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The Gambia: Seventh Review of the Arrangement Under the Extended Credit Facility, Request for Rephasing of the Eighth Review and Extension of the Arrangement, and Request for Waivers of Nonobservance of Performance Criteria—Staff Report; Informational Annex; Public Information Notice; Press Release on the Executive Board Discussion; and Statement by the Alternate Executive Director for The Gambia.

In the context of the , the following documents have been released and are included in this package:

- The staff report for the Seventh Review of the Arrangement Under the Extended Credit Facility, Request for Rephasing of the Eighth Review and Extension of the Arrangement, and Request for Waivers of Nonobservance of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on November 11, 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 December 19, 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.

- Public Information Notice

- A Press Release summarizing the views of the Executive Board as expressed during its January 7, 2011 discussion of the staff report that completed the request and/or review.

- A statement by the Alternate Executive Director for The Gambia.

The document listed below has been or will be separately released.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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THE GAMBIA

Seventh Review of the Arrangement Under the Extended Credit Facility, Request for Rephasing of the Eighth Review and Extension of the Arrangement, and Request for Waivers of Nonobservance of Performance Criteria

Prepared by the African Department
(In consultation with other departments)

Approved by Roger Nord and Jan Kees Martijn

December 20, 2010

Discussions: The discussions were held in Banjul October 29 to November 11, 2010. The mission team comprised Mr. Dunn (head), Mr. Egoumé, Mr. Slavov, Mr. Vermeulen (all AFR), and Mr. Obiora (SPR), and was assisted by Mr. Tjirongo (resident representative), Mr. Cham and Ms. Touray (local staff). The team met Minister of Finance Abdou Kolley, Minister of Economic Planning and Industrial Development Mambury Njie, then-Central Bank Governor Momodou Bamba Saho, other senior officials, as well as representatives of commercial banks, the business community, nongovernmental organizations, and The Gambia's development partners.

ECF arrangement: The current three-year Extended Credit Facility (ECF) arrangement was approved on February 21, 2007 in the amount of SDR 14.0 million (45 percent of quota). The Executive Board approved an augmentation of SDR 6.215 million (20 percent of quota) 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 (15 percent of quota) for a total amount of SDR 24.88 million (80 percent of quota). The authorities are requesting the completion of the seventh review. They are also requesting a rephasing of the performance criteria for the eighth review of the ECF arrangement from end-September to end-December 2010, as well as a short extension of the current ECF arrangement to the end of March 2011. The authorities submitted a progress report on their poverty reduction strategy to the managements of the IMF and the World Bank in December 2010.

Contents Page

EXECUTIVE SUMMARY

The Gambian economy has held up well in 2010. Boosted by strong agricultural production, real GDP is estimated to be growing by 5½-6 percent, while inflation has been hovering at just over 6 percent in recent months. Official international reserves fell during 2010, partly as a result of moderate interventions in the foreign exchange market around mid-year, as the Gambian dalasi began to soften against the U.S. dollar. Still, the stock of gross reserves has remained comfortable at about 5 months of imports of goods and services. Despite having received extensive debt relief in past years, The Gambia still faces a heavy debt burden. In particular, interest on domestic debt consumes a substantial portion of government revenues.

After some slippages during the first half of 2010, fiscal performance has improved. Severe revenue shortfalls—largely from an erosion of fuel tax revenues and an underperformance in company income taxes—accounted for the H1 slippages, while expenditures were generally restrained. Around mid-year, the government implemented a fiscal adjustment, including increases in fuel prices and further spending restraint. As a result, the basic balance was marginally positive in Q3. The spending discipline in 2010 stands in sharp contrast to the large expenditure overruns during the previous year.

Macroeconomic policies in 2011 would be anchored upon a fiscal stance that aims to limit government's domestic borrowing needs in order to ease pressure on inflation, interest rates, and the exchange rate. Implementation of a new fuel pricing mechanism will be critical to ensure greater stability in tax revenues. Fiscal savings generated by lower interest costs could eventually be redirected to other priority expenditures. Monetary policy is appropriately focused on achieving low inflation by trimming money growth. Continued vigilance in banking supervision would help to strengthen the financial sector.

Caution is warranted regarding downside risks. Just as there is potential for large fiscal savings from a well implemented program, poor execution would likely lead to costly additional financing, especially given the high degree of roll-over risk for domestic debt.

Staff supports the authorities' request for waivers for the nonobservance of two performance criteria based on corrective actions for the missed fiscal target and the minor nature of the slippage on international reserves. **On this basis, staff recommends completion of the seventh review of the ECF arrangement.**

Staff supports the authorities' requests for a rephasing of the performance criteria for the eighth review to end-December 2010 and for a short extension of the current ECF arrangement to end-March 2011**. The proposed targets for end-December are consistent with a sound macroeconomic framework in line with the recent fiscal adjustment.**

I. RECENT ECONOMIC DEVELOPMENTS

1. **Economic growth has held up well in 2010.** Boosted by a further expansion in agricultural production, real GDP is estimated to be growing by 5½–6 percent in the current year, about the same as in 2009. Tourism and remittances have remained weak, but the downturn caused by the global economic crisis appears to have bottomed out. Inflation pressures, however, have been building. The 12-month headline inflation rate topped 6 percent in 2010:Q3, up 3½–4 percentage points from the previous year, mainly driven by import prices of food, including a modest weakening of the Gambian dalasi against the U.S. dollar, and an increase in administered fuels prices in June. To stem inflation pressures, the Central Bank of The Gambia (CBG) raised its policy interest rate by one percentage point (to 15 percent) in early September. [MEFP ¶3]

2. **After some slippages during the first half of 2010, fiscal performance has improved.** Despite keeping expenditures within budget ceilings, severe revenue shortfalls, particularly in Q2, resulted in a slight deficit in the basic fiscal balance through June, compared with a planned surplus of about ½ percent of GDP. As discussed below, the government implemented a mid-year fiscal adjustment, including revenue measures and further spending restraint. As a result, the basic balance was slightly positive in Q3. For the first three quarters of 2010, the deficit in the basic fiscal balance was just 0.1 percent of GDP, compared with 1.8 percent of GDP for all of 2009. In particular, the discipline exercised on government spending in 2010 stands in sharp contrast to the large expenditure overruns experienced the previous year. However, although the basic balance has improved in 2010, it has not been matched by an equivalent reduction in government's net domestic borrowing, mainly because of shortfalls in disbursements of budget support grants.[1] [MEFP ¶6]

3. **Money and credit growth have continued at a brisk pace in 2010, partly driven by the government's recourse to financing from the CBG.** Reserve money grew by 21 percent in the 12 months ending in September 2010. Over the same period, broad money increased by 20 percent, while credit to the private sector (including public enterprises) increased by 17 percent. A large expansion of the CBG's net domestic assets, including claims on government arising from overdrafts, more than accounted for the increase in reserve money.[2] Net foreign assets of the CBG fell by the equivalent of US$7 million during this period. The strong growth in broad money was largely due to the increase (around

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[1] In line with program adjusters, the CBG established a line of credit for the government of GMD 240 million (0.9 percent of GDP) amounting to about two-thirds of the shortfall in budget support.

[2] In August, the government issued a long-term interest-bearing bond to reconcile its net balances with the CBG, including clearance of overdrafts. The CBG's management has reported that this action was consistent with the CBG act and that the statutory limit on claims on government has been satisfied. [MEFP ¶6]

30 percent) in time and savings deposits since September 2009, driven by the portfolio reallocation by the Social Security and Housing Fund, which reduced its holdings of T-bills in favor of high yields offered by commercial banks on term deposits. [MEFP ¶4]

4. **Soundness indicators for the banking system appear to have stabilized.** Banks are generally adequately capitalized and liquid, but nonperforming loans have remained high (16.2 percent of total loans in September 2010). The CBG is in the process of raising the minimum capital requirement from GMD 60 million to GMD 150 million by end-2010, and to GMD 200 million by end-2012. Of the 14 commercial banks, 8 banks have already met or are close to meeting the end-2010 requirement, representing about 80 percent of the industry in terms of assets. [MEFP ¶10]

5. **Preliminary data show some signs of a recovery in the external sector, particularly in the current account.** The current account deficit narrowed during the first half of 2010, due to a 5 percent increase in exports and a 9 percent drop in imports. Furthermore, travel income and remittances both increased by about 7 percent (in U.S. dollar terms) in the first half of 2010, compared to the same period a year ago. Official transfers, however, slipped substantially as disbursement of budget support failed to materialize. Also, preliminary figures for foreign direct investment point to a decline of over 10 percent. [MEFP ¶11]

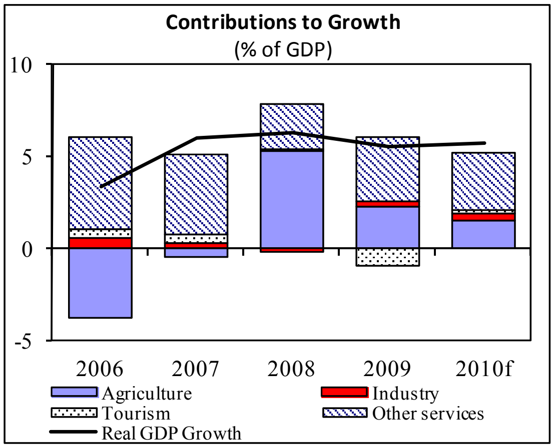
6. **Official reserves and the exchange rate temporarily came under pressure in 2010**. Between end-March and end-September 2010, gross reserves dropped by about US$19 million to US$165 million (4.9 months of imports of goods and services). Part of this decline was due to the CBG's interventions in the FX market during May-June as the dalasi began to weaken against the U.S. dollar.[3] When the interventions ended in early July, the dalasi resumed its depreciation against the dollar until stabilizing recently at around 29-30 dalasi/dollar, after spending most of 2009 and early-2010 in the 26–27 range. In real effective terms, the exchange rate has been little changed so far in 2010 (through August). [MEFP ¶3 and 11]

7. **The Gambia continues to face a heavy debt burden.** Interest on debt consumes about 20 percent of government revenues, four-fifths of which is paid on domestic debt. Moreover, with domestic debt consisting mostly of short-term T-bills, roll-over risks are

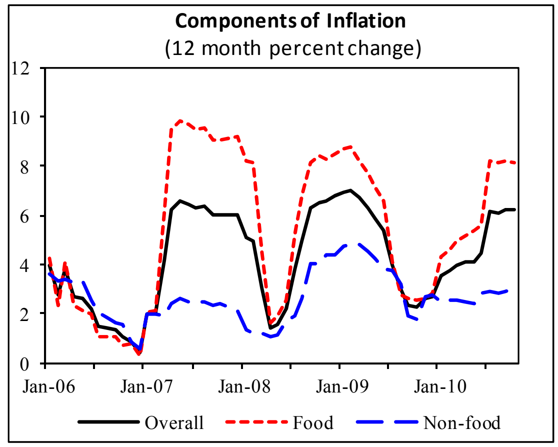
[3] In late June, an administrative measure was imposed on shipments of U.S. dollars, but was removed shortly afterwards.

Figure 1. The Gambia: Recent Economic Developments, 2006-2010

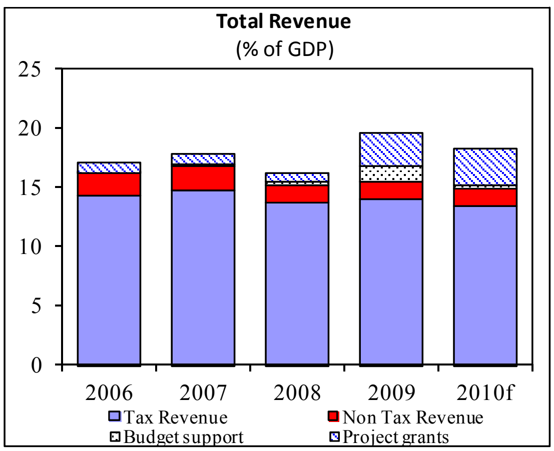
Robust growth is projected for 2010, driven by agriculture and services other than tourism.



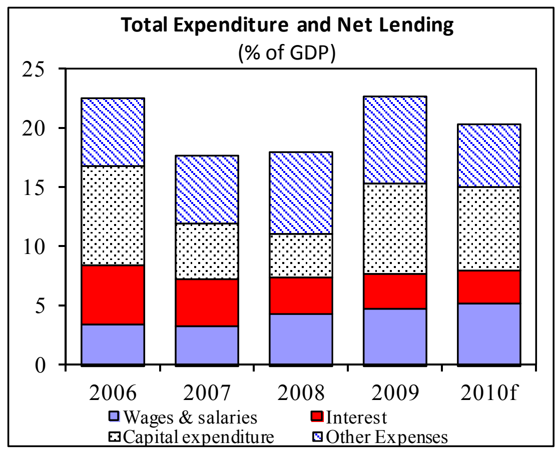
Inflation has recently picked up due to a spike in food prices and a weaker dalasi.



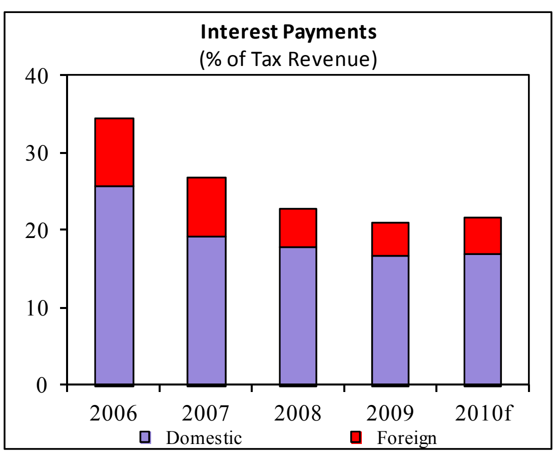
During 2010, revenues dropped due to fixed fuel prices as well as lack of budget support...



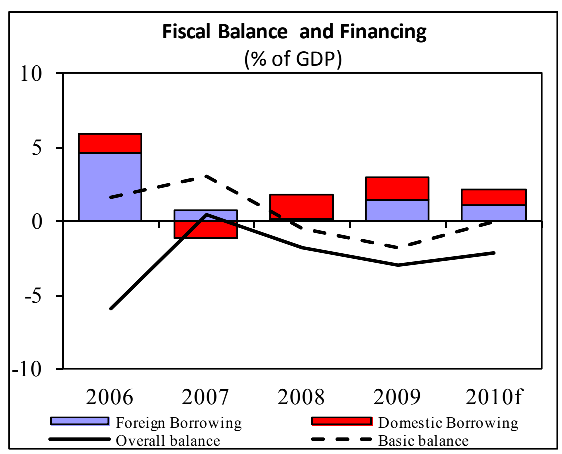
... but capital expenditure was also restrained.



Progress on reducing the government's interest bill reversed course in 2010...



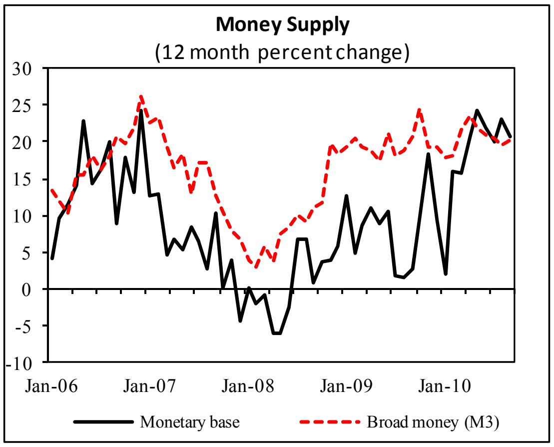
... as the government resorted to financing the deficit with expensive domestic borrowing.



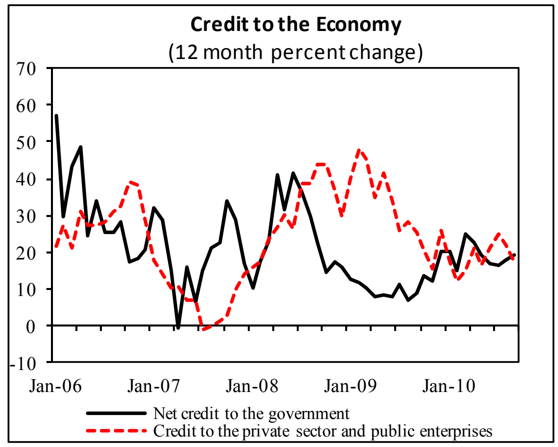
Sources: Gambian authorities; and Fund staff estimates and projections.

Figure 1. The Gambia: Recent Economic Developments, 2006-2010 (continued)

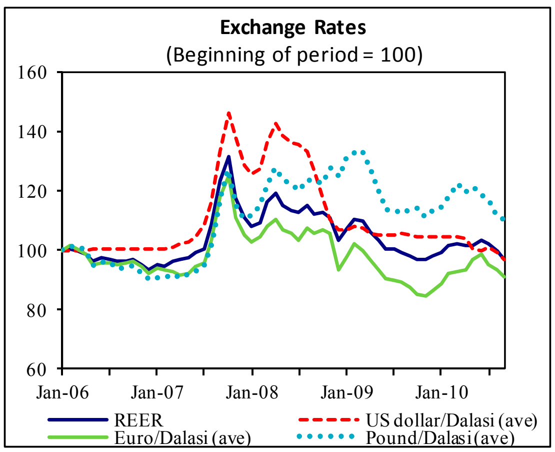
The pace of money growth has accelerated...



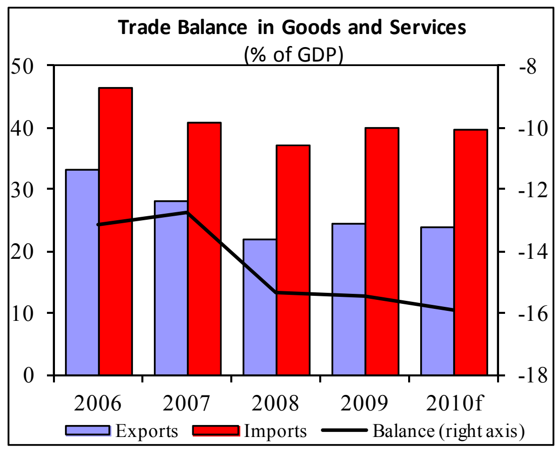
... and government financing needs have led to some crowding out.



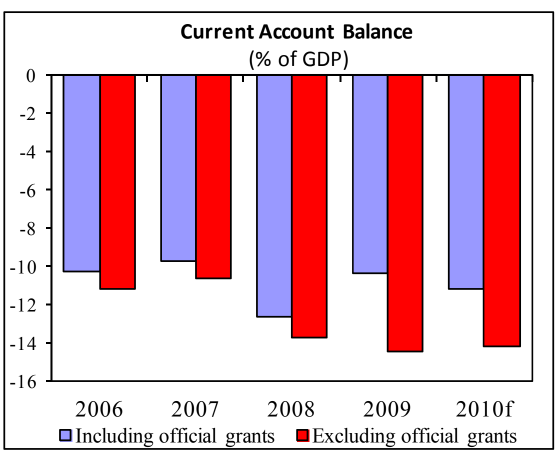
The dalasi has weakened against all major currencies recently.



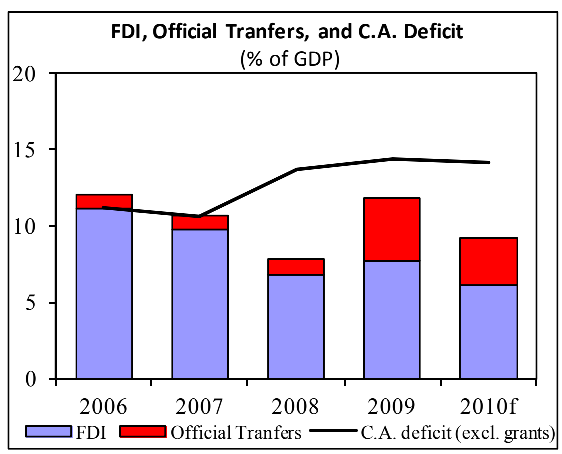
The trade balance has held steady in 2010 ...



... and the sharp deterioration in the current account appears to have bottomed out.



The entry of foreign banks helped buffer the impact of the global crisis on FDI in 2009.



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

high. Despite past debt relief, The Gambia remains at high risk of debt distress.[4] Although there have been improvements, public financial management, including debt management, is still poor.

II. Performance Under the ECF-Supported Program

8. **Performance under the program was mixed for the 7th review.** Two of the end-March 2010 performance criteria (PCs)—the floors on the cumulative basic fiscal balance and net international reserves (NIR)—were missed. The cumulative basic fiscal balance fell short of the target (by 0.3 percent of GDP), because of large spending overruns in 2009:Q4. Efforts to recoup the shortfall during Q2 failed, when revenue collections worsened considerably, mainly because of the negative impact of a sharp increase in world fuel prices on receipts from fuel taxes.[5] The NIR target was missed by a very narrow margin (less than US$100,000), mainly because the strong appreciation of the U.S. dollar against other major currencies reduced the value of non-dollar reserve assets.[6] At the same time, good progress was achieved on the structural agenda, where all but one benchmark (related to GDP compilation) were fully met in a timely manner. In addition, the process of submitting audited government accounts to the National Assembly, which would elevate transparency, is advancing. Steps are being taken to continue to improve the compilation certain sub-components of GDP, although the dearth of qualified personnel in National Accounts is a serious impediment. [MEFP ¶12, 14, and 15, and Tables 1 and 2]

9. **The authorities took corrective actions to address the root causes of the fiscal slippage.** First, to shore up tax revenues, fuel prices were increased in June and again in December.[7] In addition, in November the cabinet approved a new fuel pricing mechanism that would ensure greater stability in tax receipts. Beginning in January 2011, fuel prices will be adjusted monthly based on a formula that incorporates a specific excise tax and, with some smoothing element, allows the pass through of changes in world prices to domestic retail prices. Second, the government adjusted to a more constrained resource envelope by effectively prioritizing expenditures and limiting outlays to achieve a marginal surplus in the

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[4] See the Debt Sustainability Analysis Update (IMF Country Report No. 10/61).

[5] Fuel taxes are essentially the differences between administered retail prices and the importer's and distributors' costs and margins as determined in a price formula.

[6] To avoid this situation in the future, cross exchange rates for program purposes have now been defined in the technical memorandum of understanding.

[7] In June, gasoline and diesel prices were raised by 5 GMD/liter and 1 GMD/liter (to 38 GMD/liter and 33 GMD/liter), respectively. In December, the price of diesel was raised by an additional 2 GMD/liter. As of December 10, 2010, prices for both fuels allowed for full cost recovery, as well as a positive excise tax.

basic fiscal balance for 2010:Q3 (Text Table).[8] Third, the budget proposal for 2011, which was submitted to the National Assembly in November, builds upon the fiscal adjustment by aiming to curb domestic borrowing, despite constrained resources. To preserve pro-poor activities, about 20 percent of budgeted expenditures have been allocated to items identified in the PRSP II, in line with performance in recent years. Other priority expenditures, including some political directives, (for example, the cost of upcoming elections and a contingency for the cost of moving embassy staff) were also incorporated in the budget proposal, which should help to minimize the need for a supplementary budget in the year ahead. [MEFP ¶5 and 18-22]

Text Table: Quarterly Fiscal Profile, Excluding Project Financing and Expenditures, in 2010
(In millions of dalasi)

	2010				2010
	Q1	Q2	Q3	Q4	Total
Government revenues					
Program projections	1133.5	1173.4	1044.4	1061.5	4412.8
Actual and revised projection for Q4	1119.5	981.8	1025.2	1030.7	4157.1
Expenditures and net lending, excluding foreign-financed projects					
Program projections	1098.3	1090.0	1066.7	1187.9	4442.9
Actual and revised projection for Q4	1026.9	1102.6	1023.5	1025.5	4178.5
Memorandum item					
Basic balance					
Program projections	35.2	83.4	-22.3	-126.4	-30.1
Actual and revised projection for Q4	92.5	-120.8	1.7	5.1	-21.4

10. **Taking into account the corrective action, the staff proposes to complete only the 7th review, while rephasing the 8th review based on targets for end-December 2010.** While the original targets for September 2010 were not met, the proposed rephasing will allow the authorities to demonstrate continued adherence to the adjusted fiscal path. The authorities have targeted a small surplus in the basic fiscal balance for Q4, which should continue to help ease pressure on inflation, interest rates, and the exchange rate, in line with the broad objectives of the ECF arrangement. While achieving the proposed target for the cumulative basic fiscal balance for end-December would only partly recoup the slippage

[8] Although revenues improved in Q3, the resource envelope for government expenditures was still narrower than budgeted. Relative to original program targets, performance in Q3 reversed the growing slippage in Q2 by a moderate amount.

caused by the spending overruns in 2009:Q4—attempting to fully recover the slippage would be disruptive to the economy and the delivery of government services—it would result in a slightly better-than-programmed basic balance for 2010 (a deficit of less than 0.1 percent of GDP). Other proposed PCs reflect ongoing efforts to dampen inflation and maintain ample international reserves. [MEFP ¶16 and 25, and Table 1]

III. Policy Discussions for 2011: Fortifying Macroeconomic Stability

11. **The policy discussions centered on creating a strong macroeconomic foundation to build confidence in the economy, while achieving a fiscal adjustment to reduce the domestic debt burden.** With an eye on future financing needs for a possible stepping up of infrastructure investment under the authorities' forthcoming poverty reduction strategy, the *Programme for Accelerated Growth and Employment* (PAGE)[9], fiscal policy aims to curb government's domestic borrowing to ease pressure on T-bill yields and generate fiscal savings. Policy discussions focused on:

- The government's budget for 2011, including revenue measures that would prepare the path for introduction of a VAT by 2013;
- Public financial management (PFM) reforms to attain greater value-for-money from government spending;
- Strengthening liquidity management and monetary policy to keep inflation low;
- Ensuring soundness in the banking system;
- Maintaining a floating exchange rate policy, while achieving targets for international reserves; and
- Preparations for the PAGE.

12. **Supported by an appropriate policy mix, real GDP is projected to grow by 5½ percent a year over the medium term, while inflation would be held to no more than 5 percent.** The sizable external current account deficit is projected to narrow gradually as tourism, remittances, and the export sector pick up. There could be further upside growth potential with the introduction of the PAGE, provided that sufficient financial resources can be raised without threatening debt sustainability. Establishing a framework that would encourage private sector participation in infrastructure investment could go a long way to meeting this challenge. [MEFP ¶32–33]

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[9] The PAGE will cover 2012–15 and is currently in the early drafting stages. It is expected to take effect in January 2012.

13. **Maintaining a sound fiscal stance poses the greatest near-term challenge for policy makers.** The government's resource envelop for 2011 will be severely constrained, especially in the absence of firm commitments of budget support by donors. In addition, there are some extraordinary spending requirements, such as making arrangements for national elections, which combined with a variety of other priority items, will limit opportunities for discretionary expenditures. A concerted revenue effort will be needed. To contain inflation pressures and maintain exchange rate stability, implementation of monetary and exchange rate policies would need to be well coordinated with government operations. For this purpose, maintaining a regular flow of information on fiscal activity to the CBG would be critical. Continued vigilance in banking supervision is also needed to ensure a stable macroeconomic environment and to reap the full benefits of the rapidly developing financial system.

14. **Weak policy implementation—possibly because of election year pressures—poses a risk to a positive economic outturn in 2011 and could create cracks in an otherwise stable macroeconomic foundation.** A consistent focus on implementation of sound financial policies would be needed to avoid these risks. As a small open economy that is largely dependent on rain-fed agriculture, The Gambia is also vulnerable to exogenous terms-of trade and weather-related shocks. Maintaining a healthy stock of international reserves, along with a flexible exchange rate, would help to shield the economy from these shocks.

A. Fiscal Policy

15. **Minimizing government's recourse to domestic financing would be the anchor to macroeconomic policies in 2011.** Faced with a challenging debt situation, fiscal policy would seek to limit government's net domestic borrowing to a maximum of 0.4 percent of GDP (compared with 0.7 percent of GDP envisaged during the Article IV consultation). This would reduce the stock of outstanding domestic debt relative to GDP by about 2 percentage points (to just under 23 percent) by end-2011.[10] As noted, the budget for 2011 will be tight. However, if policy objectives are well communicated and implemented right from the start, T-bill yields could begin to fall early in the year, and some fiscal savings could become available for other spending priorities.

16. **Revenues are projected to grow roughly in line with nominal GDP.** But even this modest objective incorporates important tax reforms, notably the revision to the fuel price

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[10] It is expected that government borrowing would remain low over the medium term, in order to achieve a steady decline in domestic debt relative to GDP. Although this decline is less aggressive than that envisaged at the time of the 6th ECF review (IMF Country Report No. 10/61), partly reflecting a downward revision of projections of budget support by donors, it is stronger than the projected decline in domestic debt presented in the recent 2010 Article IV consultation (IMF Country Report No. 10/274).

formula that incorporates a specific excise tax. Other revenue measures in the budget proposal submitted to the National Assembly in November include the enforcement of all excise taxes on domestically produced goods and a broadening of the sales tax base. At the same time, key steps toward the introduction of a VAT (by 2013) will be taken. [MEFP ¶19]

17. **On the spending side, parameters for key poverty reducing expenditures have been set for 2011.** Although short of the goal of ¼ of total government spending, spending on priorities identified in the authorities' Poverty Reduction Strategy Paper (PRSP) II will continue to be about 20 percent of total spending. Of this, spending on agriculture is set to increase from 3 percent to 6 percent of government revenues. The authorities will also ensure that spending on education will meet the conditions for obtaining grants under the Education For All/Fast Track Initiative. Faced with tight budget constraints and extraordinary current spending—notably, election costs—capital spending is expected to be curtailed in 2011, before partly recovering over the medium term.[11] [MEFP ¶21]

18. **Tight constraints on spending emphasize the importance of PFM reform to achieve maximum value-for-money (Box 1).** The Gambia has been making good progress on PFM reforms, with technical assistance from the Fund and donors. Reforms have focused on strengthening the Integrated Financial Management and Information System (IFMIS) and improving budget procedures, including the eventual introduction of a medium-term expenditure framework (MTEF) and program budgeting. Advances in PFM could have the added benefit of eventually elevating The Gambia to a "medium performer" ranking in the World Bank's Country Policy and Institutional Assessment (CPIA). [MEFP ¶24 and 32]

[11] Foreign financed capital expenditures has been reduced due to a new classification that has identified a substantial portion of spending by donor-financed projects as current expenditures.

Box 1. Reforming Public Financial Management

To address weaknesses in public financial management (PFM), the Government of The Gambia has embarked on an ambitious reform agenda. Progress has been made in the following areas:

- **Budget preparation**: Line ministries are building capacity to prepare and discuss their budget proposals with the Ministry of Finance. The Ministry of Basic and Secondary Education is most advanced and is assisting other ministries. An internal Medium-Term Expenditure Framework (MTEF) will be completed in 2011, followed by a pilot in at least 2 line ministries in preparation for the 2012 budget. Program budgeting will also be piloted in two line ministries prior to full implementation in 2013.

- **Budget monitoring and execution**: With donor assistance, particularly from the World Bank, the coverage of the integrated financial management and information system (IFMIS)—a critical tool for monitoring budget execution and aligning expenditures with available resources—was expanded to 11 ministries. Coverage will be extended to the remaining ministries and spending agencies by February 2011. Monitoring of budget execution and reporting has improved, permitting tracking of priority spending.

- **Expenditure prioritization**: The authorities have used a three-tier expenditure prioritization to help minimize the risk of spending overruns that have weakened fiscal performance in recent years. PRSP spending maintains the highest level of priority.

However, significant capacity constraints have hampered progress. Also, there remains significant scope for improvement in the following areas:

- **Budget coverage**: to enhance transparency and accountability, the fiscal reporting framework should be extended to cover all general government operations, including all assets and liabilities (contingent or otherwise) assumed by the government, as well as grants and transfers to local government and public enterprises that are currently not clearly identified in the budget. Also, the legal framework governing the operations and oversight of public enterprises, semi-autonomous government agencies and extra-budgetary funds, needs to be reviewed.

- **Aid coordination and budgeting**: An Aid Coordination Unit in the Ministry of Finance and an aid data base in Ministry of Economic Planning and Industrial Development were recently established. However, these two functions should be consolidated in a single unit. More generally, fragmented arrangements for contracting, coordinating, and monitoring aid flows should be rationalized.

- **Budget documentation**: The budget documentation should be made clearer and more user-friendly, which would enhance oversight, accountability, and strategic decision making. To this end, in the short term, a budget policy paper that would guide the preparation of the budget should be developed. In the medium term, line ministries should prepare sector policy statements, which would facilitate informed budget debate by the National Assembly.

- **Audited government accounts**: Submission of audited accounts to the National Assembly is key to improving transparency and accountability—the weakest component of The Gambia's Country Policy and Institutional Assessment rating by the World Bank. The backlog of audited government accounts up to 2006 has been cleared, but government accounts for 2007-09 have yet to be submitted to the National Assembly.

B. Monetary and Exchange Rate Policies

19. **Monetary policy will focus on maintaining low inflation through operational and intermediate targets for reserve and broad money, respectively.** The growth rates of monetary aggregates are projected to decline in 2011, consistent with a small decrease in velocity. This monetary stance is in line with a moderate tightening signaled by the recent increase in the CBG's policy rate. Still, credit to the private sector would have ample room to expand, given government's restraint on domestic financing. The authorities will continue to improve liquidity forecasting and liquidity management, which is needed to bring greater predictability and competition to T-bill auctions and stability to the domestic money market, which could further help to lower interest rates (Box 2). Moreover, following the recent reconciliation of the government's net balances with the CBG, the authorities' commitment to strictly observe the statutory limits on overdrafts and other credits to government would help to strengthen the implementation of monetary policy. [MEFP ¶25 and 26]

20. **The CBG will continue to maintain a floating exchange rate policy.** It will generally refrain from intervening in the foreign exchange market, engaging only to maintain orderly market conditions. Moreover, in light of potential volatility among the exchange rates for major reserve currencies, the CBG will monitor a basket of exchange rates against the dalasi before setting triggers for interventions. The loss of international reserves during 2010, however, implies that the CBG will likely need to occasionally enter the market to purchase foreign exchange to meet its reserve target of maintaining coverage of at least 5 months of imports of goods and services. [MEFP ¶30]

C. Financial Sector Policies

21. **Financial sector policies will continue to be geared towards strengthening banking supervision.** In the face of continued weakness in credit quality and the phased increase in the statutory capital requirement to GMD 200 million by end-2012, the CBG will remain vigilant in the conduct of financial sector supervision and will take appropriate measures in case banks' capital adequacy risks falling below the regulatory minimum. In this context, it is critical to address existing capacity constraints in CBG's Financial Supervision Department (FSD), in terms of financial and human resources as well as in technical skills. Regarding the latter, the authorities welcome forthcoming tailored Fund technical assistance on financial stability issues, including stress testing. [MEFP ¶27-29]

Box 2. Lowering Interest Rates Through Better Liquidity Management

A long standing policy goal of the authorities has been to reduce the level and volatility of domestic interest rates. Although a lot of progress has been made over the past several years, real interest rates remain high by international standards. Improved liquidity management is a major untapped source of further progress toward that goal.

Due to the unpredictability in the T-bill market, there are significant liquidity risk premia built into domestic interest rates. Currently, the Central Bank of The Gambia (CBG) manages liquidity primarily through weekly auctions of government T-bills. The size of these auctions is mainly determined by two considerations: the fiscal authorities' borrowing requirements and the CBG's monetary targets. Information sharing on the projected short-term path of government revenues and expenditures is critical for making quality forecasts of the borrowing requirements, but the information flow has been irregular. As a result, the liquidity forecasts produced by the CBG lack reliability and have too short a time horizon (one week). In the end, auction sizes are volatile and they are announced only a few days in advance. That forces commercial banks and other investors to make snap decisions between T-bills and alternative investments, making portfolio management difficult.

A stronger commitment to information sharing is needed. A September 2007 Memorandum of Understanding (MOU) spelled out the obligations of the Ministry of Finance (MoF) to provide detailed weekly forecasts of planned revenues, expenditures, and budget deficit financing requirements to the CBG. However, an interagency committee set up in February 2010 to prepare the weekly flow of such information has only met irregularly due to a government restructuring, which moved some of the relevant functions of the MoF to another ministry.

Another step toward better information sharing would be the establishment of the IFMIS interface at the CBG, targeted by early 2012. The IFMIS rollout would allow real-time reconciliation of all public accounts and would make available to MoF real-time information on the cash balances in government accounts at the CBG. By the end of 2010, the CBG, MoF, and the software suppliers on both sides will define the technical requirements for accomplishing the interface (a structural benchmark).

With improved data sharing, the forecast horizon of liquidity forecasts could be extended to four weeks or more, which would allow the CBG to announce both the size and the maturity composition of T-bill auctions in advance over a similar time horizon. The CBG has also been considering an eventual shift to a fortnightly auction schedule. All these measures would enhance predictability and competition in the T-bill market, which could help lower interest rates further. They would also bring greater stability to the local money market.

IV. Preparing a New Poverty Reduction Strategy

22. **The authorities intend to refocus their poverty reduction strategy toward increasing economic growth rates and creating greater employment opportunities.** A key component of the forthcoming PAGE is a stepping up of infrastructure investment. To ensure potentially high returns on investment, all investment plans of line ministries and parastatals are to be scrutinized by the Ministry of Economic Planning and Industrial Development (MEPID), which is also tasked with coordinating the preparation and drafting of the PAGE. Given The Gambia's financial constraints and to preserve debt sustainability, it will be important for the authorities to seek a variety of resources for investment, including private sector participation, as well as donor grants and concessional loans.

V. Program Monitoring: Rephasing the Eighth Review

23. **Having adjusted to a new fiscal path, the authorities will strive to meet new targets for end-December 2010, which could serve as performance criteria for a rephasing of the eighth review of the ECF arrangement as specified in MEFP Table 1.** The targets are consistent with a sound macroeconomic framework that would help to dampen inflation pressures and maintain an ample stock of official international reserves. In addition, the authorities will implement structural benchmarks that would strengthen macroeconomic performance (Text Table) and will initiate the monthly formula-based fuel price adjustments in a timely manner, which is essential for stabilizing revenues (see MEFP ¶19).

Text Table. The Gambia: Structural Benchmarks

Measure	Target date	Macro rationale
Tax reform		
1. Announce the revised fuel pricing formula in the 2011 budget speech to the National Assembly.	End-Dec. 2010	To help stabilize tax revenues.
Public financial management and accountability		
2. Agree on the technical specifications for interfacing IFMIS with the national payments system.	End-Dec. 2010	To ensure a smooth functioning of the IFMIS platform, which will strengthen and enhance monitoring and reporting of budget execution.
Statistics		
3. Publish quarterly balance of payments statistics, with a one quarter lag.	End-Dec. 2010	To facilitate policy formulation through timely provision of economic statistics.

VI. EX POST ASSESSMENT

24. **The recent ex-post assessment update concludes that Fund engagement in the past five years helped spur growth and maintain macroeconomic stability and would remain critical in the period ahead**.[12] Despite a deterioration in performance under the ECF arrangement since 2008, Fund engagement has helped anchor the macroeconomic policy framework and provide a signal to the donor community. Notably, the Gambian economy successfully weathered the food and fuel price shock in 2007–08 and the recent global financial crisis. Economic growth averaged close to 6 percent per year in 2005–09. Monetary policy was effective in controlling inflation, which is in single-digits. However, fiscal performance worsened in the second half of the ECF arrangement and key program objectives of lowering interest rates and creating fiscal space for pro-growth, pro-poor spending were not achieved. Continued Fund engagement would be critical to help: (i) put fiscal policy on a sound footing; (ii) further advance the structural reform agenda; and (iii) catalyze donor assistance. In particular, a new program should aim to sustain fiscal consolidation through: (i) improved public financial management; (ii) enhanced revenue mobilization and lower revenue volatility (such as, implementation of an automatic fuel pricing mechanism that allows for pass-through of import prices); and (iii) strong program ownership.

VII. STAFF APPRAISAL

25. **Supported by a sound policy framework, economic growth has remained strong and inflation generally low in 2010.** After fiscal slippages in the first half of the year, the authorities have taken appropriate measures in recent months to adjust to a smaller-than-expected resource envelope. It will be critical to sustain this fiscal discipline and limit government's domestic borrowing, in order to ease pressure on inflation, interest rates, and the exchange rate and to achieve substantial fiscal savings, which could help finance the forthcoming *Programme for Accelerated Growth and Employment*, beginning in 2012.

26. **Revenue measures and spending priorities set out in the 2011 budget proposal should help to solidify the tax base and maintain progress toward reducing poverty.** The new formula for fuel prices, which would allow greater pass-through of movements in import prices, and various measures to help pave the way for introduction of a VAT by January 2013 are much needed steps forward. By accounting for key targets for poverty reducing expenditures, the budget could also help to generate greater donor support. The authorities have shown strong ownership of PFM reform, which would help to raise value-for-money for government expenditures—a must given the tight resource envelope.

[12] See The Gambia—Ex-Post Assessment of Longer-Term Program Engagement—an Update (IMF Country Report No. 11/15).

27. **Monetary policy is appropriately focused on achieving low inflation by containing liquidity.** Strengthening coordination and information sharing is key for accurate liquidity forecasting and more predictable liquidity management, which would help to minimize uncertainty in the domestic money market and reduce the risk premium in interest rates. Maintaining respect for central bank independence, by strictly observing statutory limits on credit to government, would also facilitate monetary policy.

28. **Strict enforcement of the higher minimum capital requirement for commercial banks, effective end-December 2010, would strengthen soundness of the banking system.** Staff welcomes the CBG's active monitoring of the banks' preparations for compliance with the new requirement and its efforts to further build up its supervisory capacity.

29. **A floating exchange rate policy has served The Gambia well.** However, when considering interventions to maintain an orderly market, the CBG could usefully take into account the behavior of the dalasi against a basket of reserve currencies.

30. **Caution is warranted regarding downside risks.** Just as there is potential for large fiscal savings from a well implemented program, poor execution that leads to unanticipated financing needs and higher interest rates could be costly, especially given the high degree of roll-over risk of domestic debt.

31. **Staff supports the authorities' request for waivers for the nonobservance of the performance criteria for the basic fiscal balance and net international reserves for end-March 2010, based on corrective actions taken and, for the latter, the minor nature of the slippage. On this basis, staff recommends completion of the seventh review of the ECF arrangement.**

32. **Staff supports the authorities' request for the rephasing of the performance criteria for the eighth review of the ECF arrangement to the end of December 2010 and an extension of the current arrangement to the end of March 2011**

Table 1. The Gambia: Selected Economic Indicators

	2009	2010			2011		2012	2013
	Act.	Prog.	Art. IV	Proj.	Art. IV	Proj.	Proj.	Proj.
National account and prices	(Percent change; unless otherwise indicated)							
Nominal GDP (millions of dalasi)[1]	25,011	28,425	28,425	27,797	31,434	30,724	33,922	37,483
Nominal GDP	8.8	10.0	10.2	11.1	10.6	10.5	10.4	10.5
GDP at constant prices	5.6	4.8	5.0	5.7	5.4	5.5	5.5	5.5
GDP deflator	3.1	4.9	4.9	5.1	4.9	4.8	4.7	4.7
Consumer prices (average)	4.6	3.7	3.9	4.1	5.0	5.2	5.0	5.0
Consumer prices (end of period)	2.7	5.0	5.0	5.5	5.0	5.0	5.0	5.0
External sector								
Exports, f.o.b.	8.5	3.6	4.9	5.1	4.8	3.4	4.2	4.4
Of which: domestic exports	-13.3	11.3	12.1	20.7	5.9	5.9	5.8	0.5
Imports, f.o.b.	-3.7	6.5	6.4	6.8	6.4	5.8	5.8	6.3
Terms of trade (deterioration -)	-0.8	1.7	1.7	-0.2	1.2	-0.7	1.2	1.0
Nominal exchange rate change (depreciation -)	-13.3	…	…	…	…	…	…	…
Real effective exchange rate (depreciation -)	-10.2	…	…	…	…	…	…	…
Money and credit	(Percent change; in beginning-of-year broad money)							
Broad money	19.4	10.9	12.5	15.9	12.1	12.7	12.7	12.8
Net foreign assets	3.7	-0.1	-0.1	-4.6	0.1	2.1	2.8	3.1
Net domestic assets, of which:	15.7	11.1	12.7	20.5	12.0	10.6	9.9	9.7
Credit to the government (net)	3.8	-0.1	4.6	10.7	1.7	2.3	1.2	0.3
Credit to the private sector (net)	3.5	8.2	5.1	7.4	7.8	7.6	9.3	10.0
Other items (net)	4.8	2.5	-1.0	4.1	0.6	0.5	-0.9	-0.9
Velocity	2.1	2.3	2.2	2.1	2.1	2.0	2.0	1.9
Average treasury bill rate (in percent)[2]	12.2	…	…	10.7	…	…	…	…
Central government budget	(In percent of GDP)							
Domestic revenues	15.5	15.5	14.3	15.0	14.6	14.9	15.0	15.2
Grants	4.1	3.7	2.4	3.3	2.4	3.5	3.1	2.9
Total expenditure and net lending	22.7	20.3	19.5	20.4	19.7	19.9	20.0	19.7
Overall balance	-2.9	-1.0	-2.8	-2.1	-2.7	-1.5	-1.8	-1.7
Basic balance	-1.8	-0.1	-0.9	-0.1	-0.1	0.9	0.9	0.9
Net foreign financing	1.4	1.3	1.0	1.1	1.7	1.1	1.5	1.4
Net domestic financing	1.5	-0.2	1.9	1.0	1.0	0.4	0.3	0.3
Stock of domestic public debt	20.3	17.1	21.0	25.3	20.6	22.7	20.8	19.2
External sector								
Current account balance								
Excluding official transfers	-14.4	-14.5	-13.6	-14.2	-13.2	-14.0	-13.1	-12.7
Including official transfers	-10.3	-10.8	-11.1	-11.1	-10.8	-10.8	-10.1	-9.8
Current account balance	(Millions of U.S. dollars, unless otherwise indicated)							
Excluding official transfers	-135.4	-155.1	-141.1	-144.0	-146.6	-151.7	-151.8	-157.2
Including official transfers	-97.1	-115.3	-115.9	-113.3	-120.0	-116.9	-116.6	-121.5
Overall balance of payments	54.6	-6.8	-15.2	-29.8	-3.7	10.2	10.5	13.4
Gross official reserves	186.0	178.2	177.6	163.0	177.6	176.9	187.1	199.0
in months of imports of goods and services	6.0	5.4	5.4	4.9	5.1	5.0	5.0	5.0
External public debt								
Stock	330.1	343.5	343.5	341.2	362.3	357.5	375.4	392.3
Stock (percent of GDP)	35.2	32.2	33.0	33.6	32.6	32.9	32.4	31.8
Use of Fund resources	(Millions of SDRs)							
Purchases	10.2	4.4	4.5	4.5	2.5	2.4	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-1.0

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

[1] The Gambian authorities revised upwards their GDP estimates in the spring of 2010.

[2] End of period (September for 2010)

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

	2009	2010			2011		2012	2013
	Act.	Prog.	Art. IV	Proj.	Art. IV	Proj.	Proj.	Proj.
Total revenue and grants	4,909	5,474	4,756	5,075	5,342	5,652	6,147	6,772
Revenue	3,889	4,413	4,066	4,157	4,591	4,590	5,094	5,688
Tax revenue	3,518	3,991	3,620	3,722	4,117	4,069	4,514	5,037
Taxes on income, profits, and capital gains	974	1,185	1,102	1,171	1,230	1,288	1,436	1,619
Domestic taxes on goods and services	1,395	1,572	1,546	1,557	1,750	1,713	1,899	2,115
Taxes on international trade and transactions	1,148	1,234	973	993	1,136	1,068	1,179	1,303
Non-tax	371	422	446	436	474	522	580	651
Grants	1,021	1,061	690	918	751	1,062	1,052	1,084
Budget support	311	425	79	79	79	79	20	0
Project grants	710	636	612	839	673	983	1,032	1,084
Expenditures and net lending	5,683	5,770	5,555	5,664	6,184	6,117	6,770	7,396
Current expenditures	3,622	4,014	3,877	3,757	4,049	4,850	5,346	5,738
Wages and salaries	1,192	1,499	1,461	1,439	1,662	1,672	1,929	2,132
Other charges	1,689	1,752	1,595	1,512	1,560	2,259	2,457	2,638
Interest	741	762	821	806	828	919	960	968
External	153	176	183	176	194	180	210	228
Domestic	588	586	638	629	633	739	750	740
Capital expenditure	1,924	1,692	1,679	1,938	2,085	1,244	1,374	1,609
Foreign financed	1,338	1,327	1,227	1,485	1,576	886	961	1,002
Gambia local fund (GLF)	586	365	452	453	509	358	413	606
Net lending	138	64	0	-31	50	23	50	50
Overall balance (excl. statistical discrepancy)	-774	-296	-799	-589	-842	-464	-623	-624
Statistical discrepancy [1]	39	0	0	0	0	0	0	0
Overall balance	-735	-296	-799	-589	-842	-464	-623	-624
Financing	735	296	799	589	842	464	623	624
External financing (net)	356	356	271	303	531	328	524	513
Borrowing	628	691	615	647	904	834	937	971
Amortization	-272	-335	-344	-344	-372	-506	-413	-458
Domestic financing (net)	379	-60	528	286	310	137	99	111
Net borrowing	370	-90	561	319	310	118	99	111
Bank [2]	376	-7	536	701	230	308	184	58
Nonbank	42	-7	102	-305	115	-190	-85	53
Repayment of domestic debt	-49	-77	-77	-77	-34	0	0	0
Capital revenue	0	64	0	0	0	50	0	0
Change in arrears (- = decrease)	0	-33	-33	-33	0	-31	0	0
Privatization proceeds	9	0	0	0	0	0	0	0
Memorandum items:								
Basic balance [3,4]	-457	-30	-263	-21	-17	291	294	346
Basic primary balance [5]	285	732	558	784	811	1,209	1,254	1,314
Gross domestic interest bearing debt [6]	5,082	4,872	5,973	7,041	6,486	6,981	7,049	7,184
Stock of arrears	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] As of 2011, the basic balance represents the overall balance excluding foreign-financed current and capital expenditure, to reflect that part of external loans and grants are allocated to current expenditure and to preserve consistency with the historical series.

[5] Domestic revenue - expenditure and net lending, excluding interest payments and externally financed capital spending.

[6] In August 2010, as part of a reconciliation of government accounts at the central bank, GMD 1329 million of non-interest-bearing overdrafts were securitized into a 30-year government bond.

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

	2009	2010			2011		2012	2013
	Act.	Prog.	Art. IV	Proj.	Art. IV	Proj.	Proj.	Proj.
Total revenue and grants	19.6	19.3	16.7	18.3	17.0	18.4	18.1	18.1
Revenue	15.5	15.5	14.3	15.0	14.6	14.9	15.0	15.2
Tax Revenue	14.1	14.0	12.7	13.4	13.1	13.2	13.3	13.4
Non-tax	1.5	1.5	1.6	1.6	1.5	1.7	1.7	1.7
Grants	4.1	3.7	2.4	3.3	2.4	3.5	3.1	2.9
Budget support	1.2	1.5	0.3	0.3	0.3	0.3	0.1	0.0
Project grants	2.8	2.2	2.2	3.0	2.1	3.2	3.0	2.9
Expenditures and net lending	22.7	20.3	19.5	20.4	19.7	19.9	20.0	19.7
Current expenditures	14.5	14.1	13.6	13.5	12.9	15.8	15.8	15.3
Wages and salaries	4.8	5.3	5.1	5.2	5.3	5.4	5.7	5.7
Other charges	6.8	6.2	5.6	5.4	5.0	7.4	7.2	7.0
Interest	3.0	2.7	2.9	2.9	2.6	3.0	2.8	2.6
External	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Domestic	2.4	2.1	2.2	2.3	2.0	2.4	2.2	2.0
Capital expenditure	7.7	6.0	5.9	7.0	6.6	4.0	4.0	4.3
Foreign financed	5.4	4.7	4.3	5.3	5.0	2.9	2.8	2.7
Domestic financed	2.3	1.3	1.6	1.6	1.6	1.2	1.2	1.6
Net lending	0.6	0.2	0.0	-0.1	0.2	0.1	0.1	0.1
Overall balance (excl. statistical discrepancy)	-3.1	-1.0	-2.8	-2.1	-2.7	-1.5	-1.8	-1.7
Statistical discrepancy [1]	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.9	-1.0	-2.8	-2.1	-2.7	-1.5	-1.8	-1.7
Financing	2.9	1.0	2.8	2.1	2.7	1.5	1.8	1.7
External financing (net)	1.4	1.3	1.0	1.1	1.7	1.1	1.5	1.4
Borrowing	2.5	2.4	2.2	2.3	2.9	2.7	2.8	2.6
Amortization	-1.1	-1.2	-1.2	-1.2	-1.2	-1.6	-1.2	-1.2
Domestic financing (net)	1.5	-0.2	1.9	1.0	1.0	0.4	0.3	0.3
Net borrowing	1.5	-0.3	2.0	1.1	1.0	0.4	0.3	0.3
Bank [2]	1.5	0.0	1.9	2.5	0.7	1.0	0.5	0.2
Nonbank	0.2	0.0	0.4	-1.1	0.4	-0.6	-0.3	0.1
Repayment of domestic debt	-0.2	-0.3	-0.3	-0.3	-0.1	0.0	0.0	0.0
Capital revenue	0.0	0.2	0.0	0.0	0.0	0.2	0.0	0.0
Change in arrears (- = decrease)	0.0	-0.1	-0.1	-0.1	0.0	-0.1	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Basic balance [3,4]	-1.8	-0.1	-0.9	-0.1	-0.1	0.9	0.9	0.9
Basic primary balance [5]	1.1	2.6	2.0	2.8	2.6	3.9	3.7	3.5
Gross domestic interest bearing debt [6]	20.3	17.1	21.0	25.3	20.6	22.7	20.8	19.2
Stock of arrears	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] As of 2011, the basic balance represents the overall balance excluding foreign-financed current and capital expenditure, to reflect that part of external loans and grants are allocated to current expenditure and to preserve consistency with the historical series.

[5] Domestic revenue - expenditure and net lending, excluding interest payments and externally financed capital spending.

[6] In August 2010, as part of a reconciliation of government accounts at the central bank, GMD 1329 million of non-interest-bearing overdraft were securitized into a 30-year government bond.

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

	2009	2010			2011		2012	2013
	Act.	Prog.	Art. IV	Proj.	Art. IV	Proj.	Proj.	Proj.
				I. Monetary Survey				
Net foreign assets	3,869	4,061	3,852	3,333	3,870	3,616	4,042	4,578
Net domestic assets	7,826	8,536	9,307	10,227	10,888	11,669	13,177	14,843
Domestic credit	7,503	8,163	9,100	9,429	10,598	10,804	12,453	14,274
Claims on central government (net)	3,033	2,578	3,569	4,280	3,799	4,588	4,772	4,830
Claims on other financial corporations	12	45	15	18	18	24	30	36
Claims on other public sector 2/	765	925	1,223	573	1,468	602	632	664
Claims on private sector	3,694	4,615	4,292	4,557	5,313	5,590	7,019	8,743
Other items (net) 3/	323	373	208	798	290	866	724	570
Broad money	11,695	12,597	13,160	13,560	14,758	15,285	17,219	19,421
Currency outside banks	2,005	2,131	2,256	2,170	2,530	2,293	2,411	2,525
Deposits	9,690	10,465	10,904	11,390	12,228	12,993	14,809	16,896
				II. Central Bank Survey				
Net foreign assets	3,198	2,967	2,975	2,732	2,985	2,925	3,341	3,870
Foreign assets	5,010	4,905	4,927	4,782	5,111	5,096	5,585	6,147
Foreign liabilities	-1,812	-1,938	-1,952	-2,050	-2,126	-2,171	-2243	-2278
Net domestic assets	-26	484	488	915	878	1,132	1,169	1,151
Domestic credit	-293	105	73	677	154	803	840	822
Claims on central government (net) 3/	-434	-278	-74	529	6	649	680	657
Claims on other financial corporations	12	45	15	18	18	24	30	36
Claims on private sector	45	236	47	45	50	45	45	45
Claims on public enterprises	85	103	85	85	80	85	85	85
Other items (net) 3/ 4/	266	379	414	238	725	329	329	329
Reserve money	3,171	3,451	3,463	3,647	3,863	4,057	4,510	5,021
Currency outside banks	2,005	2,131	2,256	2,170	2,530	2,293	2,411	2,525
Commercial bank deposits	1,167	1,320	1,207	1,478	1,333	1,764	2,099	2,496

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

1/ End of period

2/ Include public enterprises and the local government.

3/ In August 2010, as part of a reconciliation of government accounts at the central bank, GMD 496 million were re-classified from "Other items (net)" to "Claims on central government (net)."

4/ Including valuation.

Table 5. The Gambia: Monetary Accounts 1/

	2009	2010			2011		2012	2013
	Act.	Prog.	Art. IV	Proj.	Art. IV	Proj.	Proj.	Proj.
	I. Monetary Survey (Percent change; in beginning of period broad money)							
Net foreign assets	3.7	-0.1	-0.1	-4.6	0.1	2.1	2.8	3.1
Net domestic assets	15.7	11.1	12.7	20.5	12.0	10.6	9.9	9.7
Domestic credit	10.9	8.6	13.6	16.5	11.4	10.1	10.8	10.6
Claims on central government (net)	3.8	-0.1	4.6	10.7	1.7	2.3	1.2	0.3
Claims on other financial corporations	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Claims on other public sector 2/	3.4	0.4	3.9	-1.6	1.9	0.2	0.2	0.2
Claims on private sector	3.5	8.2	5.1	7.4	7.8	7.6	9.3	10.0
Other items (net) 3/	4.8	2.5	-1.0	4.1	0.6	0.5	-0.9	-0.9
Broad money	19.4	10.9	12.5	15.9	12.1	12.7	12.7	12.8
Currency outside banks	1.8	1.9	2.1	1.4	2.1	0.9	0.8	0.7
Deposits	17.6	9.1	10.4	14.5	10.1	11.8	11.9	12.1
	II. Central Bank Survey (Percent change; in beginning of period monetary base)							
Net foreign assets	15.7	-7.5	-7.0	-14.7	0.3	5.3	10.3	11.7
Foreign assets	66.9	-3.1	-2.6	-7.2	5.3	8.6	12.0	12.5
Foreign liabilities	-51.2	-4.4	-4.4	-7.5	-5.0	-3.3	-1.8	-0.8
Net domestic assets	-6.4	15.4	16.2	29.7	11.3	5.9	0.9	-0.4
Domestic credit	-15.5	6.3	11.5	30.6	2.3	3.5	0.9	-0.4
Claims on central government (net) 3/	-7.4	6.1	11.4	30.4	2.3	3.3	0.8	-0.5
Claims on other financial corporations	-1.1	0.0	0.1	0.2	0.1	0.2	0.1	0.1
Claims on private sector	-6.3	0.1	0.1	0.0	0.1	0.0	0.0	0.0
Claims on public enterprises	-0.6	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Other items (net) 3/ 4/	9.1	9.1	4.7	-0.9	9.0	2.5	0.0	0.0
Reserve money	9.3	7.9	9.2	15.0	11.6	11.2	11.2	11.3
Currency outside banks	5.9	6.6	7.9	5.2	7.9	3.4	2.9	2.5
Commercial bank deposits	3.4	1.3	1.3	9.8	3.6	7.9	8.3	8.8
Memorandum Items:								
Growth of credit to the private sector	10.3	23.2	16.2	23.4	23.8	22.7	25.6	24.6
Velocity	2.14	2.26	2.16	2.05	2.13	2.01	1.97	1.93
Money Multiplier	3.69	3.65	3.80	3.72	3.82	3.77	3.82	3.87

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

1/ End of period

2/ Include public enterprises and the local government.

3/ In August 2010, as part of a reconciliation of government accounts at the central bank, GMD 496 million were re-classified from "Other items (net)" to "Claims on central government (net)."

4/ Including valuation.

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

	2009	2010			2011		2012	2013
	Act.	Prog.	Art. IV	Proj.	Art. IV	Proj.	Proj.	Proj.
1. Current account								
A. Goods and services	**-144.8**	**-170.2**	**-156.2**	**-161.4**	**-166.3**	**-173.9**	**-180.4**	**-188.7**
Trade balance	-202.5	-214.6	-216.8	-217.9	-232.1	-233.1	-248.2	-265.8
Exports, f.o.b.	94.8	89.2	99.5	99.7	104.3	103.0	107.4	112.1
Of which: domestic exports	5.3	8.1	5.7	5.7	6.1	6.0	6.4	6.8
Imports, f.o.b	-297.3	-303.7	-316.3	-317.6	-336.4	-336.1	-355.6	-377.9
Of which: oil	-30.7	-35.9	-35.3	-36.0	-34.5	-35.3	-35.0	-34.3
Services (net)	57.7	44.3	60.6	56.5	65.7	59.1	67.8	77.0
Of which: travel income	74.7	78.4	78.4	81.0	82.3	85.1	95.3	107.7
B. Income (net)	**-43.2**	**-41.2**	**-41.2**	**-41.2**	**-40.6**	**-40.6**	**-38.7**	**-40.6**
C. Current transfers	**90.9**	**96.1**	**81.6**	**89.3**	**86.9**	**97.6**	**102.5**	**107.8**
Remittances	43.0	46.5	46.5	48.8	50.2	52.7	57.0	61.5
Private transfers	9.6	9.8	9.8	9.8	10.1	10.1	10.3	10.6
Official transfers	38.3	39.8	25.2	30.7	26.6	34.8	35.2	35.7
Current account (excl. official transfers)	**-135.4**	**-155.1**	**-141.1**	**-144.0**	**-146.6**	**-151.7**	**-151.8**	**-157.2**
Current account (incl. official transfers)	**-97.1**	**-115.3**	**-115.9**	**-113.3**	**-120.0**	**-116.9**	**-116.6**	**-121.5**
2. Capital and financial account								
A. Capital account	**12.4**	**10.7**	**-2.6**	**5.7**	**6.8**	**17.8**	**24.0**	**21.9**
B. Financial account	**155.5**	**97.8**	**103.3**	**77.9**	**109.5**	**109.3**	**103.1**	**113.1**
Foreign direct investment	72.9	74.0	62.8	62.8	66.2	66.2	68.7	70.4
Portfolio investment	-4.3	-1.5	-1.5	-1.5	-1.1	-1.1	-0.9	-0.6
Other investment[1]	86.8	25.3	42.0	16.5	44.4	44.2	35.2	43.3
Of which: Official other investment (net)	42.9	13.3	13.3	11.1	18.8	11.6	17.9	16.9
Loans	14.1	25.9	25.9	23.6	32.0	29.5	32.0	32.0
SDR Allocations	39.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-10.2	-12.6	-12.6	-12.6	-13.2	-17.9	-14.1	-15.1
Capital and financial account	**167.9**	**108.5**	**100.7**	**83.5**	**116.3**	**127.1**	**127.1**	**135.0**
Errors and omissions	-16.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**54.6**	**-6.8**	**-15.2**	**-29.8**	**-3.7**	**10.2**	**10.5**	**13.4**
Financing								
Net international reserves (increase -)	-54.6	6.8	15.2	29.8	3.7	-10.2	-10.5	-13.4
Change in gross international reserves[1]	-70.3	0.0	8.4	23.0	0.0	-13.9	-10.2	-11.9
Use of IMF resources (net)	15.8	6.8	6.8	6.8	3.7	3.7	-0.3	-1.5
Disbursements[2]	15.8	6.8	6.8	6.8	3.7	3.7	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-1.5
Memorandum items:								
Gross International Reserves								
US$ millions	186.0	178.2	177.6	163.0	177.6	176.9	187.1	199.0
Months of imports of goods (cif)	6.4	6.0	5.8	5.3	5.4	5.4	5.4	5.4
Months of imports of goods and services	6.0	5.4	5.4	4.9	5.1	5.0	5.0	5.0
National currency per US dollar (average)	26.6	…	…	…	…	…	…	…
National currency per US dollar (end of period)	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)

	2009	2010			2011		2012	2013
	Act.	Prog.	Art. IV	Proj.	Art. IV	Proj.	Proj.	Proj.
1. Current account								
A. Goods and services	**-15.4**	**-16.0**	**-15.0**	**-15.9**	**-15.0**	**-16.0**	**-15.6**	**-15.3**
Trade balance	**-21.6**	**-20.1**	**-20.9**	**-21.4**	**-20.9**	**-21.4**	**-21.5**	**-21.5**
Exports, f.o.b.	10.1	8.4	9.6	9.8	9.4	9.5	9.3	9.1
Of which: other domestic goods	0.6	0.8	0.5	0.6	0.5	0.6	0.6	0.6
Imports, f.o.b	-31.7	-28.5	-30.4	-31.2	-30.2	-30.9	-30.7	-30.6
Of which: oil	-3.3	-3.4	-3.4	-3.5	-3.1	-3.3	-3.0	-2.8
Services (net)	6.1	4.2	5.8	5.6	5.9	5.4	5.9	6.2
Of which: travel	8.0	7.4	7.5	8.0	7.4	7.8	8.2	8.7
B. Income (net)	**-4.6**	**-3.9**	**-4.0**	**-4.1**	**-3.6**	**-3.7**	**-3.3**	**-3.3**
C. Current transfers	**9.7**	**9.0**	**7.8**	**8.8**	**7.8**	**9.0**	**8.9**	**8.7**
Remittances	4.6	4.4	4.5	4.8	4.5	4.9	4.9	5.0
Private transfers	1.0	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Official transfers	4.1	3.7	2.4	3.0	2.4	3.2	3.0	2.9
Current account (excl. official transfers)	**-14.4**	**-14.5**	**-13.6**	**-14.2**	**-13.2**	**-14.0**	**-13.1**	**-12.7**
Current account (incl. official transfers)	**-10.3**	**-10.8**	**-11.1**	**-11.1**	**-10.8**	**-10.8**	**-10.1**	**-9.8**
2. Capital and financial account								
A. Capital account	**1.3**	**1.0**	**-0.3**	**0.6**	**0.6**	**1.6**	**2.1**	**1.8**
B. Financial account	**16.6**	**9.2**	**9.9**	**7.7**	**9.8**	**10.1**	**8.9**	**9.2**
Foreign direct investment	7.8	6.9	6.0	6.2	6.0	6.1	5.9	5.7
Portfolio investment	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other investment	9.2	2.4	4.0	1.6	4.0	4.1	3.0	3.5
Of which: Official other investment (net)	4.6	1.3	1.3	1.1	1.7	1.1	1.5	1.4
Loans	1.5	2.4	2.5	2.3	2.9	2.7	2.8	2.6
SDR Allocations	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-1.2	-1.2	-1.2	-1.2	-1.6	-1.2	-1.2
Capital and financial account	**17.9**	**10.2**	**9.7**	**8.2**	**10.5**	**11.7**	**11.0**	**10.9**
Errors and omissions	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**5.8**	**-0.6**	**-1.5**	**-2.9**	**-0.3**	**0.9**	**0.9**	**1.1**
Financing								
Net international reserves (increase -)	-5.8	0.6	1.5	2.9	0.3	-0.9	-0.9	-1.1
Change in gross international reserves	-7.5	0.0	0.8	2.3	0.0	-1.3	-0.9	-1.0
Use of IMF resources (net)	1.7	0.6	0.7	0.7	0.3	0.3	0.0	-0.1
Disbursements	1.7	0.6	0.7	0.7	0.3	0.3	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1

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

Table 8 The Gambia: Financial Soundness Indicators - All Banks

(End of Period in Percent)

	2007	2008	2009	2010		
				Q1	Q2	Q3
Capital Adequacy						
Regulatory Capital to Risk Weighted Assets	20.5	19.6	18.8	18.7	15.6	19.3
Tier I Capital to Risk Weighted Assets	20.4	21.0	19.3	19.5	16.0	20.3
Asset Quality						
Non-Performing Loans to Total Loans	10.4	13.7	12.3	17.1	16.8	16.2
Loan Loss Provisions to Non-Performing Loans	78.7	83.9	65.3	47.3	43.9	45.6
Earnings and Profitability						
Return on Assets	4.5	0.1	-1.6	0.3	2.0	2.1
Return on Equity	36.4	0.8	-12.8	…	…	…
Net Interest Income to Gross Income	34.7	35.3	36.6	34.1	31.0	31.0
Non-Interest Expense to Gross Income	47.0	65.8	61.6	56.9	51.6	52.7
Liquidity						
Liquid Assets to Total Assets	45.0	43.6	35.7	37.1	37.9	37.3
Liquid Assets to Total Deposits	71.2	68.8	54.5	64.2	62.8	64.7
Liquid Assets to Short-Term Liabilities	74.9	70.4	62.1	58.5	57.2	57.9
Sensitivity						
Net Open Position in Foreign Exchange to Capital	36.9	19.1	5.7	2.4	-6.0	-0.4

Source: Central Bank of The Gambia

Table 9. The Gambia: Proposed Schedule of Disbursements

Timing	Disbursement SDRs	Percent of quota 1/	Conditions
February 21, 2007	2,000,000	6.43	Approval of the arrangement.
August 29, 2007	2,000,000	6.43	Completion of first review (end-March 2007 test date)
December 19, 2007	2,000,000	6.43	Completion of second review (end-September 2007 test date)
September 8, 2008	2,000,000	6.43	Completion of third review (end-March 2008 test date)
February 18, 2009 2/	5,110,000	16.43	Completion of fourth review (end-September 2008 test date)
August 7, 2009 2/	5,110,000	16.43	Completion of fifth review (end-March 2009 test date)
February 10, 2010	1,995,000	6.42	Completion of sixth review (end-September 2009 test date).
January 10, 2011	2,332,500	7.50	Completion of seventh review (end-March 2010 test date).
February 15, 2011	2,332,500	7.50	Completion of eighth review (end-December 2010 test date). 3/
Total	24,880,000	80.00	

1/ The Gambia's quota is SDR 31.10 million.
2/ Disbursement for this date includes augmentation in the amount of SDR 3.11 million.
3/ The authorities are requesting a re-phasing of the performance criteria for the 8th review of the ECF arrangement from end-September to end-December 2010.

APPENDIX I
LETTER OF INTENT

Banjul, The Gambia
December 18, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 40431

Dear Mr. Strauss-Kahn:

1. The policies implemented by the Government of The Gambia in recent years have been successful in maintaining macroeconomic stability, delivering strong growth, and improving the wellbeing of the Gambian population. These policies have been supported by the IMF through a three-year arrangement under the Extended Credit Facility (ECF) and the one-year extension of the ECF arrangement approved by the IMF Board in February 2007 and February 2010, respectively.

2. All quantitative performance criteria for the end of March 2010 were observed, except for the floors on the cumulative basic fiscal balance and net useable international reserves. While the floor on international reserves was missed by a very small margin, the fiscal slippages required significant corrective actions, especially given the large shortfalls in government revenues that persisted through 2010:Q2. As discussed in the attached Memorandum of Economic and Financial Policies (MEFP), in June, the Government of The Gambia initiated measures to shore up tax revenues. At the same time, expenditures were further restrained, so that small surpluses in the quarterly basic fiscal balances could be achieved over the remainder of the year, despite the Government's smaller resource envelope. The goal of these measures is to curb the Government's domestic financing needs, which will help to reduce its debt burden and ease pressure on inflation, interest rates, and the exchange rate. Building upon our progress in recent months, the budget for 2011 also aims to curb domestic financing. Regarding the small slippage on international reserves, the Central Bank of The Gambia will continue to ensure an ample stock of reserves is maintained.

3. Throughout 2010, the Government of The Gambia has continued to make good progress on our structural agenda, as discussed in the MEFP.

4. On the basis of the corrective actions on the basic fiscal balance and the minor nature of the slippage on net useable international reserves, the Government of The Gambia requests waivers for the nonobservance of the two performance criteria noted above. With these waivers, the Government also requests the completion of the 7th review of the ECF arrangement and the 8th disbursement under the arrangement of SDR 2,332,500 (7.5 percent of quota).

5. The Government of The Gambia requests a rephasing of the performance criteria for the 8th review of the ECF arrangement. That is, we seek the IMF Board's approval of the proposed performance criteria for the end of December 2010, as presented in the MEFP. The proposed performance criteria are in line with the adjusted fiscal path, monetary policy that seeks to maintain low inflation, and maintenance of a comfortable level of international reserves.

6. To accommodate the rephasing, the Government also requests a short extension of the current ECF arrangement to the end of March 2011. This would allow sufficient time to permit verification and the reporting to the IMF's Board of the implementation of the re-phased performance criteria. We would foresee that the eighth review of the ECF take place by March 1, 2011.

7. Looking forward, our policies will aim to consolidate macroeconomic stability anchored upon a prudent fiscal policy that aims to reduce the country's heavy debt burden. We will continue to pursue high growth and low inflation, reduce poverty through greater employment opportunities, and modernize our economy. To this end, the Government is preparing the Programme for Accelerated Growth and Employment, which will succeed the current Poverty Reduction Strategy Paper II beginning in 2012.

8. In the context of the ECF framework, the Government of The Gambia will regularly update the IMF on developments in its economic and financial policies, and provide the data needed for the monitoring of the programme. The Government will also consult regularly with the Fund on any relevant developments at the initiative of the Government, or the IMF.

9. The government intends to make available to the public this letter, the IMF staff's report, and all other documents related to this review. Therefore we authorize the IMF to arrange for these documents to be posted on the IMF website following the IMF Board's conclusion of the review.

Sincerely yours,

/s/	/s/
Abdou Kolley	Amadou Colley
Minister Ministry of Finance	Governor Central Bank of The Gambia

Attachments: - Memorandum on Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding (TMU)

Attachment I

Memorandum of Economic and Financial Policies
December 18, 2010

VIII. Introduction

1. This memorandum reports on the performance under the program supported by an arrangement with the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) and provides an update of the economic and financial policies of the Government of The Gambia. The ECF arrangement, which was approved by the Executive Board of the IMF in February 2007, aims at consolidating macroeconomic stability, fostering the conditions for sustaining strong economic growth, and reducing poverty. The sixth review under the arrangement was completed on February 19, 2010, at which time the arrangement was extended until February 20, 2011.

IX. Recent Economic Developments

2. Real GDP growth has averaged 5.9 percent a year since 2007, including estimated growth of 5.7 percent in 2010. Despite the negative impact of the global economic crisis on tourism receipts, remittances, and foreign investment, strong increases in agricultural production helped to boost overall growth. The strong performance in agriculture also cushioned the adverse effects of the crisis on the rural poor. The Government's support to farmers—such as the program to expand upland rice production—together with generally good weather conditions, helped to sustain the strong growth in agricultural production. Throughout this period, inflation was held to single digits. After decelerating to 2.3 percent in October 2009, headline inflation accelerated during 2010, reaching 6.1 percent in August 2010, which prompted the Central Bank of the Gambia to raise the rediscount rate by 100 basis points (to 15 percent) in early September. As of October, inflation stood at 6.2 percent.

3. Throughout much of 2009 and early 2010, the Gambian Dalasi remained stable against the U.S. dollar—trading within a narrow range of 26-27 Dalasi/dollar with almost no interventions in the interbank foreign exchange market by the Central Bank of The Gambia (CBG). However, faced with a sharp increase in the demand for foreign exchange during May-June, notably because of the rising cost of fuel imports, the CBG intervened and sold dollars in the foreign exchange market amounting to USD 6 million.[1] After the interventions ceased, the Dalasi depreciated moderately against the dollar, reaching 29.3 Dalasi/dollar on the interbank market as of end-September, before firming up to 29.1 Dalasi/dollar as of end-October.

[1] In June, the Government introduced an administrative measure that temporarily required banks to seek prior approval before shipping U.S. dollars, but this administrative measure was removed shortly afterwards.

4. Government's revenue outturn weakened during the first half of 2010, resulting in a higher than budgeted deficit in the basic fiscal balance (by GMD 147 million or ½ percent of GDP). Revenues from fuel and company income taxes were particularly hard hit. Rising import prices of fuel eroded revenues from the Flumara, which is calculated as a residual given fixed retail fuel prices, while slow growth in the non-agriculture sectors of the economy dampened the company income tax base.

5. In June, the Government initiated concerted actions to correct the fiscal imbalance. First, fuel prices were raised, which helped to partly restore revenues. To stabilize these revenues going forward, a new fuel pricing formula, which includes specific taxes and would allow a smooth pass-through of changes in import prices into domestic retail prices, was approved by Cabinet in November as part of the proposed Government budget for 2011.[2] Second, after re-estimating the Government's resource envelope, expenditures were tightly controlled to ensure that small surpluses in the basic fiscal balance would be achieved on a quarterly basis over the remainder of the year. Working with the line ministries, expenditures were prioritized according to a 3-tier system. Included in the highest priority expenditures were non-discretionary and most PRSP expenditures. The Government did not resort to accumulating domestic arrears.

6. Fiscal operations were further complicated by large shortfalls in expected disbursements of budget support by donors. To make up for the shortfall, the CBG provided an emergency line of credit of GMD 240 million. Having planned to sell the foreign exchange proceeds from the budget support to mop up liquidity generated by government spending, the CBG's sale of foreign exchange in the market helped drain liquidity in the economy. In addition, to avoid losses by the CBG and the weakening of its independence to conduct monetary policy, the Government agreed to a reconciliation of its net balance with the CBG. In early August 2010, Government's net obligations amounting to GMD 1825 million were converted into a 30-year bond with annual interest of 6½ percent and constant amortization payable semi-annually.

7. In 2009, Government's domestic borrowing led to a significant increase in the stock of debt, with T-bills and government bonds reaching GMD 5082 million at end-December and increasing pressure on T-bill yields. Interest costs totaled GMD 741 million (or 19.1 percent of government revenues), of which GMD 588 million (15.1 percent of government revenues) was interest on domestic debt. T-bill yields began to fall marginally in January and February 2010, as the government exercised fiscal restraint, but this was undone in March through May with another sudden surge in borrowing. With renewed expenditure restraint and the increase in domestic fuel prices that recouped some of the lost fuel tax revenues, interest rates have fallen since by about 1 percentage point across all maturities, reaching a weighted average of 11.5 percent in November 2010.

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[2] See paragraph 19 for details of the fuel pricing formula.

8. Monetary aggregates grew at a rapid pace in 2010. Reserve money and broad money growth reached 21 percent and 20 percent (y-o-y) in September 2010, overshooting the CBG's monetary targets. Time deposits alone increased by 42 percent in the 12 months ending in September 2010, thus accounting for half of the increase in broad money. A significant part of the increase was due to the portfolio reallocation decisions of the Social Security and Housing Finance Corporation. Overall credit to the private sector and public enterprises increased by 17 percent over the same period. This was partly financed by a rundown of net foreign assets (NFA) of commercial banks. Although the CBG has indicated a more restrained monetary policy stance by raising the rediscount rate, reserve money expanded by a further 5.7 percent in October, largely reflecting seasonal factors.

9. The Government's higher-than-expected recourse to central bank financing contributed to the rapid growth in reserve money. Since end-December 2009, the CBG's net claims on government increased by GMD 395 million.[3] At the same time, net foreign assets declined by USD 23.7 million, in part due to the interventions in the foreign exchange market in May-June.

10. Conditions in the Gambian banking sector remain challenging. Non-performing loans (NPLs), including restructured loans, have stabilized around 16 percent of total loans in the third quarter, while the net NPL ratio stood at only 8.8 percent. The minimum capital requirement has been raised by GMD 90 million to GMD 150 million, to be observed by end-2010. Seven banks representing about 80 percent of the banking sector assets met the requirement by end-October, and it is expected that all commercial banks will meet the requirement in full by the end-December deadline. The CBG's Financial Supervision Department hired 7 new full-time staff. The Non-Bank Financial Institutions (NBFIs) bill has been submitted to the Attorney General's Chambers for legislative drafting. Its passage will provide legal basis for supervision of NBFIs. Significant progress toward regional cooperation has been made with the establishment of the West African College of Bank Supervisors in August 2010.

11. The current account deficit (including official transfers) is estimated to have declined to 10 percent of GDP in 2010. This one-percentage point decrease largely reflects a pick-up in exports of man-made filaments, groundnuts, and cashew nuts. Better marketing strategies by the Gambia Groundnut Corporation, and the formation of the Gambia Transportation Association helped to increase exports of groundnuts and re-exports, respectively. Building on last year's good harvests, increased domestic production of food crops helped to curb food imports in 2010 but oil imports have increased slightly in line with the growth in the real sector. Travel income (in percent of GDP) rose by about 11 percent reflecting the

[3] This number excludes the GMD 496 million stock of Negotiable Interest-Bearing Notes (NIBs), which were accumulated before 2010 and were recently converted into a 30-year bond as part of the August 2010 reconciliation of the government's accounts with the central bank.

rebound in the tourism sector while remittances increased by about 10 percent, having declined significantly in 2009. FDI declined by an estimated 14 percent in 2010 having witnessed high growth rates in the past two years with the more than doubling of the number of foreign commercials banks in the country. As of end-October, net international reserves stood at USD 121 million, down by USD 28.6 million since end-December 2009, while gross international reserves totaled USD 159 million (or 4.8 months of imports of goods and services).

X. Performance under the ECF-Supported Program

12. All performance criteria for the end of March 2010 were met, except for the basic fiscal balance and net international reserves targets (Table 1). The floor on the cumulative basic fiscal balance was missed by GMD 87.9 million (0.3 percent of GDP). Even though the Government succeeded to outperform the targeted basic balance for the first quarter by some GMD 57.3 million, the larger-than-expected overruns[4] in 2009:Q4 (GMD 145.2 million) meant that the cumulative basic balance target was still missed. The floor on cumulative net usable international reserves was missed by a narrow margin (about USD 82,000), mainly reflecting the unanticipated appreciation of the U.S. dollar against other reserve currencies. The ceiling on the cumulative net domestic assets of the CBG was met by a comfortable margin. No external arrears were incurred and all new debt contracted or guaranteed by the Government with an original maturity of more than one year had a grant element of at least 45 percent. The final payment for outstanding domestic arrears to the National Water and Electricity Company (indicative target) was executed in January.

13. As discussed above, government spending has adjusted to the smaller-than-budgeted resource envelope. By achieving a small surplus in the basic fiscal balance in 2010:Q3, the government has begun to curb its domestic financing needs to help ease the burden of domestic debt.

14. All but one of the structural benchmarks have been met (Table 2).

- The Internal Audit Unit in the Ministry of Finance has been established and core staff has been recruited. The Director of the Unit was hired in March 2010 and the unit became operational during the same month. Initially, the Unit will review entries into the IFMIS system to ensure accuracy and verify that expenditure receipts are consistent with the corresponding budget vote.

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[4] As discussed in the MEFP for the 6th ECF review dated January 21, 2010, the main sources of spending overruns in Q4 were the US$5 million payment for the re-purchase of shares of GAMCELL, after a failed privatization effort, and US$1.5 million for the Gambia Radio and Television Service's (GRTS) satellite link. At that time, it was thought that other budgeted expenditures had been trimmed by an equivalent sum, but this turned out not to be the case.

- An amendment to the 2007 MOU between the CBG and the Ministry of Finance was signed in March 2010, which set out the terms of reference for the Interagency Committee to ensure the regular flow of government revenue and expenditure data. Although the restructuring of government ministries around that time disrupted the flow of information, the regular meetings of the Interagency Committee have been re-established.

- The quarterly balance of payments statistics for 2009:Q4 were published on time in March 2010.

- There have been some improvements in GDP estimates. However, further technical assistance is needed.

15. In addition, in line with a delayed structural benchmark from the sixth review of the program, the National Assembly approved the proposed adjustments to the end-2006 government balance sheet for the unresolved qualifications in the audited accounts during 1991-2006. The accounting adjustment allows for the possibility of an unqualified audit of the 2007 accounts, which were officially submitted to the National Audit Office (NAO) in May. The adjustment does not exonerate individuals who may be found responsible for improprieties. The responses by the Government to queries raised in the audit of the 2007 government accounts were submitted to the NAO in November. The NAO is required to submit the audited accounts to the National Assembly within three months. To expedite the subsequent audits of the 2008 and 2009 accounts, the NAO has begun preliminary reviews of government transactions during those years.

XI. Macroeconomic Policies for the Remainder of 2010

16. For the remainder of 2010, macroeconomic policies will aim to sustain the progress achieved since mid-year, when government adjusted to a more constrained resource envelope. In addition, the CBG will aim to curb inflation to 5½ percent by the end of the year, while restoring gross international reserves to 4.9 months of imports of goods and services.[5]

- The government has targeted a surplus in the basic fiscal balance of GMD 5 million during 2010:Q4;

- The CBG has targeted to reduce reserve money growth to 15 percent by end-year;

- Official net international reserves is targeted at USD 125 million as at end-December; and

[5] The CBG will achieve its goal of 5 months of import coverage by the end of 2011:Q1.

- Net domestic assets of the CBG is targeted at no more than GMD 1,597 million as at end-December, using the TMU exchange rate of GMD 22 per USD.

XII. Economic Outlook and Policy Agenda

17. The policy framework in 2011 aims to strengthen the macroeconomic foundation needed to further enhance the enabling environment for rapid and sustainable economic growth and poverty reduction. In this regard, real GDP is projected to grow by 5½ percent in 2011 and inflation to fall to 5 percent by the end of the year. The current account deficit is projected at 11.4 percent of GDP, reflecting the widening trade balance. Gross official reserves are projected at USD 178 million, equivalent to 5 months of imports of goods and services. A principal goal of the policy framework is to ease the domestic debt burden by minimizing the Government's domestic financing needs. This would ease pressure on interest rates and eventually generate savings that could be used for other priority expenditures. Lower interest rates would also make credit to the private sector more affordable and, with less crowding out by government borrowing, more accessible. Key to achieving these objectives will be continued fiscal restraint and greater predictability of government operations. The policy framework includes measures to further enhance the effectiveness and value-for-money of government programs, improve liquidity management, and strengthen the financial sector.

Fiscal policy in 2011

18. Fiscal policy for 2011 will be anchored on achieving a significant reduction in domestic debt relative to GDP by limiting net domestic financing to GMD 120 million (or 0.4 percent of GDP). Government revenues are projected to grow by 10.4 percent, roughly in line with nominal GDP growth, to GMD 4,590 million (or 14.9 percent of GDP), of which GMD 4,069 million would be collected from taxes. Project grants and loans are projected to amount to GMD 983 million and GMD 834 million, respectively, while amortization on external debt would be GMD 506 million. This yields a relatively tight budget constraint, where total government expenditures would be limited to GMD 6,119 million (or 19.9 percent of GDP).

19. To mobilize revenues, the Government has included the following measures in the budget proposal submitted to the National Assembly on November 29, 2010:

- The Government has proposed to reform the fuel price formula. This entailed:
    - replacing the Flumara by a specific excise tax of GMD 5.70 per liter on petrol, GMD 4.71 per liter on diesel and GMD -3.93 per liter on kerosene and pre-mix;
    - applying the general sales tax rate of 15 percent to all petroleum-based fuels;
    - adjusting retail prices on the 15th day of each month, beginning in January 2011, to the three-month moving average to allow a smooth pass-through of changes in

world fuel prices and the exchange rate. During the start-up phase of the formula, the monthly change in prices will be capped at 2 Dalasi/liter;

- integrating the processing fee and the ECOWAS levy (premix only) in the price formula and revise the base for calculating the sales tax to be consistent with the provisions of the 2004 Income Tax and Sales Tax Act.[6]

- The GRA will collect all excise taxes on domestically produced goods as stipulated in the May 2010 Customs and Excise Act. These collections were initiated December 1, 2010;

- In preparation for the introduction of a VAT by 2013, a VAT Committee led by GRA has been tasked to analyze VAT structures and design an action plan, which will be broadly aligned with the recommendations provided by the April-May 2010 FAD TA mission. Key steps in the run-up to the introduction of the VAT include: submission to cabinet of the VAT design features (i.e., rate, exemptions, threshold); completion of a draft VAT Law; and submission of the VAT bill to the National Assembly for approval with sufficient lead time to ensure a smooth transition to the VAT;

- To improve compliance and widen the corporate tax net, the MoF will simplify the record-keeping obligations for small and medium size tax payers in 2011, while limiting the informal sector tax to very small businesses with an annual turnover below GMD 100,000 and review the sectoral/occupational lump sum rates. Businesses with an annual turnover above this threshold but below the intended VAT threshold of GMD 1.5-2 million will be taxed based on turnover, using simplified tax records (e.g. cash journals) and applying a set of predetermined profit to turnover ratios, while those above the VAT threshold will be taxed based on profit. Provided that compliance will consequently improve, the existing alternative turnover-based method of determining minimum income tax and capital gains tax will be eliminated altogether;

- With a view toward reducing the multiplicity of taxes and fostering compliance, the authorities will make an assessment of the efficiency of taxes that generate low revenues streams;

- Other measures include: collect withholding on interest; introduce import withholding tax; exploit full potential of property taxation to fund local government (to facilitate the elimination of nuisance taxes that are levied at a lower level of government); facilitate tax revenue collection through commercial banks; bring all

[6] Accordingly, the import value for sales tax purposes of petroleum fuels comprises their full landed costs, inclusive of import duty, processing fees, and excise tax. The dealer margin has been excluded. For premix, it now includes the ECOWAS levy.

types of capital income/gains in the tax net and consider revising the law to fully adopt a dual income tax system; assess revenue and distributional implications of alternative personal income tax schemes; etc.

20. The program of tax reform will be accompanied by improvements in tax payer services, including outreach activities and the establishment of a tax and customs tribunal by January 2011.

21. The 2011 budget envisages tight expenditure ceilings. This includes:

- The wage bill of GMD 1,672 million which accommodates amongst others new hiring in social sectors, of which 683 teachers and 249 health workers. However, the stepwise increase in civil servants' pay as part of the Civil Service Reform Program rise in wages has been postponed;

- The Government will continue to allocate at least 20 percent of the government's own revenues to priority sectors for fighting poverty that have been identified in PRSP II. At the same time, the Government is committed to step up expenditures on agriculture from 3 percent of the budget in 2010 to 6 percent of the budget in 2011. In addition, to satisfy the Education For All/Fast-Track Initiative criterion (EFA/FTI), current expenditures on education will account for nearly 20 percent of total current expenditures;

- A contingency of GMD 11.5 million for the possible movements of embassy staff.

22. The Gambia Radio and Television Service (GRTS) will cover its own current expenditures. With the completion of the infrastructure for the GRTS satellite link in 2010, any further capital expenditures for GRTS in 2011 will be matched by equivalent savings or additional revenues.

23. Given the tight spending room, it is critical that Government spending is highly effective and achieves value-for-money. The ongoing PFM reform, which was further elaborated in the comprehensive PFM reform strategy adopted by Government in February 2010, is expected to yield significant advances in this regard. Key areas of the PFM reform to be implemented in 2011 include:

- Toward full implementation of the Integrated Financial Management and Information System (IFMIS) by 2013, it will be fully rolled out to all 22 ministries and spending agencies by end-February 2011;

- To achieve the timely implementation of the IFMIS interface with the CBG by March 2012, which will ensure that government spending does not exceed available resources, the MoF and CBG will agree on the technical specifications for interfacing IFMIS with the national payments system by December 2010;

- An internal Medium-Term Expenditure Framework (MTEF) will be completed in 2011, followed by a pilot in at least 2 line ministries in preparation for the 2012 budget.

24. Although the Gambia is still classified as being at high risk of debt distress, the Government has made significant progress with its debt management capabilities, which is expected to eventually improve the country's risk rating. The Government will continue to seek grants and concessional loans to finance its infrastructure investment plans. It will also explore productive opportunities for public-private partnerships. The Government will continue to conduct regular debt sustainability analysis, in consultation with the IMF and World Bank, to ensure that all debt indicators will fall and remain below their corresponding thresholds.

Monetary policy

25. Monetary policy will continue to focus on containing annual inflation at or below 5 percent. To this end, the CBG will target broad money growth at about 13 percent during 2011 by limiting reserve money growth to 11 percent. The Government's reduced use of domestic financing, and consequent easing in T-bill yields, is expected to increase private sector credit growth. Credit to the private sector is projected to grow by about 25 percent in 2011. In light of the CBG's loss of gross international reserves in the course of 2010, the CBG will have to rebuild its reserves in early 2011 to ensure that the reserves are adequate to cover 5 months of imports of goods and services.

26. Improving the predictability of liquidity management will enable commercial banks and other investors in government securities to plan and manage better their portfolios. With the continued regular meetings of the Interagency Committee, liquidity forecasting should improve to the point where the CBG would be able to announce auction sizes one to two months in advance. The Interagency Committee will provide minutes of its meetings to the Minister of Finance and the Governor of the CBG. The establishment of the IFMIS interface at the CBG will further improve liquidity forecasting. During 2011, the CBG will develop instruments for daily liquidity management. Such innovations would help to increase competition in the auctions, which would help lower interest rates.

Financial sector supervision

27. In light of losses incurred in 2009 that eroded the capital of banks and a tightening of asset classification rules, the increase in the minimum capital requirement to GMD 150 million by end-December 2010 and GMD 200 million by end-December 2012 will help strengthen the banking system. The CBG will not grant requests for forbearance. Banks that do not meet the higher statutory capital requirement by end-December risk their license being revoked in accordance with the Banking Act 2009. To mitigate the systemic risks arising from revoking banks' licenses that may cause ripple effects in the Gambian banking sector, the CBG designed a strategy for closing banks in November 2010.

28. The Credit Reference Bureau (CRB) that became operational in August 2009 still faces some start-up problems. In this regard, the CBG plans to raise the frequency of borrower status updates to reflect accurately outstanding credit balances. Likewise, the Tax Identification Number (TIN) will be linked to borrowers' National IDs, which would reduce misreporting. The CBG is working to acquire the Electronic Financial Analysis and Surveillance (e-FASS) software. This will help facilitate accurate and timely submission of statutory returns electronically.

29. In the face of capacity constraints resulting from the increase in the number of banks operating in The Gambia, the CBG is stepping up efforts to strengthen supervision.

- To strengthen its supervisory capacity, the CBG will explore additional hiring if the need arises;

- Subject to available funding, the CBG plans to introduce an IT platform automating the processing of regulatory returns and off-site supervisory analyses (e.g., financial ratio and peer group analyses), which would lower staff's workload by an estimated 10-20 percent;

- Going forward, the CBG intends to enhance its macro-prudential analysis capacity that will allow it to more accurately assess financial stability risks arising from the macroeconomic environment as well as from within the financial sector. Given capacity constraints, the CBG seeks IMF technical assistance on stress testing;

- The establishment of a more efficient payments system infrastructure, including a Real Time Gross Settlements System (RTGS), an automated cheque clearing system and a National Switch, is on track;

- Finally, in the medium term, the CBG intends to migrate from a hybrid (compliance and risk-based) to a fully risk-based supervisory framework that would help prioritize stretched supervisory resources to identified areas of concern. This, however, is not an immediate priority, as it risks draining much-needed resources at a time that the banking sector is facing headwinds.

Exchange rate policy

30. The CBG will continue to maintain a floating exchange rate policy, intervening in the market only to maintain orderly market conditions. If necessary, the CBG may purchase foreign exchange to meet its international reserves target. Allowing the Dalasi to reflect market conditions will continue to help the Gambian economy to adjust to external shocks that inevitably impact small open economies.

Accelerating Growth and Employment

31. The Government is committed to reducing poverty and lifting The Gambia up to the ranks of middle income countries. Under the broad strategy of *Vision 2020*, the Government has endeavored to implement its *Poverty Reduction Strategy Papers I and II* with some success, even though donor support has been limited. Earlier this year, the *Millennium Development Goals Report Card* published by the U.K. Overseas Development Institute placed The Gambia in the top five African countries making progress toward achieving the MDG targets. But even greater efforts are needed to reduce poverty and create opportunities for the Gambian people. In this context, the government has begun to prepare the *Program for Accelerated Growth and Employment (PAGE)*, which would succeed the current *PRSP II* beginning in 2012.

32. The *PAGE* will call for a stepping-up of infrastructure investment as part of the strategy to significantly increase economic growth rates in The Gambia. The Ministry of Economic Planning and Industrial Development (MEPID) has been tasked with the responsibility to assess the quality of the investment plans of line ministries and parastatals to ensure that these investment efforts yield dividends for the Gambian people. Although the Government is still in the early stages of preparing the *PAGE*, it is clear that substantial financial resources will be needed to implement its medium-term investment plans. Looking ahead, the Government seeks to generate such resources through a multi-pronged approach, including savings from reduced interest costs on domestic debt, increasing access to external financing with improved debt management and PFM reforms, and harnessing private sector participation in viable sectors. The Government will work closely with World Bank staff to ensure that efforts to engage the private sector in infrastructure development are transparent and productive.

33. As demonstrated in a number of countries, telecommunications is a key sector where private participation has succeeded to strengthen infrastructure. The rapid expansion of the mobile telephone companies in The Gambia is a prime example. As reported to IMF staff in December 2009, the Government will pursue further private participation in the telecom sector with the re-privatization of the government-owned mobile phone company (GAMCEL). In consultation with World Bank staff, the Government is looking into various options for private sector participation in the financing and operation of the ACE project

34. The Government will continue to explore other avenues for private participation in infrastructure development and will take steps to strengthen the relevant institutional frameworks and conduct sector strategy studies.

Economic statistics

35. Improving the quality of national statistics is a key component of the overall economic development program for The Gambia. To that effect, line ministries will contribute to the development of sectoral statistics. Policy and research units in the line ministries will cooperate closely with and submit all necessary data to the Gambia Bureau of Statistics (GBoS) in a timely manner. GBoS will set a schedule for publishing economic statistics and will aim to deliver timely information on economic performance for policy makers and the general public.

XIII. Monitoring the ECF-Supported Program

36. The program will continue to be monitored based on agreed quantitative targets and performance criteria (see Table 1), structural benchmarks (Table 2), and program reviews. The quantitative financial targets for end-December 2010 are performance criteria. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU). The only change relative to the sixth review's TMU is fixing the cross exchange rates at which foreign assets and liabilities will be converted into U.S. dollars for the calculation of the net usable international reserves of the CBG.

37. For Executive Directors' consideration in discussing the seventh review of the ECF, remedial actions have been taken to correct the fiscal slippage incurred at end-March 2010. Corrective actions include: (i) realization of a small surplus in the basic fiscal balance in the third quarter; (ii) implementation of a mechanism for regular (quarterly) fuel price adjustments that allow sufficient pass-through of world prices to stabilize tax revenues; and (iii) comprehensive coverage in the 2011 budget proposal, including priority expenditures and directives that have been responsible for past spending overruns.

38. To ensure effective monitoring of program implementation, the ECF Monitoring Committee, chaired by the Minister of Finance will continue to meet regularly to review performance under the program. It will also ensure that data are reported to the IMF as per the schedule agreed in the TMU and will provide any other information deemed necessary or requested by IMF staff in order to monitor the program. The committee will also take remedial actions if there are gaps or delays in reporting reliable statistics.

Table 1. Quantitative Performance Criteria and Indicative Targets, End-December 2006 to End-December 2010

	2006	2007		2008		2009		2010						
	End-Dec.	End-Dec.[1]		End-Dec.		End-Dec.		End-Mar.		End-Jun.		End-Sep.		End-Dec.
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Est.	Prog.
Performance criteria [2]	(Stock)	(Cumulative change from end-December 2006)												
		(Millions of dalasis)												
Net domestic assets of the central bank (ceiling)	38.7	504.5		-97.0		914.5		767.3		638.6		756.1		1,301.6
Adjusted for privatization proceeds and budget support[3]		262.5	-270.4	46.0	590.3	917.3	521.3	767.3	695.9	809.7	1255.0	1012.8	1167.0	
Basic balance (floor)[4]	...	659.4		859.3		685.6		204.6		288.6		266.8		2.1
Adjusted for budget support		659.4	613.6	859.3	480.4	685.6	23.6	204.6	116.2	288.6	-4.6	266.8	-2.9	
New external payments arrears of the central government (ceiling)[5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		(Millions of U.S. dollars)												
Net usable international reserves (floor)	94.9	12.3		36.5		-13.7		50.7		53.5		47.3		41.8
Adjusted for privatization proceeds and budget support[6]		23.3	32.0	30.0	1.3	-13.6	54.8	50.7	50.6	45.7	33.5	35.6	32.0	
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling)[7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external public debt with original maturity of one year or less (ceiling)[8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets		(Millions of dalasis)												
Domestic budgetary arrears[9]	561.5	-440.2	-369.5	-561.5	-561.5	-531.3	-531.3	-561.5	-561.5	-561.5	-561.5	-561.5	-561.5	-561.5
		(Millions of U.S. dollars)												
Net present value of new contracted external debt (cumulative ceiling)[10]		4.2	0.0	31.7	30.2	45.6		…		…		…		…
Memorandum item:														
Program exchange rate (D/$)		22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Privatization proceeds ($ millions)	…	17.5	28.5	35.0	28.5	29.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9
Privatization proceeds (D millions at program exchange rate)	…	385.0	627.0	770.0	627.0	657.8	634.7	634.7	634.7	634.7	634.7	634.7	634.7	634.7
Expenditure from privatization receipts (D millions)	…	70.0	158.6	612.0	612.0	657.8	634.7	634.7	634.7	634.7	634.7	634.7	634.7	634.7
Budget support grants ($ million)		0.0	0.0	0.0	0.0	11.5	11.5	11.5	11.5	19.3	11.5	23.2	11.5	23.2
Budget support grants (D millions at program exchange rate)		0.0	0.0	0.0	0.0	253.0	253.0	253.0	253.0	424.1	253.0	509.7	253.0	509.7
SDR allocation (SDR millions)						24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7
SDR allocation (dalasi at program exchange rate)						859.2	859.2	859.2	859.2	859.2	859.2	859.2	859.2	859.2

Source: Gambian authorities.

[1] MDRI debt relief took place in the fourth quarter of 2007.
[2] March 2010, September 2010, and December 2010 are performance criteria; December 2007, December 2008, December 2009, and June 2010 are indicative targets.
[3] Adjusted upward (downward) by the dalasi equivalent of the extent to which actual receipts fall short of (exceed) projected level of privatization receipts and budget support grants.
[4] Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.
Adjusted downward by the dalasi equivalent of the amount of external budget support in excess of the projected levels up to a cumulative maximum of US$10 million in 2009 and 2010.
[5] To be applied on a continuous basis.
[6] Adjusted upward (downward) by the extent to which actual receipts exceed (fall short of) projected level of privatization receipts and budget support grants.
[7] External debt contracted or guaranteed other than that with a grant element equivalent to 45 percent or more, calculated using a discount rate based on the Organization for Economic Corporation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.
[8] Excluding normal import-related credits.
[9] Actual domestic budgetary arrears have been revised upwards for December 2007 and March 2008 to exclude loans that were initially included in arrears. Arrears for March 2009 were revised upwards to account for new arrears owed to the National Water and Electricity Corporation (NAWEC).
[10] Cumulative from October 1, 2007.

Table 2. The Gambia: Status of Structural Benchmarks, January-December 2010

Measure	Target date	Status
Public financial management and accountability		
1. Establish an internal audit unit at the Ministry of Finance and Economic Affairs and hire core staff.	End-June 2010	Met.
Monetary policy		
2. Adopt a MOU that ensures the regular flow of government revenue and expenditure data to the T-bill committee.	End-Mar 2010	Met.
Statistics		
3. Improve GDP estimates by developing better indicators of subcomponents (e.g. wholesale and retail trade).	End-Mar 2010	Partially met. Some improvements were completed, but a number of data quality and integrity issues remain unresolved.
4. Publish quarterly balance of payments statistics, with a one quarter lag	(i) End-March 2010 (2009 Q4 data)	Met.
	(ii) End-June 2010 (2010 Q1 data)	Met.
	(iii) End-Sept. 2010 (2010 Q2 data)	Met.
	(iv) End-Dec. 2010 (2010 Q3 data)	

Table 3. The Gambia: Structural Benchmarks

Measure	Target date
Tax reform	
1. Announce the revised fuel pricing formula in the 2011 budget speech to the National Assembly.	End-Dec. 2010
Public financial management and accountability	
2. Agree on the technical specifications for interfacing IFMIS with the national payments system.	End-Dec. 2010
Statistics	
3. Publish quarterly balance of payments statistics, with a one quarter lag.	End-Dec. 2010

ATTACHMENT II

THE GAMBIA

TECHNICAL MEMORANDUM OF UNDERSTANDING

I. INTRODUCTION

1. This memorandum sets out the understandings between the Gambian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of quantitative performance criteria, indicative targets, structural performance criteria, and structural benchmarks that will be used to monitor the Poverty Reduction and Growth Facility (ECF)-supported program covering the period of 2007–10. It also sets out the related reporting requirements and describes the adjusters that will be applied to certain quantitative performance criteria of the program.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Assets of the Central Bank

2. **Definition:** The ***net domestic assets*** of the CBG are defined as the difference between reserve money and the net foreign assets of the CBG. Reserve money is defined as the sum of currency issued by the CBG (i.e., currency in circulation) and the deposits of commercial banks at the CBG. Net foreign assets are defined as foreign assets minus foreign liabilities. Foreign assets and foreign liabilities are defined as claims on nonresidents and liabilities to nonresidents, respectively.

3. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted first into U.S. dollars at the prevailing cross-rates and then converted into dalasi using the program exchange rate of D22/US$. This is an accounting exchange rate only and should not be construed as a projection.

4. **Adjuster:** The net domestic assets of the CBG will be adjusted upward (downward) by the dalasi equivalent of the extent to which actual privatization receipts fall short of (exceed) the programmed levels specified in the budget.

5. **Adjuster:** The net domestic assets of the CBG will be adjusted upward (downward) by the dalasi equivalent of the extent to which actual budget support receipts fall short of (exceed) the programmed levels specified in the budget.

6. **Supporting material:** Net domestic assets of the central bank will be transmitted as part of the balance sheet of the CBG (compiled based on the TMU rate) on a monthly basis

within four weeks of the end of each month. For analytical purposes, the balance sheet of the CBG compiled on a current-rate basis will also be submitted.

7. **Supporting material:** The CBG will report data on privatization receipts in the currency it is received in as well as equivalent amounts in U.S. dollars and in dalasis on a monthly basis within two weeks of the end of the month. The Ministry of Finance and Economic Affairs (MOFEA) will report data on a monthly basis within two weeks of the end of the month on expenditures made from the privatization receipts.

B. Basic Balance of the Central Government

8. **Definition:** The basic balance of the central government is defined as revenue (tax and nontax) minus total expenditure and net lending, excluding externally financed capital expenditure. Central government excludes local and regional governments and public enterprises.

9. **Adjuster:** The basic balance will be adjusted downwards by the dalasi equivalent of the amount of external budget support in excess of the projected levels up to a cumulative maximum of US$10 million in 2009 and 2010.

10. **Supporting material:** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 30 below.

C. New External Payments Arrears of the Central Government

11. **Definition:** External payments arrears are defined as the stock of external arrears on loans contracted or guaranteed by the central government, except on debts subject to rescheduling or a stock of debt operation. Debts subject to rescheduling include debts covered under traditional mechanisms (bilateral creditors, such as the Paris Club members) or HIPC. External payments arrears occur when undisputed interest and amortization payments on the above-referenced loans are not made within the terms of the debt contract or in conformity with the terms for interim relief provided under the enhanced HIPC Initiative. This performance criterion will be assessed on a continuous basis.

12. **Supporting material:** An accounting of nonreschedulable external arrears (if any) by creditor countries, with detailed explanations, will be transmitted on a monthly basis within four weeks of the end of each month. This accounting would include, separately, arrears owed by the central government and other public sector entities to Paris Club and non-Paris-Club creditors.

D. Net Usable International Reserves of the Central Bank of The Gambia

13. **Definition:** ***Net usable international reserves (NIR)*** of the CBG are defined as the difference between usable reserve assets and reserve liabilities. ***Usable reserve assets*** are

readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBG holdings of SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the IMF. Excluded are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals, assets in nonconvertible currencies, and illiquid assets (including capital shares in international organizations). ***Reserve liabilities*** are all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF.

14. For program monitoring purposes, in the calculation of the net usable international reserves of the CBG, foreign assets and liabilities will be converted into U.S. dollars at the following exchange rates: 1.365 USD/EUR, 1.591 USD/GBP, 1.028 USD/CHF, 1.556 USD/SDR. Foreign assets and liabilities denominated in other currencies will be converted into U.S. dollars at the prevailing end-of-period market exchange rates for September 2010. These are accounting exchange rates only and should not be construed as projections.

15. **Adjuster:** Net usable international reserves of the CBG will be adjusted upward (downward) by the extent to which actual privatization receipts exceed (fall short of) the programmed level specified in the budget.

16. **Adjuster:** Net usable international reserves of the CBG will be adjusted upward (downward) by the extent to which actual budget support receipts exceed (fall short of) the programmed level specified in the budget.

17. **Adjuster:** In case of an allocation of SDRs by the IMF, the net usable international reserves of the CBG will be adjusted upward by the amount of the SDR allocation.

18. **Supporting material:** End-month data on net usable international reserves of the CBG will be transmitted within seven days of the end of each month. The CBG will identify the U.S. dollar equivalent of privatization receipts within net usable international reserves as a memorandum item.

E. New Nonconcessional Debt Contracted or Guaranteed by the Central Government with Original Maturity of More Than one Year

19. **Definition:** This target refers to new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 3, 1979 (Decision No. 6230–(79/140), as amended by Decision No. 14415–(09/91), but also to commitments contracted or guaranteed for which value has not been received. Excluded from

this target are loans or purchases from the IMF and debts with a grant element of at least 45 percent.[1]

20. **Supporting material:** A comprehensive record, including a loan-by-loan accounting of all new concessional and nonconcessional debt contracted or guaranteed by the central government with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter. Nonconcessional external debt over one year includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms.

F. Outstanding Stock of External Public Debt with Original Maturity of One Year or Less

21. **Definition**: This target refers to the stock of outstanding external public sector debt with original maturity of one year or less, owed or guaranteed by the central government.[2] Public sector consists of the central and regional governments and other public agencies, including the CBG. Excluded from this target are normal import-related credits.

22. **Supporting material:** A comprehensive record of all external debt with original maturity of less than one year owed or contracted by the public sector, with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter.

III. Quantitative Indicative Targets

A. Domestic Budgetary Arrears

23. **Definition:** Domestic budgetary arrears are defined as the sum of all bills that have been received by a central government spending unit or line ministry under the recurrent expenditure budget (including rents and utilities) or the development expenditure budget, and for which payment has not been made within 30 days. Arrears can be cleared in cash or through debt swaps.

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[1] To be considered concessional in IMF arrangements, a loan should have a grant element of at least 35 percent, calculated on the basis of the commercial interest reference rates (CIRR) and following the methodology set out in the staff paper on Limits on External Debt or Borrowing in Fund Arrangements – Proposed Change in Implementation of the Revised Guidelines approved by the IMF Executive Board on April 15, 1996.

[2] The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 3, 1979 (Decision No. 6230–(79/140), as amended by Decision No. 14415–(09/91).

24. **Supporting material:** A comprehensive record of all domestic budgetary arrears, with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter.

B. Net Present Value of New Contracted External Debt

25. **Definition:** The net present value (NPV) of new external debt contracted or guaranteed by the government from October 2007 onward is calculated by discounting the future stream of payments of debt service due by the country-specific commercial interest reference rates (CIRRs) as published by the Organization for Economic Cooperation and Development (OECD). The new external debt will be measured by the U.S. dollar nominal sum of all loan agreements that have been contracted (ratified by parliament). Disbursed debt will be converted to U.S. dollars, based on prevailing WEO test date exchange rates; for loans contracted but not yet disbursed, the profile disbursement will be measured at the actual exchange rate at the test date, based on the projected drawdown consistent with the medium-term fiscal framework as discussed with the Fund staff.

26. **Supporting material:**. Data on the NPV of the stock of outstanding external debt contracted or guaranteed by the government since October 2007 will be provided on a monthly basis within five weeks of the end of each month.

IV. Structural Performance Criteria and Benchmarks

A. Pro-Forma Financial Statements

27. The CBG shall prepare pro-forma financial statements based on the International Financial Reporting Standards (IFRS) for the 2008 financial year by end-June 2009. The pro-forma financial statement shall include IFRS-required disclosures and balances valued in accordance with the IFRS and reviewed by external auditors.

B. Credit Reference Bureau

28. The Bureau is deemed operational when it is staffed, begins compiling a database on commercial bank customers, and commercial banks are able to share information from the database. The legal basis for sharing such information should be formalized by amending Section 60 of the Financial Institutions Act (2003).

C. Quarterly Balance of Payments Statistics

29. **Supporting material**: Quarterly balance of payments data transmitted to the IMF with a one quarter lag.

V. Other Data Requirements and Reporting Standards

30. In addition to providing the data needed to monitor program implementation in relation to the program's performance criteria, indicative targets, and benchmarks, as set out above, the authorities will transmit the following data within the time frame specified below:

A. Prices

31. The monthly disaggregated consumer price index, including weights for each major category, with August 2004 = 100, will be transmitted within four weeks of the end of each month.

B. Government Accounts Data

32. A monthly consolidated central government budget report (i.e., the analytical table) on budget execution during the month and cumulatively from the beginning of the year, will be transmitted to the IMF within four weeks of the end of the month. The report will comprise: (i) revenue data by major item, including tax (direct tax, taxes on domestic goods and services, and taxes on international trade) and nontax; (ii) external grants by type (e.g., project, program); (iii) details of recurrent expenditure (including data on wages and salaries, interest payments, and other charges); (iv) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditures from the Gambia Local Fund, and net lending); (v) the overall balance and the basic balance (defined in paragraph 7); and (vi) details of budget financing (including net domestic borrowing and its gross components, external grants, net external borrowing and its gross components, utilization of privatization proceeds, and arrears).

33. Net domestic borrowing by the central government over a given period is defined as the difference between the net domestic debt at the end of the period and the net domestic debt at the beginning of the period. The central government's net domestic debt is defined as: claims on the central government by the banking system minus deposits of the central government with the banking system plus claims by the nonbanking sector, including public enterprises. Central government excludes local and regional governments and public enterprises. The banking system comprises the CBG and commercial banks.

C. Poverty Reducing Expenditures

34. A monthly report on poverty-reducing expenditures, by functional and economic classifications, will be transmitted within four weeks of the end of each month. Poverty-reducing expenditures comprise line items in the budget that have been specifically tagged as PRSP-related. For 2007, they include expenditure on the construction of trunk roads.

D. Monetary Sector Data

35. The balance sheets of the CBG, prepared on the basis of current and program exchange rates, will be transmitted on a monthly basis to the IMF within four weeks of the end of each month. The balance sheet should explicitly identify all claims on, and liabilities to, the government. Claims include overdrafts, holdings of treasury bills, interest and noninterest-bearing government bonds, advances to the government in foreign currency, and other claims. Liabilities include balances in the treasury main, treasury expenditure, consolidated revenue fund and other revenue accounts, treasury bill special deposit, privatization, special projects, foreign projects, and other deposit accounts.

36. The consolidated balance sheet of the commercial banks and a monetary survey (i.e., consolidation of the accounts of the CBG and the commercial banks), including foreign currency deposits held by residents of The Gambia with commercial banks, will be transmitted within four weeks of the end of each month.

37. The CBG will also forward, within four weeks of the end of each month, data on banks' reserves held at the CBG to meet statutory reserve requirements during the last week of each month (broken down by total reserves, and excess reserves or deficits). Data will be provided for each commercial bank as well as for the industry as a whole.

38. The CBG will also forward within four weeks of the end of each month, data on government borrowing from the CBG as defined in the CBG Act 2005. The data shall indicate the limit on government borrowing from the CBG based on the government's tax revenues in the preceding year.

39. The CBG will also forward within four weeks of the end of each month, data on transactions in official reserves, including daily data on foreign exchange intervention. Further, the CBG will forward the foreign exchange liquidity forecast following each meeting of the Foreign Reserves Management Committee.

E. Treasury Bills

40. Weekly data on the amount offered, issued, net issuance, over/under subscription, and yields (interest rates) of the various instruments will be transmitted on a monthly basis within seven days of the end of the month. Data on treasury bills outstanding (including information on the distribution by bank and nonbank holders) will be transmitted on a monthly basis within six weeks of the end of each month. The weekly Short-Term Liquidity Forecast will be transmitted following each meeting of the Treasury Bills Committee. The monthly Liquidity Management Report, reflecting the data as of the last working day of the month, will be transmitted within seven days after the end of each month.

F. External Sector Data

41. The following standards will be adhered to in reporting data on exchange rates: (i) the interbank market exchange rates, defined as the simple average of the weekly weighted average buying and selling rates, will be transmitted on a weekly basis within five business days of the end of the week; and (ii) the CBG's published monthly average and end-month exchange rates, including those for all currencies in which foreign assets and liabilities are denominated, will be transmitted within two weeks of the end of the month.

42. The CBG will also forward monthly data on volume of transactions (purchases, sales, and total) in the foreign exchange market by each major group of participants (CBG, commercial banks, and foreign exchange bureaus) in dalasis within two weeks of the end of the month.

G. CBG Report on Monetary Program Data

43. The CBG shall forward a report prepared by the Internal Audit Department verifying the accuracy of monetary data submitted to the IMF. The report shall be submitted within one quarter after each test date. The first test date for which the report to be prepared is September 2008.

INTERNATIONAL MONETARY FUND

THE GAMBIA

Seventh Review of the Arrangement Under the Extended Credit Facility, Request for Rephasing of the Eighth Review and Extension of the Arrangement, and Request for Waivers of Nonobservance of Performance Criteria—Informational Annex

Prepared by the African Department

December 20, 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 20.22 million (65.00 percent of quota) at end-October 2010.

The Gambia: Relations with the Fund
(As of October 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	29.59	95.14
Reserve position in Fund	1.54	4.96

SDR Department	SDR Million	% Allocation
Net cumulative allocation	29.77	100.00
Holdings	24.60	82.64

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	0.00	0.02	0.07	0.07	0.07
Total	0.00	0.02	0.27	1.07	2.18

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

Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date[2]	Dec. 11, 2000
Assistance committed (year-end 2000 NPV terms)[3]	
Total assistance (US$ million)	66.60
Of which: IMF assistance (US$ million)	2.30
SDR equivalent, million	1.80
Completion point date	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)

Delivery Date	Eligible Debt 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 importantly, 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–October 2010, the midpoint exchange rate in the interbank market was D29.34 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 2010 Article IV consultation (SM/10/188) on August 25, 2010.

Technical assistance

The Fund has been providing The Gambia with extensive technical assistance in macroeconomic, fiscal, and monetary areas, and in improving the compilation of macroeconomic statistics. Specific technical assistance projects since 2007 are the following:

Fiscal Affairs Department

August 2010	Peripatetic expert advised on VAT preparations.
June 2010	TA mission on public financial management (PFM).
April/May 2010	TA mission advised on improvements in revenue administration and provided input into the design of tax reforms.
April 2009	TA mission advised on measures to reform the tax system.
July 2008	Peripatetic regional advisor followed up on the work of the August/September 2007 FAD mission.
August/September 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.

Monetary and Capital Markets Department

March/April 2010	Technical expert advised the CBG on banking supervision.
January 2010	Technical expert advised on monetary operations and liquidity forecasting.
January 2009	Technical expert advised the CBG on banking supervision.
September 2007	Mission advised on improving the monetary policy framework and enhancing the effectiveness of the monetary, foreign exchange, and debt management operations for the CBG.
March/May 2007	Technical expert advised the CBG on banking supervision.
March/April 2007	Technical expert advised the CBG on strengthening its capacity in internal auditing.
January/February 2007	Technical expert advised the CBG on improving monetary operations.

Statistics Department

September 2010	DfID-funded short-term expert advised the authorities on improving the national accounts.
August/September 2010	DfID-funded TA mission advised the authorities on improving BOP and IIP statistics.
February 2010	TA mission advised on measures to improve monetary and financial statistics.

June 2008	Fourth visit of the DfID-funded TA mission assisted the authorities in improving the compilation of national accounts statistics, particularly in rebasing the GDP series and in calculating GDP by the expenditure approach, using the results from the 2004 Economic Census.
April/May 2008	Follow-up visit of a 2006 TA mission to assist the CBG in improving the compilation of monetary and financial statistics and in preparing the standardized report forms for reporting monetary data to the IMF.
March 2008	Third visit of the DfID-funded TA mission assisted the authorities in improving the compilation of national accounts statistics, particularly in rebasing the GDP series and in calculating GDP by the expenditure approach, using the results from the 2004 Economic Census.
October/November 2007	Second visit of the DfID-funded TA mission assisted the authorities in improving the compilation of national accounts statistics, particularly in rebasing the GDP series using the results from the 2004 Economic Census.
September 2007	A DfID-funded TA mission helped improve the compilation of balance of payments statistics.
August 2007	A DfID-funded TA mission assisted in improving the compilation of national accounts statistics, particularly in rebasing the GDP series using the results from the 2004 Economic Census.

Others

March/April 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 the reform.

Resident Representative

Mr. Meshack Tjirongo was appointed the Fund’s Resident Representative to The Gambia in January 2010.

Public Information Notice (PIN) No. 11/5
FOR IMMEDIATE RELEASE
January 13, 2011

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Discusses Updated Ex-Post Assessment of Longer-Term Program Engagement in The Gambia

On January 7, 2011, the Executive Board of the International Monetary Fund (IMF) discussed the updated Ex Post Assessment (EPA) of Longer-Term Program Engagement in The Gambia.

Background

The Gambia has been engaged with the IMF since the mid-1980s through a series of Fund-supported programs. A full EPA was conducted in 2005. The update focuses on the period 2006–10 and aims to identify The Gambia's policy challenges over the medium term and to distill lessons for future Fund involvement.

The report concludes that Fund engagement in the past five years helped maintain macroeconomic stability in the face of external shocks. Despite a deterioration in performance under the Extended Credit Facility arrangement since 2008, Fund engagement helped in anchoring the macroeconomic policy framework and signaling the donor community. A largely appropriate macroeconomic policy mix in turn helped the Gambian economy weather the food and fuel price shock in 2007–08 and the recent global financial crisis. Economic growth averaged close to 6 percent per year in 2005–09, and still recorded 5.6 percent in 2009 despite headwinds. Monetary policy has been effective in controlling inflation, which has come down to single-digit levels. Fiscal performance was initially on track to bring about the needed fiscal adjustment to lower real interest rates and create fiscal space, a key program objective, but worsened in the second half of the ECF arrangement.

The report further concludes that continued close Fund engagement will be critical to: (i) put fiscal policy on a sound footing; (ii) further advance the structural reform agenda; and (iii) catalyze donor assistance. It recommends that a new program should aim to sustain fiscal consolidation, supported by: (i) reforms to improve public financial management; (ii) the implementation of key measures to mobilize more revenues and address revenue volatility; and (iii) enhanced program ownership at all levels of government.

Executive Board Assessment

Executive Directors noted The Gambia's continued favorable economic performance in 2010. They welcomed the authorities' efforts to address the fiscal slippages incurred in the first half of last year and to adjust to a reduced overall resource envelope. Directors encouraged the authorities to maintain fiscal discipline and limit government's domestic borrowing. Stronger fiscal performance would be important to generate the necessary savings to help finance future infrastructure investment under the government's envisioned *Programme for Accelerated Growth and Employment*.

Directors welcomed the 2011 budget, focusing on revenue enhancement and limiting costly domestic borrowing, while making further progress toward poverty reduction. They underscored the importance of timely implementation of the new formula for regular fuel price adjustments, allowing greater pass-through of import prices, and the introduction of a VAT in the medium term. Directors welcomed the authorities' commitment to strengthen public financial management which will enhance fiscal discipline and better control government expenditures.

Directors welcomed the emphasis of monetary policy on maintaining low inflation. They highlighted the need for stronger coordination and information sharing between the Ministry of Finance and the Central Bank to improve liquidity management which would minimize uncertainty in the domestic money market and reduce the risk premium in interest rates. Directors also encouraged the authorities to make efforts to ensure central bank independence, by strictly observing statutory limits on credit to government. They noted that the flexible exchange rate policy has served the economy well, and a higher level of foreign exchange reserves would provide a cushion against external shocks.

Directors welcomed efforts to strengthen the soundness of the banking system. They also welcomed the authorities' enforcement of compliance with the new minimum capital requirements for commercial banks and endorsed the Central Bank's plans to build up its supervisory capacity.

Directors noted the conclusions and recommendations of the Ex Post Assessment update and generally agreed that Fund engagement with The Gambia has had a positive impact. A few Directors pointed to fiscal slippages from 2008 up to mid-2010, which curtailed the progress previously made in reducing the country's heavy debt burden, leaving the government with high interest payment obligations, especially on domestic debt. In general, Directors agreed that continued close Fund engagement, along with stronger program ownership and resolve by the authorities, would be critical for meeting the authorities' growth and poverty objectives.

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.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/2
FOR IMMEDIATE RELEASE
January 7, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Seventh Review Under The Gambia's Extended Credit Facility Arrangement and Approves US$ 3.56 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the seventh review of The Gambia's economic performance under a program supported by the Extended Credit Facility (ECF). The Board also approved waivers for the nonobservance of the end-March 2010 performance criteria on the floor on the basic balance and on the floor on the net usable international reserves of the Central Bank.

The Board's decision enables the immediate disbursement of an amount equivalent to SDR 2.3325 million (about US$ 3.56 million), bringing total disbursements under the ECF to The Gambia to an amount equivalent to SDR 22.55 million (about US$ 34.38 million).

At the conclusion of the Executive Board's discussion on The Gambia, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The Gambian economy has continued to perform well under the Extended Credit Facility, with growth set to remain at about 5½ to 6 percent a year, while inflation is kept in check. The authorities have taken measures to correct the fiscal slippages of the first half of last year and adjust to a reduced resource envelope.

"The 2011 budget will be anchored on limiting government's domestic borrowing to ease pressure on inflation, interest rates, and the exchange rate and to achieve substantial fiscal savings. To help implement this agenda, the authorities intend to stabilize revenue through the introduction of a new formula for fuel price adjustments that would allow for greater pass-through of movements in import prices. The authorities are also taking steps to ensure a smooth introduction of a VAT by January 2013. The budget includes allocations for poverty reducing expenditures, which could also help garner greater donor support.

"Key structural reforms will contribute to maintaining macroeconomic stability and strong growth. In particular, reforms in public financial management will enhance fiscal discipline and better control government expenditures. Steps to strengthen bank supervision will help to ensure stability in the financial sector," Mr. Portugal added.

Statement by Momodou B. Saho, Alternate Executive Director for The Gambia

January 4, 2011

Introduction

The Gambian authorities are appreciative of the Fund's continuous engagement and value their support under the Extended Credit Facility (ECF) arrangement. They also appreciate the candid exchange of views with staff during discussions for the 7th review of the ECF arrangement. The authorities agree broadly with the staff report.

Recent Economic Developments

The prudent implementation of the authorities' economic strategy has resulted in an impressive improvement in the country's economic and financial performance in recent years, thus laying the foundation for a sustainable expansion of output. As a result, real GDP growth averaged 5.9 percent between 2005 and 2009 while annual change in consumer prices averaged less than 5 percent. However, annual inflation accelerated to 6.2 percent in October 2010 largely due to the high food prices, depreciation of the Gambian currency and the increase in transportation cost. To contain inflationary pressures, the Central Bank of The Gambia (CBG) tightened monetary policy by increasing the policy rate by one percentage point to 15 percent. Growth in 2010 is estimated at 5.5 percent driven by good agricultural output.

Fiscal performance weakened in 2009 due to expenditure growth which offset the strong revenue collection. Performance was further constrained in 2010 by significant shortfalls in budget support from donors. In an effort to correct the fiscal imbalance, various measures were taken by the authorities in 2010 to raise additional revenues whilst restraining spending. The implementation of these measures helped reverse the fiscal slippage, resulting in the improvement of the basic balance from 1.8 percent of GDP in 2009 to 0.1 percent in the first three quarters of 2010.

On the external front, the year 2010 started with an improvement in the overall balance of payments situation as the external current account deficit (including official transfers) narrowed further in the first half of 2010, reflecting improved export performance and the decline in imports, as a result of increased domestic production of food crops. During the same period, tourism earnings and private remittances showed rising trends whilst foreign investment inflows have stabilized. The country's gross international reserves declined to 4.9 months of imports of goods and services in September 2010 from 6.0 months at end-2009, as a result of the CBG's sale of foreign currency to meet the rising cost of fuel imports.

Program Performance

My Gambian authorities have continued to demonstrate their strong commitment to implementing the policies outlined in the ECF-supported program, despite severe financial challenges. All quantitative performance criteria (PC) for end-March 2010 were observed, except for the floors on net useable international reserves and the cumulative basic fiscal balance. The floor on net useable international reserves was missed by a very small margin ($82,000), due largely to the unanticipated strengthening of the US dollar against other reserve currencies. To restore compliance with this target, the CBG will endeavor to build its stock of international reserves, going forward.

The expenditure overruns that offset the strong revenue performance in 2009, resulted in the underperformance of the cumulative basic fiscal balance by 0.3 percent of GDP in March 2010. Accordingly, my authorities initiated appropriate mitigating actions to increase revenue while, at the same time, containing non-priority expenditures. Retail prices of fuel were raised in June and December (cumulatively by 15.2 percent and 9.2 percent on petrol and diesel respectively) coupled with increases in excise taxes on imported alcohol and cigarettes. Going forward, the authorities will replace the current fuel pricing mechanism by a specific excise tax to allow the pass through of changes in world oil prices to domestic retail prices starting January 2011. Moreover, the 2011 budget which builds on the fiscal adjustments of 2010, intends to reduce government's borrowing requirements in order to decrease the debt burden and ease pressure on inflation, interest rates and the exchange rate.

On the basis of the above corrective actions my authorities request waivers for the two missed PCs. They also ask for the completion of the 7th review of the ECF. Furthermore, the government of The Gambia seeks the Board's approval of the proposed PCs for end-December 2010 and a short extension of the current ECF arrangement to end-March 2011.

Outlook and Policies Going Forward

The overriding policy objective of my authorities in 2011 and beyond is to consolidate the ongoing fiscal reforms and create the enabling environment for non-volatile growth, poverty reduction and the attainment of the Millennium Development Goals (MDGs). Against this backdrop, economic growth is estimated at 5.5 percent in 2011-13 and monetary policy will continue to focus on containing inflation to not more than 5 percent during the same period. The current account deficit (including official transfers) in percent of GDP is projected to narrow from 11.1 percent in 2010 to 10.1 percent and 9.8 percent in 2012 and 2013 respectively, reflecting the rebound in services and exports and continued buoyancy in remittances. Gross international reserves are projected to stabilize at about 5 months of imports of goods and services over the near to medium term. On the fiscal front, my authorities will continue to strengthen public financial management to ease the domestic debt burden and create fiscal space for the financing of the *Program for Accelerated Growth and Employment (PAGE)*. PAGE will succeed PRSP II beginning 2012 and will form the centerpiece of the authorities' medium term policy framework to increase growth while consolidating macroeconomic stability. To reduce poverty as well as achieve the MDGs, my authorities will continue to allocate at least 20 percent of budgeted expenditures to PRSP II priorities and those under PAGE from 2012. In this regard, it is worth mentioning that the Overseas Development Institute in a ranking of countries based on an aggregation of annual rate of progress on selected MDG indicators, placed The Gambia in the top five countries making absolute overall progress toward achieving the MDGs[1].

Fiscal policy

The principal objective of the 2011 budget and medium term fiscal policy is to align expenditures to priorities that best support the achievement of the PRSP II and MDGs as well as other activities that will stimulate economic growth and development. In this respect, my authorities will increase investment in agriculture, education, health, infrastructure and tourism. They will also intensify reforms in public financial management to ensure improved fiscal discipline as well as enhance quality of expenditure outcomes.

To address the root cause of fiscal slippages as well as support the planned investments, the new petroleum pricing formula will ensure a steady flow of revenues as the formula automatically adjusts itself to the movements in the world market prices of oil and the exchange rate. This will prevent fuel revenue losses and eliminate its distorting effect on government revenue. However, in order to reduce the impact of such movements, a smoothening element has been built into the formula to cap retail price changes based on a three month moving average.

In addition to the above, the authorities will introduce new tax measures premised on the need to generate additional resources not only to finance priority spending but also to reduce dependence on borrowing. Specifically, the Gambia Revenue Authority (GRA) will collect all excise taxes on domestically produced goods coupled with a new levy on private educational institutions and a flat tax rate of 15 percent on rental income on commercial properties. Furthermore, reforms at the GRA are continuing with an emphasis on improving its tax database, developing better internal controls, strengthening enforcement capacity and improving the utilization of information and communication technology. Government is also committed to the introduction of a value added tax (VAT) system in 2013. In preparation for the VAT, a committee led by the GRA has been put in place to analyze and design appropriate VAT structures, and develop an action plan to enable a successful implementation of VAT by the target date.

In response to the daunting challenges of the high demand for spending, my authorities will continue to freeze non-priority hiring in the public sector, restrict air travel to economy class for all civil servants and reduce monthly cash allocations to spending agencies. Other expenditure measures include the cancellation of the stepwise increase in civil servants' salaries and making Gambia Radio and Television Services responsible for its own current expenditures. Additionally, to avoid the need for a supplementary budget, going forward, the costs of the upcoming elections and relocation of embassy staff and other contingency expenditures were incorporated in the 2011 budget proposal. It is hoped that these measures will help improve fiscal discipline and keep the overall fiscal deficit within budget limits.

[1] *Millennium Development Goals Report Card: Measuring Progress Across Countries*, ODI, Sept. 2010

Monetary and Financial Sector Policies

The focus of monetary policy will remain on containing inflation in the low single digits and maintaining exchange rate stability. To this end, the CBG will continue to rely on open market operations to manage liquidity. Additionally, the renewed commitment of government to observing the limits of the law on central bank financing of government will further strengthen monetary policy. However, in spite of the current restrictive monetary policy stance of the CBG, it is expected that private sector credit, in particular, lending to SMEs will increase as government recourse to bank financing of the budget is reduced.

Going forward, my authorities will endeavor to enhance liquidity forecasting and management in order to provide greater predictability and competition in the treasury bills market. In this regard, the liquidity forecasting framework of the CBG will be strengthened and the interagency committee revitalized to enable the central bank to announce in advance T-bill auction sizes and maturity composition. In addition, the authorities plan to establish the Integrated Financial Management Information System (IFMIS) interface at the CBG to improve information sharing between the Ministry of Finance and the CBG.

Despite continued pressures on commercial banks' operational and funding costs which eroded their profitability, the banking system continues to exhibit signs of resilience evidenced by the growth in assets, capital and reserves. The average risk-weighted capital adequacy ratio remains well above the statutory requirement. However, non-performing loans as a ratio of gross loans deteriorated from 12.0 percent in December 2009 to 16.2 percent in September 2010, reflecting in part the reclassification of restructured loans as non-performing loans. Accordingly, banks have increased the provisioning for loan losses as required by CBG regulations.

In order to mitigate the impact of weak credit quality on banks' capital and improve the soundness of the banking industry, the CBG raised the minimum capital requirement of banks to D150 million for December 2010 and D200 million for December 2012. The latest assessment indicates that eight of the fourteen banks had already met the capital requirement of D150 million. Although the CBG is optimistic that all banks would observe the capital requirement, it has resolved not to grant requests for forbearance in cases of non-compliance. Consequently, to mitigate systemic risk that may arise from the revocation of banking licenses, the CBG formulated a strategy for closing banks in November 2010.

To mitigate capacity constraints resulting from the increase in the number of banks, the CBG is working to acquire software to facilitate accurate and timely submission of statutory returns electronically. Furthermore, to improve its macro-prudential analysis capacity with a view to more accurately assess financial stability risks emanating from the macroeconomic environment and from within the financial industry, the CBG recently recruited eight additional staff for the Financial Supervision Department and will continue to upgrade the technical skills of all staff of the Supervision Department. Moreover, The Gambia, in collaboration with other countries of the West African Monetary Zone, formed a supervisory college to enhance cross-border cooperation and information sharing among supervisors. In the medium term, the CBG plans to migrate from compliance and risk-based supervision to a fully risked-based supervisory framework that would help prioritize stretched supervisory resources to identified areas of concern.

Debt Management Policy

My authorities are committed to the careful management of both external and domestic debt to maintain external stability and create much needed fiscal space. To this end, they intend to promote a strategy of donor engagement and prudent borrowing to attain PRSP priorities as well as address the large infrastructural deficit without compromising debt sustainability. In this regard, my authorities will tap new borrowing from highly concessional windows and create the enabling environment to attract non-debt creating financial inflows. In addition, their debt management strategy will continue to ensure that the ratio of domestic debt to GDP is kept below 25 percent as well as develop a market for medium term government bonds. Furthermore, my authorities will continue to conduct debt sustainability analysis on the basis of the Fund-Bank framework to ensure that all debt indicators fall and remain below their corresponding thresholds. Also, in order to have continued prudent management of public debt, debt management capacity is being strengthened.

Structural Reforms

As part of my authorities' wider efforts to improve the strategic focus of expenditures on economic growth and poverty reduction, the government intends to embark on a major reform of the whole budgetary process. In this regard, the Ministry of Finance plans to move towards Performance Based Budgeting (PBB) in the coming years as well as to shift to Medium Term Expenditure Framework (MTEF). Under PBB and MTEF, each line ministry or budgetary agency will be required to provide a clear statement of objectives, programs and activities to be funded from the budget and achievement indicators over the medium term, clearly linking their proposed budget allocations to government policy objectives and service delivery output.

Given the human resource constraints within budgetary agencies, the introduction of PBB will be gradual and on a pilot basis starting in 2012. MTEF is intended to be introduced for the entire government budget during the same period. Detailed documents and guidelines on PBB, MTEF and strategic plan formulation will be prepared by the Ministries of Finance and Economic Planning and Industrial Development as part of the awareness and capacity building activities.

Furthermore, to consolidate the gains of improved public financial management, my authorities will, in 2011, complete the rollout of IFMIS to 36 sites. The network infrastructure and end-user equipment have been installed, tested and pre-commissioned for all the sites. To-date, 303 end users including 85 senior government officials have been trained in preparation for the implementation of the IFMIS at various ministries, departments and agencies.

Finally, my authorities have stepped up measures to further improve the performance of the financial sector, which is a necessary ingredient in creating conducive environment for private sector lead growth. Accordingly, the CBG is in the process of establishing a more efficient payment system infrastructure, including a Real Time Gross Settlement System, an automated check clearing system and a national switch.

Conclusion

In conclusion, I wish to reiterate my authorities' unwavering commitment to improve public financial management in order to maintain macroeconomic stability, broaden the economic base and reduce poverty. They appreciate the support from the Fund and the international community and count on the continuation of such support to alleviate the capacity and financial constraints that they face in the pursuit of their development objectives.