	-2.8	-2.4	-2.2	-2.0	-1.8	-1.8
Basic balance	3.0	-0.6	-1.8	-0.1	-0.1	-0.9	0.2	0.4	0.5	0.6	0.4
Net foreign financing	0.8	0.1	0.5	1.7	1.3	1.0	1.7	1.5	1.3	1.2	1.0
Net domestic financing	-1.1	1.6	1.5	-0.3	-0.2	1.9	0.7	0.7	0.7	0.6	0.7
Stock of domestic public debt	22.1	19.9	19.7	22.7	17.1	20.7	20.1	19.7	17.9	16.6	15.8
External sector											
Current account balance											
Excluding official transfers	-10.7	-13.7	-14.0	-19.3	-14.5	-13.6	-13.2	-12.5	-12.3	-11.9	-12.2
Including official transfers	-9.7	-12.7	-10.5	-14.3	-10.8	-11.1	-10.8	-10.3	-10.2	-9.8	-9.1
Current account balance	(Millions of U.S. dollars, unless otherwise indicated)										
Excluding official transfers	-88.1	-142.0	-135.4	-155.1	…	-141.1	-146.6	-148.3	-155.9	-161.8	-182.2
Including official transfers	-80.3	-131.0	-101.6	-115.3	…	-115.9	-120.0	-122.3	-128.9	-133.1	-135.9
Overall balance of payments	34.0	-32.3	54.6	-6.8	…	-15.2	-3.7	0.3	8.9	15.3	20.3
Gross official reserves	141.6	115.6	186.0	178.2	…	177.6	177.6	177.6	185.0	197.1	212.8
in months of imports, c.i.f.	5.5	3.8	6.4	6.0	…	5.8	5.4	5.1	5.0	5.0	5.0
External public debt											
Stock	299.4	328.0	330.1	343.5	343.5	343.5	362.3	380.2	397.0	412.9	428.6
Stock (percent of GDP)	36.2	31.7	34.1	42.6	32.2	33.0	32.6	32.0	31.3	30.4	28.7
Use of Fund resources	(Millions of SDRs)										
Purchases	4.0	4.0	10.2	4.4	…	4.5	2.5	0.0	0.0	0.0	0.0
Repurchases	-11.2	0.0	0.0	0.0	…	0.0	0.0	-0.2	-1.0	-2.1	-3.8

Sources: Gambian authorities; and Fund staff estimates and projections.

[1] Data for 2009 are the actuals as of March 2010, but still subject to revisions.

[2] As per new GDP data, where relevant.

Table 2. The Gambia: Fiscal Operations of the Central Government
(In millions of local currency)

	2007 Act.	2008 Act.	2009 Act.	2010 6th Rev.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Total revenue and grants	3,663	3,745	4,790	5,474	4,756	5,342	5,857	6,501	7,242	7,998
Revenue	3,468	3,500	3,891	4,413	4,066	4,591	5,097	5,687	6,347	7,013
Tax revenue	3,037	3,146	3,519	3,991	3,620	4,117	4,569	5,096	5,684	6,459
Taxes on income, profits, and capital gains	884	1,125	974	1,185	1,102	1,230	1,373	1,547	1,743	2,005
Domestic taxes on goods and services	1,345	1,313	1,395	1,572	1,546	1,750	1,942	2,163	2,410	2,736
Taxes on international trade and transaction	808	708	1,148	1,234	973	1,136	1,255	1,386	1,531	1,718
Non-tax	431	354	371	422	446	474	528	591	663	554
Grants	194	244	899	1,061	690	751	760	814	895	985
Budget support	20	79	189	425	79	79	20	0	0	0
Project grants	174	166	710	636	612	673	740	814	895	985
Expenditures and net lending	3,635	4,139	5,683	5,770	5,555	6,184	6,697	7,308	7,979	8,762
Current expenditures	2,586	3,186	3,622	4,014	3,877	4,049	4,358	4,739	5,147	5,623
Wages and salaries	680	983	1,192	1,499	1,461	1,662	1,836	2,028	2,240	2,475
Other charges	1,091	1,489	1,689	1,752	1,595	1,560	1,668	1,827	1,995	2,204
Interest	815	713	741	762	821	828	854	885	912	944
External	231	154	153	176	183	194	212	230	247	259
Domestic	584	560	588	586	638	633	642	655	665	685
Capital expenditure	973	857	1,924	1,692	1,679	2,085	2,289	2,518	2,782	3,089
Foreign financed	780	505	1,338	1,327	1,227	1,576	1,675	1,780	1,892	2,017
Gambia local fund (GLF)	192	352	586	365	452	509	613	739	890	1,072
Net lending	76	96	138	64	0	50	50	50	50	50
Overall balance (excl. statistical discrepancy)	28	-394	-894	-296	-799	-842	-840	-807	-737	-764
Statistical discrepancy [1]	48	-11	385	0	0	0	0	0	0	0
Overall balance	76	-405	-509	-296	-799	-842	-840	-807	-737	-764
Financing	-76	405	509	296	799	842	840	807	737	764
External financing (net)	158	30	129	356	271	531	523	510	494	491
Borrowing	586	340	628	691	615	904	935	966	996	1,032
Amortization	-428	-310	-499	-335	-344	-372	-412	-455	-503	-541
Domestic financing (net)	-234	375	379	-60	528	310	317	297	243	273
Net borrowing	-514	585	370	-90	561	310	317	297	243	273
Bank [2]	-68	1,044	376	-7	536	230	130	80	80	182
Nonbank	-267	-369	42	-7	102	115	187	217	163	91
Repayment of domestic debt	-179	-89	-49	-77	-77	-34	0	0	0	0
Capital revenue	24	0	0	64	0	0	0	0	0	0
Change in arrears (- = decrease)	-369	-210	0	-33	-33	0	0	0	0	0
Privatization proceeds	626	0	9	0	0	0	0	0	0	0
Memorandum items:										
Basic balance [3]	614	-133	-455	-30	-263	-17	75	159	259	268
Basic primary balance [4]	1,429	580	287	732	558	811	929	1,044	1,172	1,212
Gross domestic interest bearing debt	4,546	4,571	5,082	4,872	5,973	6,486	6,953	6,953	7,146	7,419
Stock of arrears [5]	192	0	0	0	0	0	0	0	0	0
Stock of HIPC and MDRI debt relief										
Of which: IMF	336									
IDA	4,652									
AfDF	3,518									
Resources freed by debt relief	108	495	585	584	599	532	553	543	472	472
Amortization	101	378	458	468	480	419	446	443	384	384
Interest payments	7	116	126	116	119	113	107	100	87	87
Uses of resources freed by debt relief	108	495	585	584	599	532	553	543	472	472
Current expenditures	0	129	131	138	138	173	178	197	189	189
Capital expenditures	0	194	220	207	207	173	178	161	157	157
Savings	108	172	234	239	254	186	197	185	126	126
Expenditures financed by privatization receipts	159	391	107	0	0	0	0	0	0	0

Sources: Gambian authorities; and Fund staff estimates and projections.

[1] The difference between financing and the overall balance of revenue and expenditures.
[2] In 2010, includes bridge loan from CBG for part of the shortfall in disbursements of budget support.
[3] Domestic revenue - expenditure and net lending, excluding externally financed capital spending.
[4] Domestic revenue - expenditure and net lending, excluding interest payments and externally financed capital spending.
[5] Change in arrears for 2008 includes an additional D25 million for repayments to the National Water and Electricity Company (NAWEC).

Table 3. The Gambia: Fiscal Operations of the Central Government
(In percent of GDP)

	2007	2008	2009	2010	2010	2010	2011	2012	2013	2014	2015
	Act.	Act.	Act.	6th Rev.	6th Rev.[6]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	17.8	16.3	18.6	25.5	19.3	16.7	17.0	16.9	16.9	17.1	17.1
Revenue	16.9	15.2	15.1	20.5	15.5	14.3	14.6	14.7	14.8	15.0	15.0
Tax Revenue	14.8	13.7	13.6	18.6	14.0	12.7	13.1	13.2	13.3	13.4	13.8
Non-tax	2.1	1.5	1.4	2.0	1.5	1.6	1.5	1.5	1.5	1.6	1.2
Grants	0.9	1.1	3.5	4.9	3.7	2.4	2.4	2.2	2.1	2.1	2.1
Budget support	0.1	0.3	0.7	2.0	1.5	0.3	0.3	0.1	0.0	0.0	0.0
Project grants	0.8	0.7	2.8	3.0	2.2	2.2	2.1	2.1	2.1	2.1	2.1
Expenditures and net lending	17.7	18.0	22.0	26.9	20.3	19.5	19.7	19.3	19.1	18.8	18.7
Current expenditures	12.6	13.9	14.0	18.7	14.1	13.6	12.9	12.6	12.4	12.1	12.0
Wages and salaries	3.3	4.3	4.6	7.0	5.3	5.1	5.3	5.3	5.3	5.3	5.3
Other charges	5.3	6.5	6.5	8.2	6.2	5.6	5.0	4.8	4.8	4.7	4.7
Interest	4.0	3.1	2.9	3.5	2.7	2.9	2.6	2.5	2.3	2.2	2.0
External	1.1	0.7	0.6	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Domestic	2.8	2.4	2.3	2.7	2.1	2.2	2.0	1.8	1.7	1.6	1.5
Capital expenditure	4.7	3.7	7.5	7.9	6.0	5.9	6.6	6.6	6.6	6.6	6.6
Foreign financed	3.8	2.2	5.2	6.2	4.7	4.3	5.0	4.8	4.6	4.5	4.3
Domestic financed	0.9	1.5	2.3	1.7	1.3	1.6	1.6	1.8	1.9	2.1	2.3
Net lending	0.4	0.4	0.5	0.3	0.2	0.0	0.2	0.1	0.1	0.1	0.1
Overall balance (excl. statistical discrepancy)	0.1	-1.7	-3.5	-1.4	-1.0	-2.8	-2.7	-2.4	-2.1	-1.7	-1.6
Statistical discrepancy [1]	0.2	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.4	-1.8	-2.0	-1.4	-1.0	-2.8	-2.7	-2.4	-2.1	-1.7	-1.6
Financing	-0.4	1.8	2.0	1.4	1.0	2.8	2.7	2.4	2.1	1.7	1.6
External financing (net)	0.8	0.1	0.5	1.7	1.3	1.0	1.7	1.5	1.3	1.2	1.0
Borrowing	2.9	1.5	2.4	3.2	2.4	2.2	2.9	2.7	2.5	2.4	2.2
Amortization	-2.1	-1.3	-1.9	-1.6	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Domestic financing (net)	-1.1	1.6	1.5	-0.3	-0.2	1.9	1.0	0.9	0.8	0.6	0.6
Net borrowing	-2.5	2.5	1.4	-0.4	-0.3	2.0	1.0	0.9	0.8	0.6	0.6
Bank [2]	-0.3	4.5	1.5	0.0	0.0	1.9	0.7	0.4	0.2	0.2	0.4
Nonbank	-1.3	-1.6	0.2	0.0	0.0	0.4	0.4	0.5	0.6	0.4	0.2
Repayment of domestic debt	-0.9	-0.4	-0.2	-0.4	-0.3	-0.3	-0.1	0.0	0.0	0.0	0.0
Capital revenue	0.1	0.0	0.0	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (- = decrease)	-1.8	-0.9	0.0	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Basic balance [3]	3.0	-0.6	-1.8	-0.1	-0.1	-0.9	-0.1	0.2	0.4	0.6	0.6
Basic primary balance [4]	7.0	2.5	1.1	3.4	2.6	2.0	2.6	2.7	2.7	2.8	2.6
Gross domestic interest bearing debt	22.1	19.9	19.7	22.7	17.1	21.0	20.6	20.0	18.1	16.9	15.8
Stock of arrears [5]	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of HIPC and MDRI debt relief											
Of which: IMF	1.6										
IDA	22.6										
AfDF	17.1										
Resources freed by debt relief	0.5	2.2	2.3	2.7	2.1	2.1	1.7	1.6	1.4	1.1	1.0
Amortization	0.5	1.6	1.8	2.2	1.6	1.7	1.3	1.3	1.2	0.9	0.8
Interest payments	0.0	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.2	0.2
Uses of resources freed by debt relief	0.5	2.2	2.3	2.7	2.1	2.1	1.7	1.6	1.4	1.1	1.0
Current expenditures	0.0	0.6	0.5	0.6	0.5	0.5	0.6	0.5	0.5	0.4	0.4
Capital expenditures	0.0	0.8	0.9	1.0	0.7	0.7	0.6	0.5	0.4	0.4	0.3
Savings	0.5	0.7	0.9	1.1	0.8	0.9	0.6	0.6	0.5	0.3	0.3
Expenditures financed by privatization receipts	0.8	1.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Gambian authorities; and Fund staff estimates and projections.

[1] The difference between financing and the overall balance of revenue and expenditures.
[2] In 2010, includes bridge loan from CBG for part of the shortfall in disbursements of budget support.
[3] Domestic revenue - expenditure and net lending, excluding externally financed capital spending.
[4] Domestic revenue - expenditure and net lending, excluding interest payments and externally financed capital spending.
[5] Change in arrears for 2008 includes an additional D25 million for repayments to the National Water and Electricity Company (NAWEC).
[6] As a percentage of new GDP data.

Table 4. The Gambia: Monetary Accounts 1/
(In millions of local currency; unless otherwise indicated)

	2007 Act.	2008 Act.	2009 Act.	2010 6th Rev.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
I. Depository Corporation Survey										
Net foreign assets	4,022	3,504	3,869	4,061	3,852	3,870	4,082	4,569	5,294	6,018
Net domestic assets	4,252	6,292	7,826	8,536	9,307	10,888	12,454	13,961	15,478	17,275
Domestic credit	4,200	6,436	7,491	8,118	9,085	10,580	12,159	13,637	15,121	16,883
Claims on central government (net)	1,189	2,661	3,033	2,578	3,569	3,799	3,929	4,009	4,089	4,169
Claims on other public sector 2/	229	428	765	925	1,223	1,468	1,688	1,857	2,043	2,247
Claims on private sector	2,783	3,347	3,694	4,615	4,292	5,313	6,542	7,772	8,990	10,467
Other items (net) 3/	51	-144	335	418	223	308	294	324	356	392
Broad money	8,274	9,796	11,695	12,597	13,160	14,758	16,535	18,530	20,772	23,293
Currency outside banks	1,689	1,833	2,005	2,131	2,256	2,530	2,835	3,176	3,561	3,993
Deposits	6,585	7,963	9,690	10,465	10,904	12,228	13,701	15,353	17,211	19,300
II. Central Bank										
Net foreign assets	3,049	2,742	3,198	2,967	2,975	2,985	3,090	3,458	4,051	4,625
Foreign assets	3,192	3,069	5,010	4,905	4,927	5,111	5,280	5,674	6,239	6,605
Foreign liabilities	-142	-327	-1,812	-1,938	-1,952	-2,126	-2,190	-2,216	-2,188	-1,980
Net domestic assets	-305	160	-26	484	488	878	1,216	1,342	1,303	1,347
Domestic credit	-903	157	-293	105	73	154	184	215	245	276
Claims on central government (net)	-1,294	-219	-434	-278	-74	6	36	66	96	126
Claims on banks (net)	34	45	12	45	15	18	21	24	27	30
Claims on private sector	220	229	45	236	47	50	52	55	58	60
Claims on public enterprises	137	103	85	103	85	80	75	70	65	60
Other items (net) 3/	599	3	266	379	414	725	1,032	1,127	1,057	1,071
Reserve money	2,745	2,902	3,171	3,451	3,463	3,863	4,306	4,800	5,354	5,973
Currency outside banks	1,689	1,833	2,005	2,131	2,256	2,530	2,835	3,176	3,561	3,993
Commercial bank deposits	1,055	1,069	1,167	1,320	1,207	1,333	1,471	1,624	1,793	1,980

Sources: Gambian authorities; and Fund staff estimates and projections.

1/ End of period
2/ Include public enterprises and the local government.
3/ Including valuation.

Table 5. The Gambia: Monetary Accounts 1/

	2007 Act.	2008 Act.	2009 Act.	2010 6th Rev.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
	I. Monetary Survey (Percent change; in beginning of period broad money)									
Net foreign assets	-3.5	-6.3	3.7	-0.1	-0.1	0.1	2.9	4.0	4.3	3.6
Net domestic assets	10.1	24.7	15.7	11.1	12.7	12.0	9.2	8.1	7.8	8.6
Domestic credit	0.2	27.0	10.8	8.6	13.6	11.4	9.3	7.9	7.7	8.4
Claims on central government (net)	-4.1	17.8	3.8	-0.1	4.6	1.7	0.9	0.5	0.4	0.4
Claims on other public sector 2/	-0.5	2.4	3.4	0.4	3.9	1.9	1.5	1.0	1.0	1.0
Claims on private sector	4.8	6.8	3.5	8.2	5.1	7.8	6.9	6.4	6.2	7.0
Other items (net) 3/	9.9	-2.4	4.9	2.5	-1.0	0.6	-0.1	0.2	0.2	0.2
Broad money	6.7	18.4	19.4	10.9	12.5	12.1	12.0	12.1	12.1	12.1
Currency outside banks	-3.2	1.7	1.8	1.9	2.1	2.1	2.1	2.1	2.1	2.1
Deposits	9.9	16.7	17.6	9.1	10.4	10.1	10.0	10.0	10.0	10.1
	II. Central Bank (Percent change; in beginning of period monetary base)									
Net foreign assets	7.7	-11.2	15.7	-7.5	-7.0	0.3	8.2	12.5	13.7	11.0
Foreign assets	-4.7	-4.5	66.9	-3.1	-2.6	5.3	9.9	13.1	13.1	7.1
Foreign liabilities	12.4	-6.7	-51.2	-4.4	-4.4	-5.0	-1.7	-0.6	0.6	3.9
Net domestic assets	-12.0	16.9	-6.4	15.4	16.2	11.3	3.2	-1.0	-2.2	0.6
Domestic credit	-23.2	38.6	-15.5	6.3	11.5	2.3	0.8	0.7	0.6	0.6
Claims on central government (net)	-23.4	39.2	-7.4	6.1	11.4	2.3	0.8	0.7	0.6	0.6
Claims on banks (net)	0.0	0.4	-1.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Claims on private sector	0.2	0.3	-6.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Claims on public enterprises	0.0	-1.2	-0.6	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Other items (net) 3/	11.2	-21.7	9.1	9.1	4.7	9.0	2.4	-1.7	-2.8	0.0
Reserve money	-4.3	5.7	9.3	7.9	9.2	11.6	11.5	11.5	11.5	11.6
Currency outside banks	-8.7	5.2	5.9	6.6	7.9	7.9	7.9	7.9	8.0	8.1
Commercial bank deposits	4.4	0.5	3.4	1.3	1.3	3.6	3.6	3.5	3.5	3.5
Memorandum Items:										
Growth of credit to the private sector	15.4	20.3	10.3	23.2	16.2	23.8	19.1	16.8	15.6	17.1
Velocity	1.86	2.86	1.80	1.79	1.79	1.78	1.77	1.76	1.75	2.75
Money Multiplier	3.01	3.38	3.69	3.65	3.80	3.82	3.84	3.86	3.88	3.90

Sources: Gambian authorities; and Fund staff estimates and projections.

1/ End of period
2/ Include public enterprises and the local government.
3/ Including valuation.

Table 6. The Gambia: Balance of Payments
(In millions of U.S. dollars; unless otherwise indicated)

	2007 Act.	2008 Act.	2009 Act.	2010 6th Rev.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
1. Current account										
A. Goods and services	**-105.3**	**-158.4**	**-144.8**	**-170.2**	**-156.2**	**-166.3**	**-174.2**	**-184.4**	**-196.8**	**-221.1**
Trade balance	-171.5	-221.3	-202.5	-214.6	-216.8	-232.1	-247.8	-265.9	-284.8	-313.3
Exports, f.o.b.	91.4	87.4	94.8	89.2	99.5	104.3	109.4	114.4	119.5	123.1
Of which: domestic exports	7.8	7.2	5.3	8.1	5.7	6.1	6.4	6.9	7.4	8.0
Imports, f.o.b	-262.9	-308.7	-297.3	-303.7	-316.3	-336.4	-357.2	-380.3	-404.3	-436.4
Of which: oil	-28.5	-38.7	-30.7	-35.9	-35.3	-34.5	-33.9	-32.9	-31.7	-30.8
Services (net)	66.3	63.0	57.7	44.3	60.6	65.7	73.6	81.5	88.0	92.2
Of which: travel income	81.2	83.0	74.7	78.4	78.4	82.3	92.2	104.2	116.7	125.9
B. Income (net)	**-46.8**	**-45.9**	**-43.2**	**-41.2**	**-41.2**	**-40.6**	**-38.7**	**-40.6**	**-41.4**	**-42.2**
C. Current transfers	**71.8**	**73.3**	**86.4**	**96.1**	**81.6**	**86.9**	**90.5**	**96.1**	**105.1**	**127.4**
Remittances	52.5	53.8	43.0	46.5	46.5	50.2	54.2	58.5	65.6	70.0
Private transfers	11.5	8.5	9.6	9.8	9.8	10.1	10.3	10.6	10.9	11.1
Official transfers	7.8	11.0	33.7	39.8	25.2	26.6	26.0	26.9	28.7	46.4
Current account (excl. official transfers)	**-88.1**	**-142.0**	**-135.4**	**-155.1**	**-141.1**	**-146.6**	**-148.3**	**-155.9**	**-161.8**	**-182.2**
Current account (incl. official transfers)	**-80.3**	**-131.0**	**-101.6**	**-115.3**	**-115.9**	**-120.0**	**-122.3**	**-128.9**	**-133.1**	**-135.9**
2. Capital and financial account										
A. Capital account	**386.5**	**14.1**	**12.4**	**10.7**	**-2.6**	**6.8**	**6.9**	**7.8**	**2.3**	**2.9**
B. Financial account	**-263.6**	**114.3**	**145.7**	**97.8**	**103.3**	**109.5**	**115.8**	**130.0**	**146.1**	**153.3**
Foreign direct investment	80.6	70.0	72.9	74.0	62.8	66.2	68.7	70.4	73.2	76.9
Portfolio investment	-1.0	-10.1	-4.3	-1.5	-1.5	-1.1	-0.9	-0.6	-0.3	0.6
Other investment[1]	-343.2	54.5	77.0	25.3	42.0	44.4	47.9	60.2	73.2	75.8
Of which: Official other investment (net)	6.4	28.6	34.4	13.3	13.3	18.8	17.9	16.9	15.8	14.7
Loans	23.6	42.6	14.1	25.9	25.9	32.0	32.0	32.0	32.0	32.0
SDR Allocations	0.0	0.0	39.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-17.2	-13.9	-18.7	-12.6	-12.6	-13.2	-14.1	-15.1	-16.1	-17.3
Capital and financial account	**122.9**	**128.4**	**158.1**	**108.5**	**100.7**	**116.3**	**122.6**	**137.8**	**148.4**	**156.2**
Errors and omissions	-8.7	-29.7	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**34.0**	**-32.3**	**54.6**	**-6.8**	**-15.2**	**-3.7**	**0.3**	**8.9**	**15.3**	**20.3**
Financing										
Net international reserves (increase -)	-34.0	32.3	-54.6	6.8	15.2	3.7	-0.3	-8.9	-15.3	-20.3
Change in gross international reserves[1]	-23.0	26.0	-70.3	0.0	8.4	0.0	0.0	-7.4	-12.2	-15.6
Use of IMF resources (net)	-11.0	6.3	15.8	6.8	6.8	3.7	-0.3	-1.5	-3.1	-5.7
Disbursements[2]	6.1	6.3	15.8	6.8	6.8	3.7	0.0	0.0	0.0	0.0
Repayments	-17.1	0.0	0.0	0.0	0.0	0.0	-0.3	-1.5	-3.1	-5.7
Memorandum items:										
Gross International Reserves										
US$ millions	141.6	115.6	186.0	178.2	177.6	177.6	177.6	185.0	197.1	212.8
Months of imports of goods (cif)	5.5	3.8	6.4	6.0	5.8	5.4	5.1	5.0	5.0	5.0
Months of imports of goods and services	5.0	3.6	6.0	5.1	5.4	5.1	4.8	4.7	4.7	4.7
National currency per US dollar (average)	24.9	22.2	26.6	…	…	…	…	…	…	…
National currency per US dollar (end of period)	22.5	26.8	26.9	…	…	…	…	…	…	…

Sources: Gambian authorities; and Fund staff estimates and projections.
[1] Includes SDR allocation of approximately US$39 million in 2009.
[2] Includes first disbursement (7.5 percent of quota, US$ 3.7 million) of the augmentation in 2010.

Table 7. The Gambia: Balance of Payments
(In percent of GDP)

	2007 Act.	2008 Act.	2009 Act.	2010 6th Rev.	2010 6th Rev.[1]	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
1. Current account											
A. Goods and services	**-12.7**	**-15.3**	**-15.0**	**-21.1**	**-16.0**	**-15.0**	**-15.0**	**-14.7**	**-14.5**	**-14.5**	**-14.8**
Trade balance	**-20.8**	**-21.4**	**-20.9**	**-26.6**	**-20.1**	**-20.9**	**-20.9**	**-20.9**	**-20.9**	**-20.9**	**-21.0**
Exports, f.o.b.	11.1	8.5	9.8	11.1	8.4	9.6	9.4	9.2	9.0	8.8	8.2
Of which: other domestic goods	0.9	0.7	0.6	1.0	0.8	0.5	0.5	0.5	0.5	0.5	0.5
Imports, f.o.b	-31.8	-29.9	-30.7	-37.7	-28.5	-30.4	-30.2	-30.1	-30.0	-29.7	-29.2
Of which: oil	-3.5	-3.7	-3.2	-4.5	-3.4	-3.4	-3.1	-2.9	-2.6	-2.3	-2.1
Services (net)	8.0	6.1	6.0	5.5	4.2	5.8	5.9	6.2	6.4	6.5	6.2
Of which: travel	9.8	8.0	7.7	9.7	7.4	7.5	7.4	7.8	8.2	8.6	8.4
B. Income (net)	**-5.7**	**-4.4**	**-4.5**	**-5.1**	**-3.9**	**-4.0**	**-3.6**	**-3.3**	**-3.2**	**-3.0**	**-2.8**
C. Current transfers	**8.7**	**7.1**	**8.9**	**11.9**	**9.0**	**7.8**	**7.8**	**7.6**	**7.6**	**7.7**	**8.5**
Remittances	6.4	5.2	4.4	5.8	4.4	4.5	4.5	4.6	4.6	4.8	4.7
Private transfers	1.4	0.8	1.0	1.2	0.9	0.9	0.9	0.9	0.8	0.8	0.7
Official transfers	0.9	1.1	3.5	4.9	3.7	2.4	2.4	2.2	2.1	2.1	3.1
Current account (excl. official transfers)	**-10.7**	**-13.7**	**-14.0**	**-19.3**	**-14.5**	**-13.6**	**-13.2**	**-12.5**	**-12.3**	**-11.9**	**-12.2**
Current account (incl. official transfers)	**-9.7**	**-12.7**	**-10.5**	**-14.3**	**-10.8**	**-11.1**	**-10.8**	**-10.3**	**-10.2**	**-9.8**	**-9.1**
2. Capital and financial account											
A. Capital account	**46.8**	**1.4**	**1.3**	**1.3**	**1.0**	**-0.3**	**0.6**	**0.6**	**0.6**	**0.2**	**0.2**
B. Financial account	**-31.9**	**11.1**	**15.0**	**12.1**	**9.2**	**9.9**	**9.8**	**9.8**	**10.2**	**10.7**	**10.3**
Foreign direct investment	9.8	6.8	7.5	9.2	6.9	6.0	6.0	5.8	5.5	5.4	5.1
Portfolio investment	-0.1	-1.0	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Other investment	-41.5	5.3	7.9	3.1	2.4	4.0	4.0	4.0	4.7	5.4	5.1
Of which: Official other investment (net)	0.8	2.8	3.5	1.7	1.3	1.3	1.7	1.5	1.3	1.2	1.0
Loans	2.9	4.1	1.5	3.2	2.4	2.5	2.9	2.7	2.5	2.4	2.1
SDR Allocations	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-2.1	-1.3	-1.9	-1.6	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Capital and financial account	**14.9**	**12.4**	**16.3**	**13.5**	**10.2**	**9.7**	**10.5**	**10.3**	**10.9**	**10.9**	**10.5**
Errors and omissions	-1.0	-2.9	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**4.1**	**-3.1**	**5.6**	**-0.8**	**-0.6**	**-1.5**	**-0.3**	**0.0**	**0.7**	**1.1**	**1.4**
Financing											
Net international reserves (increase -)	-4.1	3.1	-5.6	0.8	0.6	1.5	0.3	0.0	-0.7	-1.1	-1.4
Change in gross international reserves	-2.8	2.5	-7.3	0.0	0.0	0.8	0.0	0.0	-0.6	-0.9	-1.0
Use of IMF resources (net)	-1.3	0.6	1.6	0.8	0.6	0.7	0.3	0.0	-0.1	-0.2	-0.4
Disbursements	0.7	0.6	1.6	0.8	0.6	0.7	0.3	0.0	0.0	0.0	0.0
Repayments	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.4
Memorandum items:											
Gross International Reserves											
US$ millions	141.6	115.6	186.0	178.2	178.2	177.6	177.6	177.6	185.0	197.1	212.8
Months of imports	5.5	3.8	6.4	6.0	6.0	5.8	5.4	5.1	5.0	5.0	5.0
National currency per US dollar	24.9	22.2	26.6	…	…	…	…	…	…	…	…

Sources: Gambian authorities; and Fund staff estimates and projections.

[1] As percentage of new GDP data.

Table 8. The Gambia: Millennium Development Goals, 1990-2008 1/

	1990	1995	2000	2006	2008
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	..	73	73	72	72
Employment to population ratio, ages 15-24, total (%)	..	59	57	55	55
Income share held by lowest 20%	..	..	*4.0*	*4.8*	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	15.4	16	..
Poverty headcount ratio at national poverty line (% of population)	..	*64*	*67*	..	*58*
Prevalence of undernourishment (% of population)	*20*	*31*	*29*	29	..
Goal 2: Achieve universal primary education					
Primary completion rate, total (% of relevant age group)	..	42	79	73	79
School enrollment, primary (% net)	..	..	72	74	69
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	8	..	2	13	9
Ratio of female to male primary enrollment (%)	76	76	87	104	106
Ratio of female to male secondary enrollment (%)	..	..	66	..	94
Ratio of female to male tertiary enrollment (%)	..	..	29	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	21	..	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	86	91	92	89	91
Mortality rate, infant (per 1,000 live births)	104	102	93	83	80
Mortality rate, under-5 (per 1,000)	153	149	131	112	106
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	118	94	88
Births attended by skilled health staff (% of total)	44	..	55	57	..
Contraceptive prevalence (% of women ages 15-49)	12	..	10	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*690*	..
Pregnant women receiving prenatal care (%)	..	..	91	98	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	55	63	..
Incidence of tuberculosis (per 100,000 people)	185	204	225	253	263
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	*0.6*
Prevalence of HIV, total (% of population ages 15-49)	..	0.3	0.8	0.9	..
Tuberculosis case detection rate (all forms)	..	63	..	55	54
Goal 7: Ensure environmental sustainability					
Annual freshwater withdrawals, total (% of internal resources)	..	..	..	..	*1.0*
CO2 emissions (kg per PPP $ of GDP)	0.3	0.2	0.2	0.2	..
CO2 emissions (metric tons per capita)	0.2	0.2	0.2	0.2	..
Forest area (% of land area)	44	45	46	47	*48*
Improved sanitation facilities (% of population with access)	..	47	49	52	..
Improved water source (% of population with access)	..	85	86	86	..
Marine protected areas (% of total surface area)	..	..	..	..	1.5
Terrestrial protected areas (% of total surface area)	..	..	..	..	2.0
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US$)	109	42	38	47	57
Total debt service (% of exports of goods, services and income)	22.2	15.5	..	11.8	..
Internet users (per 100 people)	0.0	0.0	0.9	5.2	6.9
Mobile cellular subscriptions (per 100 people)	0.0	0.1	0.4	25.7	70.2
Telephone lines (per 100 people)	0.7	1.8	2.6	2.9	2.9
Other					
Fertility rate, total (births per woman)	6.1	5.9	5.6	5.2	5.1
GNI per capita, Atlas method (current US$)	310	350	330	290	400
GNI, Atlas method (current bil US$)	0.3	0.4	0.4	0.5	0.7
Gross capital formation (% of GDP)	22.3	20.2	17.4	28.4	25.1
Life expectancy at birth, total (years)	51	53	54	55	56
Population, total (millions)	0.9	1.1	1.3	1.6	1.7
Trade (% of GDP)	131	122	105	97	79

Source: World Development Indicators database.

1/ Figures in italics refer to periods other than those specified.

APPENDIX 1. RESERVE ADEQUACY IN THE GAMBIA

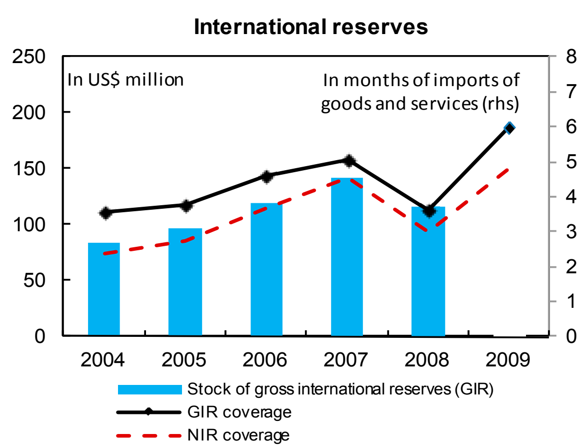
The recent SDR allocation boosted the stock of international reserves in The Gambia to relatively comfortable levels. Analysis using both traditional indicators and optimization models suggests, however, the need for a prudent approach to reserve use, conditional on risks to the economic outlook.

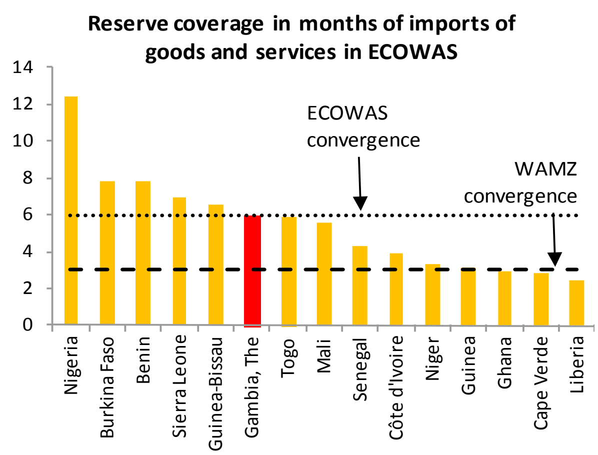
At the end of 2009, gross international reserves covered 6 months of imports of goods and services, with net reserves covering about 5 months of imports. While elevated by historical standards, these levels are compatible with risks facing a small open economy, with significant import dependence and absence of export diversification. In addition, the Gambia lacks access to international capital markets and has relied on remittances, some FDI, and budget support to finance its current account deficit.

Optimization models complement standard metrics for international reserve coverage to yield a more complete picture of reserve adequacy.[1] Indicators such as reserve coverage of imports place The Gambia relatively well within a regional sample of countries (figure). However, cost benefit analysis, where shocks to terms of trade and remittances are balanced against an opportunity cost of holding reserves mainly guided by the high domestic treasury bill yields, allows for more informed conclusions.

In particular, a baseline scenario including a likelihood of shocks to terms of trade based on historical probabilities together with a loss of aid/remittances suggests an optimal level of reserves coverage of 4.6 months of imports. However model results are sensitive to parameter calibration. For example, modifying the baseline by doubling the opportunity cost indicates a lower level of optimal reserves at 4.2 months of imports. If, in addition, the likelihood of terms of trade shock is increased (together with a faster recovery from the shock state), the resulting optimal level of reserves is 5.1 months of imports. Finally, a baseline scenario where real depreciation in the shock state is doubled to 20 percent suggests optimal reserve coverage of about 7 months of imports.

Notwithstanding model caveats (notably parameter sensitivity and data quality), the combination of traditional indicators of reserve coverage with model simulations indicates that the current level of international reserves is broadly aligned with macroeconomic risks faced by a small open economy like The Gambia.





[1] Eugen Tereanu "International Reserve Adequacy in The Gambia (forthcoming).

APPENDIX 2. BANKING SUPERVISION IN A RAPIDLY EXPANDING BANKING SECTOR[1]

The entry of seven new banks since 2007 significantly changed the banking landscape. With 14 banks now active in the Gambia, the availability of finance is improving.[2] Credit growth accelerated from late 2007 and easily outpaced GDP growth and deposit growth.[3] As a result, credit to GDP rose from less than 10 percent at end-2005 to about 17 percent in the first quarter of 2010, while the loan-to-deposit ratio increased by 6 percentage points to 47 percent over the same period (still relatively low in regional comparison). Financial deepening may raise The Gambia's growth potential by more effectively channeling savings into productive investments.[4] Moreover, to the extent that the new banks exploit business opportunities in sectors that were credit constrained, the entry of new banks contribute to private sector development. Indeed, while coming from a low base, non-traditional sectors like manufacturing and construction seem to have benefited more from the credit boom than the more traditional growth sectors like agriculture and tourism (Figure 1).

The quantity effect is more pronounced than the price effect. While the amount of outstanding loans nearly doubled since end-2006, bank lending rates seem to have come down only marginally and remain at high levels (about 25 percent). With a shallow corporate loan segment, a small number of large firms has the bargaining power to negotiate lower lending rates. However, the majority of firms and households continue to be credit constrained as rising funding, provisioning, and operating costs prevented banks from significantly lowering rates. While increased competition narrowed banks' interest margins, this primarily reflects rising deposit rates as new entrants in particular compete aggressively for time deposits in a market that is characteristically concentrated.[5] For those banks that lack a core local deposit base, competitive biddings for large deposits have significantly driven up funding costs, occasionally to such extent that deposit rates exceeded T-bill and the CBG's rediscount rate. As a result, the monetary policy transmission has been weakened, with virtually no pass-through of the December 2009 cut in the rediscount rate into lending rates.

Increased competition adds to the challenges for financial stability and supervision. Fierce competition for deposits, loans and qualified staff led to a sharp rise in the cost of funds, provisions, and staff remuneration, respectively. Combined with the deterioration in the

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[1] The author of this Background Note is Ruud Vermeulen.

[2] One bank was granted approval-in-principle but withdrew its bank license application.

[3] Credit growth averaged over 30 percent y/y between 2008q1 and 2010q1, relative to about 17 percent between 2005q1 and 2007q4. Deposit growth for the same time periods averaged 19 and 12 percent, respectively, while real (nominal) GDP growth averaged 5.5–6 (11–12) percent and 3.2 (5.8) percent.

[4] In 2010, The Gambia ranks 135 out of 183 countries in the World Bank's Ease of Doing Business indicator for getting credit (up from 131 in 2009). The Gambia scores particularly poorly (0 out of 6) in terms of the subcomponent measuring the depth of credit information (scope, access, and quality), See www.doingbusiness.org.

[5] For instance, the Social Security and Housing Finance Corporation alone accounted for close to 45 percent of total time deposits in 2009.

operating environment stemming from the impact of the global crisis on key sectors like tourism and construction, this led to an erosion in banks' earnings and capital adequacy (see figure 1). Moreover, new entrants cite a relatively lengthy licensing process as the culprit for incurring large losses in the first year of starting operations (e.g. restrictions on expanding branch networks and product range, including a six-month exemption from forex transactions). The following risk factors were identified as the key risks facing the Gambian banking sector:

1. **Credit risk**: In a bid to increase market shares,[6] banks seem to have relaxed credit standards at a time when credit quality was already weakening due to a deteriorating operating environment. This combined effect, is evidenced in a sharp rise in non-performing loan (NPL) ratios. With NPL growth outpacing credit growth and profitability entering negative territory in 2009, regulatory capital didn't keep pace (see figure 1). Even though at 18.7 percent, the aggregate capital adequacy ratio (CAR) far exceeds the regulatory minimum of 8 percent, the facts that NPLs are likely to rise further and that provisions only cover 52 percent of NPLs call for vigilance.

2. **Liquidity risk**: Given high degrees of deposit concentration and price elasticity for large deposits (from e.g. parastatals and large corporates), banks are vulnerable to a funding liquidity shock from aggressive, large depositors. Moreover, as most new entrants are subsidiaries of Nigerian banks, they are vulnerable to a parent bank funding shock should banking sector conditions in Nigeria deteriorate further. That said, market signals suggest that large depositors increasingly weigh rates against risks in allocating deposits, with some banks seeing tentative signs of a flight to quality.

3. **Operational risk**: Competition for qualified staff significantly raises operational risk through: (i) rising overhead costs; (ii) a loss of expertise; and (iii) hiring falling short of asset growth (i.e., credit risk).

This is confirmed by a weakening of Gambia's financial soundness indicators (FSIs) and prompt corrective action (PCA) ratings. Gambia's FSIs deteriorated across the board (Table 1), with the period averages reported here showing a milder deterioration than end-of-period figures. The PCA framework that the CBG implemented in 2010 stipulates that supervision should be incrementally stepped up for higher PCA ratings, with banks that report a rating above three for any of the PCA components subjected to intensive supervision. In line with the deterioration in FSIs, the aggregate PCA ratings have worsened in 2009 and early 2010, which holds in particular for those for asset quality and earnings (see Table 1).

The aggregate numbers mask vulnerabilities at the bank level. As risks tend to be concentrated in the tail of the distribution, focusing on aggregate FSIs and PCA ratings may not yield an accurate assessment of the soundness of the banking system. Indeed, Table 2 shows that

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[6] In the first quarter of 2010, the seven banks that entered since 2007 together accounted on average for nearly 25 percent of total loans, against 18.5 percent of total deposits and 22 percent of total assets. This reflects their aggressive build-up of market share, which is likely to have caused a weakening in credit standards across the board.

aggregate FSIs (i.e., size-weighted averages) mask a wide dispersion of risks across banks. While the new banks tend to be highly capitalized, some of the oldest and largest banks have significantly lower CARs. For instance, the CAR of the top 7 banks that account for 86 percent of banking system assets averages 15.1 percent (ranging from 9.3 to 24.9 percent) against 36.4 percent for the bottom 7 banks (ranging from 17.6 to 51.9 percent). Hence, the shock absorption capacity of some of the largest banks is significantly lower than the headline CAR suggests. Similarly, the dispersion in NPL ratios shows that again the older and larger banks struggle more with loan quality issues than the new banks. However, given that they just opened shop, it is likely that new banks will face a weakening of their loan portfolio down the road. The opposite holds for banks' earnings: 8 of the 14 banks are loss-making, most of which are new banks. As a result, the majority of banks perform worse than the aggregate ROA suggests.

Looking at individual banks' PCA rating over time confirms that asset quality and profitability deteriorated significantly in the past year (Figure 2). Moreover, it supports the view that credit risk is the key risk facing the Gambian banking system today. While the number of banks with a PCA rating for asset quality of 5 increased from 4 to 7 between 2009q1 and 2010q1, the percentage of system assets these banks represent jumped from 16 to 65 percent, meaning that nearly two-thirds of the system should be subjected to intense supervision.

Moreover, risks may be under-estimated by weaknesses in the regulatory framework. These include:

1. **Loan classification and provisioning rule**: In line with international best practices (Basel Core Principle 9), regulation should ensure that asset quality is properly and transparently recorded, as well as provisioned for, in banks' financial accounts.[7] The Gambia's asset classification and provisioning rule (see text table) shows weaknesses in three key areas. First,

Regulatory Loan Classification and Provisioning Rule 1/

	Delinquency Threshold (days)	Regulatory Provisioning Rate	Provisioning Classification
Current	< 90	1%	General
Sub-Standard	> 90	20%	Specific
Doubtful	> 180	50%	Specific
Loss	> 360	100%	Specific
Restructured 2/		5%	General

1/ Exemption from asset classification regulation for small consumer loan (up to GMD 25,000)
2/ Restructured loans are not classified as non-performing, nor as performing. Early restructuring is not allowed (CBG Guideline 5, Para 18 stipulates that they "*… will have been classified as non-accrual credits*".
Source: CBG

[7] To this end, asset classification and provisioning rules need to be designed such that weakening asset quality can be detected at an early stage and is provisioned for in line with realistic repayment and recovery expectations. This typically entails an asset classification rule based on quantitative and more forward-looking qualitative parameters like delinquency, financial ratios, and business prospects. Assets are typically classified into five categories that allow assets to be upgraded or downgraded in a granular fashion depending on certain performance parameters. While no formal consensus on best practices exists, a prudent asset classification rule comprises: (i) standard/current (no delinquency); (ii) watch/special mention (1-90 days past due); (iii) substandard (90-180 days past due); (iv) doubtful (180-360 days past due); and (v) loss (> 360 days past due), with a provisioning rate of 1, 5, 20, 50, and 100 percent, respectively. For a more detailed discussion, see IMF (2006), Financial Soundness Indicators Compilation Guide, Washington D.C.

it relies primarily on the delinquency parameter, with forward-looking judgment on loan performance only marginally embedded in regulation.[8] Second, it only includes four classification categories. Loans are classified as current up to 90 days of delinquency, with a corresponding provisioning rate of only one percent. The classification regime does not include a watch or special-mention category that typically captures loans that are delinquent up to 90 days, and require a provisioning rate of 5 percent. Third, the regulation governing restructured loans is too lenient and allows banks to provision for restructured loans at a rate of 5 percent only.[9] As restructured loans are not recorded as non-performing, NPLs are understated and do not accurately reflect loan performance in bank books.

2. **Single-borrower limit**: The limit is set at 25 percent of capital, but only applies to unsecured credit. This loophole in CBG regulation, flagged in recent Fund Technical Assistance (March 2010), allows banks to build up concentrated exposures beyond a level that is deemed sound. Moreover, given weaknesses in collateral registration and enforcement that reduce recovery rates on secured credit, this distinction is somewhat arbitrary. CBG's limited capacity to monitor concentrated exposures was revealed recently by a large borrower defaulting on its debt that far exceeded the legal limit and hence left the bank concerned undercapitalized.

Against this background, increasingly stretched supervisory resources are cause for concern. Based on the PCA thresholds, 13 out of the 14 banks should be subjected to intense supervision for at least one of the PCA components. As the CBG already faced difficulty in meeting the additional staffing needs for the expansion of the banking sector, the deterioration in banking sector conditions only adds to the CBG's supervisory capacity constraints. With 17 full-time staff in CBG's Financial Supervision Department (FSD), the number of supervisors per bank falls short of its targeted minimum of 3 supervisors per bank. That means that there is little room to step up the intensity of supervision or the frequency of on-site visits consistent with the PCA framework.[10] To alleviate staffing pressures, CBG intends to hire 4 more staff and – subject to funding – introduce an IT platform to digitalize regulatory returns.

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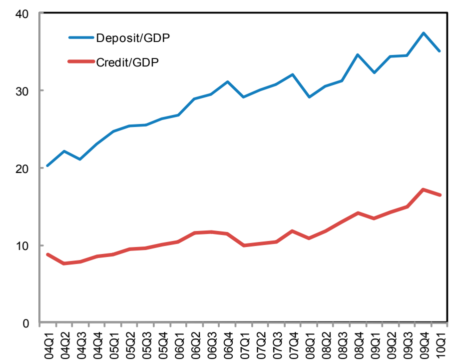
[8] CBG Guideline Paragraph 7: "*Non-accrual credits are defined as loans and advances on which interest is not being accrued due to the existence of reasonable doubt as to the ultimate collectability of principal or interest*".

[9] Prudent regulation governing the restructuring of problem assets should ensure that: (i) the debt service and repayment capacity of the counterparty is restored; (ii) any implicit (NPV) loss is written off; and (iii) the restructured asset can only be upgraded after debt service has been observed according to the restructured terms for a specified minimum amount of time and will be classified as non-performing until meeting that criteria.

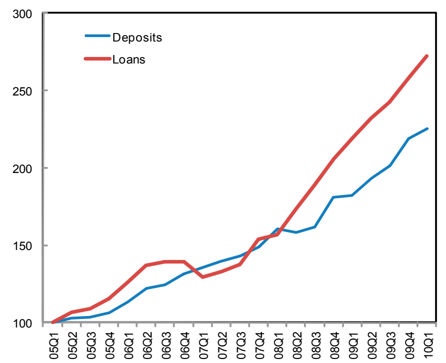
[10] Currently, on-site visits take place at an annual frequency, where CBG decides it to be a full-scale or follow-up visit based on off-site analysis.

Figure 1 The Gambia: Recent Developments in the Banking Sector

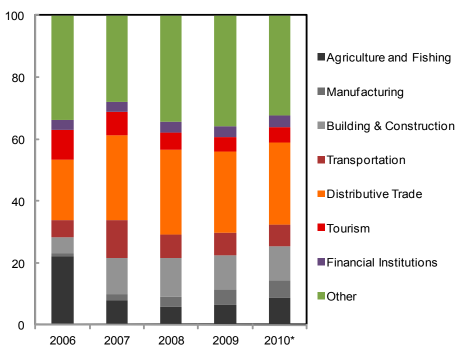
The entry of new banks led to further financial deepening and an improved access to finance…



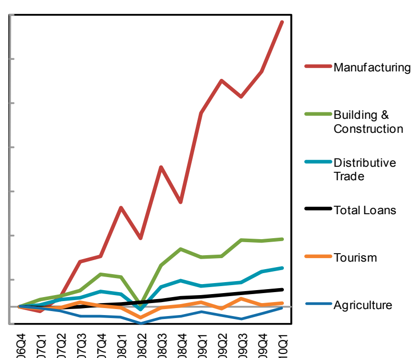
Loan growth accelerated from late 2007, outpacing deposit growth and henc leading to higher LDRs.



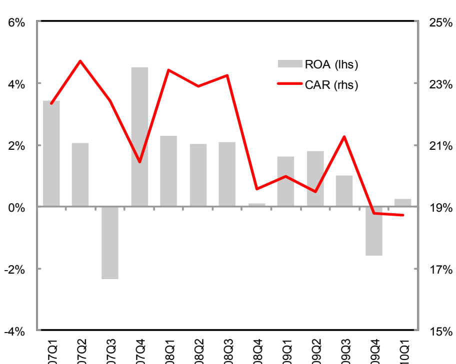
Where does intensified competition manifest itself? Which sectors are the key revenue generators / beneficiaries?



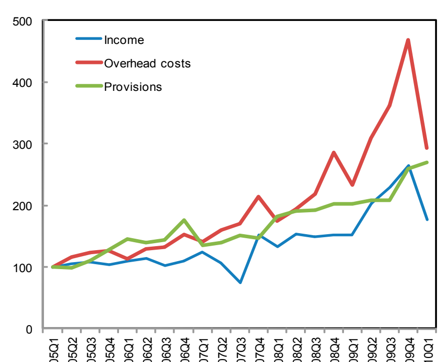
Rather than focussing on the core pillars of the Gambian economy, the data suggest that banks move into non-traditional growth sectors.



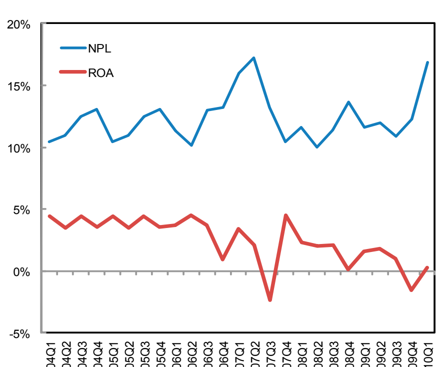
The entry of new banks intensified competition, eroding aggregate returns and capital adequacy…



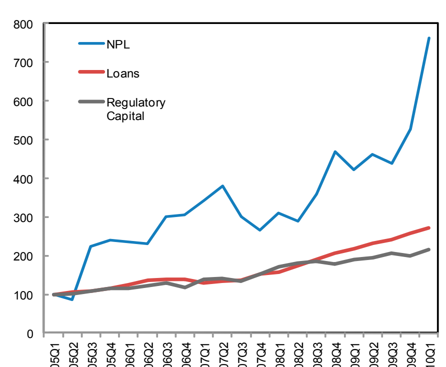
The erosion of profitability reflects a sharp increase in three components: (i) provisions; (ii) overhead costs; and (iii) funding costs…



… and clearly mirrors a weakening of credit quality, possiblyreflecting a relaxation in credit standards in a bid to compete for market share

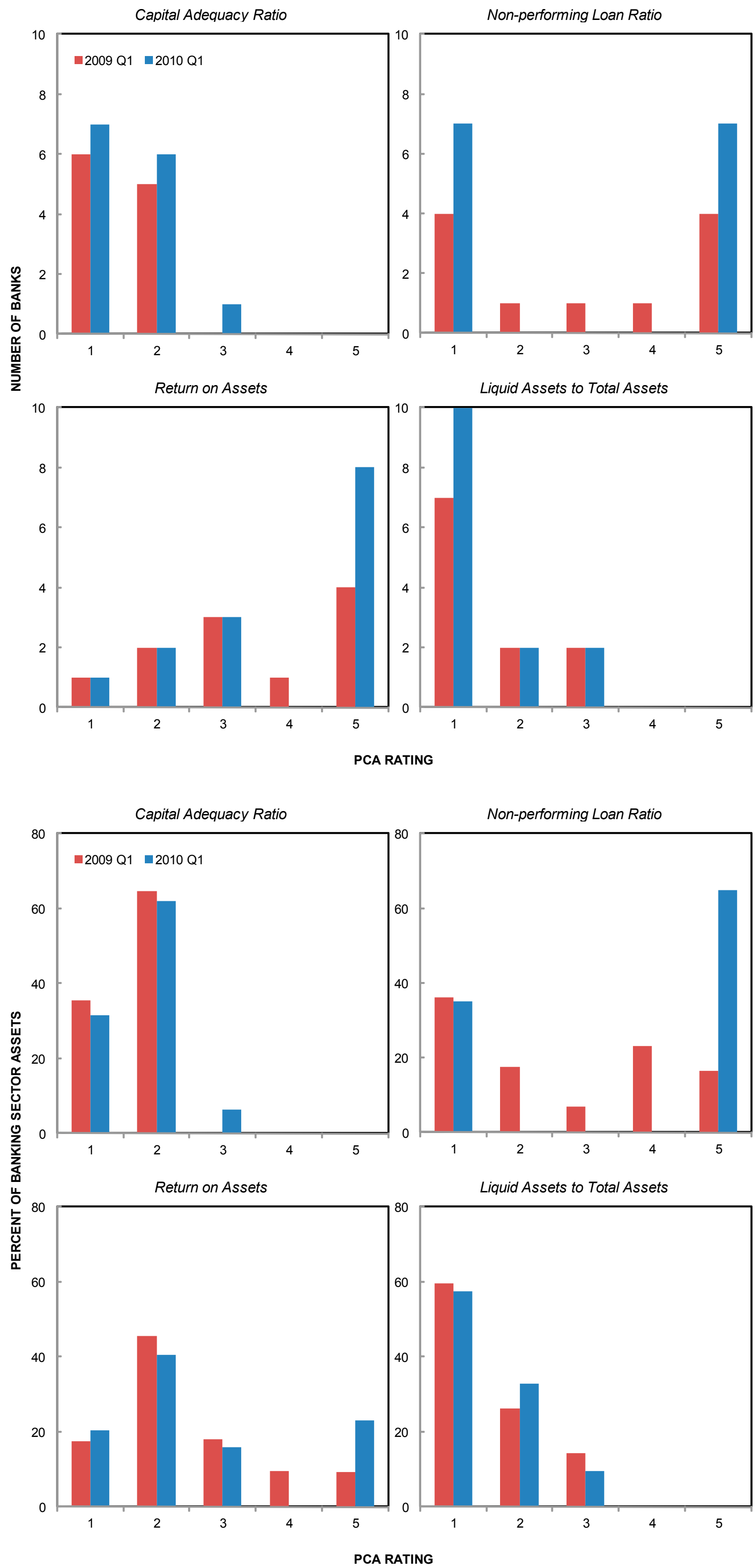


… as the cumulative increase in NPLs relative to that in loans and regulator capital demonstrates.



Source: CBG data and IMF Staff calculations

Figure 2 The Gambia: Development in Banks' PCA Ratings



Source: CBG data and IMF Staff Calculations.

Table 1 The Gambia: Financial Soundness Indicators - All Banks
(Period Average in Percent)

	2007	2008	2009	2010 1/
Capital Adequacy				
Regulatory Capital to Risk Weighted Assets	22.2	22.3	19.9	18.7
PCA Rating	1	1	2	2
Tier I Capital to Risk Weighted Assets	23.5	23.7	20.8	19.8
Asset Quality				
Non-Performing Loans to Total Loans	14.2	11.7	11.7	16.9
PCA Rating	5	4	4	5
Loan Loss Provisions to Non-Performing Loans	70.2	91.3	63.0	46.8
Earnings and Profitability				
Return on Assets	1.9	1.6	0.7	0.3
PCA Rating	3	3	4	4
Return on Equity	15.5	11.3	4.7	5.4
Net Interest Income to Gross Income	43.4	34.4	34.6	34.2
Non-Interest Expense to Gross Income	56.5	52.1	55.9	57.7
Liquidity				
Liquid Assets to Total Assets	43.6	43.7	39.7	37.0
PCA Rating	2	2	3	3
Liquid Assets to Total Deposits	67.1	67.3	59.1	64.2
Liquid Assets to Short-Term Liabilities	78.6	69.7	62.5	58.5
Sensitivity				
Net Open Position in Foreign Exchange to Capital	38.8	5.9	5.5	…
PCA Rating	5	1	1	

1/ Data for 2010 covers only the first quarter.
Source: Central Bank of The Gambia

Table 2 The Gambia: Dispersion of Financial Soundness Indicators Across Banks
(End of Period in Percent)

	Aggregate	min	median	mean	max
Capital Adequacy					
CAR 2010 Q1	18.7	9.3	19.9	26.5	51.9
CAR 2009 Q1	20.0	10.9	20.5	32.7	102.6
Asset Quality					
NPL 2010 Q1	16.9	0.0	15.7	12.9	47.1
NPL 2009 Q1	11.6	0.0	10.3	11.7	40.4
Earnings and Profitability					
ROA 2010 Q1	0.3	-35.4	-1.7	-4.2	3.1
ROA 2009 Q1	1.6	-6.2	1.1	0.0	3.4
Liquidity					
LAR 2010 Q1	65.2	32.7	69.6	106.6	378.1
LAR 2009 Q1	63.9	30.4	67.3	94.8	288.5

Source: Staff calculations based on Central Bank of The Gambia data

APPENDIX 3. IS THE DALASI ALIGNED WITH THE ECONOMY'S FUNDAMENTALS?

A number of complementary approaches were adopted to assess The Gambia's exchange rate in order to provide best estimates for staff's assessment. These alternative approaches, proposed by the IMF's Consultative Group on Exchange Rate Issues (CGER), include the macroeconomic balance approach, the equilibrium exchange rate approach, and the external sustainability approach. In addition, staff also examined the sustainability of the current account deficit based on the evolution of key variables in the balance of payments. These alternative approaches, however, produce different results.

The macroeconomic balance approach suggests that the dalasi may be overvalued. This approach finds that the country's current account deficit as of 2009 (14¼ percent of GDP) is higher that its economic fundamentals would suggest (11¾ percent of GDP). The underlying fundamental driving this result is the large fiscal deficit for 2009. With an estimated current account norm of about 4 percent, roughly in line with estimates in past assessments, a depreciation of 11¼ percent would be needed to restore sustainability.

Results from the equilibrium real exchange rate approach suggest an overvaluation of between 5 and 7 percent. Staff adopted a vector error correction mechanism (VECM) to estimate the REER because of the presence of Cointegration between the REER and its fundamentals. Given the relatively small sample size (1973—2009), staff also used an autoregressive distributed lag model (ADL) which is better for small samples. While the VECM indicates that the exchange rate may be overvalued by 7 percent, the ADL suggests a slightly lower overvaluation of about 5 percent. In both cases, government consumption was the most significant explanatory variable. To the extent that such consumption is more on non-tradables than tradables, the exchange rate is likely to appreciate and tend toward being overvalued.

With an underlying current account balance of 11¾ percent, the external sustainability approach indicates that the Gambia's long-run NFA would be unsustainable at about 132 percent of GDP. In order to bring the NFA to sustainable levels of either 50 percent or 70 percent of GDP (associated with different assumptions on FDI flows); the exchange rate would require a depreciation of between 8 and 11 percent with corresponding current account deficits of 4½ percent and 6¼ percent of GDP.

On the basis of flows of key variables, the balance of payments seems sustainable. Although the average trade deficit has increased from about 6 percent (1997–2004) to about 15 percent (2005–09), this has been offset by a modest increase in the surplus on net services over the same period. More also, the associated deterioration in the current account balance (from 6 percent to 11½ percent) has been financed by non-debt creating flows in the capital account including grants, loans, FDI and inflows to commercial banks.

Taken together, these assessments suggest The Gambia's exchange rate may be slightly overvalued. On average, our assessments indicate the Dalasi is overvalued by about 6½ percent. As in most low-income countries (LICs), data weaknesses and uncertainties regarding optimal methodology make it difficult to reach a conclusive assessment. However, in light of the consistent agreement of the results from various methodologies, we conclude that the Gambia's exchange rate is slightly overvalued.

The Gambia: Results of Exchange Rate Assessments

Methodology	Valuation (in percent): Over (+) or Under (-)
Macroeconomic Balance	11.3
External Sustainability	8 – 11
Balance of Payments Flows	0.0
Equilibrium Real Exchange Rate:	
VECM Model	6.9
ADL Model	4.8
Average	**6.5**

Source: IMF staff calculations.

INTERNATIONAL MONETARY FUND

THE GAMBIA

2010 Article IV Consultation
Informational Annex

Prepared by the African Department

July 6, 2010

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 18.22 million (58.59 percent of quota) at end-December 2009.

- **Joint Bank-Fund Work Program.** Lists the work program of the Bank and the Fund on The Gambia from July 2010 to July 2011.

- **Relations with the African Development Bank.** Describes the African Development Bank Group program and portfolio.

- **Statistical Issues.** Assesses the quality of statistical data. The authorities have made progress in improving the compilation of economic and financial statistics. However, weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country.

The Gambia: Relations with the Fund

(As of May 31, 2010)

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	29.62	95.23
Reserve position in Fund	1.48	4.77

SDR Department	SDR Million	% Allocation
Net cumulative allocation	29.77	100.00
Holdings	24.61	82.67

Outstanding Purchases and Loans	SDR Million	% Quota
ECF arrangement	20.22	65.00

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Feb. 21, 2007	Feb. 20, 2011	24.88	20.22
ECF	Jul. 18, 2002	Jul. 17, 2005	20.22	2.89
ECF	Jun. 29, 1998	Dec. 31, 2001	20.61	20.61

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

	Forthcoming				
	2010	2011	2012	2013	2014
Principal	0.00	0.00	0.20	1.00	2.11
Charges/interest	0.01	0.01	0.06	0.06	0.06
Total	0.01	0.01	0.26	1.06	2.17

[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 (yearend 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	December 19, 2007
Disbursement of IMF assistance (SDR million)	2.29
Assistance disbursed	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)

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

[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.

Safeguards assessments

Safeguards assessments of the Central Bank of The Gambia (CBG) were completed in February 2004, February 2007, and November 2009. The 2007 assessment concluded that the CBG had initiated steps to improve its safeguards framework and recommended additional measures to strengthen the CBG's internal controls and financial reporting practices. The 2009 update report concluded that the CBG had made good progress in implementing safeguards recommendations. The central bank continued to be audited by a reputable audit firm and implemented International Financial Reporting Standards. The assessment stressed that key safeguards should remain in place; most important, the term of the current audit firm expires after 2009 and a timely appointment of a reputable external auditor for 2010 and beyond will be needed. The assessment also recommended that the central bank formalize a framework for extension of credit to government to ensure compliance with the statutory limits.

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 June 30, 2002, the exchange rate arrangement of The Gambia was reclassified from independently floating to managed float with no preannounced path. As of end–December 2009, the midpoint exchange rate in the interbank market was D26.94 per U.S. dollar. The Gambia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. The Gambia maintains exchange restrictions for security reasons, based on UN Security Council Resolutions, that have been notified to the Fund for approval (EBD/08/86, 08/13/08) under the procedures set forth in Executive Board Decision No. 144-(52/51).

Last Article IV consultation

The Executive Board concluded the 2008 Article IV consultation (EBS/08/98) on September 8, 2008.

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 are the following:

Fiscal Affairs Department

June 2010	TA mission on public financial management (PFM)
April/May 2010	TA mission to advise on improvements in revenue administration

April 2009	and provide input into the design of tax reforms. TA mission advised on measures to reform the tax system.
Jul. 2008	Peripatetic regional advisor followed up on the work of the Aug./Sep. 2007 FAD mission.
Aug./Sep. 2007	TA mission assessed all areas of public financial management and provided an action plan to secure the actual implementation of reforms initiated in the recent past.
Sep. 2004–May 2006	Peripatetic regional advisor assisted the authorities in putting the new organic budget law into effect, strengthening public expenditure management, and improving the reporting of budget execution.
Feb./Mar. 2004	Mission worked jointly with the World Bank on the Assessment and Action Plan (AAP).
Apr. 2003	TA advisor reviewed reforms in public expenditure management.
Mar. 2003–Oct. 2003	Long-term resident budget expert helped the authorities to strengthen budgetary expenditure reporting and control.
Dec. 2002	TA advisor advised the authorities on drafting an organic budget bill.
Oct. 2002	TA advisor reviewed reforms in public expenditure management.
Mar. 2002–Oct. 2003	Long-term resident budget expert helped the authorities to strengthen budgetary expenditure reporting and control, initially for a year beginning from March 2002. The assignment was later extended until October 2003.
Nov. 2001–Oct. 2003	Peripatetic advisor assisted the DoSFEA in revenue administration reforms, including customs, implementing a large-taxpayer unit, and establishing a central revenue authority.
Jul. 2001	TA mission assessed the authorities' capacity to track poverty-related spending.
Aug. 2000–Aug. 2001	Long-term resident budget expert assisted the authorities in strengthening budgetary expenditure reporting and control.
Sep. 1999	TA mission assisted the authorities in expenditure management, budget execution issues, cash and debt management, short-term financial planning, fiscal reporting, and information systems.
Jan./Feb. 1996	Joint FAD/United Nations Development Program (UNDP) TA mission helped set up a system for monitoring the financial operations of public enterprises.

Monetary and Capital Markets Department/ Monetary and Financial Systems Department /Monetary and Exchange Affairs Department

January 2010	TA missions advised on monetary operations and liquidity forecasting.
January 2009	Technical expert advised the CBG on banking supervision.
Sept. 2007	Mission advised on improving the monetary policy framework and enhancing the effectiveness of monetary, foreign exchange, and debt management operations for the CBG.
Mar./May 2007	Technical expert advised the CBG on banking supervision.
Mar./Apr 2007	Technical expert advised the CBG in strengthening its capacity in internal auditing.
Jan./Feb. 2007	Technical expert advised the CBG on improving monetary operations.
Jul./Aug. 2006	Technical expert advised the CBG on banking supervision.
Jul./Aug. 2006	Mission reviewed progress made in strengthening the CBG's capacity in monetary operations and liquidity forecasting, foreign exchange operations, and foreign reserves management.
Apr./May 2006	Technical expert advised the CBG on banking supervision.
Apr./May 2006	Technical expert advised the CBG on improving monetary operations.
Nov. 2005	Technical expert advised the CBG on improving monetary operations.
Mar. 2005	Follow-up to the October 2004 mission.
Oct. 2004	Advisory mission made recommendations for improving monetary and foreign exchange operations and for reorganizing the central bank.
Jul. 2002	TA diagnostic mission focused on financial supervision and the insurance sector; and helped review the Central Bank Act and draft the Financial Institutions and Insurance Act.
Dec. 2001	TA diagnostic mission focused on strengthening CBG ability to formulate and implement monetary policy and manage its foreign exchange operations and the financial system.

May 2001	Short-term expert helped the authorities to design operational, prudential, and policy safeguards (including assessing the adequacy of legislation) for introducing foreign-currency-denominated accounts.
Apr. 2001	Short-term expert helped the authorities to set up a book-entry system.
May 2000	Short-term expert helped the authorities to set up a short-term liquidity forecasting system.
Nov. 1999	Short-term expert helped the authorities design operational, prudential, and policy safeguards (including assessing the adequacy of legislation) for introducing foreign-currency-denominated accounts in the banking system.
Aug. 1998	TA mission helped the CBG draft market-based monetary policy instruments and review its program for strengthening banking supervision.
Dec. 1996	Technical expert helped the CBG in foreign exchange operations.
Jan./Feb. 1994	TA mission worked on monetary management and bank supervision.

Statistics Department

February 2010	TA mission advised on measures to improve monetary and financial statistics.
Jun. 2008	Fourth visit of the U.K. Department of International Development (DfID)-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series and calculation of GDP by expenditure approach, with results from the 2004 Economic Census.
Apr./May 2008	Follow-up of the 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.
Mar. 2008	Third visit of the DfID-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series and calculation of GDP by expenditure approach, with results from the 2004 Economic Census.

Oct./Nov. 2007	Second visit of the DfID-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series with results from the 2004 Economic Census.
Sep. 2007	The DfID-funded TA mission helped to improve the compilation of balance of payments statistics.
Aug. 2007	The DfID-funded TA mission advised in improving the compilation of national accounts statistics, particularly in rebasing the GDP series with results from the 2004 Economic Census.
Apr./May 2006	TA mission helped to improve the compilation and analytical soundness of monetary and financial statistics.
Feb. 2006	TA mission advised on compilation of balance of payments statistics.
Feb. 2005	Report on the Observance of Standards and Codes (ROSC)—Data Module—mission assessed data quality in four main areas of macroeconomic statistics (national accounts, government finance, monetary, and balance of payments) based on the Fund's Data Quality Assessment Framework (DQAF, July 2003) and The Gambia's dissemination practices against the recommendations of the General Data Dissemination System (GDDS).
2002–04	Peripatetic statistical advisor helped the Central Statistics Department update CPI data and improve the compilation of national accounts statistics.
May 2003	Mission advised on building an integrated database to report monetary statistics for all IMF data submissions.
Aug. 2001	TA mission advised on compilation of monetary and financial statistics.
Sep. 2000	TA mission advised on compilation of balance of payments statistics.
Nov. 1999	Mission reviewed collection of statistics to develop GDDS metadata for The Gambia.
Jun./Jul. 1999	TA mission advised on compilation of balance of payments statistics.
Nov./Dec. 1998	TA mission advised on national accounts statistics.

Others

Mar./Apr. 2007	A Poverty and Social Impact Analysis (PSIA) mission analyzed the planned reform of the groundnut sector and discussed with the authorities the implications of these reforms.
Apr. 2002–Apr. 2004	A long-term resident macroeconomic advisor was assigned initially for a year beginning from April 2002, and later the assignment was extended by one more year through April 2004.

Resident Representative

Mr. Meshack Tjirongo was appointed the Fund's Resident Representative to The Gambia in January 2010. He is also the Resident Representative to Sierra Leone.

The Gambia: Joint Bank-Fund Work Program, May 2010–June 2011

Title	Products	Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Economic Management and Public Service Delivery** 1. Integrated Financial Management Information System project 2. Public Expenditure Review Update **Growth and Competitiveness** 1. Investment Climate Assessment 2. Nutrition Security Project 3. Energy Project	1. Jun. 2010 2. Oct. 2010 (first draft) 3. Oct./Nov. 2010	1. Target Board Date Jun./Jul. 2010 2. Draft report – Oct. 2010 4. Final report – Nov./Dec. 2010 5. Target Board Date – Oct./Nov. 2010
Fund work program in next 12 months	**Policy Advice** 1. 2010 Article IV 2. Seventh/Eighth ECF review and negotiation successor arrangement **Technical Assistance** 1. Public Financial Management 2. Medium-term debt management 3. Balance of payments 4. National accounts	May 2010 October/November 2010 June 2010 September 2010 October/November 2010 Not confirmed	July 2010 January 2011
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on: PFM reform, civil service reform, CPIA updates, and project evaluation.		
Bank request to Fund	Periodic updates on macroeconomic framework.		
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Debt Sustainability Analysis Update	May 2011	

The Gambia: Relations with the African Development Bank
(As of February 18, 2010)

The African Development Bank (AfDB) Group began lending to The Gambia in 1974. As of December 31st 2009, it had approved 57 operations with total commitments (net of cancellations) of UA213.82 million (US$332.32 million) in the following sectors: transport (24 percent); agriculture (22 percent); social (24. percent); public utilities (12 percent); multi-sector (10 percent); environment (6 percent); and industry (2.0 percent).[6] About 85.4 percent of the Bank Group's net commitments were made from the resources of the African Development Fund (ADF), 8.6 percent from the ADB nonconcessional window, and 6 percent from the Nigeria Trust Fund (NTF).

As of December 31st 2009, 42 operations had been completed, 2 were cancelled at the government's request, and 12 others continue, including 3 multinational projects, all in agriculture. Implementation of the portfolio is generally satisfactory; it achieved a rating score of 2.55 (on a scale from 0 to 3) during the Bank Group's 2009 portfolio review. The portfolio has a relatively low project-at-risk (PAR) rate of 33.3 percent, which compares well with the Bank-wide average of 45 percent as indicated in the AfDB's 2008 Annual Portfolio Performance Review (APPR).

The AfDB is also a major participant in The Gambia's enhanced Heavily Indebted Poor Countries (HIPC) Initiative program, under which it is to grant debt relief of US$15.8 million in net present value (NPV) terms (23.6 percent of total debt relief under the program). Of this, $6.3 million in end-1999 NPV had been paid as interim relief. Additionally, MDRI relief from the AfDB will yield annual debt service savings (net of HIPC assistance) averaging US$1.6 million over the 5 years following completion and US$3.9 million over the remaining 39 years.

The AfDB prepared a Joint Assistance Strategy (JAS) with the World Bank in early 2008 to cover 2008–11. The JAS is based on two main pillars—(1) strengthening the institutional framework for economic management and public service delivery, and (2) enhancing growth and competitiveness and the productive capacity of the economy. The JAS was prepared to help support the Government's national priorities through the main channels of budget support and project finance in the context of growth poles and enhanced service delivery. The strategy was approved at the World Bank in February 2008 and at the AfDB in March 2008. A Mid-term Progress Report is currently being prepared to assess the implementation of the strategy at mid course. The JAS is anchored to the Gambia's Poverty Reduction Strategy Paper PRSP II (2007–2011) and has been supported by both new lending and the ongoing portfolios of the AfDB and World Bank. Table 2 summarizes the on-going portfolio of the AfDB while Table 1 below describes some of the recent projects in the portfolio:

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[6] UA stands for unit of account = 1 SDR (equivalent to about $1.5542 as of Feb 2010).

Table 1: Some Recent Projects in the Portfolio

Objective	Instrument and Amount	Focus
Meet the MDGs	Basic Education Project, UA10.0 million	Increase access to quality education and skills development, particularly for girls and pupils in the poorest areas of the country.
Reduce poverty	Entrepreneurship promotion and microfinance development project UA8.0 million	Enhance entrepreneurial skills and improve capacity and income generation ability by providing microfinance. Focus is poverty reduction.
Implement multi-sector Institutional Support (Approved November 2007; articulated in the JAS)	Institutional Support Project for Economic Management and Financial Governance, grant of UA1.4 million	Strengthen capacity of departments and institutions involved in preparing and implementing the PRSP. Extend support to institutions dealing in economic governance, including the new Directorate of Central Project Management and Aid Coordination in the Ministry of Finance and Economic Affairs (MOFEA), and National Audit Office (NAO).

Under ADF–10 and ADF–11, The Gambia is a grants-only recipient. Additional resources can be made available if there is improvement in both performance under the Country Policy Institutional Assessment (CPIA) and portfolio performance.

The AfDB's strategy is implemented through both lending and non-lending activities. Lending activities will comprise project finance and budget support. Non-lending intervention is designed to strengthen policy dialogue between the government and stakeholders and focuses mainly on studies, funded through grants, to improve governance, mainstream gender, enhance efficiency of infrastructure, and improve the energy supply. The AfDB prepared a Governance Profile for The Gambia in 2007 and has recently collaborated with the World Bank and the U.K. Department for International Development (DfID) in the preparation of a study on Civil Service Reform. A Gender Profile is programmed for 2010.

Table 2: The Gambia: AfDB Ongoing Portfolio as of 31 December 2009 (Excluding Multinational Projects)

Sector/Project	Approval Date	Completion Date	Remarks	Financing Source	Amount Approved (UA million)	Disbursements (UA million)	%
Agriculture							
1. Participatory. Integrated Watershed Management.	09/06/04	31/12/11		NTF Loan	4.95	4.38	88.6
2. Artisanal Fisheries Development	17/05/00	31/12/09	Being closed	NTF Loan	2.90	2.68	92.4
3. Farmer Managed Rice Irrigation Project	26/04/05	30/04/11		ADF Loan	5.00	4.67	93.5
				ADF Grant	0.50	0.37	73.9
4. Livestock and Horticulture Development	26/12/08	31/12/14		ADF Grant	4.02	0.44	10.8
Total Agriculture					**17.37**	**12.54**	**72.2**
Social Sector							
5. Basic Education III	11/09/02	30/06/10	Extension granted	ADF Loan	10.00	9.36	93.6
6. Community Skills Improvement Project	16/02/00	31/03/10		ADF Loan	4.44	3.97	89.5
				ADF Grant	1.45	1.28	88.3
7. Entrepreneurship Promotion and Microfinance Development Project	15/11/06	31/12/12		ADF Grant	8.0	1.02	12.8
Total Social Sector					**23.89**	**15.63**	**65.4**
Multi-sector							
8. Institutional Support Project for Economic and Financial Governance	21/11/07	31/12/10		ADF Grant	1.4	1.1	78.1
9. Poverty Reduction Budget Support Program	12/01/09	31/12/12		ADF Grant	3.0	3.0	100
				ADB Grant	1.0	1.0	100
Total Multi-sector					**5.4**	**5.1**	**94.4**
Total Ongoing Portfolio					**46.66**	**33.27**	**71.3**

The Gambia: Statistical Issues

Data provision has shortcomings but is broadly adequate for surveillance. While the authorities have made some progress in improving the compilation of economic and financial statistics, substantial shortcomings remain in national accounts, balance of payments, and external debt statistics. Data reporting to the Fund is somewhat irregular. The country participates in the General Data Dissemination System (GDDS), with its metadata last updated in the second half of 2003.

The National Assembly passed a new Statistics Act in December 2005 and work began in June 2006 to implement the plan for transforming the Central Statistics Department (CSD) into The Gambia Bureau of Statistics (GBoS). GBoS is now the single official source for important macroeconomic series, including balance of payments, national accounts, and price data, but data output continues to be affected by capacity weaknesses. A mission visited Banjul in February 2005 to prepare a data ROSC, which was published by the Fund in November 2005.

Real sector

The main constraints to improving national accounts include inadequate source data due to low response rates of surveys (manufacturing, trade, and business services industries), as well as poor quality of external data and inattention to other important sources (such as the household budget survey, livestock census, and census of industrial production). The GBoS continues to face human and financial constraints to undertake such surveys and process the data.

STA missions on national accounts in 2007, 2008 and 2009 assisted the GBoS to implement the *1993 System of National Accounts* methodology and rebase the national accounts to properly reflect the country's output levels, economic structure and relative prices. In this context, STA missions have helped the authorities: (1) process the data collected for the 2004 Economic Census; (2) rebase the GDP series using the results of the 2004 Economic Census; and (3) improve the GDP estimates by the production approach and begin compiling GDP series by the expenditure approach. The authorities now publish improved real and nominal GDP series compiled by the production approach for the period 2004–08 (with a base year of 2004). GDP series by the expenditure approach, while published, are still under review. However, the data continues to suffer from shortcomings and a number of recommendations provided by TA missions have not been implemented. In May 2007, the country began participating in the second phase of the GDDG Project for Anglophone Africa on national accounts, which is funded by the U.K. Department for International Development (DfID). The authorities have also been recently invited to participate in a follow-up DFID supported program with a similar focus on macroeconomic statistics, the Enhanced Data Dissemination Initiative (EDDI), starting in July 2010.

The World Bank has been providing technical assistance to the GBoS to update the consumer price index (CPI) using the 2003 household expenditure survey to better reflect current consumption patterns. The GBoS began to publish in early 2007 a new national CPI with representative expenditure basket as of August 2004.

Government finance

The authorities release data on central government transactions with a lag of about four weeks for both revenue and expenditure. Inadequacies persist in compiling data on an economic basis and in tracking foreign-financed expenditure. Monthly data on domestic government financing are available with a delay of six to eight weeks. At a meeting with STA in October 2007, the authorities expressed interest in technical assistance to facilitate the migration to *GFSM2001*. No data are being reported for publication in the *Government Finance Statistics Yearbook* or in the *IFS*.

Monetary data

The Central Bank of The Gambia (CBG) has improved data reporting to the Fund, but sometimes the reports are delayed. Following earlier STA TA missions in April–May 2006 and April-May 2008, another follow-up mission in February 2010 signaled CBG's poor progress in implementing earlier recommendations for compilation of monetary and financial statistics. This is mainly due to a delay in the reform of the source data for the central bank and other depository corporations (ODCs). A bridge table for compiling the standardized report forms (SRF) for the central bank and a new report form for ODCs designed in the 2008 mission were not implemented. Therefore, the 2010 mission redesigned bridge tables that could automatically generate the SRFs for the central bank and ODCs from the data that the CBG has used for its operational work. As a result, the CBG should now be in a position to compile the SRFs and submit the SRF-based monetary data to the Fund for publication in International Financial Statistics (IFS). Finally, the mission recommended the CBG to collect a wider range of interest rates, including lending and deposit rates by type of currency denomination of loans and deposits.

External sector statistics

Despite significant improvements, balance of payments statistics continue to be affected by shortcomings. These include modest delays in the collection of trade, customs, and tourist arrival data; outdated methods of estimating re-export trade; poor data on capital flows; lack of a register of firms and establishments engaged in external transactions; poor classification of balance of payments data; and lack of consistent methodology. Institutional weaknesses have also been a major impediment to improving statistics. Official grant and loan disbursements and repayments are generally well recorded, but there are some gaps in project disbursements.

The CBG produces balance of payments statistics according to the *Balance of Payments Manual*, 5th edition *(BPM5)*. These statistics are published in *International Financial Statistics (IFS)* and in the 2007 IMF *Balance of Payments Statistics Yearbook (BOPSY 2007*). The CBG has been compiling quarterly balance of payments statistics through a Fund-administered technical assistance project funded by DfID. The most recent data available are for the last quarter of 2009.

With DfID assistance the CBG conducted an enterprise survey in March 2006 to collect data for the international investment position. In April 2006, the CBG also initiated a survey funded by the World Bank to collect data on selected components of the current account.

The Gambia: Table of Common Indicators Required for Surveillance

(As of June 23, 2010)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items: Data Quality Methodological Soundness[7]	Memo Items: Data Quality Accuracy and Reliability[8]
Exchange rates	5/31/10	6/24/10	M	M	M		
International reserve assets and reserve liabilities of the monetary authorities[1]	5/31/10	6/24/10	M	M	A		
Reserve/base money	5/31/10	6/24/10	M	M	M	LO, LO, LO, LO	LNO, LO, O, LO, LNO
Broad money	5/31/10	6/24/10	M	M	M		
Central Bank balance sheet	5/31/10	6/24/10	M	M	M		
Consolidated balance sheet of the banking system	5/31/10	6/24/10	M	M	M		
Interest rates[2]	5/31/10	6/24/10	W	W	W		
Consumer Price Index	5/31/10		M	M	M		
Revenue, expenditure, balance, and composition of financing[3] – general government[4]						LO, LO, O, O	LNO, LO, LO, LNO, NO
Revenue, expenditure, balance, and composition of financing[3]– central government	5/31/10	6/16/10	M	M	A		
Central government and central government–guaranteed debt[5]							
External current account balance	2009	March 2010	A	A	A	LNO, LNO, LNO, LO	LNO, LNO, LNO, LO, NO
Exports and imports of goods and services	2009	March 2010	A	A	A		
GDP/GNP	2009		A	A	A	LNO, LNO, O, LO	LNO, O, LNO, LO, NO
Gross external debt	Dec. 2009		M	Q	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A); irregular (I); not available (NA).
[7] Reflects the assessment provided in the data ROSC published on November 8, 2005, and based on the findings of the mission in February 2005. For the dataset corresponding to the variable in each row, the assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by the IMF Staff Representative on The Gambia

August 19, 2010

This statement provides an update to the staff report for recent developments in the areas of fiscal performance, exchange rate policy, and inflation. These developments do not alter the overall thrust of the staff report, although the significantly smaller-than-anticipated fiscal slippage in 2010:H1 is a welcomed positive outturn.

1. The government achieved a surplus of GMD 41 million in the basic fiscal balance during the month of June—a significant turnaround from the substantial deficits incurred during April and May. As a result, the shortfall in the basic fiscal balance during 2010:H1, relative to the budget target, was about GMD 160 million (0.6 percent of GDP), rather than the estimated shortfall of about GMD 270 million (nearly 1 percent of GDP) underlying the fiscal projections for 2010 in the staff report. The fiscal slippage during 2010:H1 was the result of revenue shortfalls, while government spending was held to about 95 percent of budgeted allocations.

Staff welcomes this improved performance. Continued progress on strengthening the fiscal performance would be key to achieving the policy objectives of easing pressure on T-bill yields and generating fiscal savings.

2. In June, the Central Bank of The Gambia (CBG) intervened fairly heavily in the foreign exchange market.[1] Since early July, however, the CBG has refrained from further interventions. After a brief appreciation in late June, the dalasi has since depreciated to its previous level against the U.S. dollar (about 29 GMD/USD) on the interbank market.

Despite the interventions, the CBG maintains an ample stock of international reserves. As of end July, gross reserves stood at US$163 million (5.3 months of imports). However, with the recent decline in reserves, the CBG may need to move up its eventual accumulation of reserves to maintain them at the target level of 5 months of imports, should imports grow as projected by staff.

3. After holding steady at 4.1 percent in June, the 12-month inflation rate increased to 6.2 percent in July, mainly because of a sharp price increases in various food staples, particularly sugar. Transportation prices also rose substantially, reflecting the full impact of

[1] In late June, the Office of the President announced the introduction of new administrative procedures for international transactions in U.S. dollars and stated that the dalasi's "natural" exchange rate was 27 GMD/USD. The procedures were soon removed and it is unclear whether they were ever actually put into effect. Staff is investigating whether these actions may have resulted in foreign exchange restrictions or if there were any other consequences of these announcements, although it appears that the market has remained orderly overall.

the previous month's increase in regulated fuel prices. Still, non-food inflation increased only slightly to 2.9 percent in July. As a result, inflation for 2010 as a whole may exceed the projection in the staff report (5 percent) by a small margin.

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IMF Executive Board Concludes 2010 Article IV Consultation with The Gambia

On August 25, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Gambia.[1]

Background

Despite challenging global, and by extension domestic, conditions, the Gambian economy has performed well in recent years. Real Gross Domestic Product (GDP) grew by an average of 6.0 percent a year during 2007-09, up from an average of 3.6 percent during 2004–06. Even during the global economic crisis in 2009, real GDP growth was strong at 5.6 percent led by a continued rebound in agricultural production, which helped cushion the impact of sharp drops in tourism and remittances from Gambians working abroad. Throughout this period, inflation was held to low single-digit rates, as the Central Bank of The Gambia (CBG) generally exercised monetary restraint. In 2009, inflation fell to 2.8 percent. Inflation edged up marginally in early 2010 (4.1 percent in May), but is expected to remain low (about 5 percent) for the year as a whole.

Despite having received extensive debt relief in late 2007, The Gambia still faces a heavy debt burden. As of end-2009, external debt stood at 34 percent of GDP, while total public sector debt was 54 percent of GDP, reflecting substantial—and costly—domestic borrowing. Interest on debt consumed nearly 20 percent of government revenues in 2009, most of which was paid on

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

domestic debt. Moreover, domestic debt consists almost entirely of short-term T-bills, which poses high roll-over risks.

Since late 2008, fiscal performance has deteriorated, which led to more domestic borrowing and upward pressure on T-bill yields. In 2009, the basic fiscal balance was in deficit by nearly 2 percent of GDP—compared to a small surplus targeted in the budget. Spending overruns, including supplementary expenditures that were not financed by additional revenues or fiscal savings, were the main cause of the fiscal slippage. In the first half of 2010, fiscal performance suffered from revenue shortfalls, while spending was contained within budget limits. In large part, the shortfalls were due to rising world fuel prices that eroded revenues from fuel taxes. In June, fuel prices were raised, which has helped to restore revenues.

The number of banks in The Gambia has doubled to 14 since 2007, contributing to a rapid expansion of much needed financial services. But it has also strained the CBG's resources for banking supervision. Moreover, competition among the high number of banks in a relatively small market has added to risks to the banking system, especially in the current environment with weaknesses in key sectors of the economy. This is evidenced in a recent weakening of credit quality, profitability, and capital adequacy.

The Gambia's external current account deficit, excluding official transfers, has widened in recent years. In 2009, a recovery in foreign direct investment (FDI) inflows—in part due to the entry of foreign banks—and increased donor grants, together with the Special Drawing Rights (SDR)allocation more than financed this deficit, allowing a substantial buildup in official reserves to a comfortable level of 6.4 months of imports by end year. In 2010, however, delays in expected disbursements of donors' budget support has weighed on the overall balance of payments.

The Gambia has made impressive progress implementing structural reforms, particularly in the areas of public financial management, debt management, and financial sector development. Good progress has also been achieved toward meeting several of the Millennium Development Goals, most notably in health and education. However, poverty is still widespread.

The Gambia's macroeconomic policies have been supported by an arrangement with the IMF under the Extended Credit Facility (ECF) since February 2007. The program's objectives draw on the strategic priorities set out in The Gambia's second Poverty Reduction Strategy Paper which include: (i) macroeconomic stability and effective management of public resources; (ii) pro-poor growth and employment through development of the private sector; and (iii) improved provision of basic services. While the performance under the ECF has been broadly satisfactory, recent fiscal slippages have led to the postponement of the seventh review.

Executive Board Assessment

Executive Directors noted that the Gambian economy has performed well through the global crisis with relatively strong growth and low inflation, despite a sharp drop in tourism and remittance receipts. Directors observed that the outlook for the economy is generally positive provided a sound macroeconomic policy framework is maintained. They also stressed the importance of continued progress toward meeting the Millennium Development Goals (MDGs) and targets on poverty reducing expenditures.

Directors expressed concern about the fiscal slippages over the past year and a half. Further slippages would pose major risks to the economy by increasing the already high cost of domestic debt, especially given the large roll-over needs of the mostly short-term debt. Directors therefore welcomed the recent turnaround in the basic fiscal balance and called for continued strengthening of fiscal performance to anchor macroeconomic stability and reduce the debt burden. This could generate significant fiscal savings which could be directed to other spending priorities.

Directors noted that revenue shortfalls have been the main source of fiscal slippages in 2010. They commended the authorities for recent revenue measures, including the increase in fuel prices, and encouraged them to further widen the tax base. Directors strongly supported tax reform centered around the introduction of a VAT by 2013, which would bolster revenues and improve the business environment over the medium term. To achieve a smooth transition to a VAT, it would be necessary to adopt appropriate tax policy and revenue administration measures in the 2011 budget.

Executive Directors commended the authorities for actively pursuing public financial management reforms. They particularly welcomed the plans for more effective budget procedures and efforts to strengthen execution. Ensuring that the 2011 budget fully covers all ministries and spending agencies would be critical for guarding against spending overruns. Directors supported recent improvements in debt management and stressed the importance of debt sustainability as the guiding principle for future financing options to address infrastructure needs.

Directors emphasized that a healthy central bank balance sheet provides a solid foundation for monetary policy. They welcomed the authorities' commitment to observe statutory limits on government overdrafts. Directors agreed that a floating exchange rate policy has served The Gambia well. They encouraged the authorities to allow the exchange rate to adjust to ensure sustainable external balances and preserve competitiveness.

Directors observed that rapid expansion of the banking system creates opportunities for the economy, but also carries risks. They supported steps to improve bank soundness, notably the timely increase in the minimum capital requirement, and stressed that building capacity in bank supervision should be given high priority.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

The Gambia: Selected Economic Indicators

	2006	2007	2008	2009
National income and prices (percentage change)				
GDP at constant prices	3.6	6.0	6.3	5.6
Inflation (period average)	2.1	5.4	4.5	4.6
External sector				
Current account balance including official transfers (percent of GDP)	-10.2	-9.7	-12.7	-10.5
Exports, f.o.b. (percent change in US$ value)	3.9	8.8	-4.4	8.5
Imports, f.o.b. (percent change in US$ value)	-0.6	18.4	17.4	-3.7
Real effective exchange rate (percent change)	-0.3	9.6	7.5	-10.2
Gross official reserves (US$ millions)	118.6	141.6	115.6	186.0
Months of imports	5.5	5.5	3.8	6.4
Money and credit (in percent change of beginning of the year broad money)				
Broad money	26.2	6.7	18.4	19.4
Credit to the private sector	8.3	4.8	6.8	3.5
Yield on 91-day treasury bill (percent per year)	11.3	11.9	11.8	12.0
Central government budget (percent of GDP)				
Domestic revenues	16.2	16.9	15.2	15.1
Grants	1.0	0.9	1.1	3.5
Total expenditure and net lending	22.5	17.7	18.0	22.0
Overall balance	-6.0	0.4	-1.8	-2.0
Basic balance 1	1.6	3.0	-0.6	-1.8
Nominal stock of public debt (% of GDP)				
Domestic	26.3	23.9	24.9	23.8
External	101.7	36.2	31.7	34.1

[1] Domestic revenues minus expenditure and net lending, excluding externally financed capital expenditure.

Statement by Samuel Itam, Executive Director for The Gambia

August 18, 2010

Introduction

1. My Gambian authorities appreciate the Fund Executive Board and Management for their continued engagement and support. They are grateful for the productive policy dialogue and counsel proffered by the Fund Mission during the Article IV consultation discussions. The authorities agree broadly with the staff report. Despite some misgivings, my authorities consent to the publication of all the related staff papers.

Recent economic developments

2. The Gambian economy has performed well in recent years. During 2007-2009, the economy grew on average by 6 percent per annum on account of sound macroeconomic policy implementation. Despite the adverse effects of the global financial crisis, real GDP growth remained fairly strong at 5.6 percent in 2009, led by the continued rebound in agriculture. Consumer price inflation declined to 2.8 percent in 2009, due largely to the tight monetary policy stance of the central bank and the relatively steady prices for food and fuel. Despite a slight acceleration in early 2010, inflation has remained low around 4 percent. The increase in government expenditure offset the relatively strong revenue performance in 2009, resulting in a moderate fiscal deficit and an increase in domestic borrowing requirement during the year. Consequently, in spite of a stronger-than-expected fiscal performance during the first three months of 2010, the target on the cumulative (12 month running) basic fiscal balance for end-March 2010 was exceeded by 0.3 percent of GDP.

3. The external current account deficit, excluding official transfers, narrowed in 2009 despite a marked decrease in tourism receipts and inward remittances. The improvement largely reflected the decline in global food and fuel prices and the recovery of re-export trade. Helped by the IMF SDR allocation and budget support from the World Bank and the African Development Bank, gross international reserve reached the equivalent of 6.4 months of import cover at the end of 2009.

Program performance

4. All the performance criteria for end-2009 and end-March 2010 were met, with the exception (as indicated earlier) of the basic fiscal balance. Expenditure overruns were the main cause of the fiscal slippage in 2009. As explained during the sixth review, the fiscal slippage reflected the increase in capital expenditure as a result of my authorities buying back Gambia Telecommunication Company's (GAMTEL) shares after a failed privatization and government purchasing a satellite link by the Gambia Radio and Television Services. These additional capital expenditures could not have been avoided, as The Gambia would have lost its broadcast assets due to an under-performing investor. Moreover, the expenditures were guided by legal obligations and not a reflection of deterioration in fiscal policy.

5. Underperformance of revenue was responsible for missing the target on the basic balance in 2010. This underperformance was mainly due to over optimistic revenue projections. The revenue from fuel taxes, the difference between the fixed retail price of petroleum products and the suppliers' costs, decreased significantly in light of the unexpected increase in world oil prices during the first half of the year. Also, the impact of the reduction in the corporate tax rate (from 35 percent to 33 percent) to bring in more businesses under the tax net and spur economic activity was optimistic. Furthermore, the slower-than-expected recovery in Europe, which is a major trading partner as well as a major source of tourism to The Gambia, adversely impacted tourism and related activities. As a result, though expenditures were largely restrained, the target on the basic fiscal balance was missed. In light of these developments, my authorities are working closely with staff to prepare more realistic projections for the rest of 2010 and will be requesting the Executive Board to consider a modification of the fiscal target in due course.

Fiscal policy

6. The authorities have identified corrective actions for the fiscal slippages to help get the basic balance back on track as well as reduce the outstanding stock of domestic debt. As a result of these actions, new issuance of treasury bills will be less than maturing issues, which would substantially ease pressure on yields and ultimately lead to savings from lower interest expenses on domestic debt. As these savings are realized, resources would then be directed to other priority areas to accelerate growth and reduce poverty.

7. To achieve the basic balance target, my authorities have implemented new measures in June 2010 that will increase revenues from excise and fuel taxes. These include a reform of the mechanism for determining domestic fuel prices to allow for the full pass through of changes in world oil prices and exchange rate movements. On the expenditure front, the authorities have frozen non-priority hiring in the public sector, restricted travel of government officials and limited business class travel to only those at the ministerial level and above. Additionally, a special directive has been issued to all ministries, departments and budgetary agencies to curtail non-essential expenditures. In any event, if supplementary expenditures are necessary, equivalent revenue sources or savings from cutbacks in other expenditure areas will have to be identified. Even with these further constraints, my authorities will continue to allocate at least 20 percent of revenues to priority sectors for poverty reduction.

External debt management

8. The focus of my authorities' external debt management strategy will now shift to securing the necessary funding for national development while maintaining medium- and long-term debt sustainability. To achieve these objectives, government will (i) secure debt relief committed under the HIPC initiative from non-Paris club creditors through an intensive campaign in cooperation with other former-HIPCs, major OECD governments and international organizations including OXFAM; (ii) continue to mobilize concessional financing for social and poverty reduction financed projects while accommodating less concessional loans for high-return capital intensive projects in sectors such as

telecommunications, electricity, water and roads; (iii) link the medium term debt strategy with the overall national aid mobilization strategy through adherence to the Paris Declaration on aid quality and effectiveness; and (iv) reduce its aid dependence over the long term through reforms to increase domestic revenue effort and improve PFM and competitiveness. The development of the strategy would be supported by in-house capacity building to regularly analyze the cost-risk trade-offs and monitor implementation.

Monetary and financial sector policies

9. The current monetary framework has served the country well in achieving price and exchange rate stability. Given the recent increase in inflationary pressures, the Central Bank of The Gambia (CBG) will maintain the tightened monetary policy stance.

10. My authorities concur with staff that improving the predictability and transparency of liquidity management will enable commercial banks and other investors in government securities to plan and better manage their portfolios. To this end, as liquidity forecasting improves with the coordination of the interagency committee, the central bank will be able to announce regularly auction sizes one to two months in advance. By mid-2011, with the development of REPO instruments, the CBG would move to a fortnightly auction schedule. Such innovations would assist to increase competition in auctions and help lower interest rates.

11. To correct the government borrowing from the CBG over and above the statutory limit, the CBG and government have reconciled the government's net position. Government's net liability to the CBG was transformed to a 30-year Government Bond at an interest rate of 6 percent per annum. The principal repayments of this bond will be in two equal semi-annual payments each year during the life of the bond. This has resulted to the CBG compliance with the statutory requirement of lending to government not exceeding 10 percent of the previous year's tax revenue. In addition, to help mitigate the impact of the temporary shortfall in the 2010 budget, as a result of delays in budget support, the CBG has provided a bridge financing loan to government. The terms of this facility include interest of 6.5 percent per annum and full repayment of the credit upon receipt of the initial disbursement of the budget support.

12. The banking sector is relatively sound and competition has been increasing. Generally, the banks are profitable and adequately capitalized. The risk-weighted capital adequacy ratio was 18.7 percent in March 2010, higher than the minimum requirement of 8.0 percent. All banks met the minimum capital requirement. Non-performing loans as a ratio of gross loans deteriorated from 12.0 percent in December 2009 to 16.9 percent in March 2010. However, all loans were adequately provisioned.

13. The CBG continues to place emphasis on the Prompt Corrective Action (PCA) framework with continuous assessment of banks in line with international best practices. This is geared towards promoting a safe and sound financial system by ensuring that corrective actions are taken in response to deteriorating performance of a bank. Additionally, a corporate governance framework has been introduced to better govern the operation of banks

and improve the governance in the banking sector. Furthermore, significant progress has been registered in setting up of the necessary framework for the implementation of a risk-based supervisory approach to keep pace with the rapidly expanding banking industry. CBG also plans to introduce an electronic data reporting system to ease the reporting burden on banks and, at the same time, allow supervisors more time to conduct quality checks on the data.

Exchange rate policy

14. The central bank will continue to maintain the current floating exchange rate regime, which has served the country well, intervening in the market only to preserve orderly market conditions. While mostly abstaining from entering the market for foreign exchange, the CBG will, however, carry out a limited amount of foreign exchange sales for sterilization purposes to mop up liquidity generated by donor financed spending. The Gambia subscribes fully to Article VIII and currently has no restrictions on the import and exports of capital. Repatriation of capital by both residents and nonresidents can be made in any currency.

Conclusion

15. My Gambian authorities remain mindful of the importance of prudent fiscal and monetary policies to achieve and maintain macroeconomic stability. In this regard, they regret the recent fiscal slippages and have accordingly implemented appropriate revenue and expenditure measures that will help achieve modest fiscal surplus as the key to reduce the debt burden and related interest expenses. My authorities appreciate the continued support of Management and the Executive Board and development partners in realizing their development objectives.