June 2012
IMF Country Report No.12/129

The Gambia: Request for a Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Staff Supplement; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for The Gambia

In the context of a request for a three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for a request for a three-year arrangement under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended April 23, 2012 with the Gambian officials on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 9, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A supplement containing an update to the Debt Sustainability Analysis
- A statement by the IMF Staff Representative
- A Press Release summarizing the views of the Executive Board as expressed during its May 25, 2012 discussion of the staff report that completed the request.
- A statement by the Executive Director for The Gambia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by The Gambian authorities.*
Memorandum of Economic and Financial Policies by the Gambian authorities*
Technical Memorandum of Understanding*
*Also included in the Staff Report

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

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INTERNATIONAL MONETARY FUND

THE GAMBIA

Request for a Three-Year Arrangement Under the Extended Credit Facility

Prepared by African Department

Approved by Roger Nord and Jan Kees Martijn

May 9, 2012

Discussions: The discussions were held in Banjul during February 22–March 6. The mission team comprised Mr. Dunn (head), Mr. Egoumé, Mr. Slavov (all AFR), and Mr. Kim (SPR), and was assisted by Mr. Tjirongo (resident representative) and Mr. Cham (local economist). The team met with Vice President Njie-Saidy, then-Minister of Finance and Economic Affairs Njie, Central Bank Governor Colley, and other senior officials, as well as representatives of the business community, commercial banks, nongovernmental organizations and The Gambia's development partners. Discussions were also held in Washington, DC during April 19–23 with the Gambian delegation to the Fund's Spring Meetings, headed by Minister of Finance and Economic Affairs Kolley.

ECF arrangement: The Gambian authorities are requesting a three-year arrangement under the Extended Credit Facility (ECF) in the amount of SDR 18.66 million (60 percent of quota), with an initial disbursement of SDR 9.33 million (30 percent of quota) upon approval of the arrangement by the Fund's Executive Board. The relatively low access is consistent with the authorities' gradual approach to the critical reform process. The large initial disbursement, however, would meet an acute balance of payments need arising from the recent crop failure due to drought. The ECF arrangement could help to catalyze support from development partners for The Gambia's new poverty reduction strategy, the *Programme for Accelerated Growth and Employment (PAGE)*. Over the medium term, the Gambian authorities seek to ease the government's heavy debt burden through fiscal adjustment, while implementing a strong economic reform agenda in support of the *PAGE*.

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EXECUTIVE SUMMARY

The Gambian economy performed well during the previous Fund arrangement, which expired at the end of March 2011; however, there were slippages under the program. During this time (2007-10), real GDP growth was robust and inflation was low-to-moderate, despite the global financial crisis and sharp food and fuel price shocks. Moreover, growth was inclusive and the incidence of poverty fell considerably. The fiscal deficit widened substantially in the latter years of the program, due to a steady erosion of revenues and large extrabudgetary spending. The program expired without completion of the final review, because of large fiscal slippages, which were financed mostly by costly domestic borrowing.

To stem the growing debt burden—particularly domestic debt—the government exercised fiscal restraint in 2011, despite election-year spending pressures. Using a strict cash-budgeting approach, large extrabudgetary expenditures were eliminated, while revenues stabilized relative to GDP. Still, government revenues fell short of budget targets, mainly on account of implicit fuel subsidies. In early 2012, sharply rising import prices led to a temporary increase in fuel subsidies, but these were reduced by sustained monthly adjustments in pump prices.

A severe drought resulted in a major crop failure in the 2011-12 agricultural season, **putting about one-fourth of the population at risk.** Initially, the government will bear much of the cost of relief efforts, notably imports of food, seeds, and fertilizer (costing US$23-28 million or 2½-3 percent of GDP). Having an ample stock of official international reserves, the central bank stands ready to provide foreign exchange and financing for emergency imports, which has been key to maintaining macroeconomic stability during the drought crisis.

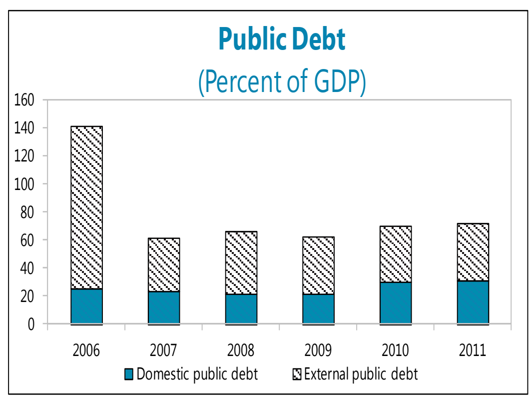
Over the medium term, The Gambia faces two overarching policy challenges: (i) fiscal adjustment to lower the cost and risks of domestic debt and (ii) implementation of the country's new poverty reduction strategy (*PAGE*) under tight financing constraints. The fiscal adjustment is anchored to a reduction of government's net domestic borrowing to ½ percent of GDP a year by 2014. Comprehensive tax policy, revenue administration, and public financial management reforms are underway to support fiscal adjustment. Introduction of a VAT in January 2013 a central element of the tax reform. The authorities have also committed to adjusting fuel prices to eliminate subsidies, albeit at a gradual pace. Fiscal savings from lower interest costs are expected to eventually help finance the *PAGE,* but additional assistance from development partners and private investment in infrastructure will also be needed. Establishing proper institutions and regulatory frameworks would be critical to ensure that such private sector participation will be productive.

The authorities are requesting a new three-year ECF arrangement, with a large initial disbursement, but relatively low access overall (60 percent of quota). The initial disbursement would support stability during the current drought crisis, while remaining disbursements would encourage fiscal adjustment and catalyze donor support for the *PAGE*. Staff recommends approval of the authorities' request for an ECF arrangement.

I. Background and Performance Under the Previous Fund Arrangement

1. **The Gambian economy performed well during the previous arrangement under the Extended Credit Facility (ECF), which expired at the end of March 2011 (Figure 1).** Despite the global financial crisis and severe commodity price shocks, real GDP growth averaged around 5½ percent a year during 2007-10, driven mainly by agriculture. Moreover, growth was inclusive, allowing for a considerable reduction in the incidence of poverty to 48½ percent of the population in 2010, down from 58 percent in 2003.[1] But some sectors relying on tourism and remittances were hit hard by the global crisis. Inflation ranged between 2½ and 7 percent (year-on-year) during 2007-10, as the Central Bank of The Gambia (CBG) generally maintained a restrained monetary stance. At times, this required extensive mopping up of liquidity generated by central bank financing of fiscal deficits. In addition, although the external current account deficit widened, official international reserves rose to a comfortable level, aided by the SDR allocation by the Fund in 2009.

2. **The government's fiscal deficit widened substantially between 2007 and 2010, resulting in program slippages and driving up domestic debt.** The period was marked by a steady decline in government revenues and, during the later years, episodes of large spending overruns. After peaking at nearly 17½ percent of GDP in 2007, revenues fell to just under 15 percent of GDP in 2010, as collections from all major taxes were eroded away. At the same time, expenditures (excluding donor financed projects) rose from about 14½ percent of GDP to 18 percent of GDP. Extrabudgetary expenditures, including realized contingent liabilities, were major factors behind surges in government spending in 2009 and 2010. Large fiscal deficits, which led to program slippages during this period (Box 1), were mostly financed with domestic borrowing.



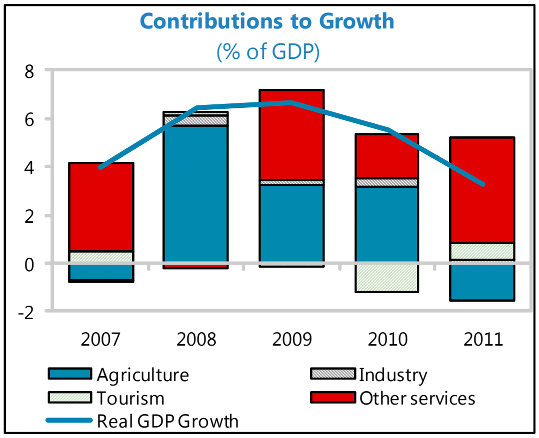
3. **The Gambia continued to face a heavy debt burden, even after receiving extensive debt relief under the HIPC Initiative and MDRI.** Based on external debt indicators, The Gambia has been classified as being at high risk of debt distress.[2] In addition, domestic debt increased to nearly 30 percent of GDP by end-2010, consisting mostly of treasury bills with maturities of one year or less. Interest on debt consumed 22½ percent of government revenues in 2011, of which 18½ percentage points was paid on domestic debt.

[1] Based on household surveys in 2003 and 2010, defining the poverty cut-off at US$1.00/day and US$1.25/day, respectively.

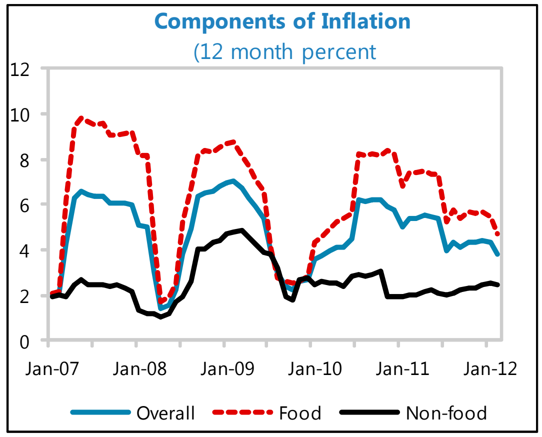
[2] See the debt sustainability analysis updated by Fund staff in 2012 (www.imf.org).

Figure 1. The Gambia: Recent Economic Developments, 2007–11

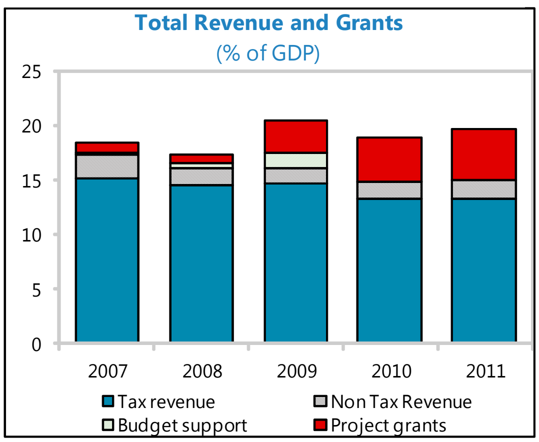
A growth slowdown is projected for 2011, driven by the initial effects of a crop failure due to a regional drought.



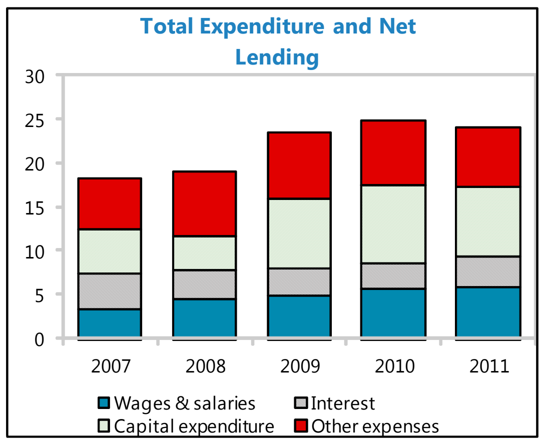
Inflation has recently subsided after being affected by a commodity price spike and a weaker dalasi.



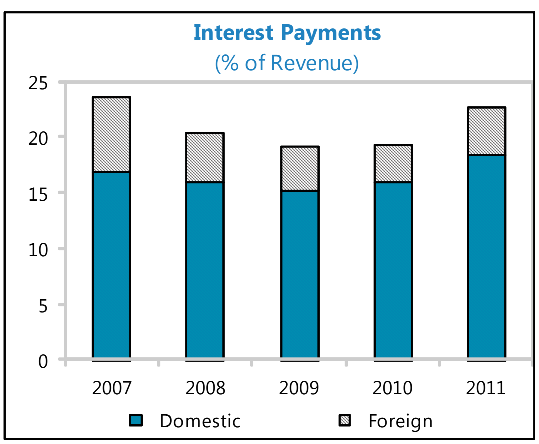
Although project grants have increased, domestic revenues have been on a declining trend in recent years...



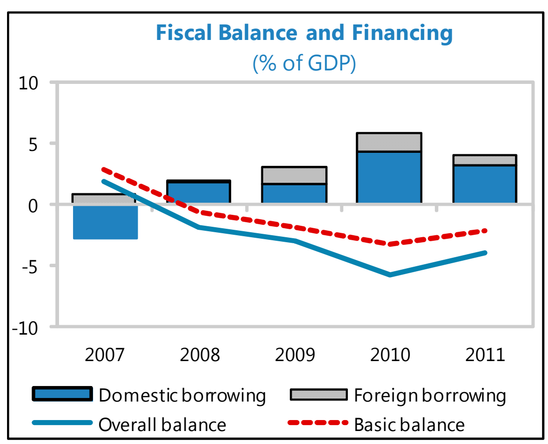
...while spending has trended up, reflecting mainly a rising wage bill and increased foreign-financed capital spending.



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



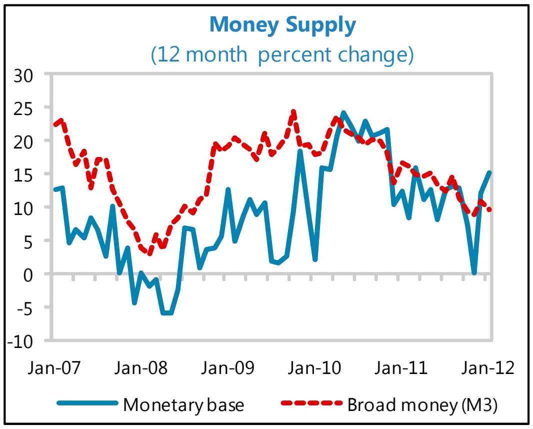
...as the government resorted to financing its deficits mostly with expensive domestic borrowing.



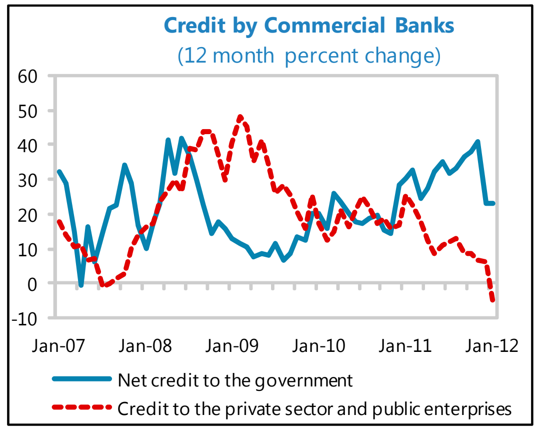
Sources: Gambian authorities; and Fund staff estimates and projections.

Figure 1. The Gambia: Recent Economic Developments, 2007–11 (continued)

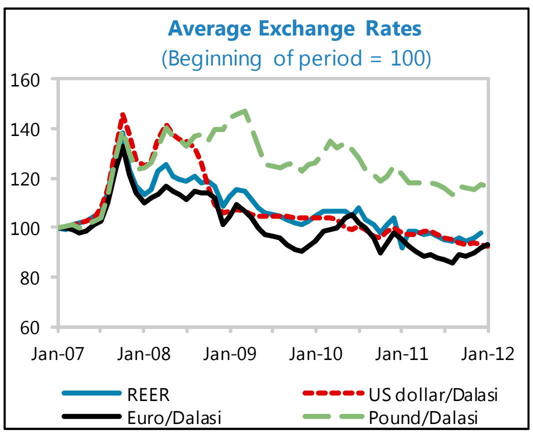
The pace of money growth has decelerated in recent months...



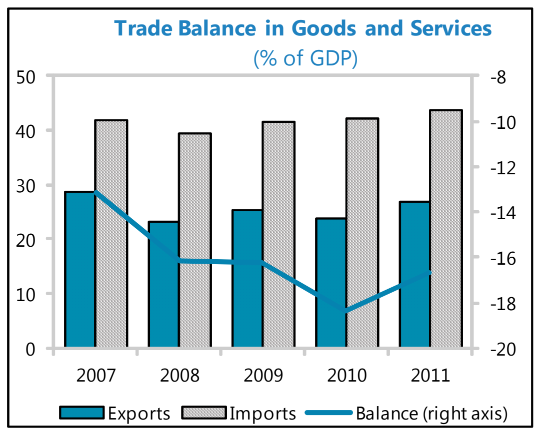
...and growth in private sector credit has lagged behind growth in credit to the government.



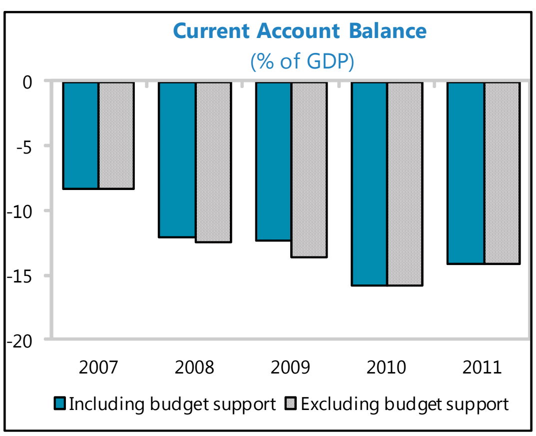
The dalasi has weakened gradually over the past several years.



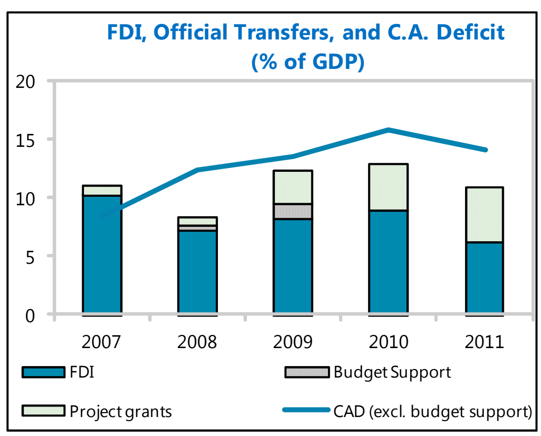
The trade deficit has increased, due to weaker tourism receipts and a higher import bill, but is projected to narrow



...and the current account deficit has followed a similar path in recent years.



The current account deficit is mostly financed by FDI and project grants, as budget support has evaporated.



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

Box 1. Performance Under the Previous Fund Arrangement and Subsequent Steps to Strengthen Macroeconomic Policies

A three-year ECF arrangement for The Gambia in the amount of SDR 14.0 million (45 percent of quota) was approved by the Fund's Board of Executive Directors in February 2007. The Board approved an augmentation of SDR 6.215 million (20 percent of quota) in February 2009 and a one-year extension with an additional augmentation of SDR 4.67 million (15 percent of quota), at the time of the 6th review in February 2010. However, because of a fiscal slippage, completion of the 7th review was delayed to allow time for corrective actions. At the time of the 7th review, the test date for the 8th and final review was rephased to end-December 2010 and the arrangement was extended to end-March 2011 to allow time for reporting on the outturn. But the final review was not completed due to a large fiscal slippage.

Performance under the ECF arrangement was mixed. Initially, good program implementation allowed The Gambia to reach the completion point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in December 2007, at which time the country received additional debt relief under the Multilateral Debt Relief Initiative (MDRI). Smaller fiscal deficits and macroeconomic stability also eased pressure on the interest cost of domestic debt. Beginning in late 2008, however, fiscal performance deteriorated. Waivers were required for the fiscal performance criteria for the 5th and 6th reviews and, as noted above, the 7th review was delayed and the 8th was not completed, following a particularly sharp fiscal slippage in late 2010 (by about 3 percentage points of GDP).

An Ex-Post Assessment update (Country Report No. 11/15) pointed to a lack of program ownership as a key factor behind the deterioration in fiscal performance. It emphasized that for a successor arrangement, strong commitment would be needed, particularly to contain government spending. The EPA also underscored that enhancement of revenue mobilization should be pursued more forcefully and that progress on public financial management reforms must be continued, most notably in the areas of budget procedures and expenditure control.

Execution of macroeconomic policies improved markedly in 2011. A new economic team set a policy agenda aimed at curbing the growth of domestic debt and eliminating fiscal dominance. The authorities implemented a strict cash-budgeting approach to limit net domestic borrowing to about 3 percent of GDP. Although government revenues fell short of budget projections—mainly because fuel subsidies cut into tax revenues—a strong effort on revenue administration and enforcement enabled revenues to keep pace with GDP growth. Progress on eliminating fiscal dominance was demonstrated by the near clearance of government overdrafts from the CBG, which enabled the implementation of a more independent monetary policy. Moving forward, the authorities launched their new poverty reduction strategy, the *Programme for Accelerated Growth and Employment (PAGE)*, in December 2011.

II. Recent Developments

4. **A severe drought resulted in a major crop failure in the 2011-12 agricultural season.** Production of leading crops (rice, groundnuts, and millet) fell by 50-80 percent from the previous year's harvest. Over 400,000 people—about one-fourth of the population—now face acute food shortages, while a lack of seeds for the 2012-13 season threatens to prolong the crisis.[3] Although several non-agricultural sectors of the economy performed well in 2011, including a remarkable rebound in tourism late in the year, real GDP growth is estimated to have fallen to just under 3½ percent in 2011.[4] Despite some pressure on food prices, inflation remained under control (4.4 percent) during the year, reflecting continued monetary restraint by the CBG. Strong tourism receipts led to a narrowing of the external current account deficit to an estimated 14 percent of GDP in 2011. At the end of the year, official gross international reserves was slightly above the CBG's target of 5 months of imports of goods and services.

5. **Progress was achieved in curbing government's domestic borrowing in 2011, as the authorities exercised restraint on spending.** Net domestic borrowing (NDB) was held to 3.1 percent of GDP, slightly above the budget target of 2.8 percent of GDP. A strict cash-budgeting approach was used to limit spending to available resources, despite election-year spending pressures. Spending on key poverty-reducing programs—notably in education and health—however, were largely maintained in line with conditions for donor assistance. For the first time in four years, revenues kept pace with GDP growth, thanks to a strong administration and enforcement effort. But revenues still fell short of their budgeted target. Implicit subsidies on fuel were the main reason for this underperformance. Although several adjustments to administered prices were implemented over the course of the year, pump prices did not catch up to import prices, which cut into fuel tax revenues.[5] In particular, price increases ceased during the run-up to the November presidential election.

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[3] Based on government crop reports prepared in conjunction with the World Food Program (WFP) and the Food and Agriculture Organization (FAO).

[4] In the absence of a timely crop report, recent projections had placed real GDP growth at about 5½ percent a year during 2011-12, reflecting only minor effects from poor rains. Delays in the reporting of the crop failure also impaired assistance from the international community.

[5] The authorities use a formula based on import prices, profit margins for the importer and distributors, and taxes to guide price adjustments. The formula includes factors to cap price adjustments in any given month, but the authorities exercise discretion on whether to implement the implied price adjustment. As of December, retail prices were 5-10 percent below the full pass-through price. Also, fuels are largely supplied by a single importer, which appears to have contributed to periods of high import prices.

III. Near- and Medium-Term Outlook and Risks

6. **The crop failure in 2011-12 will affect economic growth over the near and medium term.** Real GDP is projected to contract by 1½-2 percent in 2012, reflecting effects of the crop failure carrying over into the first half of 2012. With a recovery in agriculture spread over 2-3 years, real GDP growth is projected to receive a boost to about 8-10 percent a year in 2013-14, but this depends on an effective response to the drought by government, aid agencies, and development partners. The timely purchase and distribution of seeds and fertilizer is particularly important for a faster recovery. Meanwhile, non-agricultural GDP is projected to grow at prevailing trends (about 5½ percent a year in real terms) over the medium-term, except for a moderate setback in tourism during the 2012-13 season. GDP growth figures could be further elevated depending on the financial support and effectiveness of the authorities' new poverty reduction strategy, the *Programme for Accelerated Growth and Employment (PAGE)*, which was launched in December 2011.[6]

7. **The medium-term projection for the macroeconomic framework envisages a stable environment that is conducive to growth.** In line with the CBG's objective, annual inflation would be contained to about 5 percent. After a spike in 2012 related to emergency imports to address the crop failure, the external current account deficit is projected to narrow gradually over the medium term (to 13-14 percent of GDP by 2015), reflecting renewed growth in agricultural exports, tourism receipts, and remittances. Financing of the current account deficit would largely come from foreign direct investment and project grants and loans from development partners. The authorities would also strive to maintain gross official international reserves at about 5 months of imported goods and services.

8. **This outlook, however, depends on sound macroeconomic policies and is subject to a number of risks.** First and foremost, the heavy debt burden, particularly domestic debt, poses a major risk to this scenario. Although the growth of domestic debt slowed down in 2011, the stock increased slightly relative to GDP and interest costs and rollover risks remain high. As noted above, on the external side, The Gambia is still at high risk of debt distress.

9. **Other downside risks include:** (i) prolonged weakness in the global economy, particularly in Europe, which could dampen the medium-term recovery in tourism and remittances; (ii) terms of trade shocks, especially on food and fuel prices; (iii) contingent liabilities; and (iv) weather-related risks to mostly rain-fed agriculture. Although direct exposure to financial problems in Europe is negligible, a vast majority of the commercial

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[6] See the *PAGE* (www.imf.org) and Joint Bank-Fund Staff Advisory Note (www.imf.org). Given the uncertainty about financial support and its implementation, the *PAGE* has yet to be incorporated in the medium-term macroeconomic framework. To support the *PAGE*, the authorities seek to engage development partners in a roundtable conference in mid-2012. The medium-term macroeconomic framework will be updated at the time of the first review of the proposed program, with the view of maintaining medium-term objectives for NDB.

banks in The Gambia are subsidiaries of multinational banks headquartered in the region, which warrants caution. The following economic program seeks to mitigate these risks.

IV. Economic Program for 2012–15

10. **Over the medium term, The Gambia faces two overarching policy challenges: (i) fiscal adjustment to lower the cost and risks of domestic debt and (ii) implementation of the *PAGE*, under tight financing constraints.**[7] Fiscal adjustment would ease pressure on inflation, interest rates, and the exchange rate. Lower interest costs on domestic debt would also create savings to help finance *PAGE* priorities. To support these objectives, the proposed program would focus on (i) a reduction of government's annual NDB over the medium term; (ii) tax policy and revenue administration reforms to increase revenues and improve competitiveness; (iii) public financial management (PFM) reforms to enhance budget procedures and expenditure control; (iv) independence of the CBG—free of fiscal dominance—to allow more consistent and predictable monetary policy; (v) financial sector oversight; and (vi) institutional reforms to enable productive private sector participation in financing the *PAGE*.

11. **In the very near term, however, the government must also take actions to avert a disastrous aftermath from the 2011-12 crop failure.** In particular, food, seeds, and fertilizer will need to be imported and distributed to affected households by mid-2012.

12. **In line with recommendations of the EPA, the policy agenda emphasizes program ownership by the authorities.** Consistent with the agreed program, the authorities have initiated the importation of emergency supplies with their own resources, in order to meet the very tight timeline for delivering relief. The program reflects the authorities' preference for a gradual approach, notably the pace of fiscal adjustment and adjustments to fuel prices, while ensuring steady progress toward their elimination. The policy agenda discussed below and detailed in the authorities' Memorandum of Economic and Financial Policies (MEFP) (Appendix I, Attachment I) reflects these priorities.

A. Providing Immediate Relief for the Crop Failure

13. **The 2012 budget will be greatly affected by the crop failure**. Emergency imports of food, seeds, and fertilizer are expected to cost US$23-28 million (about 2½-3 percent of GDP). The government is anticipating some donor assistance for drought relief, as well as

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[7] See the staff report for the 2011 Article IV consultation (Country Report No. 12/17) for a fuller description of discussions with the authorities on the medium-term policy agenda.

budget support later in the year,[8] to help cover these costs. However, at least initially, it will need to obtain most of the resources for emergency expenditures on its own through domestic borrowing. To ensure stability in domestic markets, the CBG will step in by directly lending to the government and providing the foreign exchange for the drought-related imports. Mindful of avoiding fiscal dominance, the CBG's claims on government will be in the form of T-bills discounted at market rates. This operation would be equivalent to fully sterilized government borrowing and would act partly as a bridge loan to be repaid when donor funding is delivered, but it also creates an immediate balance of payments need.[9] For 2012 as a whole, though, if no emergency donor assistance is forthcoming, NDB could rise to a maximum of 3.7 percent of GDP, well above the original target of 1.8 percent of GDP set in the budget. Of note, the CBG's ample stock of official international reserves has been critical to enable the authorities to maintain macroeconomic stability during this crisis. [MEFP ¶30]

B. Returning to a Path of Gradual Fiscal Adjustment

14. **Fiscal policy is expected to return soon to a path of gradual adjustment whereby NDB would be reduced to ½ percent of GDP a year beginning in 2014.** Following this path, the stock of domestic debt would be reduced to about 26½ percent of GDP at end-2014 (from around 30½ percent of GDP at end-2011 and 33 percent of GDP at end-2012). The government's interest bill is projected to continue to increase in 2012 (to 23½ percent of government revenue), before dropping steadily thereafter. In addition to reducing the stock of debt (relative to GDP), low levels of annual NDB would relieve pressure on interest rates and inflation, which could substantially add to fiscal savings. A combination of higher revenue and continued expenditure restraint would be needed to achieve the desired reductions in NDB.

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[8] Disbursements of budget support grants of about US$6 million and US$3 million from the World Bank (WB) and African Development Bank (AfDB), respectively, are expected in 2012:Q3. Previously, budget support from the AfDB was projected to be equivalent to about US$5 million.

[9] NDB is projected to surge during 2012:Q2, when payments for emergency imports fall due. WB and AfDB budget support would be used to pay down part of the government's debt to the CBG, leading to a sharp drop in NDB and an increase in international reserves in Q3. Other development partners, notably the Taiwan Province of the Republic of China, Japan, and UN agencies have also been forthcoming with aid commitments, which would lower the cost to government of the drought relief and hence reduce the borrowing need. Adjustors to the targets for NDB, net domestic assets of the CBG, and net international reserves have been included in the program to account for donor assistance, beyond the expected budget support, for drought relief. The increase in NDB during Q4 reflects normal seasonality.

15. **The program seeks to achieve the following milestones in fiscal policy**:

- **Rebuild the revenue base (Box 2)**. The program aims to rebuild the revenue base and restore buoyancy to the tax system through comprehensive reforms of tax policy and revenue administration. After stabilizing in 2011, the tax revenue-to-GDP ratio is targeted to steadily recover by at least 2½ percentage points by 2014 to just over 15½ percent of GDP.[10] The planned introduction of VAT in January 2013 is the center-piece of near-term tax reform. The VAT, which will replace the current general sales tax, will broaden the tax base and is expected to lift revenues by 1-1½ percent of GDP. [11] The authorities are actively preparing for the introduction of the VAT, including cabinet approval of the VAT policy paper and the drafting of the VAT bill to be submitted to the National Assembly around mid-2012, an agenda for major improvements in revenue administration, and public information programs to prepare taxpayers and consumers.[12] [MEFP ¶18-19]

- **Minimize subsidies on fuels**. Reducing and eventually eliminating fuel subsidies is another important component to rebuilding tax revenues. Regular (monthly) implementation of fuel price adjustments has improved in 2012 and is expected to continue going forward, although the price increases have been less than those suggested by the pricing formula.[13] These adjustments are projected to cut revenue losses from the subsidy to around 0.5 percent of GDP in 2012, down from around 0.8 percent of GDP in 2011. In addition, the authorities emphasized their commitment to continue to adjust prices until the subsidies have been eliminated, which could further reduce revenue losses, depending on developments to import prices. The authorities also aim to limit or discontinue exemptions from fuel taxes for embassies and business whose special incentives are expiring. [MEFP ¶19]

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[10] Tax revenues in 2012 are projected to increase by just under 9 percent, roughly in line with nominal growth in non-agricultural GDP, leading to an increase in the tax revenue-to-GDP ratio to 14 percent.

[11] On the upper bound, the VAT could boost revenues by 2½ percent of GDP. Beginning in 2013, if revenue collections exceed the program target, at least half the excess will be used for paying down domestic debt.

[12] Fund technical assistance (TA) has played an important role in the preparations for the VAT. In addition, a long-term resident advisor financed by the European Union and back-stopped by the Fund is expected to be in place around mid-2012. Fund TA in late April/early May will update the work program with a view to meeting the January 2013 target. Nevertheless, a reassessment of the timing for the introduction of the VAT will take place at the time of the first review of the proposed program.

[13] The authorities argued that this gradual approach would have more lasting effects than larger adjustments, which would be disruptive for the general population and could lead to public protests. As of May 2012, fuel subsidies stood at 8.3 percent (weighted average) of the full pass-through prices, the same as in December 2011.

- **Conduct studies for further tax reform**. As a first step, the authorities will engage in a thorough study of tax expenditures during 2012. This would help gauge the revenue potential of eliminating subsidies and exemptions and inform the setting of parameters, such as tax rates and thresholds, for future reforms. [MEFP ¶18]

- **Maintain cash budgeting in 2012, while improving budget processes and transparency over the medium term (Box 3).** Strict discipline will be needed to meet NDB targets. Building on their success in 2011, the authorities will maintain a cash-budgeting approach in the near term. However, transparent budget procedures with a medium-term focus would be key to achieving higher value-for-money from government spending in the future. Near-term public financial management (PFM) reforms will focus on reviewing, updating, and costing strategic plans for selected line ministries and incorporating an indicative medium-term expenditure framework (MTEF) in the policy paper for the 2013 budget. For the following year, the exercise could be expanded to all line ministries and a strengthening of the MTEF. In addition, the integrated financial management information system (IFMIS) will continue to be strengthened to become a highly effective tool for controlling and monitoring expenditures. Beginning in 2012:Q2, the authorities will use the IFMIS to prepare and publish quarterly reports on budget execution, including on *PAGE* related spending. The authorities will also seek technical assistance for a comprehensive civil service reform. [MEFP ¶20-22]

16. **The authorities' debt management strategy aims to ease the burden and risks of both external and domestic debt.** The new debt management strategy, which is expected to be finalized in the coming months, should be consistent with recommendations from the DSA update by Fund staff (www.imf.org). Given The Gambia's high risk of debt distress, all new external borrowing by government will require a minimum grant element of 35 percent. External borrowing by state-owned enterprises (SOEs) with explicit government guarantees will also be restricted to concessional terms.[14] Under this condition, there is moderate scope (about US$38 million) for additional borrowing, beyond the proposed ECF arrangement, to help finance the *PAGE*. On domestic debt, the authorities' strategy advocates a gradual reduction in annual NDB in line with the proposed ECF arrangement. If a decline in T-bill yields materializes, it would provide an opportunity to issue longer-term securities to lengthen the maturity structure of domestic debt at reasonable costs and help lower rollover risks.

[14] External borrowing by SOEs that is not explicitly guaranteed by government is excluded at this time. Coverage of the restriction on non-concessional borrowing will be revisited at the time of the first review.

Box 2. Tax Policy and Revenue Administration Reforms

The Gambian authorities are pursuing a comprehensive reform agenda for tax policy and revenue administration to rebuild government revenues and tax buoyancy, while also enhancing the country's international competitiveness.* The ultimate objective is to have a relatively simple tax system that spreads the burden over a broad base coupled with efficient revenue administration that facilitates compliance. Extending coverage to a broad base is essential, if revenue targets are to be met with relatively low tax rates. Simplifying the tax system, such as by raising the threshold to free small taxpayers from income tax and VAT requirements and by minimizing deductions and special exemptions, could improve fairness and add to efficiency gains for revenue administration.

Although incomplete, the envisaged foundation of such a tax system is taking shape. The core taxes would include a broad-based VAT; simplified personal and corporate income taxes, possibly with a single tax rate; customs duties in line with the ECOWAS common external tariff; and consistent application of excise taxes, including preservation of excises on fuel with a mechanism that passes import prices through to retail prices.

Further study is needed to identify the final structure and parameters of the tax system, particularly for income taxes. For this, a comprehensive study of tax expenditures would be an important first step. The authorities have also called for studies on the elimination of "nuisance" taxes—that is, taxes whose low revenue yields do not justify the administration and compliance costs—and the impact on domestic companies of a uniform treatment of excise taxes on imports and domestically produced goods. Building upon past studies, further work would be helpful on reforming the minimum business income tax, which is currently based on turnover and can be excessively punitive for new firms, and on establishing streamlined tax procedures for small businesses.

Reforming revenue administration begins with strengthening the management and capacity of the Gambia Revenue Authority (GRA). In particular, ongoing initiatives include building up the GRA's auditing capacity through more hiring and training of qualified staff, as well as risk management capacity both at its customs and inland revenue departments. These initiatives are critical as modern procedures that rely on self-assessment by taxpayers are employed. In preparation for the introduction of the VAT, all companies with turnover exceeding GMD 1 million (which would be required to open a VAT account) are being transferred to the GRA's Large Taxpayer Unit (LTU). Partly due to the work of the recently-established Tax Evasion Commission, filing compliance with the LTU has increased from around 50 percent to close to 90 percent, with the 100 percent mark now in sight. In addition, by end-2012, ASYCUDA++ will be rolled out to all customs offices across the country.

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* The Gambia ranked 178th out of 183 countries worldwide for "ease of paying taxes" in the World Bank's 2012 Doing Business Report.

Box 3. Public Financial Management (PFM) Reforms

PFM reforms seek to modernize budget preparation, execution, monitoring, and auditing, with the objective to get the most value from government spending and achieve the social and development goals of the *PAGE*.

- ✓ While **cash budgeting** has proved to be an essential tool to avoid extra-budgetary expenditures in the short-run, **a strengthened IFMIS** will provide another powerful tool for expenditure control and monitoring. **Quarterly budget execution reports** and **internal auditing** will provide short-term monitoring and enhance the transparency of budget execution.

- ✓ For the longer run, with EU-financed Fund technical assistance, the authorities will develop **annual budget framework papers** that would provide context to the budget proposals submitted to the National Assembly and **medium-term expenditure frameworks** for line ministries that would be gradually consolidated into a national MTEF. Moving to **program budgeting** remains a long-term goal, but much preparation and capacity building are still needed before significant steps can be taken in that direction. On **external auditing**, good progress was achieved with the submission to the National Assembly of the 2007 audited government accounts. The National Audit Office is expected to clear the backlog of these audits by mid-2013. A **debt management strategy** which seeks to lower the domestic debt burden is being developed.

C. Monetary and Exchange Rate Policies

17. **Monetary policy will continue to focus on maintaining low inflation by targeting end-period reserve and broad money.** In 2012, the CBG intends to limit reserve and broad money growth to 7 percent and 9 percent, respectively, which would be compatible with projected growth in non-agricultural GDP. That is, although these growth rates considerably exceed nominal GDP they are still consistent with a somewhat restrained monetary stance to guard against potential inflationary pressures. Despite government's heavy borrowing in 2012, the CBG's actions to provide sterilized financing for the drought relief effort allows sufficient space for a comfortable expansion of credit to the private sector. In the coming years, credit growth will benefit from the reduction in NDB. The recent progress toward eliminating fiscal dominance and strengthening central bank independence provides an opportunity to improve the conduct of monetary policy.[15] Instead of reacting to fiscal

[15] Fiscal dominance was not completely eliminated in 2011, as evidenced by government's arrears on interest due to the CBG of about GMD 70 million (0.2 percent of GDP). As explained in the MEFP (¶10), these arrears were almost all cleared in January 2012. As the fiscal agent, the CBG now ensures that debt service on its holdings of government securities take place in a timely manner. In addition, under the proposed program,

(continued…)

surprises, the CBG is in a good position to improve liquidity forecasting, launch market tools for daily liquidity management, and take steps to enhance competition in T-bill auctions. Over the medium term, the CBG intends to build up its capacity to target average daily reserve money (on a monthly basis), which has a far more stable relationship with broader money aggregates than end-period reserve money. The CBG also uses its rediscount rate to signal changes in the policy stance, but its direct effect on monetary policy is minimal, given the very limited use of the rediscount facility. The CBG plans to conduct a study of alternative policy interest rates, which could have a greater influence on market rates. [MEFP ¶23-24]

18. **The floating exchange rate regime has served The Gambia well, complemented by a healthy stock of international reserves to guard against shocks.** In particular, the flexibility in 2011 allowed for a moderate depreciation of the dalasi in real effective terms, which represented an appropriate adjustment to a prevailing overvaluation and helped to preserve The Gambia's competitiveness. In general, the CBG intervenes in the foreign exchange market only to safeguard orderly market conditions or to mop up liquidity injections caused by foreign-financed government spending. Occasionally, the CBG also purchases foreign exchange to meet its targets for international reserves. As demonstrated during the current drought crisis, the CBG's maintaining an ample stock of reserves can ensure macroeconomic stability during a difficult period. Over the medium term, the CBG will aim to maintain gross reserves at about five months of imports of goods and services, which is consistent with a recent analysis of reserve adequacy for The Gambia, particularly in light of past episodes of large reserve losses and exchange rate volatility.[16] [MEFP ¶23]

D. Financial Sector Policies

19. **Financial sector policies will continue to be geared toward strengthening financial stability and enhancing access to credit for the private sector.** Although banks are liquid and well capitalized, fierce competition for a small customer base has eroded profitability and resulted in a substantial stock of nonperforming loans. The high concentration of both loans and deposits is a concern. The CBG plans to strengthen banking supervision by launching an electronic reporting system for commercial banks, by reviewing its Manual of Guidelines and Instructions, and by introducing amendments to the Banking Act 2009. The minimum capital requirement for commercial banks will be raised from GMD 150 million to GMD 200 million by end-December 2012, with no regulatory forbearance. To guard against risks to the banking system from external shocks, the CBG will continue to consult with banking supervisors from other countries in the region, where

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arrears on such debt service would imply a breach of the performance criterion that places a zero limit on CBG credit to the government at non-market rates (see MEFP Table 2).

[16] In 2008, The Gambia lost 25 percent of official reserves, in an effort to stabilize a sharp depreciation. See the discussion on reserve adequacy in the 2010 Article IV consultation (Country Report No. 12/274) and Eugen Tereanu, 2010, "International Reserve Adequacy in The Gambia," IMF Working Paper No. 10/125.

the banks' headquarters are located. In addition, the CBG will continue to apply intensive surveillance to banks that exceed a critical number of risk factors, including participation by headquarters' management of foreign-owned banks, if necessary. In the medium term, the CBG will gradually migrate from a hybrid (compliance and risk-based) to a fully risk-based supervisory framework. [MEFP ¶25-26]

20. **To increase access to credit for the private sector, the authorities intend to review reserve requirements, encourage commercial banks to become more efficient, and reduce the legal and institutional obstacles in recovering loans and realizing collateral.** The CBG intends to resolve the technical problems at the Credit Reference Bureau in order to better help banks contain nonperforming loans and to also enable borrowers with good credit histories to access financing at better terms. With help from IMF technical assistance and in consultation with stakeholders, the CBG will review the Sheriffs and Mortgages Acts to see if amendments in those could reduce the cost, uncertainty, and complexity of dealing with non-performing loans. The authorities intend to set up a Collateral Registry by 2013. [MEFP ¶27]

E. *PAGE* and Other Structural Reforms

21. **Substantial financial resources will be needed to implement the ambitious medium-term** investment **plans in the *PAGE* (/Box 4).**[17] Although there is some scope for additional concessional external borrowing, which would be consistent with debt sustainability, the authorities will need to seek alternative sources of funding. Options include domestic revenue mobilization, external grants, and private sector participation in infrastructure projects. Pursuing the planned fiscal adjustment will also create additional fiscal space for financing *PAGE* priorities. For private sector participation to be productive, effective institutional frameworks must be in place beforehand. To address energy needs, the authorities will formulate a national energy strategy, in consultation with development partners, that ensures a financially viable electric utility company. The authorities will initiate a strategic study of the state-owned telephone company (GAMTEL) and its mobile phone operator (GAMCEL), which will consider the option to re-privatize GAMCEL, in line with *PAGE* objectives. Increased competition or strengthened regulation of the fuel import market would also help to reduce energy costs. Such structural reforms would help to eliminate major sources of contingent liabilities that have impaired government finances in recent years. [MEFP ¶28]

[17] See PRSP (www.imf.org) and JSAN (www.imf.org)

Box 4. The Programme for Accelerated Growth and Employment (*PAGE*)

The Gambian authorities launched their Programme for Accelerated Growth and Employment (*PAGE*) covering the years 2012 to 2015 in December 2011. The *PAGE* is the country's new Poverty Reduction Strategy Paper (PRSP) and it is organized around five pillars: (i) accelerating and sustaining economic growth; (ii) improving and modernising infrastructure; (iii) strengthening human capital stock and enhancing access to social services; (iv) improving governance and increasing economic competitiveness; and (v) reinforcing social cohesion. The document was prepared in a participatory and consultative manner. Stakeholder consultative workshops and focus group discussions were held with representatives of the private sectors and civil society. Non-governmental organizations helped to draft some chapters of the *PAGE* document, and consultations reached down to the level of local communities. The *PAGE* offers a candid assessment of the country's past progress in reducing poverty. It also includes a detailed Priority Action Plan (PAP).

The *PAGE* seeks to reduce poverty by stepping up investment in infrastructure and government support for agriculture, education, and health. The focus on agriculture is expected to enhance the inclusiveness of growth over the near and medium term, while education and infrastructure investment—particularly in telecommunications and electricity—would help to diversify the economy down the road. Additional expenditures on agriculture would center on irrigation, quality inputs, extension services, post-harvest management, and marketing. The authorities plan to develop a national energy strategy and to re-privatize the government-owned mobile phone company (GAMCEL).

Given the constrained resource envelope, financing the *PAGE* will be a major challenge. Based on the DSA, there is scope for only a moderate amount of additional borrowing, even on concessional terms. Other options include domestic revenue mobilization, external grants, and private sector participation in infrastructure projects. Building support for the *PAGE* amongst potential donors will be crucial. Also, effective institutional frameworks will need to be in place to ensure productive private sector participation. A further prioritization of the PAP is needed to ensure that the *PAGE* is implementable and only projects with high rates of return will be undertaken.

F. Economic Statistics

22. **The quality of economic and financial data is generally adequate for effective surveillance, but there is much room for further improvement.** For the national accounts, next steps include developing GDP statistics by the expenditure approach and quarterly GDP statistics. CPI statistics will be updated based on the 2010 integrated household survey. BOP statistics will be improved, in particular, in the areas of re-exports and FDI. The authorities will continue to boost capacity and to also welcome Fund technical assistance in these areas. [MEFP ¶29]

V. New ECF Arrangement and Program Monitoring

23. **The authorities are requesting a new three-year ECF arrangement, with a large initial disbursement, but relatively low access overall.** The authorities are requesting access totaling 60 percent of quota (SDR 18.66 million), of which 30 percent of quota (SDR 9.33 million) would be available for disbursement immediately following the Board's approval of the arrangement. The remainder would be disbursed in six equal tranches of 5 percent of quota (SDR 1.555 million), one following each of the six semi-annual reviews (Table 9). The relatively low overall access is appropriate in view of the authorities' gradual

approach to the critical reform process. The large initial disbursement, however, is comparable to emergency support and will meet an acute balance of payments need to support macroeconomic stability during the current drought crisis. Subsequent disbursements would encourage a gradual fiscal adjustment over the medium term and would help catalyze support for the *PAGE* from development partners. The medium-term program would emphasize tax policy and revenue administration reforms, capacity building in PFM and debt management, improvements in monetary policy operations and financial sector oversight, and implementation of the *PAGE*.

24. **In response to the request for a new ECF arrangement, the staff reached an understanding with the authorities on quantitative performance criteria and macro-critical structural benchmarks were agreed with the authorities (see MEFP Tables 2 and 3).** Structural benchmarks focus on tax reform, revenue administration, public financial management, monetary policy, financial sector stability, and statistics. These include: (i) introducing a VAT, (ii) publishing quarterly budget execution reports, (iii) launching the market for daily REPO instruments, and (iv) publishing national accounts and CPI data, detailed methodological information, and a calendar of upcoming data releases.

25. **The Gambia is expected to be able to repay its obligations under the proposed ECF arrangement (Table 10).** The total outstanding loans from the Fund, once the ECF is disbursed, will amount to 5.5 percent of GDP or about 27 percent of gross international reserves at end-2012. While the country is at high risk of debt distress, its debt service-to-revenue ratio excluding grants (12 percent in 2012) will remain below the threshold (18 percent) over the repayment period. The authorities' commitment to revenue-enhancing reforms will further strengthen The Gambia's capacity to repay its obligations to the Fund.

26. **The principal risks to the program concern the fiscal targets.** Shocks to import prices of fuel could outpace the gradual adjustments to pump prices and cut into government revenues. Similarly, a delay in the introduction of the VAT could also adversely affect tax revenues, while realization of a large contingent liability could pressure government spending. Continued implementation of cash budgeting and expenditure control to achieve NDB targets, which the authorities are committed to as the anchor to their macroeconomic policies, would mitigate these risks to the program. Under such circumstances additional revenue measures and/or expenditure cuts would be warranted to stay within the limits for NDB. In addition, structural measures that would strengthen the financial viability of key government-owned enterprises would help to minimize contingent liabilities in the future.

VI. Staff Appraisal

27. In recent years, the Gambian authorities have taken important steps to strengthen economic growth and stability and significantly reduce poverty. However, large fiscal deficits led to a sharp increase in domestic debt, which has become quite costly. Staff welcomes the improved fiscal discipline demonstrated in 2011, which was necessary to curb

the growth of domestic debt. Further progress on the policy agenda mapped out in the *PAGE* and specified in the MEFP would solidify these gains and help set the stage for continued inclusive growth and poverty reduction. Staff also welcomes actions taken by the authorities to provide relief from the recent crop failure, noting that effective and timely delivery of assistance is crucial for helping the most vulnerable households. Staff observes that The Gambia's ample stock of international reserves has been critical to ensuring economic stability during the current crisis situation and encourages the authorities to continue to maintain this important buffer.

28. Looking ahead, a substantial fiscal adjustment is needed to bring domestic debt fully under control. Although staff would have preferred a faster adjustment, the authorities' gradual approach may indeed be the most effective way to deal with this issue. Staff cautions, however, that any slippages on this path would weaken the authorities' credibility and could jeopardize the benefits of the adjustment. To ease pressure on interest rates, inflation, and crowding out of the private sector, it is essential that policy implementation is convincing.

29. Staff urges the authorities to rebuild the government's revenue base through comprehensive reforms of tax policy and revenue administration. Broadening the tax base is a necessary element of these reforms, especially if the authorities hope to keep tax rates low. In this regard, swift progress toward introducing a broadly based VAT early next year would be most welcome. More immediately, staff urges the authorities to persist with the monthly fuel price adjustments to minimize costly subsidies. In addition, should import prices increase sharply, a stronger adjustment may be needed to avoid undue pressure on the fiscal deficit and government financing. Staff encourages the authorities to direct additional revenues from reduced fuel subsidies toward programs or drought relief that benefit the poor.

30. Staff encourages the authorities to make steady progress on public financial management (PFM) reforms, which are necessary to get more value for money from public resources. The agenda focusing on medium-term planning and transparency in the budget process, improved execution and monitoring of expenditures, and internal and external audits of the government's accounts is ambitious, but doable. Staff welcomes the authorities' plans to begin publishing quarterly reports on budget execution in the near future.

31. Staff applauds the substantial progress toward eliminating fiscal dominance, which is a major achievement. The CBG is in a much better position to pursue a sound monetary policy that establishes a strong foundation for the financial sector and the entire economy. Staff encourages the CBG to move ahead with the introduction of market-based instruments for liquidity management. Staff also welcomes the continued progress on financial sector supervision, including building capacity for stress testing, meeting regularly with banking supervisors in the region, and intensifying supervision on individual banks when indicators point to elevated risks. Staff encourages the CBG to ensure the smooth implementation of the upcoming increase in the minimum capital requirement.

32. Staff welcomes the authorities' revised debt management strategy and encourages them to finalize it soon. The strategy appropriately focuses on reducing the cost and risks of domestic debt by gradually reducing net domestic borrowing and, if pressure on interest rates subside, issuing longer-term securities to lengthen the maturity profile and reduce roll-over risk of the debt. Staff agrees that external borrowing should be restricted to loans with concessional terms while The Gambia remains at high risk of debt distress.

33. Financing the *PAGE* under tight budget constraints will be a challenge. While there is some scope for additional borrowing on concessional terms and potential for increased revenue and fiscal savings over time, private sector participation will likely be needed for some areas of infrastructure investment. It is critical, however, that the proper institutions and regulatory agencies are in place to assess and regulate the investments. Staff encourages the authorities to complete a strategic study for GAMTEL/GAMCEL and a national energy strategy that would provide guidance for the electricity sector and NAWEC. Options to put these companies on a more productive path should also consider steps—such as privatization of GAMCEL—to minimize contingent liabilities for the government.

34. Staff encourages the authorities to make progress on the quality and regularity of key economic statistics. Staff urges the authorities to begin to compile comprehensive employment statistics.

35. **Staff recommends approval of the authorities' request for a new three-year ECF arrangement.**

Table 1. The Gambia: Selected Economic Indicators

	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
National account and prices	(Percent change; unless otherwise indicated)					
Nominal GDP (millions of dalasi)	26,659	28,637	29,435	34,014	38,815	43,555
Nominal GDP	10.5	7.4	2.8	15.6	14.1	12.2
GDP at constant prices	5.5	3.3	-1.7	9.7	8.3	7.0
GDP per capita (US$)	550	543	508	541	576	605
GDP deflator	4.7	4.0	4.6	5.3	5.3	4.9
Consumer prices (average)	5.0	4.8	4.7	5.5	5.5	5.0
Consumer prices (end of period)	5.8	4.4	5.0	6.0	5.0	5.0
External sector						
Exports, f.o.b.	3.8	16.1	-5.2	9.0	7.5	7.8
Of which: domestic exports	26.0	30.6	-44.5	29.0	11.2	6.9
Imports, f.o.b.	5.3	7.4	10.0	-0.7	6.6	6.9
Terms of trade (deterioration -)	-0.2	1.6	2.7	2.7	1.5	2.2
NEER change (depreciation -)[1]	-1.2	-6.3	...	...	...	...
REER (depreciation -)[1]	0.7	-5.8	...	...	...	...
Money and credit	(Percent change; in beginning-of-year broad money)					
Broad money	13.7	11.0	9.0	14.9	14.1	13.4
Net foreign assets	1.3	5.6	2.5	5.3	6.4	6.3
Net domestic assets, of which:	12.3	5.4	6.5	9.6	7.7	7.1
Credit to the government (net)	16.6	8.2	6.6	1.9	0.8	0.7
Credit to the private sector (net)	4.7	2.8	5.6	8.0	7.1	6.6
Other items (net)	-9.9	-5.1	-6.7	-1.5	-1.5	-1.4
Velocity (level)	2.0	1.9	1.8	1.8	1.8	1.8
Average treasury bill rate (in percent)[2]	11.3	10.0	...	...	...	...
Central government budget	(In percent of GDP; unless otherwise indicated)					
Domestic revenue (taxes and other revenues)	14.9	14.9	15.8	17.2	17.5	17.5
Grants	4.0	4.7	6.7	5.4	5.4	5.5
Total expenditures and net acquisition of financial assets	24.9	24.0	27.7	25.1	25.0	25.0
Net incurrence of liabilities	5.8	4.0	5.1	2.5	2.1	2.0
Foreign	1.5	0.8	1.6	1.5	1.6	1.5
Domestic	4.3	3.2	3.6	1.0	0.5	0.5
Basic balance	-3.3	-2.2	-3.4	-0.1	0.3	0.3
Public debt	69.6	71.1	77.3	71.1	65.9	62.1
Domestic public debt[3]	29.4	30.4	33.1	29.7	26.5	24.1
External public debt	40.2	40.8	44.2	41.4	39.4	38.0
External public debt (millions of US$)	377.1	386.0	400.8	416.2	434.1	452.1
External sector						
Current account balance						
Excluding budget support	-15.7	-14.1	-18.8	-15.5	-14.7	-13.9
Including budget support	-15.7	-14.1	-17.8	-15.0	-14.2	-13.5
Current account balance	(Millions of U.S. dollars; unless otherwise indicated)					
Excluding budget support	-151.6	-138.2	-176.4	-158.5	-164.6	-168.7
Including budget support	-151.6	-138.2	-167.5	-153.4	-159.2	-163.0
Overall balance of payments	-25.7	15.4	-7.3	8.4	15.1	17.1
Gross official reserves	163.3	182.5	191.6	203.3	220.0	233.6
in months of next year's imports of goods and services	4.6	4.7	4.9	4.9	5.0	5.0
Use of Fund resources	(Millions of SDRs)					
Disbursements	2.0	2.3	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	-0.2	-1.0	-2.1	-3.8
Financing gap (possible ECF financing)	0.0	0.0	10.9	3.1	3.1	1.6

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Percentage change between December of the previous year and December of the current year.
[2] Average for the month of December.
[3] Defined as gross domestic interest bearing debt.

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

	2010	2011	2012		2013	2014	2015
	Act.	Act.[1]	Budget	Proj.	Proj.	Proj.	Proj.
Revenue	5,026	5,619	6,376	6,633	7,680	8,888	10,016
Taxes	3,528	3,780	4,191	4,111	5,211	6,043	6,774
Taxes on income, profits, and capital gains	1,109	1,225	1,279	1,284	1,547	1,844	2,063
Domestic taxes on goods and services	1,500	1,683	1,798	1,827	2,509	2,881	3,233
Taxes on international trade and transactions	867	830	1,057	952	1,100	1,255	1,409
Other taxes	53	42	58	47	55	62	70
Grants	1,065	1,355	1,669	1,982	1,822	2,080	2,384
Budget support	0	0	313	279	170	187	206
Project grants[1]	1,065	1,355	1,355	1,703	1,652	1,893	2,178
Other revenues	433	484	516	540	647	765	859
Expenditures	6,466	6,871	7,342	8,175	8,528	9,701	10,881
Expenses	4,059	4,579	4,741	5,342	5,101	5,644	6,064
Compensation of employees	1,516	1,693	1,800	1,725	1,960	2,236	2,509
Use of goods and services	1,216	1,273	1,349	1,896	1,273	1,421	1,536
Interest	766	967	961	1,098	1,211	1,216	1,206
External	137	183	151	151	266	288	312
Domestic	629	785	810	947	945	928	894
Subsidies	561	646	632	623	657	771	812
Net acquisition of nonfinancial assets	2,407	2,292	2,601	2,834	3,427	4,057	4,817
Acquisitions of nonfinancial assets	2,407	2,292	2,601	2,834	3,427	4,057	4,817
Foreign financed	1,808	1,985	2,157	2,505	2,633	3,014	3,363
Gambia local fund	599	307	444	329	794	1,043	1,454
Gross Operating Balance	967	893	1,635	1,292	2,578	3,243	3,953
Net lending (+)/borrowing (–)	-1,440	-1,252	-966	-1,542	-848	-813	-865
Net acquisition of financial assets[2]	175	0	0	-30	0	0	0
Net incurrence of liabilities	1,535	1,144	970	1,512	848	813	865
Domestic	1,148	920	538	1,049	340	194	218
Of which							
Net borrowing	1,245	898	588	1,094	340	194	218
Bank[3]	1,449	1,088	670	972	304	154	157
Nonbank	-204	-190	-83	121	37	40	60
Foreign	387	224	432	464	508	619	647
Loans	387	224	432	464	508	619	647
Borrowing	742	630	836	867	981	1,121	1,185
Amortization	-355	-406	-404	-404	-472	-502	-539
Statistical discrepancy[4]	-96	108	-4	0	0	0	0
Memorandum items:							
Basic balance[5]	-873	-622	-478	-990	-38	121	115
Basic primary balance[6]	-107	346	483	108	1,173	1,337	1,322
Domestic public debt[7]	7,847	8,697	9,176	9,746	10,086	10,280	10,498

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Tax collection improved significantly in December 2011, owing mainly to one-off collection of tax arrears. Also, the NDB target was adjusted upward to GMD840 million to account for a GMD25 million shortfall in World Bank disbursement for the WARCIP project.

[2] Figure for 2010 consists of domestic loans only, and reflects onlending to GAMTEL financed by WARCIP.

[3] In 2010, includes bridge loan from CBG for part of the shortfall in disbursements of budget support.

[4] The difference between financing and the overall balance of revenue and expenditures.

[5] Overall balance, excluding statistical discrepancy, less expenditures financed by project grants and external borrowing.

[6] Basic balance, excluding interest payments.

[7] Defined as gross domestic interest bearing debt.

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

	2010	2011	2012		2013	2014	2015
	Act.	Act.[1]	Budget	Proj.	Proj.	Proj.	Proj.
Revenue	18.9	19.6	19.5	22.5	22.6	22.9	23.0
Taxes	13.2	13.2	12.8	14.0	15.3	15.6	15.6
Taxes on income, profits, and capital gains	4.2	4.3	3.9	4.4	4.5	4.8	4.7
Domestic taxes on goods and services	5.6	5.9	5.5	6.2	7.4	7.4	7.4
Taxes on international trade and transactions	3.3	2.9	3.2	3.2	3.2	3.2	3.2
Other taxes	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Grants	4.0	4.7	5.1	6.7	5.4	5.4	5.5
Budget support	0.0	0.0	1.0	0.9	0.5	0.5	0.5
Project grants[1]	4.0	4.7	4.2	5.8	4.9	4.9	5.0
Other revenues	1.6	1.7	1.6	1.8	1.9	2.0	2.0
Expenditures	24.3	24.0	22.5	27.8	25.1	25.0	25.0
Expenses	15.2	16.0	14.5	18.1	15.0	14.5	13.9
Compensation of employees	5.7	5.9	5.5	5.9	5.8	5.8	5.8
Use of goods and services	4.6	4.4	4.1	6.4	3.7	3.7	3.5
Interest	2.9	3.4	2.9	3.7	3.6	3.1	2.8
External	0.5	0.6	0.5	0.5	0.8	0.7	0.7
Domestic	2.4	2.7	2.5	3.2	2.8	2.4	2.1
Subsidies	2.1	2.3	1.9	2.1	1.9	2.0	1.9
Net acquisition of nonfinancial assets	9.0	8.0	8.0	9.6	10.1	10.5	11.1
Acquisitions of nonfinancial assets	9.0	8.0	8.0	9.6	10.1	10.5	11.1
Foreign financed	6.8	6.9	6.6	8.5	7.7	7.8	7.7
Gambia local fund	2.2	1.1	1.4	1.1	2.3	2.7	3.3
Gross Operating Balance	3.6	3.1	5.0	4.4	7.6	8.4	9.1
Net lending (+)/borrowing (–)	-5.4	-4.4	-3.0	-5.2	-2.5	-2.1	-2.0
Net acquisition of financial assets[2]	0.7	0.0	0.0	-0.1	0.0	0.0	0.0
Net incurrence of liabilities	5.8	4.0	3.0	5.1	2.5	2.1	2.0
Domestic	4.3	3.2	1.6	3.6	1.0	0.5	0.5
Of which							
Net borrowing	4.7	3.1	1.8	3.7	1.0	0.5	0.5
Bank[3]	5.4	3.8	2.1	3.3	0.9	0.4	0.4
Nonbank	-0.8	-0.7	-0.3	0.4	0.1	0.1	0.1
Foreign	1.5	0.8	1.3	1.6	1.5	1.6	1.5
Loans	1.5	0.8	1.3	1.6	1.5	1.6	1.5
Borrowing	2.8	2.2	2.6	2.9	2.9	2.9	2.7
Amortization	-1.3	-1.4	-1.2	-1.4	-1.4	-1.3	-1.2
Statistical discrepancy[4]	-0.4	0.4	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Basic balance[5]	-3.3	-2.2	-1.5	-3.4	-0.1	0.3	0.3
Basic primary balance[6]	-0.4	1.2	1.5	0.4	3.4	3.4	3.0
Domestic public debt[7]	29.4	30.4	28.1	33.1	29.7	26.5	24.1

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Tax collection improved significantly in December 2011, owing mainly to one-off collection of tax arrears. Also, the NDB target was adjusted upward to GMD840 million to account for a GMD25 million shortfall in World Bank disbursement for the WARCIP project.

[2] Figure for 2010 consists of domestic loans only, and reflects onlending to GAMTEL financed by WARCIP.

[3] In 2010, includes bridge loan from CBG for part of the shortfall in disbursements of budget support.

[4] The difference between financing and the overall balance of revenue and expenditures.

[5] Overall balance, excluding statistical discrepancy, less expenditures financed by project grants and external borrowing.

[6] Basic balance, excluding interest payments.

[7] Defined as gross domestic interest bearing debt.

Table 4. The Gambia: Monetary Accounts[1]
(In millions of local currency, unless otherwise indicated)

	2010 Act.	2011 Act.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
			I. Monetary Survey			
Net foreign assets	3,808	4,548	4,913	5,770	6,954	8,285
in millions of U.S. dollars	134	150	151	170	197	226
Net domestic assets	9,485	10,205	11,171	12,716	14,141	15,646
Domestic credit	10,098	11,502	13,452	15,238	16,941	18,750
Claims on central government (net)	4,978	6,067	7,039	7,342	7,496	7,654
Claims on other financial corporations	10	12	12	12	12	12
Claims on other public sector[2]	870	811	965	1,168	1,402	1,654
Claims on private sector	4,240	4,612	5,436	6,715	8,031	9,431
Other items (net)[3]	-614	-1,296	-2,280	-2,522	-2,800	-3,104
Broad money	13,292	14,753	16,085	18,486	21,095	23,931
Currency outside banks	2,065	2,376	2,527	2,879	3,371	3,698
Deposits, of which:	11,228	12,377	13,558	15,606	17,724	20,233
Time and savings deposits	7,270	8,087	8,902	10,247	11,638	13,285
			II. Central Bank Survey			
Net foreign assets	2,452	3,088	3,063	3,483	4,161	4,949
Foreign assets	4,637	5,517	6,218	6,886	7,759	8,552
Foreign liabilities	-2,185	-2,429	-3,155	-3,403	-3,598	-3,604
Net domestic assets	1,052	846	1,159	1,270	1,159	975
Domestic credit	581	634	1,172	1,417	1,451	1,426
Claims on central government (net)	525	580	1,118	1,363	1,397	1,372
Claims on other financial corporations	10	12	12	12	12	12
Claims on private sector	46	42	42	42	42	42
Claims on public enterprises	0	0	0	0	0	0
Other items (net)[3]	471	212	-13	-147	-292	-451
Reserve money	3,503	3,934	4,222	4,752	5,320	5,924
Currency outside banks	2,065	2,376	2,527	2,879	3,371	3,698
Commercial bank deposits	1,439	1,558	1,695	1,873	1,950	2,226

Sources: Gambian authorities and Fund staff estimates and projections.

[1] End of period.

[2] Includes public enterprises and the local government.

[3] Including valuation.

Table 5. The Gambia: Monetary Accounts[1]
(Percent change, unless otherwise indicated)

	2010 Act.	2011 Act.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
	I. Monetary Survey (Percent change; in beginning of period broad money)					
Broad money	13.7	11.0	9.0	14.9	14.1	13.4
Net foreign assets	1.3	5.6	2.5	5.3	6.4	6.3
Net domestic assets	12.3	5.4	6.5	9.6	7.7	7.1
	II. Central Bank Survey (Percent change; in beginning of period monetary base)					
Reserve money	10.5	12.3	7.3	12.6	12.0	11.3
Net foreign assets	-16.7	18.2	-0.7	9.9	14.3	14.8
Net domestic assets	27.2	-5.9	8.0	2.6	-2.3	-3.5
Memorandum Items:						
Growth of credit to the private sector	14.8	8.8	17.9	23.5	19.6	17.4
Growth of currency in circulation	3.0	15.1	6.3	13.9	17.1	9.7
Growth of demand deposits	10.1	8.4	8.5	15.1	13.6	14.2
Growth of time and savings deposits	19.3	11.2	10.1	15.1	13.6	14.2
Net usable international reserves (in millions of U.S. dollars)	126.5	135.1	128.5	137.4	153.0	170.5
Money velocity (levels)	2.01	1.94	1.83	1.84	1.84	1.82
Money multiplier (levels)	3.79	3.75	3.81	3.89	3.97	4.04
Daily reserve money (in millions of local currency)[2]	3,782	3,911	…	…	…	…
Growth rate of daily reserve money	17.0	3.4	…	…	…	…
Broad money (percent of GDP)	49.9	51.5	54.6	54.3	54.3	54.9
Credit to the private sector (percent of GDP)	15.9	16.1	18.5	19.7	20.7	21.7
Central bank financing of central government (in millions of local currency)	413	55	538	244	35	-26
Commercial bank financing of central government (in millions of local currency)	986	1034	434	59	120	183

Sources: Gambian authorities and Fund staff estimates and projections.

[1] End of period.

[2] Average for the month of December.

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

	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
1. Current account						
A. Goods and services	**-176.7**	**-163.0**	**-205.5**	**-190.2**	**-201.4**	**-208.8**
Trade balance	-213.9	-221.3	-260.6	-248.4	-263.6	-280.5
Exports, f.o.b.	98.4	114.2	108.2	118.0	126.9	136.8
Of which: domestic goods [1]	13.6	17.8	9.9	12.8	14.2	15.2
Imports, f.o.b.	-312.2	-335.4	-368.8	-366.4	-390.5	-417.3
Of which: oil	-40.5	-53.7	-57.7	-61.0	-62.1	-63.2
Services (net)	37.1	58.3	55.1	58.1	62.2	71.7
Of which: travel income	70.9	84.3	85.9	92.3	99.8	108.1
B. Income (net)	**-29.9**	**-33.1**	**-34.7**	**-37.3**	**-37.1**	**-38.9**
Income credits	2.3	2.5	2.5	2.6	3.1	3.2
Income debits	-32.2	-35.6	-37.3	-39.9	-40.2	-42.1
C. Current transfers	**55.0**	**57.9**	**72.8**	**74.1**	**79.3**	**84.7**
Official transfers	0.0	0.0	8.9	5.1	5.4	5.7
Remittances	45.2	47.8	53.5	58.4	63.1	67.8
Other transfers	9.8	10.1	10.3	10.6	10.9	11.1
Current account (excl. budget support)	**-151.6**	**-138.2**	**-176.4**	**-158.5**	**-164.6**	**-168.7**
Current account (incl. budget support)	**-151.6**	**-138.2**	**-167.5**	**-153.4**	**-159.2**	**-163.0**
2. Capital and financial account						
A. Capital account [2]	**38.5**	**46.2**	**54.3**	**49.8**	**54.7**	**60.6**
B. Financial account	**139.0**	**112.2**	**105.9**	**112.0**	**119.6**	**119.5**
Foreign direct investment	85.6	60.1	73.1	66.5	69.8	73.3
Portfolio investment	-1.5	-1.1	-1.1	-0.2	-0.3	-0.4
Other investment [3]	54.8	53.3	33.8	45.7	50.0	46.6
Of which: Official other investment (net)	11.1	8.9	14.8	15.3	17.9	18.0
Loans	23.6	21.4	27.7	29.6	32.4	33.0
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-12.6	-12.5	-12.9	-14.3	-14.5	-15.0
Capital and financial account	**177.5**	**158.5**	**160.2**	**161.8**	**174.3**	**180.1**
Errors and omissions	-51.6	-4.9	0.0	0.0	0.0	0.0
Overall balance	**-25.7**	**15.4**	**-7.3**	**8.4**	**15.1**	**17.1**
Financing						
Net international reserves (increase -)	25.7	-15.4	-9.5	-13.2	-19.9	-19.5
Change in gross international reserves	22.6	-19.1	-9.2	-11.7	-16.6	-13.6
Use of IMF resources (net)	3.1	3.7	-0.3	-1.5	-3.3	-5.9
Disbursements	3.1	3.7	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	-0.3	-1.5	-3.3	-5.9
Financing gap (possible ECF financing)	0.0	0.0	16.8	4.8	4.8	2.4
Memorandum items:						
Exports of goods and services	229.1	263.7	260.5	280.4	300.7	323.4
Imports of goods and services	-405.8	-426.7	-466.1	-470.6	-502.1	-532.2
Gross International Reserves [4]						
US$ millions	163.3	182.5	191.6	203.3	220.0	233.6
Months of current year's imports of goods and services	4.8	5.1	4.9	5.2	5.3	5.3
Months of next year's imports of goods and services	4.6	4.7	4.9	4.9	5.0	5.0

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Domestic goods consist of (in decreasing order of importance): groundnuts, fruits and vegetables, zircon, fish, and cotton.

[2] Projection for 2011 includes grants under the World Bank's West Africa Regional Communications Integration Project (WARCIP).

[3] The decline in other investment in 2012 reflects the temporary accumulation of foreign assets by commercial banks associated with the end-year increase in the minimum capital requirement.

[4] The numbers for 2011 (and beyond) are affected by a reclassification of a $6.2 million equity stake in the West African Central Bank from "other items (net)" to "foreign assets" on the CBG's balance sheet.

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

	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
1. Current account						
A. Goods and services	**-18.3**	**-16.7**	**-21.9**	**-18.5**	**-17.9**	**-17.2**
Trade balance	**-22.2**	**-22.6**	**-27.7**	**-24.2**	**-23.5**	**-23.2**
Exports, f.o.b.	10.2	11.7	11.5	11.5	11.3	11.3
Of which: domestic goods [1]	1.4	1.8	1.1	1.2	1.3	1.3
Imports, f.o.b.	-32.4	-34.3	-39.3	-35.7	-34.8	-34.4
Of which: oil	-4.2	-5.5	-6.1	-5.9	-5.5	-5.2
Services (net)	3.9	6.0	5.9	5.7	5.5	5.9
Of which: travel	7.4	8.6	9.1	9.0	8.9	8.9
B. Income (net)	**-3.1**	**-3.4**	**-3.7**	**-3.6**	**-3.3**	**-3.2**
Income credits	0.2	0.3	0.3	0.3	0.3	0.3
Income debits	-3.3	-3.6	-4.0	-3.9	-3.6	-3.5
C. Current transfers	**5.7**	**5.9**	**7.7**	**7.2**	**7.1**	**7.0**
Official transfers	0.0	0.0	0.9	0.5	0.5	0.5
Remittances	4.7	4.9	5.7	5.7	5.6	5.6
Other transfers	1.0	1.0	1.1	1.0	1.0	0.9
Current account (excl. budget support)	**-15.7**	**-14.1**	**-18.8**	**-15.5**	**-14.7**	**-13.9**
Current account (incl. budget support)	**-15.7**	**-14.1**	**-17.8**	**-15.0**	**-14.2**	**-13.5**
2. Capital and financial account						
A. Capital account [2]	**4.0**	**4.7**	**5.8**	**4.9**	**4.9**	**5.0**
B. Financial account	**14.4**	**11.5**	**11.3**	**10.9**	**10.6**	**9.9**
Foreign direct investment	8.9	6.1	7.8	6.5	6.2	6.1
Portfolio investment	-0.2	-0.1	-0.1	0.0	0.0	0.0
Other investment [3]	5.7	5.5	3.6	4.5	4.5	3.8
Of which: Official other investment (net)	1.1	0.9	1.6	1.5	1.6	1.5
Loans	2.5	2.2	2.9	2.9	2.9	2.7
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-1.3	-1.4	-1.4	-1.3	-1.2
Capital and financial account	**18.4**	**16.2**	**17.1**	**15.8**	**15.5**	**14.9**
Errors and omissions	-5.4	-0.5	0.0	0.0	0.0	0.0
Overall balance	**-2.7**	**1.6**	**-0.8**	**0.8**	**1.3**	**1.4**
Financing gap (possible ECF financing)	0.0	0.0	1.8	0.5	0.4	0.2

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Domestic goods consist of (in decreasing order of importance): groundnuts, fruits and vegetables, zircon, fish, and cotton.

[2] Projection for 2011 includes grants under the World Bank's West Africa Regional Communications Integration Project (WARCIP).

[3] The decline in other investment in 2012 reflects the temporary accumulation of foreign assets by commercial banks associated with the end-year increase in the minimum capital requirement.

Table 8. The Gambia: Financial Soundness Indicators
(In percent, unless otherwise indicated)

	2007	2008	2009	2010	2011
Capital Adequacy					
Regulatory capital to risk-weighted assets	22.5	19.6	18.8	26.0	25.0
Tier-1 capital to risk-weighted assets[1]	20.4	21.0	19.3	26.9	26.1
Asset quality					
Nonperforming loans to total gross loans	10.4	13.7	12.3	14.5	12.9
Nonperforming loans net of provisions to capital	2.8	5.8	4.3	7.2	4.7
Earnings and profitability					
Return on assets (average)	4.5	0.1	-1.6	-0.5	0.3
Return on equity (average)	36.4	0.8	-24.9	4.8	1.8
Net Interest income to gross income	34.7	35.3	37.0	29.6	37.1
Operating expenses to gross income	47.0	65.8	62.0	65.2	59.5
Liquidity					
Liquid assets to total assets	45.0	43.6	35.7	37.3	41.5
Liquid assets to short-term liabilities	74.9	70.9	62.1	59.7	64.2
Exposure to FX risk:					
Net open FX position to capital	36.9	19.1	6.0	1.3	-1.0

Sources: Gambian authorities, and Fund staff estimates.

[1] Tier-1 capital is larger than regulatory capital due to the supervisory deduction from premises revaluation.

Table 9. The Gambia: Proposed Schedule of Reviews and Disbursements Under New ECF Arrangement, 2012–15

Date of availability	Amount (SDR)	Amount (percent of quota[1])	Conditions
May 25, 2012	9,330,000	30.00	Executve Board approval of new ECF arrangement.
November 1, 2012	1,555,000	5.00	Completion of first review, based on observance of the performance criteria and structural benchmarks for end-June 2012.
May 1, 2013	1,555,000	5.00	Completion of second review, based on observance of the performance criteria and structural benchmarks for end-December 2012.
November 1, 2013	1,555,000	5.00	Completion of third review, based on observance of the performance criteria and structural benchmarks for end-June 2013.
May 1, 2014	1,555,000	5.00	Completion of fourth review, based on observance of the performance criteria and structural benchmarks for end-December 2013.
November 1, 2014	1,555,000	5.00	Completion of fifth review, based on observance of the performance criteria and structural benchmarks for end-June 2014.
March 15, 2015	1,555,000	5.00	Completion of sixth review, based on observance of the performance criteria and structural benchmarks for end-December 2014.
	18,660,000	60.00	

[1] The Gambia's quota is SDR 31.1 million.

Table 10. The Gambia: Indicators of Capacity to Repay the Fund, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Projections								
Fund obligations based on existing credit									
Principal	0.2	1.0	2.1	3.8	4.3	4.3	3.5	2.4	0.7
Charges and interest	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit 1/									
Principal	0.2	1.0	2.1	3.8	4.3	5.2	5.9	5.5	4.1
Charges and interest	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit 1/									
In millions of SDRs	0.2	1.0	2.2	3.9	4.4	5.3	5.9	5.6	4.1
In millions of US$	0.3	1.5	3.4	6.1	6.7	8.2	9.1	8.6	6.4
In percent of Gross International Reserves	0.2	0.8	1.5	2.6	2.7	3.1	3.2	2.8	1.9
In percent of exports of goods and services	0.2	0.9	1.8	3.0	3.1	3.5	3.6	3.2	2.2
In percent of debt service 2/	2.3	9.8	19.0	28.8	34.0	38.4	40.6	36.3	30.5
In percent of GDP	0.0	0.2	0.3	0.5	0.5	0.6	0.6	0.5	0.4
In percent of quota	0.6	3.2	7.1	12.6	14.0	17.1	19.0	17.9	13.3
Outstanding Fund credit 1/									
In millions of SDRs	33.2	35.4	36.4	34.1	29.8	24.6	18.8	13.2	9.1
In millions of US$	51.3	54.6	56.2	52.6	46.0	37.8	28.9	20.4	14.1
In percent of Gross International Reserves	26.8	26.8	25.5	22.5	18.4	14.2	10.1	6.6	4.3
In percent of exports of goods and services	31.6	31.2	29.9	26.1	21.2	16.2	11.5	7.6	4.9
In percent of debt service 2/	389.0	345.7	313.5	250.0	232.9	178.0	129.0	86.4	67.4
In percent of GDP	5.5	5.3	5.0	4.3	3.6	2.7	1.9	1.3	0.8
In percent of quota	106.9	113.7	117.0	109.7	95.9	79.1	60.3	42.5	29.4
Net use of Fund credit (millions of SDRs)	10.7	2.1	1.0	-2.3	-4.3	-5.2	-5.9	-5.5	-4.1
Disbursements	10.9	3.1	3.1	1.6	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.2	1.0	2.1	3.8	4.3	5.2	5.9	5.5	4.1
Memorandum items:									
Nominal GDP (in millions of US$)	939.2	1,025.9	1,122.9	1,211.7	1,293.8	1,387.2	1,491.2	1,602.9	1,723.0
Exports of goods and services (in millions of US$)	162.2	175.1	187.9	201.8	216.9	233.4	251.0	269.7	290.1
Gross International Reserves (in millions of US$)	191.6	203.3	220.0	233.6	250.5	267.2	285.9	306.8	329.6
Debt service (in millions of US$) 2/	13.2	15.8	17.9	21.0	19.7	21.3	22.4	23.6	20.9
Quota (millions of SDRs)	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1

Sources: IMF staff estimates and projections.

1/ Includes prospective ECF disbursements of SDR 18.7 million (60 percent of quota).

2/ Total debt service includes IMF repurchases and repayments.

Table 11. The Gambia: External Financing Requirement and Sources, 2011–17
(In millions of U.S. dollars)

	Prel.	Projection					
	2011	2012	2013	2014	2015	2016	2017
A. Gross financing requirements	121.7	170.8	150.5	161.5	168.9	166.1	167.3
Current account deficit	138.2	167.5	153.4	159.2	163.0	166.2	169.7
Amortization, net	12.5	12.9	14.3	14.5	15.0	13.0	13.1
Of which: official (public sector and central govt)	12.5	12.9	14.3	14.5	15.0	13.0	13.1
Private capital, net (commercial banks, trade credit)	-44.4	-19.1	-30.4	-32.1	-28.6	-36.6	-38.9
Reserves accumulation (+: increase)	15.4	9.5	13.2	19.9	19.5	23.5	23.3
B. Sources of Financing	126.6	154.0	145.7	156.7	166.5	163.7	165.0
Capital grants and transfers	46.2	54.3	49.8	54.7	60.6	51.8	48.6
Foreign Direct Investment, net	60.1	73.1	66.5	69.8	73.3	79.0	82.9
FDI inflows to The Gambia	60.1	73.1	66.5	69.8	73.3	79.0	82.9
Net inflows of equity and other capital	-1.1	-1.1	-0.2	-0.3	-0.4	-0.4	-0.5
New borrowing, gross	21.4	27.7	29.6	32.4	33.0	33.3	34.0
C. Financing Gap (A–B)	-4.9	16.8	4.8	4.8	2.4	2.4	2.3
Errors and omissions	-4.9	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF financing (gross)	0.0	16.8	4.8	4.8	2.4	0.0	0.0
Potential disbursements	0.0	16.8	4.8	4.8	2.4	0.0	0.0
Residual external financing gap	0.0	0.0	0.0	0.0	0.0	2.4	2.3

Sources: The Gambia authorities; and Fund staff estimates and projections.

APPENDIX I

LETTER OF INTENT

Banjul, The Gambia
May 4, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

1. The policies implemented by the Government of The Gambia (GoG) in recent years have been generally successful in maintaining macroeconomic stability, delivering strong growth, and improving the well-being of the Gambian people. These policies were supported by the International Monetary Fund (IMF) through an arrangement under the Extended Credit Facility (ECF) approved by the IMF Executive Board in February 2007. The arrangement was augmented in February 2009 and extended and augmented again in February 2010. However, the fiscal deficit began to widen over the latter part of the arrangement, which expired in March 2011 without completion of the final review because of fiscal slippages. The GoG's domestic debt, which was on a declining path, began to rise again. As of the end of 2010 domestic debt stood at nearly 30 percent of GDP, significantly increasing the debt burden and rollover risks.

2. During 2011, the GoG took important steps towards strengthening macroeconomic stability and fiscal sustainability. These included: (i) stabilizing revenue, particularly through stronger revenue administration and more regular adjustments of fuel prices to reduce subsidies that cut into tax collections; (ii) restraining expenditures through strict cash budgeting; (iii) curbing the growth in domestic debt; and (iv) reining in fiscal dominance and building up the independence of the central bank. In addition, in late 2011 the GoG launched the *Programme for Accelerated Growth and Employment* (*PAGE*), which seeks to increase growth through investment in agriculture, infrastructure, and human capital.

3. A severe drought, however, has led to a major crop failure during the 2011-12 season, with harvest yields of key crops falling by 50-80 percent. Economic growth has been hit hard and the GoG anticipates additional spending needs of around 2½–3 percent of GDP for emergency food imports, as well as for immediate purchases of seeds and fertilizer, which are needed urgently to avoid another crop failure in the 2012-13 season. The current crop failure also means that exports of groundnuts, our main cash crop, will collapse this year.

4. The attached Memorandum of Economic and Financial Policies (MEFP) describes more fully these recent economic developments and presents our policies for the near and medium terms. Once we address the drought crisis, our focus will turn to reducing the domestic debt burden. We will rebuild revenues and modernize tax administration, strengthen public financial management, enhance central bank independence, and strengthen financial sector stability. To support the *PAGE*, we will build up institutions that would ensure productive private sector participation in infrastructure investment.

5. To support stability during the current crisis and the implementation of our medium-term policy agenda, the GoG requests a new three-year ECF arrangement in an amount equivalent to SDR 18.66 million (60 percent of quota), of which, upon approval of the arrangement by the IMF Executive Board, the first disbursement be equivalent to SDR 9.33 million (30 percent of quota).

6. The GoG believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding are adequate to achieve the objectives of the programme, but stands ready to take any further measures that might become necessary for this purpose, in consultation with the IMF. The GoG will also continue to provide the staff of the IMF the information required to accurately assess The Gambia's progress in executing the policies contained in the attached MEFP. Furthermore, The GoG will consult regularly with the IMF and in advance of revisions to policies contained in the MEFP in accordance with the IMF's policies on such consultation, at the initiative of the Government or the IMF.

7. The Government intends to make available to the public this letter, the IMF staff's report, and all other documents related to the programme. Therefore, we authorize the IMF to arrange for these documents to be posted on the IMF website following the Executive Board's decision on the new ECF arrangement.

Sincerely yours,

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

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

ATTACHMENT I

THE GAMBIA

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

MAY 4, 2012

I. INTRODUCTION AND BACKGROUND

1. This memorandum reports on recent economic developments and outlines the economic and financial policy agenda of the Government of The Gambia for 2012–2014, which could be supported by the International Monetary Fund (IMF) with a three-year arrangement under the Extended Credit Facility (ECF). The policy agenda is based upon The Gambia's new poverty reduction strategy, the Programme for Accelerated Growth and Employment (*PAGE*), which was launched in December 2011. *PAGE* priorities include support for agriculture, education, health, and stepped-up investment in infrastructure.

II. BACKGROUND AND RECENT ECONOMIC DEVELOPMENTS

2. The Gambian economy performed well in recent years, with robust growth and low inflation, despite the global financial crisis and major shocks to fuel and food prices. During 2007–2010, real GDP growth averaged around 5.5 percent a year, driven mainly by a strong expansion in agriculture and services, including financial services and telecommunications. However, tourism and residential construction (financed by remittances) were hit hard by the global crisis. In 2011, growth is estimated to have fallen to about 3 percent, owing to the initial effects of a crop failure during the 2011-12 crop season. A strong rebound in tourism beginning late in the year helped to moderate the decline in overall GDP growth. Inflation averaged around 5 percent a year during 2007-11, as the Central Bank of The Gambia (CBG) generally maintained a restrained monetary stance over the years. Although the external current account deficit widened in recent years, official international reserves remained at a comfortable level, partly because of the IMF's SDR allocation in 2009. As of the end of 2011, gross reserves stood at USD 182.5 million, which was equivalent to 5.1 months of imports of goods and services.

3. Strong economic growth, particularly in rural areas, contributed to a significant reduction in poverty. Based on the 2010 household income survey, the headcount poverty index, based on a poverty threshold of USD 1.25 a day, fell to 48.5 percent in 2010, compared with 58 percent in 2003.

4. Despite these positive developments, the Government's debt burden continued to weigh heavily on the economy. Although The Gambia received extensive relief under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) in December 2007, the country remains at high risk of distress on its external debt.

The Government's domestic debt, which stood at GMD 8,697 million (30.4 percent of GDP) at the end of 2011, also poses high risks, as three-fourths of the debt (GMD 6,522 million) was in the form of T-bills with maturities of one year or less, creating very high rollover risks. Moreover, interest on domestic debt has been very costly, consuming about 18 percent of government revenues in 2011. In recent years, domestic debt has been rising (relative to GDP), as government revenues fell steadily from 17.3 percent of GDP in 2007 to 14.9 percent of GDP in 2011, while episodes of severe spending overruns resulted in large fiscal deficits. In particular, in 2010, the Government's net domestic borrowing (NDB) rose to GMD 1,245 million (4.7 percent of GDP), leading to increased pressures on inflation, interest rates, and the exchange rate.

5. In 2011, the Government initiated concerted actions to reverse the growing domestic debt problem. Since January 2011, the Ministry of Finance and Economic Affairs (MOFEA) has employed a disciplined cash-budgeting approach with monthly expenditure ceilings to curb the Government's domestic borrowing needs. This was instrumental in helping to avoid the end-year spending overruns that had occurred in previous years, despite extraordinary spending demands such as those for national elections. The combination of spending discipline and a surge in tax revenues toward the end of the year allowed the Government to reduce NDB to GMD 899 million (3.1 percent of GDP) for the year as a whole.

6. The Government has implemented multiple measures to bolster revenues and tax compliance:

- A new fuel pricing formula was introduced in January 2011 and monthly price adjustments were implemented through April. Although price adjustments were implemented irregularly the rest of the year, pump prices were 8.3 percent (weighted average) below the full pass-through level in December. The Government re-instated regular monthly adjustments to fuel prices in January 2012. Although import prices increased sharply in March and April, and the subsidy temporarily widened, monthly price increases were such that by May, the weighted average subsidy again stood at 8.3 percent of the full pass-though price.

- Since May 2011, the Gambia Revenue Authority (GRA) has decided to enforce the collection of excise taxes on domestically produced manufactured goods, including taxes owed since the beginning of the year. Two large companies are still not in compliance and the enforcement effort will continue in 2012 until all outstanding arrears of excise taxes are eliminated.

- By December 2011, the GRA collected outstanding arrears on GSM license fees. Arrears on sales and PAYE taxes owed by large taxpayers through December 2011 were also settled by early 2012.

- The GRA has implemented a detailed compliance improvement plan for large taxpayers. As a result, around 87 percent of large taxpayers had filed their income tax returns for the 2010 tax year by early 2012, up from less than 50 percent in mid-2011.

- As announced in the December 2011 budget speech, the Government started bringing holders of expired Special Investment Certificates (SICs) into the tax net, removed tax waivers on sugar and cement, and discontinued the fuel concession given to the Gambia Port Authority (GPA). The Government also plans to introduce a quota system for duty exemptions on fuel for diplomatic missions.

- The Government has conducted a comprehensive survey of domestic arrears and will develop a payment schedule. Claims totaled GMD 479 million (about 1.6 percent of GDP), but need to be verified before a payment plan is developed.

- In the area of customs administration, ASYCUDA++ has been rolled out to headquarters, the airport, and the 3 busiest border stations. The GRA's Customs and Excise Department (CED) launched its risk management committee in April 2011.

- The Government also appointed the members of the Tax and Customs Tribunals in early 2012.

7. The Government has also continued to make progress toward a timely and smooth introduction of the value added tax (VAT) in January 2013, in line with its commitments to ECOWAS:

- The policy paper containing the main design features of the VAT was discussed and approved by Cabinet in February 2012, together with a costed VAT implementation plan.

- A draft of the VAT bill (which extends coverage of the VAT to the electricity sector and services such as equipment rental and repair and maintenance) was completed in February 2012 and will be submitted to the National Assembly by end-May 2012.

- A public communications campaign for the VAT was launched in February 2012.

8. On the expenditure side, the Government made further progress with public financial management (PFM) reforms in 2011, including improving budget preparation and execution:

- The Integrated Financial Management Information Systems (IFMIS) was fully rolled out to all 29 budget entities (ministries and public sector agencies) in January 2011.

- The interface of IFMIS with CBG's national payments system became operational in December 2011. It will ensure that government spending does not exceed available resources by enabling the Directorate of the National Treasury to access, in real time, government accounts and the automated Securities Settlement System.

- The audited government accounts for 2007 were submitted to the National Assembly in October 2011. The accounts for 2008-10 will be submitted to the National Audit Office (NAO) by end-April 2012 and those for 2011-12 by end-April 2013.

9. At the same time, to preserve The Gambia's progress toward the Millennium Development Goals (MDGs), the Government continued to prioritize programmes aimed at reducing poverty, with the help of its development partners. The Government ring-fenced spending priorities for poverty reduction, including spending on education, which amounted to 15 percent of all spending financed by The Gambia Local Fund (GLF), and spending on agriculture, which amounted to 5 percent of total GLF-financed spending.

10. The CBG has taken actions to bolster its operational independence, contain pressures on inflation and the exchange rate, and improve liquidity forecasting and management:

- The growth rates of end-period reserve and broad money were limited to 12 and 11 percent, respectively, in 2011. The stock of average daily reserve money in December 2011 was only 3 percent above its level a year ago. The slow growth in reserve money partly reflected necessary tightening to accommodate the 2 percentage point reduction in the reserve requirement (to 12 percent), which went into effect in late April 2011. Credit to the private sector grew by 9 percent in 2011, mainly reflecting conservative lending practices by banks in an effort to minimize nonperforming loans (NPLs) on their balance sheets.

  Since June, on a monthly basis, the Government has refrained from accessing credit from the CBG at below-market interest rates, including overdrafts. (November was an exception, but the breach was small and it was reversed immediately.) Indeed, the entire overdrawn balance in the Treasury Expenditure Account was fully eliminated through sales of T-bills by the end of September. The Government, however, incurred new arrears of around GMD 70 million on interest due to the CBG late in the year. For the most part, these arrears were cleared in January 2012. [1]

- Following the resumption of regular meetings of the interagency committee, the CBG started forecasting auction sizes one month ahead in September 2011, on a pilot basis. The quality of forecasts has been improving gradually, and the CBG started announcing publicly rolling quarterly projections for the estimated sizes of T-bill auctions (by maturity) in January 2012. Going forward, these projections will be updated every month.

11. The installation of CBG's new national payment system is now complete. The Real-Time Gross Settlement System (RTGS) and the Automated Cheque Processing and Clearing House (ACP/ACH) were launched in December. The Core Banking Application (CBA) became operational in January. Work has progressed on the National Switch and the Securities Settlement System (SSS), which are expected to be operational by the end of 2012. All these measures will help reduce the overhead expenses of commercial banks. The

[1] Treatment of interest on redeemable interest bearing notes is under discussion between Government and the CBG.

CBG anticipates that commercial banks will pass these significant cost savings to consumers of financial products. Still, the requirement that a court order be granted prior to liquidating collateral on NPLs, notably mortgages, increases the cost and risk of lending by banks.

12. The quality of statistics is crucial for macroeconomic policy-making and surveillance. To improve the quality of BOP statistics, in 2011 the CBG conducted surveys of tourist expenditures and re-exports, and is currently undertaking a survey of trade credits. Regular quarterly meetings on re-exports are now taking place among The Gambia Bureau of Statistics (GBoS), CBG, the GRA's Customs and Excise Department, and the National Transport Union. The chairmanship of this committee will shift from GRA to CBG during the first half of 2012.

III. Economic and Financial Policies for 2012–2014

13. As highlighted in the *PAGE*, macroeconomic stability is essential for achieving high growth rates and increased employment. In this context, continued progress on reducing the burden and risks associated with the Government's domestic debt will be the anchor to the macroeconomic policy framework over the medium term. A gradual approach to reducing this burden has been adopted, under which the Government's annual net domestic borrowing requirement will be reduced to ½ percent of GDP by 2014.[2]

14. In addition to a sound macroeconomic framework, the *PAGE* has mapped out strategies for enhancing growth across all sectors of the Gambian economy. However, substantial financial resources will be needed to implement the medium-term investment plans in the *PAGE*. The Government will seek to generate such resources through a multi-pronged approach, including a rebuilding of government revenues, savings from reduced interest costs on domestic debt, increased access to external financing with improved debt and public financial management, and harnessing private sector participation in viable sectors. The Government will work closely with its development partners to ensure that efforts to engage the private sector in infrastructure development are transparent and productive. Given the constrained resource envelope for 2012-2014 and the continued high risk of debt distress, the Government has launched a sustained effort to engage development partners and attract support.

A. Key Objectives and Parameters of the Programme

15. Under the overarching goal of accelerating economic growth and reducing poverty, the key objectives of the Gambian authorities' policy agenda are: (i) pursuing gradual fiscal adjustment over the medium term in order to reduce interest costs and rollover risks, and to create fiscal space; (ii) pursuing tax and revenue administration reforms to increase revenues, make the tax system simpler and more efficient, and improve the business

[2] In light of additional domestic borrowing required to address the severe crop failure in 2012, if domestic revenues exceed their targets in 2013 and 2014, at least half of the additional revenue will be directed toward domestic debt reduction.

environment; (iii) further strengthening public financial management, with a focus on budget planning and execution and fiscal transparency; (iv) strengthening central bank independence and further improving the conduct of monetary policy; (v) promoting financial stability and increasing access to credit for the private sector; (vi) catalyzing private sector development and competition; and (vii) improving economic statistics.

16. Given these objectives, the key parameters of the medium-term policy framework will be as follows:

- at least 5-6 percent annual growth in real GDP;
- 5 percent annual inflation;
- NDB gradually declining to ½ percent of GDP by 2014;
- a growth rate for broad money slightly higher than the growth rate of nominal GDP, to allow for financial deepening (around 13 percent in the medium term);
- a growth rate for reserve money consistent with the growth rate for broad money (around 11 percent in the medium term);
- maintain gross international reserves at around 5 months of imports of goods and services;
- maintain a flexible exchange rate to help preserve The Gambia's external competitiveness, with central bank interventions in the foreign exchange market only to maintain orderly market conditions. Other sales and purchases by the CBG on the foreign exchange market, for example, to mop up liquidity injections caused by foreign-financed government spending, and, if necessary, to obtain foreign exchange to meet its targets for international reserves, will be conducted in a manner that minimizes the impact on the exchange rate.

B. Fiscal Policy and Related Structural Reforms

17. The Government will continue to seek external grants and concessional loans to finance infrastructure investment plans with a minimum grant element of 35 percent. It will not incur any new external payments arrears and it will not contract or guarantee any new non-concessional external debt or any external debt with original maturity of one year or less. The Government will also explore productive opportunities for public-private partnerships. As market conditions allow, the Government will aim to extend the maturity of domestic public debt by launching longer-term bonds in order to reduce rollover risks. Finally, the Government will continue to conduct annual debt sustainability analyses in consultation with the IMF and World Bank to ensure that all debt indicators will fall and remain below their corresponding thresholds.

18. The Government will pursue tax policy and revenue administration reforms to increase revenues, make the tax system simpler and more efficient, and improve the business environment. The cornerstone of these reforms will be the launch of a VAT in January 2013. Beyond the VAT, the Government intends to pursue a comprehensive tax reform aimed at broadening the tax base, eliminating certain taxes which do not meet a cost-

benefit test[3], and simplifying direct taxes, including by reducing both the number of tax brackets and the levels of tax rates. Important studies to be conducted include:

- A comprehensive survey and estimate of tax expenditures in 2012. (High Priority)

- Informed by a study on tax expenditures, a comprehensive study of tax reform to assess the scope for broadening the income tax base and lowering tax rates—possibly to a single rate of 15 percent for both the personal and corporate income taxes—consistent with revenue targets; review the tax on allowances, with a view toward eventually applying it consistently to all civil servants (in addition to the employees of public corporations) and private sector employees; assess the effectiveness and impact of withholding tax on interest income, as well as a creditable 1 percent income tax withholding on imports for casual and noncompliant importers.

- The Government will re-engage IMF technical assistance to assess the need to realign excise taxes on alcohol, tobacco, and other products.

- The Government plans to simplify small business taxation by imposing a single 0.5 percentage point tax on turnover of all businesses not registered for income tax or the VAT. For the smallest businesses (with turnover below GMD 25,000), the Government will simplify the current rate schedule consisting of 16 different rates to one with a flat fee of around GMD 500.

19. Further reforms in the area of tax policy and revenue administration include:

- To rebuild revenues from fuel taxes, especially in light of the resources needed to provide relief to vulnerable groups suffering from the crop failure, the Government will steadfastly adjust fuel prices on the 26th day of the month, to gradually allow the full pass-through of import prices to retail prices.

- In addition to the compliance improvement plan for large taxpayers, a similar plan will be designed and implemented for medium and small taxpayers by June 2012.

- To maximize filing compliance by large taxpayers, the Government will submit to the National Assembly by end-June 2012 amendments to the relevant law that will shift the setting of law enforcement parameters (such as the size of penalties for late lodgment or non-lodgment of tax returns) to regulations.

- The Government will continue to strengthen the GRA's Large Taxpayer Unit (LTU) with more staff, toward meeting the targets of 50 people by July 2012 and 60 people by January 2013.

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[3] Examples include the environment taxes on salaries and on imported vehicles, the entertainment tax, the tax on games and betting, and the national education levy.

- The Government will update and better utilize the Taxpayer Identification Number (TIN) register, for example, by linking it to national ID numbers.

- In the area of customs administration, the Government will aim to mobilize revenue and reduce the burden of compliance. ASYCUDA++ will be rolled out to all border stations. The GRA's Board will approve a risk management program and a training and technical assistance plan for the Customs and Excise Department by end-December 2012. By end-2013, the GRA will move toward self-assessment and toward reducing the rate of physical inspections to 50 percent or less.

20. The Government will aim to tighten expenditure controls while maintaining the focus on poverty reduction. Wage bill increases will depend on effective civil service reform aimed at retaining qualified staff. The government will seek technical assistance to conduct such reform. The monthly cash budgeting framework introduced in 2011 will be refined further. Unforeseen spending pressures will be limited to the contingency reserve in the budget. If necessary, the annual budget will be adjusted through a supplementary bill, while maintaining the target for NDB.[4]

21. The Government will track poverty-reducing expenditures in the context of the *PAGE* through improved data collection, better definition, and better targeting of spending. A minimum of 44 percent of total GLF-financed expenditure will be dedicated to poverty-reducing spending identified in the *PAGE*. To meet requirements for donor support, 20 percent of total current expenditures (excluding interest payments) will be directed to education. Government also plans to eventually raise its spending on agriculture from six to ten percent of total government expenditures, in line with the 2003 Maputo Declaration.

22. A primary objective of the Government is to strengthen further budget planning and execution and PFM in order to enhance fiscal transparency and expenditure control. Next steps include:

- To strengthen budget execution and monitoring, the Government will publish quarterly budget execution reports, starting in Q2 of 2012.

- The Government will prepare a budget framework paper for 2013 with indicative budget projections for 2013-2015, to be submitted to the National Assembly as part of the annual budget documentation by end-October 2012. The budget framework paper will include an indicative Medium-Term Expenditure Framework (MTEF).

- In 2012, the Government will update and prioritize the strategic plan of the Ministry of Basic and Secondary Education. It will also review, update, and cost MOFEA's strategic plan and that of one other line ministry.

- In 2013, the Ministry of Basic and Secondary Education will pilot an MTEF.

[4] In 2012, disbursements of budget support from the World Bank and the AfDB will require a budget supplement.

C. Monetary and Exchange Rate Policies

23. The CBG will continue to use a money targeting framework to pursue its price stability objective (inflation at or below 5 percent). The CBG intends to limit reserve and broad money growth to 7 percent and 9 percent, respectively, in 2012. It will also continue to use its rediscount rate to signal changes in policy stance.[5] The central bank will monitor energy and food prices, and will be prepared to tighten monetary policy if shocks to energy and food prices start sifting into the general price level. The CBG will continue to maintain a flexible exchange rate, intervening in the market only to maintain orderly market conditions or to mop up liquidity injections caused by foreign-financed government spending. If necessary, the CBG may purchase foreign exchange to meet its targets for international reserves. To ensure exchange rate stability, the CBG will maintain international reserves at around 5 months of imports of goods and services.

24. Difficulties in predicting government financing needs have led in the past to greater monetary instability and to higher interest rates. The Government accomplished a series of measures in 2011, outlined in Section II, to strengthen central bank independence and to improve liquidity forecasting and management. Going forward, these measures should empower the CBG to proactively set and implement a consistent and predictable path for monetary policy and liquidity management. Next steps include:

- The Government will continue to adhere to a zero limit, on a monthly basis, on new credit from the central bank at below-market interest rates, including a zero balance on overdrafts. The Government will adhere strictly to the schedule for payments of principal and interest on CBG-held government securities (see Table 1).

- MOFEA will continue to collaborate with CBG to strengthen liquidity forecasting, both by participating in the regular meetings of the interagency committee and by improving its weekly forecasts of the public sector borrowing requirement.

- With technical assistance from the IMF, the CBG plans to launch the market for daily repos in January 2013. The CBG will bear the interest costs of repo operations.

- The existence of a working tool for daily liquidity management will allow the CBG to switch to a fortnightly schedule for T-bill auctions by the end of June 2013, which will make auctions more competitive and help lower interest rates.

D. Financial Intermediation

25. Improving the framework for financial supervision and prudential regulation will be important to support economic growth and stability. The CBG continues to regard the continuous capacity building of its supervisory staff as absolutely critical for keeping pace

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[5] The CBG will continue to monitor average daily reserve money, with a view toward shifting to an average daily reserve money target, once an effective tool for managing daily liquidity is available and fully tested. The CBG will also conduct a study of alternative policy interest rates.

with a rapidly changing banking system. It also recognizes the fact that supervision is labor intensive. Therefore, the CBG will continue to maintain adequate staffing levels and provide training for staff of the Financial Supervision Department (FSD).

26. To boost financial sector stability, the Government intends to pursue a series of structural reforms, in addition to the ones accomplished in 2011 (and outlined in Section II):

- The technical problems at the Credit Reference Bureau, which have delayed the updating of borrowers' credit information, will be corrected by mid-2012.

- By August 2012, CBG will launch V-RegCoSS, an electronic reporting system for commercial banks which will facilitate the accurate and timely submission of statutory returns. V-RegCoSS will enable the CBG to access information from banks in real time which will improve offsite and onsite supervision.

- The CBG will also review the Manual of Guidelines and Instructions by June 2012, so that concurrently with the launch of V-RegCoSS, it will start the regular collection of new data, including on the term structure of commercial banks' assets and liabilities, on weighted interest rates on loans and deposits, and on the largest credit exposures.

- The minimum capital requirement for commercial banks will be raised from GMD 150 million to GMD 200 million by end-December 2012. The CBG will enforce this requirement with no forbearance. To ensure the smooth implementation of this regulation, the CBG will review by end-June 2012 each bank's plan for raising the necessary resources. It will also encourage banks to meet at least 50 percent of the capital increase by end-September 2012.

- By June 2013, the CBG will submit to the National Assembly amendments to the Banking Act 2009, which will tighten loan classification and provisioning rules by introducing a new category of "special mention loans" capturing loans which are 30-90 days past due, with a provisioning rate of 5 percent. If necessary, the CBG will tighten further provisioning rules for loans more than 90 days past due. The CBG will also introduce hard limits on individual and aggregate large exposures (with equal treatment for secured and unsecured loans). Additionally, it will require the disclosure of banks' ultimate beneficial shareholders. The CBG will require shareholders holding more than 5 percent interest to be subjected to a fit and proper test and it will empower the FSD to suspend the shareholder rights of unfit and improper shareholders.

- By end-2013, the CBG will require all commercial banks to start preparing their audited financial statements and annual reports in accordance with International Financial Reporting Standards (IFRS).

- The capacity for macro-prudential analysis, including stress testing, will be enhanced through further technical assistance from the IMF.

- Finally, the CBG plans to gradually migrate from a hybrid (compliance and risk-based) to a fully risk-based supervisory framework.

27. The private sector continues to face extremely high interest rates on loans from commercial banks. These are due not only to crowding out by the public sector, but also to high reserve requirements, high overheads, and legal and institutional difficulties in recovering loans and realizing collateral. To increase access to credit for the private sector:

- The CBG will continue reviewing the reserve requirement in the context of liquidity conditions prevailing in the market.[6]

- The CBG will continue to push the banking sector to reduce overheads further and to become even more competitive.

- The Ministry of Local Government will reduce the value of stamp duty on new mortgages (currently set at 5 percent of the value of each mortgage).

- With help from IMF technical assistance and in consultation with commercial banks, the private sector, and other stakeholders, the CBG will review the Sheriffs and Mortgages Acts in 2013 to see if amendments in those could reduce the cost, uncertainty, and complexity of dealing with non-performing loans.

- The CBG will encourage commercial banks to create a market for distressed loans by 2013.

- The CBG will work with other stakeholders, such as MOFEA and the Ministry of Justice, on developing a Collateral Registry, which should be operational by 2013.

E. Other Structural Reforms

28. To ensure greater private sector participation, promote competition, and reduce quasi-fiscal risks, the Government will, in consultation with the World Bank, initiate a strategic study of the state-owned telephone company (GAMTEL) and mobile phone operator (GAMCEL) by September 2012. The study will generate policy options for the Government's consideration, including the option to re-privatize GAMCEL, in line with *PAGE* objectives. Given the limited budget resources for the *PAGE*, the Government will explore productive opportunities for public-private partnerships for other public enterprises (such as GAMTEL, Banjul seaport, GGC, NAWEC, ferries, roads, and bridges). To ensure that PPPs are critically evaluated, the MOFEA will set up a qualified PPP assessment unit in 2012. Also, in consultation with the World Bank, the Government will elaborate a national energy strategy by end-2012. In this context, the Government is committed to strengthening regulatory bodies such as the public utility regulator (PURA), as well as improving the performance and financial health of the state electricity company (NAWEC). To protect

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[6] A lower reserve requirement will necessitate a correspondingly tighter target for reserve money, to offset the expansionary impact of the reduction.

consumers from unnecessarily high energy prices, the Government will explore a restructuring of the fuel import market with a view toward introducing greater competition or stricter regulation.

F. Statistics

29. Improving the quality of macroeconomic statistics is a key component of the overall program for the economic development of The Gambia. The Government is planning the following measures:

- To strengthen GBoS and boost the quality of national accounts (NA) and price statistics, the Government will recruit additional qualified staff at the NA and price units, and will provide more resources for training and IT (including computers and software).

- CBG also plans to continuously build up capacity in the BOP unit at the Economic Research Department, in line with recommendations from IMF technical assistance.

- Line ministries will contribute to the development of sectoral statistics, particularly in agriculture, health, education, transport, and construction. Line ministries and government agencies will cooperate closely with GBoS and submit all necessary data in a timely manner. The Government will resume the annual conference on official statistics.

- To improve further the quality of BOP statistics, the CBG will conduct a new survey of FDI in the first half of 2012.

- By June 2012, the GBoS will start posting on its external website Excel files with national account and CPI data, as well as detailed methodological information, and a calendar of upcoming data releases.

- By June 2012, (GBoS) will draft a strategy for backing-up and protecting its data, together with a costed implementation plan, which will be approved by MOFEA and implemented by end-2012.

- In consultation with GBoS, CBG, and the National Transport Union, the GRA will standardize procedures and reports for border stations by end-2012, with a particular focus on recording re-exports correctly and consistently.

- GBoS will update the Business Register, based on the list of establishments that will be provided by the GRA.

- The NA unit at GBoS will develop GDP estimates by the expenditure approach by 2013 and quarterly GDP estimates by 2014.

IV. ADDRESSING THE 2011-12 CROP FAILURE EMERGENCY

30. Because of poor weather conditions in many parts of the country, key crops (rice, millet, and groundnuts) have suffered losses of 50-80 percent during the 2011-12 crop season, compared with production in 2010-11. The Government has publicly declared a state of food and seed emergency and has requested assistance from development partners and aid agencies. It is projected that the cost of food aid and seeds and fertilizer for the upcoming crop season will amount to USD 23 million. The Government has taken immediate steps to generate the necessary resources to address this crisis, including the gradual increase in fuel prices to reduce and eventually eliminate subsidies and collect the full value of the fuel excise tax. The Government has also had to issue higher-than-budgeted amounts of T-bills in 2012:Q1. It is expected that NDB during the first half of 2012 will amount to GMD 799 million. This additional borrowing will be reduced over the course of the year as donor assistance becomes available, including expected budget support grants from the World Bank (about USD 6 million) and the African Development Bank (USD 2.9 million). Official international reserves of the CBG will also be used to meet the additional foreign exchange requirements of the emergency imports. As donor assistance, including the aforementioned budget support, is received, official international reserves will be restored. The impact of the crisis is reflected in the proposed program targets.

V. PROGRAM MONITORING FOR 2012

31. Performance under the program would be monitored through a set of quantitative performance criteria, indicative targets, and structural benchmarks (see Tables 2 and 3). Quantitative performance criteria include ceilings on net domestic borrowing of the Central Government and on net domestic assets of the central bank; floors on the net usable international reserves of the central bank; continuous ceilings on new external payments arrears of the Central Government, on new non-concessional external debt contracted or guaranteed by the Central Government, and on the outstanding stock of external public debt with original maturity of one year or less; and a monthly ceiling on new central bank credit to the Central Government at non-market terms. Indicative targets include floors on total government revenues and on poverty-reducing expenditures.

32. Proposed performance criteria and indicative targets for the ECF arrangement have been set for June and December 2012, and indicative targets have been set for September 2012. The program's structural agenda would target improvements in tax policy and revenue administration, public financial management, monetary policy, and financial sector stability. The program will also continue to encourage improvements in economic statistics, notably for the national accounts and BOP. The first program review would be completed before end-December 2012, based on the end-June 2012 test date, and the second review would be completed before end-June 2013, based on the end-December 2012 test date. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

Table 1. The Gambia: Schedule of Payments on Government Securities Held by the CBG for 2012
(GMD millions)

	30-year bond		10-year bond		perpetual bond
Due date	principal	interest	principal	interest	interest
March 1, 2012	30.42	57.34			
June 30, 2012			10.42	5.63	6.25
September 1, 2012	30.42	56.35			
December 31, 2012			10.42	5.32	6.25

Table 2. The Gambia: Proposed Quantitative Performance Criteria and Indicative Targets for a New ECF
(Cumulative flows from the beginning of 2012; unless otherwise indicated)

	Jun. 2012	Sep. 2012	Dec. 2012
Quantitative performance criteria and indicative targets[1]			
1. Ceiling on net domestic borrowing of the central government (GMD millions)[2]	799	464	1,094
2. Ceiling on the stock of net domestic assets of the central bank (GMD millions, TMU exchange rates)[2]	1,608	1,257	1,429
3. Floor on the stock of net usable international reserves of the central bank (stocks, USD millions, TMU exchange rates)[3]	112.7	124.9	125.5
4. Continuous ceiling on new external payments arrears of the central government (USD millions)	0	0	0
5. Continuous ceiling on new nonconcessional external debt contracted or guaranteed by the central government (USD millions)	0	0	0
6. Continuous ceiling on the outstanding stock of external public debt with original maturity of one year or less (USD millions)	0	0	0
7. Monthly ceiling on new central bank credit to the central government at non-market terms (GMD millions)[4]	0	0	0
Quantitative indicative targets			
8. Floor on total government revenues (GMD millions)	2,473	3,644	4,651
9. Floor on poverty-reducing expenditures (GMD millions)	905	1,358	1,811

[1] Numbers for June and December 2012 are performance criteria. Numbers for September 2012 are indicative targets.
[2] To be adjusted downward by the dalasi equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank (totaling USD 8.9 million in 2012), up to a maximum of USD 14.1 million.
[3] To be adjusted upward by the U.S. dollar equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank (totaling USD 8.9 million in 2012), up to a maximum of USD 14.1 million.
[4] Zero ceiling applies to outstanding credits (for example, overdrafts) at non market terms effected since the beginning of 2012 as of the end of each month during the quarter.

Table 3. The Gambia: Proposed Structural Agenda, June 2012 – June 2013

Measures	Implementation Date	Macroeconomic Rationale
Broadening the Tax Base and Strengthening Revenue Administration		
Implement actions to introduce VAT.		**Strengthen revenue mobilization**
• Submit VAT bill to the National Assembly	End-May 2012	
• Introduce VAT[1]	January 1, 2013	
Take measures to achieve near full filing compliance by large taxpayers.		**Solidify the revenue base to strengthen revenue mobilization**
• Submit to Parliament amendments to the relevant law that would shift the setting of law enforcement parameters (such as the size of penalties for late lodgment or non-lodgment of tax returns) to regulations	End-June 2012	
Fully implement risk management for customs administration.		**Strengthen revenue mobilization**
• GRA Board approval of a risk management program, and a training and technical assistance plan	End-December 2012	
Strengthening Budget Preparation, Execution and PFM		
Strengthen budget execution and monitoring using the Integrated Financial Management and Information System (IFMIS).		**Improve efficiency and transparency in the use of government resources**
• Publish quarterly budget execution reports on MOFEA's website	Continuous, beginning with Q2/2012	
Introduce a medium-term and performance focus to the budget.		**Improve allocation of government resources in line with the *PAGE***
• Submit to the National Assembly a budget framework paper for 2013 with indicative budget projections for 2013-2015	End-October 2012	
• Submit the updated strategic plan of the Ministry of Basic and Secondary Education to the High Level Economic Committee	End-December 2012	
Eliminate backlog of and delays to the auditing of government accounts.		**Improve oversight of the use of public resources**
• Submit for audit the government accounts for 2011-12 to the National Audit Office.	End-April 2013	

[1] See the Technical Memorandum of Understanding for specifics.

Table 3. The Gambia: Proposed Structural Agenda, June 2012 – June 2013 (continued)

Measures	Implementation Date	Macroeconomic Rationale
Improving the Conduct of Monetary Policy		
Launch the market for daily repos and reverse repos.	January 2013	Improve liquidity management.
Switch to a fortnightly schedule for T-bill auctions.	June 2013	Increase competition in the T-bill market.
Strengthening Financial Stability		
Review the Manual of Guidelines and Instructions.[2]	June 2012	Boost financial stability.
Submit to the National Assembly amendments to the Banking Act 2009.[3]	June 2013	Boost financial stability.
Improving Macroeconomic Statistics		
Start posting on the GBoS external website national account and CPI data, as well as detailed methodological information, and a calendar of upcoming data releases.	June 2012	Facilitate macroeconomic policy-making and surveillance.
Standardize procedures and reports for border stations, with a particular focus on recording re-exports correctly and consistently at all border stations.	December 2012	Strengthen BOP statistics.
Other Structural Reforms		
Initiate a strategic study of GAMTEL and GAMCEL.[4]	September 2012	Eliminate major contingent liability on government.

[2] See the Technical Memorandum of Understanding for specifics.
[3] See the Technical Memorandum of Understanding for specifics.
[4] See the Technical Memorandum of Understanding for specifics.

ATTACHMENT II

THE GAMBIA

TECHNICAL MEMORANDUM OF UNDERSTANDING

I. INTRODUCTION

1. This memorandum sets out the understandings between the Gambian authorities and the staff of the International Monetary Fund (IMF) regarding the definitions of quantitative performance criteria, indicative targets, and structural benchmarks that will be used to monitor the Extended Credit Facility (ECF)-supported program covering the period of 2012–14. It also sets out the related reporting requirements and describes the adjusters that will be applied to certain quantitative performance criteria and indicative targets of the program.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net domestic borrowing of the Central Government

2. **Definition:** The *net domestic borrowing* of the Central Government is defined as the net claims on the Central Government by the domestic monetary sector (monetary authorities and deposit money banks) plus the discounted value of domestic government securities held by the non-monetary sector. Net domestic borrowing also covers any other net dalasi claims on the Central Government by the non-monetary sector, as well as government arrears on domestic debt service obligations. Central Government excludes local and regional governments and public enterprises. In computing the net domestic borrowing of the Central Government, the project accounts listed in Table 1 will be excluded, together with the government accounts at the CBG that handle revenues from the ECOWAS levy.

3. **Adjuster:** The quarterly targets for net domestic borrowing for 2012 will be adjusted downward by the dalasi equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank (totaling USD 8.9 million in 2012), up to a maximum of USD 14.1 million.

4. **Supporting material:** Reporting on net domestic borrowing will form part of the consolidated budget report described in paragraph 32 below.

B. Net Domestic Assets of the Central Bank

5. **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.

6. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted at the prevailing end-of-period market exchange rates for December 2011: 30.24 GMD/USD, 1.29 USD/EUR, 1.55 USD/GBP, 1.06 USD/CHF, 1.54 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 December 2011, and then into dalasi at the rate listed above. These are accounting exchange rates only and should not be construed as projections.

7. **Adjuster:** The quarterly targets for net domestic assets of the CBG for 2012 will be adjusted downward by the dalasi equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank (totaling USD 8.9 million in 2012), up to a maximum of USD 14.1 million. The amounts of additional budget support will be converted at the exchange rates listed in paragraph 6 above.

8. **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 rates) 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.

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

9. **Definition:** The ***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 convertible foreign 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, but excluding any liabilities to the IMF's SDR Department.

10. For program monitoring purposes, in the calculation of the net usable international reserves of the CBG, foreign assets and liabilities will be converted at the exchange rates listed in paragraph 6 above.

11. **Adjuster:** The quarterly targets for net usable international reserves of the CBG for 2012 will be adjusted upward by the U.S. dollar equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank (totaling USD 8.9 million in 2012), up to a maximum of USD 14.1 million. The amounts of additional budget support will be converted at the exchange rates listed in paragraph 6 above.

12. **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.

13. **Supporting material:** A detailed reserve statement with end-month data on net usable international reserves of the CBG will be transmitted within seven days of the end of each month.

D. New External Payments Arrears of the Central Government

14. **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 the enhanced HIPC Initiative. 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.

15. **Supporting material:** An accounting of non-reschedulable 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.

E. New Non-Concessional External Debt Contracted or Guaranteed by the Central Government

16. **Definition:** This target refers to new non-concessional external debt 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. Loans or purchases from the IMF and debts with a grant element

of at least 35 percent[1] are excluded from this target. This performance criterion will be assessed on a continuous basis.

17. **Supporting material:** A comprehensive record, including a loan-by-loan accounting of all new concessional and non-concessional 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. Non-concessional external debt includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on non-concessional terms.

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

18. **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 public sector.[2] Public sector consists of the Central Government and regional governments and other public agencies, including the central bank. Normal import-related credits are excluded from this target.

19. **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.

G. New Central Bank Credit to the Central Government at Non-Market Terms

20. **Definition**: This target refers to the consolidated balance on the Treasury Expenditure Account, the Consolidated Revenue Fund, and other revenue accounts. It also covers all gross claims on the Central Government on the balance sheet of the central bank, with terms (including maturity and yield) materially different from the ones prevailing in the market for Treasury bills and bonds around the time of acquisition of these claims. The target also

[1] To be considered concessional under this arrangement, 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).

covers any overdue payments of principal and interest on Central Government securities held by the central bank. This performance criterion will be assessed at the end of each month.

21. **Supporting material:** Reporting on new central bank credit to the government at non-market terms will form part of the monetary sector data described in paragraphs 34 and 35 below.

III. Quantitative Indicative Targets

A. Total Government Revenues

22. **Definition:** Total government revenues are defined as the sum of tax revenues and non-tax revenues. External grants are not included. Revenue from the ECOWAS levy is not included.

23. **Supporting material:** Reporting on total government revenues will form part of the consolidated budget report described in paragraph 32 below.

B. Poverty-Reducing Expenditures

24. **Definition:** Poverty-reducing expenditures consist of expenditures financed out of The Gambia Local Fund (GLF) on the following areas: Agriculture and Natural Resources; Education; Health; Nutrition, Population and HIV-AIDS; Infrastructure Programme; Social Fund for Poverty Reduction; Implementation and Monitoring of Poverty Reduction Programmes; Support to Cross-Cutting Programmes; ICT Research and Development; Decentralization and Local Government Capacity Building; Governance and Civil Service Reform Programme.

25. **Supporting material:** A monthly report on poverty-reducing expenditures will be transmitted within four weeks of the end of each month.

IV. Structural Benchmarks

A. VAT

26. “Introduction of the VAT” refers to the law’s taking effect.

B. Review of Manual of Guidelines and Instructions

27. This structural benchmark will be deemed to have been met when the CBG Manual of Guidelines and Instructions is amended so that the CBG starts the regular collection of data on the term structure of commercial banks’ assets and liabilities, on weighted interest rates on loans and deposits, and on the largest credit exposures.

C. Amendments to the Banking Act 2009

28. This structural benchmark will be deemed to have been met when the CBG submits to the National Assembly amendments to the Banking Act 2009 which:

- tighten loan classification and provisioning rules by introducing a new category of "special mention loans" capturing loans which are 30-90 days past due, with a provisioning rate of 5 percent;
- introduce hard limits on individual and aggregate large exposures (with equal treatment for secured and unsecured loans);
- require the disclosure of banks' ultimate beneficial shareholders;
- require shareholders holding more than 5 percent interest to be subjected to a fit and proper test;
- empower the CBG's Financial Supervision Department to suspend the shareholder rights of unfit and improper shareholders.

D. Strategic Study of GAMTEL and GAMCEL

29. "Initiate" refers to the signing of a contract with consultants who will conduct the study.

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 structural 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 three 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 for the month and cumulatively from the beginning of the year, will be transmitted to the IMF within four weeks of the end of each month. The report will cover: (i) revenue data by major items (such as taxes on income, profits, and capital gains; domestic taxes on goods and services; taxes on international trade and transactions; other taxes; non-

tax revenue); (ii) external grants by type (e.g., budget support grants, project grants); (iii) details of recurrent expenditure (including goods and services, interest payments, and subsidies and other current transfers); (iv) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditure from the Gambia Local Fund, and net lending); (v) the overall balance and the basic balance; and (vi) details of budget financing (including net domestic and net external borrowing and their components).

33. End-week data on net domestic borrowing will be transmitted weekly within five business days of the end of each week.

C. Monetary Sector Data

34. The balance sheet 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 will explicitly identify all claims on, and liabilities to, the government. Claims include overdrafts, holdings of treasury bills, government bonds, advances to the government in foreign currency, and other claims on the government. Liabilities include balances in the treasury main account, the treasury expenditure account, the consolidated revenue fund and other revenue accounts, the treasury bill special deposit account, the privatization proceeds account, and other deposit accounts.

35. The consolidated balance sheet of the commercial banks and a monetary survey (i.e., a consolidation of the accounts of the CBG and 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.

36. Daily data on reserve money will be transmitted weekly within five business days of the end of each week.

D. Treasury Bill Market and Interbank Money Market

37. Weekly data on the amounts offered and issued, net issuance, over/under subscription, and yields (interest rates) of the various instruments will be transmitted on a weekly basis within five business days of the end of each week. Data on treasury bills outstanding (both at face value and at discounted value, and including information on the distribution by bank and non-bank 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. One month ahead forecasts of T-bill auctions, broken down by date and maturity, will be transmitted on a monthly basis.

38. Daily data on the interbank money market (interest rates, maturities, and volumes of transactions) will be transmitted weekly within five business days of the end of each week.

E. External Sector Data

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

40. Daily interbank market exchange rates, defined as the simple average of the daily weighted average buying and selling rates, will be transmitted on a weekly basis within five business days of the end of the week. Weekly interbank market exchange rates, defined as the simple average of the weekly weighted average buying and selling rates, will be transmitted on a monthly basis within seven days of the end of the month. The CBG's monthly average and end-month exchange rates, including those for all currencies in which foreign assets and liabilities are denominated, will be transmitted within seven days after the end of each month.

41. Daily data on foreign exchange intervention by the central bank will be transmitted weekly within five business days of the end of each week.

42. A detailed reserve statement with end-week data on net usable international reserves of the CBG will be transmitted weekly within five business days of the end of each week.

43. The CBG will also forward monthly data on the 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 dalasi within seven days of the end of each month.

Table 1. The Gambia: List of Project Accounts at the CBG Excluded from the Calculation of NDB

Account number	Account name
1201200015	Livestock Development Project
1201200039	Small Scale Water Ctl. Project
1201200228	UNICEF PRIMARY EDUC. PROJECT]
1201200252	ENERGY INSFRASTRUCTURE (ROC)
1201200371	IDA 3RD EDUC PHASE II GLF
1201200399	Proj.Impl.Mngmt A/C PIMA
1201200417	INST.SUPPORT PROJ.ECON/FIN.G...
1201200434	Livestock H/Development Proj.
1201200451	WORLD BK DEV. POLICY OP.ACCO
1201200491	IFMIS PHASE II
3201200269	LOWER BASIC EDUC.SUPP.PROJ
3201200360	SDF (EPMDP) PROJECT
3201200361	SDF (EPMDP) CREDIT FUNDS
3201200363	IDA 3RD EDUCATIO PHASE(II)
3201200385	IFAD RURAL FINANCE PROJ. USD
3201200403	INST. SUPPORT ECON/FIN GOV A/C
3201200424	IDB/GOTG WATER SUPPLY PROJECT
3201200435	Livestock H/Development Proj.
3291200456	Education for All-Fast Track II
3201200457	GAMBIA ARTISANAL FISHERIES
3201200464	LIVESTOCK H/Development Proj.(IFAD)
3201200483	IDB SUPPORTED MALARIA PROJECT
3201200495	GCP
1103000685	Global Fund/Malaria
1109000058	Global Fund/HIV
1103001345	Global Fund/TB
3201200298	EDUC FOR FAST TRACK INITIATIVE
3201200400	Proj.Impl.Mngmt.A/C PIMA
3201200486	IFMIS II
3201200489	GAMBIA EMERGENCY AGRIC. PRO

INTERNATIONAL MONETARY FUND

THE GAMBIA

Request for a Three-Year Arrangement Under the Extended Credit Facility

Informational Annex

Prepared by the African Department

May 9, 2012

- **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 22.55 million (72.5 percent of quota) at end-March 2012.
- **Joint Bank-Fund Work Program.** Lists the work program of the Bank and the Fund on The Gambia from March 2012 to March 2013.

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I. THE GAMBIA: RELATIONS WITH THE FUND

(As of March 31, 2012)

1. **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.

2. **General Resources Account**

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

3. **SDR Department**

	SDR Million	% Allocation
Net cumulative allocation	29.77	100.00
Holdings	24.57	82.54

4. **Outstanding Purchases and Loans**

	SDR Million	% Quota
ECF arrangement	22.55	72.50

5. **Latest Financial Arrangements**

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Feb. 21, 2007	Mar. 31, 2011	24.88	22.55
ECF	Jul. 18, 2002	Jul. 17, 2005	20.22	2.89
ECF	Jun. 29, 1998	Dec. 31, 2001	20.61	20.61

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.20	1.00	2.11	3.84	4.28
Charges/interest	0.01	0.01	0.06	0.05	0.04
Total	0.21	1.01	2.17	3.89	4.32

[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.

7. **Implementation of HIPC Initiative**

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

8. **Implementation of Multilateral Debt Relief Initiative (MDRI)**

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

II. Debt Relief by Facility (SDR million)

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

9. **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

[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.

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 and recommended that the central bank formalize a framework for extension of credit to government to ensure compliance with the statutory limits. The term of the previous audit firm expired and the Auditor General appointed a new external auditor for a three-year term starting in 2011. The update assessment is being conducted in the context of The Gambia recent request for a new ECF arrangement and will be finalized before the first review of the program.

10. **Exchange rate arrangement**

Until January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D5 = £1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. Effective February 2, 2009, the classification of the de facto exchange rate arrangement has been changed from managed floating with no predetermined path for the exchange rate to floating, retroactively to April 30, 2008, due to the revision of the classification methodology. The de jure exchange rate arrangement is free floating. As of end–March 2012, the midpoint exchange rate in the interbank market was D30.44 per U.S. dollar. The Gambia has accepted the obligations of Article VIII, Sections 2(a), 3 and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained solely for the preservation of national or international security, which have been notified to the Fund in accordance with the procedures set forth in Executive Board decision 144-(52/51).

11. **Last Article IV consultation**

The Executive Board concluded the 2011 Article IV consultation (Country Report No. 12/17) on January 18, 2012.

12. **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

February/March 2012	A couple of experts advised on PFM.
January/February 2012	An IMF regional advisor visited twice to provide TA on revenue administration and VAT preparations.
September 2011	A couple of experts advised on PFM (preparing a Budget

	Framework Paper) and on VAT preparations.
August 2011	Peripatetic expert advised on improving compliance and tax administration.
April/May 2011	TA mission advised on VAT preparations.
April 2011	TA mission reviewed the pricing formula for petroleum products.
February/March 2011	TA mission reviewed status of revenue administration reforms, including VAT implementation plans.
November/December 2010	Peripatetic expert advised on VAT preparations.
August 2010	Peripatetic expert advised on VAT preparations.
June 2010	TA mission on public financial management (PFM).
April/May 2010	TA mission advised on improvements in revenue administration and provided input into the design of tax reforms.
April 2009	TA mission advised on measures to reform the tax system.
July 2008	Peripatetic regional advisor followed up on the work of the August/September 2007 FAD mission.
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

January 2012	Technical expert advised the CBG on amending its Manual of Guidelines and Instructions to strengthen bank supervision.
September 2011	TA mission conducted stress testing and helped built capacity in this area.
February/March 2011	TA mission conducted a diagnostic assessment of the banking system.
March/April 2010	Technical expert advised the CBG on banking supervision.
January 2010	Technical expert advised on monetary operations and liquidity forecasting.
January 2009	Technical expert advised the CBG on banking supervision.
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

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

March 2008	Third visit of the DfID-funded TA mission assisted the authorities in improving the compilation of national accounts statistics, particularly in rebasing the GDP series and in calculating GDP by the expenditure approach, using the results from the 2004 Economic Census.
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

February 2012	An LEG expert held a VAT workshop for stakeholders and helped finalize the new VAT law and related background materials.
December 2011	An LEG expert helped draft the new VAT law.
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.

13. **Resident Representative**

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

II. THE GAMBIA: JOINT BANK-FUND WORK PROGRAM, MARCH 2012 – MARCH 2013

Title	Products	Timing of Missions	Target Board Date
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Economic Management and Public Financial Management**		
	1. Economic Governance Reform Grant	February/March 2012	April/May 2012
	2. IFMIS: Additional Financing	July 2012	January 2013
	Growth and Competitiveness		
	3. Commercial Agriculture and Value Chain Project	July 2012	July 2013
Fund work program in next 12 months	**Policy Advice**		
	1. Negotiations for a new ECF	February/March 2012	May 2012
	2. First review under new ECF	August/September 2012	November 2012
	3. Second review under new ECF	March 2013	May 2013
	Technical Assistance		
	1. VAT preparations	March/April 2012; April 2012; resident advisor beginning in June 2012;	
	2. Public financial management	resident advisor beginning in June 2012	
	3. Improving liquidity management	May/June 2012	
	4. Monetary and financial statistics	April/May 2012	
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on: CPIA, PFM reform, and civil service reform.		
Bank request to Fund	Periodic updates on macroeconomic framework.		
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	JSAN on new PRSP	February/March 2012	May 2012

INTERNATIONAL MONETARY FUND

THE GAMBIA

Request for a Three-Year Arrangement Under the Extended Credit Facility

Debt Sustainability Analysis—Update

Prepared by the Staff of the International Monetary Fund

May 9, 2012

Approved by Roger Nord and Jan Kees Martijn (IMF)

External debt indicators suggest that The Gambia remains at high risk of debt distress. In particular, the ratio of the present value of external debt to exports breaches its threshold over a protracted period, while other indicators are vulnerable to adverse shocks. Still, based on current projections, The Gambia's external debt is on a sustainable path. Moreover, there is scope for moderate amounts of additional external borrowing on concessional terms for productive investments. Domestic debt, which has grown substantially in recent years, is costly and poses high rollover risks. Interest on domestic debt consumes nearly one-fifth of government revenues and far exceeds the cost of interest on external debt. The staffs recommend that the authorities restrict external financing to grants and highly concessional loans with a grant element of at least 35percent and reduce new domestic borrowing.

I. BACKGROUND

1. **This debt sustainability analysis (DSA) update is prepared by the IMF staff as an annex to the request for a three-year arrangement under the extended credit facility (ECF).** This DSA is based on debt and debt service data obtained from the authorities and reflects the macroeconomic framework discussed during the IMF's mission to negotiate a new ECF arrangement (February 22—March 6, 2012). Similar to the previous DSA prepared jointly by staffs of the IMF and the International Development Agency,[1] which was completed in December 2011 at the time of the 2011 Article IV consultation, the DSA concludes that The Gambia is at high risk of debt distress.

2. **The Gambia received extensive debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) after reaching its HIPC completion point in December 2007.** Based on full delivery of HIPC and MDRI debt relief, The Gambia's stock of nominal external public debt was reduced from US$676.7 million (133.1 percent of GDP) to US$299.4 million (41.7 percent of GDP). In present value (PV) terms, the stock of debt at end-2007 decreased from US$439 million to US$347 million following HIPC debt relief and to US$165 million after MDRI debt relief. Jointly, these reduced the external debt-to-exports ratio to about 113 percent at completion point.[2] In January 2008, Paris Club creditors agreed to cancel outstanding claims totaling US$13 million in (end-2006) PV terms.

3. **Despite receiving HIPC and MDRI debt relief, The Gambia's debt indicators have remained elevated, reflecting a number of factors.** These factors include poor export performance in recent years—particularly due to a drop in tourism receipts during the global economic crisis—and new borrowing. As of end-2011, the nominal stock amounted to US$386 million.[3] In PV terms, The Gambia's external debt amounted to US$290 million (or 217 percent of exports) as of end-2011. Also, a sharp depreciation of the Gambian dalasi in 2008 adversely affected the ratios of debt to GDP and debt service to government revenues.

4. **Increased reliance on domestic borrowing to finance larger-than-budgeted government deficits added to The Gambia's debt burden in recent years.** Although the classification of the risk of debt distress in the DSA only considers external debt, the domestic debt stock stood at just over 30 percent of GDP as of end-2011. Interest payments

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[1] IMF Country Report No. 10/61.

[2] IMF Country Report No. 08/109.

[3] A recent technical assistance (TA) mission by the World Bank reconciled the authorities' external debt stock data against the African Development Bank (AfDB), IDA, and other creditors. The reconciliation focused on the end-2010 stock of debt, but it implies that small adjustments to historical data may be warranted.

on domestic debt is consuming an estimated 18 percent of government revenues in 2011, far outweighing the interest obligations on external debt.

II. MACROFRAMEWORK ASSUMPTIONS

5. **The macroeconomic framework is based on the authorities policy framework discussed with the staff and takes into account the negative impact of recent drought on crop production.** Box 1 summarizes the key underlying macroeconomic assumptions of the current DSA. Owing to the drought, real GDP is projected to contract by about -1½ percent in 2012 and the current account deficit to widen by 4½ percentage points to 19 percent of GDP. Real GDP is then assumed to rebound to nearly 10 percent in 2013 as agriculture output bounces back and then gradually decline to its long term projected growth rate of 5½ percent by 2016. Exports are forecast to drop by 3 percent in 2012 as export volume of key cash crops such as groundnuts will declines by about 80 percent. Imports are on the other hand assumed to rise by almost 13 percent on account of additional drought-related imports and high oil imports bill. Export and import are assumed to reach their long-term projected growth rate of 7 and 8 percent, respectively, by 2021. The net domestic borrowing is expected to increase to 3.8 percent of GDP as the authorities finance a significant portion of drought-related spending domestically, but still reach 0.5 percent by 2014 in line with the policy framework discussed with the staff.

III. EXTERNAL DEBT SUSTAINABILITY

A. Baseline

6. **Similar to the previous DSA, one of the key external debt indicators breaches its threshold by a substantial margin and for a protracted period (Text Table 1, Table 1, and Figure 3).** That is, the PV of external debt to exports ratio is projected to be 199 percent in 2012, well above its threshold of 100, and is only projected to fall below this mark in 2031. In contrast, all the other external debt indicators fall below their respective thresholds over the medium term and stay below these thresholds throughout the rest of the projection period. For example, the PV of external debt to GDP ratio is above its threshold in 2012, but declines gradually below its threshold over the medium and long term as economic growth remains robust. More specifically, with real GDP growth of 5½ percent a year over the long term, the external debt-to-GDP ratio declines to about 16 percent by 2032 from just over 34 percent in 2012. The external debt service ratios are below their respective thresholds and both continue to decline gradually over the medium and long term.

Box 1: Baseline Macroeconomic Assumptions Underlying the DSA

Real GDP growth is expected to drop sharply to about -1½ percent in 2012 on account of severe crop failure caused by recent drought. Growth in 2013-14 is assumed to strongly rebound as agriculture output recovers from its low base of 2012 and non-agricultural GDP is projected to grow at prevailing trends (about 5½ percent a year in real terms), except for a moderate setback in tourism during the 2012-13 season. Growth then declines to its long-term projected annual average rate of 5½ percent by 2016.

Despite the crop failure, CPI inflation is expected to remain moderate at about 4½ percent in 2012, reflecting continued prudent monetary policy, along with additional imports of food that mitigate the supply shock in agriculture. Inflation is projected to rise to 5½ percent in 2013 and 2014 as recovery in agriculture gains traction and the VAT is introduced as scheduled in January 2013. Over the long term, inflation is forecasted to remain stable at around 5 percent.

The overall fiscal deficit for 2012 is assumed to temporarily widen to 3½ percent of GDP due to the drought-related spending. The increase in deficit is despite a moderate increase in tax revenue of about 1 percentage point of GDP compared to 2011. Tax revenues are expected to steadily rise to 15½ percent of GDP in 2014, reflecting the effects of the introduction of a VAT, an increase in tax collection efforts, and the implementation of measures to curb tax evasion and improve tax administration. Net domestic borrowing is assumed to sharply rise in 2012 to finance the drought-related spending and then to gradually decline until 2014, in line with the authorities' medium-term debt strategy discussed with the staff.

Donor support, including project grants, is expected to sharply increase by 6.6 percent in 2012 compared to 4.7 percent in 2011. The relatively high increase in donor support is attributed to external budget support from IDA and AfDB amounting to about US$8 million total. Over the medium term, grant growth is expected to gradually decline to the long-term projection rate of 4½ percent of GDP. The DSA also assumes borrowing from the IMF under the ECF arrangement currently in negotiation. The size of borrowing is expected to be 60 percent of The Gambia's quota: 30 percent of quota will be disbursed up front to meet any drought-related financing needs and 30 percent of quota equally distributed over 6 reviews of the new ECF.
The external current account deficit (including budget support) is expected to rise sharply to 18 percent of GDP in 2012 from about 14 percent in 2011; over the medium term, the external current account deficit should decline to about 12 percent of GDP and then to 10 percent by 2028.

Export growth (excluding re-exports) is projected to shrink by 3 percent in 2012, reflecting the negative impact of drought on the output of key cash crops for The Gambia. In particular, the volume of groundnut exports in 2012 is assumed to be only about 20 percent of 2011; the value of exports is however expected to be slightly higher at 30 percent due to the higher international price of groundnut products. Growth in tourism is expected to slow down to about 2 percent in 2012 as compared to 19 percent in 2011. The slowdown is largely due to the projected economic downturn in the Euro area, capacity constraint in the tourism sector. Export growth is expected to sharply rebound in 2013 due to the projected recovery in agricultural exports and then to gradually decline to its long-term projection rate of 7 percent by 2019.

Imports in 2012 are expected to jump by 13 percent from 2011 on account of additional drought-related imports and the high international price of oil. The drought is assumed to generate the need for additional imports of food, fertilizer, and seeds amounting to US$ 23 million.

Partly offsetting the widening trade deficit, remittances are expected to rise about 12 percent from 2011, which is substantially higher than the projected long-term rate of 8 percent, reflecting additional effort by migrant workers overseas to help out their family members suffering from the drought.

Gross international reserves are expected to remain roughly at 5 months of imports and services in 2012 and maintain this ratio throughout the entire projection period (2012 – 2031). Nominal exchange rate vis-à-vis the U.S. dollar is projected to depreciate by 4 percent in 2012 onwards, reflecting the CPI inflation differential in the United States and The Gambia.

Text Table 1: Baseline External Debt Indicators and Debt Burden Thresholds

	Threshold 1/	2012	Medium-term (2012-17)	Long-term (2018-32)
PV of external Debt				
In percent of GDP	30	34	30	20
In percent of exports 2/	100	199	179	118
In percent of revenues	200	217	176	115
Debt Service				
In percent of exports	15	12	12	7
In percent of revenues	18	13	12	7

1/ Based on The Gambia's ranking as a "weak performer" with average (2008-10) CPIA rating of 3.28.

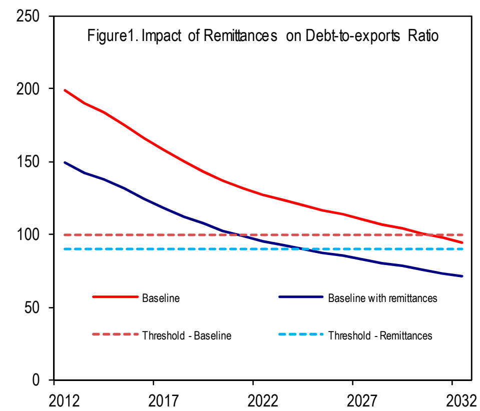
2/ The ratio drops below threshold from 2031 and onwards.

7. **The thresholds for external debt indicators are policy dependent.** Despite recent improvements, The Gambia remains in the "weak performer" category according to the three-year (2008–10) average rating of the World Bank's Country Policy and Institutional Assessment (CPIA).[4] As a result, the associated policy-dependent debt burden thresholds are at their lowest levels and are more likely to be breached.[5]

[4] The low-income country debt sustainability framework (LIC DSF) recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels for debt indicators are policy-dependent. In the LIC-DSF, the quality of a country's policies and institutions is measured by the World Bank's Country Policy and Institutional Assessment (CPIA) index, which consists of a set of 16 criteria grouped into four equally weighted clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions. Countries are classified into three categories: strong, medium, and weak performers.

[5] In 2011, The Gambia's CPIA score improved to 3.35 for 2010, up from 3.26 for 2009 and 3.23 for 2008, lifting the 3-year moving average of the CPIA above the benchmark of 3.25. Going forward, if progress on the reform agenda can be sustained and the country's CPIA score continues to improve, The Gambia could be classified as a "medium performer." In that case, higher indicative thresholds would apply, possibly leading to a revisiting of the debt distress assessment.

8. **For illustrative purposes, when remittances are taken into account, the debt-to-exports (including remittances) ratio still exceed its threshold; however, the breach is considerably smaller and lasts for a shorter period.**[6] Remittances are similar to other "measures of repayment capacity" (like exports) because they increase the foreign exchange earnings available to a country. Although there is usually under-reporting of remittances inflows, which raises concerns about the quality and the coverage of the data, in the case of The Gambia it is estimated that they exceed 30 percent of exports (excluding re-exports), equivalent to over 4½ percent of GDP in 2012. Remittances, however, also tend to be sensitive to economic conditions in the host countries, notably the United Kingdom. As expected, incorporating remittances in our analysis reduces the debt-to-exports ratio by a substantial margin even when accounting for a tightening of the threshold by 10 percent (Figure 1).[7] Nevertheless, this ratio still breaches the threshold until about 2020 with a peak of about 150 percent in 2012.



B. Alternative Scenarios and Stress Tests

9. **The Gambia's debt sustainability outlook is susceptible to changes in the policy framework assumed in the baseline scenario (Table 2).** Most alternative scenarios show that external debt indicators would deteriorate substantially under a range of shocks.

Alternative Scenarios:

- Under the historical scenario, which is associated with key variables (GDP growth, external current account balance, and non-debt creating flows) being at their historical levels, all three debt burden indicators (which reflect repayment capacity measures) improve ever so slightly. Compared to the baseline, the debt to GDP ratio is lower by less than a ½ percentage point in 2022, while the debt to exports and debt to revenue ratios are below the baseline by approximately 2 and 1 percentage point, respectively. Under this scenario, debt service indicators worsen relative to the baseline but only marginally (Table 2a).

[6] A recent IMF Policy Paper titled "A Review of Some Aspects of the Low-Income Country Debt Sustainability Framework" calls for a more explicit recognition of remittances in DSAs. The paper also calls for the adjustment of the thresholds when remittances are included in the analysis, which can be seen in Figure 1. However, the framework also specifies that remittances should not be included in the assessment of the risk of debt distress, in the event of protracted breaches of the debt-to-exports threshold.

[7] Including remittances has a similar effect on the debt service to exports ratio, namely, a reduction in the ratios over the projection horizon.

- In the scenario where new borrowing occurs on less favorable terms,[8] all the debt indicators worsen substantially with the debt stock ratios most affected. In particular, the debt to exports ratio breaches its threshold throughout all projected years with a low of about 141 percent in 2032. The debt to revenue ratio also increases, for instance, by almost 35 percentage points in 2022, but it remains under its threshold throughout the projection horizon. These results underscore the need for the authorities to seek highly concessional financing for new borrowing.[9]

- In a third scenario, customized to help assess the scope for additional external borrowing to help finance the authorities' new poverty reduction strategy—the Programme for Accelerated Growth and Employment (PAGE)—new borrowing is increased to the maximum point that is still consistent with all debt indicators falling below their respective thresholds by the end of the projection period. This scenario assumes an increase of about US$38 million in new borrowing from multilateral creditors distributed between 2012–2016, which would finance increased investment spending under the PAGE. The higher level of new borrowing is then phased out gradually up to 2021, after which it returns to baseline levels. Under this scenario, it is also assumed that there is a positive growth effect on real GDP (about 0.2 percentage point for each percentage point of GDP of investment with a one-year lag) which phases out gradually over time. Results show the debt-to-exports ratio breaching the threshold until 2031, before declining to 98 percent in 2032. That is, although the threshold is breached, the overall path suggests that debt sustainability would be maintained. The same reasoning applies to the other debt ratios: even though this elevated debt path results in a brief breaching of both the debt-to-GDP and debt-to-revenue ratios during the additional borrowing phase (2012-2016), the overall path shows a sustainable downward trend for the projection period.

Bound Tests:

- Most bound tests show a significant deterioration in debt indicators. Of the six bound tests, four involve "shocks" to some key variables in the second and third years of the

[8] Such less favorable terms may include higher interest rates, a reduction in grant element, or borrowing at non-concessional or less concessional terms. In the context of this DSA, however, this scenario assumes that the interest rate on new borrowing is 2 percentage points higher than in the baseline. Grace and maturity periods are the same as in the baseline.

[9] To be considered concessional in IMF arrangement, loans must have a grant element of at least 35 percent. IDA also has a minimum grant element under the Non-Concessional Borrowing Policy (NCBP) of 35 percent or higher. The policy is complementary to other policies and tools that the World Bank and IMF have in place to help countries maintain debt sustainability, such as the Low-Income Country Debt Sustainability Framework (LICDSF), the Debt Management Performance Assessment (DeMPA) tool, and the toolkit for developing Medium-Term Debt Management Strategies (MTDS).

projection period;[10] another is a combination of these four shocks while the sixth assumes a one-time 30 percent depreciation in the nominal exchange rate. The results (Table 2) are interpreted such that the most extreme shock is the one yielding the highest ratio in 2021. Depending on the indicator in question, the worst shock varies between a one-time 30 percent depreciation in the nominal exchange rate and a one-standard deviation downward shift from historical export growth, with most of the debt indicators breaching their respective thresholds. These results highlight the need for the authorities to adhere to a prudent borrowing plan associated with an approved medium-term debt management strategy (MTDS).

IV. PUBLIC DEBT SUSTAINABILITY

A. BASELINE

10. **Over the medium-to-long term, domestic debt is projected to fall from just over 33 percent of GDP at the end of 2012 to just over 24 percent of GDP in 2015, and to continue to fall thereafter, reflecting sustained fiscal discipline.** The authorities have expressed their intention to achieve a gradual fiscal adjustment over the medium term in order to curb new domestic borrowing. The goal is to reduce new domestic borrowing to half of a percentage point of GDP in 2014 and beyond. The authorities are also pursuing a comprehensive tax reform anchored around the introduction of a VAT in January 2013. The tax reform is projected to be moderately revenue enhancing which would improve the debt-to-revenue ratio. In addition, as anticipated for the medium term, fiscal discipline should help lower domestic interest rates and provide fiscal space to increase basic primary expenditures.[11]

11. **Under the baseline scenario, the PV of total public debt is projected to decline from about 68 percent of GDP in 2012 to just over 47 percent in 2017 and to about 23 percent in 2032 (Table 3 and Figure 3).** The largest factor contributing to this decline in the PV of public debt in the near term is the projected fall in new domestic borrowing. As a ratio of domestic revenues and grants, the PV of public debt is projected to fall from about 301 percent in 2012 to 109 percent by the end of the projection period.

B. ALTERNATIVE SCENARIOS AND STRESS TESTS

12. **Under alternative scenarios and stress tests, the public debt ratios deteriorate significantly.** In particular, public debt and debt service ratios are mostly sensitive to lower GDP growth over the long run, persistent primary fiscal deficits, and one-time depreciation of the nominal exchange rate (Table 4). Of the three alternative scenarios, public debt ratios

[10] The variables are "shocked" by setting them one standard deviation below their historical averages.

[11] Defined as expenditures excluding interest payments and externally financed projects.

are mostly affected by a persistent fiscal deficit, suggesting that a status quo in fiscal policy results in a damaging debt path. The most extreme stress test is a temporary deceleration in real GDP growth.

Alternative Scenarios:

- Under a scenario where the primary balance is kept constant for the projection period (at a deficit of about 1½ percent of GDP), the PV of debt to GDP ratio would decrease from 68 percent in 2012 to only 35 percent in 2032, as compared to a decline under the baseline to 23 percent in 2032. Similarly, the PV of debt to revenue will only decrease from 301 percent in 2012 to 165 percent in 2032 as against a decline under the baseline to 109 percent in 2032.

- The present values of all public debt indicators decline over time under the scenario with reduced real GDP growth, while the primary balance at historical averages[12] shows a similar downward trend as in the baseline; this decline is not as pronounced as under the baseline scenario, however. The PV of debt to GDP ratio declines from 57 percent in 2011 to 40 percent in 2031 (as compared to 22 percent in the baseline), while the PV of debt to revenue ratio declines from 309 percent to 204 percent between the same years (as against 115 percent in the baseline).

Bound Tests:

- The most extreme bound test consists of real GDP growth being at one standard deviation less than its historical average. Under this circumstance, the PV of debt to GDP ratio would worsen to 55 percent in 2032 as compared to 23 percent under the baseline scenario while the PV of debt to revenue ratio would worsen to 252 percent as against 109 percent under the baseline.

- A combination of shocks (to growth and the primary balance) and a one-time 30 percent depreciation also results in a moderate worsening of debt ratios compared to the baseline. Under the former, the PV of debt-to-GDP ratio would rise to 48 percent in 2032 while under the latter it would rise to 28 percent when compared with the baseline figure of 23 percent.

V. THE AUTHORITIES VIEW

13. **The authorities broadly agreed with the overall assessment.** The authorities noted that in their own debt sustainability exercise, they have greater room for additional borrowing in their stepping-up scenario to help finance the PAGE. This is a result of more

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[12] At historical averages, real GDP growth is 4 percent while the primary deficit is 0.2 percent of GDP.

optimistic assumptions on the growth impact of investment on long-term real GDP and exports.

VI. DEBT DISTRESS CLASSIFICATION AND CONCLUSIONS

14. **In the view of the staffs, The Gambia remains at high risk of debt distress based on external debt indicators and the results of the stress tests.**[13] This assessment reflects the significant and protracted breach of the policy-dependent indicative threshold by the PV of debt to exports ratio, as well as the vulnerability of other debt indicators to alternative scenarios. In particular, the debt indicators could deteriorate significantly either if new borrowing were contracted on less favorable terms, or if the exchange rate depreciates significantly. While an assessment of domestic debt does not affect a country's classification of debt distress, The Gambia's large domestic debt stock (just over 29 percent of GDP as of end-2010) and high debt service payments on domestic debt (18 percent of government revenues in 2011) provide further evidence that the country's overall debt vulnerabilities are high. Moreover, there is considerable risk that without a lasting fiscal adjustment, a further accumulation of costly domestic debt would be likely.

15. **A number of policy recommendations emanate from this assessment and attendant risks.** The staffs urge the authorities to develop a medium-term debt management strategy that aims for a combination of grants and concessional borrowing for external financing and a borrowing policy consistent with debt sustainability. To address the high cost of domestic debt, the strategy would need to curb new domestic borrowing. Under such a strategy, as pressure on yields subsides, the authorities could also seek to refinance maturing T-bills with longer-term treasury bonds to extend the maturity profile of the debt and reduce rollover risks. The authorities could also consider efforts to raise the country's export potential through policies aimed at diversifying the economy and increasing competitiveness. The staffs also recommend that the minimum grant element on external borrowing be set at not less than 35 percent.[14] The major risks to The Gambia's debt sustainability include lower than expected economic and/or export growth, higher than expected new borrowing, and slippages in fiscal performance.

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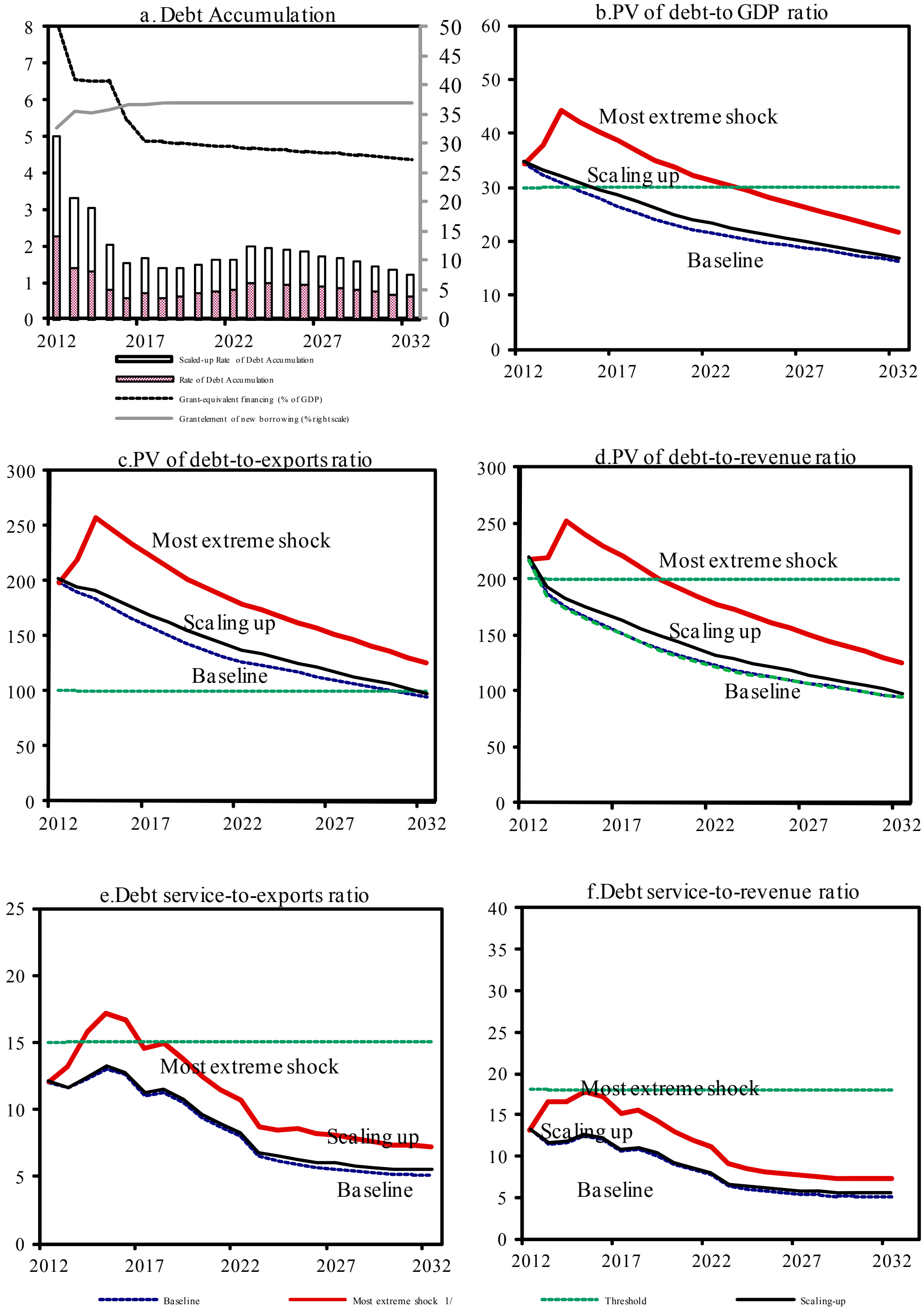
[13] Based on IMF guideline, a country is considered to be at high risk of debt distress when the baseline scenario indicates a protracted breach by one or more debt indicators, and exacerbated by stress tests, but the country does not currently face payment difficulties.

[14] The results in this DSA reflect an assumption that new external borrowing that was not subject to established terms had a grant element of 35 percent.

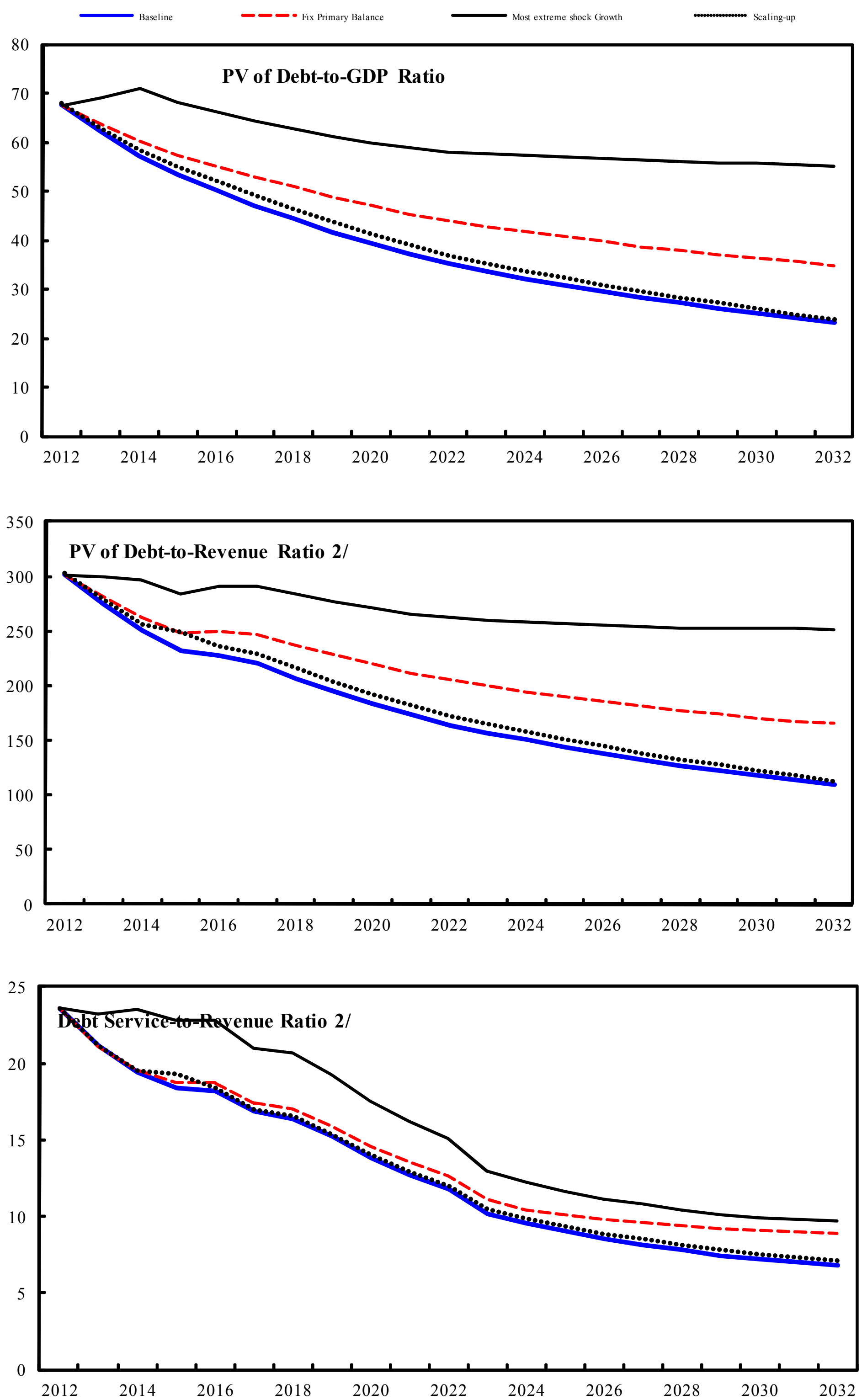
Figure 2. The Gambia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 3.The Gambia: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2012-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0	Standard	Projections									
				Average 0	Deviation							2012-2017			2018-2032
	2009	2010	2011			2012	2013	2014	2015	2016	2017	Average	2022	2032	Average
External debt (nominal) 1/	**40.9**	**40.2**	**40.8**			**45.9**	**43.3**	**41.3**	**39.4**	**37.7**	**36.1**		**29.7**	**22.4**	
o/w public and publicly guaranteed (PPG)	40.9	40.2	40.8			45.9	43.3	41.3	39.4	37.7	36.1		29.7	22.4	
Change in external debt	-3.6	-0.7	0.6			5.1	-2.6	-2.0	-1.9	-1.6	-1.6		-1.0	-0.7	
Identified net debt-creating flows	7.9	4.4	7.5			10.8	4.4	4.7	4.7	4.7	4.3		4.0	5.0	
Non-interest current account deficit	**11.5**	**15.0**	**13.4**	**8.7**	**3.9**	**17.3**	**14.5**	**13.7**	**13.0**	**12.4**	**11.8**		**10.5**	**9.8**	10.2
Deficit in balance of goods and services	-48.2	-48.4	-51.1			-56.5	-52.8	-51.5	-50.6	-50.4	-50.0		-49.3	-50.0	
Exports	15.9	15.0	17.1			17.3	17.1	16.7	16.7	16.8	16.8		16.9	17.3	
Imports	-32.3	-33.4	-33.9			-39.3	-35.7	-34.8	-34.0	-33.6	-33.2		-32.4	-32.7	
Net current transfers (negative = inflow)	-7.1	-5.7	-5.9	-7.8	2.7	-7.7	-7.2	-7.1	-7.0	-7.0	-7.0		-6.8	-6.1	-6.7
o/w official	-1.3	0.0	0.0			-0.9	-0.5	-0.5	-0.5	-0.5	-0.5		-0.5	0.0	
Other current account flows (negative = net inflow)	66.8	69.1	70.3			81.6	74.5	72.3	70.6	69.8	68.8		66.5	65.9	
Net FDI (negative = inflow)	**-8.1**	**-8.9**	**-6.1**	**-7.6**	**3.1**	**-7.8**	**-6.5**	**-6.2**	**-6.1**	**-6.1**	**-6.0**		**-5.2**	**-3.9**	-4.8
Endogenous debt dynamics 2/	**4.5**	**-1.7**	**0.2**			**1.3**	**-3.6**	**-2.8**	**-2.2**	**-1.6**	**-1.5**		**-1.2**	**-0.9**	
Contribution from nominal interest rate	1.0	0.8	0.8			0.6	0.5	0.5	0.4	0.4	0.4		0.4	0.3	
Contribution from real GDP growth	-3.2	-2.1	-1.3			0.7	-4.1	-3.3	-2.7	-2.1	-2.0		-1.6	-1.2	
Contribution from price and exchange rate changes	6.7	-0.3	0.7			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-11.5**	**-5.1**	**-6.9**			**-5.7**	**-7.0**	**-6.7**	**-6.6**	**-6.3**	**-5.9**		**-5.1**	**-5.7**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-0.1	
PV of external debt 4/	...	...	30.6			34.4	32.4	30.7	29.2	27.8	26.6		21.4	16.3	
In percent of exports	...	...	178.6			199.0	189.6	183.6	175.3	166.1	157.9		126.7	94.2	
PV of PPG external debt	**...**	**0.0**	**30.6**			**34.4**	**32.4**	**30.7**	**29.2**	**27.8**	**26.6**		**21.4**	**16.3**	
In percent of exports	**...**	**0.0**	**178.6**			**199.0**	**189.6**	**183.6**	**175.3**	**166.1**	**157.9**		**126.7**	**94.2**	
In percent of government revenues	**...**	**...**	**205.4**			**217.5**	**187.9**	**175.2**	**166.5**	**158.9**	**152.1**		**122.4**	**94.2**	
Debt service-to-exports ratio (in percent)	**13.4**	**13.8**	**12.0**			**12.1**	**11.6**	**12.2**	**13.0**	**12.6**	**11.0**		**8.1**	**5.1**	
PPG debt service-to-exports ratio (in percent)	**13.4**	**13.8**	**12.0**			**12.1**	**11.6**	**12.2**	**13.0**	**12.6**	**11.0**		**8.1**	**5.1**	
PPG debt service-to-revenue ratio (in percent)	**13.2**	**13.9**	**13.8**			**13.2**	**11.5**	**11.6**	**12.4**	**12.0**	**10.6**		**7.8**	**5.1**	
Total gross financing need (Millions of U.S. dollars)	50.1	78.6	90.6			108.5	102.6	107.3	110.7	108.9	106.7		131.6	277.8	
Non-interest current account deficit that stabilizes debt ratio	15.0	15.7	12.8			12.1	17.1	15.8	14.9	14.1	13.4		11.5	10.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.7	5.5	3.3	3.7	3.6	-1.7	9.7	8.3	7.0	5.6	5.6	5.8	5.6	5.6	5.6
GDP deflator in US dollar terms (change in percent)	-13.2	0.8	-1.8	1.7	9.9	-2.2	-0.4	1.0	0.8	1.1	1.5	0.3	1.8	1.8	1.8
Effective interest rate (percent) 5/	2.0	2.0	2.0	1.5	0.5	1.4	1.1	1.1	1.2	1.2	1.2	1.2	1.4	1.5	1.4
Growth of exports of G&S (US dollar terms, in percent)	-4.5	0.0	15.9	4.3	9.1	-3.1	8.0	7.3	7.4	7.5	7.6	5.8	7.6	7.8	7.7
Growth of imports of G&S (US dollar terms, in percent)	-5.5	10.1	2.9	8.0	9.3	11.3	-0.7	6.6	5.4	5.6	5.9	5.7	7.4	7.6	7.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.8	35.5	35.2	35.8	36.6	36.7	35.4	36.9	36.9	36.9
Government revenues (excluding grants, in percent of GDP)	16.1	14.9	14.9			15.8	17.2	17.5	17.5	17.5	17.5		17.5	17.3	17.4
Aid flows (in Millions of US dollars) 7/	130.4	62.2	67.7			83.3	76.0	84.2	90.2	82.2	80.9		111.6	203.5	
o/w Grants	38.3	38.5	46.2			63.2	55.0	60.2	66.3	57.8	55.0		78.7	159.0	
o/w Concessional loans	92.1	23.6	21.4			20.0	21.0	24.0	23.8	24.4	25.9		33.0	44.6	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			8.3	6.5	6.5	6.5	5.4	4.9		4.7	4.4	4.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			72.3	75.2	75.3	77.7	76.8	75.8		78.3	83.6	79.9
Memorandum items:															
Nominal GDP (Millions of US dollars)	905.9	963.6	976.9			939.2	1025.9	1122.9	1211.7	1293.8	1387.2		1990.9	4100.4	
Nominal dollar GDP growth	-7.4	6.4	1.4			-3.9	9.2	9.4	7.9	6.8	7.2	6.1	7.5	7.5	7.5
PV of PPG external debt (in Millions of US dollars)			289.7			311.7	325.0	338.2	347.2	354.0	363.2		419.4	649.6	
(PVt-PVt-1)/GDPt-1 (in percent)						2.3	1.4	1.3	0.8	0.6	0.7	1.2	0.8	0.6	0.8
Gross workers' remittances (Millions of US dollars)	43.0	45.2	47.8			53.5	58.4	63.1	67.8	72.9	78.4		112.6	232.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	29.2			32.5	30.6	29.1	27.6	26.4	25.1		20.2	15.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	138.9			149.6	142.2	137.5	131.2	124.3	118.2		94.9	71.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	0.0	9.3			9.1	8.7	9.1	9.7	9.4	8.2		6.0	3.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2a. The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 including HIPC and MDRI
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	34	32	31	29	28	27	**21**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	34	32	30	29	28	26	**21**	16
A2. New public sector loans on less favorable terms in 2012-2032 2/	34	32	32	31	30	30	**27**	24
A3. Scaling up of external borrowing in 2012-2016	35	33	32	31	30	29	**23**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	34	35	36	34	32	31	**25**	19
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	34	33	34	32	31	29	**24**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	34	34	36	34	33	31	**25**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	34	34	35	33	32	31	**25**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	34	38	44	42	40	39	**31**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	34	45	43	41	39	37	**30**	23
PV of debt-to-exports ratio								
Baseline	199	190	184	175	166	158	**127**	94
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	199	186	182	174	165	157	**125**	94
A2. New public sector loans on less favorable terms in 2012-2032 2/	199	190	190	186	181	177	**162**	141
A3. Scaling up of external borrowing in 2012-2016	202	195	191	185	177	170	**137**	98
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	199	186	180	172	163	155	**125**	92
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	199	219	257	246	233	223	**179**	125
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	199	186	180	172	163	155	**125**	92
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	199	201	209	200	190	181	**146**	100
B5. Combination of B1-B4 using one-half standard deviation shocks	199	216	250	239	227	217	**174**	119
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	199	186	180	172	163	155	**125**	92
PV of debt-to-revenue ratio								
Baseline	217	188	175	167	159	152	**122**	94
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	217	185	173	165	158	151	**121**	94
A2. New public sector loans on less favorable terms in 2012-2032 2/	217	189	181	177	174	171	**156**	140
A3. Scaling up of external borrowing in 2012-2016	220	193	182	175	169	163	**133**	98
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	217	201	203	194	185	177	**143**	108
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	217	191	192	183	175	168	**135**	98
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	217	200	205	195	187	179	**144**	109
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	217	199	200	190	182	175	**141**	100
B5. Combination of B1-B4 using one-half standard deviation shocks	217	219	252	240	230	221	**178**	125
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	217	263	246	234	223	214	**172**	131

Table 2b. The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt (Continued)
(In percent)

	2012	2013	2014	2015	2016	2017	**2022**	2032
Debt service-to-exports ratio								
Baseline	12	12	12	13	13	11	**8**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	12	12	13	14	14	12	**10**	6
A2. New public sector loans on less favorable terms in 2012-2032 2/	12	12	12	13	13	12	**9**	8
A3. Scaling up of external borrowing in 2012-2016	12	12	12	13	13	11	**8**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	12	12	12	13	13	11	**8**	5
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	12	13	16	17	17	15	**11**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	12	12	12	13	13	11	**8**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	12	12	13	14	13	12	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	12	13	15	16	15	14	**10**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	12	12	12	13	13	11	**8**	5
Debt service-to-revenue ratio								
Baseline	13	12	12	12	12	11	**8**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	13	12	12	13	13	12	**9**	6
A2. New public sector loans on less favorable terms in 2012-2032 2/	13	12	12	13	13	11	**8**	8
A3. Scaling up of external borrowing in 2012-2016	13	12	12	13	12	11	**8**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	13	13	14	15	14	13	**9**	6
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	13	12	12	13	12	11	**8**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	13	12	14	15	14	13	**9**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	13	12	12	13	13	11	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	13	13	15	16	16	14	**10**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	13	16	17	18	17	15	**11**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	**36**	36

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. The Gambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012-2032
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	61.9	69.6	71.1			79.0	72.9	67.7	63.5	60.0	56.7		43.4	29.2	
o/w foreign-currency denominated	40.9	40.2	40.8			45.9	43.3	41.3	39.4	37.7	36.1		29.7	22.4	
Change in public sector debt	-3.5	7.7	1.5			7.9	-6.0	-5.2	-4.3	-3.5	-3.4		-2.1	-1.2	
Identified debt-creating flows	-2.7	2.2	2.0			6.1	-6.4	-5.3	-4.0	-2.8	-2.9		-1.7	-1.2	
Primary deficit	0.0	2.9	0.9	-0.4	1.8	1.3	-0.7	-0.7	-0.5	-0.3	-0.3	-0.2	0.3	0.2	0.3
Revenue and grants	20.3	18.9	19.6			22.5	22.6	22.9	23.0	22.0	21.4		21.4	21.1	
of which: grants	4.2	4.0	4.7			6.7	5.4	5.4	5.5	4.5	4.0		4.0	3.9	
Primary (noninterest) expenditure	20.3	21.8	20.5			23.9	21.8	22.2	22.5	21.7	21.2		21.7	21.3	
Automatic debt dynamics	-2.6	-0.7	1.2			4.8	-5.7	-4.6	-3.5	-2.5	-2.6		-2.0	-1.4	
Contribution from interest rate/growth differential	-3.2	-2.8	-1.3			1.8	-7.4	-6.2	-4.9	-3.8	-3.6		-2.9	-2.1	
of which: contribution from average real interest rate	0.9	0.5	0.9			0.6	-0.4	-0.6	-0.5	-0.5	-0.5		-0.4	-0.5	
of which: contribution from real GDP growth	-4.1	-3.2	-2.2			1.2	-7.0	-5.6	-4.4	-3.4	-3.2		-2.4	-1.6	
Contribution from real exchange rate depreciation	0.6	2.0	2.5			2.9	1.8	1.6	1.4	1.3	1.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.8	5.5	-0.5			1.7	0.4	0.1	-0.3	-0.7	-0.5		-0.4	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	61.0			67.5	62.0	57.2	53.3	50.1	47.1		35.1	23.1	
o/w foreign-currency denominated	...	...	30.6			34.4	32.4	30.7	29.2	27.8	26.6		21.4	16.3	
o/w external	...	...	30.6			34.4	32.4	30.7	29.2	27.8	26.6		21.4	16.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.5	7.4	5.7			6.6	4.0	3.7	3.7	3.8	3.3		2.8	1.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	310.7			299.4	274.6	249.9	231.7	228.0	219.7		163.9	109.2	
PV of public sector debt-to-revenue ratio (in percent)	…	…	409.4			427.0	360.1	326.2	304.1	286.1	269.6		200.9	133.7	
o/w external 3/	…	…	205.4			217.5	187.9	175.2	166.5	158.9	152.1		122.4	94.2	
Debt service-to-revenue and grants ratio (in percent) 4/	22.4	23.5	24.4			23.5	21.1	19.4	18.4	18.2	16.8		11.8	6.8	
Debt service-to-revenue ratio (in percent) 4/	28.3	29.8	32.2			33.5	27.7	25.3	24.1	22.9	20.6		14.5	8.3	
Primary deficit that stabilizes the debt-to-GDP ratio	3.5	-4.7	-0.7			-6.5	5.3	4.5	3.8	3.2	3.1		2.4	1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.7	5.5	3.3	3.7	3.6	-1.7	9.7	8.3	7.0	5.6	5.6	5.8	5.6	5.6	5.6
Average nominal interest rate on forex debt (in percent)	2.0	2.0	2.0	1.5	0.5	1.4	1.1	1.1	1.2	1.2	1.2	1.2	1.4	1.5	1.4
Average real interest rate on domestic debt (in percent)	8.5	7.3	5.7	6.7	7.8	6.0	4.1	3.7	3.7	3.7	3.7	4.1	3.7	3.1	3.5
Real exchange rate depreciation (in percent, + indicates depreciation)	1.5	5.4	6.5	7.2	17.6	7.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.0	4.7	4.0	8.0	8.2	4.6	5.3	5.3	4.9	4.8	4.8	5.0	4.8	5.1	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	0.1	0.0	0.1	0.2	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	32.8	35.5	35.2	35.8	36.6	36.7	35.4	36.9	36.9	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 4. The Gambia: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	67	62	57	53	50	47	35	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	67	66	64	61	59	56	44	30
A2. Primary balance is unchanged from 2012	67	63	60	57	55	53	44	35
A3. Permanently lower GDP growth 1/	67	63	58	55	52	50	42	41
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	67	69	71	68	66	64	58	55
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	67	63	60	56	53	49	37	24
B3. Combination of B1-B2 using one half standard deviation shocks	67	68	67	64	62	60	52	48
B4. One-time 30 percent real depreciation in 2013	67	76	70	65	60	57	42	28
B5. 10 percent of GDP increase in other debt-creating flows in 2013	67	68	63	59	56	52	39	26
PV of Debt-to-Revenue Ratio 2/								
Baseline	299	275	250	232	228	220	164	109
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	299	288	272	258	259	254	197	129
A2. Primary balance is unchanged from 2012	299	281	262	248	250	246	205	165
A3. Permanently lower GDP growth 1/	299	276	254	238	237	232	193	190
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	299	299	297	284	290	290	262	252
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	299	281	261	243	239	231	173	115
B3. Combination of B1-B2 using one half standard deviation shocks	299	294	284	270	274	272	238	219
B4. One-time 30 percent real depreciation in 2013	299	337	304	281	275	264	195	133
B5. 10 percent of GDP increase in other debt-creating flows in 2013	299	302	276	256	253	244	184	121
Debt Service-to-Revenue Ratio 2/								
Baseline	24	21	19	18	18	17	12	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	22	21	20	21	19	14	9
A2. Primary balance is unchanged from 2012	24	21	19	19	19	17	13	9
A3. Permanently lower GDP growth 1/	24	21	20	19	19	17	13	9
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	24	23	22	21	21	20	15	12
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	24	21	19	19	19	17	12	7
B3. Combination of B1-B2 using one half standard deviation shocks	24	22	22	21	21	19	14	11
B4. One-time 30 percent real depreciation in 2013	24	23	23	23	23	21	15	10
B5. 10 percent of GDP increase in other debt-creating flows in 2013	24	21	20	19	19	17	12	8

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Statement by the Staff Representative on the Gambia

Executive Board Meeting

May 25, 2012

1. This statement provides information that has become available since the issuance of the staff report on May 10, 2012. The new information does not alter the thrust of the staff appraisal.

2. To date, the government has made allocations for drought relief totaling US$4.6 million, consisting of purchases of groundnut seeds and fertilizer. Commitments of donor assistance have totaled US$11.2 million. Under the program, it was projected that the total cost of drought relief activities would amount to US$23 million, much of which was to take place during the first half of 2012.

3. At the Monetary Policy Committee meeting on May 10, the reserve requirement was reduced by 2 percentage points, to 10 percent of deposit liabilities.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/191
FOR IMMEDIATE RELEASE
May 25, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year, US$28.3 Million Extended Credit Facility Arrangement and US$14.2 Million Disbursement for The Gambia

The Executive Board of the International Monetary Fund (IMF) today approved a new arrangement for The Gambia under the Extended Credit Facility (ECF) in an amount equivalent to SDR 18.66 million (about US$28.3 million). The Board's decision will enable an immediate disbursement equivalent to SDR 9.33million (about US$14.2 million).

The authorities' program is aimed at meeting an acute balance of payments need arising from the recent crop failure due to drought, and helping to catalyze support from development partners for The Gambia's new poverty reduction strategy, the *Programme for Accelerated Growth and Employment (PAGE)*. Over the medium term, the authorities seek to ease the government's heavy debt burden through fiscal adjustment, while implementing a strong economic reform agenda in support of the *PAGE*.

Following the Board's discussion of The Gambia, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"The Gambian economy has made good progress in achieving strong growth and making a substantial reduction in poverty. However, major crop failure due to the drought has created hardship and calls for effective and timely delivery of assistance for the most vulnerable households.

"The Gambia's heavy debt burden poses high costs for the government and risks for the economy. To address this problem, the authorities' new ECF-supported program rightly focuses on fiscal adjustment to curb government's domestic borrowing. Limiting external borrowing to concessional loans is also necessary to reduce the risk of debt distress. The authorities' planned fiscal adjustment will require consistent strong implementation to build confidence and achieve fiscal savings. Rebuilding the government's revenue base is key to fiscal adjustment, especially the upcoming introduction of a VAT and reductions in fuel subsidies.

"Progress toward eliminating fiscal dominance has enhanced the independence of the Central Bank of The Gambia and its capacity to conduct sound monetary policy. The central bank will continue to build capacity for effective financial sector supervision, particularly for stress testing.

"Financing the government's new poverty reduction strategy, the Programme for Accelerated Growth and Employment, under tight budget constraints will be a challenge. In this regard, fiscal savings from lower interest on domestic debt and private sector participation in infrastructure investment could be helpful. To ensure that such investments are productive and to guard against potentially large contingent liabilities for the government, robust institutions and regulatory frameworks are critical. To support growth, reforms are needed in key sectors such as energy and telecommunications."

Recent economic developments

The Gambian economy performed well during the previous ECF arrangement, which expired at the end of March 2011. During that period (2007–10), real GDP growth was robust and inflation was low-to-moderate, despite the global financial crisis and sharp food and fuel price shocks. Moreover, growth was inclusive and the incidence of poverty fell considerably. However, the fiscal deficit widened substantially in the latter years of the program, due to a steady erosion of revenues and large extra-budgetary spending, leading to a sharp increase in costly domestic debt.

In the 2011–12 agricultural season, a severe drought resulted in a major crop failure, putting about one-fourth of the population at risk. Initially, the government will bear much of the cost of relief efforts, notably imports of food, seeds, and fertilizer. Despite this severe shock, the authorities have been able to maintain macroeconomic stability, thanks largely to an ample stock of official international reserves.

The crop failure will affect economic growth over the near and medium term. Real GDP is projected to contract by 1½–2 percent in 2012, reflecting effects of the crop failure carrying over into the first half of 2012. With a recovery in agriculture spread over 2–3 years, real GDP is projected at about 8–10 percent a year in 2013–14, provided there is an effective response to the drought by the government, aid agencies, and development partners.

However, this outlook depends on sound macroeconomic policies and is subject to a number of downside risks, mainly the heavy debt burden, a potentially prolonged weakness in the global economy, particularly in Europe, and possible terms of trade shocks, especially on food and fuel prices, and weather-related shocks.

Statement by Mr. Saho on The Gambia
Executive Board Meeting
May 25, 2012

Introduction

My Gambian authorities are appreciative of the Fund Executive Board and Management for their continued engagement and support. They are grateful for the productive policy dialogue and advice proffered by the Fund Mission during the negotiations for a new ECF arrangement. My Gambian authorities agree broadly with the staff report as it presents a generally balanced assessment of recent macroeconomic developments, and challenges and opportunities. It is in this regard that my authorities solicit the support and approval of the Executive Board for a new three-year ECF arrangement.

Recent economic developments

Aided by strong growth in agriculture and the service sector, economic performance during 2007-2010 was impressive, with real GDP growth averaging 5.5 percent. This robust economic expansion, especially in the rural communities contributed to a substantial decline in poverty. According to the 2010 household income survey, the headcount poverty index, based on a poverty threshold of US$ 1.25 per day, decreased from 58.0 percent in 2003 to 48.5 percent in 2010. However, real GDP growth in 2011 declined to 3.3 percent, from 5.5 percent in 2010 and 6.7 percent in 2009. The slowdown in growth in 2011 was due largely to a severe drought that affected crop production. The authorities' relative success in restraining monetary growth has helped to reduce inflation to 3.9 percent at end-March 2012 from 4.4 percent at the end of 2011. The external current account deficit narrowed from 15.7 percent of GDP in 2010 to 14.1 percent in 2011, while gross international reserves stood above 5 months of imports cover at the end of 2011.

The Gambian economy faced considerable policy challenges coming into 2011. First, the fiscal expansion in the last quarter of 2009 and in 2010 contributed to a rise in interest rates on treasury bills in early 2011, raising interest costs in excess of budget allocations. Second, expenditure overruns emerged during the year, including from an increase in fuel subsidies, to cushion the impact of rising global energy prices, and additional pressures from the wage bill. Third, the fiscal dominance in 2009 and 2010, coupled with the increase in food and fuel prices made it difficult to reduce inflation to below the 5 percent target in the first half of 2011 as envisaged. Annual inflation was 5.4 percent in June 2011.

In response to these challenges, the government implemented corrective measures. Fiscal tightening, especially in the second half of 2011, reduced bank and non-bank financing to 2.3 percent of GDP compared to 3.8 percent of GDP in 2010. This was achieved through cuts in spending, which fell below target by 21 percent, and increased revenue collection, which rose by 6.9 percent. Monetary policy was also tightened during the first six months of 2011 and into the third quarter, including by mopping up liquidity through net sales of treasury bills. As a result of the improved fiscal position, interest rates on 91-day treasury bills declined to about 8.07 percent at end 2011.

Outlook and policies

My authorities' medium-term agenda will be defined by priorities set out in the Program for Accelerated Growth and Employment (PAGE) that emphasize increased budgetary allocations to the development of basic infrastructure and the efficient provision of social services, within a stable macroeconomic environment. In this regard, maintenance of prudent fiscal policies and consolidation of recent gains in macroeconomic stability will remain at the top of the authorities' economic agenda. Furthermore, fiscal policy will be aimed at containing public debt and related interest payments to sustainable levels as well as avoiding inflationary pressures that might be associated with excessively high aggregate demand.

The next cropping season is likely to be affected by the crop failure of 2011/12 which will impact economic activity over the near term. Accordingly, real GDP is forecast to contract by 1.7 percent in 2012. However, agriculture is expected to recover and real GDP to rebound to 8-10 percent in 2013-14. The CBG's monetary policy will continue to focus on containing inflation below 5 percent during the same period. The current account deficit is estimated to narrow to 13-14 percent of GDP in the medium-term, reflecting the prospective rebound in agricultural exports, tourism and continued buoyancy in remittances. During the same period, gross international reserves are expected to stabilize at about 5 months of imports cover.

Fiscal policy

My authorities will continue to pursue prudent fiscal policy aimed at safeguarding medium to long-term debt sustainability while, at the same time, creating the required fiscal space for investment in infrastructure and the social sectors. To this end, they intend to continue instituting a number of revenue-enhancing measures that includes the introduction of VAT in 2013, monthly implementation of the fuel price adjustments and strengthening of tax legislation to broaden the tax base and enforce compliance. Accordingly, the draft VAT law is in the process of being ratified by the National Assembly and sensitization of VAT has been stepped up as well as capacity building on VAT administration. As part of their revenue mobilization strategy, my authorities will work with the IMF to conduct a comprehensive tax assessment for further tax reform, with a view to determine the impact of eliminating subsidies and exemptions on revenue.

On the expenditure side, the prudence demonstrated thus far by the authorities in containing non-statutory spending through the strict implementation of the cash budget system will continue over the medium term. In this regard, transparent budget procedures with medium term focus would be central in increasing the efficiency of public expenditure in the future. To this end, my authorities intend to introduce medium term expenditure framework (MTEF) on a pilot basis at two ministries in 2013. This is being preceded by the preparation of a budget framework paper that has a medium-term dimension. In addition, a draft of the guidelines or manual for the MTEF has been prepared and discussed at a validation workshop in Banjul last week.

Monetary and exchange rate policies

To anchor inflationary expectations, monetary policy in 2012 will continue to be consistent with the level of economic activities. The policy stance will be supported by fiscal consolidation and reduced access by government to direct credit from the central bank. Moreover, the Ministry of Finance and Economic Affairs and the CBG will strengthen their close collaboration to improve liquidity forecasting, both by participation in the regular meetings of the interagency committee and by improving its weekly forecast of the public sector borrowing requirement.

At the last Monetary Policy Committee (MPC) meeting on May 10, 2012, the MPC decided to leave the policy rate unchanged at 14 percent. However, it reduced the reserve requirement by 2 percentage points to 10 percent as a result of, among others, the slowdown in growth. The Committee also noted the high lending rates in the country and expected that a lower reserve requirement will result in a reduction in commercial banks interest rates to boost private sector credit and growth.

The central bank will continue to maintain the current floating exchange rate regime, which has served the country well, and intervene in the market only to preserve orderly market conditions. While mostly abstaining from the foreign exchange market, the CBG will, however, continue to carry out limited foreign exchange interventions to mop up liquidity generated by donor financed spending.

Financial sector policy

To strengthen financial sector stability, the first phase of the Capital augmentation to D150 million was successfully completed in December, 2010. The second phase of augmentation to D200 million is scheduled for December 2012. As at end April, 2012, four banks out of thirteen have met the D200 million requirement and the remaining banks are expected to meet it by the due date. The CBG has resolved not to grant requests for forbearance in case of non-compliance.

Despite having experienced slight delays along the way, the planned implementation of the new electronic data reporting system for commercial banks, known as Valtech regulatory compliance surveillance system (V-RegCOSS) is scheduled to commence in earnest. Staff of the Financial Supervision Department recently successfully participated in a User Acceptance Test (UAT), opening the way for the system developers to deploy equipment and staff on the ground, for the commencement of implementation. As part of preparations towards full automation, commercial banks are finalizing arrangements for the interface of their core banking applications with the V-RegCOSS. It is hoped that the new system will make bank supervision assessment of financial stability more efficient and reliable. Furthermore, to fully operationalise the CBG's new national payment system, the securities settlement system is expected to go live before end-June 2012. Work has also progressed on the national switch, which is expected to be operational by the end of 2012.

Regarding the teething problems faced by the Credit Reference Bureau (CRB), a contract has been signed with the system developers (Valtech) for the implementation of corrective measures. Valtech will perform this role in tandem with the V-RegCOSS project and henceforth, both systems (CRB and V-RegCOSS) will share the same server and VNP platforms.

Currently, the CBG is operating a hybrid model of Risk Based Supervision (RBS). This is a mixture of the Risk and Compliance based supervision. To this end, an RBS manual has been developed. However, full implementation is contingent on the implementation of the V-RegCOSS Software. The CBG will provide adequate staffing levels and training to improve its macro-prudential analysis capacity with a view to more accurately assess financial stability risks originating from the macroeconomic environment and from within the financial sector.

Debt management policy

My authorities concur with staff's assessment that The Gambia remains at a high risk of debt distress. They are cognizant of the threat to debt sustainability in the event of shocks to the economy. It is in this regard that my authorities remain unwaveringly committed to the careful management of both external and domestic debt to enhance external stability and increase fiscal savings. To this end, they plan to promote a strategy of donor engagement and cautious borrowing to finance the PAGE priorities as well as address the large infrastructural gap without compromising debt sustainability. Accordingly, my authorities will source new borrowing from highly concessional windows and create the enabling environment to attract non-debt creating resource inflows. In addition, 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 within their corresponding thresholds. Furthermore, to maintain the continued prudent management of public debt, debt management capacity is being enhanced while the new debt management strategy is finalized.

Conclusion

My authorities remain mindful of the importance of prudent fiscal and monetary policies to achieve and maintain macroeconomic stability. In this regard, they regret the fiscal slippages that resulted to the non completion of the last ECF arrangement and have accordingly implemented appropriate revenue and expenditure measures that will help achieve substantial fiscal savings as the key to reduce the domestic debt burden and related interest expenses. Accordingly, given the large resource requirement to finance the PAGE and provision of emergency food, seeds and fertilizer, my authorities consider the assistance of the Fund and other development partners critical to achieving their development objectives. Against this backdrop, my authorities seek the Executive Board's approval of their request for a new three-year ECF arrangement.